



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

**OFFICE OF THE  
INSPECTOR GENERAL**

July 1, 2013

**MEMORANDUM TO:** Chairman Macfarlane

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

**SUBJECT:** AUDIT OF THE U.S. NUCLEAR REGULATORY  
COMMISSION'S FINANCIAL STATEMENTS FOR  
FISCAL YEAR 2013

As you are aware, the audit of the fiscal year 2013 financial statements of the U.S. Nuclear Regulatory Commission (NRC) is underway. We held an entrance conference with NRC officials on March 18, 2013.

The Office of the Inspector General is responsible for conducting audits of NRC's financial statements in accordance with the Chief Financial Officers Act of 1990, Chapter 9, Sections 901(b)(2) and 902(a)(6) and plans to issue its report by November 15, 2013.

A copy of the audit engagement letter is attached. This letter explains the nature of the engagement, auditor responsibilities, and the responsibilities of NRC management. Should this letter and the attached engagement letter not represent your understanding of the nature of this engagement, or should you have any questions, please contact me at 301-415-5930 or Stephen D. Dingbaum, Assistant Inspector General for Audits, at 301-415-5915.

Attachment: As stated

cc: Commissioner Svinicki  
Commissioner Apostolakis  
Commissioner Magwood  
Commissioner Ostendorff  
R.W. Borchardt, EDO  
J.E. Dyer, CFO



CliftonLarsonAllen LLP  
11710 Beltsville Drive  
Suite 300  
Calverton, MD 20705  
301-931-2050 | fax 301-931-1710  
www.cliftonlarsonallen.com

May 30, 2013

Mr. J. E. Dyer  
Chief Financial Officer

Mr. Hubert T. Bell  
Inspector General

Dear Mr. Dyer and Mr. Bell:

We are pleased to confirm our understanding of the services CliftonLarsonAllen LLP (CLA) will provide pursuant to Order No. D12PD01407. Such contract with the Nuclear Regulatory Commission (NRC), relates to CLA's audit of NRC's financial statements for the year ended September 30, 2013.

**Scope**

We will audit the financial statements of NRC, which are comprised of the balance sheets as of September 30, 2013 and 2012 and the related statements of net cost, changes in net position, and statements of budgetary resources for the years then ended, and the related notes to the financial statements. Accounting principles generally accepted in the United States of America (U.S.) require that certain required supplementary information (RSI), such as Management's Discussion and Analysis (MD&A) be presented to supplement NRC's financial statements. Such information, although not a part of the financial statements, is required by the Federal Accounting Standards Advisory Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to NRC's RSI in accordance with auditing standards generally accepted in the U.S. These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtain during our audit of the financial statements. We will not express an opinion or provide any assurance on the RSI because the limited procedures do not provide CLA with sufficient evidence to express an opinion or provide any assurance.

The objective of our audit is to express an opinion about whether NRC's financial statements present fairly, in all material respects, the financial position of NRC as of September 30, 2013 and 2012, and its net cost, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the U.S.

**Auditor Responsibilities**

Our audit will be conducted in accordance with auditing standards generally accepted in the U.S.; the standards applicable for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 07-

Mr. J. E. Dyer  
Mr. Hubert T. Bell  
May 30, 2013

04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. We will also adhere to the audit requirements of other applicable OMB Bulletins, Circulars and Memoranda, as well as the Government Accountability Office (GAO)/and President's Council on Integrity and Efficiency Financial Audit Manual, the GAO Federal Information System Controls Audit Manual, and other pronouncements relevant to the audit related services to be performed.

We will issue a written report that will include a discussion of several aspects of our engagement, including our opinion about NRC's financial statements (Combined Report). This Combined Report will also document our responsibilities with respect to the RSI included with the financial statements, as discussed above, and our conclusions based on the work performed. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for CLA to modify our opinion, add an emphasis-of-matter or other-matter paragraph(s), or withdraw from the engagement. If our opinion on the financial statements is other than unmodified, we will discuss the reasons with NRC management. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or to issue a report as a result of this engagement.

We will also conduct an examination of NRC's internal controls over financial reporting, the objective of which is to express an opinion on the effectiveness of NRC management's internal control over financial reporting and compliance with certain provisions of certain laws and regulations to provide reasonable assurance that misstatements, losses or noncompliance material in relation to the financial statements would be prevented or detected and corrected on a timely basis. The Combined Report will include this audit opinion.

