



CHAIRMAN

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

December 22, 1989

The Honorable Thomas S. Foley  
Speaker of the United States  
House of Representatives  
Washington, D. C. 20515

Dear Mr. Speaker:

The Nuclear Regulatory Commission (NRC) evaluated its system of internal accounting and administrative control in effect during FY 1989 as required by the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and OMB Circular A-123, "Internal Control Systems." The evaluation was conducted in accordance with "Guidelines for the Evaluation and Improvement of and Reporting on Internal Control Systems in the Federal Government" issued by the Director of the Office of Management and Budget, in consultation with the Comptroller General. The results indicate that NRC's internal control and financial management systems, taken as a whole, provide reasonable assurance that the objectives of the FMFIA have been achieved.

In 1989, program staff performed 16 detailed internal control reviews, with all the corrective actions tracked centrally. Special emphasis was placed on technical program areas, including region-based inspections, review of reactor applications, safe-guards licensing and inspection, regulation of the transport of nuclear materials, severe accident policy implementation, and high-level waste research. Detailed reviews also were conducted in administrative and support areas such as information resources management, the small and disadvantaged business program, and the headquarters consolidation program. Also, we are evaluating and enhancing agency-wide quality assurance measures in major program mission areas which will assist in strengthening internal controls throughout NRC.

In 1988, a more sophisticated tracking system was implemented to centrally track material weaknesses, nonconformances, and corrective actions. The tracking system was significantly modified in 1989 to provide improved planning, control and monitoring of internal control reviews and corrective actions, including alternative reviews such as Inspector General and General Accounting Office audits.

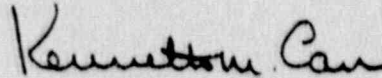
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Our report contains two enclosures: a statistical summary of performance under the FMFIA (Enclosure A) and a description of the FMFIA review process and our internal control tracking system (Enclosure B). Our progress in strengthening internal controls and an agency-level commitment to this process will continue in the future.

Sincerely,

  
Kenneth M. Carr

Enclosures:

- A. Statistical summary
- B. Review Process

cc w/enclosures:

The Honorable Richard G. Darman  
Director, Office of Management  
and Budget

STATISTICAL SUMMARY OF PERFORMANCE

Section 2. Internal Control Systems

Overall compliance        X   Yes             No

Year achieved: NRC has been in compliance since the enactment of FMFIA.

Number of Material Weaknesses

<u>Period Reported</u>	<u>Reported</u>	<u>Corrected</u>	<u>Pending</u>
Prior years	0	0	0
1987 report	1	0	0
1988 report	0	1	0
1989 report	0	0	0
Totals:	<u>  1  </u>	<u>  1  </u>	<u>  0  </u>

Pending Material Weaknesses

None

Section 4. Financial Management SystemsOverall compliance        X   Yes             No

Year achieved: NRC has been in compliance since the enactment of FMFIA.

Number of Section 4 Systems in Operation

<u>Type of System</u>	<u>1988</u>	<u>1989</u>
Core Financial System	2	1*
Subsidiary systems:		
Budget planning/formulation	1	1
Payroll/personnel	1	1
Purchasing/grants		
Credit Management**	1	1
Cash Management		
Property/inventory	1	1
Travel/small purchases		
Other:		
Budget execution	1	0*
Manpower accounting	1	1
Technical assistance costs and grants	1	1
License fee management system**	1	1
Totals:	<u>10</u>	<u>8</u>

\* In 1989, the functions of one core financial management system and the budget execution system have been incorporated into the agency's single core financial management system.

\*\* In 1990, the credit management system will be incorporated in the license fee management system (see chart on p. 4).

There is no intention to incorporate payroll into the core financial system. The remaining systems are small and play a relatively insignificant role in providing data to our fully integrated financial management system (one of the few accounting systems that has fully implemented the Federal Government standard general ledger).

