**OFFICE OF**
**THE INSPECTOR GENERAL**

**U.S. NUCLEAR**
**REGULATORY COMMISSION**

Independent Auditors' Report and
Principal Statements for the
Year Ended September 30, 2000

OIG-01-A-06 March 1, 2001

# AUDIT REPORT

All publicly available OIG reports (including this report) are accessible through NRC's website at:
http://www.nrc.gov/NRC/OIG/index.html

March 1, 2001

MEMORANDUM TO: Chairman Meserve

FROM: Hubert T. Bell/**RA**/
Inspector General

SUBJECT: RESULTS OF THE AUDIT OF U.S. NUCLEAR REGULATORY COMMISSION'S FISCAL YEAR 2000 FINANCIAL STATEMENTS (OIG-01-A-06)

Attached is the independent auditors' report on the U.S. Nuclear Regulatory Commission's (NRC) Fiscal Year 2000 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 as material weaknesses:[1] (1) managerial cost accounting; and (2) management controls for license fee development.

The auditors identified one new reportable condition and closed four prior-year reportable conditions. The new condition concerns inadequate documentation of debt collection activities.

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[1] OIG's annual assessment of NRC's implementation of the Federal Manager's Financial Integrity Act will also report the same issues as material weaknesses. OIG Report OIG-01-A-07, *Review of NRC's Implementation of the Federal Manager's Financial Integrity Act for Fiscal Year 2000,* February 23, 2001.

The report on NRC's compliance with laws and regulations disclosed three noncompliances. The first is that NRC did not comply with the Debt Collection Improvement Act of 1996. The second is that NRC's 10 CFR Part 170 license fee rates are not based on full cost, and the third is that managerial cost accounting was not implemented, as required. Issue three is considered a substantial noncompliance 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 was dependent on the Department of the Treasury to resolve this condition. During FY 2001, NRC plans to transfer its accounting system to a new provider. 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. 01-02, *Audit Requirements for Federal Financial Statements*, requires OIG to "obtain an understanding of the components of internal control relating to the existence and completeness assertions relevant to the performance measures included in the MD&A [Management's Discussion and Analysis]." 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. OIG recently issued a separate report on the validity and reliability of NRC's performance information.[2] Although the report focused on FY 1999 performance measures and results, it noted that many efforts to improve the reliability (e.g. completeness, timeliness) of performance data will not be in place until after FY 2000.

*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. We will follow-up on the CFO's corrective action during FY 2001.

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

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[2] OIG Report OIG-01-A-03, *Government Performance and Results Act: Review of the Fiscal Year 1999 Performance Report,* February 23, 2001.

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# U.S. NUCLEAR REGULATORY COMMISSION

# INDEPENDENT AUDITOR' REPORT AND PRINCIPAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2000

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# INDEPENDENT AUDITORS' REPORT

## INDEPENDENT AUDITORS' REPORT

Chairman Richard A. Meserve
U.S. Nuclear Regulatory Commission
Rockville, Maryland

We have audited the accompanying balance sheet of the U. S. Nuclear Regulatory Commission (NRC) as of September 30, 2000, and the related statements of net cost, changes in net position, budgetary resources, and financing for the year then ended, collectively referred to as the financial statements. These financial statements are the responsibility of the management of NRC. Our responsibility is to express an opinion on these financial statements based on our audit.

### SCOPE

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audits of 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 accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

### MATTERS FOR EMPHASIS

#### Classification of Costs

OMB Bulletin 97-01, *Form and Content of Agency Financial Statements*, as amended, 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 benefits of the costs incurred (e.g. private sector licensees versus federal licensees) rather than who was paid. Following the advice of OMB, NRC classified the costs on the Statement of Net Cost using an underlying concept of who was paid.

#### 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 $57.7 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 place 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 Mach 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 financial statements referred to in the first paragraph, present fairly, in all material respects, the financial position of NRC as of September 30, 2000, and its net cost, changes in net position, budgetary resources, and reconciliation of budgetary obligations to net cost for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The required supplementary information on pages 21 through 31 is not a required part of the financial statements but is information required by OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, and by Statement of Federal Financial Accounting Standards No. 15, *Management's Discussion and Analysis.* This supplementary information is the responsibility of the NRC's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and OMB Bulletin No. 01-02, *Audit Requirements for Federal Statements*, we have also issued our report dated February 8, 2001, on our consideration of NRC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

February 8, 2001

# PRINCIPAL STATEMENTS

# BALANCE SHEET
## As of September 30, 2000
## (in dollars)

| | | |
|---|---|---|
| **Assets** | | |
| Intragovernmental assets: | | |
| Fund balances with Treasury (Note 2) | $138,740,086 | |
| Accounts receivable (Note 3) | | 1,874,393 |
| Other | 1,224,560 | |
| Total intragovernmental assets | | 141,839,039 |
| Cash and other monetary assets | | 20,000 |
| Accounts receivable, net (Note 3) | 42,162,594 | |
| Property and equipment, net (Note 5) | | 41,853,364 |
| Other | | 51,433 |
| **Total Assets** | $225,926,430 | |
| **Liabilities** | | |
| Intragovernmental liabilities | | |
| Accounts payable | $ 10,590,557 | |
| Other (Notes 6 and 7) | 50,157,465 | |
| Total intragovernmental liabilities | 60,748,022 | |
| Accounts payable | 15,859,810 | |
| Federal employees benefits (Note 7) | | 8,230,000 |
| Other (Notes 6 and 7) | 44,937,322 | |
| **Total Liabilities** | 129,775,154 | |
| **Net Position** | | |
| Unexpended appropriations (Note 9) | | 87,073,470 |
| Cumulative results of operations (Note 10) | 9,077,806 | |
| **Total Net Position** | 96,151,276 | |

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

| | |
|---|---|
| **Total Liabilities and Net Position** | $225,926,430 |

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

## STATEMENT OF NET COST
## For the year ended September 30, 2000
## (in dollars)

| | | |
|---|---|---|
| **Nuclear Reactor Safety** | | |
| Intragovernmental | $103,796,213 | |
| With the public | 226,621,251 | |
| Total | 330,417,464 | |
| Less earned revenue | 390,400,624 | |
| Net cost of Nuclear Reactor Safety | | $(59,983,160) |
| **Nuclear Materials Safety** | | |
| Intragovernmental | 27,707,063 | |
| With the public | 73,502,935 | |
| Total | 101,209,998 | |
| Less earned revenue | 55,011,902 | |
| Net cost of Nuclear Materials Safety | | 46,198,096 |
| **Nuclear Waste Safety** | | |
| Intragovernmental | 14,856,560 | |
| With the public | 48,319,530 | |
| Total | 63,176,090 | |
| Less earned revenue | 14,547,764 | |
| Net cost of Nuclear Waste Safety | | 48,628,326 |
| **International Nuclear Safety Support** | | |
| Intragovernmental | 7,892,108 | |
| With the public | 8,033,704 | |
| Total | 15,925,812 | |
| Less earned revenue | 3,077,698 | |
| Net cost of International Nuclear | | |

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

| | |
|---|---|
| Safety Support | 12,848,114 |
| **Net Cost of Operations** (Note 12) | $ 47,691,376 |

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, 2000
## (in dollars)

| | | |
|---|---|---|
| **Net Cost of Operations** | | $(47,691,376) |
| **Financing sources other than exchange revenue** (Note 13) | | |
| Appropriations used | $ 26,120,547 | |
| Non-exchange revenue | 875,347 | |
| Imputed financing | 16,032,598 | |
| Transfer-in | 447,000,000 | |
| Transfers-out | | (447,875,347) |
| Total financing sources | | 42,153,145 |
| **Net results of operations** | | (5,538,231) |
| Decrease in unexpended appropriations | | (16,176,632) |
| **Change in Net Position** | | (21,714,863) |
| **Net Position - Beginning of Period** | $116,553,292 | |
| **Prior-period adjustment** (Note 14) | 1,312,847 | |
| **Net Position - Restated Beginning of Period** | | 117,866,139 |
| **Net Position - End of Period** | | $ 96,151,276 |

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

# STATEMENT OF BUDGETARY RESOURCES
## For the year ended September 30, 2000
## (in dollars)

**Budgetary Resources** (Note 15)

| | |
|---|---|
| Budget authority | $471,975,231 |
| Unobligated balances - beginning of period | 29,893,840 |
| Spending authority from offsetting collections | 5,516,691 |
| Adjustments | 8,524,924 |
| **Total Budgetary Resources** | $515,910,686 |

**Status of Budgetary Resources**

| | |
|---|---|
| Obligations incurred | $485,533,580 |
| Unobligated balances - available | 29,786,831 |
| Unobligated balances - not available | 590,275 |
| **Total Status of Budgetary Resources** | $515,910,686 |

**Outlays**

| | |
|---|---|
| Obligations incurred | $485,533,580 |
| Less: Spending authority from offsetting collections and adjustments | (14,128,615) |
| Subtotal | 471,404,965 |
| Obligated balances, net - beginning of period | 116,582,904 |
| Less: obligated balance, net - end of period | (104,044,499) |
| **Total Outlays** | $483,943,370 |

