



UNITED STATES
NUCLEAR REGULATORY COMMISSION

WASHINGTON, D.C. 20555-0001

November 15, 2007

OFFICE OF THE
INSPECTOR GENERAL

MEMORANDUM TO: Chairman Klein

A handwritten signature in cursive script that reads "Hubert T. Bell".

FROM: Hubert T. Bell
Inspector General

SUBJECT: INDEPENDENT AUDITORS' REPORT ON THE
U.S. NUCLEAR REGULATORY COMMISSION'S
SPECIAL-PURPOSE FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2007, AND 2006, AND
FOR THE YEARS THEN ENDED (OIG-08-A-02)

This memorandum transmits the R. Navarro & Associates, Inc. Independent Auditors' Report on the U.S. Nuclear Regulatory Commission's (NRC) special-purpose financial statements, including the reclassified balance sheets, as of September 30, 2007, and 2006, and the related reclassified statements of net cost and changes in net position for the years then ended. This audit was performed for the purpose of providing financial information to the U.S. Department of the Treasury and the U.S. Government Accountability Office for use in preparing and auditing the *Financial Report of the U.S. Government*.

Results of Audit

The independent auditors issued an unqualified opinion on the reclassified balance sheets of the NRC as of September 30, 2007, and 2006, and the related reclassified statements of net cost and changes in net position for the years then ended.

If you have any questions, please call me at 415-5930 or Stephen Dingbaum, at 415-5915.

Attachment: As stated

cc: Commissioner Jaczko
Commissioner Lyons
W. McCabe, CFO
V. Ordaz, OEDO

U.S. NUCLEAR REGULATORY COMMISSION

**INDEPENDENT AUDITORS' REPORT ON
THE SPECIAL-PURPOSE FINANCIAL STATEMENTS**

SEPTEMBER 30, 2007 and 2006

U.S. NUCLEAR REGULATORY COMMISSION

**Independent Auditors' Report on Special-Purpose
Financial Statements**

September 30, 2007 and 2006

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**INDEPENDENT AUDITORS' REPORT ON
SPECIAL PURPOSE FINANCIAL STATEMENTS**

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

We have audited the reclassified balance sheets as of September 30, 2007 and 2006, and the related reclassified statements of net cost and changes in net position for the years then ended (hereinafter referred to as the special-purpose financial statements) contained in the special-purpose closing package of the U.S. Nuclear Regulatory Commission (NRC). These special-purpose financial statements are the responsibility of NRC's management. Our responsibility is to express an opinion on these special-purpose financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the special-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall special-purpose financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The special-purpose financial statements and notes contained in the special-purpose closing package have been prepared for the purpose of complying with the requirements of the U.S. Department of the Treasury's Financial Manual (TFM) Volume I, Part 2, Chapter 4700. As described in Note A, the special-purpose financial statements and notes are solely for the purpose of providing financial information to the U.S. Department of the Treasury and U.S. Government Accountability Office for use in preparing and auditing the *Financial Report of the U.S. Government* and are not intended to be a complete presentation of NRC's financial statements in conformity with the accounting principles generally accepted in the United States of America.

The notes to the reclassified financial statements were generated from NRC's data input to Treasury's Governmentwide Financial Report System modules. The notes include information on fiscal years 2007 and 2006 as explained further in Note A to this report.

In our opinion, the special-purpose financial statements referred to above present fairly, in all material respects, the reclassified financial position of NRC as of September 30, 2007 and 2006, and its reclassified net costs and changes in net position for the years then ended in conformity with accounting principles generally accepted in the United States of America and the presentation pursuant to the requirements of the TFM Chapter 4700.

In accordance with *Government Auditing Standards* and OMB Bulletin No. 07-04, we have also issued reports dated November 7, 2007 on our consideration of NRC's internal control over financial reporting and its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit of general-purpose financial statement reporting performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 07-04 and should be read in conjunction with this report in considering the results of our audits.

In planning and performing our audits of the special-purpose financial statements, we also considered NRC's internal control over the financial reporting process for the special-purpose financial statements and compliance with the TFM Chapter 4700. Management is responsible for establishing and maintaining internal control over financial reporting and for complying with laws and regulations, including compliance with the TFM Chapter 4700 requirements.

Our consideration of internal control over the financial reporting process for the special-purpose financial statements would not necessarily disclose all matters in the internal control over the financial reporting process that might be significant deficiencies. Under standards issued by the American Institute of Certified Public Accountants and OMB Bulletin No. 07-04, significant deficiencies are deficiencies in internal control, or a combination of deficiencies, that adversely affects NRC's ability to initiate, authorize, record, process or report financial data reliably and in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the special-purpose financial statements being audited that is more than inconsequential will not be prevented or detected. Material weaknesses are significant deficiencies, or a combination of significant deficiencies, that result in a more than remote likelihood that material misstatements in relation to the special-purpose financial statements being audited will not be prevented or detected.

We found no material weaknesses in internal control over the financial reporting process for the special-purpose financial statements, and our tests of compliance with the TFM Chapter 4700 requirements disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 07-04. Our *Report on the Effectiveness of Internal Control Over Financial Reporting*, dated November 7, 2007, included with the general-purpose financial statements identified a material weakness related to Information Systems Security Controls. However, providing an opinion on internal control over the financial reporting process for the special-purpose financial statements or on compliance with the TFM Chapter 4700 requirements was not an objective of our audits of the special-purpose financial statements and, accordingly, we do not express such an opinion.

A meeting was held November 9, 2007 with representatives of the Office of the Chief Financial Officer (OCFO) to discuss the contents of this report. OCFO representatives were in general agreement with the results of our audits.

This report is intended solely for the information and use of the U.S. Nuclear Regulatory Commission, the U.S. Department of the Treasury, the Office of Management and Budget, and the U.S. Government Accountability Office in connection with the preparation and audit of the Financial Report of the U.S. Government and is not intended to be and should not be used by anyone other than these specified parties.

R. Navarro & Associates, Inc

November 9, 2007

**U.S. Nuclear Regulatory Commission
Notes to the Special-Purpose Financial Statements**

Note A – Special-Purpose Financial Statement Requirements

The Budget and Accounting Procedures Act of 1950 allows the Secretary of the Treasury to stipulate the format and requirements of executive agencies to furnish financial and operational information to the President and the Congress to comply with the Government Management Reform Act (GMRA) of 1994, which requires the Secretary of the Treasury to prepare and submit audited financial statements of the Executive Branch. The Secretary of the Treasury developed guidance in the U.S. Department of Treasury's Financial Manual (TFM) Volume I, Part 2, Chapter 4700 to provide agencies with instructions to meet the requirements of GMRA. The TFM Chapter 4700 requires agencies to:

1. Reclassify all items and amounts on the audited balance sheet, statements of net cost, changes in net position, and custodial activity, if applicable, to the special-purpose financial statements;
2. Disclose special-purpose financial statement line item amounts identified as Federal by trading partner and amount. The amounts are net of intra-agency and intra-department eliminations, as applicable;
3. Disclose notes required by the Reclassified Balance Sheet line items and other notes required in the Financial Report of the U.S. Government (FR); and
4. Disclose other data not contained in the primary FR financial statements and notes required to meet generally accepted accounting principles requirements.

The FR Notes to the Detail Report (GF006) are included in the Governmentwide Financial Report System.