

September 5, 2001

The Honorable Joseph I. Lieberman, Chairman
Committee on Governmental Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

I am writing on behalf of the Commission in response to your letter of June 26, 2001 concerning improper payments made by Federal agencies. The Commission believes that the administration of Government funds is an essential public trust and that the Nuclear Regulatory Commission (NRC) has a clear duty to ensure that its funds are properly spent in support of our mission.

The incident of improper payments at the NRC is minimal. The NRC has in place a culture of accountability, in addition to effective management controls designed to prevent improper payments. Moreover, self-assessments of management controls, required annually by the Federal Managers' Financial Integrity Act, have not identified the area of improper payments as high risk or any internal control weaknesses. In addition, for the past seven years, the annual audit of the NRC's financial statements have not disclosed any material weaknesses or reportable conditions with the agency's payment process.

Responses to the specific questions contained in your letter are enclosed. If you have further questions, please contact me.

Sincerely,

/RA/

Richard A. Meserve

Enclosure: Responses to Questions

September 5, 2001

The Honorable Fred Thompson, Ranking Member
Committee on Governmental Affairs
United States Senate
Washington, D.C. 20510

Dear Senator Thompson:

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Sincerely,

/RA/

Richard A. Meserve

Enclosure: Responses to Questions

Nuclear Regulatory Commission Response to
Senators Lieberman's and Thompson's June 26, 2001, Questions

What does your agency plan to do to, "creat[e] a culture of accountability that provides a positive and supportive attitude toward improvement and the achievement of established program outcomes," as GAO suggests?

The NRC has fostered a culture of accountability by the adoption of its *Principles of Good Financial Management*. These are widely posted and disseminated to staff throughout the agency. The *Principles* are: Planning, Control, Communication, Cost Effectiveness, Evaluation, and Personnel. These *Principles* are designed to foster a climate of staff accountability. The principle of control conveys to staff that good financial management requires good financial controls. It states, "Appropriate effective cost controls throughout the financial management process ensure adequate accounting of funds expended, prevent over-obligation of funds and inappropriate expenditures, identify early instances where funds should be reallocated, and produce valuable information for the planning process."

The NRC has an established system and procedures for managing NRC funds that designate financial managers in each program to manage and control the use of funds to accomplish their programmatic goals. We have established a training program and courses that NRC financial managers are required to attend. We provide both on-the-job and course training to financial staff in order to reinforce our system of management controls and financial management methods designed to prevent waste, fraud, and abuse.

One of the important corporate management strategies included in the NRC's Strategic Plan is to "Employ Innovative and Sound Business Practices." Among the supporting strategies described therein is "We will strengthen our financial systems and processes to ensure that our financial assets are adequately protected consistent with risk and that our financial information is better integrated with decision-making." The agency has pursued this strategy with its financial systems initiatives.

To what extent are improper payments in your agency the result of agency error, a need for improved oversight and monitoring, inadequate eligibility controls, fraud, or other causes? What is the amount of improper payments your agency has made in the last two fiscal years?

The incident of improper payments at the NRC is minimal, non-material, and an area of low management control risk. The NRC disburses funds for payroll, employee travel, and commercial and intergovernmental contracts. The NRC does not make payments for benefit, entitlement, or loan programs that may be at higher risk because of eligibility requirements. The NRC has in place effective management controls designed to prevent improper payments for each type of payment made.

Our system of management controls consists of a well-defined, documented authorization process; appropriate separation of duties; automated system controls; reconciliation processes; and internal/external reviews. When improper payments are identified, they are quickly resolved and compensating measures are taken. At this time, we have no unresolved improper payments. Past improper payments have mostly been the result of inadvertent errors. While the agency does not maintain an itemized list of improper payments, such payments have usually amounted to less than \$5,000 annually.

If you do not yet know the nature and extent of your agency's improper payments, what is your agency doing to find out?

We believe that our system of management controls is cost effective and consistent with the level of risk the agency faces from the type of payments made, and that our assessment of management control risk as low in the area of payments is accurate.

Annually, we reassess the adequacy and effectiveness of management controls as required by the Federal Managers' Financial Integrity Act (FMFIA) of 1982. Our assessments have not identified the area of improper payments as high risk and have not disclosed any material internal control weaknesses. This year, as part of the FMFIA review process, we plan to conduct a more extensive review of payments to better assess the level of risk and determine if improved controls are needed.

An additional assessment of management controls is provided annually through an external, independent audit of the NRC financial statements. Through Fiscal Year 2000, the NRC has received seven consecutive unqualified opinions on its financial statements. The financial statement audits have not disclosed any material weaknesses or reportable conditions with the agency's payment process.

What efforts are underway at your agency to design and implement a plan for significantly reducing the amount of, and the potential for making, improper payments? How does this plan address security and privacy concerns related to the information needed to carry out the plan? Please describe what you intend to do to address these issues, the goals you expect to achieve, and your timetable for completing these actions.

We plan to continue improving our existing system of management controls. We also plan to continue routinely to assess the effectiveness of our system of management controls. As our assessments identify the need for improved management controls, we will make the necessary adjustments. When improper payments are identified, we will determine appropriate compensating measures. Our goal continues to be effective financial management.

How will you track and report on your progress? Do you, or will you, "establish agency-specific goals and measures for reducing improper payments?" Will you provide your estimates of improper payments in your annual financial statements or in some other transparent way?

The NRC will report in its annual Performance and Accountability Report any improper payments material weakness identified as a result of an FMFIA management control assessment. Further, a material weakness or reportable condition which results from improper

payments identified through the annual independent audit of NRC's financial statements will be reported in the auditor's report and subsequently published in the agency's Performance and Accountability Report.

As stated above, the incidence of improper payments at NRC is minimal and non-material. Thus, we believe that our existing processes are adequate and that further initiatives to reduce improper payments are not needed at this time. However, as stated in response to a previous question, we will conduct a more extensive FMFIA review of risk associated with improper payments.