



UNITED STATES
NUCLEAR REGULATORY COMMISSION

WASHINGTON, D.C. 20555

December 30, 1992

The Honorable J. Danforth Quayle
President of the Senate
Washington, D.C. 20510

Dear Mr. President:

As required by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), the Nuclear Regulatory Commission evaluated its management controls and financial management systems for the fiscal year ending September 30, 1992. The Commission believes this evaluation provides reasonable assurance that the NRC, as a whole, complies with both Sections 2 and 4 of the FMFIA.

The NRC's evaluation of management controls was performed in accordance with Office of Management and Budget (OMB) "Guidelines for the Evaluation and Improvement of and Reporting on Internal Control Systems in the Federal Government," dated December 1982, as required by OMB Circular A-123, "Internal Control Systems." The NRC performed 16 management control reviews in FY 1992. Licensing and inspection programs reviewed included regulatory improvements, evaluation of licensee performance and maintenance, project management, and the Technical Training Center. Research programs reviewed included reactor vessel and piping integrity, human reliability, and nuclear materials. Administrative and other support areas reviewed included the licensing support system, the Advisory Committee on Nuclear Waste, computer security, travel, accounts receivable, and accounts payable.

The FY 1992 evaluation disclosed four material weaknesses. The weaknesses identified this year are in the management of Department of Energy (DOE) laboratory agreements, approval of payments to DOE under these agreements, the general ledger, and computer security. Weaknesses associated with the management of DOE laboratory agreements and the general ledger were identified as significant problem areas in our FY 1991 FMFIA report. We reexamined these areas as part of our FY 1992 evaluation and determined that they should be reported as material weaknesses in this year's report.

The four material weaknesses, when considered together, are not sufficiently serious to prevent overall assurance that the NRC is in compliance with the FMFIA. As shown in Enclosures C and E, significant progress has been made to effect improvements in the management of DOE laboratory agreements and to correct the weaknesses in the process for approving payments to DOE. On

October 1, 1992, the NRC's primary accounting system was replaced with the Federal Financial System through a cross-servicing arrangement with the U.S. Department of Treasury. This new accounting system will play a major role in alleviating the management control deficiencies in the general ledger, and actions are underway to resolve the weaknesses in computer security.

The NRC has one primary system and two administrative systems that meet the OMB criteria for financial management systems. In FY 1992, the NRC performed limited reviews of all these systems. These reviews reflected weaknesses in the NRC's financial management systems that need to be corrected. With the exception of deficiencies in the general ledger, these weaknesses are not material. The NRC identified no material nonconformances during these reviews, but noted problems that will be substantially alleviated with the completion of planned improvements that are under way. Enclosure E includes a report on the progress we have made to correct deficiencies in our financial management systems and the actions that are needed to resolve the remaining weaknesses.

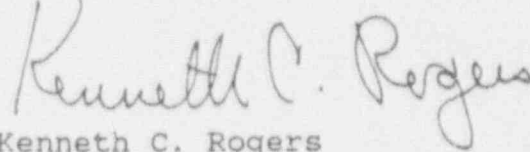
Our FY 1991 evaluation of the NRC's financial management systems identified weaknesses in license fee billing, debt collection, and invoice payment practices. We reexamined these areas in our FY 1992 evaluation of management controls and limited reviews of financial management systems to determine the effect that the identified weaknesses have on the NRC's overall compliance with Section 4 of the FMFIA. We determined that, in view of the corrective actions that have been taken, these weaknesses do not constitute material nonconformances and do not affect the NRC's overall compliance with Section 4 of the FMFIA. A discussion of the actions taken to correct the financial management weaknesses reported in the FY 1991 FMFIA report is included in Enclosure E.

In FY 1992, the NRC strengthened its management control process. We increased our emphasis on the identification and classification of management control weaknesses. Our Internal Control Committee took a more active role this year in evaluating senior managers' reasonable assurance determinations on management controls and in reviewing the management control reviews the staff conducted. The Committee developed examples of material weaknesses for managers to use in making their reasonable assurance determinations.

