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OFFICE OF THE INSPECTOR GENERAL

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US NUCLEAR

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REGULATORY COMMISSION

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REVIEW OF NRC'S IMPLEMENTATION  
OF THE FMFIA FOR 1993

OIG/94A-06 December 20, 1993

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# AUDIT REPORT

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

December 20, 1993

OFFICE OF THE  
INSPECTOR GENERAL

MEMORANDUM FOR: The Chairman  
Commissioner Rogers  
Commissioner Remick  
Commissioner de Planque

FROM:

*David C. Williams*  
David C. Williams  
Inspector General

SUBJECT:

REVIEW OF NRC'S IMPLEMENTATION OF THE  
FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT  
FOR 1993

The Federal Managers' Financial Integrity Act (FMFIA) requires Federal managers to establish a continuous process for evaluating, improving and reporting on the internal control and accounting systems for which they are responsible. The FMFIA specifies that by December 31 of each year, the head of each executive agency subject to the Act shall submit a report to the President and Congress stating whether the evaluation of internal controls was conducted in accordance with the Internal Control Guidelines issued by the Office of Management and Budget (OMB) and whether the agency's system of internal accounting and administrative controls complies with the standards established by the Comptroller General.

Both OMB Circular A-123, Revised, "Internal Control Systems," and Circular A-127, "Financial Management Systems," provide that an agency's Inspector General or senior audit official may advise the head of the agency on whether the agency's internal control and accounting systems evaluation process was conducted in accordance with OMB guidelines. Accordingly, the Office of the Inspector General (OIG) has performed a review of the process used by the NRC to evaluate its internal control and accounting systems. This review provides the OIG with a basis for advising the Chairman whether the agency has conducted the internal control evaluation process in a reasonable and prudent manner. The results of our review are contained in the attached report.

## Conclusion

NRC has complied with the requirements of the FMFIA during Fiscal Year 1993. We found that improvements have been made in the agency's management control program, including the establishment of an Internal Control Committee quality assurance program.

This report identifies management control deficiencies in the areas of computer security, management of U.S. Department of Energy (DOE) projects, interagency responsibilities over reimbursement to DOE, and timely billing of fees which we believe are material weaknesses as defined by OMB Circular A-123. In accordance with FMFIA requirements, these material weaknesses should be included in NRC's 1993 report to the President and Congress.

## Attachment:

As stated

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## REPORT SYNOPSIS

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Continuing disclosures of Federal waste, loss, unauthorized use, and misappropriation of funds or assets associated with weak internal controls and accounting systems resulted in the passage of the Federal Managers' Financial Integrity Act (FMFIA) in September 1982. The FMFIA requires Federal managers to establish a continuous process for evaluating, improving, and reporting on the internal controls and accounting systems for which they are responsible.

Our review was conducted to determine whether NRC has complied with the requirements of the FMFIA, and included discussions with cognizant NRC Headquarters personnel and assessments of applicable documentation.

We determined that NRC complied with the requirements of the FMFIA during Fiscal Year 1993, and found that improvements have been made in the agency's management control program, including the establishment of an Internal Control Committee quality assurance program. We also identified four material management control weaknesses which should be included in NRC's 1993 FMFIA report to the President and Congress.

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## INTRODUCTION

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The Federal Managers' Financial Integrity Act (FMFIA) was enacted on September 8, 1982, in response to continuing disclosures of waste, loss, unauthorized use and misappropriation of funds or assets associated with weak internal controls and accounting systems. Congress felt such abuses hampered the effectiveness and accountability of the Federal Government and eroded the public's confidence. The FMFIA requires Federal managers to establish a continuous process for evaluating, improving, and reporting on the internal controls and accounting systems for which they are responsible.