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

# STATEMENT OF FINANCING
## For the year ended September 30, 2000
## (in dollars)

| | | |
|---|---|---|
| **Obligations and Nonbudgetary Resources** | | |
| Obligations incurred | $485,533,580 | |
| Less: Spending authority for offsetting collections and adjustments | (14,128,615) | |
| Imputed financing (Note 13) | 16,032,598 | |
| Transfer-in (Note 13) | 447,000,000 | |
| Transfer-out (Note 13) | (447,000,000) | |
| Exchange revenues not in the budget (Note 11) | (457,944,314) | |
| **Total Obligations and Nonbudgetary Resources** | 29,493,249 | |
| **Resources Not Funding Net Cost of Operations** | | |
| Change in undelivered orders | 12,659,897 | |
| Capitalized costs | (6,683,272) | |
| Financing sources that fund costs of prior periods | - | |
| Other | | 520,704 |
| **Total Resources Not Funding Net Cost of Operations** | 6,497,329 | |
| **Costs Not Requiring Resources** | | |
| Depreciation and amortization | 6,536,224 | |
| **Total Costs Not Requiring Resources** | 6,536,224 | |
| **Financing Sources Yet to be Provided** | 5,164,574 | |
| **Net Cost of Operations** | $ 47,691,376 | |

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

# NOTES TO PRINCIPAL STATEMENTS
# September 30, 2000

## 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 use of nuclear materials.

The NRC FY 2000 appropriations for salaries and expenses and the Inspector General include approximately $19.2 million of funds derived from the Nuclear Waste Fund and $3.8 million from the General Fund for assistance provided to the U. S. Department of Energy (DOE) and other Federal agencies. In addition, $2 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, Ukraine, Kazakhstan, and Armenia for the independent oversight of nuclear reactors in these countries. At the beginning of FY 2000, $4 million authorized by Public Law (P.L.) 105-62 for FY 1998 for the licensing of a multi-purpose canister design was rescinded by P.L. 106-60 and funding was transferred back to the DOE. In addition, NRC's appropriation was reduced by $87,000 through a recission of funding in accordance with P.L. 106-113.

The accompanying financial statements of NRC include the accounts of all funds under NRC control. The NRC appropriations are under budget functional classification 276, *Energy Information, Policy, and Regulation,* and departmental code 31. The transfer appropriations from: (1) the U.S. Agency for International Development are under budget functional classification 150, *International Affairs,* and departmental code 72 and (2) the General Services Administration (GSA) 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 accounting principles generally accepted in the United States of America, 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. 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, 2000

The strategic arenas as presented on the Statement of Net Cost are based on the strategic plans and the FY 2000 budget structure. The budget line items for Management and Support and the Office of the Inspector General were allocated to strategic arenas using direct costing and 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. The NRC regulates 103 civilian nuclear power reactors that are licensed to operate and 17 that are undergoing decommissioning.

**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 31 Agreement States.

**Nuclear Waste Safety** encompasses NRC's regulatory activities associated with uranium recovery, decommissioning, storage of spent nuclear fuel, transportation of radioactive materials, and disposal of radioactive wastes.

**International Nuclear Safety Support** encompasses NRC's efforts of international cooperation to help ensure the safe, secure, and environmentally acceptable uses of nuclear energy. This arena includes 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 26 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 $469.9 million by assessing fees less the amounts derived from the Nuclear Waste Fund of $19.2 million and $3.8 million from the General Fund for regulatory review and other assistance provided to DOE and other Federal agencies which is excluded from license fee revenues.

### *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.

## NOTES TO PRINCIPAL STATEMENTS
## September 30, 2000

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. 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: (1) expenses incurred but not yet funded by Congress, such as workers' compensation benefits and annual leave expenses; and (2) 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 U.S. 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.

## NOTES TO PRINCIPAL STATEMENTS
## September 30, 2000

### *G. Accounts Receivable*

The amounts due for receivables, except those due from Federal agencies, are stated net of an allowance for uncollectible accounts. Receivables from Federal agencies are expected to be collected; therefore, 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 consist 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 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 using the straight-line method over the useful life. 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 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 statements.

## NOTES TO PRINCIPAL STATEMENTS
## September 30, 2000

### *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*

At the end of FY 2000 approximately 42 percent of NRC employees belong to the Civil Service Retirement System (CSRS) and 58 percent belong to the Federal Employees' Retirement System (FERS). In FY 2000, for employees in FERS, the NRC withheld 1.2 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. During FY 2000, for employees covered by CSRS, NRC withheld 7.4 percent of base pay earnings. This withholding was matched by NRC with a 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 2000 was $10,500. 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.

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

Financial transactions between 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, 2000, NRC had expenses of approximately $ 57.7 million for research conducted by the DOE National Laboratories.

## NOTES TO PRINCIPAL STATEMENTS
## September 30, 2000

### *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 could differ from these estimates.

## NOTE 2. FUND BALANCES WITH TREASURY

Fund balances with the Treasury consist of the following amounts as of September 30, 2000:

| | |
|---|---|
| Appropriated funds: | |
| Obligated | $118,576,942 |
| Unobligated | 15,824,682 |
| | 134,401,624 |
| Other fund types | 4,338,462 |
| | $138,740,086 |

The obligated and unobligated balances exclude amounts related to unfilled customer orders. Other fund types include miscellaneous receipt accounts and budget clearing accounts.

## NOTE 3. ACCOUNTS RECEIVABLE

Accounts receivable is composed of the following:

Intragovernmental accounts receivable consists primarily of receivables and reimbursements due from other Federal agencies which were $1,874,393 at September 30, 2000.

The non-Federal accounts receivable, net, is comprised of the following amounts as of September 30, 2000:

## NOTES TO PRINCIPAL STATEMENTS
## September 30, 2000

| | |
|---|---|
| Materials and facilities fees - billed | $ 5,418,605 |
| Materials and facilities fees - unbilled | 39,864,362 |
| Other | 359,056 |
| Total accounts receivable | 45,642,023 |
| Less: Allowance for uncollectible accounts | (3,479,429) |
| Accounts receivable, net | $42,162,594 |

Other accounts receivable of $359,056 represent miscellaneous amounts due from NRC employees and penalties and interest due from the public.

### NOTE 4. NON-ENTITY ASSETS

Included in the accounts receivable balance is $214,176 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, 2000:

| Fixed Assets Class | Service Years | Acquisition Value | Accumulated Depreciation and Amortization | Net Book Value |
|---|---|---|---|---|
| Equipment | 5-8 | $ 18,997,699 | $(15,682,494) | $ 3,315,205 |
| ADP software | 5 | 53,102,079 | (34,990,208) | 18,111,871 |
| ADP software under development | - | 7,738,081 | - | 7,738,081 |
| Leasehold improvements | 20 | 19,665,214 | (7,072,329) | 12,592,885 |
| Leasehold improvements in progress | | 95,322 | - | 95,322 |
| | | $99,598,395 | $(57,745,031) | $41,853,364 |

### NOTE 6. OTHER LIABILITIES

Other intragovernmental liabilities as of September 30, 2000, include:

| | | |
|---|---|---|
| Liability to offset net accounts receivable for fees assessed | $43,388,134 | |
| Liability related to fees collected which will offset subsequent year's appropriations | | 3,172,811 |
| Liability to offset miscellaneous accounts receivable | | 214,376 |
| Liability for advances from other Federal agencies | 22,393 | |
| Accrued worker's compensation | 1,520,707 | |
| Liability for employee benefits contributions | 1,839,044 | |
| | $50,157,465 | |

# NOTES TO PRINCIPAL STATEMENTS
## September 30, 2000

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.

Other liabilities as of September 30, 2000, include:

| | |
|---|---|
| Accrued annual leave | $25,626,852 |
| Accrued salaries | 14,303,335 |
| Contract holdbacks, advances, and other | 5,007,135 |
| | $44,937,322 |

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, 2000, liabilities not covered by budgetary resources included:

### Intragovernmental

Included in the $50,157,465 of other intragovernmental liabilities is $1,520,707 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, 2000.

### Federal Employees Benefits

Federal employees benefits of $8,230,000 for FY 2000 represents 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 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. The interest rate assumptions utilized for discounting were 6.275 percent in year 1 and 6.300 percent in year 2 and thereafter.

### Other

## NOTES TO PRINCIPAL STATEMENTS
## September 30, 2000

Included in the $44,937,322 of other liabilities is $25,626,852 of accrued annual leave and $181,097 for the 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, 2000 follows:

#### Capital Leases

Future payments due:

| | Fiscal Year | Lease Payments |
|---|---|---|
| | 2001 | $ 70,378 |
| | 2002 | 70,378 |
| | 2003 | 52,784 |
| | 2004 and thereafter | - |
| Total future lease payments | | 193,540 |
| Less: imputed interest | | (12,443) |
| Net capital lease liability | | $181,097 |

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 |
|---|---|---|
| | 2001 | $ 20,099,771 |
| | 2002 | 19,406,694 |
| | 2003 | 19,364,621 |
| | 2004 | 19,457,404 |
| | 2005 and thereafter | 158,190,133 |
| Total future lease payments | | $236,518,623 |

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, 2000:

| | |
|---|---|
| Unexpended appropriations: | |
| Unobligated | $18,711,100 |

## NOTES TO PRINCIPAL STATEMENTS
## September 30, 2000

| | |
|---|---|
| Undelivered orders | 68,362,370 |
| | $87,073,470 |

Unexpended appropriations include: (1) unobligated appropriation balances and (2) undelivered orders, which are amounts which have been obligated but not yet expended. The unobligated appropriations balance does not include $3,054,083 in unfilled customer orders - unobligated as of September 30, 2000. The undelivered orders balance does not include $2,886,418 in unfilled customer orders - obligated as of September 30, 2000.

