

January 10, 2007

MEMORANDUM TO: Chairman Klein

FROM: Hubert T. Bell **/RA/**
Inspector General

SUBJECT: TRANSMITTAL OF THE INDEPENDENT
AUDITORS' REPORT ON THE CONDENSED
FINANCIAL STATEMENTS OF THE UNITED
STATES NUCLEAR REGULATORY COMMISSION
FOR FISCAL YEARS 2006 AND 2005 (OIG-07-A-08)

Office of Management and Budget Circular No. A-136, Revised, July 24, 2006, *Financial Reporting Requirements*, encourages all entities that produce a Performance and Accountability Report (PAR) to prepare a PAR Highlights Document (the Document). The objective of the Document is to highlight some of the more important aspects of the PAR, and to make available to interested parties a condensed document that is more "user-friendly" than the detailed full-scope PAR. The purpose of this memorandum is to transmit R. Navarro & Associates, Inc. (RNA) Auditors' Report on the Condensed Financial Statements included in the Document.

RNA is responsible for the attached unqualified auditors' opinion, dated November 7, 2006. The Office of the Inspector General (OIG) is responsible for technical and administrative oversight regarding the firm's performance under the terms of the contract. Our oversight of RNA's work, as differentiated from an audit in conformance with *Government Auditing Standards*, was not intended to enable us to express, and accordingly we do not express, an opinion on the condensed financial statements included in the Document. However, OIG's oversight of RNA's work disclosed no instances where RNA did not comply with applicable auditing standards.

We appreciate the cooperation provided by NRC staff.

Attachment: As stated

cc: Commissioner McGaffigan
Commissioner Merrifield
Commissioner Jaczko
Commissioner Lyons

Chairman Dale E. Klein
U.S. Nuclear Regulatory Commission
Washington, DC

We audited the U.S. Nuclear Regulatory Commission's (NRC) balance sheets as of September 30, 2006 and 2005 and the related statements of net cost, changes in net position, budgetary resources and financing for the years then ended. In our report dated November 7, 2006, we expressed an unqualified opinion on those statements.

In that report, we stated the following:

- The balance sheets of NRC as of September 30, 2006, and 2005, and the related statements of net cost, changes in net position, budgetary resources, and financing for the fiscal years then ended are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America;
- Except for the effect of the material weaknesses related to the Fee Billing System and Information System-wide Security Controls, the effectiveness of internal control over financial reporting was fairly stated as of September 30, 2006, in compliance with the internal control objectives in the Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*; and
- NRC continues to be non-compliant with the provisions of OMB Circular A-25, *User Charges*, for Part 170 hourly rates. Additionally, NRC continues to have an FFMA substantial non-compliance related to the Fee Billing System.

In addition, we referred the reader to Notes 15 and 16 to the financial statements that discuss the NRC's change in its method for recording transactions of the Nuclear Waste Fund and the process for recording transfers of license fee collections.

In our opinion, the information set forth in the accompanying condensed financial statements is presented fairly, in all material respects, in relation to the financial statements from which it was derived.

We performed our work in accordance with standards established by the American Institute of Certified Public Accountants and *Government Auditing Standards*, promulgated by the Government Accountability Office.

November 7, 2006

R. Navarro & Associates, Inc.