



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

OFFICE OF THE
INSPECTOR GENERAL

July 13, 2016

MEMORANDUM TO: Chairman Burns

FROM:


Hubert T. Bell
Inspector General

SUBJECT: AUDIT OF THE U.S. NUCLEAR REGULATORY
COMMISSION'S FINANCIAL STATEMENTS FOR FISCAL
YEAR 2016

The audit of the Fiscal Year 2016 financial statements of the U.S. Nuclear Regulatory Commission (NRC) is underway. We held an entrance conference with NRC officials on April 7, 2016.

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 16, 2016.

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 Baran
V. McCree, EDO
M. Wylie, CFO



CliftonLarsonAllen

CliftonLarsonAllen LLP
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Arlington, VA 22203
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CLAconnect.com

April 12, 2016

Mr. Hubert T. Bell
Inspector General

Ms. Maureen E. Wylie
Chief Financial Officer
U.S. Nuclear Regulatory Commission
11555 Rockville Pike
Rockville, MD 20852-2738

Dear Mr. Bell and Ms. Wylie:

We are pleased to confirm our understanding of the services CliftonLarsonAllen LLP (CLA) will provide for the United States (U.S.) Nuclear Regulatory Commission (NRC) for the year ended September 30, 2016, pursuant to Order No. D12PD01407.

Scope

We will audit the financial statements of NRC, which comprise the balance sheets as of September 30, 2016 and 2015, and the related statements of net cost, changes in net position, and budgetary resources for the years then ended, and the related notes to the financial statements.

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, 2016 and 2015, 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.

Accounting principles generally accepted in the U.S. also 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 obtained during our audit of the financial statements. We will 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.

Professional standards also require that we disclose the nature and scope of procedures performed on other information that accompanies NRC's financial statements, some of which may not be directly related to the financial statements. This Other Information is presented for purpose of additional analysis and is not a required part of the financial statements. This Other Information will not be subjected to the auditing procedures applied



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in our audit of the financial statements, and we will not provide an opinion or any assurance on such other information. The other information is expected to include the Performance and Accountability Report cover, table of contents, message from the Chairman, Chapter 2 (Program Performance), message from the Chief Financial Officer, Inspector General's letter transmitting the auditors' report, management's response to the audit report, and Chapter 4 (Other Information).

In accordance with our task order, we will also audit the NRC's fiscal year (FY) 2016 Closing Package Financial Statements to determine whether the Closing Package Financial Statements and accompanying notes fairly present, in all material respects, the financial position, net cost, and changes in net position, in conformity with U.S. generally accepted accounting principles and the presentation requirements set forth in the Treasury Financial Manual (TFM) Chapter 4700, and issue our report thereon.

In addition, we will also audit NRC's FY 2016 Summary of Performance and Financial Information to ensure it is consistent with the NRC's FY 2016 Performance and Accountability Report.

Auditor Responsibilities

Our audit will be conducted in accordance with auditing standards generally accepted in the U.S. and the standards applicable for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 comply with the requirements of Office of Management and Budget (OMB) Bulletin 15-02, *Audit Requirements for Federal Financial Statements*.

We will issue an Independent Auditors' Report (audit report) that will include a discussion of several aspects of our engagement, including our opinion about NRC's financial statements. This audit report will also document our responsibilities with respect to the RSI and other information included with the financial statements, as discussed above, and our conclusions based on the work performed. Our audit report will be addressed to the Inspector General and the Chairman of NRC. 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's management and the Office of the Inspector General (OIG). 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 control over financial reporting, the objective of which is to express an opinion on the effectiveness of NRC management's internal control over financial reporting 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 audit report will include this audit opinion.

The audit report will also include a section (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 or footnotes as required by *Government Auditing Standards*. In addition, the audit report will also include a section 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 section is solely to describe the scope of testing of compliance, and the result of that testing, and not to provide an opinion on the compliance, and that this section is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering compliance. We will also state that this communication is not suitable for any other purpose.

In addition, we will express an opinion on NRC's FY 2016 Closing Package Financial Statements and an opinion related to NRC's FY 2016 Summary of Performance and Financial Information.

Management Responsibilities

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

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 (6) 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 financial 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. Management is responsible for 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 the agency 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.

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 the 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

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informing CLA of knowledge of any allegations of fraud or suspected fraud affecting NRC received in communications from employees, former employees, the OIG, the U.S. 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, contracts, agreements, and grants, 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 the 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 Closing Package Financial Statements and Summary of Performance and Financial Information is complete, accurate, and timely, in accordance with reporting obligations to the U.S. Department of the Treasury, as appropriate. Management will be required to acknowledge in a separate representation letters that management has reviewed and approved the Closing Package Financial Statements and related notes and Summary of Performance and Financial Information prior to their issuance and has accepted responsibility for them.