The Combined Report will also include a report (that does not include an opinion) on noncompliance with provisions of certain laws and regulations which could have a material effect on the financial statements as required by *Government Auditing Standards*. In addition, the Combined Report will also include a report on the results of our tests of NRC's compliance with 1) federal financial management system requirements, (2) applicable federal accounting standards, and (3) the U.S. Standard General Ledger at the transaction level as required by the Federal Financial Management Improvement Act (FFMIA). We will separately state that the purpose of the compliance report is solely to describe the scope of testing of compliance, and the result of that testing, and not to provide an opinion on compliance, and that this report is an integral part of an audit performed in accordance with *Government Auditing Standards*. We will also state that this communication is not suitable for any other purpose.

In addition, we will express an opinion on NRC's fiscal year (FY) 2013 special-purpose financial statements (closing package) and an opinion related to NRC's FY 2013 Summary of Performance and Financial Information.

Mr. J. E. Dyer  
Mr. Hubert T. Bell  
May 30, 2013

### **Management Responsibilities**

Management of NRC is responsible for its financial statements and all accompanying information as well as all representations contained therein. NRC management is responsible for making all significant management judgments and decisions, performing all management functions, and assuming all management responsibilities related to the financial statements and related notes.

Management is responsible for the preparation of the supplementary information in accordance with accounting principles generally accepted in the U.S. Management shall include our report on the supplementary information in any document that contains this information and also indicate that we have reported on the supplementary information. Management shall include the audited financial statements with any presentation of the supplementary information that includes our report thereon, or make the audited financial statements readily available to users of the supplementary information no later than the date the supplementary information is issued with our report thereon. Management's responsibilities include acknowledging to CLA in a Representation Letter that (1) management is responsible for presentation of the supplementary information in accordance with accounting principles generally accepted in the U.S.; (2) management believes the supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the U.S.; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) management has disclosed to CLA any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

Management is responsible for (1) establishing and maintaining effective internal controls, including evaluating and monitoring ongoing activities, to help ensure that appropriate goals and objectives are met; (2) the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; (3) providing reasonable assurance that the broad objectives of the Federal Managers' Financial Integrity Act (FMFIA) are met; (4) ensuring compliance with other applicable laws and regulations; (5) the selection and application of accounting principles; and (5) the preparation of and fair presentation in the financial statements of the respective financial position of the NRC and the respective net cost, changes in net position, and budgetary resources, in accordance with accounting principles generally accepted in the U.S.

Management is also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information, and providing CLA with (1) access to all information that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters; (2) additional information that we may request for the purpose of the audit; and (3) unrestricted access to persons within NRC from whom we determine it necessary to obtain audit evidence.

Management's responsibilities include adjusting the financial statements to correct material misstatements and confirming to CLA in the representation letter that the effects of any uncorrected misstatements aggregated by CLA during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Mr. J. E. Dyer  
Mr. Hubert T. Bell  
May 30, 2013

Management is responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing CLA about all known or suspected fraud or illegal acts affecting NRC involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. Management's responsibilities include informing CLA of knowledge of any allegations of fraud or suspected fraud affecting NRC received in communications from employees, former employees, the Office of Inspector General (OIG), the Government Accountability Office (GAO), other oversight authorities or others. In addition, management is responsible for identifying and ensuring that NRC complies with applicable laws, regulations, including NRC's financial management systems substantial compliance with FFMIA requirements, and for taking timely and appropriate steps to remedy any fraud, illegal acts, violations of contracts or grant agreements, or abuse that we may report.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for CLA previous financial audits, attestation engagements, performance audits, or other studies related to the objectives discussed in the "Scope" section of this letter. This responsibility includes relaying to CLA corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or other studies. Management is also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as NRC's planned corrective actions for the report, and for the timing and format for providing that information.

In addition, NRC management is responsible for assuring that the electronic submission of the agency's Special Purpose Financial Statements and Summary of Performance and Financial Information are complete, accurate, and timely, in accordance with reporting obligations to the U.S. Department of Treasury, as appropriate.

