

U.S. NUCLEAR REGULATORY COMMISSION

DIRECTIVE TRANSMITTAL

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To: NRC Management Directives Custodians

Subject: Transmittal of Management Directive 4.3, "Financial Management Systems"

Purpose: Directive and Handbook 4.3 replace Manual Chapter 1103 and were revised to reflect the Chief Financial Officers (CFOs) Act of 1990 and the NRC CFO proposal as approved by OMB on April 12, 1991, to update the inventory of financial systems, and to define the annual financial system review process.

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Financial Management Systems

Directive

(Formerly
MC 1103)

4.3

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U. S. Nuclear Regulatory Commission

Volume: 4 Financial Management

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Financial Management Systems

Directive 4.3

Policy

(4.3-01)

The development, operation, and evaluation of and the reporting on all financial systems of the U.S. Nuclear Regulatory Commission (NRC) must adhere to the policies, procedures, and standards specified in this directive and handbook in order to conform to the requirements of the Office of Management and Budget (OMB) Circular A-127, "Financial Management Systems"; the Chief Financial Officers Act of 1990; and the Federal Managers' Financial Integrity Act of 1982 (FMFIA).

Objectives

(4.3-02)

- To ensure that NRC financial systems provide for (1) complete, reliable, consistent, and timely information that is prepared uniformly and is responsive to the financial information needs of the Commission and NRC management; (2) the development and reporting of cost information; (3) the integration of accounting and budgeting information; and (4) the systematic measurement of performance. (021)
- To develop and implement plans and procedures for (1) the design, implementation, and evaluation of NRC financial systems; (2) the preparation of required reports; and (3) the correction of all noted instances of significant nonconformance using the guidelines and definitions in this directive. (022)

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Objectives

(4.3-02) (continued)

- To ensure the integrity of NRC financial information in accordance with the objectives, responsibilities, and requirements set forth in the FMFIA, OMB Circular A-127, other OMB directives, and Handbook 4.3, Part II. (023)
- To submit an annual report to the President and Congress on whether the agency's accounting systems comply with the principles, standards, and related requirements prescribed by the Comptroller General of the United States in accordance with Section 4 of the FMFIA. (024)
- To provide support to the annual report by the NRC Chief Financial Officer (CFO) to the Director, OMB, regarding the description and analysis of the financial management of the NRC. (025)

Organizational Responsibilities and Delegations of Authority

(4.3-03)

The Chairman

(031)

- Signs and transmits to the President and the Congress an annual report on whether NRC's accounting systems conform to the principles, standards, and related requirements prescribed by the Comptroller General of the United States as required by the FMFIA. (a)
- Establishes and maintains systems of accounting and internal controls as required by 31 U.S.C. 3512 (b). (b)

Organizational Responsibilities and
Delegations of Authority
(4.3-03) (continued)

The Chief Financial Officer (CFO)
(032)

- Ensures that the planning, design, implementation, operation, evaluation, and reporting on financial systems are performed in accordance with the requirements of the FMFIA, the Chief Financial Officers Act of 1990, OMB Circular A-127, and other associated OMB directives. (a)
- Reviews and approves the NRC's Five-Year Financial Management System Plan, which must be consistent with the Five-Year Financial Management Plan prepared by the Director, OMB, in accordance with 31 U.S.C. 3512(a)(3) and as required by 31 U.S.C. 902(a)(5). (b)

The Deputy Chief Financial Officer and
Controller (DCFO/C)
(033)

- Defines requirements for and maintains an integrated financial management system that complies with the requirements of 31 U.S.C. 902 (a)(3). (a)
- Serves as the senior agency official responsible for coordinating the overall NRC effort for assessing, improving, and reporting on financial systems in accordance with OMB Circular A-127, Section 4 of the FMFIA (31 U.S.C. 3512(d)), and other associated OMB directives. (b)
- In coordination with the Internal Control Committee, prepares the annual report to the President and the Congress addressing the conformance of NRC's accounting systems with the principles, standards, and related requirements prescribed by the Comptroller General of the United States as

