OFFICE OF THE INSPECTOR GENERAL

U.S. NUCLEAR REGULATORY COMMISSION

INDEPENDENT AUDITORS' REPORT AND PRINCIPAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 1999

OIG/99A-12 February 28, 2000

AUDIT REPORT

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

February 28, 2000

OFFICE OF THE
INSPECTOR GENERAL

MEMORANDUM TO: Chairman Meserve

FROM: for Hubert T. Bell
Inspector General

SUBJECT: RESULTS OF THE AUDIT OF U.S. NUCLEAR REGULATORY COMMISSION'S FISCAL YEAR 1999 FINANCIAL STATEMENTS

Attached is the independent auditors' report on the U.S. Nuclear Regulatory Commission's (NRC) Fiscal Year 1999 financial statements. The Chief Financial Officers Act requires the Office of the Inspector General (OIG) to annually audit NRC's Principal Financial Statements. The report contains: (1) the principal statements and the auditors' opinion on those statements; (2) the auditors' opinion on management's assertion about the effectiveness of internal controls; and (3) a report on NRC's compliance with laws and regulations. Written comments were obtained from the Chief Financial Officer (CFO) and are included as an appendix to the independent auditors' report.

Audit Results

The independent auditors issued an unqualified opinion on the balance sheet, the statements of changes in net position, net cost, budgetary resources, and financing.

In the opinion on management's assertion about the effectiveness of internal controls, the auditors concluded that management's assertion is not fairly stated. The auditors reached this conclusion because management did not identify the lack of the following: (1) managerial cost accounting; (2) a program cost accounting system; and (3) management controls for license fee development as material weaknesses.[1]

The auditors identified seven new reportable conditions and closed one prior-year reportable condition. The new conditions concern: (1) the lack of program cost accounting; (2) the lack of management controls over fee development; (3) an inadequate financial statement preparation process; (4) inadequate segregation of duties for NRC's integrated payroll and personnel system (PAY/PERS); (5) inadequate controls over PAY/PERS authorized users; (6) inadequate controls over small entity certifications; and (7) inadequate controls over General Services Administration credits.

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1 OIG's annual assessment of NRC's implementation of the Federal Managers Financial Integrity Act will also report the same issues as material weaknesses.

The report on NRC's compliance with laws and regulations disclosed three noncompliances. The first is that NRC's 10 CFR Part 170 license fee rates are not based on full cost. The second is that managerial cost accounting was not implemented, as required, and the third is that program cost accounting was not supported by the general ledger. Issues one and two are carryovers from FY 1998. Issues two and three are considered substantial noncompliances with the Federal Financial Management Improvement Act of 1996 (FFMIA).

The prior year's reportable condition relating to business continuity plans for the general ledger system remains in substantial noncompliance with FFMIA. However, NRC is dependent on the Department of the Treasury to resolve this condition. Tests of compliance with selected provisions of other laws and regulations disclosed no other instances of noncompliance.

Performance Reporting

Office of Management and Budget Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements*, requires OIG to "obtain an understanding of the components of internal control relating to the existence and completeness of assertions relevant to the performance measures included in the Overview of the Reporting Entity." The Bulletin states that the objective of this work is to report deficiencies in the design of internal control, rather than plan the financial statement audit. With this requirement and objective in mind, OIG examined the control process for several performance measures. Our examination concluded that there were no deficiencies to report.

Comments of the Chief Financial Officer

The CFO generally agreed with the auditors' recommendations and stated that corrective action has been taken or is underway. The CFO had concerns with the recommendation concerning small entity certifications, but agreed to study the issue further. We will follow-up on the CFO's corrective action during the FY 2000 financial statement audit.

We appreciate NRC staff's cooperation and continued interest in improving financial management within NRC.

Attachment: As stated

cc: Commissioner Dicus
Commissioner Diaz
Commissioner McGaffigan
Commissioner Merrifield

cc: R. McOsker, OCM/RAM
B. Torres, ACMUI
B. Garrick, ACNW
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K. Cyr, OGC
J. Cordes, Acting OCAA
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H. Miller, RI
L. Reyes, RII
J. Dyer, RIII
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OPA-RII
OPA-RIII
OPA-RIV
OPA-RIV-FO

U. S. NUCLEAR REGULATORY COMMISSION

INDEPENDENT AUDITORS' REPORT AND PRINCIPAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 1999

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I. REPORTS OF INDEPENDENT AUDITORS

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INDEPENDENT AUDITORS' REPORT ON THE PRINCIPAL STATEMENTS

Chairman Richard A. Meserve
U.S. NUCLEAR REGULATORY COMMISSION
Rockville, Maryland

INDEPENDENT AUDITORS' REPORT ON THE PRINCIPAL STATEMENTS

We have audited the U.S. Nuclear Regulatory Commission's (NRC) balance sheet, statements of net cost, changes in net position, budgetary resources, and financing as of and for the year ended September 30, 1999, herein referred to as the principal statements. The principal statements are the responsibility of NRC's management. Our responsibility is to express an opinion on the principal statements based on our audit.

SCOPE

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards,* issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements.* Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

MATTERS FOR EMPHASIS

Classification of Costs

OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, provides guidance to federal agencies for presenting program costs classified by intragovernmental and public components. The basis for classification relies on the concept of who received the benefit of the costs incurred (e.g. private sector licensees versus federal licensees) rather than who was paid. However, following the advice of OMB, NRC classified the costs on the Statement of Net Cost using an underlying concept of who was paid. This presentation does not entirely incorporate the guidance in the Bulletin, however, it enables the Agency to transition to the required presentation.

U.S. Department of Energy Expenses

NRC's principal statements include reimbursable expenses of the U.S. Department of Energy (DOE) National Laboratories. The NRC's Statement of Net Cost includes approximately $54.5 million of reimbursed expenses, which represent approximately 11% of total expenses. Our audit included testing these expenses for compliance with laws and regulations within NRC. The work placed with DOE is under the auspices of a Memorandum of Understanding between NRC and DOE. The examination of DOE National Laboratories for compliance with laws and regulations is DOE's responsibility. This responsibility was further clarified by a memorandum of the General Accounting Office's (GAO) Assistant General Counsel, dated March 6, 1995, where he opined that "...DOE's inability to assure that its contractors' costs [National Laboratories] are legal and proper...does not compel a conclusion that NRC has failed to comply with laws and regulations." DOE also has the cognizant responsibility to assure audit resolution and should provide the results of its audits to NRC.

OPINION

In our opinion, the principal statements identified on the previous page present fairly, in all material respects, the financial position of the NRC as of September 30, 1999, and its net cost of programs, changes in net position, budgetary resources, and financing for the year then ended in conformity with generally accepted accounting principles.

SUPPLEMENTARY INFORMATION

The Schedule of Intergovernmental Balances included in Section III of this report is not a required part of the principal statements of the U. S. Nuclear Regulatory Commission, but is required supplementary information by the *Technical Amendments to OMB Bulletin 97-01, Form and Content of Agency Financial Statements*. We have applied certain limited procedures, which consist of management inquiries regarding the methods for measurement and presentation of the supplementary information. However, we did not audit the information and we express no opinion on it.

R. Navarro & Associates, Inc.

February 3, 2000

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INDEPENDENT AUDITORS' REPORT ON MANAGEMENT'S ASSERTION ABOUT THE EFFECTIVENESS OF INTERNAL CONTROL

Chairman Richard A. Meserve
U.S. NUCLEAR REGULATORY COMMISSION
Rockville, Maryland

We have examined management's assertion that the U.S. Nuclear Regulatory Commission's (NRC) systems of accounting and internal control in place as of September 30, 1999 are in compliance with the internal control objectives in Office of Management and Budget (OMB) Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements*. The Bulletin requires that transactions be properly recorded, processed, and summarized to enable the preparation of the principal statements in accordance with Federal accounting standards, and safeguarding of assets against loss from unauthorized acquisition, use or disposal.

Our examination was made in accordance with the standards established by the American Institute of Certified Public Accountants; standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and, OMB Bulletin No. 98-08. Accordingly, we considered NRC's internal control over financial reporting by obtaining an understanding of the Agency's internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls and other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination was of the internal control in place as of September 30, 1999.

Because of inherent limitations in internal control, errors or fraud may occur and not be detected. Also, projections of any evaluation of the internal control over financial reporting to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

In our opinion, management's assertion that NRC's systems of accounting and the internal control in place as of September 30, 1999 is in compliance with the internal control objectives in OMB Bulletin No. 98-08 requiring that transactions be properly recorded, processed, and summarized to enable the preparation of the principal statements in accordance with Federal accounting standards, and safeguarding of assets against loss from unauthorized acquisition, use or disposal, is not fairly stated, because management did not identify the lack of managerial cost accounting, the lack of a program cost accounting system, and the lack of management controls for fee development as material weaknesses.

Our consideration of management's assertion on internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components do not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted certain matters, discussed in the following paragraphs, involving the internal control and its operation that we consider to be reportable conditions. Comments A - *Managerial Cost Accounting;* B - *Program Cost Accounting;* and C - *Management Controls Over Fee Development* are considered material weaknesses. Comments A and B are considered substantial noncompliances with the Federal Financial Management Improvement Act (FFMIA), as well.

Current Year Comments

A. Managerial Cost Accounting

As reported for fiscal year (FY) 1998 (Report No. OIG/98A-09) and continuing in FY1999, the NRC has not implemented Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Concepts and Standards,* to assure that, "Managerial cost accounting ... be a fundamental part of the financial management system and, to the extent practicable, ... [to] be integrated with other parts of the system. [Implementation of the standards would provide]... the costs of ... activities on a regular basis for management information purposes."

Agency management responded to the FY1998 condition by preparing a remediation plan and outlining the milestones for an integrated resource management system. Recently, management also created a Cost Management Steering Committee "...to provide visible leadership...for cost management and cost accounting." However, management did not make progress in developing interim techniques or processes to provide routine and reliable cost information for managers during FY1999. Although the Federal financial management community has been addressing implementation of managerial cost accounting concepts and standards since FY1997 (initial implementation date for FY1997 was subsequently delayed to FY1998), the NRC projects implementation of cost management by FY2001.

The strategy adopted by management places significant emphasis on changing the culture and practices of the Agency. This strategy overlooks the immediate benefits of providing managerial cost accounting information to Agency managers in order to support their responsibilities for planning, controlling costs, decision making and evaluating performance. Implementation of cost accounting techniques and practices is essential to the Agency managers' ability in supporting compliance with the Government Performance and Results Act (GPRA).