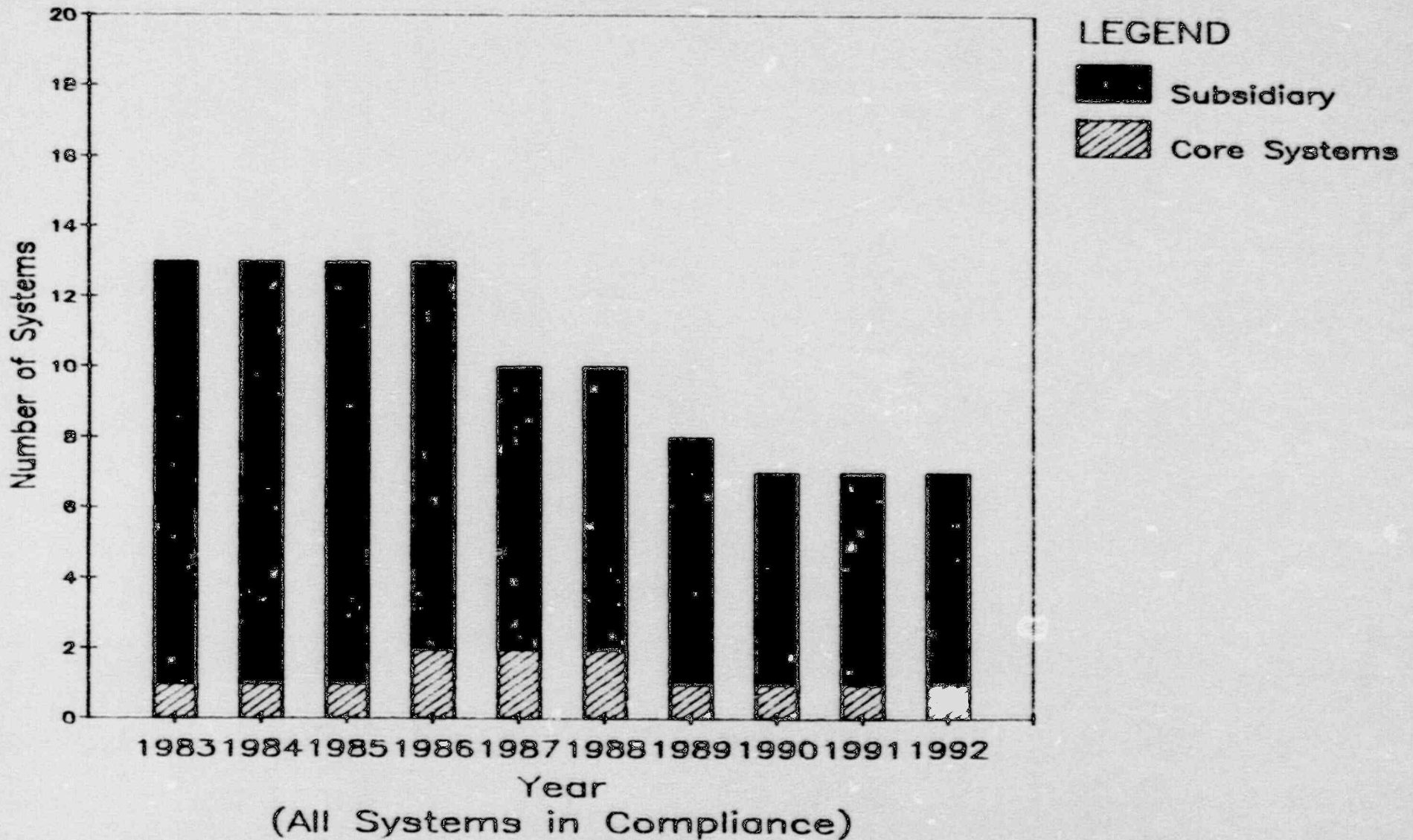
Number of Material Non-conformances

<u>Period Reported</u>	<u>Reported</u>	<u>Corrected</u>	<u>Pending</u>
Prior years	0	0	0
1987 Report	0	0	0
1988 Report	0	0	0
1989 Report	0	0	0
Total	<u>0</u>	<u>0</u>	<u>0</u>

Pending Non-conformances

None

# Financial Systems Consolidation and Compliance 1983 - 1992



REVIEW PROCESSDescription of Agency Section 2 Review Process

The internal control process is described in NRC Manual Chapter 0801, "Internal Controls," which sets forth the manner in which NRC is to implement the requirements of the Federal Managers' Financial Integrity Act of 1982" (FMFIA). An Internal Control Committee (ICC), composed of high-level managers from the major components of the agency, sets the policy for evaluating internal controls and reviews major actions. The Chairman of the ICC, who is also NRC's Deputy Controller, aided by a senior staff member, organizes and monitors the internal control program and prepares the report to the President and the Congress.