Organizational Responsibilities and
Delegations of Authority
(4.3-03) (continued)

The Deputy Chief Financial Officer and
Controller (DCFO/C)
(033) (continued)

required by Section 4 of the FMFIA (31 U.S.C. 3512(d)), OMB Circular A-34 ("Budget Execution"), and OMB Circular A-127. (c)

- Reviews and approves the design requirements and budget for the development and enhancement of NRC financial systems; monitors and evaluates the implementation of these systems; and determines the degree of conformance with the principles, standards, and related requirements prescribed by the Comptroller General of the United States and OMB Circular A-34 and with the financial system objectives specified in Handbook 4.3, Part II. (d)
- Develops and annually updates the agency-wide inventory of all existing and proposed financial systems that comprise the NRC's financial management system and that are subject to the provisions of this directive. (See Handbook 4.3, Part I.) (e)
- Establishes and maintains a quality assurance and monitoring program (1) to ensure the adequacy of financial system assessments, (2) to ensure that there is adequate justification for departures from OMB financial policies and objectives, and (3) to track planned improvements. (See Handbook 4.3, Part IV.) (f)
- Provides training as needed to agency system managers in fulfilling their responsibilities under this directive. (g)
- Develops and maintains the NRC's Five-Year Financial Management System Plan. (h)

Organizational Responsibilities and
Delegations of Authority
(4.3-03) (continued)

The Director, Office of Information
Resources Management
(034)

- Designs, develops, and modifies financial systems in accordance with Management Directive 2.2, "Planning and Control of ADP Resources" (formerly MC 0904), and as approved by the DCFO/C. (a)
- Ensures that financial system design requirements are approved by the DCFO/C before proceeding with the development or modification of a financial system. (b)

Office Directors and
Regional Administrators
(035)

- Ensure that all systems acquire financial management data from the financial systems identified in Handbook 4.3, Part I. (a)
- Secure the DCFO/C's approval of financial system design requirements. (b)
- Report to the DCFO/C those adjustments that should be made to the inventory of financial systems (the inventory includes both existing and proposed financial systems). (c)
- Designate a system manager for each applicable financial system in the inventory listed in Handbook 4.3, Part I. (d)
- Report instances of nonconformance to the DCFO/C, along with plans for corrective actions. (e)

Organizational Responsibilities and Delegations of Authority

(4.3-03) (continued)

Office Directors and Regional Administrators

(035) (continued)

- Ensure that timely corrective actions are taken regarding instances of nonconformance disclosed through financial system assessments. (f)
- Ensure that NRC's accounting principles and standards specified in Management Directive 4.1, "Accounting Policy and Practices" (formerly MC 1101), and NRC's financial system objectives specified in Handbook 4.3, Part II, are implemented, maintained, and reviewed on an ongoing basis for financial systems within their management control. (g)
- Design, operate, and evaluate financial systems under their management control (including sections of other systems under their management control that are a part of the NRC financial management system) in compliance with NRC's accounting principles and standards, Management Directive 4.1, and NRC's financial system objectives in Handbook 4.3, Part II. (h)

System Managers

(036)

- Design and operate financial systems in compliance with NRC's accounting principles and standards, Management Directive 4.1, and NRC's financial system objectives in Handbook 4.3, Part II. (a)
- Ensure that financial system design requirements are approved by the DCFO/C before proceeding with the development and modification of a financial system. (b)

Organizational Responsibilities and Delegations of Authority

(4.3-03) (continued)

System Managers

(036) (continued)

- Evaluate annually procedural and systematic operation of the financial systems for which they are responsible according to the guidance provided in Handbook 4.3, Part III. (c)
- Report to the office director or regional administrator instances of nonconformance upon discovery, including documentation relative to proposed corrective action. (d)

The Inspector General

(037)

- Reviews NRC financial systems and makes recommendations concerning the adequacy of financial system operations, the effectiveness of internal controls, and the integrity of data maintained in the systems. (a)
- Provides technical assistance and advice to the DCFO/C regarding the evaluation and improvement of financial systems. (b)
- Reports to the Chairman whether (1) financial system assessments have been performed in accordance with Section 4 of the FMFIA and OMB guidelines and (2) the annual report to the Chairman is fairly stated. (c)
- Reports all significant instances of the nonconformance of financial systems to the CFO and the DCFO/C. (d)
- Performs assessments to determine the extent to which the policies, standards, objectives, and responsibilities established by and referenced in this directive are carried out. (e)

Applicability

(4.3-04)

This directive applies to and must be followed by all NRC offices that either use financial management data from or have management control over a financial system listed in Handbook 4.3, Part I.