### NOTE 10. CUMULATIVE RESULTS OF OPERATIONS

The cumulative results of operations as of September 30, 2000, consists of the following:

| | |
|---|---|
| Future funding requirements | $(35,377,560) |
| Investment in property and equipment, net | 41,853,364 |
| Contributions from foreign cooperative research agreements | 2,505,896 |
| Other | 96,106 |
| | $ 9,077,806 |

Future funding requirements represent the amount of future funding needed to pay the accrued unfunded expenses as of September 30, 2000. 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, 2000:

| | |
|---|---|
| Fees for licensing, inspection, and other services | $457,944,314 |
| Revenue from reimbursable work | 5,093,674 |
| Totals | $463,037,988 |

### NOTE 12. BUDGET FUNCTIONAL CLASSIFICATION

The gross cost and earned revenue by budget functional classification for NRC are as follows:

| **Functional Classifications** | **Gross Cost** | **Earned Revenues** | **Net Cost** |
|---|---|---|---|
| 276 - Energy Information, Policy & Regulation | $506,936,643 | $(462,494,646) | $44,441,997 |
| 150 - AID International Affairs | 3,791,761 | (543,342) | 3,248,419 |
| 800 - GSA General Government | 960 | - | 960 |
| Totals | $510,729,364 | $(463,037,988) | $47,691,376 |

## NOTES TO PRINCIPAL STATEMENTS
## September 30, 2000

The transactions with intragovernmental entities were as follows:

| Functional Classifications | Gross Cost | Earned Revenues | Net Cost |
|---|---|---|---|
| 276 - Energy Information, Policy & Regulation | $152,080,387 | $(31,079,476) | $121,000,911 |
| 150 - AID International Affairs | 2,171,557 | - | 2,171,557 |
| Totals | $154,251,944 | $(31,079,476) | $123,172,468 |

**NOTE 13. 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, 2000, $450,077,215 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. Included in the $450,077,215 of fees collected is $3,077,215 available to offset subsequent years' appropriations.

For the year ended September 30, 2000, $447,000,000 of FY 2000 collections were used to reduce the fiscal year's appropriations recognized:

| | |
|---|---|
| Appropriated funds consumed | $ 484,064,861 |
| Less: Collection from fees assessed | (447,000,000) |
| | 37,064,861 |
| Amounts to offset subsequent years' appropriations | (10,944,314) |
| | $ 26,120,547 |

Appropriations used includes $29,893,840 of available funds from prior years.

**Non-exchange Revenue**

Non-exchange revenue of $875,347, consisted of $632,038 received from civil penalties and $243,309 of miscellaneous receipts. Miscellaneous receipts included interest on delinquent debt, late penalties, Freedom of Information Act fees, and indemnity fees.

## NOTES TO PRINCIPAL STATEMENTS
## September 30, 2000

### Imputed Financing

The imputed financing source of $16,032,598 represents the service costs related to NRC employees' post-employment benefits which are paid by the Office of Personnel Management and payments from the U.S. Treasury Judgement Fund, as follows:

| | |
|---|---|
| Civil Service Retirement System | $ 9,173,094 |
| Federal Employee Health Benefit | 6,807,220 |
| Federal Employee Group Life Insurance | 44,784 |
| U. S. Treasury Judgement Fund | 7,500 |
| | $16,032,598 |

### Transfers In/Out

NRC transferred-out to the U.S. Treasury $447,875,347 consisting of license fee collections of $447,000,000 and non-exchange revenue of $875,347 and received back as a transfer-in $447,000,000.

### NOTE 14. PRIOR-PERIOD ADJUSTMENT

The prior-period adjustment of $1,312,847 consists of the net value of computer hardware components received in FY 1999 by NRC but not capitalized as other assets, equipment not in use. The assets were placed into operation during FY 2000. The impact of this adjustment is to increase property and equipment, net, and cumulative results of operations as of September 30, 1999, by $1,312,847.

# NOTES TO PRINCIPAL STATEMENTS
## September 30, 2000

### NOTE 15. SUMMARY OF BUDGETARY RESOURCES

The budgetary resources by major fund follows:

| **Budgetary Resources:** | **X0200** | **X0300** | **All Other** | **Total** |
|---|---|---|---|---|
| Budget authority | $464,975,231 | $5,000,000 | $2,000,000 | $471,975,231 |
| Unobligated balances - beginning of period | 25,224,977 | 1,191,076 | 3,477,787 | 29,893,840 |
| Spending authority from offsetting collections | 5,516,691 | - | - | 5,516,691 |
| Adjustments | 8,094,616 | 283,920 | 146,388 | 8,524,924 |
| **Total Budgetary Resources** | $503,811,515 | $6,474,996 | $5,624,175 | $515,910,686 |
| | | | | |
| **Status of Budgetary Resources:** | | | | |
| Obligations incurred | $476,129,523 | $5,577,236 | $3,826,821 | $485,533,580 |
| Unobligated balances - available | 27,681,992 | 897,760 | 1,207,079 | 29,786,831 |
| Unobligated balances - not available | 0 | 0 | 590,275 | 590,275 |
| **Total Status of Budgetary Resources** | $503,811,515 | $6,474,996 | $5,624,175 | $515,910,686 |
| | | | | |
| **Outlays:** | | | | |
| Obligations incurred | 476,129,523 | 5,577,236 | 3,826,821 | 485,533,580 |
| Less: Spending authority from offsetting collections and adjustments | (13,698,307) | (283,920) | (146,388) | (14,128,615) |
| Obligated balance, net beginning of period | 111,072,928 | 1,190,652 | 4,319,324 | 116,582,904 |
| Obligated balance transferred, net | - | - | - | - |
| Less: Obligated balance, net end of period | (98,927,140) | (1,063,981) | (4,053,378) | (104,044,499) |
| **Total Outlays** | $474,577,004 | $5,419,987 | $3,946,379 | $483,943,370 |

The adjustments of $8,524,924 to budgetary resources above consist of recoveries to prior-year obligations less $87,000 that was rescinded.

# REQUIRED SUPPLEMENTARY INFORMATION

## INTRAGOVERNMENTAL ASSETS

| Trading Partner | Fund Balances with Treasury | Accounts Receivable | Other |
|---|---|---|---|
| Department of the Treasury | $ 138,740,086 | | |
| Commerce Department | | | $136,830 |
| Interior Department | | | 170,555 |
| Navy Department | | | 209,016 |
| Department of Labor | | | 267,480 |
| General Services Administration | | | 325,687 |
| Tennessee Valley Authority | | $1,025,345 | |
| Department of Veterans Affairs | | 279,800 | |
| Department of Energy | | 224,993 | |
| Other | | 344,255 | 114,992 |
| Total | $138,740,086 | $1,874,393 | $1,224,560 |

## INTRAGOVERNMENTAL LIABILITIES

| Trading Partner | Accounts Payable | Other |
|---|---|---|
| Department of Labor | | $ 1,520,707 |
| Department of the Treasury | | 46,775,321 |
| Office of Personnel Management | | 1,839,043 |
| General Services Administration | $ 5,180,850 | |
| Department of Energy | 4,747,330 | |
| Other | 662,377 | 22,394 |
| Total | $10,590,557 | $50,157,465 |

The Management's Discussion and Analysis is designed to provide a high-level overview of the agency. It consists of four sections: *About the NRC* which describes the agency's mission, organizational structure, and regulatory responsibility; *Program Performance* which discusses the agency's success in achieving its strategic goals; *Financial Performance* which provides highlights of the NRC's financial position; and *Systems, Controls, and Legal Compliance* which describes the agency's internal control environment and contains the Chairman's reasonable assurance statement.

# ABOUT THE NRC

The NRC was established as an independent regulatory agency of the Federal Government on January 19, 1975. It was created by the U.S. Congress to regulate various commercial and institutional uses of nuclear energy. The agency succeeded the regulatory function of the Atomic Energy Commission, which had the responsibility to both develop and regulate nuclear activities. 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.

**Mission**

The NRC's mission is 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.

**Organization**

The NRC is headed by a Commission composed of five members, with one member designated by the President to serve as Chairman. Each member is appointed by the President, by and with the advice and consent of the Senate, and serves a term of 5 years. The Chairman serves as the principal executive officer and official spokesman for the Commission. The Executive Director for Operations carries out the program policies and decisions made by the Commission.

The agency's mission is carried out with a staff of approximately 2,800 and a budget of approximately $470 million, most of which is recovered through fees charged to NRC licensees. The agency's budget has been declining since FY 1993. The FY 2000 budget reflects an overall reduction of 13 percent in funding and 16 percent in staffing compared to FY 1993.

The NRC executes its mission at its headquarters offices in Rockville, Maryland, and four regional locations in King of Prussia, Pennsylvania; Atlanta, Georgia; Lisle, Illinois; and Arlington, Texas. The NRC also has resident inspector offices at each commercial nuclear power plant. The NRC organization chart is located at the end of this section.

**Regulatory Responsibility**

Under its responsibility to protect the public health and safety, the NRC has three principal regulatory functions: (1) establish standards and regulations, (2) issue licenses for nuclear facilities and users of nuclear materials, and (3) inspect facilities and users of nuclear materials to ensure compliance with the requirements. These regulatory functions relate to both nuclear power plants and to other uses of nuclear materials, such as nuclear medicine programs at hospitals, academic activities at educational institutions, research work, and industrial applications for gauges and testing equipment.

## PROGRAM PERFORMANCE

The Government Performance and Results Act requires Federal agencies to provide an annual performance plan to Congress that sets goals with measurable target levels of performance beginning with FY 1999. Within 6 months of the end of that fiscal year, agencies must submit actual program performance data to the Congress. The NRC established four strategic goals consistent with its mission. To assess the results in achieving the strategic goals, the NRC identified FY 2000 strategic goal measures and subsequently modified them in the Budget Estimates and Performance Plan - FY 2001 (NUREG-1100, February 2000).

STRATEGIC GOALS

- Prevent radiation-related deaths and illnesses in the use of civilian nuclear reactors.
- Prevent radiation-related deaths and illnesses in the use of source, byproduct, and special nuclear material.
- Prevent significant adverse impacts from radioactive waste.
- Support U.S. interests in the safe and secure use of nuclear materials and in nuclear

The NRC has organized its strategic goals into four strategic arenas: Nuclear Reactor Safety, Nuclear Materials Safety, Nuclear Waste Safety, and International Nuclear Safety Support.