### **Audit Procedures - General**

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined, the procedures to be performed, and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws and regulations that are attributable to NRC or to acts by management or employees acting on behalf of NRC. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control and that we will not perform a detailed examination of all transactions, there is an unavoidable risk that material misstatements may exist and not be detected by CLA, even though the audit is properly planned and performed in accordance with auditing standards generally accepted in the U.S. and *Government*

Mr. J. E. Dyer  
Mr. Hubert T. Bell  
May 30, 2013

*Auditing Standards.* In addition, an audit is not designed to detect immaterial misstatements, or violations of laws and regulations, that do not have a direct and material effect on the financial statements. However, we will inform the appropriate level of management of any material errors, fraudulent financial reporting, or misappropriation of assets that come to our attention. We will also inform the appropriate level of management of any violations of laws and regulations that come to our attention, unless clearly inconsequential. Our responsibility as auditor is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts comprising NRC's financial statement amounts. We will also request written representations from the Office of General Counsel as part of the engagement. We will request written representations from management to acknowledge that they have reviewed and approved the financial statements and related notes prior to their issuance and have accepted responsibility for them, as well as to acknowledge their responsibilities outlined herein.

#### **Audit Procedures - Internal Control**

Our audit will include obtaining an understanding of NRC and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and express an opinion on NRC's internal controls over financial reporting and compliance with certain provisions of laws and regulations, evaluating the design and operating effectiveness of internal control based on the assessed risk, and consideration of NRC's process for evaluating and reporting on internal control, including internal control under the FFMIA and financial systems under FFMIA, and designing the nature, timing, and extent of further audit procedures. Tests of controls will be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. We will not evaluate all internal controls relevant to operating objectives broadly defined by FFMIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected. While we will obtain an understanding of internal control and will test controls to the extent required to support our reports in accordance with *Government Auditing Standards*, an audit is not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, during the audit, we will communicate to management and those charged with governance any internal control related matters that are required to be communicated under auditing standards generally accepted in the U.S. and *Government Auditing Standards*.

For those internal control matters that we do not consider significant deficiencies, we will also provide a separate letter to management describing those other internal control matters which would not be included in the Combined Report.

#### **Audit Procedures - Compliance**

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of NRC's compliance with the provisions of applicable laws and regulations. However, the objective of our audit will not be to provide an opinion on overall compliance

Mr. J. E. Dyer  
Mr. Hubert T. Bell  
May 30, 2013

and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

We will also perform tests on NRC's compliance with FFMIA. Such tests will be performed to determine if NRC's financial systems substantially comply with 1) federal financial management system requirements, (2) applicable federal accounting standards, and (3) the U.S. Government Standard General Ledger at the transaction level, as required by FFMIA.

We will not test compliance with all laws and regulations applicable to NRC. We will limit our tests of compliance to selected provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB Bulletin 07-04 that we deem applicable to NRC's financial statements for the fiscal year ended September 30, 2013. We caution that noncompliance with laws and regulations may occur and not be detected by these tests and that such testing may not be sufficient for other purposes. Also, our work on FFMIA would not necessarily disclose all instances of noncompliance with FFMIA requirements.

#### **Engagement Administration**

To make efficient use of audit resources and expedite audit completion, we will request assistance from NRC staff. This assistance may include preparing schedules or analyses; locating, copying, and providing selected documents; and participating in meetings. We will discuss this assistance with NRC staff throughout the audit. Such assistance requests, needed for the completion of the audit, will be mutually agreed upon (content and dates due) and detailed in a "Prepared by Client-PBC" listing.

The audit documentation (workpapers) for this engagement is the property of CLA and constitutes confidential information. The workpapers reflect work performed or information obtained by CLA in its capacity as independent auditor for NRC. The workpapers contain trade secrets and confidential commercial and financial information of CLA and NRC that is privileged and confidential, and CLA expressly reserves all rights with respect to disclosures to third parties. As required by our contract, we may provide certain audit documentation to the OIG for contract oversight and audit quality review purposes as well as facilitate their agency oversight responsibilities. We may also be requested to make certain audit documentation available to the GAO for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. The audit documentation for this engagement will be retained for at least seven years after the report release date. If pursuant to the terms of the contract, a third party requests to perform a post audit review of the FY 2013 audit, CLA will support this effort and provide a means for the third party to review its audit documentation (working papers), in accordance with the terms of the contract and in accordance with professional standards.