Handbook

(4.3-05)

Handbook 4.3 provides an inventory of NRC financial systems, the NRC financial system objectives, the guidelines for performing annual financial system assessments, a description of the quality assurance and monitoring program, and a glossary of terms.

Reports

(4.3-06)

- The Chairman must submit a report by December 31 of each year to the President and the Congress addressing the compliance of NRC's accounting systems with the principles, standards, and related requirements prescribed by the Comptroller General of the United States as required by the FMFIA, OMB Circular A-127, and other OMB directives. (a)
- The CFO must approve the Five-Year Financial Management System Plan for improving financial systems that is to be transmitted annually to OMB in accordance with OMB Circular A-127; OMB Memorandum M-91-09, "Financial Systems Plans"; and OMB Circular A-11, "Preparation and Submission of Budget Estimates." The plan is submitted as part of the NRC's annual budget submission as well as a separate management submission. The plan must—(b)
 - Address the NRC's strategy, priorities, and timetable for meeting Government-wide objectives and requirements. (i)

Reports

(4.3-06) (continued)

- Feature a review and change approval process for financial systems. (ii)
- Include specific milestones along with obligation and outlay estimates for each financial system making up the overall NRC financial management system. (iii)
- Include an inventory and schematic of current financial systems as well as future systems after planned improvements. (iv)
- Include a statement as to the NRC's current level of compliance with Government-wide requirements for financial management systems. (v)

References

(4.3-07)

1. Chief Financial Officers Act of 1990, Pub. L. No. 101-576 (31 U.S.C. 501-506, 901-903, 3512(a), 3515, 3521(e)-(h), and 9105-9106).
2. Federal Managers' Financial Integrity Act of 1982, Pub. L. No. 97-255.
3. Office of Management and Budget Circular A-11, "Preparation and Submission of Budget Estimates," July 12, 1991.
4. Office of Management and Budget Circular A-34, "Budget Execution," August 26, 1985.
5. Office of Management and Budget Circular A-130, "Management of Federal Information Resources," December 12, 1985.

References

(4.3-07) (continued)

6. Office of Management and Budget Circular A-123, "Internal Control Systems," August 4, 1986.
7. Office of Management and Budget Circular A-127, "Financial Management Systems," December 19, 1984.
8. Office of Management and Budget, "Financial Management and Accounting Objectives," March 1985.
9. Office of Management and Budget Memorandum M-85-16, "Guidelines for Evaluating Financial Management/Accounting Systems," May 1985.
10. Office of Management and Budget Memorandum M-91-09, "Financial Systems Plans," April 15, 1991.
11. NRC Management Directive 2.2, "Planning and Control of ADP Resources" (formerly MC 0904).
12. NRC Management Directive 4.1, "Accounting Policy and Practices" (formerly MC 1101).
13. NRC Management Directive 4.2, "Policies and Practices Governing NRC Long-Range Planning, Budget Formulation, and Resource Management" (formerly MC 1301).
14. NRC Management Directive 4.4, "Internal Controls" (formerly MC 0801).

Financial Management Systems

Handbook

(Formerly
Appendix 1103)

4.3

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Part I Inventory of NRC Financial Systems

The following is the inventory of NRC financial systems that are subject to financial system assessments. The inventory has been developed in accordance with the criteria specified in OMB Memorandum M-91-09. It includes systems that are currently operating or that are being developed. The systems are categorized as primary accounting systems, administrative financial systems, and program financial management systems.