The NRC has also established performance goals to support the strategic goals for each of the four strategic arenas. These performance goals and their associated performance measures for FY 2000 will be reported in the NRC's FY 2000 Performance and Accountability Report.

***Nuclear Reactor Safety***

**Strategic Goal:** ***Prevent radiation-related deaths and illnesses, promote the common defense and security, and protect the environment in the use of civilian nuclear reactors.***

In FY 2000, the NRC met its nuclear reactor safety strategic goal measures and had:

(1) No nuclear reactor accidents.
(2) No deaths resulting from acute radiation exposures from nuclear reactors.
(3) No events at nuclear reactors resulting in significant radiation exposures.
(4) No radiological sabotages at nuclear reactors.
(5) No releases of radioactive material from nuclear reactors causing an adverse impact on the environment.

***Nuclear Materials Safety***

**Strategic Goal:** ***Prevent radiation-related deaths and illnesses, promote the common defense and security, and protect the environment in the use of source, byproduct, and special nuclear material.***

In FY 2000, the NRC met its nuclear materials safety strategic goal measures and had:

(1) No deaths resulting from acute radiation exposures from civilian uses of source, byproduct, or special nuclear materials or deaths from other hazardous materials used or produced from license material.
(2) No events that result in significant radiation or hazardous material exposures from the loss or use of source, byproduct, and special nuclear materials.
(3) No events resulting in releases of radioactive material from the civilian use of source, byproduct, or special nuclear materials that cause an adverse impact on the environment.
(4) No losses, thefts, or diversion of formula quantities of strategic special nuclear material; radiological sabotages; or unauthorized enrichment of special nuclear material regulated by the NRC.
(5) No unauthorized disclosures or compromises of classified information causing damage to national security.

### *Nuclear Waste Safety*

**Strategic Goal:** ***Prevent significant adverse impacts from radioactive waste to the current and future public health and safety and the environment, and promote the common defense and security.***

In FY 2000, the NRC met its nuclear waste safety strategic goal measures and had:

(1) No deaths resulting from acute radiation exposures from radioactive waste.
(2) No events resulting in significant radiation exposures.
(3) No releases of radioactive waste causing an adverse impact on the environment.
(4) No losses, thefts, diversions, or radiological sabotages of special nuclear material or radioactive waste.

### *International Nuclear Safety Support*

**Strategic Goal:** ***Support U.S. interests in the safe and secure use of nuclear materials and in nuclear nonproliferation.***

In FY 2000, the NRC met its international nuclear safety support strategic goal measures and had:

(1) Fulfilled 100 percent of the significant obligations over which NRC has regulatory authority arising from statutes, treaties, conventions, and Agreements for Cooperation.
(2) No significant proliferation incidents attributable to some failure of the NRC.
(3) No significant safety or safeguards events that resulted from NRC's failure to implement its international commitments.

## FINANCIAL PERFORMANCE

## Financial Statement Highlights

The NRC prepared its financial statements in accordance with the accounting standards codified in the Statements of Federal Financial Accounting Standards and Office of Management and Budget Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, as amended. The NRC has prepared audited financial statements since FY 1992 and has received an unqualified opinion on its principal statements for the seventh consecutive year. Preparation of financial statements is an important step towards improved financial management and providing accurate and reliable information to be used in assessing performance and allocating resources.

For FY 2000, the auditors identified two material internal control weaknesses concerning implementation of Statement of Federal Financial Accounting Standards Number 4 (SFFAS 4), *Managerial Cost Accounting Concepts and Standards for the Federal Government*, and management control over license fee development. The auditors also identified two new reportable conditions concerning debt collection. In addition, 11 reportable conditions were carried over from FY 1999. Seven of the reportable conditions from previous years remained open at the end of FY 2000. They included the implementation of managerial cost accounting, the agency's progress in developing financial systems to aggregate payroll transactions to the strategic arena level, management controls over fee development, business continuity plan for the core accounting system, the financial statement preparation process, controls over the verification of small entity status for fee assessment, and development of the 10 CFR Part 170 hourly rate. The agency has taken corrective action on these audit findings and expects to fully implement corrective action during FY 2001.

## Financial Condition of NRC

As of September 30, 2000, the financial condition of the NRC is sound with respect to having sufficient funds to meet program needs and sufficient control of these funds to ensure that NRC obligations do not exceed budget authority. NRC's total assets were $225.9 million. Total liabilities as of September 30, 2000, were $129.8 million, which included $94.2 million of liabilities covered by budgetary resources and $35.6 million not covered by budgetary resources. Liabilities not covered by budgetary resources are primarily from unfunded liabilities associated with accrued annual leave and future workers' compensation. Total exchange revenue for the year ended September 30, 2000, was $463.0 million which was derived from licensing fees and fees for inspections and other services, assessed in accordance with Title 10 Code of Federal Regulations (CFR) Parts 170 and 171. The net cost of NRC operations totaled $47.7 million for the year ended September 30, 2000. The majority of these costs were in the Nuclear Materials Safety and Nuclear Waste Safety arenas.

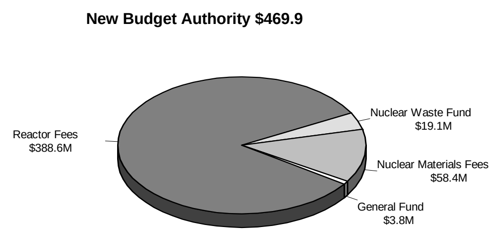
The net cost of operations is expected to increase in the future as a result of recent changes to the fee collection requirement, as contained in the Energy and Water Development Appropriations Act, 2001. The requirement to recover approximately 100 percent of the agency's new budget authority by assessing fees, less amounts appropriated for the Nuclear Waste Fund and the General Fund, will be reduced to 98 percent in FY 2001 and continue to decrease 2 percent per year until FY 2005, for a total reduction of 10 percent. This change is expected to result in an increase in NRC's net cost of about $9 million for FY 2001.

## Sources of Funds

The NRC has two appropriations, and funds for both are available until expended. One appropriation is for agency salaries and expenses, and the other is for the Office of the Inspector General. The NRC's total new FY 2000 budget authority was $469.9 million including $464.9 million for the Salaries and Expenses appropriation and $5.0 million for the Inspector General appropriation. Additionally, available to obligate in FY 2000 were $31.1 million from prior-year appropriations, $3.6 million from prior-year reimbursable work, $5.7 million from current and prior-year transfer of funds from other Federal agencies, and $5.6 million for new reimbursable work to be performed for others. The sum of all funds available to obligate for FY 2000 was $515.9 million.

Consistent with the requirements of the Omnibus Budget Reconciliation Act of 1990, the NRC collected and offset approximately 100 percent of its new budget authority, excluding $19.1 million derived from the Nuclear Waste Fund, $3.8 million from the General Fund for regulatory review and other assistance provided to the Department of Energy and other Federal agencies, and other offsetting receipts. (See Figure 1.)

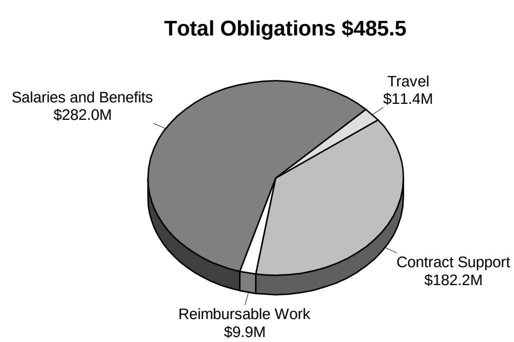
**Figure 1**
**Sources of Funds**




**Uses of Funds by Function**

As previously stated, the total budgetary resources available for use by the NRC in FY 2000 was $515.9 million. Of that amount, the NRC incurred obligations of $485.5 million, with approximately 58 percent used for salaries and benefits. The remaining 42 percent was used to obtain technical assistance for the NRC's principal regulatory programs, to conduct confirmatory safety research, to cover operating expenses, (e.g., building rentals, transportation, printing, security services, supplies, office automation, and training), staff travel, and reimbursable work. (See Figure 2.) Of the $30.4 million in budget authority that was not obligated in FY 2000, $0.6 million of transferred funds expired at the end of the fiscal year, $4.3 million was for reimbursable work, and $25.5 million in budget authority is available to fund critical needs in FY 2001. (See Figure 2.)

**Figure 2**
**Uses of Funds by Function**



**Prompt Payment**

The Prompt Payment Act requires Federal agencies to make timely payments to vendors for supplies and services, to pay interest penalties when payments are made after the due date, and to take cash discounts when they are economically justified. For FY 2000, the NRC made 96 percent of its 8,237 payments subject to the Prompt Payment Act on-time. This exceeds the goal established by the Office of Management and Budget for Federal agencies to make 95 percent of payments subject to the act on-time and reflects the third consecutive year NRC has achieved 96 percent. The amount of interest penalties incurred was just under $6,400. In addition, the agency made over 99 percent of its vendor payments electronically. This exceeds the Governmentwide goal of 69 percent.

**Debt Collection**

The Debt Collection Improvement Act of 1996 was enacted to enhance the ability of the Federal Government to service and collect debts. The agency's goal is to maintain the delinquent debt owed to NRC at year-end to less than one percent of its billings for that year. The NRC continues to meet its goal and has kept delinquent debt at less than one percent for the past 5 years. Control over delinquent debt is accomplished through a concerted debt management strategy. The strategy includes license revocations and referral to the Department of the Treasury's Debt Management Services through a cross-servicing arrangement.

