



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

OFFICE OF THE
INSPECTOR GENERAL

December 9, 2013

MEMORANDUM TO: Chairman Macfarlane

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

SUBJECT: RESULTS OF THE AUDIT OF THE UNITED STATES
NUCLEAR REGULATORY COMMISSION'S FINANCIAL
STATEMENTS FOR FISCAL YEARS 2013 and 2012
(OIG-14-A-06)

The Chief Financial Officers Act of 1990, as amended (CFO Act), requires the Inspector General (IG) or an independent external auditor, as determined by the IG, to annually audit the United States Nuclear Regulatory Commission's (NRC) financial statements in accordance with applicable standards. In compliance with this requirement, the Office of the Inspector General (OIG) retained CliftonLarsonAllen, LLP (CLA), to conduct this annual audit. Transmitted with this memorandum are the following CLA reports:

- Opinion on the Principal Statements.
- Opinion on Internal Control.
- Compliance with Laws and Regulations.

NRC's Performance and Accountability Report includes comparative financial statements for FY 2013 and FY 2012.

Objective of a Financial Statement Audit

The objective of a financial statement audit is to determine whether the audited entity's financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation.

CLA's audit and examination were made in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards* issued by the Comptroller General of the United States; attestation standards established by the American Institute of Certified Public Accountants; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. The audit included, among other things, obtaining an understanding of NRC and its operations, including internal control over financial reporting; evaluating the design and operating effectiveness of internal control and assessing risk; and testing relevant internal controls over financial reporting. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Audit Results

The results are as follows:

Financial Statements

- Unqualified opinion.

Internal Controls

- Unqualified opinion.

Compliance with Laws and Regulations

- No reportable instances of noncompliance.

Office of the Inspector General Oversight of CLA Performance

To fulfill our responsibilities under the CFO Act and related legislation oversight of the quality of the audit work performed, we monitored CLA's audit of NRC's FY 2013 and FY 2012 financial statements by:

- Reviewing CLA's audit approach and planning.
- Evaluating the qualifications and independence of CLA's auditors.
- Monitoring audit progress at key points.
- Examining the working papers related to planning and performing the audit and assessing NRC's internal controls.
- Reviewing CLA's audit reports for compliance with *Government Auditing Standards* and OMB Bulletin No.14-02
- Coordinating the issuance of the audit reports.

- Performing other procedures deemed necessary.

CLA is responsible for the attached auditor's report, dated December 2, 2013, and the conclusions expressed therein. OIG is responsible for technical and administrative oversight regarding the firm's performance under the terms of the contract. Our oversight, 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:

- NRC's financial statements.
- The effectiveness of NRC's internal control over financial reporting.
- NRC's compliance with laws and regulations.

However, our monitoring review, as described above, disclosed no instances where CLA did not comply, in all material respects, with applicable auditing standards.

Meeting with the Chief Financial Officer

At the exit conference on December 3, 2013, representatives of the Office of the Chief Financial Officer, OIG, and CLA discussed the results of the audit.

Comments of the Chief Financial Officer

In his response, the Chief Financial Officer (CFO) agreed with the report. The full text of the CFO's response follows this report.

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

Attachment: As stated

cc: Commissioner Svinicki
Commissioner Apostolakis
Commissioner Magwood
Commissioner Ostendorff
R. Mitchell, OEDO
K. Brock, OEDO
J. Arildsen, OEDO
C. Jaegers, OEDO

INDEPENDENT AUDITORS' REPORT

Inspector General
United States Nuclear Regulatory Commission

Chairman
United States Nuclear Regulatory Commission

In our audits of the fiscal years (FY) 2013 and 2012 financial statements of the United States Nuclear Regulatory Commission (NRC), we found:

- The financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S.);
- NRC maintained, in all material respects, effective internal control over financial reporting; and
- No reportable noncompliance with certain provisions of laws and regulations tested including the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA).

The following sections discuss in more detail: (1) these conclusions; (2) Management's Discussion and Analysis (MD&A), other required supplementary information (RSI), and other information included with the financial statements; (3) management's responsibilities; and (4) our responsibilities.

Report on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying financial statements of NRC, which comprise the balance sheets as of September 30, 2013 and 2012, and the related statements of net cost and changes in net position, the statements of budgetary resources for the years then ended, and the related notes to the financial statements. The objective of our audits was to express an opinion on the fairness of these financial statements. We have also audited NRC's internal control over financial reporting as of September 30, 2013.

Management's Responsibilities

NRC management is responsible for the (1) preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the U.S., (2) preparation, measurement, and presentation of the RSI in accordance with the prescribed accounting principles generally accepted in the U.S., (3) preparation and presentation of other information in documents containing the audited financial statements and auditors' report, and consistency of that information with the audited financial statements and the RSI, (4) design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, including to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA) are met. NRC management evaluated the effectiveness of NRC's internal control over financial reporting as of September 30, 2013, based on criteria established under FMFIA.

INDEPENDENT AUDITORS' REPORT (Continued)

Auditors' Responsibilities

Our responsibility is to express an opinion on these financial statements and an opinion on the NRC's internal control over financial reporting based on our audits. We conducted our audits of the financial statements in accordance with auditing standards generally accepted in the U.S.; and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We conducted our audit of internal control over financial reporting referred to above in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to audits of internal control contained in *Government Auditing Standards*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement, and that effective internal control over financial reporting was maintained in all material respects, respectively. We are also responsible for applying certain limited procedures with respect to the RSI and all other accompanying information included with the financial statements. We conducted our audits in accordance with OMB Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 14-02).