The Joint Financial Management Improvement Program (JFMIP), *Managerial Cost Accounting System Requirements* (FFMSR-8), states, "Some agencies may find they have existing software, such as the core financial systems software and reporting and data analysis tools, that can support many of their needs for cost accounting capabilities, especially when cost accounting is first being introduced. Not until an agency has some experience with cost accounting and has determined that they truly have a need for more sophisticated capabilities and what those specific capabilities are, should an agency pursue additional software. Since agencies may use cost finding techniques and cost studies as long as they comply with cost accounting standards ... implementation of a cost accounting 'system' is not necessarily a prerequisite with SFFAS Number 4."

This condition continues to be reported as a material weakness and a FFMIA substantial noncompliance.

Recommendation

The Chief Financial Officer (CFO) should develop interim cost management information to support Agency managers' evaluation of the cost of outputs and outcomes realized by the Agency. Development of interim cost management techniques may also enhance the success of the system being contemplated by identifying the needs of managers.

The CFO should continue to be supportive of the Agency's Cost Management Steering Committee.

CFO's Comments

"We agree there are potential benefits of developing interim cost management information for managers prior to the agency's plan to fully implement managerial cost accounting. We will work with the Cost Management Steering Committee and offices to assess what informational needs can be met with existing systems and, if possible, begin to provide interim cost management information. We will initiate this effort during March 2000.

We will continue to support the agency's Cost Management Steering Committee. We view this [as] an important element in the agency's implementation of information cost accounting. Part of the charter of the Cost Management Steering Committee is to coordinate the identification of management's cost information needs with the CFO and CIO and support the cost accounting system implementation effort. We believe that the Committee's involvement will help make the cost accounting system a success."

Auditors' Position

The CFO statement, "... there are potential benefits of developing interim cost management information..." appears to indicate some doubt whether cost information can and will be provided as we recommend. It seems appropriate and timely for Agency managers to receive basic cost management information in order to begin the change process to manage the cost of NRC activities. We recognize that developing fully refined and reliable cost management data is an iterative process that will occur over time, however, managers should be afforded the opportunity to move toward using cost as a tool for decision making.

For example, interim cost management information could provide greater stewardship of federal resources. Thus enabling Agency managers to use cost information to support decision making and their assessment, evaluation, and measurement of the cost effectiveness of regulatory, inspection, support, research, and rulemaking activities. Additionally, cost management information could further support managers' efforts to analyze the activities being managed through the Agency's planned accomplishment and strategic arena structure. We continue to recommend that the CFO evaluate what can be done presently to lay the foundation for cost management within the Agency.

During a subsequent audit, we will assess progress made in providing interim cost management information. Additionally, we will continue to assess the progress made by the CFO in implementing the milestones outlined in the remediation plan.

B. Program Cost Accounting

OMB Bulletin 97-01, *Form and Content Bulletin of Agency Financial Statements*, requires the preparation of a Statement of Net Cost as part of the principal statements. This statement is designed to provide an accounting for the net cost of programs as defined by the Agency in its budget, strategic, and annual plans.

In the current year, the NRC did not have a general ledger process that supported the preparation of the Statement of Net Cost. The Agency's financial management processes are in transition from a budgetary to a strategic arena basis. The Agency's programs are referred to as strategic arenas. The transaction level coding structure that ordinarily would be included in a JFMIP compliant general ledger system to identify cost by strategic arena, was not in place for labor costs. Approximately, $290 million (58%) of the Agency costs included in the Statement of Net Cost represents salaries and benefits which were not coded at the transaction level by strategic arena.

To prepare the Statement of Net Cost, a process was developed at year-end to infer the costs to be included. The process included a variety of techniques including data iterations, special ad hoc report design, and cost finding techniques. This used an intense concentration of resources. The information was developed and alternative audit procedures were employed to verify the information gathered. (The lack of data quality at the transaction level also indicates a substantial noncompliance with FFMIA. Refer to *Program Cost Accounting Not Supported By the General Ledger* for an additional discussion of this condition.)

OMB Circular A-127, Section 5, *Definitions,* states, "...'financial system' means an information system, comprised of one or more applications, ...used for any of the following:

- collecting, processing, maintaining, transmitting, and reporting data about financial events;
- supporting financial planning or budgeting activities;
- accumulating and reporting cost information; or
- supporting the preparation of financial statements."

JFMIP SR-99-4, *Core Financial System Requirements*, states, "The financial management systems in the Federal government must be designed to support the vision articulated by the government's financial management community....This includes the ability to...

- facilitate the preparation of financial statements, and other financial reports in accordance with Federal accounting and reporting standards; ...[and]
- provide a complete audit trail to facilitate audits."

During FY2000, the NRC implemented a labor cost distribution application that is designed to identify costs by strategic arena.

Recommendation

The CFO should review and assess whether labor cost distribution systems being implemented in FY2000 fully comply with accounting and reporting standards. Those systems should be designed to improve the timeliness and reliability of financial reporting in future years.

CFO's Comments

"We have already initiated actions to assess PAY/PERS Labor System to ensure compliance with accounting and reporting standards and to validate the data for use in preparing the FY 2000 financial statements. In addition, we will examine the internal controls for the PAY/PERS Labor system including an assessment of the offices' compliance with the applicable policy and procedures. We plan to complete these assessments by July 1, 2000.

We will also ensure that the new Peoplesoft Payroll and Time and Labor Systems, being implemented in FY 2001, will also comply with accounting and reporting standards.

Beginning in March 2000, we will begin providing offices with labor-cost distribution reports for management purposes. We believe the system we have implemented for FY 2000 will improve the timeliness and reliability of financial reporting.

As required by the Federal Financial Management Improvement Act, a remediation plan will be prepared by May 1, 2000."

Auditors' Position

We commend the CFO for taking steps in FY2000 to provide a process for the accumulation of personnel related costs. During a subsequent audit we will assess the internal controls, verify the reliability of the information produced by the system, and verify the adequacy of the system documentation. Furthermore, we will look to the remediation plan to provide the framework and related resources and milestones for the solution described by the CFO.

C. Management Controls Over Fee Development

During FY1999, an audit was conducted by the Office of the Inspector General (OIG) that identified issues that management should address relating to the development of fees. The audit was performed as an expanded review of issues raised during the FY1998 financial statement audit. The issues described below continued to exist during FY1999.

Management controls, in the broadest sense, include the organization, methods, and procedures adopted by management to ensure that its goals are met. OIG found that weak management controls resulted in fee calculation errors, inconsistent processes, and an absence of adequate information.

OMB Circular A-123, *Management Accountability and Control*, states, "...management controls are the organization, policies, and procedures used by agencies to reasonably ensure that: (i) programs achieve their intended results; (ii) resources are used consistent with Agency mission; (iii) programs and resources are protected from waste, fraud, and mismanagement; (iv) laws and regulations are followed; and (v) reliable and timely information is obtained, maintained, reported, and used for decision making."

The OIG identified several management control weaknesses, including: (1) lack of formal procedures and (2) the lack of quality control over the fee calculations.

The report states that there are no formally documented procedures for calculating fees and preparing the fee rule. A few informal procedures, accumulated over the years in a piecemeal fashion, do exist. However, most of the methodologies for fee calculation were passed verbally from individual to individual.

The report also identified the lack of a quality control process or procedures for the fee calculations. NRC does not perform an objective review of the calculations to detect errors and ensure they were prepared correctly.

As further evidence that management controls over fee development are inadequate, the CFO recently included a reference to a *completed* internal study on generic costs in the FY2000 proposed fee rule. OIG received the report after the FY2000 proposed fee rule was issued for Agency comment and it was labeled "DRAFT GENERIC STUDY." The CFO subsequently issued an errata sheet to the proposed fee rule indicating that the *study had not been issued in final* and that the *preliminary results* of the subject study did not identify any costs classified as 'generic' that should be included in the computation of the Part 170 hourly rates.

The lack of management controls is considered a material weakness.

Recommendation

The CFO should address the immediate need for documented policy and a quality control process over fee development. It is essential to the integrity of the fee development process that greater discipline and structure be implemented.

CFO's Comments

"We agree with the need for adding more structure to the fee development process. We plan to document the license fee rule development process, and establish general procedures for calculating fees and conducting quality control. The CFO has selected a contractor, familiar with the fee rule development process, to document that process by October 2000. We are also taking actions to strengthen management controls: 1) we have a contractor on board to look at the fee model and recommend improvements to that process; 2) we are streamlining the data-entry process to the fee model to reduce the potential for error and eliminate some of the duplicate entry; and 3) we are hiring a fee policy analyst to assist in development of the fee rule which will enhance quality control."

Auditors' Position

The steps described by the CFO move toward improving the management control and quality assurance process over fee development. The CFO indicates that the model will be assessed, data input will be streamlined, and personnel will be hired. However, no mention is made of the management control elements that will be put in place by the contractor. In the development and implementation of management controls and the related management directive, we encourage the CFO to include a clear and concise discussion of the following:

- control environment,
- risk assessment processes,
- control activities,
- information system(s) and communications processes, and
- monitoring and quality assurance techniques.

These five elements represent the internal control standards prescribed by the GAO for federal agencies.

During a subsequent audit, we will evaluate the progress made on this condition. Currently, the CFO plans corrective action by October 2000.

D. Financial Statement Preparation

The FY1998 management letter included an observation on the Financial Statement Preparation Process. The observation stated, in part, "Instead of NRC initiating actions to assess financial reporting requirements and develop solutions, the Agency relied on the audit process to identify the problem and outline the solution." The comment further states, "... the financial reporting process would benefit by (1) improving communication between policy review and implementation functions, (2) preparing and documenting the analysis of policy decisions, (3) producing interim financial statements ... to identify reporting issues early, and (4) ensuring the accuracy of data that supports the financial statement by improving the internal review and assessment of systems, reports and data that support the principal statements."

In the current year, the Agency did not have adequate financial statement compilation practices. The practices in place did not provide for the following:

- an assessment of the internal controls over the non-financial (Regulatory Information Tracking System - RITS) data for the Statement of Net Cost;

- a communication process to Agency staff that a non-financial system would be used to support financial statement preparation, therefore making it essential to comply with Agency guidance on the accumulation of information for the system;

- an interim assessment of the nature or reliability of the information that was being collected from the non-financial system; and

- an assessment of what information would be used, how it would be used, and the operational relevance the non-financial information had to the operations of the Agency.