System Name	Office	Status
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Primary Accounting Systems

Integrated Financial Management Information System	OC	O
Federal Financial System (at Treasury)	OC	UD

Administrative Financial Systems

Payroll System	OC	OU
Accounts Receivable System	OC	OU

Program Financial Management Systems

None

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- OC = Office of the Controller
 - O = Operational
 - UD = New system being developed
 - OU = Operational but upgrade planned or under way

Part II

NRC Financial System Objectives

Financial system objectives have been published in OMB Circular A-127. The detailed descriptions of these objectives contained in an OMB document, "Financial Management and Accounting Objectives," dated March 1985, are to be used in making the required annual financial system assessments. All NRC financial systems currently in operation or to be developed must incorporate these objectives.

A summary of NRC financial system objectives follows.

System Operations (1)

The NRC financial management system must use the best of acceptably priced, contemporary technology—including automated data entry and edit, data management, database dictionaries, electronic communications between systems, flexible reporting formats, controlled access to databases by personal computers, and other means—to achieve the following objectives.

- **Usefulness**—Gather and process financial management data only where necessary to meet specific internal management needs or external requirements. Tailor reports to specific internal management needs or external requirements. Tailor reports to specific user needs, and if use of reports does not justify cost, terminate their use. The financial management system should be capable of being adapted to changing needs. (a)
- **Timeliness**—Record financial management data, including cost data, as soon as practicable and make relevant preliminary data available to managers by the fifth working day after the end of the reporting period. Establish other standards of timeliness where the NRC has inventoried reports and set specific standards with user participation. Finally, make corrected data available in time to meet external reporting requirements. (b)
- **Reliability and Completeness**—Ensure that financial management information is reasonably complete and accurate, is verifiable and ordinarily drawn from the official records and systems, and is no more detailed than necessary to meet the needs of management and external requirements. Systems must be

System Operations (1) (continued)

documented and operated by competent and well-trained staff. Reliability must be balanced against economy and timeliness. (c)

- **Comparability and Consistency**—Record and report financial management data in the same manner throughout the NRC, using uniform definitions. Integrate accounting with budgeting information. Maintain consistency over time. Adopt common, existing definitions and classifications for new and revised systems. Information passed from administrative and program financial systems to the primary accounting system must be consistent. (d)
- **Efficiency and Economy**—Design and operate the NRC financial management system with reasonable total costs and transaction costs. Identify and phase out financial systems that are excessively costly. This process will be accomplished through installation of effective systems for planning and evaluation, sharing of data, elimination of overlap and duplication, and use of the best contemporary technology, including commercially available packages with proven success in other agencies or the private sector. (e)

System Integrity (2)

The NRC financial management system must feature reasonable controls designed, operated, and evaluated in accordance with NRC Management Directive 2.2, “Planning and Control of ADP Resources” (formerly MC 0904); NRC Management Directive 4.4, “Internal Controls” (formerly MC 0801); OMB Circular A-123, “Internal Control Systems”; and OMB Circular A-130, “Management of Federal Information Resources.” There should be reasonable assurance that internal control objectives will be accomplished.

Support for Budgets (3)

- Record, store, and report financial management data to facilitate budget preparation, analysis, and execution. Classify data uniformly. Classification, at a minimum, must be at a level of detail that directly supports execution of enacted budgets and formulation of proposed budgets, without excessive aggregation or disaggregation. (a)
- Record Presidential and congressional decisions precisely and classify financial management data on results to track these decisions. This process includes detailed support for reports under OMB Circular A-34, “Budget Execution,” and

Support for Budgets (3) (continued)

for routine budget submissions under OMB Circular A-11, "Preparation and Submission of Budget Estimates." Include data required for budget and management decisionmaking on unit costs and for systematic measurement of performance. (b)

Support for Management (4)

Record and report data in a manner to facilitate carrying out the responsibilities of both program and administrative managers. The NRC financial management system must provide a coherent, timely, and accurate financial management database. The financial management system should accurately disclose current and probable future cost of operating decisions, including the future need for resources. The system should be supplemented as necessary to meet other NRC management and Executive Office requirements for administrative data. Develop accrual accounting information only as needed for pricing purposes and comparative cost analyses and for meeting the needs of management or the Congress.

