



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

**OFFICE OF THE
INSPECTOR GENERAL**

November 18, 2014

MEMORANDUM TO: Chairman Macfarlane

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

SUBJECT: INDEPENDENT AUDITORS' REPORT ON THE U.S.
NUCLEAR REGULATORY COMMISSION'S CLOSING
PACKAGE FINANCIAL STATEMENTS AS OF
SEPTEMBER 30, 2014 AND 2013, AND FOR THE YEARS
THEN ENDED (OIG-15-A-04)

This memorandum transmits the CliftonLarsonAllen, LLP (CLA) Independent Auditors' Report on the U.S. Nuclear Regulatory Commission's (NRC) Closing Package Financial Statements, including the balance sheets, as of September 30, 2014 and 2013, and the related statements of net cost and changes in net position for the years then ended (Attachment 1). This audit was performed for the purpose of providing financial information to the U.S. Department of the Treasury and the U.S. Government Accountability Office for use in preparing and auditing the *Financial Report of the U.S. Government*. The Office of the Inspector General (OIG) retained the services of CLA to conduct this audit.

Audit Results

CLA issued an unmodified opinion, dated November 17, 2014, on the closing package balance sheets of the NRC as of September 30, 2014 and 2013, and the related closing package statements of net cost and changes in net position for the years then ended. NRC's closing package financial statements include comparative financial statements for FYs 2014 and 2013 (Attachment 2).

If you have any questions, please call me at 415-5930 or Stephen Dingbaum, Assistant Inspector General for Audits, at 415-5915.

Attachments: As stated

cc: Commissioner Svinicki
Commissioner Ostendorff
Commissioner Baran
Commissioner Burns
M. Wylie, CFO
M. Galloway, OEDO
K. Brock, OEDO
J. Arildsen, OEDO
C. Jaegers, OEDO
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INDEPENDENT AUDITORS' REPORT ON CLOSING PACKAGE FINANCIAL STATEMENTS

Inspector General
United States Nuclear Regulatory Commission

Chairman
United States Nuclear Regulatory Commission

Report on the Closing Package Financial Statements

We have audited the accompanying Closing Package Financial Statement Report (herein referred to as the closing package financial statements) of the United States Nuclear Regulatory Commission (NRC), which comprise:

- the Closing Package Financial Statement Report – Balance Sheet as of September 30, 2014 and 2013;
- the related Closing Package Financial Statement Reports - Statement of Net Cost and Statement of Changes in Net Position for the years then ended;
- the accompanying Financial Report (FR) Notes Report (except for the information in the FR Notes Report entitled “Threshold”) for the years then ended;
- the accompanying Additional Notes A and B;
- the accompanying Trading Partner Summary Note Report – Balance Sheet as of September 30, 2014 and 2013; and
- the related Trading Partner Summary Note Report – Statement of Net Cost and Statement of Changes in Net Position for the years then ended.

Management’s Responsibility for the Closing Package Financial Statements

Management is responsible for the preparation and fair presentation of these closing package financial statements in accordance with United States (U.S.) generally accepted accounting principles. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the closing package financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on these closing package financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the U.S., the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the Office of Management and Budget (OMB) Bulletin 14-02, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the closing package financial statements are free from material misstatement.

INDEPENDENT AUDITORS' REPORT ON CLOSING PACKAGE FINANCIAL STATEMENTS (Continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the closing package financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the closing package financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the agency's preparation and fair presentation of the closing package financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the agency's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the closing package financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion on the Closing Package Financial Statements

In our opinion, the closing package financial statements referred to above present fairly, in all material respects, the financial position of the United States Nuclear Regulatory Commission as of September 30, 2014 and 2013, and its net costs and changes in net position for the years then ended in conformity with accounting principles generally accepted in the U.S.

Emphasis of Matter

As discussed in Additional Note A to the closing package financial statements, the accompanying closing package financial statements were prepared to comply with the requirements of the U.S. Department of the Treasury's *Treasury Financial Manual* (TFM) Volume I, Part 2, Chapter 4700 for the purpose of providing financial information to the U.S. Department of the Treasury and the U.S. Government Accountability Office to use in preparing and auditing the *Financial Report of the U.S. Government*, and are not intended to be a complete presentation of the balance sheets of NRC as of September 30, 2014 and 2013, and the related statements of net costs, changes in net position, and budgetary resources (hereinafter referred to as "general-purpose financial statements") for the years then ended. Our opinion is not modified with respect to this matter.

Other Matters

General Purpose Financial Statements

We have audited, in accordance with auditing standards generally accepted in the U.S., the standards applicable to financial audits contained in *Government Auditing Standards*, and OMB Bulletin 14-02, the general-purpose financial statements of NRC as of September 30, 2014 and 2013, and our report thereon, dated November 7, 2014, expressed an unmodified opinion on those financial statements.

Required Supplementary Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the information in Other Data Report Nos. 1, 8, 9, and 14 through 18, except for the information included in the Other Text Data of Other Data Report No. 1, (which is discussed below) be presented to supplement the closing package financial statements. Such information, although not a part of the basic financial statements, is required by FASAB which considers it to be an essential part of financial reporting for placing the closing

INDEPENDENT AUDITORS' REPORT ON CLOSING PACKAGE FINANCIAL STATEMENTS (Continued)

package financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the U.S., which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic closing package financial statements, and other knowledge we obtained during our audits of the closing package financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Schedule of Budgetary Resources and Management's Discussion and Analysis that U.S. generally accepted accounting principles issued by FASAB require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic closing package financial statements, is required by the FASAB which considers it to be an essential part of financial reporting for placing the general-purpose financial statements in an appropriate operational, economic, or historical context. Our opinion on the closing package financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic closing package financial statements as a whole. The information included in the Other Text Data of Other Data Report No. 1, and the information in the sections entitled "Threshold" in FR Notes Report Nos. 6, 9, 11, 15, and 19, the information in the Closing Package Line Reclassification Summary Report – Balance Sheet, and the information in the Closing Package Line Reclassification Summary Reports – Statement of Net Cost and Statement of Changes in Net Position are presented for purposes of additional analysis in accordance with TFM Chapter 4700 and are not a required part of the closing package financial statements. We read the other information included with the closing package financial statements in order to identify material inconsistencies, if any, with the audited closing package financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the closing package financial statements and, accordingly, we do not express an opinion or provide any assurances on it.