Management's practices continue to overlook the benefit of planning and evaluating the year-end compilation process in order to provide timely, complete and reliable financial statements for audit.

The General Accounting Office in its Performance and Accountability and High-Risk Series entitled, *Major Management Challenges and Risks*, dated February 1999 stated, "Audited financial statements are essential to providing an annual public scorecard on accountability. However, an unqualified opinion, while certainly important, is not an end in itself. r some agencies, the preparation of financial statements requires considerable reliance on ad hoc programming and analysis of data produced by inadequate systems that are not integrated or reconciled, and often require significant audit adjustments. Efforts to obtain reliable year-end data that are not backed up by fundamental improvements in underlying financial management systems and operations to support ongoing program management and accountability will not achieve the intended results of the CFO Act over the long term."

Recommendation

The CFO should assess current financial statement compilation practices for responding to the requirements of the CFO Act principal statements. The Agency should develop and implement a financial statement preparation process that provides timely preparation of statements, supporting reports, and analysis during the fiscal year and at year's end.

CFO's Comments

"During the past few years, the agency has been in transition in developing and integrating its strategic plan, performance report, and performance plan and budget. This evolutionary development phase has impacted financial reporting as the agency has moved to develop the underlying financial systems needed to support the new reporting requirements. This condition was further compounded by significant revisions the Office of Management and Budget made to the form and content of financial statements effective for FY 1998.

As part of our annual assessment, we will examine the process used to produce the financial statements to determine where improvements can be made. In particular, we have recognized our lack of systems and a well disciplined compilation process for presenting labor-cost data by strategic arena and the effect on preparing financial statements in a timely and comprehensive manner over the past 2 years. As a result, we implemented corrective action for FY 2000 to capture labor-cost data by strategic arena and will be able to make more use of electronic means to assemble, summarize, and analyze data. We expect these actions will improve and streamline the financial statement preparation process."

Auditors' Position

The CFO should consider addressing other areas of the compilation process. For example, the implementation of routine interim statements and footnote preparation could identify:

- accounting and reporting issues that should be addressed prior to year end,
- the need for a documented compilation process,
- techniques for expediting the preparation of the financial statements and footnotes, and
- processes to analyze the information compiled in order to refine accruals at year end.

The CFO should adopt an efficient and effective compilation process to replace the ad hoc process presently used.

E. Segregation of Duties - PAY/PERS

The *Standards for Internal Controls in the Federal Government* issued by the Comptroller General state "...key duties and responsibilities in authorizing, processing, recording, and reviewing transactions should be separated among individuals."

NRC uses a system referred to as PAY/PERS to maintain personnel information and to process payroll. The Division of Accounting and Finance (DAF), is responsible for maintaining the payroll functions of PAY/PERS and controlling system access. The system relies on hierarchical access profiles consisting of three levels as follows:

- Level 1 - Payroll Inquiry,
- Level 2 - Payroll Processing, and
- Level 3 - Systems Administrator.

The Level 3 profile allows unrestricted access to the system including the security tables. Thus, holders of the Level 3 access profile can assign user IDs and enable new users. Holders of Level 3 profiles are not only granted complete access to the system, but also have the ability to create fictitious user IDs.

Our review of user access identified three DAF employees, including the team leader in charge of payroll operations, who held a Level 3 profile. Thus, the payroll operations team leader had incompatible functions. The team leader's functions were not properly segregated because the individual could both commit errors and irregularities and conceal them in the course of discharging the normal duties of the position.

Recommendation

The CFO should ensure that effective segregation of duties is maintained prior to assigning access profiles to PAY/PERS personnel. The CFO should also ensure that consideration is given to segregation of duties during the design and evaluation phase of newly designed systems.

Additionally, periodic review and assessment should be made of systems during the implementation and operations stages to assure that conditions or circumstances have not changed causing incompatible functions.

CFO's Comments

"The OCFO changed the Payroll Operations Team Leader's profile to access level II data as soon as this was identified during the audit of the financial statement. The PAY/PERS system administrator will ensure adequate segregation of duties.

The Peoplesoft payroll implementation team leader/system administrator will ensure that proper segregation of duties is incorporated into the new payroll system through the system's security profiles and will administrator [sic] annual reviews to ensure that there are adequate segregation of duties."

Auditors' Position

During a subsequent audit we will review the practice described by the CFO.

F. Controls Over Authorized Users - PAY/PERS

OMB Circular A-123, *Management Accountability and Control*, Part II states "Specific management control standards are: ... access to resources and records should be limited to authorized individuals, and accountability for the custody and use of resources should be assigned and maintained."

NRC uses PAY/PERS to maintain personnel information and to process payroll. The system operates on a host computer maintained by the National Institutes of Health (NIH).

As discussed previously, system access is granted based on three profiles. The system, because of its integrated payroll and personnel functions, has two designated lead system administrators: a DAF system administrator who is responsible for maintaining and controlling access to the payroll functions; and an Office of Human Resources individual who is responsible for maintaining and controlling access to the personnel functions.

Although there were 70 authorized users of personnel functions and 9 authorized users of payroll functions, there was no systematic process implemented for system administrators to perform periodic reviews for authorized user access. Thus, there was no assurance that any unauthorized users would be identified on a timely basis.

The NIH provides a monthly Detail Utilization Report that identifies user access sessions in PAY/PERS. The report is considered part of the payment approval process and was not used as a means to review or identify unusual activity or unauthorized users.

Recommendation

The CFO should direct the DAF system administrator to begin using the Detail Utilization Report to perform periodic reviews of authorized users. The review should include techniques to identify user sessions for investigating unusual utilization sessions or usage patterns.

CFO's Comments

"The OCFO will develop a management report, based on the Detail Utilization Report, that will be used to identify unusual activity and unauthorized user access. This report will be reviewed biweekly by the system administrator who will report any unusual findings to management. Corrective action will be initiated in March 2000."

Auditors' Position

During a subsequent audit, we will review the report and the review process described by the CFO.

G. Management Controls Over Small Entity Certifications

Under 10 CFR 171.16, materials licensees can qualify as small entities and pay reduced annual fees of either $400 or $1,800, depending on their size. Businesses, nonprofit agencies, educational institutions or local governments may qualify as small entities depending on either average annual gross receipts, number of employees, or population jurisdiction. Size standards are based on guidelines prescribed by the Small Business Administration. Licensees qualify for reduced fees by completing and submitting a *Certification of Small Entity Status For The Purposes of Annual Fees Imposed Under 10 CFR Part 171* (NRC Form 526) with the applicable fee.

Licensees self-certify as small entities and corroborating evidence is not required. The CFO performs a cursory review of NRC Forms 526 received, primarily for completeness. A few certifications are denied each year, based on information available to license fee analysts. During FY1999, the Agency granted 1,180 fee reductions totaling $6.4 million or 83%, from the originally billed materials fees of $7.7 million.

In FY1998, the OIG reviewed the small entity certifications filed by 244 licensees. The review consisted of verifying the size standard claimed with information contained in a business database. This process identified 15 licensees with reported revenues exceeding the size standards. As an additional validation, the review included contacting licensees and obtaining additional information such as income tax returns or audited financial statements. OIG determined that six licensees had filed false small entity certifications.

OMB Circular A-123, Management Accountability and Control "...provides guidance to Federal managers on ... establishing, assessing, correcting and reporting on management controls. Management controls are the organization, policies and procedures used to reasonably ensure that (i) programs achieve their intended results; (ii) resources are used consistent with Agency mission; (iii) programs and resources are protected from waste, fraud, and mismanagement; (iv) laws and regulations are followed; and (v) reliable and timely information is obtained, maintained, reported and used for decision making."

The Agency indicated that existing procedures for cursory review of the small entity certifications are sufficient and they do not perceive the need for verifying the claims made by licensees. Also, the CFO believes resources are not available for verifying certifications.

The results of the OIG review, however, indicate that the existing controls over small entity certification are not adequate. Existing procedures for reviewing small entity certifications do not provide sufficient assurance that fee reductions are being granted only to those intended by the regulations and the Commission.

Certain licensees may not be entitled to the small entity fee reductions, thereby increasing fees charged to other licensees.

Recommendation

The CFO should, at least quarterly, select a statistically valid sample of small entity certifications filed and request evidence, such as income tax returns or financial statements, to support the size standards claimed by the licensees.

CFO's Comments

"We share your concern of licensees filing false small entity certifications. We have reservations with implementing the corrective actions you have recommended. Under the Paperwork Reduction Act, requesting income tax returns or financial statements from licensees would require approval from the Office of Management and Budget. We also have concerns regarding the costs of validating the small entity status of a sample of licensees each quarter.

The OCFO plans to explore your recommendation along with other corrective actions. We will advise you of the results by June 1, 2000."

Auditors' Position

We commend the CFO for considering other options to address the condition. The primary concern is that the CFO design and implement a process that provides the assurance that licensees who benefit from the small entity program are in fact qualified to do so. We look forward to the results of the CFO's efforts by June 1, 2000.

H. Management Controls Over General Services Administration (GSA) Credits

The CFO controls the payments made through drawdown on the On-Line Payment and Collection System (OPAC). NRC has a process for the approval of invoices which is identified in the Agency's desk procedures. The process provides for project managers to receive *Approval Form For Interagency Billing - Non-DOE* (Form 441) listing OPAC charges for review and approval. When the project manager does not approve the charges, or partially approves the charges, a chargeback is requested from the vendor.

DAF's Desk Procedures, *Financial Reports and Analysis Section*, Chapter 7, for OPAC transactions provides guidance that when an invoice amount is not approved, and while the other agency is initiating the credit, a note should be placed in a pending file awaiting the subsequent month's OPAC listing with the related credit.

Our testing disclosed instances where GSA rental charge credits were requested by the project manager and not received by the Agency. The normal practice for transactions of this nature was not followed for GSA rental credits. GSA precludes the Agency from initiating a chargeback. Adjustments to GSA rental charges come to the Agency in the form of credits. The Financial Operations Branch (FOB), DAF does not verify or track that credits are received. Accounting personnel indicated that the GSA rental payments were the only disbursements handled this way. Other chargebacks were reviewed and the credits were verified through to the general ledger.

Recommendation

The CFO should direct:

- The FOB to track and verify that GSA credits are received by holding a copy of the Form 441 and invoice in a pending file until the credit is received.

- FOB to follow up with the project manager routinely to discuss any credits that have not been received in a timely manner.