To emphasize the importance of timely and effective action to correct management control weaknesses, the NRC instituted a validation process to verify that managers' corrective actions resolve the weaknesses identified. We also are including the correction of material weaknesses as a performance measure in the NRC's annual financial statement.

The results of our continuing evaluation are provided in the enclosures.

Respectfully,

A handwritten signature in cursive script that reads "Kenneth C. Rogers". The signature is written in dark ink and is positioned above the typed name.

Kenneth C. Rogers
Acting Chairman

Enclosures:

- A. Statistical Summary of Performance
- B. Progress Report on High Risk Areas
- C. Section 2, Material Weaknesses - Schedule of Corrective Actions
- D. Section 4, Material Nonconformances - Schedule of Corrective Actions
- E. Actions Taken to Correct Weaknesses in the NRC's Financial Systems

STATISTICAL SUMMARY OF PERFORMANCE

Section 2, Internal Control

Number of Material Weaknesses

	Number reported for the first time	For that year, number that have been corrected	For that year, number still pending
Prior Years	1	1	0
1990 Report	0	0	0
1991 Report	0	0	0
1992 Report	4	0	4

Section 4, Financial Management Systems

Number of Material NonConformances

	Number reported for the first time	For that year, number that have been corrected	For that year, number still pending
Prior Years	0	0	0
1990 Report	0	0	0
1991 Report	0	0	0
1992 Report	0	0	0

ENCLOSURE B

PROGRESS REPORT ON HIGH RISK AREAS

Not Applicable. NRC has no designated high risk areas.

SECTION 2, MATERIAL WEAKNESS - SCHEDULE OF CORRECTIVE ACTIONS

Summary/Table of Contents

Title	Year first reported	Target date for correction in 1991 FMFIA Report	Current target date for correction	Page
Controls for Management of Department of Energy National Laboratory Agreements	1992	N/A	September 1993	2
Process for Approving Payments to the Department of Energy Laboratories	1992	N/A	December 1992	4
Controls in NRC's General Ledger	1992	N/A	September 1993	6
Compliance of Computer Security Program with OMB Circular A-130	1992	N/A	September 1995	8

Title and Description of Material Weakness

"Controls for Management of Department of Energy (DOE) National Laboratory Agreements"

During a 1991 review of the NRC's agreements with DOE laboratories, the NRC's Office of Administration staff identified contract management practices in the NRC program offices that required improvement to adequately protect the NRC's business interests. The NRC's project files did not reflect adequate analysis of proposed contractor costs or effective project monitoring. The reviewers found that the agency needs to institute better control over these projects to ensure that required goods and services are obtained at reasonable prices. Deficiencies identified during the review were attributed to the lack of an agency-wide standard for contract management.

Pace of Corrective Action

Year Identified: 1991 (The weakness was identified and reported in the 1991 FMFIA report, but was not determined to be a material weakness until 1992.)

Original Targeted Correction Date: October 1992

Correction Date in Last Year's Report: N/A

Current Correction Date: September 1993

Reason for Change in Dates: The scope of changes and required implementation were more extensive than envisioned.

Responsible Program Manager

Patricia Norry, Director
Office of Administration

Source of Discovery

NRC's Office of Administration management review of Department of Energy laboratory

- 3 -

agreements dated September 6, 1991

Appropriation/Account No.

31X0200

Major Milestones

	Original Plan	Revised Plan	Actual Date
(a) Completed Actions/Events			
(b) Planned Actions/Events (Less than 12 months)			
Issue interim agency-wide standards for contract management for DOE laboratory agreements for guidance and comment	N/A		12/03/92*
Issue final agency-wide standards for contract management of DOE laboratory agreements	10/01/92	09/30/93	
(c) Planned Actions/Events (More than 12 months)			
N/A			

*Completed in FY 1993 before the issuance of this FY 1992 FMFIA Report

Title and Description of Material Weakness

"Process for Approving Payments to the Department of Energy (DOE) Laboratories"

A significant number and amount of On-Line Payment and Collection System (OPAC) payments of DOE vouchers had not received postpayment review and approval by the NRC's Office of Research since about 1986. An internal quality control process is needed to ensure that DOE vouchers are reviewed and approved by the NRC's program offices to assure the reasonableness of the Department of Treasury's OPAC billings.

