

December 19, 2007

MEMORANDUM TO: Luis A. Reyes  
Executive Director for Operations

William M. McCabe  
Chief Financial Officer

FROM: Stephen D. Dingbaum/**RA**/  
Assistant Inspector General for Audits

SUBJECT: MEMORANDUM REPORT: REVIEW OF NRC'S  
IMPLEMENTATION OF THE FEDERAL MANAGERS'  
FINANCIAL INTEGRITY ACT FOR FISCAL YEAR 2007  
(OIG-08-A-05)

This report reflects the Office of the Inspector General's (OIG) assessment of the Nuclear Regulatory Commission's (NRC) FY 2007 compliance with the Federal Managers' Financial Integrity Act (FMFIA) of 1982. We found that NRC complied with the FMFIA, except for the following material weakness associated with the Federal Information Security Management Act (FISMA):

- Lack of current certification and accreditation for the agency's information system security program, and
- Lack of annual contingency plan testing for the agency's information system security program.

This report contains no recommendations because the material weakness and the related audit recommendation are included in the OIG report, *Results of the Audit of the United States Nuclear Regulatory Commission's Financial Statements for Fiscal Years 2007 and 2006*, report number OIG-08-A-01, dated November 9, 2007.

## **BACKGROUND**

The FMFIA was enacted on September 8, 1982, in response to continuing disclosures of waste, loss, unauthorized use, and misappropriation of funds or assets associated with weak internal controls and accounting systems. Congress believed that such abuses hampered the effectiveness and accountability of the Federal Government and eroded the public's confidence. The FMFIA requires Federal managers to establish a continuous process for evaluating, improving, and reporting on the internal controls and accounting systems for which they are responsible.

The FMFIA requires that, each year, the head of each executive agency (subject to the FMFIA) shall submit a statement to the President and the Congress on the adequacy of the agency's systems of internal accounting and administrative control. NRC incorporates its FMFIA statement in its annual *Performance and Accountability Report*.

Effective for FY 2006, Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Internal Control*, revised December 2004, requires that management provide a separate assurance statement relating to internal control over financial reporting. In addition, both OMB Circular No. A-123 and OMB Bulletin No. 07-04<sup>1</sup>, *Audit Requirements for Federal Financial Statements*, require that significant deficiencies identified under FISMA be reported as material weaknesses in the annual FMFIA report.

## **RESULTS**

The Chairman and the Inspector General reported the same results on the agency's FY 2007 compliance with the FMFIA as discussed below.

### **Federal Information Security Management Act**

Both the Chairman and the Inspector General identified a material weakness related to the:

- (1) Lack of current certification and accreditation for the agency's information system security program, and
- (2) Lack of annual contingency plan testing for the agency's information system security program.

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<sup>1</sup> OMB Bulletin No. 07-04, issued September 4, 2007, supersedes OMB Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*.

**AGENCY COMMENTS**

A draft of the report was provided to NRC management. The Office of the Executive Director for Operations and the Office of the Chief Financial Officer had no comments.

**SCOPE/CONTRIBUTORS**

We evaluated the internal control related to NRC's implementation of the FMFIA for FY 2007, and conducted our work in November 2007, in accordance with Generally Accepted Government Auditing Standards. This audit was conducted by Steven Zane, Team Leader; Kathleen Stetson, Audit Manager; and Michael Steinberg, Senior Auditor.

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

cc: Chairman Klein  
Commissioner Jaczko  
Commissioner Lyons  
V. Ordaz, OEDO  
M. Malloy, OEDO  
P. Tressler, OEDO