CFO's Comments

"The DAF Financial Operations Branch has established a process to track and monitor GSA credits effective with the February 2000 billings. The procedure includes routine follow-ups with the project manager regarding untimely credits. Written procedures will be completed in March 2000."

Auditors' Position

During a subsequent audit, we will review the practice described by the CFO and the adequacy of the written procedures.

Status of Prior Years' Comments

A. Managerial Cost Accounting

The CFO developed a remediation plan dated July 19, 1999 outlining the strategy to implement the requirements in SFFAS No. 4. The Agency anticipates implementing an integrated resource management system over a three year period and to implement cost management practices through the guidance of a newly established Cost Management Steering Committee.

As indicated in the current year findings section of this report (Refer to Comment A), this condition remains open and unresolved during FY1999. The remediation plan actions are pending implementation. (See the recommendation offered for Comment A - *Managerial Cost Accounting*, in the current year.)

B. Financial Reporting

During FY1998, NRC did not have fully aligned strategic, budget and performance plans. OMB Bulletin No. 97-01, states on page 26, *Instructions for the Preparation of the Statement of Net Cost*, "Preparers...should decide the exact classification of ...major programs based on the missions and outputs described in its GPRA strategic and annual plans, the entity's budget structure...."

NRC management understood that the requirement for having the three plans fully aligned would come into effect for FY1999, in accordance with the GPRA. The current Statement of Net Cost properly reflects the alignment envisioned by the OMB. This comment is resolved and closed.

C. CISSCO Obligations

NRC did not follow, during FY1998, established fund control policy and issued obligations to GSA without recording them in the NRC's general ledger system. Additionally, fund controls which were in place were set at the job code level, thereby precluding effective management control at the lowest functional level.

The actions recommended during FY1998 were taken by the CFO, therefore, this condition is resolved and closed.

D. Revenue from Reimbursable Agreements

In the prior year, the revenue from reimbursable agreements was not consistently recorded using accrual based revenue recognition principles. In some cases, revenue was recorded as contract support expenses were paid, on the cash basis. In other cases, such as agreements with Department of Energy (DOE), revenue was recorded as NRC employees performed services on the related projects, which is appropriate.

Additionally, revenue from foreign cooperative research programs was recorded as research expenses were paid. Generally, revenue was recognized at the time when the related expenses were paid, on the cash basis of accounting.

During the current year, the CFO implemented procedures to ensure that revenue from reimbursable agreements was properly reflected on the principal statements. The Agency also is in the process of drafting policy guidance on this issue.

While the CFO took corrective action, this condition will remain open until the policy guidance is issued in final form.

CFO's Comments

"The final accounting policy guidance concerning the recording of revenue from reimbursable agreements will be issued by April 1, 2000."

Auditors' Position

During a subsequent audit, we will review the propriety and issuance of the policy being drafted.

Assurance on Performance Measures

With respect to internal controls related to performance measures, the Office of the Inspector General performed those procedures and will report on them separately. Our procedures were not designed to provide assurance over reported performance measures, and, accordingly, we do not provide an opinion on such information.

R. Navarro & Associates, Inc.

February 3, 2000

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

Chairman Richard A. Meserve
U.S. NUCLEAR REGULATORY COMMISSION
Rockville, Maryland

We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements*.

The U.S. Nuclear Regulatory Commission (NRC) management is responsible for complying with laws and regulations applicable to the Agency. As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations. Noncompliance with these provisions could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 98-08, and the Federal Financial Management Improvement Act (FFMIA) of 1996. Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph *exclusive* of FFMIA, disclosed an instance of noncompliance with the following laws and regulations that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 98-08, that is described below.

Status of Prior Year Comment - Non-FFMIA

Part 170 Hourly Rates

As previously reported in FY1998, the Omnibus Budget Reconciliation Act (OBRA) of 1990 requires the NRC to recover approximately 100% of its budget authority by assessing fees. Accordingly, NRC assesses two types of fees to its licensees and applicants. One type, specified in 10 CFR Part 171, consists of annual fees assessed to power reactors, materials and other licensees. The other type, specified in 10 CFR Part 170 and authorized by the Independent Offices Appropriation Act (IOAA) of 1952, is assessed to specific licensing actions, inspections and other services provided to licensees and applicants.

Each year, the Office of the Chief Financial Officer (OCFO) computes the hourly rates used to charge for the time incurred by NRC personnel in providing Part 170 services. The rates are based on budgetary data and are used to price individually identifiable Part 170 services.

The FY1998 rates were not developed in accordance with applicable laws and regulations because they were not based on the full cost of providing Part 170 services. For example, the calculations did not include certain contract support costs of approximately $70 million, net of contract support costs directly billable to licensees and applicants. The excluded contract support costs, $70 million, primarily consisted of research projects. The $70 million represents approximately 15% of the FY1998 NRC appropriation of $472.8 million.

The contract support costs were excluded because, based on the OBRA conference agreement, the Chief Financial Officer (CFO) classified these costs as "generic activities" that benefit licensees generally. Thus, NRC recovered these costs through the Part 171 annual fees.

In response to the condition reported in the prior year, the Office of the Inspector General (OIG) performed an audit and issued report (OIG/99A-01) *NRC's License Fee Development Process Needs Improvement.* "... [T]he scope of audit [was limited] to the fee development process, including the calculations used to prepare the rates and fees under the Code of Federal Regulations, Title 10 Parts 170 and 171 for fiscal years ... 1995 through 1999."

The audit found that the conditions reported in the prior year continue to exist. The current year follow-up procedures disclosed that, although the CFO assembled a multi-office team to study generic costs within the Agency, at the end of field work no final report was available for our review. Thus, the condition remains unresolved.

CFO's Comments

"The final report of generic costs study will be issued by April 1, 2000."

Auditors' Position

During a subsequent audit, we will consider the final report mentioned by the CFO in order to assess whether an objective study was performed, and the report properly describes the study's scope and methodology in order to support the conclusion(s) reached by the multi-office team.

Current Year Comments - FFMIA

Under FFMIA, we are required to report whether the Agency's financial management systems substantially comply with the Federal financial management systems requirements, Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance using the implementation guidance for FFMIA included in Appendix D of OMB Bulletin No. 98-08. The results of our tests disclosed instances, described below, where the Agency's financial management systems did not substantially comply with the three requirements discussed above.

Program Cost Accounting Not Supported By the General Ledger

The GAO identifies FFMIA compliant federal financial management systems as having six elements as follows:

- The scope of functions supported -- processes in program execution
- How data quality will be assured -- data stewardship
- The information to be processed -- management information
- How systems fit together to support the functions -- system architecture
- Safeguards needed to ensure integrity of operations and data -- internal control
- Implementing the model for financial management systems -- implementation and system maintenance

During the current year we assessed the financial management system of the Agency to assure that the system provided the framework to meet FFMIA requirements. We found that the financial management system supporting the recording, accumulation and reporting of labor costs by program was not in place due to the lack of transaction level data stewardship and management information.

The Agency relies on a Budget and Reporting (B&R) code to identify costs to the budget fiscal year, allowance, fund type, strategic arena, program and planned accomplishment for all costs except labor. The labor costs of the Agency represent approximately 58% of the expenses included in the Statement of Net Cost. While the Agency recognized the need to transition from budget based accounting to program accounting, they did not provide in their financial management system or in an interim application, the tools necessary to maintain a reliable audit trail for labor cost by program. Instead, a process was developed at year-end to infer the costs included on the Statement of Net Cost. The process included a variety of techniques including data iterations, special ad hoc report design, and cost finding techniques. This used an intense concentration of resources. The information was developed and alternative audit procedures were employed to verify the information gathered.

The lack of data quality at the transaction level indicates a substantial noncompliance with FFMIA. *(Refer to the Report on Management's Assertion About the Effectiveness of Internal Control, Comment B - Program Cost Accounting, for an additional discussion of this condition as a material weakness. Also included in Comment B are the CFO's Comments and Auditors' Position.)*

Status of Prior Year Comments - FFMIA

A. Managerial Cost Accounting

Refer to the Report on Management's Assertion About the Effectiveness of Internal Control, Comment A - Managerial Cost Accounting, for a detailed discussion of the condition and recommendation. For FY1999 this condition continues to be considered a material weakness and a FFMIA substantial noncompliance.

B. Accounts Receivable Classifications

We reported in the prior year, that CFO personnel performed an assessment of transaction level classifications and found a technical error in the interface's "file transfer protocols." Apparently when data interfaced with the general ledger, the program protocol which triggers the system to set the correct classification from the data files was inoperable. The amounts on the balance sheet, however, had been adjusted to reflect the proper financial line item classifications.

The review of the classifications in the current year disclosed the technical enhancement made by the Agency in March 1999 corrected the condition previously described. This condition is resolved and closed.

C. Business Continuity

In prior years, we reported conditions resulting from our assessment of NRC's management control program relating to the Agency's business continuity practices for major financial management systems. The major systems identified included (1) the core general ledger - Federal Financial System (FFS) operated by Treasury's Financial Management Service (FMS) and (2) fee systems.

The remediation plan, dated June 1, 1998, prepared by the CFO described the strategy to design a solution and provided a timetable for resolving the substantial noncompliance with FFMIA. The plan was reviewed and accepted by the Office of the Inspector General and has been acted upon by NRC management as follows:

1. General Ledger - FFS: NRC contacted FMS expressing concern about the lack of a plan that is fully tested and restated that the responsibility for maintaining and testing the plan rests with FMS and not NRC. FMS replied that action was being taken, however, the reasonable assurance letter issued to NRC by FMS as of September 30, 1999, indicated that little to no progress has been made on this issue. The substantial noncompliance remains unresolved. NRC is dependent on FMS to resolve this condition.

   CFO's Comments

   "As you know, NRC is dependent on Treasury's Financial Management Service to resolve this condition. In its FY 1999 Annual Statement of Assurance, the Financial Management Service indicated that they will not resolve the lack of a tested back-up recovery capability until May 31, 2001. In my February 8, 2000 letter to the Commissioner, Financial Management Service, I requested his assistance in resolving this issue during FY 2000. We will continue to follow-up with the Financial Management Service on this issue until it is resolved."

   Auditors' Position

   We commend the CFO's continuing efforts to resolve this condition in coordination with FMS.

2. Fee Systems: The strategy developed in the remediation plan for this system has been implemented. In December 1998, NRC accepted a technical proposal from a contractor to develop and test a continuity plan for the fee systems. On January 29, 1999, the contractor delivered a work plan that described the work to be performed, the milestones and the deliverables. As of the end of field work, the Agency's contractor has satisfactorily addressed this condition. This condition is resolved and closed.