NRC structures its internal control program around a management control plan (MCP). The MCP is based on the programs and program elements in NRC's agency-wide Five-Year Plan. Internal control reviews are scheduled based on risk assessments of these programs and program elements, with the most vulnerable areas being reviewed first. The 16 internal control reviews performed in 1989 cover a cross-section of NRC's program mission areas. In 1989, detailed internal control reviews were performed in all program mission areas except Nuclear Waste Regulation. Detailed reviews were conducted in that mission area in 1988.

Programs selected for review are grouped according to like characteristics, and review teams are formed from these groups. Each program organization is represented on the review team. The advantage of this approach is to bring reviewers with similar professional backgrounds together to work on familiar subjects. Training on the internal control review process is provided to the team members and their program managers before initiating the reviews.

Reviews are conducted on a staggered schedule to permit a level workload throughout the year, making it possible for the team members to work on several reviews. The staggered schedule also permits any problems that might arise with the reviews to be resolved with little adverse effect on the schedule for preparing the year-end report.

1989 Statistical Data for Section 2 Review

Assessable Units	89
Vulnerability Assessments	
Planned	0*
Conducted	0
Internal Control Reviews	
Planned	16
Conducted	16
Alternative Reviews	
Planned	0
Conducted	0
Conducted by Inspector General/ Government Accounting Office	13

\*Vulnerability assessments of the agency's 89 programs were conducted in 1987.

### Description of the Section 4 Review Process

NRC Manual Chapter 1103, "Financial Management Systems," addresses the agency's requirement under Section 4 of the FMFIA and OMB Circular A-127 to submit an annual report to the President and Congress regarding the agency's accounting system. The ICC and the Chairman, ICC, have the same responsibilities with respect to the Section 4 review process as they have in the Section 2 review process described earlier.

Each year program managers are asked to perform reviews of their financial systems. In 1989 limited reviews were conducted in accordance with OMB's "Guidelines for Evaluating Financial Management/Accounting Systems," May 1985.

### 1989 Statistical Data for Section 4 Review Process

Financial Management Systems	8
Annual Reviews Performed	6*
Detailed Cyclical Reviews Performed	0**

Principal Findings: No significant deficiencies were identified.

\* The Inspector General is currently conducting an audit which will encompass the remaining systems.

\*\* Detailed cyclical reviews of all systems not reviewed by the Inspector General are planned for 1990.

### Internal Control Tracking System

In 1988 a more sophisticated tracking system was implemented to centrally track material weaknesses, nonconformances, and corrective actions. The tracking system was substantially modified in 1989 to (1) provide improved controls over corrective actions and (2) include additional information such as internal control reviews completed and in progress, including alternative reviews by the Inspector General, General Accounting Office, and others.

Program managers are asked to provide periodic status reports on corrective actions that have not been implemented, including the estimated dates for completion. Corrective actions are tracked until the program manager advises the Chairman, ICC, that the items have been addressed and describes the actions that were taken. Status reports are reviewed by the program manager's office director before they are submitted to the ICC Chairman. Inspector General audit followup reports are reviewed and monitored by the ICC staff to identify any areas where the Inspector General believes the corrective action taken is not responsive to the internal control deficiency.





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President of the Senate  
Washington, D. C. 20510

Dear Mr. President:

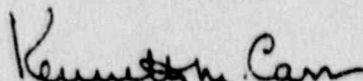
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Director, Office of Management  
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STATISTICAL SUMMARY OF PERFORMANCESection 2. Internal Control SystemsOverall compliance       X   Yes            No

Year achieved: NRC has been in compliance since the enactment of FMFIA.

