



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

January 12, 2007

OFFICE OF THE  
INSPECTOR GENERAL

MEMORANDUM TO: Luis A. Reyes  
Executive Director for Operations

Jesse L. Funches  
Chief Financial Officer

FROM:

  
Stephen D. Dingbaum  
Assistant Inspector General for Audits

SUBJECT: TRANSMITTAL OF THE INDEPENDENT  
ACCOUNTANTS' REPORT ON THE APPLICATION  
OF AGREED-UPON PROCEDURES ON THE  
CLOSING PACKAGE INTRAGOVERNMENTAL  
ACTIVITY AND BALANCES (OIG-07-A-09)

Attached is R. Navarro & Associates, Inc.'s (RNA) Independent Accountants' Report on the Application of Agreed-Upon Procedures on the Closing Package Intragovernmental Activity and Balances for the U.S. Nuclear Regulatory Commission as of September 30, 2006. The agreed-upon procedures were based on the U.S. Department of Treasury's *Treasury Financial Manual*, Transmittal Letter No. 630, dated June 2006. These procedures were performed solely to assist the NRC's Office of Inspector General and the Government Accountability Office (GAO) in evaluating NRC's assertion that it properly reported intragovernmental activity and balances in the NRC's financial statements as of and for the year ended September 30, 2006, and in its *2006 Financial Report of the United States Government Closing Package* submission to the Treasury.

The agreed-upon procedures performed by RNA along with the associated conclusions are included in the attached report.

If you have any questions, please call me at 415-5915 or Steven Zane, Team Leader, at 415-5912.

Attachment: As stated

cc: M. Johnson, OEDO  
M. Malloy, OEDO  
P. Tressler, OEDO

**U.S. NUCLEAR REGULATORY COMMISSION**

**INDEPENDENT ACCOUNTANTS' REPORT ON THE  
APPLICATION OF AGREED-UPON PROCEDURES ON  
THE CLOSING PACKAGE INTRAGOVERNMENTAL  
ACTIVITY AND BALANCES**

**SEPTEMBER 30, 2006**

**U.S. NUCLEAR REGULATORY COMMISSION**

**Independent Accountants' Report on the Application of  
Agreed-Upon Procedures on the Closing Package  
Intragovernmental Activity and Balances**

**September 30, 2006**

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**INDEPENDENT ACCOUNTANTS' REPORT  
ON THE APPLICATION OF AGREED-UPON PROCEDURES  
ON THE CLOSING PACKAGE INTRAGOVERNMENTAL  
ACTIVITY AND BALANCES**

The Honorable Hubert T. Bell  
Inspector General  
U.S. Nuclear Regulatory Commission  
Rockville, Maryland

We were engaged by the U.S. Nuclear Regulatory Commission's (NRC) Office of Inspector General to perform the procedures described below. The procedures were based on the U.S. Department of Treasury's *Treasury Financial Manual*, Transmittal Letter No. 630, dated June 2006, solely to assist the NRC's Office of Inspector General and the Government Accountability Office (GAO) in evaluating NRC's assertion that it properly reported intragovernmental activity and balances in the NRC's financial statements as of and for the year ended September 30, 2006, and in its *2006 Financial Report of the United States Government Closing Package (Closing Package)* submission to the Treasury. The NRC's management is responsible for the proper accounting, presentation, and reporting of its intragovernmental activity and balances, financial statements and the *Closing Package*.

This engagement to apply agreed-upon procedures was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants and the *Government Auditing Standards*, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of Financial Management Service (FMS), GAO and Office of Management of Budget (OMB). Consequently, we make no representations regarding the sufficiency of the procedures described in this report either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated conclusions follow.

Perform the following steps on the FMS intragovernmental transactions Closing Package trading partner data:

- Procedure 1: Obtain the agency's policies and procedures that describe the agency's activities to record, process, summarize, reconcile and report intragovernmental activity/balances by trading partner. Determine if the items identified in the Chief Financial Officer (CFO) - provided reconciliation schedule were properly recorded at yearend in accordance with the agency's policies and procedures.

*Conclusions: The policies and procedures were obtained; however, they have not been updated to reflect the practices used by the agency to report intragovernmental activity/balances by trading partner.*

*There were no items recorded at yearend since the agency-identified reporting differences were due to: 1) error in reporting submitted by Health and Human Services (\$1million); 2) differences in accounting methodology (\$3.3 million); 3) timing difference (\$1.4 million); and 4) two amounts listed as unknown are presently under review and have not been recorded (\$.9 million with Department of Interior and \$2.1 million with Department of Energy).*

- Procedure 2: In the event of nonreporting by trading partners, report those differences and indicate that the difference is due to nonreporting by the trading partner. Cooperation

between Inspector General Offices of the trading partners is encouraged. Review items related to the balances identified by FMS in Step 1 of the CFO procedures recorded after yearend to determine if they were recorded in the proper year.

*Conclusions: There were several agencies that did not report intragovernmental activity/balances by trading partner as follows:*

<i>Agency</i>	<i>Trading Partner Number</i>	<i>Amount (in dollars)</i>
<i>USDA</i>	<i>12</i>	<i>\$ 91,000</i>
<i>USPS</i>	<i>18</i>	<i>312,000</i>
<i>Treasury</i>	<i>20</i>	<i>149,000</i>
<i>SSA</i>	<i>28</i>	<i>1,000</i>
<i>Smithsonian</i>	<i>33R</i>	<i>12,000</i>
<i>VA</i>	<i>36</i>	<i>373,000</i>
<i>DHS</i>	<i>70</i>	<i>705,000</i>
<i>NASA</i>	<i>80</i>	<i>341,000</i>

*NRC's records properly classified the reported amounts as Fiscal Year 2006 transactions.*

- Procedure 3: Identify and include copies of audit findings related to the transactions identified in Procedures 1 and 2, such as reason for disclaimer and/or qualification, material weaknesses, reportable conditions, noncompliance with laws and regulations, and items cited in the management letter. Also identify and report auditor-proposed intragovernmental adjustments that were waived by the agency relating to these transactions.

*Conclusion: There were no audit findings related to transactions identified in Procedures 1 and 2. However, the auditor identified findings included material weaknesses related to the Fee Billing System and Information System-wide Security Controls. Furthermore, there were instances of noncompliance related to Part 170 Hourly Rates and a substantial non-compliance related to the Fee Billing System.*

*There were no auditor-proposed intragovernmental adjustments that were waived by the agency.*

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which would be the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported.

This report is intended solely for the information and use of the specified users listed above and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*R. Navarro & Associates, Inc.*

January 10, 2007