Delinquent debt at the end of FY 2000 was $1.5 million which is 40 percent less than the amount at the end of FY 1999. This reduction was the result of implementing accounting policy changes pursuant to revised guidance issued by the Department of the Treasury and the reduction in the number of licensees due to the establishment of a new Agreement State.

## SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

The Federal Managers' Financial Integrity Act of 1982, Integrity Act, mandates that agencies establish controls that reasonably ensure that: (i) obligations and costs comply with applicable law; (ii) assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and (iii) revenues and expenditures are properly recorded and accounted for. This act encompasses program, operational, and administrative areas as well as accounting and financial management. The act requires the Chairman to provide an assurance statement on the adequacy of management controls and conformance of financial systems with Governmentwide standards.

INTEGRITY ACT STATEMENT
FY 2000

The U.S Nuclear Regulatory Commission evaluated its management controls and financial management systems for FY 2000, as required by the Federal Managers' Financial Integrity Act of 1982. On the basis of the NRC's comprehensive management control program, I am pleased to certify, with reasonable assurance, that the agency is in compliance with the provisions of this act.

Richard A. Meserve /s/
Chairman
U.S. Nuclear Regulatory Commission
January 24, 2001

The Federal Financial Management Improvement Act of 1996, Improvement Act, requires each agency to implement and maintain systems that comply substantially with: (i) Federal financial management system requirements, (ii) applicable Federal accounting standards, and (iii) the standard general ledger at the transaction level. The act requires the Chairman to determine whether the agency's financial management systems comply with the Improvement Act and to develop remediation plans for systems that do not comply.

**NRC's Management Control Program**

A committee of senior agency executives reviewed individual assurance statements prepared by NRC office directors and regional administrators that identified weaknesses that warranted the attention of the executive committee. This committee was comprised of senior executives from the following offices: Chief Financial Officer, Chief Information Officer, and Executive Director of Operations, with the General Counsel and the Inspector General as advisors. These statements were based on various sources including:

- Management knowledge gained from the daily operation of agency programs and reviews.
- Management reviews.
- Program evaluations.
- Audits of financial statements.
- Reviews of financial systems.
- Annual Performance plans.
- Inspector General and General Accounting Office reports.
- Reports and other information provided by the congressional committees of jurisdiction.

NRC's ongoing management control program requires, among other things, that management control deficiencies are integrated into offices' and regions' annual operating plans. The operating plan process has provisions for periodic updates and receives the attention of an executive committee made up of the agency's senior managers. The management control information in these plans, combined with the individual assurance statements discussed previously, provide the framework for monitoring and improving the agency's management controls on an ongoing basis and for advising the Chairman on whether there are any management control deficiencies serious enough to report as material weaknesses or material noncompliances.

The NRC evaluated its management control systems for the fiscal year ending September 30, 2000. This evaluation provided reasonable assurance that the agency's management controls achieved their intended objectives. As a result, it was concluded that NRC did not have any material weaknesses in its programmatic or administrative activities.

However, the agency recognizes that incomplete implementation of managerial cost accounting (SFFAS 4) continues to be a significant weakness which merits the close attention of senior management. Progress has been made over the past year to implement managerial cost accounting. A cost accounting software package was selected, purchased, and installed and is being configured to reflect how the agency initially plans to report direct costs and allocate its indirect costs. Consistent with the remediation plan, the agency expects to implement managerial cost accounting and achieve compliance with SFFAS 4 during FY 2001.

Actions have also been taken to strengthen the management controls over fee development. The license fee rule development process has been documented, and an analysis of the fee model has been completed and improvements made. The agency completed these corrective actions in November 2000.

**Financial Management Systems**

The NRC evaluated its financial management systems to determine whether the agency's systems comply with Governmentwide standards (Integrity Act) and with applicable Federal requirements and accounting standards (Improvement Act). This evaluation disclosed that NRC's major financial management systems are in compliance with the Integrity Act. The evaluation also disclosed that overall financial systems are in compliance with the Improvement Act. NRC's financial management systems comply substantially with Federal financial management systems requirements and the standard general ledger at the transaction level, but did not comply substantially with applicable Federal standards due to the lack of implementation of SFFAS 4, managerial cost accounting. As discussed previously, the agency is continuing to address the implementation of SFFAS 4.

The NRC has five financial systems: the Federal Financial System (FFS), Capitalized Property PC System, License Fee Bill Generator System, Allotment-Financial Plan System, and a Budget Formulation System. The NRC also has a mixed system, the Payroll/Personnel System.

The FFS is the core accounting system that the NRC uses through an interagency agreement with the Department of the Treasury (Treasury). This system is reviewed annually by Treasury's Financial Management Service (FMS) for its client agencies that utilize the system. FMS performed a vulnerability assessment that disclosed no material or nonmaterial weaknesses. Their limited review of FFS provided reasonable assurance that FFS, as operated by FMS for NRC, is efficient and effective; contains necessary controls; and conforms with the principles, standards, and related requirements prescribed by the Comptroller General with one exception. The FMS has yet to test its business continuity plan for FFS and this exception is considered a material nonconformance. FMS has delayed such testing because of higher priorities imposed on its data center.

The FMS has also notified the agency that they will terminate cross-servicing core accounting services at the end of FY 2002. During FY 2001, NRC will pursue acquiring core accounting services from another Federal agency.

**Biennial Review of User Fees**

The Chief Financial Officers Act of 1990 requires agencies to biennially conduct a review of fees, royalties, rents, and other charges imposed by agencies and make revisions, if necessary, to cover the program and administrative costs incurred. During FY 1999 to FY 2000, the NRC reviewed each type of fee subject to the biennial review of fees requirement. Each year, the hourly rates for licensing and inspection fees are revised and the annual fees are adjusted to meet the fee collection requirements of the Omnibus Budget Reconciliation Act of 1990. The most recent changes to the licensing, inspection, and annual fees are described in the *Federal Register* (65 FR 36946, June 12, 2000). The following fees and charges were also revised to more appropriately recognize actual costs: fees for public use of the auditorium, administrative charges imposed on delinquent debt (10 CFR 15.37(f)), fees for search and review time to respond to Freedom of Information Act and Privacy Act requests, and licensing and inspection fees based on average number of hours. Reviews of other types of fees concluded that fee revisions were not warranted at this time.

**Management Decisions and Final Actions on OIG Audit Recommendations**

The agency has established and continues to maintain an excellent record in resolving and implementing open audit recommendations presented in Office of the Inspector General (OIG) reports. Section 5(b) of the Inspector General Act of 1978, as amended, requires the Chairman to report on management decisions and final actions taken on OIG audit recommendations. Table 1 gives the dollar value of disallowed costs determined through contract audits conducted by the Defense Contract Audit Agency (DCAA). "Questioned Costs" are those costs that are questioned as to whether they are allowable. "Unsupported Costs" represent costs challenged because of a lack of adequate supporting data. Because of the sensitivity of contractual negotiations, details of these contract audits are not furnished as part of this report.

**Table 1**

**Management Report on Office of the Inspector General Audits with Disallowed Costs**
**For the Period October 1, 1999-September 30, 2000**

| Category | Number of Audit Reports | Questioned Costs | Unsupported Costs |
|---|---|---|---|
| A. Audit reports with management decisions on which final action had not been taken at the beginning of this reporting period. | 0 | $0 | $0 |
| B. Audit reports on which management decisions were made during this period. | 4 | $113,797 | $0 |
| | 4 | $113,797 | $0 |
| C. Audit reports on which final action was taken during this report period. | 4 | $113,797 | $0 |
| (i) Disallowed costs that were recovered by management through collection, offset, property in lieu of cash, or otherwise. | 0 | $0 | $0 |
| (ii) Disallowed costs that were written off by management. | 0 | $0 | $0 |
| D. Reports for which no final action had been taken by the end of the reporting period. | | | |

As of September 30, 2000, no outstanding audits recommended that funds be put to better use.

***Management Decisions Not Implemented Within One Year***

Management decisions were made before September 1999 for the OIG audit reports discussed in the following paragraphs, but as of September 30, 2000, NRC had not taken final action on some of the issues in the reports. The OIG did not recommend that funds be put to better use for any of these reports.

***Review of NRC's Implementation of Inspection Manual Chapter 1245, "Training Requirements," November 4, 1994***

The NRC has implemented the Training Administration module of the PeopleSoft Human Resources Information System. The implementation was completed as part of Phase II of the Starfire project. The live date for Training Administration was November 14, 2000. The Training Administration module combined the information residing in three separate administrative systems: the Agency Training System (ATS), the Technical Training Center registration system, and the Professional Development Center registration system. The PeopleSoft Training Administration module is now the official training records system for the agency. Course registration is now accomplished through the Training Administration module. All NRC offices now have a designated training contact who has the ability to enter external training completion (Form 368 training) into individual training records. These office individuals can also report on individual training portfolios and monitor the enrollment of individual training sessions. In addition, each training contact has full access to all of the public reports and queries developed for the Training Administration module.

As a result of implementing this new system and providing full access to appropriate individuals in each office, the agency now has a training tracking system that meets management needs for producing reliable information for overseeing inspector training. As stated in a previous update on this subject, an upgrade to the enhanced features of the PeopleSoft Training Administration module along with additional PeopleSoft implementation will provide desktop access to all staff members, through an employee self-service function, enabling them to review their own training portfolios and check their course session enrollment status.