Number of Material Weaknesses

<u>Period Reported</u>	<u>Reported</u>	<u>Corrected</u>	<u>Pending</u>
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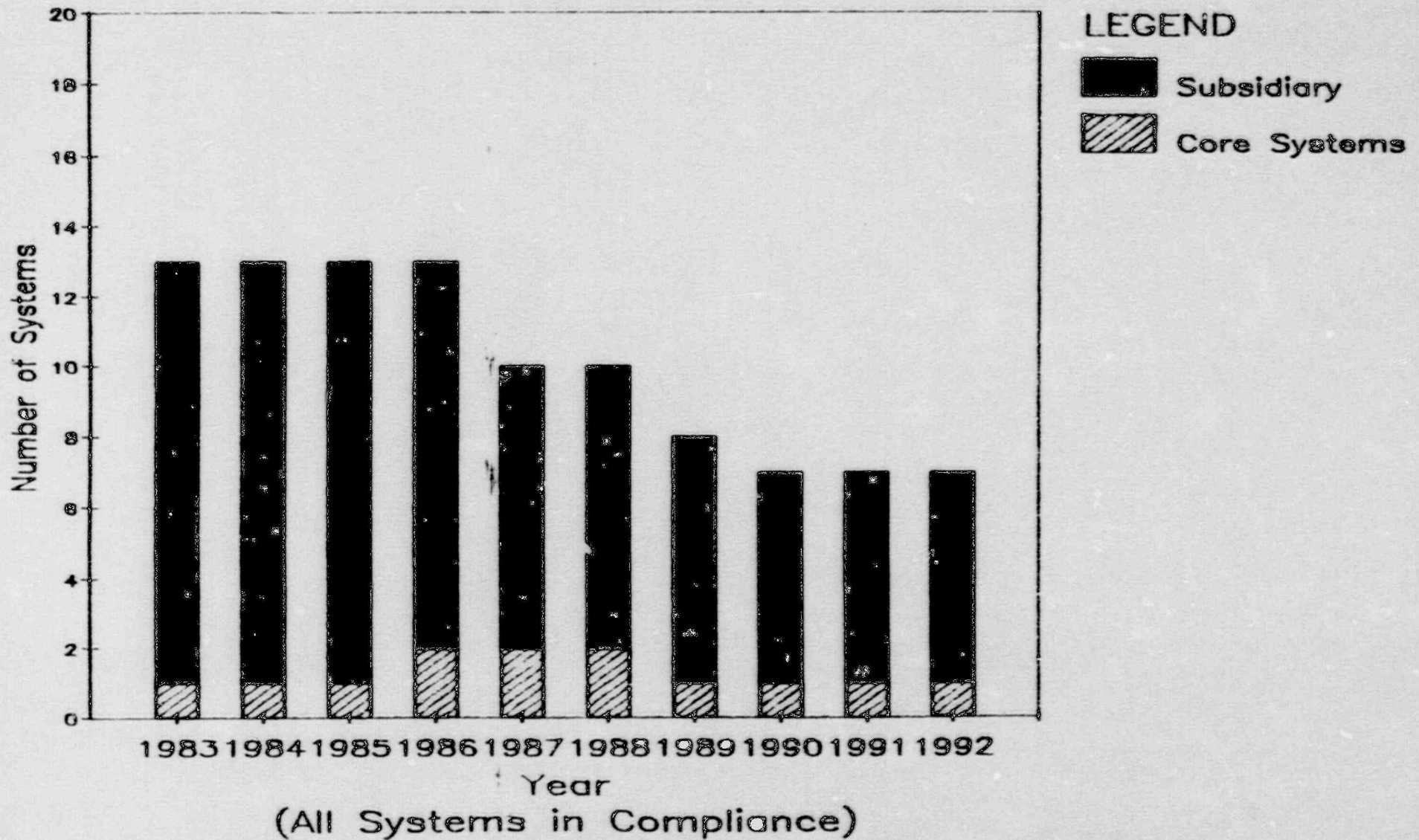
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