Office of Management and Budget (OMB) Circular A-123, Revised, "Internal Control Systems," and Circular A-127, "Financial Management Systems," provide that an agency's Inspector General or senior audit official may advise the head of the agency on whether the agency's internal controls and financial management systems evaluation processes were conducted in accordance with OMB guidelines. Accordingly, the Nuclear Regulatory Commission's (NRC) Office of the Inspector General (OIG) annually performs a limited review of the process used by the NRC to evaluate its internal controls and financial management systems. This review provides the OIG with a basis for advising the Chairman whether the agency has conducted the internal controls and financial management systems evaluation processes in a reasonable and prudent manner.

The term "internal controls," as envisioned by the FMFIA, is synonymous with "management controls" and encompasses program and administrative areas, as well as the accounting and financial management areas. OMB defined internal controls in Circular A-123 as the plan of organization and all of the methods and measures adopted within the agency to safeguard its resources; assure the accuracy and reliability of its information; assure adherence to applicable laws, regulations and policies; and promote operational economy and efficiency. Internal controls are inherent in the management function and are integral to all systems used by management to achieve the objectives of programs or functions.

See Appendix I for the objectives, scope, and methodology of our review.



## BACKGROUND

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The FMFIA specifies that by December 31, 1983, and by each succeeding December 31, the head of each executive agency subject to the Act shall submit a report to the President and Congress stating whether the evaluation of internal controls was conducted in accordance with the Internal Control Guidelines issued by OMB and whether the agency's system of internal accounting and administrative controls complies with the standards established by the Comptroller General.

The Executive Director for Operations (EDO), who has also been designated the agency's Chief Financial Officer (CFO), is responsible for establishing and maintaining a system of internal controls within NRC. In addition, the CFO Act of 1990 requires an independent assessment of the agency's systems of internal controls be performed. The results of this independent assessment must be coordinated with the results of the FMFIA assessment.

To ensure the agency is implementing the FMFIA as required, NRC established the Internal Control Committee (ICC) in May 1982 in response to OMB Circular A-123. The ICC is chaired by the Deputy Controller and is composed of representatives from the NRC offices. The ICC is responsible for recommending guidelines and procedures to the EDO for the agency's compliance with the FMFIA and OMB Circular A-123. The ICC is also responsible for preparing the agency's annual report from the Chairman to the President and Congress in response to the FMFIA.

## FINDINGS

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We found that improvements have been made in NRC's management control program during the past year. For example, corrective action was taken by the ICC on three recommendations dealing with quality assurance enhancements that were made in our report entitled "Review of NRC's Implementation of the Federal Managers' Financial Integrity Act for 1992," dated December 23, 1992.

Furthermore, we understand that the EDO is currently reviewing NRC's management control program in an effort to identify additional enhancements. We support the intent of this effort.

We noted four conditions that have been identified by the agency or OIG that we believe should be reported to the President and Congress as material management control weaknesses. Details of the weaknesses are noted below.

#### **FOUR MATERIAL WEAKNESSES SHOULD BE INCLUDED IN NRC'S 1993 FMFIA REPORT**

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In our opinion, the following management control deficiencies "significantly weaken safeguards against waste, loss, unauthorized use or misappropriation of funds, property, or other assets," or "violate statutory or regulatory requirements," as defined in OMB Circular A-123 and, therefore, constitute material weaknesses. Such material weaknesses are required by the FMFIA to be identified in the agency's annual report to the President and Congress.

Material weaknesses 1 and 2 were similarly reported in our "Review of NRC's Implementation of the Federal Managers' Financial Integrity Act for 1992." Material weaknesses 3 and 4 were identified in our report on the "Results of the Audit of U.S. NRC's Fiscal Year 1992 Financial Statements," dated June 29, 1993.

1. **Computer Security** - As a result of a computer security review performed in 1991 by the Los Alamos National Laboratory for NRC's Office of Information Resources Management (IRM), the agency's computer security program was determined to be in noncompliance with the minimum security requirements of OMB Circular A-130, "Management of Federal Information Resources."

IRM developed an action plan to remedy these weaknesses. Although the original estimated time of completion to implement corrective actions was September 1995, IRM has accelerated this plan and now expects to fully implement these corrective actions by December 31, 1993.