***Make NRC Management Directives Available on the NRC Web Site***

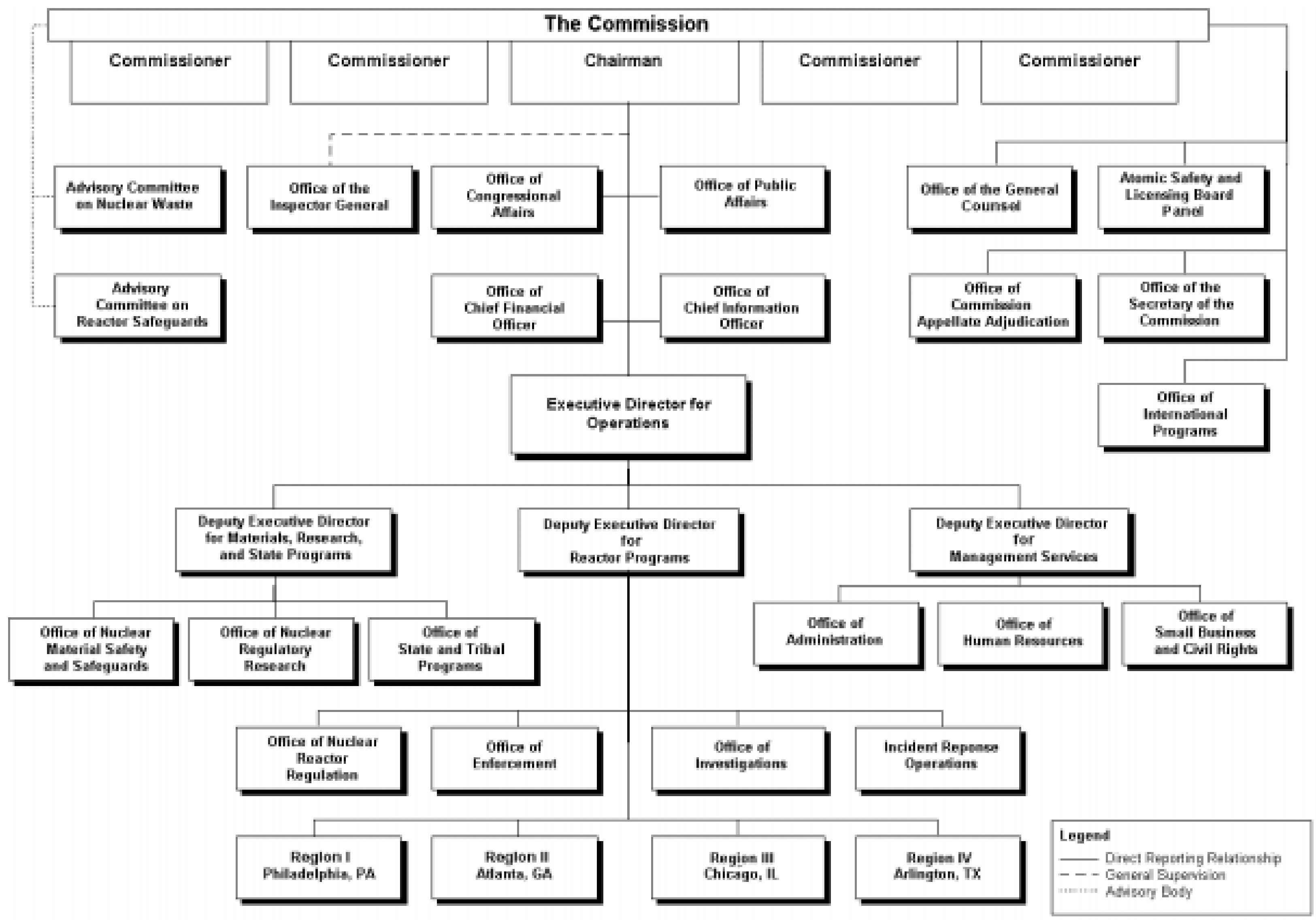
The OIG recommended that the Office of Chief Information Officer (OCIO) make agency management directives and corresponding handbooks available on the NRC's web site to facilitate easy search and retrieval of pertinent guidance. In January 1999, the OCIO agreed to make all management directives and corresponding handbooks available. In November 2000, the entire set of management directives and the corresponding handbooks were placed on the web as web pages.

***Independent Auditors' Report and Principal Statements for the Year Ended September 30, 1998***

The OIG recommended the Chief Financial Officer assess the immediate needs of NRC managers to receive reliable and routine cost accounting information in light of performance and results mandates included in the Government Performance and Results Act. Additionally, the Chief Financial Officer, in preparing a remediation plan should develop a strategy, including milestones, to incorporate cost management standards and concepts throughout the agency.

Progress has been made over the past year to implement managerial cost accounting. A cost accounting software package was selected, purchased, and installed and is being configured to reflect how the agency initially plans to report direct costs and allocate its indirect costs. Consistent with the remediation plan, the agency expects to implement managerial cost accounting and achieve compliance with Governmentwide cost accounting requirements during FY 2001.

NRC Organization Chart
At September 30, 2000



# REPORTS ON INTERNAL CONTROL AND COMPLIANCE WITH LAWS AND REGULATIONS

**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 U.S. Nuclear Regulatory Commission's (NRC) systems of accounting and internal control in place as of September 30, 2000 is in compliance with the internal control objectives defined in Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. The Bulletin states that transactions are 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. 01-02. 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 controls in place as of September 30, 2000.

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 due to 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 accounting systems and the internal controls in place as of September 30, 2000 is in compliance with the internal control objectives defined in OMB Bulletin No. 01-02 is not fairly stated. Management did not identify the lack of managerial cost accounting, 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 controls that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions made 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 does 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. *Managerial Cost Accounting* and *Management Controls Over Fee Development* are considered material weaknesses. *Managerial Cost Accounting* is also considered a substantial non-compliance with Federal Financial Management Improvement Act (FFMIA).

**Current Year Comments**

**A. Managerial Cost Accounting**

As originally reported for fiscal year (FY) 1998 (Report No. OIG/98A-09) and continuing through FY 2000, 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 FY 1998 condition by preparing a remediation plan and outlining the milestones for an integrated resource management system. The remediation plan has undergone revision to reflect the tasks planned and accomplished. An updated plan was issued December 27, 2000. However, management has made minimal progress in developing interim techniques or processes to provide routine and reliable cost information for managers as of the end of FY 2000. Although managerial cost accounting has been a requirement since FY 1998, NRC projects implementation of cost management during FY 2001.

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 to support compliance with the Government Performance and Results Act.

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 capabilities are, should 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 an FFMIA substantial non-compliance.

**Recommendation**

1. The Chief Financial Officer (CFO) should strive to meet the revised milestones in the remediation plan to provide cost accounting information to agency managers. Cost accounting information should enhance the agency’s ability to evaluate the cost of outputs and outcomes realized. Because the remediation milestones have seen some delays due to the staging of complementary software solutions, the CFO should develop interim cost management techniques based on the needs of agency managers.

**CFO’s Comments:**

“We agree with the importance of striving to meet the revised milestones contained in the remediation plan, dated December 27, 2000. However, due to issues associated with implementing the PeopleSoft payroll, time and labor, and human resources modules, we will not be able to meet the milestones contained in that plan. We are currently evaluating these issues and plan to issue a revised remediation plan in April 2001. In addition, we will review the potential of creating more meaningful cost reports to better meet the needs of managers on an interim basis. We expect to complete this review by March 2001....”

**Auditors’ Position:**

We commend the CFO for continually monitoring and the accuracy of the remediation plan to address this issue. The implementation strategy that is in place is complex due to the solutions being pursued, however, gradually introducing cost management tools to agency managers will expedite and enhance the implementation of this plan . During the next audit we will evaluate the agency’s actions described in the plan.

**B. Program Cost Accounting**

OMB Bulletin 97-01, *Form and Content of Agency Financial Statements*, as amended, requires the preparation of a Statement of Net Cost as part of the principal statements. This statement is designed to provide the accounting for the net cost of programs as defined by the agency in its budget, strategic, and annual plans. In FY 2000, approximately $282 million (55%) of the agency costs included in the Statement of Net Cost represents salaries and benefits.

In the prior year, we reported (Report No. OIG/99A-12) that NRC did not have a general ledger process supporting the preparation of the Statement of Net Cost. This condition continues to exist. However, during the current year, the OCFO implemented an interim data collection method, a time allocation tool, improving the collection of labor data. Because the agency’s financial management processes are in transition while the agency develops a fully integrated accounting system, interim processes are being implemented to support the accumulation of labor costs by program.

Our assessment of the implementation of the time allocation tool used to collect labor data identified conditions requiring attention in order to increase the reliability of the information provided. These conditions include:

- For most employees, time allocations were pre-set to default to a specific strategic arena instead of actively requiring an allocation of time;

- Routine reporting of time allocation data was not provided to accountable managers;

- Policies for reviewing time allocation reports were not implemented;

- Continuous monitoring of the information gathered by the system was not conducted;

- One-time payments, bonus, leave, etc., were allocated based on payment date, rather than to the period where the benefit was earned; and

- Inaccurate data base files supporting the hours and salaries reflected on the Statement of Net Cost were initially provided.

These conditions, although essential to the improvement of the reliability of information supporting the Statement of Net Cost, are indicative of first year implementation issues.

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..."

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.

Although OCFO initiatives addressed this condition, classified as a substantial non-compliance with FFMIA in the prior year, additional emphasis is necessary.

**Recommendation**

2. The Chief Financial Officer should continue to refine the methodology implemented and should provide for continuous monitoring of the agency's use of the system. While the agency implements an integrated financial management solution, routine reporting, policy guidance, and continued on-site assessments should aid in fully implementing this interim time allocation tool.