Consistency of Other Information

NRC's overview of program performance goals and results, and other supplemental financial and management information contain a wide range of data, some of which is not directly related to the principal statements. We do not express an opinion on this information. We have, however, compared this information for consistency with the principal statements and discussed the measurement and presentation methods with NRC management. Based on this limited effort, we found no material inconsistencies with the principal statements or noncompliance with OMB guidance.

Objectives, Scope and Methodology

NRC management is responsible for (1) preparing the principal statements in conformity with the basis of accounting described in Note 1 to the Notes to Principal Statements, (2) establishing, maintaining, and assessing internal controls to provide reasonable assurance that FMFIA's broad control objectives are met, and (3) complying with applicable laws and regulations including the requirements referred to in FFMIA.

We are responsible for expressing an opinion on whether (1) the principal statements are free of material misstatement and presented fairly, in all material respects, in conformity with the basis of accounting described in Note 1 to the principal statements, and (2) for obtaining reasonable assurance about whether management's assertion about the effectiveness of internal control is fairly stated, in all material respects, based upon criteria established by FMFIA and OMB Circular A-123, *Management Accountability and Control*. As of the date of our report, NRC management had completed its evaluation of financial controls.

We are also responsible for testing compliance with selected provisions of laws and regulations, and for performing limited procedures with respect to certain other information in the principal statements. In order to fulfill these responsibilities, we:

- examined, on a test basis, evidence supporting the amounts and disclosures made in the principal statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the principal statements;
- obtained an understanding of internal controls related to safeguarding of assets, compliance with laws and regulations including execution of transactions in accordance with budget authority and financial reporting in the principal statements;
- assessed control risk and tested relevant internal controls over safeguarding of assets, compliance, and financial reporting, and evaluated management's assertion about the effectiveness of internal control;
- tested compliance with selected provisions of the following laws and regulations: Anti-Deficiency Act (Title 31 U.S.C.), National Defense Appropriation Act (PL 101-510), Omnibus Budget Reconciliation Act of 1990 (PL 101-508), Debt Collection Act of 1982 (PL 97-365), Prompt Payment Act (PL 97-177), Civil Service Retirement Act of 1930, Civil Service Reform Act (PL 97-454), Federal Managers' Financial Integrity Act (PL 97-255), Chief Financial Officers' Act (PL 101-576), Budget and Accounting Procedures Act, Federal Financial Management Improvement Act (PL 104-208); and

- reviewed compliance and reported in accordance with FFMIA whether the Agency's financial management systems substantially comply with the Federal financial management system requirements, applicable accounting standards, and the U.S. Standard General Ledger at the transaction level.

We did not evaluate all internal controls relevant to operating objectives as broadly as defined in FMFIA, such as those controls for preparing statistical reports and those for ensuring efficient and effective operations. We limited our internal control tests to those controls necessary to achieve the objectives described in our opinion on management's assertion about the effectiveness of internal controls. We performed our work in accordance with generally accepted auditing standards, *Government Auditing Standards* and OMB Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements*.

Agency Comments

On February 15, 2000, the CFO responded to the Inspector General on our draft report and addressed the recommendations noted in the report. However, the CFO did not provide specific remedial actions for the FFMIA exception Comment B, *Program Cost Accounting,* noted in the current year. The CFO indicated that a remediation plan will be prepared by May 1, 2000. Based on our review of the CFO's comments, we are satisfied that the actions described meet the intent of our recommendations and FFMIA guidelines. The CFO's comments are appended to this report in their entirety.

Under separate cover, comments will be provided to NRC management outlining opportunities for strengthening internal control and operating efficiency. We appreciate NRC staff cooperation and continued interest in improving financial management within the agency.

This report is intended for the management of the U.S. Nuclear Regulatory Commission, OMB, Congress and the NRC Office of the Inspector General. This restriction is not intended to limit the distribution of this report, which upon acceptance by the OIG, is a matter of public record.

R. Navarro & Associates, Inc.

February 3, 2000

II. PRINCIPAL STATEMENTS

BALANCE SHEET
As of September 30, 1999
(in dollars)

Assets:	
Intragovernmental assets:	
Fund balances with Treasury (Note 2)	$151,809,570
Accounts receivable (Note 3)	1,680,208
Other	1,207,283
Total intragovernmental assets	154,697,061
Cash and other monetary assets	50,000
Accounts receivable, net (Notes 3 and 4)	34,554,794
Property and equipment, net (Note 5)	40,471,198
Other	48,038
Total Assets	$229,821,091
Liabilities:	
Intragovernmental liabilities:	
Accounts payable	$ 8,764,798
Other (Notes 6 and 7)	39,389,538
Total intragovernmental liabilities	48,154,336
Accounts payable	18,837,930
Federal employees benefits	3,885,000
Other (Notes 6 and 7)	42,390,533
Total Liabilities	113,267,799
Net Position:	
Unexpended appropriations (Note 9)	103,250,102
Cumulative results of operations (Note 10)	13,303,190
Total Net Position	116,553,292
Total Liabilities and Net Position	$229,821,091

The accompanying notes to the principal statements
are an integral part of this statement.

STATEMENT OF NET COST
For the year ended September 30, 1999
(in dollars)

Nuclear Reactor Safety		
Intragovernmental	$120,529,643	
With the public	215,778,952	
Total	336,308,595	
Less earned revenue (Note 11)	378,373,141	
Net cost of Nuclear Reactor Safety		$(42,064,546)
Nuclear Materials Safety		
Intragovernmental	$ 26,687,043	
With the public	61,160,656	
Total	87,847,699	
Less earned revenue (Note 11)	51,819,780	
Net cost of Nuclear Materials Safety		36,027,919
Nuclear Waste Safety		
Intragovernmental	$ 15,093,015	
With the public	47,967,399	
Total	63,060,414	
Less earned revenue (Note 11)	11,645,979	
Net cost of Nuclear Waste Safety		51,414,435
International Nuclear Safety Support		
Intragovernmental	$ 6,105,603	
With the public	10,017,068	
Total	16,122,671	
Less earned revenue (Note 11)	3,187,425	
Net cost of International Nuclear Safety Support		12,935,246
Net Cost of Operations		$ 58,313,054

The accompanying notes to the principal statements are an integral part of this statement.

STATEMENT OF CHANGES IN NET POSITION
For the year ended September 30, 1999
(in dollars)

Net Cost of Operations		$ (58,313,054)
Financing sources (other than exchange revenue):		
Appropriations used (Note 12)	45,093,029	
Non-exchange revenue (Note 12)	1,315,694	
Imputed financing (Note 12)	16,781,147	
Transfer-in (Note 12)	442,254,845	
Transfers-out (Note 12)	(443,570,539)	
Total financing sources		61,874,176
Net results of operations		3,561,122
Decrease in unexpended appropriations		(12,772,851)
Change in Net Position		(9,211,729)
Net Position - Beginning of Period		125,765,021
Net Position - End of Period		$116,553,292

The accompanying notes to the principal statements
are an integral part of this statement.

STATEMENT OF BUDGETARY RESOURCES
For the year ended September 30, 1999
(in dollars)

Budgetary Resources (Note 13):	
Budget authority	$472,776,847
Unobligated balances - beginning of period	35,180,599
Spending authority from offsetting collections	4,405,095
Adjustments	7,839,918
Total Budgetary Resources	$520,202,459
Status of Budgetary Resources:	
Obligations incurred	$486,308,618
Unobligated balances - available	33,508,969
Unobligated balances - not available	384,872
Total Status of Budgetary Resources	$520,202,459
Outlays:	
Obligations incurred	$486,308,618
Less: Spending authority from offsetting collections and adjustments	(12,245,013)
Subtotal	474,063,605
Obligated balances, net - beginning of period	124,763,659
Less: obligated balance, net - end of period	(116,582,904)
Total Outlays	$482,244,360

The accompanying notes to the principal statements are an integral part of this statement.

STATEMENT OF FINANCING
For the year ended September 30, 1999
(in dollars)

Obligations and Nonbudgetary Resources	
Obligations incurred	$486,308,618
Less: Spending authority for offsetting collections and adjustments	(12,245,013)
Imputed financing (Note 12)	16,781,147
Transfer-in (Note 12)	442,254,845
Transfer-out (Note 12)	(442,254,845)
Exchange revenues not in the budget (Note 11)	(440,456,670)
Total Obligations and Nonbudgetary Resources	$ 50,388,082
Resources Not Funding Net Cost of Operations	
Change in undelivered orders	11,486,094
Capitalized costs	(7,437,988)
Financing sources that fund costs of prior periods	(2,241,464)
Other	(4,578)
Total Resources Not Funding Net Cost of Operations	1,802,064
Costs Not Requiring Resources	
Depreciation and amortization	6,122,908
Total Costs Not Requiring Resources	6,122,908
Net Cost of Operations	$ 58,313,054

The accompanying notes to the principal statements
are an integral part of this statement.

NOTES TO PRINCIPAL STATEMENTS
September 30, 1999

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Reporting Entity*

The U. S. Nuclear Regulatory Commission (NRC) is an independent regulatory agency of the Federal Government that was created by the U. S. Congress to regulate the Nation's civilian use of byproduct, source, and special nuclear materials to ensure adequate protection of the public health and safety, to promote the common defense and security, and to protect the environment. Its purposes are defined by the Energy Reorganization Act of 1974, as amended, along with the Atomic Energy Act of 1954, as amended, which provide the foundation for regulating the Nation's civilian uses of nuclear materials.

The NRC appropriations for salaries and expenses and the Inspector General include approximately $17 million of funds derived from the Nuclear Waste Fund and $3.2 million from the General Fund for assistance provided to the U. S. Department of Energy (DOE). In addition, $4 million was available for obligation from appropriations provided by the U. S. Agency for International Development for the development of nuclear safety and regulatory authorities in Russia, Armenia, Kazakhstan, and the Ukraine for the independent oversight of nuclear reactors in these countries.

The accompanying financial statements of NRC include the accounts of all funds under NRC control. The NRC is under budget functional classification 276 - Energy information, Policy, and Regulation and departmental code 31. The transfer appropriations from 1) the Agency for International Development are under budget functional classification 150 - International Affairs and departmental code 72 and 2) the General Services Administration is under budget functional classification 800 - General Government and departmental code 47.