In order to fulfill these responsibilities, we (1) obtained an understanding of NRC and its operations, including its internal control over financial reporting; (2) assessed the risk of financial statement misstatement and the risk that a material weakness exists in internal control over financial reporting; (3) evaluated the design and operating effectiveness of internal control based on the assessed risk; (4) considered the NRC's process for evaluating and reporting on internal control under FMFIA and financial management systems under FFMIA; (5) assessed the risk of substantial noncompliance and tested whether NRC's financial management systems substantially complied with FFMIA requirements; (6) tested compliance with certain provisions of laws, regulations, contracts, and grant agreements; (7) examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements; (8) evaluated the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management; (9) evaluated the overall presentation of the financial statements; (10) conducted inquiries of management about the methods of preparing the RSI and compared this information for consistency with management's responses to the auditors' inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from Federal Accounting Standards Advisory Board (FASAB) guidelines, if any, identified by these limited procedures; (11) read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements; and (12) performed such other procedures as we considered necessary in the circumstances.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

We did not evaluate all internal controls relevant to operating objectives as broadly established under FMFIA, such as those controls relevant to preparing performance information and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Our internal control testing was for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting and may not be sufficient for other purposes.

Definition of Internal Control and Inherent Limitations

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable

INDEPENDENT AUDITORS' REPORT (Continued)

assurance that: (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with accounting principles generally accepted in the U.S.; (2) assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and (3) transactions are executed in accordance with laws governing the use of budget authority and with other laws and regulations that could have a direct and material effect on the financial statements.

Because of inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NRC as of September 30, 2013 and 2012, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the U.S.

Opinion on Internal Control over Financial Reporting

In our opinion, NRC maintained, in all material respects, effective internal control over financial reporting as of September 30, 2013, that provided reasonable assurance that misstatements, losses, or noncompliance that are material in relation to the financial statements would be prevented or detected and corrected on a timely basis. Our opinion on internal control is based on criteria established under 31 U.S.C. 3512 (c), (d), commonly known as the FMFIA.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the U.S. require that NRC's MD&A, and other RSI, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the FASAB, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the MD&A and other RSI in accordance with auditing standards generally accepted in the U.S., which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the RSI information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

The FY 2013 Performance and Accountability Report contains a wide range of other information, some of which is not directly related to the financial statements. This other information includes the cover, table of contents, message from the Chairman, Chapter 2 (Program Performance), message from the Chief Financial Officer, Inspector General's letter transmitting the auditors' report, management's response to the audit report, and Chapter 4 (Other Accompanying Information). This information is presented for purposes of additional analysis and is not a required part of the financial statements or RSI. The other information has not been subjected to the auditing procedures applied

INDEPENDENT AUDITORS' REPORT (Continued)

in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Report on Compliance with Laws and Regulations Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Compliance with Laws and Regulations

In connection with our audit of the financial statements, we performed tests of the NRC's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests for the year ended September 30, 2013, disclosed no instances of noncompliance or other matters that are required to be reported in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

Systems Compliance with FFMIA Requirements

Under FFMIA, we are required to report whether the financial management systems used by NRC substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Standard General Ledger (USSGL) at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements. However, providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of FFMIA disclosed no instances in which NRC's financial management systems did not substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, or (3) the USSGL at the transaction level.

Management's Responsibilities

Management is responsible for ensuring NRC's financial management systems are in substantial compliance with FFMIA requirements, and ensuring compliance with other applicable laws, regulations, contracts, and grant agreements.

Auditors' Responsibilities

We are responsible for testing compliance with certain provisions of laws and regulations that have a direct and material effect on the financial statements and applicable laws for which OMB Bulletin 14-02 requires testing.

We did not test compliance with all laws and regulations applicable to NRC. We limited our tests of compliance to certain provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB Bulletin 14-02 that we deemed applicable to NRC's financial statements for the fiscal year ended September 30, 2013. We caution that noncompliance with laws and regulations may occur and not be detected by these tests and that such testing may not be sufficient for other purposes. Also, our work on FFMIA would not necessarily disclose all instances of noncompliance with FFMIA requirements.

INDEPENDENT AUDITORS' REPORT (Continued)

Purpose of the Report on Compliance with Laws and Regulations

The purpose of the Report on Compliance is solely to describe the scope of our testing of compliance with laws and regulations and the result of that testing, and not to provide an opinion on the NRC's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NRC's compliance. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

Arlington, Virginia
December 2, 2013



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

December 3, 2013

CHIEF FINANCIAL
OFFICER

MEMORANDUM TO: Stephen D. Dingbaum
Assistant Inspector General for Audits
Office of the Inspector General

FROM: J. E. Dyer *J. E. Dyer*
Chief Financial Officer

SUBJECT: AUDIT OF THE FISCAL YEAR 2013 AND 2012 FINANCIAL
STATEMENTS

We appreciate the collaborative relationship between the Office of the Inspector General, the auditors, and the Office of the Chief Financial Officer in supporting our continuing effort to improve financial reporting. We have reviewed the Independent Auditor's Report of the Agency's Fiscal Year 2013 and 2012 financial statements and are in agreement with it.

cc: R. Mitchell, AO/OEDO
J. Arildsen, OEDO
K. Brock, OEDO
M. Khanna, OEDO
C. Jaegers, OEDO