**CFO's Comments:**

"We agree the Pay/Pers time and labor reporting process implemented during FY 2000 requires refinement. By March 15, 2001, we will provide managers with reports that compare RITS and Pay/Pers data and that provides time allocation data as of the first quarter FY 2001. This information will be provided on a monthly basis thereafter, beginning in April 2001. We will also monitor agency reporting by strategic arena and reconcile time and labor hours to hours paid in the payroll system as part of our current monthly reconciliation of payroll data."

**Auditors' Position:**

The proposed information described by the CFO will begin to formalize the internal control review process for time distribution. During a subsequent audit we will evaluate the timeliness and reliability of the process described.

**C. Documentation of Debt Collection Activities**

The License Fee and Accounts Receivable Branch (LFARB) is responsible for collecting NRC receivables generated in the billing of NRC services to the regulated community. Policies provide for the collection actions at specified time periods. The collection actions are normally suspended during the period LFARB reviews billings that are disputed by licensees.

The OCFO Accounting Policy Manual, Chapter IV, *Accounts Receivable and Debt Collection*, paragraph G.2.(a)(2), states, "The NRC Debt Collection Strategy given in the appendix to this chapter provides an organized plan of action for collection of debt and gives the actions that shall ordinarily be taken following the issuance of the first demand letter [considered to be an invoice]. The specific [collection] actions and the times at which they occur are required unless the collection of the debt is in jeopardy or another course of action is strongly indicated by the information available..."

| Collection Actions | Chapter IV Appendix Benchmarks |
|---|---|
| Second Demand Letter | At 31 days |
| Third Demand Letter | At 61 days |
| Telephone Call of Personal Interview | Within 61 – 90 days |
| License Suspension or Revocation | Within 6 months |

LFARB creates a separate collection file for each billing that is outstanding for over 90 days. These files are assigned to specific license fee analysts for processing. Documents relating to uncollected billings are to be retained in the collection files. We noted that the collection files were generally in poor condition and were incomplete. The results of tests indicated that required collection actions were either not performed, or were not documented for a large portion of the billings.

The sampled items showed no documented evidence that:

- Second demand letters were sent to 6 of 33 (18%) licensees with billings outstanding for more than 31 days;

- LFARB analysts contacted 14 of 38 (37%) licensees with billings outstanding for more than 61 days; or that,

- Orders were issued to suspend or revoke the licenses of 5 of the 8 (63%) licensees with billings outstanding for more than six months.

**Recommendation**

3. The Chief Financial Officer should direct the License Fee and Accounts Receivable Branch to create complete collection files for tracking all billings not collected within 61 days. Collection files should include a method for tracking the required collection actions and listing relevant collection documentation. The CFO should reiterate to LFARB the need to follow existing policies and procedures.

**CFO's Comments:**

"While we agree with the recommendation, we do not believe this condition rises to the level of a reportable condition. The evidence presented in the report indicates debt collection files were not complete. However, in the absence of trend data that suggests deterioration in this area or interviews that suggest staff are not knowledgeable or adequately trained to perform this function, we believe it would be more appropriate to include this in a management letter.

To remedy this condition, revised desk procedures for processing delinquent debt were developed in November 2000. The procedures, among other things, require a file checklist be placed in every collection file folder. The branch chief held meetings with all staff responsible for processing delinquent debt and training was given in the use of the check list for recording milestones in the debt collection process follow-up. Management will monitor this process for efficiencies and improvement and will ensure that complete and accurate records of delinquent debt files are maintained. We believe corrective actions have been completed."

**Auditors' Position:**

The actions described by the CFO appear to address the points that are at issue in the observation. The comment, however, continues to be identified as a reportable condition since the agency overlooked the design of a well defined and documented internal control process to insure that debt management activities were carried out in accordance with management's intent. The remedy described by the CFO herein more closely complies with the standards prescribed by the GAO's *Internal Controls for Federal Agencies*. During a subsequent audit we will evaluate the actions implemented.

**Status of Prior Years' Comments**

**A. Management Controls over Fee Development**

During FY 1999, an audit was conducted by the Office of the Inspector General (OIG) that identified management control issues relating to the development of fees (Report No. OIG/99A-01).

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 stated that there were no formally documented procedures for calculating fees and preparing the fee rule.

In October 1999, the agency engaged a contractor to conduct an analysis of the fee development methodology. In their report dated, March 27, 2000, the contractor concluded that although NRC's current hourly rate calculation is not as precise as it could be, it is acceptable under SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards*. The report also provided suggestions that would improve the future feasibility of the current process. Quality controls were not addressed specifically in the report.

In October 2000, NRC issued new license fee policies and procedures. The corrective actions will not be completed until FY 2001. This condition is considered resolved. Closure will be dependent on the assessment of quality control procedures over fee development in a subsequent audit.

**B. Financial Statement Preparation**

The FY 1998 management letter included an observation on the Financial Statement Preparation Process, and in FY 1999 this issue was elevated to a reportable condition. 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 stated, "...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 NRC improved its financial management compilation practices as evidenced by delivering the compiled statements by the agreed-upon milestone. However, essential documentation such as the cost allocation worksheets to support the Statement of Net Costs could not be provided in a timely manner. Additionally, the quality assurance process that would ensure the completeness and accuracy of supporting data base information was not fully in place. Although we consider this condition resolved, closure will depend on the agency's continued improvement.

**C. Management Controls Over Small Entity Certifications**

As reported in the prior year, NRC did not have a process to adequately determine the eligibility of entities submitting for fee adjustments as small entities. Under 10 CFR 171.16, materials licensees can qualify as small entities and pay reduced annual fees 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 licensee fee analysts. During FY 1999, the agency granted 1,180 fee reductions totaling $6.4 million or 83%, from the originally billed materials fees of $7.7 million. In FY 2000, the agency granted fee reductions of approximately $5.8 million.

The CFO responded in the prior year that they planned to explore the recommendation provided and that they would advise us of their results by June 1, 2000. An initial corrective plan was provided to the Office of Inspector General on August 2, 2000, however, it was later withdrawn pending some additional refinements. As of the end of our field work, a corrective action plan had not adopted. Therefore, this condition remains unresolved.

**D. Segregation of Duties - PAY/PERS**

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

NRC uses PAY/PERS to maintain personnel information and to process payroll. Our FY 1999 review of user access identified three Division of Accounting and Finance (DAF) employees, including the team leader in charge of payroll operations, who held a Level 3 profile. Level 3 allows for unrestricted access to the system, including the security tables. The payroll operations team leader had incompatible functions. The team leader's functions were not properly segregated because the individual could commit both errors and irregularities and conceal them in the course of discharging the normal duties of the position.

In the current year, review of access profiles showed that the OCFO changed the payroll operations team leader's profile to Level 2, eliminating the incompatibility. This condition is closed.

**E. Controls Over Authorized Users - PAY/PERS**

Part II of OMB Circular A-123, *Management Accountability and Control*, 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. As reported in the prior year, 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.

Because OCFO has developed and uses a management report identifying user access sessions in PAY/PERS, this condition is closed.

### F. Management Controls Over General Services Administration (GSA) Credits

The OCFO controls the payments made through drawdowns 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. In FY 1999, the standard practice for transactions of this nature were not followed by the Financial Operations Branch (FOB), DAF, for GSA rental charge credits.

As of February 2000, DAF established an effective process to track and monitor GSA credits. An amendment was also made to the accounting manual to reflect the revised agency policy. This comment is closed.

### G. Revenue from Reimbursable Agreements

During FY 1998, the NRC did not record revenue from reimbursable agreements on a consistent basis. Partial corrective action was taken in FY 1999, however, the agency was awaiting issuance of the revised policy to close this condition. During the current year, the policy was issued. Therefore this condition is closed.

### Assurance on Performance Measures

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

This report is intended solely for the information and use of the management of the U.S. Nuclear Regulatory Commission, OMB, Congress, and the NRC Office of the Inspector General and is not intended to be and should not be used by anyone other than these specified parties.

February 8, 2001

## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

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

We have audited the principal statements of the U. S. Nuclear Regulatory Commission (NRC) as of and for the year ended September 30, 2000, and have issued our report thereon dated February 8, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; 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. 01-02, *Audit Requirements for Federal Financial Statements*.

The management of the U. S. Nuclear Regulatory Commission 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 which 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. 01-02, including the requirements of the Federal Financial Management Improvement Act (FFMIA) of 1996. Our objective was not to issue an opinion on compliance with laws and regulations and, accordingly, we do not express such and 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. 01-02, which is described below.

**Current Year Comment**

**Compliance with Debt Collection Improvement Act**

The Debt Collection Improvement Act of 1996 states at 31 USC 3711 (g)(1) that "If a nontax debt or claim owed to the United States has been delinquent for a period of 180 days – (A) the head of the executive, judicial, or legislative agency that administers the program that gave rise to the debt or claim shall transfer the debt or claim to the Secretary of the Treasury;..."

The License Fee Accounts Receivable Branch (LFARB) is responsible for collecting NRC receivables. LFARB tracks the aging of the receivables using the monthly Aged Billings Report (NC110). Uncollected receivables that are over 180 days delinquent are required to be transferred to the U.S. Treasury.

The results of our tests of accounts receivable, which were outstanding for more than 30 days, identified 28 of 45 (62%) instances where accounts receivables were delinquent for more than 180 days. An analysis of the instances determined that 10 were eligible for transfer to the U.S. Treasury as required by the Act. Five of these receivables were transferred late, ranging from 35 to 196 days and averaging 90 days late. Additionally, one account receivable was not referred to the U.S. Treasury but was collected 91 days after the date of its eligibility for referral.

NRC policy provides for some exceptions to the Act. For example, accounts receivables that are being disputed by licensees or that are owed by licensees filing for bankruptcy are not transferred to the U.S. Treasury because these debts are not legally enforceable. Additionally, accounts receivables owed by licensees with installment payment plans are not transferred unless they default on their payment plans.