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, regulations, contracts, or grants 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 because 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 Auditing Standards*. In addition, an audit is not designed to detect immaterial misstatements, or violations of laws, regulations, contracts or grant agreements 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, regulations, contracts or grant agreements that come to our attention,

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unless clearly inconsequential. Our responsibility as auditors 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 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, evaluating the design and operating effectiveness of internal control based on the assessed risk, consideration of the NRC's process for evaluating and reporting on internal control, including internal control under FMFIA 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 effect on determination of material amounts in the financial statements and footnotes. We will not evaluate all internal controls relevant to operating objectives broadly defined by FMFIA, 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 internal control related matters that are required to be communicated under U.S. generally accepted auditing standards and *Government Auditing Standards*.

For those internal control matters not considered to be significant deficiencies, we will also provide a separate letter to management describing those other internal control matters not included in the audit report.

Audit Procedure - 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, regulations, contracts, and grant agreements, as applicable. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

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We will also perform tests on NRC's compliance 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, noncompliance with which may have a direct effect on the determination of material amounts in the financial statements and footnotes. 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. We will work with agency staff to obtain information needed for the completion of the audit and to arrive at mutually acceptable time frames for the delivery of requested data.

The audit documentation (workpapers) for this engagement is the property of CLA and constitutes confidential information. As required by our contract, we may provide certain (or all) audit documentation to the OIG for contract oversight and audit quality review purposes as well as to facilitate their agency oversight responsibilities. We may also be requested to make certain audit documentation available to GAO for purposes of their audit of the consolidated financial statements of the U.S. Government, a quality review of the audit, to resolve audit findings, or to carry out their oversight responsibilities.

The audit documentation for this engagement will be retained for a minimum of 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 2016 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.

Roger Von Elm is responsible for supervising the engagement and signing the reports or authorizing another individual to sign them. We commenced our audit on March 1, 2016. The overall timing of our audit is expected to be as follows:

| Task Description | Milestones |
|---|---|
| Entrance Conference | April 7, 2016 |
| Last Day of Field Work | November 8, 2016 |
| Delivery of final FY 2016 audit report (opinion on financial statements, opinion on internal controls over financial reporting, and report on compliance with laws and regulations) | November 10, 2016 |
| Delivery of final FY 2016 audit report on the Closing Package Financial Statements | November 16, 2016 |
| Delivery of final FY 2016 management letter | January 10, 2017 |
| Delivery of final audit report on the FY 2016 Summary of Performance and Financial Information | To be determined February 10, 2017 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 2013 peer review report accompanies this letter (*Exhibits*).

Use of financial statements

If the OIG or the NRC 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 the Performance and Accountability Report, should be done only with our prior approval of the document. The OIG and the agency, as applicable, are 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.

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Subcontractors

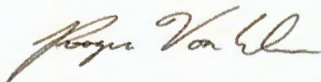
CLA may, at times, use subcontractors to perform services under this contract, and they may have access to NRC information and records. Any such subcontractors will be subject to the same restrictions on the use of such information and records as apply to CLA under this agreement. We will be as responsible 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.

We request that Ms. Wylie and Mr. Bell acknowledge, via direct email to christina.beck@CLAconnect.com, their understanding of and agreement with the arrangements for our audit of the NRC's financial statements including the terms of our engagement and our respective responsibilities. Should this Engagement Letter not represent your understanding of the nature and extent of this engagement, please advise Roger Von Elm at 571-227-9661 or at roger.vonelm@CLAconnect.com.

Sincerely,

CliftonLarsonAllen LLP



Roger Von Elm, CPA
Principal
571-227-9661
roger.vonelm@claconnect.com

Enclosure

cc: Mary Meier, COR
Carl Fredericks, Chief, Financial Reporting and Analysis Branch



System Review Report

To the Principals of CliftonLarsonAllen LLP
and the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of CliftonLarsonAllen LLP (the firm) applicable to non-SEC issuers in effect for the year ended July 31, 2013. 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. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. 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.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards*, audits of employee benefit plans, audits performed under FDICIA, and examinations of service organizations [Service Organizations Control (SOC) 1 and 2 engagements]. In our opinion, the system of quality control for the accounting and auditing practice of CliftonLarsonAllen LLP applicable to non-SEC issuers in effect for the year ended July 31, 2013, 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*. CliftonLarsonAllen LLP has received a peer review rating of *pass*.

Cherry Bekaert LLP

Cherry Bekaert LLP
November 12, 2013



American Institute of CPAs
220 Leigh Farm Road
Durham, NC 27707-8110

December 12, 2013
Gordon A Viere, CPA
CliftonLarsonAllen LLP
220 S 6th St Ste 300
Minneapolis, MN 55402

Dear Mr. Viere:

It is my pleasure to notify you that on December 12, 2013 the National Peer Review Committee accepted the report on the most recent system peer review of your firm. The due date for your next review is January 31, 2017. This is the date by which all review documents should be completed and submitted to the administering entity. If your due date falls between January and April, you can arrange to have your review a few months earlier to avoid having a review during tax season.

As you know, the report had a peer review rating of pass. The Committee asked me to convey its congratulations to the firm.

Sincerely,

A handwritten signature in black ink that reads "Betty Jo Charles". The signature is written in a cursive, flowing style.

Betty Jo Charles
Chair, National Peer Review Committee
nprc@aicpa.org 919 402-4502
cc: Catherine Marie Schweigel
Samuel Edward Johnson
Firm Number: 10012475 Review Number 348767