Pace of Corrective Action

Year Identified: 1992

Original Targeted Correction Date: September 1992

Correction Date in Last Year's Report: N/A

Current Correction Date: December 1992

Reason for Change in Dates: Additional time required to complete review of prior years

Responsible Program Managers

Eric Beckjord, Director, Office of Research

Ronald M. Scroggins, Deputy Chief Financial Officer/Controller

Source of Discovery

OIG Audit Report OIG/92A-08, "Improvements Needed in NRC's Process for Approving Payments to the Department of Energy," dated August 31, 1992

Appropriation/Account No.

31X0200

Major Milestones

	Original Plan	Revised Plan	Actual Date
(a) Completed Actions/Events			
Review and approve DOE vouchers on a timely basis	09/09/92		09/30/92
(b) Planned Actions/Events (Less than 12 months)			
Issue guidance to the Office of Research in the form of office letters to supplement existing agency regulations and clearly identify the responsibilities of project managers	07/08/92		10/05/92*
Institute procedures in the Offices of Research and the Controller for ensuring that DOE vouchers are promptly reviewed, approved, and returned to the Division of Accounting	09/09/92		11/04/92*
Issue interim agency-wide standards for contract management for DOE laboratory agreements for guidance and comment	N/A		12/03/92*
Complete review of prior years' vouchers	09/09/92	12/31/92	
(c) Planned Actions/Events (More than 12 months)			
N/A			

*Completed in FY 1993 before the issuance of this FY 1992 FMFIA Report

Title and Description of Material Weakness

"Controls in NRC's General Ledger"

The OIG discussed internal control deficiencies in its reports on the general ledger issued in November and December of 1992. In classifying the general ledger as a material weakness, the OIG noted that these deficiencies include NRC's failure to reconcile the general ledger with subsidiary ledgers, the failure to obtain approval from the originating branch before making adjustments to the general ledger, and incompatible financial systems.

Pace of Corrective Action

Year Identified: 1992

Original Targeted Correction Date: September 1993

Correction Date in Last Year's Report: N/A

Current Correction Date: N/A

Reason for Change in Dates: N/A

Responsible Program Manager

Ronald M. Scroggins, Deputy Chief Financial Officer/Controller

Source of Discovery

OIG Report, "Report on General Ledger Controls," dated November 27, 1992, and draft OIG Audit Report, "Review of NRC's Implementation of the Federal Managers' Financial Integrity Act for 1992," dated December 7, 1992

Appropriation/Account No.

31X0200

Major Milestones

	Original Plan	Revised Plan	Actual Date
(a) Completed Actions/Events			
(b) Planned Actions/Events (Less than 12 months)			
Review OIG reports on the general ledger and develop action plan to address the reports' findings and recommendations associated with the material weakness	03/31/93		
Review controls in the new accounting system implemented on October 1, 1992, to ensure that deficiencies identified in the old system have been resolved	09/30/93		
(c) Planned Actions/Events (More than 12 months)			

Title and Description of Material Weakness

"Compliance of Computer Security Program with OMB Circular A-130"

The NRC's computer security program has not met all the requirements of Office of Management and Budget (OMB) Circular No. A-130, "Management of Federal Information Resources."

Pace of Corrective Action

Year Identified: 1992

Original Targeted Correction Date: September 1995

Correction Date in Last Year's Report: N/A

Current Correction Date: N/A

Reason for Change in Dates: N/A

Responsible Program Manager

Gerald F. Cranford, Director
Office of Information Resources Management

Source of Discovery

Draft OIG Audit Report, OIG/92A-18, "Significant Weaknesses Hamper NRC's Computer Security Program," dated October 13, 1992

Appropriation/Account No.