Mr. J. E. Dyer  
Mr. Hubert T. Bell  
May 30, 2013

William Oliver is responsible for supervising the engagement and signing the reports or authorizing another individual to sign them. We expect to begin our audit on approximately March 1, 2013. The overall timing of our audit is expected to be as follows:

<b>Task Description</b>	<b>Milestones</b>
Entrance Conference	March 18, 2013
Last Day of Field Work	November 7, 2013
Delivery of final combined FY 2013 audit report (opinion on financial statements, opinion on internal controls over financial reporting, and report on compliance with laws and regulations)	November 11, 2013
Delivery of final FY 2013 audit report on the special-purpose financial statements (closing package)	November 15, 2013
Delivery of final FY 2013 management letter	December 13, 2013
Delivery of final audit report on the FY 2013 Summary of Performance and Financial Information	To be determined Mid Feb. 2014 Anticipated

*Government Auditing Standards* require that we provide a copy of our most recent external peer review report and any subsequent peer review reports received during the period of the contract. Our 2010 peer review reports accompany this letter (*Exhibits*).

**Use of Financial Statements**

If NRC management intends to reproduce and publish the financial statements and our report thereon, they must be reproduced in their entirety. Inclusion of the audited financial statements in a document, such as a Performance and Accountability Report, should be done only with CLA’s prior approval of the document. Management is responsible for providing CLA the opportunity to review such documents before issuance.

With regard to the electronic dissemination of audited financial statements, including financial statements published electronically on your website, understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in those sites or to consider the consistency of other information in the electronic site with the original document.

**Subcontractors**

CLA may, at times, use subcontractors to perform services under this contract, and they may have access to your information and records. Any such subcontractors will be subject to the same restrictions



Mr. J. E. Dyer  
Mr. Hubert T. Bell  
May 30, 2013

on the use of such information and records as apply to CLA under this agreement. We will be as responsible for any act done by these subcontractors as we are for any act done by a CLA employee under this agreement.

We appreciate the opportunity to be of service to NRC and believe this letter, in combination with our signed task order, and the terms and requirements of our Financial and Business Solutions Contract number GS-23F-0135L with the General Services Administration, accurately summarizes the significant terms of our engagement. **Should this Engagement Letter not represent your understanding of the nature and extent of this engagement, please advise William Oliver at 301-902-8563 or at [bill.oliver@cliftonlarsonallen.com](mailto:bill.oliver@cliftonlarsonallen.com).**

Sincerely,

CliftonLarsonAllen LLP

A handwritten signature in cursive script that reads "William Oliver".

William Oliver, CPA  
Partner

cc: Mary Meier, COR  
May Ma, Chief, Financial Reporting and Analysis Branch

## Exhibits



### System Review Report

To the Principals of LarsonAllen LLP  
and the AICPA National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of LarsonAllen LLP (the firm) applicable to non-SEC issuers in effect for the year ended March 31, 2010. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).

As required by the standards, engagements selected for review included engagements performed under the *Government Auditing Standards*; audits of employee benefit plans, and an audit performed under FDICIA.

In our opinion, the system of quality control for the accounting and auditing practice applicable to non-SEC issuers of LarsonAllen LLP in effect for the year ended March 31, 2010 has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. LarsonAllen LLP has received a peer review rating of *pass*.

*Clifton Gunderson LLP*

August 13, 2010

10001 Innovation Drive, Suite 201  
Milwaukee, Wisconsin 53226

tel: 414.476.1880  
fax: 414.476.7286

[www.cliftoncpa.com](http://www.cliftoncpa.com)



## Exhibits



### System Review Report

To the Partners of  
Clifton Gunderson LLP  
and the National Peer Review Committee of the AICPA

We have reviewed the system of quality control for the accounting and auditing practice of Clifton Gunderson LLP (the firm) applicable to non-SEC issuers in effect for the year ended July 31, 2010. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based upon our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards*, audits of employee benefit plans and audits performed under FDICIA.

In our opinion, the system of quality control for the accounting and auditing practice of Clifton Gunderson LLP applicable to non-SEC issuers in effect for the year ended July 31, 2010, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Clifton Gunderson LLP has received a peer review rating of *pass*.

*Weaver and Tidwell, LLP*

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas  
December 3, 2010