Full Financial Disclosure (5)

- Record and report financial management data as specifically required by the OMB or the Treasury Department to provide for full financial disclosure and accountability in accordance with the Chief Financial Officers Act of 1990, as well as the budget and accounting principles and standards set forth in NRC Management Directive 4.1, "Accounting Policy and Practices" (formerly MC 1101), and NRC Management Directive 4.2, "Policies and Practices Governing NRC Long-Range Planning, Budget Formulation, and Resource Management" (formerly MC 1301). (a)
- Financial disclosure requirements are met through the annual audited financial statement required by 31 U.S.C. 3515(a) and prepared in accordance with 31 U.S.C. 3521(e), the NRC budget requests to the OMB and the Congress, the Treasury Combined Statement, and related documents. NRC contributes to this disclosure through required reports to the OMB, the Treasury Department, and the Congress and through proper recording and classifying of financial data. Submit any other financial statements intended for use by the public to the OMB for review and approval, and evaluate them on the basis of costs and benefits and for consistency with the NRC budget. (b)

Part III

Annual Financial System Assessment Process

1. System managers shall evaluate annually the financial systems identified in the financial systems inventory in Part I of this handbook to determine conformance of the systems with the principles, standards, and other requirements of the Comptroller General and OMB Circular A-34 and implemented through OMB Circular A-127.
2. Financial system assessments must be based on the characteristics presented in the financial system objectives in Part II of this handbook and shall be performed in accordance with OMB Memorandum M-85-16 (“Guidelines for Evaluating Financial Management/Accounting Systems”) and in a thorough and conscientious manner to produce reliable results.
3. The system manager shall perform a limited system review annually of each financial system if such system is not subject to a detailed system evaluation. The system manager shall conduct the assessment in consultation with the operators and users through the use of an appropriate questionnaire, checklist, or a similar methodology.
4. The system manager shall perform a detailed system evaluation at least once every 3 years of each financial system that is not to be replaced or combined with other financial systems within the next 2 fiscal years. The system manager shall establish a tailored program for the detailed system evaluation. The program must provide appropriate criteria for testing and measurement based on the financial system objectives in Part II of this handbook, as well as on the applicable requirements of law, regulations, or other authoritative sources. The program must provide for the testing of a variety of transactions selected on a valid sampling basis. Transactions must be traced through the financial system to determine how the system reacts and whether the reactions are in accordance with the criteria prescribed in the system manager's evaluation program. The DCFO/C shall review departures from the policies and objectives detailed in OMB's “Financial Management and Accounting Objectives” (also see Part II of this handbook) to determine if such departures can continue to be justified.

5. The system manager shall evaluate the results of each financial system assessment and take appropriate action to implement necessary improvements.
6. Annually the system manager shall prepare a report summarizing the results of the financial system assessment performed and shall submit the report to the DCFO/C in accordance with the schedule established in the annual update to the Five-Year Plan for Review of Financial Management Systems issued by the DCFO/C. The report shall—
 - Provide assurance that the financial system assessment has been performed in accordance with OMB Memorandum M-85-16, “Guidelines for Evaluating Financial Management/Accounting Systems.” (a)
 - State whether the financial system generally conforms to the OMB “Financial Management and Accounting Objectives” (see Part II of this handbook). (b)
 - State whether the report fairly portrays the financial system. (c)
7. The DCFO/C shall prepare a report summarizing the results of each financial system assessment and identifying each instance of material nonconformance with the policies and objectives set forth in OMB Circular A-127. A summary of planned improvements and the priority for each action shall be included in the report. This report shall be used as a basis for preparing the Five-Year Financial Management System Plan and the annual report from the Chairman to the President and the Congress.
8. The system manager shall use the results of each financial system assessment for the subsequent assessment of the system.
9. Financial system assessments under OMB Circulars A-130, A-123, and A-127 must be coordinated or consolidated to the greatest extent practicable.
10. The system manager shall consider financial statement audits and other audits in establishing the scope of the program for a detailed system evaluation.

