



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

March 1, 1999

OFFICE OF THE
INSPECTOR GENERAL

MEMORANDUM TO: Chairman Jackson

FROM:

Hubert T. Bell *Hubert T. Bell*
Inspector General

SUBJECT:

RESULTS OF THE AUDIT OF U.S. NUCLEAR REGULATORY
COMMISSION'S FISCAL YEAR 1998 FINANCIAL STATEMENTS

Attached is the independent auditors' report on the U.S. Nuclear Regulatory Commission's (NRC) Fiscal Year 1998 financial statements. The Chief Financial Officers Act requires the Office of the Inspector General (OIG) to annually audit NRC's Principal Financial Statements. The report contains (1) the principal statements and the auditors' opinion on those statements, (2) the auditors' opinion on management's assertion about the effectiveness of internal controls, and (3) a report on NRC's compliance with laws and regulations. Written comments were obtained from the Chief Financial Officer (CFO) and are included as an appendix to the independent auditors' report.

Audit Results

The independent auditors issued an unqualified opinion on the Balance Sheet, the Statements of Changes in Net Position, Net Cost, Budgetary Resources, and Financing.

In the opinion on management's assertion about the effectiveness of internal controls, the auditors concluded that management's assertion is not fairly stated. The auditors reached this conclusion because management did not identify the lack of managerial cost accounting as a material weakness.¹

The auditors identified four new reportable conditions and closed one prior-year reportable condition. The new conditions concern (1) the lack of managerial cost accounting, (2) the lack of fully aligned strategic, budget, and performance plans for financial reporting, (3) inadequate funds control for NRC's Comprehensive Information System Support Contract (CISSCO), and (4) improper revenue recognition for reimbursable agreements. The reportable condition closed concerned inadequate segregation of duties.

¹ OIG's annual assessment of NRC's implementation of the Federal Managers Financial Integrity Act will also report the lack of managerial cost accounting as a material weakness.

The report on NRC's compliance with laws and regulations disclosed three noncompliances with laws and regulations. The first is that NRC's 10 CFR Part 170 license fee rates are not based on full cost. The second is that managerial cost accounting was not implemented, as required, and the third is that accounting information was not properly classified to support reporting of governmental and public information. Issues two and three are considered substantial noncompliances with the Federal Financial Management Improvement Act of 1996 (FFMIA).

Further, the prior year's reportable condition relating to business continuity plans for the general ledger system and fee systems remains in substantial noncompliance with FFMIA. Tests of compliance with selected provisions of other laws and regulations disclosed no other instances of noncompliance.

Performance Reporting

Office of Management and Budget Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements*, requires us to "obtain an understanding of the components of internal control relating to the existence and completeness of assertions relevant to the performance measures included in the Overview of the Reporting Entity." The Bulletin states that the objective of this work is to report deficiencies in the design of internal control, rather than plan the financial statement audit. With this requirement and objective in mind, OIG examined the control process for several performance measures. Our examination concluded that there were no deficiencies to report.

Comments of the Chief Financial Officer

The CFO disagreed with the auditors' conclusion that management's assertion about internal controls is not fairly stated. The CFO explained that the agency's management representation letter identified managerial cost accounting as a "significant weakness." However, as stated above, the auditors identified this issue as a "material weakness."

The CFO also disagreed with the auditors' conclusion that the fiscal year 1998 license fee rates were not developed in accordance with applicable laws and regulations. However, in his response to the attendant recommendation, the CFO advised that his office "will initiate a study to analyze those activities currently characterized as 'generic activities' for license fee development purposes." The CFO agreed with the remaining recommendations and indicated that corrective action is underway.

We appreciate NRC staff's cooperation and continued interest in improving financial management within NRC.

Attachment: As stated

OFFICE OF
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U.S. NUCLEAR
REGULATORY COMMISSION

AUDIT REPORT

