

February 14, 2003

MEMORANDUM TO: Chairman Meserve

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

SUBJECT: MEMORANDUM REPORT - REVIEW OF NRC'S
IMPLEMENTATION OF THE FEDERAL MANAGERS' FINANCIAL
INTEGRITY ACT FOR FISCAL YEAR 2002 (OIG-03-A-05)

This report reflects the Office of the Inspector General's (OIG) assessment of the Nuclear Regulatory Commission's (NRC) compliance with the *Federal Managers' Financial Integrity Act* (FMFIA) for fiscal year (FY) 2002. We found that, for FY 2002, NRC complied with FMFIA. However, we are reporting one material weakness: NRC's managerial cost accounting process does not meet Federal requirements. Because this issue and attendant recommendations are included with OIG's report on NRC's financial statements for FY 2002, this report contains no recommendations.

BACKGROUND

The FMFIA was enacted on September 8, 1982, in response to continuing disclosures of waste, loss, unauthorized use, and misappropriation of funds or assets associated with weak internal controls and accounting systems. Congress felt such abuses hampered the effectiveness and accountability of the Federal Government and eroded the public's confidence. The FMFIA requires Federal managers to establish a continuous process for evaluating, improving, and reporting on the internal controls and accounting systems for which they are responsible.

FMFIA requires that, each year, the head of each executive agency (subject to the FMFIA) shall submit a report to the President and Congress on the status of management controls and financial systems that protect the integrity of agency programs and administrative activities. NRC makes its FMFIA assessment and report in its annual *Performance and Accountability Report*.

Office of Management and Budget Circular A-123, Revised, *Management Accountability and Control*, is the implementing guidance for FMFIA. The term "internal controls," as envisioned by the FMFIA, is synonymous with "management controls" and encompasses program and administrative areas, as well as the accounting and financial management areas. Circular A-123 and NRC Management Directive (MD) 4.4, *Management Controls*, are the agency's implementing guidance for FMFIA.

RESULTS

NRC complied with FMFIA requirements for FY 2002. Although NRC is not reporting any material weaknesses, OIG is reporting one material weakness: NRC's managerial cost accounting process does not meet Federal requirements. The agency has recognized this issue as a significant (not material) weakness.

OIG first reported the lack of managerial cost accounting as a material weakness in the FY 1998 reports on FMFIA¹ and the agency's financial statements.² NRC is actively pursuing a resolution to this issue. Although NRC implemented a cost accounting process and system at the end of FY 2002, the system does not meet Federal accounting standards and requirements for management information systems. The new system does not (1) address the uses of cost accounting as espoused in Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Standards*, and (2) contain the internal system controls required by the Federal Government's Joint Financial Management Improvement Program. We will continue to report this issue as a material weakness until NRC successfully implements managerial cost accounting.

During FY 2002, NRC took corrective actions to remedy the material weakness related to accounting for internal use software. As a result, this material weakness is closed.

AGENCY COMMENTS

On February 10, 2003, the CFO responded to our draft report (Attachment 1). He disagreed that the managerial cost accounting issue is a material weakness, and requested a clarification on this issue. We have made that clarification.

CONCLUSION AND OIG ANALYSIS OF AGENCY COMMENTS

NRC complied with the requirements of the FMFIA for FY 2002. However, OIG disagrees with NRC's assessment that the managerial cost accounting issue is not a material weakness. Cost accounting is intended to be an agency-wide function to better manage NRC's resources. This

¹ OIG Report 99A-11, *Review of NRC's Implementation of the Federal Managers' Financial Integrity Act for Fiscal Year 1998*, dated March 3, 1999.

² OIG Report 98A-09, *Independent Auditors Report and Principal Statements for the Year Ended September 30, 1998*, dated March 1, 1999.

issue is material to the agency as a whole, and therefore merits "the attention of the Executive Office of the President," as stated in MD 4.4. OIG will report this issue as a material weakness until the agency completes corrective action.

SCOPE/CONTRIBUTORS

We evaluated the management controls related to the NRC's implementation of FMFIA for FY 2002, and conducted our work in November and December 2002, in accordance with generally accepted Government auditing standards. This review was conducted by Anthony Lipuma, Special Assistant for Planning and Reporting.

If you have any questions or concerns regarding this report, please contact me at 415-5915 or Anthony Lipuma at 415-5910.

cc: Commissioner Dicus
Commissioner Diaz
Commissioner McGaffigan
Commissioner Merrifield




CHIEF FINANCIAL
OFFICER

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

Attachment 1

February 10, 2003

MEMORANDUM TO: Stephen D. Dingbaum
Assistant Inspector General for Audits

FROM: Jesse L. Funches 
Chief Financial Officer

SUBJECT: RESPONSE TO DRAFT MEMORANDUM REPORT - REVIEW OF
NRC'S IMPLEMENTATION OF THE FEDERAL MANAGER'S
FINANCIAL INTEGRITY ACT FOR FISCAL YEAR 2002

I have reviewed the subject report and disagree that managerial cost accounting should be considered a material weakness under the Federal Manager's Financial Integrity Act (FMFIA). At their November 4, 2002, meeting, the Executive Committee on Management Controls endorsed the conclusion and the Chairman agreed that no material weaknesses had been identified that met the FMFIA criteria. The weakness does not: (1) impair the fulfillment of the mission of the agency or an agency component; (2) deprive the public of needed services; (3) significantly weaken the agency safeguards against waste, loss, unauthorized use or misappropriation of funds, property, or other assets; or (4) result in a conflict of interest. As such, these conditions do not rise to the level of severity that their relative risk warrants external reporting to the President and the Congress.

I also request that you modify the description of the weakness on page 2 in the third paragraph, second sentence, by replacing "the absence of a managerial cost accounting process that meets Federal requirements" with "NRC's managerial cost accounting process does not meet Federal requirements." Using the word "absence" implies no cost accounting process exists and thus, could mislead the report reader. I believe the revision provides a more accurate characterization of the condition.

Thank you for the opportunity to comment on this report.

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