Part IV

Quality Assurance and Monitoring Program

1. The DCFO/C shall provide written assurance to the CFO, for incorporation in the annual report from the Chairman to the President and the Congress, that—
 - The processes for the annual evaluation of each financial system have been carried out in accordance with OMB Memorandum M-85-16, “Guidelines for Evaluating Financial Management/Accounting Systems.” (a)
 - Each financial system conforms to the accounting principles, standards, and requirements of the Comptroller General as implemented through OMB Circular A-127. (b)
2. Each system manager shall ensure that an appropriate annual financial system assessment is performed in accordance with OMB Memorandum M-85-16 and Part III of this handbook, the assessment results are evaluated, and corrective actions are taken.
3. Each system manager shall ensure that a further evaluation of each detailed system evaluation is performed. If feasible, this further evaluation shall be performed by an individual who is outside the supervision and control of the system manager. The purpose of the further evaluation is to ensure that—
 - The initial detailed system evaluation was conducted in accordance with this directive and OMB directives. (a)
 - Documentation exists to support the conclusions reached in the detailed system evaluation. (b)
 - The evaluation methods are described (including the transaction testing process). (c)
 - The personnel involved in the detailed system evaluation and their roles are identified. (d)

4. The DCFO/C shall establish and maintain a monitoring system to ensure that both limited system reviews and detailed system evaluations are performed as required.
 - By March 31 of each year, the DCFO/C shall update the Five-Year Plan for Review of Financial Management Systems to ensure compliance with annual and triennial assessments. (a)
 - The progress of each annual financial system assessment will be tracked to ensure that it is complete and timely. (b)
 - Information regarding departures from the policies and objectives in OMB's "Financial Management and Accounting Objectives" (also see Part II of this handbook) will be accumulated. (c)
 - Information regarding each instance of significant nonconformance with the policies and objectives set forth in OMB Circular A-127 will be accumulated for consideration in the reports described in Section 4.3-06 of this directive. (d)
5. The DCFO/C shall track planned improvements to financial systems and report on the implementation in subsequent updates of the Five-Year Financial Management System Plan.

Glossary

For purposes of this directive, the following definitions apply.

Accounting System. A financial system that includes the total structure of methods and procedures used to record, classify, and report information on the financial position and operations of the NRC. It consists of the various operations involving the authorizing, recording, classifying, and reporting of financial data related to revenues, expenses, assets, liabilities, and equity.

Administrative Financial System. A financial system that produces functional transactional data needed for the general ledger but is limited to systems for budget execution, payroll (including integrated payroll/personnel systems), travel, and procurement.

Detailed System Evaluation. The substantive self-examination by system managers, operators, and users of a financial system through the use of an evaluation program, including transaction testing.

Financial Management System. The aggregate of the agency's financial systems, both manual and automated, for planning, budget formulation and execution, and program and administrative accounting and audit and all other systems for recording and classifying financial data and reporting financial management information, including purchasing, property, inventory, and so forth. The NRC financial management system includes all systems that generate agency-wide financial management information. These systems include those that capture financial management information on an agency-wide basis for budget formulation and execution, program and administrative accounting, and control of capitalized assets and all systems for capturing actual obligations, cost, and payment information from source documents.

Glossary (continued)

Financial System. A component of the NRC's financial management system that meets the criterion for identifying financial systems specified in OMB Memorandum M-91-09, "Financial Systems Plants." The system that meet this criterion are listed in Part I of this handbook. A financial system can be a primary accounting system, an administrative financial system, or a program financial management system.

Limited System Review. A simple but structured procedure consisting of the use of a questionnaire, checklist, or a similar methodology to ascertain whether a financial system meets the financial system objectives set forth in Part II of this handbook.

Primary Accounting System. A financial system that provides required general ledger control over financial transactions, resource balances, administrative financial systems, and program financial management systems.

Program Financial Management System. A financial system that provides unique financial information on program operations.

System Manager. The person designated as responsible for each financial system identified in Part I of this handbook. This responsibility includes ensuring that the system is established, maintained, assessed, improved, and reported on in accordance with the requirements of this directive.