B. *Basis of Presentation*

These principal statements were prepared to report the financial position and results of operations of the NRC as required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. These financial statements were prepared from the books and records of the NRC in conformity with generally accepted accounting principles, the requirements of Office of Management and Budget (OMB) Bulletin No. 97-01, *Form and Content of Agency Financial Statements,* technical amendments, and NRC accounting policies. These statements are, therefore, different from the financial reports, also prepared by the NRC pursuant to OMB directives, which are used to monitor and control NRC's use of budgetary resources.

In accordance with technical amendments to OMB Bulletin No. 97-01, NRC made several changes to its principal financial statements and footnotes. On the balance sheet, entity and non-entity assets as well as liabilities covered and not covered by budgetary resources have been combined. The NRC has not prepared a Statement of Custodial Activity because the amounts involved are immaterial and are incidental to its operations and mission.

NOTES TO PRINCIPAL STATEMENTS
September 30, 1999

The strategic arenas as presented on the Statement of Net Cost are based on the strategic plan and the FY 1999 budget structure. The budget line items for Management and Support and the Office of the Inspector General were allocated to strategic arenas using cost-finding techniques consistent with Statement of Federal Financial Accounting Standards Number 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*. The NRC's four programmatic strategic arenas are described as follows:

Nuclear Reactor Safety encompasses all NRC efforts to ensure that civilian nuclear power reactor facilities, as well as nonpower reactors, are operated in a manner that adequately protects public health and safety and the environment, and protects against radiological sabotage and theft or diversion of special nuclear materials.

Nuclear Materials Safety encompasses NRC efforts to ensure that NRC-regulation aspects of nuclear fuel cycle facilities and nuclear materials activities are handled in a manner that provides adequate protection of public health and safety. This arena encompasses more than 20,000 specific and 100,000 general licensees that are regulated by the NRC and 30 Agreement States.

Nuclear Waste Safety encompasses NRC's high-level waste regulatory activities associated with high-level waste storage and high-level waste disposal at Yucca Mountain, low-level radioactive waste activities associated with the disposal of waste, decommissioning activities which involve safely removing a facility from service and reducing residual radioactivity to a level that permits the property to be released, and regulation of uranium recovery.

International Nuclear Safety Support encompasses international nuclear policy formulation, export-import licensing for nuclear materials and equipment, treaty implementation, international information exchange, international safety and safeguards assistance, and deterring nuclear proliferation. NRC's international activities support broad U.S. national interests, as well as the NRC's domestic mission.

C. Budgets and Budgetary Accounting

For the past 25 years, Congress has enacted no-year appropriations which are available for obligation by NRC until expended. The Omnibus Budget Reconciliation Act (OBRA) of 1990, as amended, requires the NRC to recover approximately 100 percent of its new budget authority of $469.8 million by assessing fees less the amounts derived from the Nuclear Waste Fund of $17 million and $3.2 million from the General Fund for assistance provided to DOE which is excluded from license fee revenues. At the end of the fiscal year, NRC's appropriations were reduced by $ 976,000 through a recission of funding in accordance with Public Law 106-51.

NOTES TO PRINCIPAL STATEMENTS
September 30, 1999

D. *Basis of Accounting*

Transactions are recorded on both an accrual accounting basis and on a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and control over the use of Federal funds. Interest on borrowings of the U. S. Treasury is not included as a cost to NRC's programs and is not included in the accompanying financial statements

E. *Revenues and Other Financing Sources*

The NRC is required to offset its appropriations by the amount of revenues received during the fiscal year by assessing fees. The NRC assesses two types of fees to recover its budget authority: (1) fees assessed under 10 CFR Part 170 for licensing, inspection, and other services under the authority of the Independent Offices Appropriation Act of 1952 to recover the NRC's costs of providing individually identifiable services to specific applicants and licensees; and (2) annual fees assessed for nuclear facilities and materials licensees under 10 CFR Part 171. All fees, with the exception of civil penalties, are exchange revenues in accordance with Statement of Federal Financial Accounting Standards Number 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting.*

Licensing fees and fees for inspections and other services, assessed in accordance with 10 CFR Parts 170 and 171, are recognized as revenue when earned. In accordance with Federal Government accounting guidance, the NRC classifies revenues as either exchange revenue or non-exchange revenue. Exchange revenues are those that are derived from transactions in which both the Government and the public receive value. These revenues are presented on the Statement of Net Cost and serve to reduce the reported cost of NRC's programs.

Non-exchange revenues are derived from the Government's sovereign right to demand payment, including fines for violation of laws or regulations. These financing sources do not reduce the cost of NRC's programs and are reported on the Statement of Changes in Net Position. Miscellaneous receipts collected by NRC, including interest on delinquent debt, late payment penalties, Freedom of Information Act fees, and indemnity fees, are not available to NRC for obligation or expenditure. These receipts must be transferred to the U. S. Treasury when collected.

For accounting purposes, appropriations are recognized as financing sources (appropriations used) at the time expenses are accrued. At the end of the fiscal year, appropriations recognized are reduced by the amount of assessed fees collected during the fiscal year to the extent of new budget authority for the year. Collections which exceed the new budget authority are held to offset subsequent years' appropriations. Appropriations expended for property and equipment are recognized as expenses when the asset is consumed in operations (depreciation and amortization). Appropriations used do not include (a) expenses incurred but not yet funded by Congress, such as workers' compensation benefits

NOTES TO PRINCIPAL STATEMENTS
September 30, 1999

and annual leave expenses; and (b) expenses which are paid by other Federal agencies, such as retirement benefits.

F. *Fund Balances with Treasury and Cash and Other Monetary Assets*

The NRC's cash receipts and disbursements are processed by the U.S. Treasury. The fund balances with the Treasury and cash are primarily appropriated funds that are available to pay current liabilities and to finance authorized purchase commitments. Funds with Treasury represent NRC's right to draw on the U. S. Treasury for allowable expenditures. All amounts are available to NRC for current use. Cash balances held outside the U.S. Treasury are not material.

G. *Accounts Receivable*

The amounts due for receivables, except those due from Federal agencies, are stated net of an allowance for uncollectible accounts. Since receivables from Federal agencies are expected to be collected, there is no allowance for uncollectible accounts. The estimate of the allowance is based on an analysis of the outstanding balances and the application of estimated uncollectible percentages to categories of aged receivable balances.

H. *Property and Equipment*

Property and equipment consists primarily of typical office furnishings, nuclear reactor simulators, and computer hardware and software. The agency has no real property. The land and buildings in which NRC operates are provided by the U.S. General Services Administration (GSA), which charges NRC rent that approximates the commercial rental rates for similar properties.

Property with a cost of $50,000 or more per unit and a useful life of 2 years or more is capitalized at cost and depreciated. Other property items are expensed when purchased. Normal repairs and maintenance are charged to expense as incurred.

I. *Accounts Payable*

Accounts payable represent vendor invoices for services received by NRC that will be paid (liquidated) in the next fiscal year. Also included in these amounts are contract holdbacks on contracts which have not been fully closed and advances which represent collections received in advance of performing services under a variety of reimbursable agreements. The services will be provided and the revenue earned in a subsequent fiscal year.

J. *Liabilities Not Covered by Budgetary Resources*

Liabilities represent the amount of monies or other resources that are likely to be paid by NRC as the result of a transaction or event that has already occurred. No liability can be paid by NRC absent an appropriation. Liabilities for which an appropriation has not been enacted and for which there is no

NOTES TO PRINCIPAL STATEMENTS
September 30, 1999

certainty that an appropriation will be enacted are classified as Liabilities Not Covered by Budgetary Resources. Also, NRC liabilities arising from sources other than contracts can be abrogated by the Government acting in its sovereign capacity.

K. *Contingencies*

The NRC is a party to various administrative proceedings, legal actions, environmental suits, and claims brought by or against it. Based on the advice of legal counsel concerning contingencies, it is the opinion of management that the ultimate resolution of these proceedings, actions, suits, and claims will not materially affect the agency's financial position or results of operations.

L. *Annual, Sick, and Other Leave*

Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave liability account is adjusted to reflect current pay rates. Sick leave and other types of nonvested leave are expensed as taken.

M. *Retirement Plans*

Approximately 48 percent of NRC employees belong to the Civil Service Retirement System (CSRS) and 52 percent belong to the Federal Employees' Retirement System (FERS). In FY 1999, for employees in FERS, the NRC withheld 1.05 percent of base pay earnings in addition to Federal Insurance Contribution Act (FICA) withholdings and matched the withholding with a 10.7 percent contribution. The sum was transferred to the Federal Employees Retirement Fund. For employees covered by CSRS, NRC withheld 7.25 percent of base pay earnings. This withholding was matched by NRC with an 8.51 percent contribution, and the sum of the withholding and the match was transferred to the CSRS.

The Thrift Savings Plan (TSP) is a retirement savings and investment plan for employees covered by either FERS or CSRS. For employees covered by FERS, NRC automatically contributes one percent of base pay to their account and matches contributions up to an additional four percent. The maximum percentage that an employee participating in FERS may contribute is 10 percent of base pay. Employees covered by CSRS may contribute up to five percent of their base pay, but there is no NRC matching of the contribution. The maximum amount that either FERS or CSRS employees may contribute to the plan in a calendar year is $10,000. The sum of the employees' and NRC's contributions is transferred to the Federal Retirement Thrift Investment Board.

The NRC does not report on its financial statements FERS and CSRS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of the U. S. Office of Personnel Management. The portion of the current and estimated future outlays for CSRS not paid by NRC is, in accordance with Statement of Federal Financial Accounting Standards Number 5, *Accounting for Liabilities of the Federal Government*, included in NRC's financial statements as an imputed financing source.

NOTES TO PRINCIPAL STATEMENTS
September 30, 1999

N. *U. S. Department of Energy Charges*

Financial transactions between the DOE and NRC are fully automated through the U. S. Treasury's On-Line Payment and Collection (OPAC) System. The OPAC System allows DOE to collect amounts due from NRC directly from NRC's account at the U. S. Treasury for goods and/or services rendered. Project manager verification of goods and/or services received is subsequently accomplished through a system-generated voucher approval system. The vouchers are returned to the Office of the Chief Financial Officer documenting that the charges have been accepted. For the year ended September 30, 1999, NRC had expenses of approximately $54.5 million for research conducted by the DOE National Laboratories.