Restriction on the Use of the Report on the Closing Package Financial Statements

This report is intended solely for the information and use of NRC's management, the NRC Office of Inspector General, the U.S. Department of the Treasury, OMB, and the U.S. Government Accountability Office in connection with the preparation and audit of the *Financial Report of the U.S. Government* and is not intended to be and should not be used by anyone other than these specified parties.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards* and OMB Bulletin 14-02, we have also issued a report dated November 7, 2014 that discusses our consideration of NRC's internal control over financial reporting and the results of our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters that are required to be reported under *Government Auditing Standards*. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin 14-02

**INDEPENDENT AUDITORS' REPORT ON
CLOSING PACKAGE FINANCIAL STATEMENTS (Continued)**

in considering NRC's internal control and compliance, and should be read in conjunction with this report in considering the results of our audits of the closing package financial statements.

In our fiscal year 2014 audit of the basic general-purpose financial statements of NRC, we noted no material weaknesses and no instances of reportable noncompliance.

Report on Internal Control over Financial Reporting Specific to the Closing Package Financial Statements

In planning and performing our audit of the closing package financial statements as of and for the year ended September 30, 2014, we also considered NRC's internal control over the financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the closing package financial statements, but not for the purpose of expressing an opinion of the effectiveness of NRC's internal control over financial reporting related specifically to the closing package financial statements. Accordingly, we do not express an opinion on the effectiveness of NRC's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in their normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit the attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

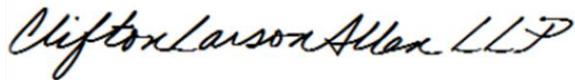
Report on Compliance and Other Matters Specific to the Closing Package Financial Statements

As part of obtaining reasonable assurance about whether NRC's closing package financial statements are free from material misstatement, we also performed tests of its compliance with certain provisions of *TFM Chapter 4700*, noncompliance with which could have a direct and material effect on the determination of closing package financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit of the closing package financial statements, and accordingly, we do not express such an opinion. The results of our tests of compliance with *TFM Chapter 4700* disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**INDEPENDENT AUDITORS' REPORT ON
CLOSING PACKAGE FINANCIAL STATEMENTS (Continued)**

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication provided in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of NRC's internal control or on compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control and compliance with provisions of laws and regulations, contracts, and grant agreements that have a material effect on the closing package financial statements. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Arlington, Virginia
November 17, 2014

**U.S.Department of the Treasury
Bureau of the Fiscal Service
Governmentwide Financial Report System**

GF002A - Audited FS Report

Statement: STATEMENT OF NET COST

Fiscal Year: 2014

Period: SEPTEMBER

Entity: 3100-U. S. Nuclear Regulatory Commission

Reported in: THOUSANDS

Decimal: ZERO

Agency Line Description	FY 2014-SEPTEMBER	FY 2013-SEPTEMBER
Nuclear Reactor Safety and Security		
Gross costs	817,279	831,114
Less: Earned revenue	(815,037)	(760,283)
Total Net Cost of Nuclear Reactor Safety and Security (Note 9)	2,242	70,831
Nuclear Materials and Waste Safety and Security		
Gross costs	239,305	232,011
Less: Earned revenue	(81,515)	(91,959)
Total Net Cost of Nuclear Materials and Waste Safety and Security (Note 9)	157,790	140,052
Total Gross Costs	1,056,584	1,063,125
Total Earned Revenue	(896,552)	(852,242)
Net Cost of Operations	160,032	210,883

**U.S.Department of the Treasury
Bureau of the Fiscal Service
Governmentwide Financial Report System**

GF002A - Audited FS Report

Statement: STATEMENT OF CHANGES IN NET POSITION **Fiscal Year:** 2014 **Period:** SEPTEMBER
Entity: 3100-U. S. Nuclear Regulatory Commission **Reported in:** THOUSANDS **Decimal:** ZERO

Agency Line Description	FY 2014-SEPTEMBER	FY 2013-SEPTEMBER
Cumulative Results of Operations		
Beginning Balances	160,637	160,194
Budgetary Financing Sources		
Appropriations used	121,099	176,169
Non-Exchange revenue	165	482
Transfers-in/out without reimbursement	0	0
Other Financing Sources		
Imputed financing from costs absorbed by others	35,114	35,157
Other - Revenue from excess collections	(165)	(482)
Total Financing Sources	156,213	211,326
Net Cost of Operations	(160,032)	(210,883)
Net Change	3,819	443
Cumulative Results of Operations	156,818	160,637
Unexpended Appropriations		
Beginning Balances	242,640	285,080
Change in accounting principle	0	0
Beginning Balance, as Adjusted	242,640	285,080
Budgetary Financing Sources		
Appropriations Received	184,685	186,209
Other Adjustments(Recission)	0	(52,480)
Appropriations used	(121,099)	(176,169)
Total Budgetary Financing Sources	(63,586)	(42,440)
Total Unexpended Appropriations	306,226	242,640
Net Position	463,044	403,277