LFARB did not use a tracking system to monitor compliance with the Act. Additionally, LFARB personnel did not always employ uniform practices for determining if debts should be transferred to the U.S. Treasury.

**Recommendation**

4. The Chief Financial Officer should ensure that all non-federal licensee debt over 180 days delinquent is referred timely to the U.S. Treasury. The exceptions to that practice would be for billings that are disputed by the licensees or owed by licensees that have filed for bankruptcy or been referred to the Department of Justice.

**CFO's Comments:**

"A monthly process was implemented in November 2000 for the team leader to review delinquent debt from aged accounts receivable reports and ensure eligible debt over 180 days is referred to the Treasury. We believe corrective actions have been completed."

**Auditors' Position:**

The process described in the CFO's response adequately addresses the recommendation. During a subsequent audit we will evaluate the implementation, reliability and effectiveness of the process.

**Status of Prior Year Comment**

**Part 170 Hourly Rates**

As previously reported in fiscal years (FY) 1998 and 1999, 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 for specific licensing actions, inspections and other services provided to NRC's 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 FY 1998 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. During the review in FY 1998, the OCFO excluded contract support costs, $70 million, primarily consisted of research projects. The $70 million represented approximately 15% of the fiscal year 1998 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). Subsequent to the issuance of the FY 1999 financial statement report (Report No. OIG/99A-12) the agency provided a report intended to address the issues identified in this observation. However, the review and assessment of that report, indicates that the underlying methodology, objective, and conclusion reached did not sufficiently address this condition. Furthermore, the report did not provide for a solution to be implemented in the current year. We do, however, understand that the agency is looking to the future implementation of cost accounting to assist them fully address this condition. Planned actions to be taken by the agency have resolved this condition. Closure is dependent on subsequent audit follow-up.

**FFMIA - Status of Prior Year Comments**

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. 01-02. The results of our tests provided us the basis to update the status of prior year instances.

**A. Managerial Cost Accounting**

*Refer to the Report on Management's Assertion About the Effectiveness of Internal Control, Current Year Comment A - Managerial Cost Accounting for a detailed discussion of the condition and recommendation. This condition continues to be considered for FY 2000 a material weakness and a Federal Financial Management Improvement Act substantial non-compliance.*

**B. Program Cost Accounting**

We reported in the prior year the agency's lack of a general ledger data at the transaction level for program cost accounting supporting the Statement of Net Costs. Although the solution implemented by the agency is not an integral component of the general ledger system, the new process improves the discipline of the information collection to support the Statement of Net Cost. This condition is no longer classified as a FFMIA issue for the current year.

*Refer to the Report on Management's Assertion About the Effectiveness of Internal Control, Current Year Comment B - Program Cost Accounting for a detailed discussion of the condition and recommendation.*

**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. At the end of FY 1999, the issues identified with the core general ledger - Federal Financial System (FFS) operated by Treasury's Financial Management Service (FMS) remained an unresolved condition.

In the current year, FMS announced that it would no longer support the FFS system used by the agency. Therefore NRC is in the process of identifying an alternative provider of such services. The initial actions planned by the agency indicate that it will transfer to a new provider. We consider this condition resolved and closure will be dependent on the agency migrating from FMS.

**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 generally accepted accounting principles, 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 management 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 Pay 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 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 auditing standards generally accepted in the United States of America, *Government Auditing Standards* and OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

**Agency Comments**

The CFO responded to the Inspector General on our draft report and addressed the recommendations noted in the report. Based on our review of the CFO's comments, we are satisfied that the actions described meet the intent of our recommendations. The CFO's comments are appended to this report in their entirety.

This report is intended solely for the information and use of the management of the U.S. Nuclear Regulatory Commission, OMB, Congress and the NRC Office of the Inspector General and is not intended to be and should not be used by anyone other than these specified parties.

February 8, 2001

## APPENDIX
## COMMENTS OF

# THE CHIEF FINANCIAL OFFICER

MEMORANDUM TO: Stephen D. Dingbaum
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 2000 FINANCIAL STATEMENTS

I have reviewed the draft audit report of the Nuclear Regulatory Commission's FY 2000 Financial Statements, dated February 5, 2001. Overall, I agree with the report's recommendations. Our response to the recommendations is as follows.

**Recommendation 1:** The Chief Financial Officer (CFO) should strive to meet the revised milestones in the remediation plan to provide cost accounting information to agency managers. Cost accounting information should enhance the agency's ability to evaluate the cost of outputs and outcomes realized. Because the remediation milestones have seen some delays due to the staging of complementary software solutions, the CFO should develop interim cost management techniques based on the needs of managers.

**Response:** We agree with the importance of striving to meet the revised milestones contained in the remediation plan, dated December 27, 2000. However, due to issues associated with implementing the PeopleSoft payroll, time and labor, and human resources modules, we will not be able to meet the milestones contained in that plan. We are currently evaluating these issues and plan to issue a revised remediation plan in April 2001. In addition, we will review the potential of creating more meaningful cost reports to better meet the needs of managers on an interim basis. We expect to complete this review by March 2001. Also, we suggest you insert the words "continue to" after the word "should" in the last sentence of the recommendation.

**Recommendation 2:** The CFO should continue to refine the methodology implemented and should provide for continuous monitoring of the agency's use of the system. While the agency implements an integrated financial management solution, routine reporting, policy guidance, and continued on-site assessments should aid in fully implementing this interim time allocation tool.

**Response:** We agree the Pay/Pers time and labor reporting process implemented during FY 2000 requires refinement. By March 15, 2001, we will provide managers with reports that compare RITS and Pay/Pers data and that provides time allocation data as of the first quarter FY 2001. This information will be provided on a monthly basis thereafter, beginning in April 2001. We will also monitor agency reporting by strategic arena and reconcile time and labor hours to hours paid in the payroll system as part of our current monthly reconciliation of payroll data.

**Recommendation 3:** The CFO should direct the License Fee and Accounts Receivable Branch (LFARB) to create complete collection files for tracking all billings not collected within 61 days. Collection files should include a method for tracking the required collection actions and listing relevant collection documentation. The CFO should reiterate to LFARB the need to follow existing policies and procedures.

**Response:** While we agree with the recommendation, we do not believe this condition rises to the level of a reportable condition. The evidence presented in the report indicates debt collection files were not complete. However, in the absence of trend data that suggests deterioration in this area or interviews that suggest staff are not knowledgeable or adequately trained to perform this function, we believe it would be more appropriate to include this in a management letter.

To remedy this condition, revised desk procedures for processing delinquent debt were developed in November 2000. The procedures, among other things, require a file checklist be placed in every collection file folder. The branch chief held meetings with all staff responsible for processing delinquent debt and training was given in the use of the check list for recording milestones in the debt collection process follow-up. Management will monitor this process for efficiencies and improvement and will ensure that complete and accurate records of delinquent debt files are maintained. We believe corrective actions have been completed.

**Recommendation 4:** The CFO should ensure that all non-Federal licensee debt over 180 days delinquent is referred timely to the U.S. Treasury. The exceptions to that practice would be for billings that are disputed by the licensees or owed by licensees that have filed for bankruptcy.

**Response:** A monthly process was implemented in November 2000 for the team leader to review delinquent debt from aged accounts receivable reports and ensure eligible debt over 180 days is referred to the Treasury. We believe corrective actions have been completed.

We suggest this recommendation be modified to include two additional exceptions for referring delinquent debt over 180 days to the U.S. Treasury: (1) debt referred to the Department of Justice, and (2) debt under litigation.

The following comments address a prior-year recommendation and a report finding.

**Management Controls Over Small Entity Certifications -** Our current process for reviewing small entity certifications uses information provided by Dun & Bradstreet to make our initial comparison of the information provided by the licensee. For certifications submitted by hospitals and non-profit educational institutions, we use the American Hospital Association Guide and the Directory of Postsecondary Institutions, respectively, to identify irregularities with their certification forms. We also perform searches for company information on the internet. When we identify information which does not agree with the information the licensee has provided on their small entity certification, we initiate contact and request they provide sufficient corroborating evidence to support their claim. If the licensee cannot provide this information, we deny their small entity status.
In response to the recommendation, we plan to develop an information collection package to seek Office of Management and Budget (OMB) approval, under the Paperwork Reduction Act of 1955 (44 U.S.C. Chapter 35), to request financial information from licensees. We expect to have this package ready for submission to OMB by November 30, 2001. Once we obtain OMB clearance, we will develop and implement a sampling technique to identify those small entity reviews that we will conduct. We will establish the statistical sampling technique within 90 days of receipt of final OMB clearance for the new information collection. The new information we collect will consist of income tax returns, audited financial statements, and quarterly employer's tax returns (Form 941).

**Managerial Cost Accounting -** Page 3, paragraph 1, of the draft report states that "...management *has not made progress* in developing interim techniques ...." We believe progress was made during FY 2000 in developing interim techniques for assembling cost information. During FY 2000, an interim time and labor reporting system was implemented to capture labor cost by strategic arena and reports were provided to offices for their review. We believe the report should be modified to reflect this progress.

In response to the recommendation, we plan to develop an information collection package to seek Office of Management and Budget (OMB) approval, under the Paperwork Reduction Act of 1955 (44 U.S.C. Chapter 35), to request financial information from licensees. We expect to have this package ready for submission to OMB by November 30, 2001. Once we obtain OMB clearance, we will develop and implement a sampling technique to identify those small entity reviews that we will conduct. We will establish the statistical sampling technique within 90 days of receipt of final OMB clearance for the new information collection. The new information we collect will consist of income tax returns, audited financial statements, and quarterly employer's tax returns (Form 941).