O. *Pricing Policy*

The NRC provides goods and services to the public and other Government entities. In accordance with OMB Circular No. A-25, *User Charges*, and the Independent Offices Appropriation Act of 1952, NRC assesses fees under 10 CFR Part 170 for licensing and inspection activities to recover the full cost of providing individually identifiable services. In accordance with the Omnibus Budget Reconciliation Act of 1990, fees are assessed annually to licensees under 10 CFR Part 171 to recover approximately 100 percent of new budget authority, less amounts excluded from fee recovery and those recovered under 10 CFR Part 170.

The NRC's policy is to recover the full cost of goods and services provided to other Government entities where (1) the services performed are not part of its statutory mission and (2) NRC has not received appropriations for those services. Fees for reimbursable work are assessed at the 10 CFR Part 170 rate with minor exceptions for programs that are nominal activities of the NRC.

P. *Use of Management Estimates*

The preparation of the accompanying financial statements requires management to make certain estimates and assumptions that directly affect the results of reported assets, liabilities, revenue, and expenses. Actual results may differ from these estimates.

NOTE 2. FUND BALANCES WITH TREASURY

Fund balances with Treasury consist of the following amounts as of September 30, 1999:

Appropriated funds:	
Obligated	$128,447,558
Unobligated	19,948,726
	148,396,284
Other fund types	3,413,286
	$151,809,570

The obligated and unobligated balances exclude amounts related to unfilled customer orders.

NOTES TO PRINCIPAL STATEMENTS
September 30, 1999

NOTE 3. ACCOUNTS RECEIVABLE

Accounts receivable is composed of the following as of September 30, 1999:

Intragovernmental accounts receivable consists primarily of receivables and reimbursements due from other Federal agencies which were $1,680,208 at September 30, 1999.

The non-Federal accounts receivable, net, is comprised of the following amounts as of September 30, 1999:

Materials and facilities fees - billed	$ 4,122,072
Materials and facilities fees - unbilled	34,020,962
Other	222,790
Total accounts receivable	38,365,824
Less: Allowance for uncollectible accounts	(3,811,030)
Accounts receivable, net	$34,554,794

Other accounts receivable represent amounts due for fees assessed for licensing and inspections of nuclear facilities, the handling of nuclear materials, and other services. In the year collected, the amounts will be used to offset NRC's appropriations.

NOTE 4. NON-ENTITY ASSETS

Included in the accounts receivable balance is $43,762 consisting of miscellaneous penalties and interest due from the public, which, when collected, must be transferred to the U.S. Treasury.

NOTE 5. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consists of the following as of September 30, 1999:

Fixed Assets Class	Service Years	Acquisition Value	Accumulated Depreciation and Amortization	Net Book Value
Equipment	5-8	$ 19,326,119	$(16,833,677)	$ 2,492,442
ADP software	5	47,460,179	(37,114,177)	10,346,002
ADP software under development	-	13,871,530	-	13,871,530
Leasehold improvements	20	19,612,274	(5,952,912)	13,659,362
Leasehold improvements in progress		101,862	-	101,862
		$100,371,964	$(59,900,766)	$40,471,198

NOTES TO PRINCIPAL STATEMENTS
September 30, 1999

NOTE 6. OTHER LIABILITIES

Other intragovernmental liabilities as of September 30, 1999, include:

Liability to offset net accounts receivable for fees assessed	$35,521 ,035
Liability to offset miscellaneous accounts receivable	40,878
Accrued worker's compensation	1,398,694
Accrued benefits	2,428,931
	$39,389,538

The liability to offset the net accounts receivable for fees assessed represents amounts which, when collected, will be transferred to the U. S. Treasury to offset NRC's appropriations in the year collected. The liability to offset miscellaneous accounts receivable represents amounts which will be reverted to the U. S. Treasury when collected. The liability for deposit funds consists primarily of liabilities arising from payroll deductions and tax withholdings.

Other liabilities as of September 30, 1999, include:

Accrued annual leave	$24,929,291
Accrued salaries	13,258,360
Contract holdbacks, advances, and other	4,202,882
	$42,390,533

All other liabilities, except accrued annual leave, contract holdbacks, and advances from others, are current. Current liabilities represent amounts which are expected to be paid within the fiscal year following the reporting date. Accrued annual leave, contract holdbacks, and advances from others may not be liquidated in the fiscal year following the reporting date.

NOTE 7. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities not covered by budgetary resources are not funded by current or prior years' appropriations and assessments. Funding will be provided from future years' appropriations. As of September 30, 1999, liabilities not covered by budgetary resources included:

Intragovernmental

Included in the $39,389,538 of other intragovernmental liabilities is $1,398,694 related to Federal Employees Compensation Act (FECA) benefits paid by the U.S. Department of Labor (DOL) on NRC's behalf which had not been billed or paid by NRC as of September 30, 1999.

Federal Employees Benefits

Federal employees benefits of $3,885,000 represent the actuarial liability for estimated future FECA disability benefits. The future workers' compensation estimate was generated by DOL from an application of actuarial procedures developed to estimate the liability for FECA, which includes the expected liability

NOTES TO PRINCIPAL STATEMENTS
September 30, 1999

for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability was calculated using historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. These projected annual benefit payments were discounted to present value.

Other

Included in the $42,390,533 of other liabilities is $24,929,291 of accrued annual leave and $241,312 for capital lease liability. Accrued annual leave represents the amount of annual leave earned by NRC employees but not yet taken.

NOTE 8. LEASES

A description of lease agreements as of September 30, 1999, follows:

Capital Leases

Future payments due:

	Fiscal Year	Lease Payments
	2000	$ 70,378
	2001	70,378
	2002	70,378
	2003	52,784
	2004 and thereafter	-
Total future lease payments		263,918
Less: imputed interest		(22,606)
Net capital lease liability		$241,312

The total capital lease liability is funded on an annual basis and included in NRC's annual budget. The NRC's capital leases are for personal property consisting of reproduction equipment, which is installed in various NRC facilities. The leases are for 5 years and the interest rate paid was 4.75 percent. The reproduction equipment is depreciated over 5 years using the straight-line method with no salvage value.

Operating Leases

Future payments due:

	Fiscal Year	Lease Payments
	2000	$ 20,033,846
	2001	20,093,333
	2002	19,406,694
	2003	19,364,621
	2004	19,402,297
	2005 and thereafter	158,245,241
Total future lease payments		$256,546,032

NOTES TO PRINCIPAL STATEMENTS
September 30, 1999

Operating leases consist of real property leases with GSA. The leases are for NRC's headquarters offices, regional offices, and the Washington, DC, reading room. The GSA charges NRC lease rates which approximate commercial rates for comparable space.

NOTE 9. UNEXPENDED APPROPRIATIONS

The unexpended appropriations consist of the following as of September 30, 1999:

Unexpended appropriations:	
Unobligated	$ 22,478,213
Undelivered orders	80,771,889
	$103,250,102

Unexpended appropriations include (a) unobligated appropriation balances and (b) undelivered orders, which are amounts which have been obligated but not yet expended. The unobligated appropriations balance does not include $3,575,711 in unfilled customer orders - unobligated as of September 30, 1999. The undelivered orders balance does not include $2,529,486 in unfilled customer orders - obligated as of September 30, 1999.

NOTE 10. CUMULATIVE RESULTS OF OPERATIONS

The cumulative results of operations as of September 30, 1999, consist of the following:

Future funding requirements	$(30,212,985)
Investment in property and equipment, net	40,471,197
Contributions from foreign cooperative research agreements	2,979,384
Other	65,594
	$ 13,303,190

Future funding requirements represent the amount of future funding needed to pay the accrued unfunded expenses as of September 30, 1999. These accruals are not funded from current or prior-year appropriations and assessments, but rather should be funded from future appropriations and assessments. Accordingly, future funding requirements have been recognized for the expenses that will be paid from future appropriations.

NOTE 11. EXCHANGE REVENUES

Exchange revenues for the year ended September 30, 1999, were:

Fees for licensing, inspection, and other services	$440,456,670
Revenue from reimbursable work	4,569,655
	$445,026,325

NOTES TO PRINCIPAL STATEMENTS
September 30, 1999

NOTE 12. FINANCING SOURCES OTHER THAN EXCHANGE REVENUE

Appropriations Used

Appropriations used, a financing source, is recognized to the extent that appropriated funds have been consumed less the amount collected from fees assessed for licensing, inspections, and other services. During the year ended September 30, 1999, $438,071,824 was collected from fees assessed for licensing, inspections, and other services. At the end of the fiscal year, appropriations recognized are reduced by the amount of assessed fees collected during the fiscal year to the extent of new budget authority for the year. Collections which exceed the new budget authority are held to offset subsequent years' appropriations.

For the year ended September 30, 1999, $438,071,824 of FY 1999 collections and $4,183,021 of FY 1998 collections were used to reduce the fiscal year's appropriations recognized:

Appropriated funds consumed	$485,549,699
Less: Collection from fees assessed	(442,254,845)
	43,294,854
Prior-year collections used to offset current year's appropriations	1,798,175
	$ 45,093,029

Appropriations used includes $35,180,599 of available funds from prior years.

Non-Exchange Revenue

Non-exchange revenue of $1,315,694 consisted of $1,048,250 received from civil penalties and $267,444 of miscellaneous receipts, which included interest on delinquent debt, late penalties, Freedom of Information Act fees, and indemnity fees.

Imputed Financing

The imputed financing source of $16,781,147 represents the service costs related to NRC employees' post-employment benefits which are paid by the U. S. Office of Personnel Management, as follows:

Civil Service Retirement System	$ 9,746,846
Federal Employee Health Benefit	6,990,677
Federal Employee Group Life Insurance	43,624
	$16,781,147

Transfers

For FY1999 NRC transferred-out to the U.S. Treasury $443,570,539 consisting of license fee collections of $442,254,845 and non-exchange revenue of $1,315,694 and received back as a transfer-in $442,254,845.