31X0200

Major Milestones

	Original Plan	Revised Plan	Actual Date
(a) Completed Actions/Events			
N/A			
(b) Planned Actions/Events (Less than 12 months)			
Develop detailed action plan to correct weaknesses	01/31/93		
Develop standard procedures that include security requirements in the system lifecycle development process	02/28/93		
Develop methodology for certification and accreditation process	02/28/93		
Modify in-house software development guidance to reflect security requirements	04/15/93		
Issue contract to begin certification and accreditation	08/31/93		
(c) Planned Actions/Events (More than 12 months)			
Certification and accreditation of first major system	04/30/94		
Certification and accreditation of second major system	01/31/95		
Certification and accreditation of third major system	09/30/95		

ENCLOSURE D

SECTION 4, MATERIAL NONCONFORMANCE - SCHEDULE OF CORRECTIVE ACTIONS

Not Applicable

ENCLOSURE E

ACTIONS TAKEN TO CORRECT WEAKNESSES IN THE NRC'S FINANCIAL SYSTEMS

Integrated Financial Management Information System

In Fiscal Year (FY) 1992, the NRC's primary accounting system was the Integrated Financial Management Information System (IFMIS). On October 1, 1992, IFMIS was replaced with the Federal Financial System (FFS) which is provided through an interagency agreement with the Department of the Treasury. IFMIS had three components: budget execution, general ledger, and travel. The NRC identified weaknesses in two of these components, general ledger and travel.

General Ledger

In the FY 1991 limited A-127 review of the general ledger, the NRC identified nonconformance with the financial system functional standards in the following areas: lack of adequate interface between subsystems and the core financial accounting system, recording and reconciliation of cash, reconciliation of plant and equipment, and timely meeting of user reporting needs. IFMIS's replacement, the FFS, meets the core financial system functional standards.

IFMIS lacked an automated interface between subsystems and the core financial system. In order to mitigate system weaknesses, control processes were implemented to ensure data quality and the reconciliation of cash and other general ledger accounts. We believe our efforts to strengthen controls and our extensive oversight provides reasonable assurance that the objectives of the accounting system were accomplished.

Procedural changes were made in FY 1992 requiring the daily entry of summary cash receipt transactions after reconciling them to confirmed deposit tickets. The cash accounts have been reconciled for FY 1992. Owing to the lack of system audit trails and subsystem integration, the cash reconciliation was difficult and labor intensive.

The property and equipment accounts were identified in an FY 1987 management control review and in the FY 1991 limited A-127 review as not reconciled to the records maintained by the Division of Contracts and Property Management (DCPM). The property and equipment accounts have been adjusted to balance to the most recent detailed inventory report from DCPM's property system. A procedure is being reviewed for implementation to ensure the future integrity of recorded and reported balances.

Efforts are continuing to issue timely reports to users. The NRC has determined, under the current operating procedures, that providing system information to users by the ninth work day after the end of the month is acceptable.

IFMIS did not fully support the accounts payable function. During a review of NRC's invoice payment practices, the Inspector General found that the NRC did not consistently apply the Prompt Payment Act requirements. The payment process under IFMIS was manual. A number of procedural improvements were made to address processing deficiencies and inconsistent application of Prompt Payment Act requirements. During FY 1992, an improved data collection process was implemented to monitor compliance with the Prompt Payment Act and to promote efficient invoice processing. The changes previously discussed, the addition of an improved data collection process, and temporary summer personnel increased the timeliness of payments and reduced penalty payments.

Travel

The Federal Managers' Financial Integrity Act (FMFIA) report for FY 1991 identified as weaknesses the timeliness of reports, system reliability, system integration, usefulness of reports, input correction, and file maintenance. Additional resources allowing increased quality controls have improved the accuracy of the data in the system. System inefficiencies have been corrected with implementation of FFS in FY 1993. The overall results of the limited A-127 review for FY 1992 reveal that while the information in the travel system is accurate, extensive reconciliations are required to ensure that summary data are posted to the general ledger properly. Usefulness of the travel data is limited by the lack of ad hoc reporting.

While the travel and general ledger interface is very high risk and inefficiencies have been identified in the travel accounting system, management oversight provides reasonable assurance that the system contains accurate information and complies with the criteria for reasonable assurance. Implementation of FFS precludes the need for further corrective actions in the travel system.