2. **Management of U.S. Department of Energy (DOE) Projects** - A 1991 internal NRC review of DOE agreements identified project management practices that required improvements to adequately protect the agency's business interests. Deficiencies identified during this internal review were attributed to the lack of an agency-wide standard for contract management.

An agency-wide standard, Management Directive 11.7 entitled "NRC Procedures for Placement and Monitoring of Work with the Department of Energy," is being developed to establish procedures for negotiating, managing and administering agreements with DOE labs. As of the conclusion of our review, the draft was scheduled to be sent to DOE by December 31, 1993, for comment. NRC expects to finalize it by April 1, 1994.

3. **Interagency Responsibilities Over Reimbursement to DOE** - Approximately twenty-two percent of the agency's total costs for Fiscal Year (FY) 1992 were incurred by DOE or its contractors under a Memorandum of Understanding between NRC and DOE. NRC is responsible for maintaining a system of internal controls to assure the agency is compliant with accounting and program specific regulations. For the controls NRC can strengthen internally, such as review and approval of DOE payment vouchers which was reported in the 1992 FMFIA report as a material control weakness, NRC has taken corrective action. However, because of a lack of audit coverage at the national labs by the Department of Energy's OIG, the DOE IG was unable to provide NRC assurance that the monies spent by DOE and DOE Management and Operating Contractors on NRC's behalf meet applicable laws and regulations. The DOE IG has developed an audit strategy to address this problem.
4. **Timely Billing of Fees** - NRC full cost recovery fees for all routine and non-routine inspections are assessed on a per inspection basis, but are billed to licensees on a quarterly basis. Consequently, NRC is in violation of Treasury Financial Manual Chapter 8000, Section 8025.10, "Timeliness of Billings and Collections," which states that agencies responsible for the preparation of invoices to individuals and organizations outside the U.S. Government will adhere to the following:

- Ensure that an invoice, for either an actual or estimated amount, is prepared and mailed within five business days after the day that the goods have been shipped or released, services have been rendered, or payment is otherwise due. Agencies may prepare and mail an invoice later than the five day time frame if they can demonstrate that it is cost effective to do so.

We have advised agency management that it should seek relief from the five day time frame if NRC can show that meeting the requirement is not cost effective.

NRC has indicated that corrective actions have been completed for two other material weaknesses, "Payments to Department of Energy (DOE) Labs," and "General Ledger," that were reported in our "Review of NRC's Implementation of the Federal Managers' Financial Integrity Act for 1992." We will assess the adequacy of these corrective actions during our audit of the agency's FY 1993 financial statements.

## CONCLUSION

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NRC has complied with the requirements of the FMFIA during FY 1993. We found that improvements have been made in the agency's management control program, including the establishment of an ICC quality assurance program.

This report identifies management control deficiencies in the areas of computer security, management of DOE projects, interagency responsibilities over reimbursement to DOE, and timely billing of fees which we believe are material weaknesses as defined by OMB Circular A-123. In accordance with FMFIA requirements, these material weaknesses should be included in NRC's 1993 report to the President and Congress.