NOTES TO PRINCIPAL STATEMENTS
September 30, 1999

NOTE 13. SUMMARY OF BUDGETARY RESOURCES

The budgetary resources by major fund follows:

Budgetary Resources:	X0200	X0300	All Other	Total
Budget authority	$464,024,000	$4,800,000	$3,952,847	$472,776,847
Unobligated balances - beginning of period	28,619,351	1,201,884	5,359,364	35,180,599
Spending authority from offsetting collections	4,404,469	126	500	4,405,095
Adjustments	7,694,970	102,579	42,369	7,839,918
Total Budgetary Resources	$504,742,790	$6,104,589	$9,355,080	$520,202,459
Status of Budgetary Resources:				
Obligations incurred	$475,517,812	$4,913,512	$5,877,294	$486,308,618
Unobligated balances - available	29,224,978	1,191,077	3,092,914	33,508,969
Unobligated balances - not available			384,872	384,872
Total Status of Budgetary Resources	$504,742,790	$6,104,589	$9,355,080	$520,202,459
Outlays:				
Obligations incurred	$475,517,812	$4,913,512	$5,877,294	$486,308,618
Less: Spending authority from offsetting collections and adjustments	(12,099,439)	(102,704)	(42,870)	(12,245,013)
Obligated balance, net beginning of period	121,578,684	1,385,321	1,799,654	124,763,659
Obligated balance transferred, net	-	-	-	-
Less: Obligated balance, net end of period	(111,072,928)	(1,190,652)	(4,319,324)	(116,582,904)
Total Outlays	$473,924,129	$5,005,477	$3,314,754	$482,244,360

The adjustments of $7,839,918 to budgetary resources above consist of recoveries to prior-year obligations.

III. SUPPLEMENTARY INFORMATION

INTRAGOVERNMENTAL ASSETS

Trading Partner	Fund Balances with Treasury	Accounts Receivable	Other
Department of the Treasury	$151,809,570		
Department of Commerce			$ 351,648
Department of the Interior			92,003
Department of Labor			257,811
Department of the Navy			348,764
Department of the Army		$ 110,290	
Department of Veteran Affairs		162,350	
General Services Administration			98,287
Tennessee Valley Authority		747,987	
Agency for International Development		394,027	
Department of Energy		117,506	
Other		148,048	58,770
Total	$151,809,570	$1,680,208	$1,207,283

INTRAGOVERNMENTAL LIABILITIES

Trading Partner	Accounts Payable	Other
Department of Agriculture		$ 270,333
Department of Labor		1,398,694
Department of the Treasury		35,561,913
Office of Personnel Management		1,631,742
Social Security Administration		526,856
General Services Administration	$2,761,788	
Department of Energy	5,559,839	
Other	443,171	
Total	$8,764,798	$39,389,538

IV. APPENDIX

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

February 15, 2000

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

FROM: Jesse L. Funches
Chief Financial Officer

SUBJECT: DRAFT AUDIT REPORT - AUDIT OF THE NUCLEAR REGULATORY COMMISSION'S FISCAL YEAR 1999 FINANCIAL STATEMENTS

We have reviewed the draft audit report of the Nuclear Regulatory Commission's FY 1999 financial statements dated February 10, 2000. Our comments on the recommendations contained in the draft audit report are as follows:

Managerial Cost Accounting

Recommendation: The Chief Financial Officer (CFO) should develop interim cost management information to enhance agency managers' ability to evaluate the cost of outputs and outcomes realized by the agency. Development of interim cost management techniques may also enhance the success of the system being contemplated by identifying the needs of managers.

The CFO should continue to be supportive of the agency's Cost Management Steering Committee.

Response: We agree there are potential benefits of developing interim cost management information for managers prior to the agency's plan to fully implement managerial cost accounting. We will work with the Cost Management Steering Committee and offices to assess what informational needs can be met with existing systems and, if possible, begin to provide interim cost management information. We will initiate this effort during March 2000.

We will continue to support the agency's Cost Management Steering Committee. We view this an important element in the agency's implementation of managerial cost accounting. Part of the charter of the Cost Management Steering Committee is to coordinate the identification of management's cost information needs with the CFO and CIO and support the cost accounting system implementation effort. We believe that the Committee's involvement will help make the cost accounting system a success.

CONTACT: Barbara K. Gusack, OCFO/DAF/GAB
415-6054

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Program Cost Accounting

Recommendation: The CFO should review and assess whether labor cost distribution systems being implemented in FY2000 fully comply with accounting and reporting standards. Those systems should be designed to improve the timeliness and reliability of financial reporting in future years.

Response: We have already initiated actions to assess PAY/PERS Labor System to ensure compliance with accounting and reporting standards and to validate the data for use in preparing the FY 2000 financial statements. In addition, we will examine the internal controls for the PAY/PERS Labor system including an assessment of the offices' compliance with the applicable policy and procedures. We plan to complete these assessments by July 1, 2000.

We will also ensure that the new Peoplesoft Payroll and Time and Labor Systems, being implemented in FY 2001, will also comply with accounting and reporting standards.

Beginning in March 2000, we will begin providing offices with labor-cost distribution reports for management purposes. We believe the system we have implemented for FY 2000 will improve the timeliness and reliability of financial reporting.

As required by the Federal Financial Management Improvement Act, a remediation plan will be prepared by May 1, 2000.

Management Controls Over Fee Development[1]

Recommendation: The CFO should address the immediate need for documented policy and a quality control process over fee development. It is essential to the integrity of the fee development process that greater discipline and structure be implemented.

Response: We agree with the need for adding more structure to the fee development process. We plan to document the license fee rule development process, and establish general procedures for calculating fees and conducting quality control. The CFO has selected a contractor, familiar with the fee rule development process, to document that process by October 2000. We are also taking actions to strengthen management controls: 1) we have a contractor on board to look at the fee model and recommend improvements to that process; 2) we are streamlining the data-entry process to the fee model to reduce the potential for error and eliminate some of the duplicate entry; and 3) we are hiring a fee policy analyst to assist in development of the fee rule which will enhance quality control.

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[1] On page 5, fifth paragraph, the draft report states that, "As further evidence that management controls over fee development are inadequate, the CFO recently included a reference to a *completed* internal study on generic costs in the FY 2000 proposed fee rule, which would have become a public document." While I do not agree that this error is further evidence of inadequate management controls, I would note that the document referenced in your draft report (i.e., SECY-00-0012) is the FY 2000 proposed fee rule Commission paper and is limited to the NRC unless the Commission determines otherwise and may not become a public document.

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Financial Statement Preparation

Recommendation: The CFO should assess current financial statement compilation practices for responding to the requirements of the CFO Act principal statements. The agency should develop and implement a financial statement preparation process that provides timely preparation of statements, supporting reports, and analysis during the fiscal year and at year's end.

Response: During the past few years, the agency has been in transition in developing and integrating its strategic plan, performance report, and performance plan and budget. This evolutionary development phase has impacted financial reporting as the agency has moved to develop the underlying financial systems needed to support the new reporting requirements. This condition was further compounded by significant revisions the Office of Management and Budget made to the form and content of financial statements effective for FY 1998.

As part of our annual assessment, we will examine the process used to produce the financial statements to determine where improvements can be made. In particular, we have recognized our lack of systems and a well disciplined compilation process for presenting labor-cost data by strategic arena and the effect on preparing financial statements in a timely and comprehensive manner over the past 2 years. As a result, we implemented corrective action for FY 2000 to capture labor-cost data by strategic arena and will be able to make more use of electronic means to assemble, summarize, and analyze data. We expect these actions will improve and streamline the financial statement preparation process.

Segregation of Duties - PAY/PERS

Recommendation: The CFO should ensure that effective segregation of duties is maintained prior to assigning access profiles to PAY/PERS personnel. The CFO should also assure that consideration is given to segregation of duties during the design and evaluation phase of newly designed systems.

Additionally, periodic review and assessment should be made of systems during the implementation and operations stages to assure that conditions or circumstances have not changed causing incompatible functions.

Response: The OCFO changed the Payroll Operations Team Leader's profile to access level II data as soon as this was identified during the audit of the financial statement. The PAY/PERS system administrator will ensure adequate segregation of duties.

The Peoplesoft payroll implementation team leader/system administrator will ensure that proper segregation of duties is incorporated into the new payroll system through the system's security profiles and will administrator annual reviews to ensure that there are adequate segregation of duties.

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Controls Over Authorized Users - PAY/PERS

Recommendation: The CFO should direct the DAF system administrator to begin using the Detail Utilization Report to perform periodic reviews of authorized users. The review should include techniques to identify user sessions for investigating unusual utilization sessions or usage patterns.

Response: The OCFO will develop a management report, based on the Detail Utilization Report, that will be used to identify unusual activity and unauthorized user access. This report will be reviewed biweekly by the system administrator who will report any unusual findings to management. Corrective action will be initiated in March 2000.

Management Controls Over Small Entity Certifications

Recommendation: The CFO should, at least quarterly, select a statistically valid sample of small entity certifications filed and request evidence, such as income tax returns or financial statements, to support the size standards claimed by the licensees.

Response: We share your concern of licensees filing false small entity certifications. We have reservations with implementing the corrective actions you have recommended. Under the Paperwork Reduction Act, requesting income tax returns or financial statements from licensees would require approval from the Office of Management and Budget. We also have concerns regarding the costs of validating the small entity status of a sample of licensees each quarter.

The OCFO plans to explore your recommendation along with other corrective actions. We will advise you of the results by June 1, 2000.

Management Controls Over General Services Administration (GSA) Credits

Recommendation: The CFO should direct:

1. The FOB to track and verify that GSA credits are received by holding a copy of the Form 441 and invoice in a pending file until the credit is received.

2. FOB to follow up with the project manager routinely to discuss any credits that have not been received in a timely manner.

Response: The DAF Financial Operations Branch has established a process to track and monitor GSA credits effective with the February 2000 billings. The procedure includes routine follow-ups with the project manager regarding untimely credits. Written procedures will be completed in March 2000.

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STATUS OF PRIOR-YEAR RECOMMENDATIONS

Revenue from Reimbursable Agreements: The final accounting policy guidance concerning the recording of revenue from reimbursable agreements will be issued by April 1, 2000.

Part 170 Hourly Rates: The final report of generic costs study will be issued by April 1, 2000.

Business Continuity - FFS: As you know, NRC is dependent on Treasury's Financial Management Service to resolve this condition. In its FY 1999 Annual Statement of Assurance, the Financial Management Service indicated that they will not resolve the lack of a tested back-up recovery capability until May 31, 2001. In my February 8, 2000 letter to the Commissioner, Financial Management Service, I requested his assistance in resolving this issue during FY 2000. We will continue to follow-up with the Financial Management Service on this issue until it is resolved.

We appreciate the opportunity to respond to the draft audit report and are available to discuss our comments. We will work closely with your staff and keep them apprised of the status of corrective actions.

HOTLINE NUMBER:
1-800-233-3497

THE OFFICE OF THE
INSPECTOR GENERAL

Attention: The Hotline Program
Mail Stop 5D28 TWFN
Washington, D.C. 20555-0001