Payroll System

The FY 1991 FMFIA report identified improvements needed to the payroll system in the areas of payroll and personnel system interface, manual accounting and reporting, and the document review and validation process. A limited A-127 review of the payroll management system completed in October 1992 indicates that the payroll and personnel system interface is being

accomplished through the use of a report that matches certain data elements in the payroll and personnel systems. These "match report" adjustments are now being reviewed quarterly or more frequently which provides reasonable assurance that differences between the two systems are identified promptly. In addition, the NRC will be entering into a cross-servicing agreement for an integrated payroll and personnel system that will be implemented in 1995. This system will eliminate the need to compare data in two independent systems.

Personal computer applications have been developed to accomplish the accounting and reporting requirements for the FFS. Other applications will be developed to reduce the amount of manual tracking, recording, and reconciliation currently being performed.

The document review and validation process is an ongoing effort that continues to be monitored as part of the routine payroll process. The need to institute additional controls to avoid errors is constantly being reviewed as new processes and requirements are implemented. A decision has been made to obtain cross-servicing for an integrated payroll and personnel system, and this should resolve any remaining concerns.

Although the interface with the IFMIS general ledger has a high risk, cash reconciliations and a Division of Accounting (DAF) contractor reconciliation to the general ledger help ensure reasonable assurance.

Accounts Receivable System

The FY 1991 FMFIA report identified NRC's practice of manual bookkeeping and collection of delinquent accounts as not being adequate to comply fully with the Debt Collection Act and OMB Circular A-129, "Managing Federal Credit Programs." Specifically, the report noted that NRC had not automated its system for collecting debts and did not routinely compute and apply interest, penalties, and other administrative charges to its delinquent debts.

In FY 1991, NRC automated its accounts receivable system for collecting annual materials fees. In FY 1992, the fee billing systems for fuel cycle licensing actions and completed materials inspections were added to the automated accounts receivable system. In FY 1993, the remaining billing systems will be directly connected to FFS and will use the debt collection functions within FFS.

The FY 1991 FMFIA report discussed deficiencies in license fee billing (10 CFR Part 170) that involve program office delays in accumulating and editing data. For the first half of FY 1992 the NRC billed fees at least quarterly for all activities except

power reactor and large fuel cycle facility licensing actions. On April 17, 1992, a final rule was published in the Federal Register amending 10 CFR Part 170 to change the billing from semiannual to quarterly so that all power reactor and fuel cycle facility licensing actions and completed inspections are now billed within three months after the costs are incurred. More frequent billing for licensing actions and completed inspections will be explored when further improvements to automated systems are implemented. Completed inspections for small materials users are billed more frequently than quarterly. Also, additional supervisory review and quality assurance checks have been instituted that will improve the accuracy of the data that serve as the basis for the fee billing.

The FY 1991 FMFIA report also discussed the Inspector General's recommendation that the NRC ensure that its license fee billing system is completed in a timely manner. The NRC's license fee billing system now supports and automates the fee billing process through accumulation of hours and charges, invoice calculation and preparation, collection and overdue processing, and interface with agency financial management software. We have a continuing commitment to keep the license fee billing system current and to enhance it to further streamline the billing process.

CONGRESSIONAL CORRESPONDENCE SYSTEM
DOCUMENT PREPARATION CHECKLIST

This checklist is to be submitted with each document (or group of Qs/As) sent for filing into the CCS.

1. BRIEF DESCRIPTION OF DOCUMENT(S) Letter to Quayle
2. TYPE OF DOCUMENT ☒ Correspondence ☐ Hearings (Qs/As)
3. DOCUMENT CONTROL ☐ Sensitive (NRC Only) ☒ Non-sensitive
4. CONGRESSIONAL COMMITTEE and SUBCOMMITTEES (if applicable)

Congressional Committee

Subcommittee
5. SUBJECT CODES
(a) _____
(b) _____
(c) _____
6. SOURCE OF DOCUMENTS
(a) _____ 5520 (document name _____)
(b) ☒ Scan- (c) _____ Attachments
(d) _____ Raksy (e) _____ Other _____
7. SYSTEM LOG DATES
(a) 1/12/93 Date OCA sent document to CCS
(b) _____ Date CCS receives document
(c) _____ Date returned to OCA for additional information
(d) 130032 Date resubmitted by OCA to CCS
(e) _____ Date entered into CCS by _____
(f) _____ Date OCA notified that document is in CCS
8. COMMENTS