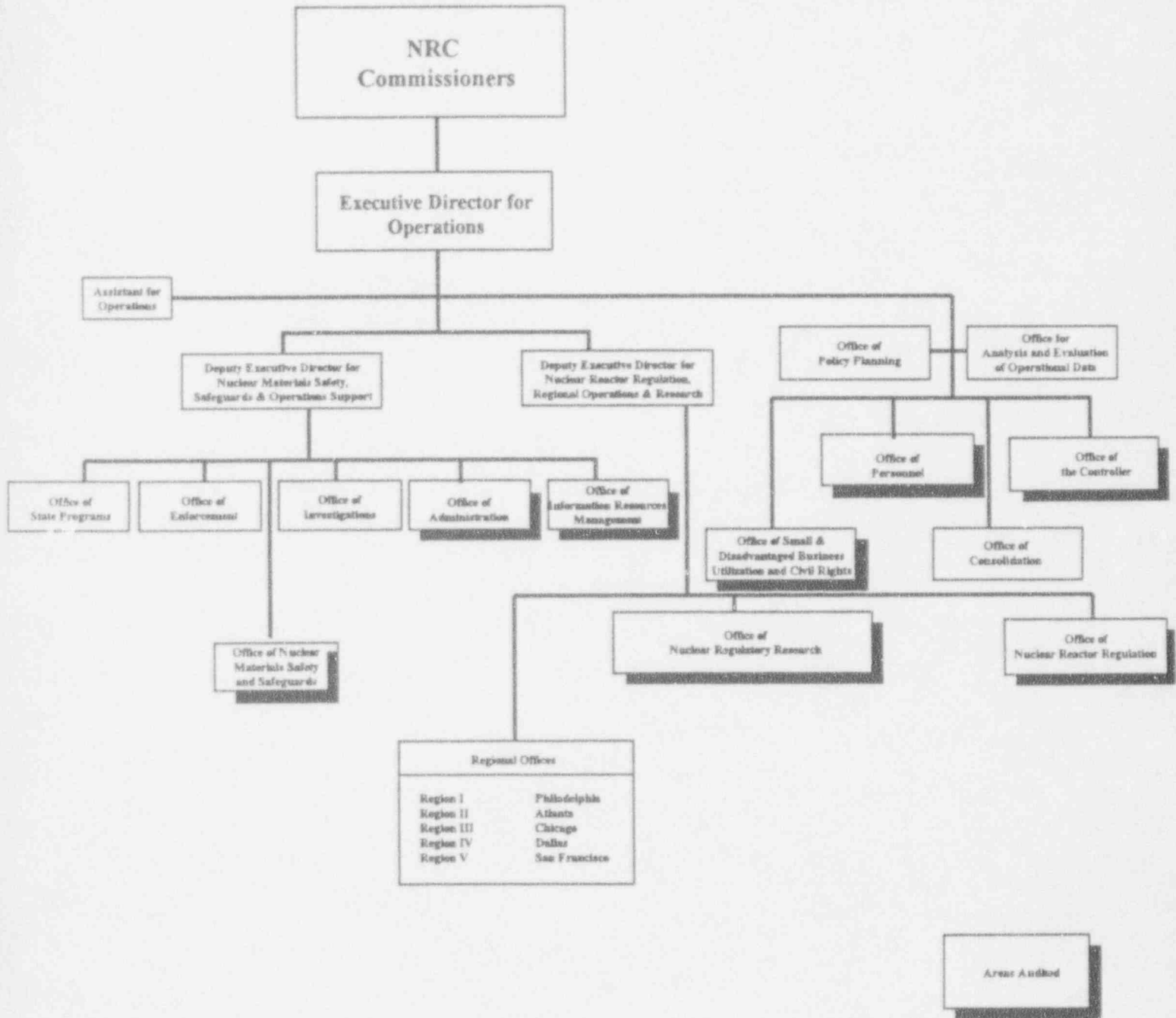
## OBJECTIVES, SCOPE, AND METHODOLOGY

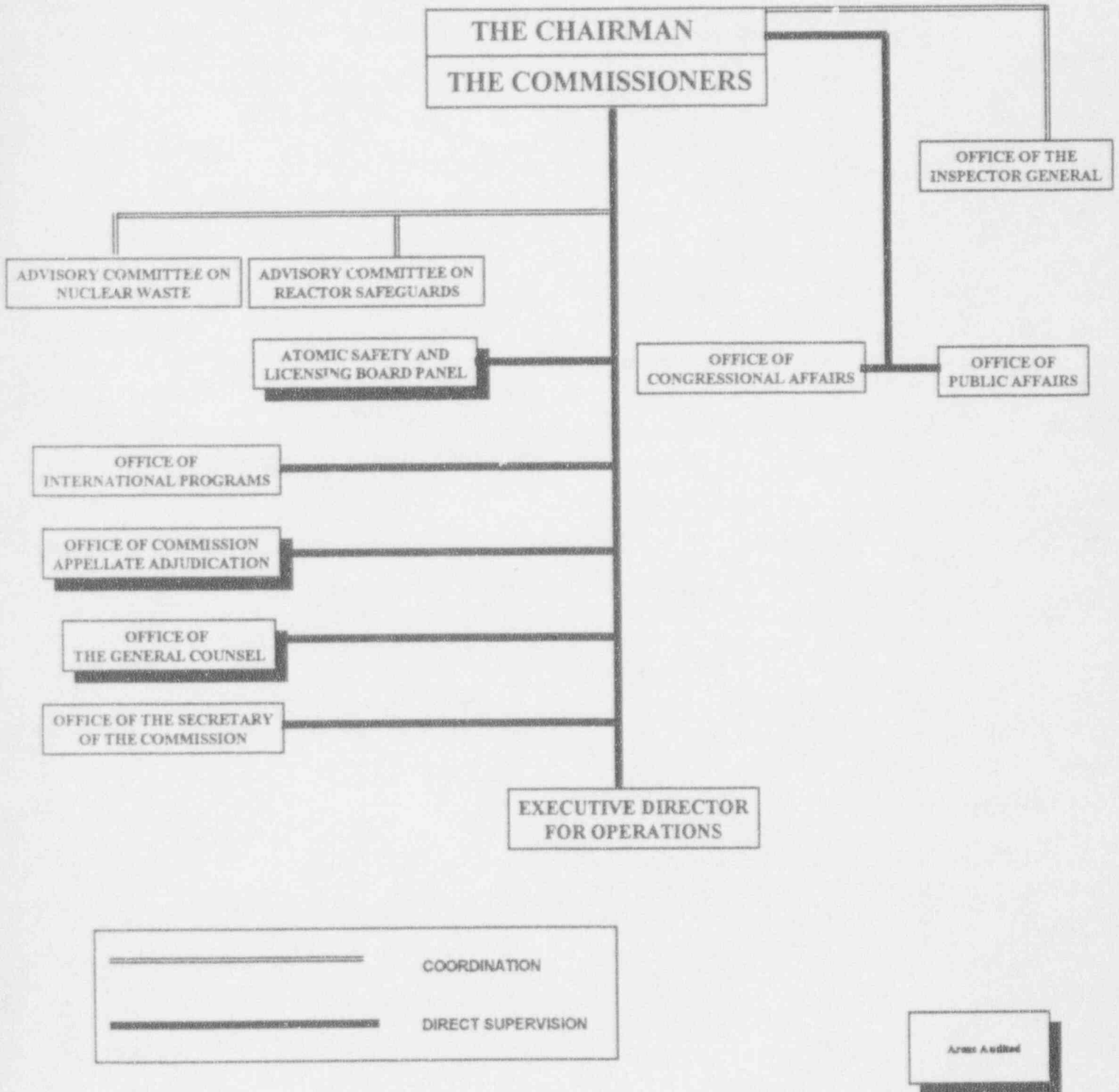
The objective of our review was to determine whether NRC has complied with the provisions of the FMFIA, which requires Federal managers to establish a continuous process for evaluating, improving, and reporting on the internal control and accounting systems for which they are responsible. We conducted our review at NRC Headquarters from October to November 1993 and included an assessment of:

- o The documentation supporting the agency's management control evaluation process including the management control plans and risk assessments.
- o The management control and financial management system reviews conducted by NRC for FY 1993.
- o The system used to track the status of corrective actions resulting from the management control and financial management system reviews.
- o The training programs conducted for those individuals responsible for performing the management control and financial management system reviews.

Our review was conducted in accordance with generally accepted Government auditing standards and included such tests of the data and records and other auditing procedures as we considered necessary.

**U.S. NRC FUNCTIONAL ORGANIZATIONAL CHART**





## **MAJOR CONTRIBUTORS TO THIS REPORT**

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