



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

OFFICE OF THE
INSPECTOR GENERAL

November 10, 2009

MEMORANDUM TO: Chairman Jaczko

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 2009 and 2008
(OIG-10-A-05)

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, Urbach Kahn & Werlin, LLP (UKW) was retained by the Office of the Inspector General (OIG) to conduct this annual audit. Transmitted with this memorandum are the following UKW 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 2009 and FY 2008.

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.

UKW'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. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. 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.

FY 2009 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/no substantial noncompliance noted

Office of the Inspector General Oversight of UKW Performance

To fulfill our responsibilities under the CFO Act and related legislation for ensuring the quality of the audit work performed, we monitored UKW's audit of NRC's FY 2009 and FY 2008 financial statements by:

- Reviewing UKW's audit approach and planning.
- Evaluating the qualifications and independence of UKW'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 UKW's audit reports to ensure compliance with *Government Auditing Standards* and OMB Bulletin No. 07-04, as amended.

- Coordinating the issuance of the audit reports.
- Performing other procedures deemed necessary.

UKW is responsible for the attached auditors' reports, dated November 6, 2009, 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 review, 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 UKW did not comply, in all material respects, with applicable auditing standards.

Meeting with the Chief Financial Officer

At the exit conference on November 6, 2009, representatives of the Office of the Chief Financial Officer, OIG, and UKW 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 Klein
Commissioner Svinicki
N. Mamish, OEDO
J. Andersen, OEDO

INDEPENDENT AUDITOR'S REPORT

Inspector General
United States Nuclear Regulatory Commission

Chairman
United States Nuclear Regulatory Commission

We have audited the accompanying balance sheets of the United States Nuclear Regulatory Commission (NRC), as of September 30, 2009 and 2008, and the related statements of net cost, changes in net position, and budgetary resources (Principal Statements) for the years then ended. We also examined the NRC's internal control over financial reporting as of September 30, 2009 and 2008.

Summary

We concluded that the NRC's fiscal year (FY) 2009 Principal Statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. We also concluded that the NRC maintained, in all material respects, effective internal control over financial reporting. We noted no reportable instances of noncompliance with laws and regulations and no substantial noncompliance with federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger (USSGL) at the transaction level.

The following sections (including Appendix A) discuss in more detail: (1) these conclusions and our conclusions relating to other information presented in the Performance and Accountability Report, (2) management's responsibilities, (3) our objectives, scope and methodology, and (4) the current status of prior year findings and recommendations.

Opinion on the Principal Statements

In our opinion, the Principal Statements referred to above present fairly, in all material respects, the financial position of the NRC as of September 30, 2009 and 2008, and its net cost, changes in net position, and budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Opinion on Internal Control

In our opinion, the NRC maintained, in all material respects, effective control over financial reporting as of September 30, 2009, that provided reasonable assurance that misstatements, losses or noncompliance material in relation to the financial statements

INDEPENDENT AUDITOR'S REPORT, Continued

would be prevented, or detected and corrected, on a timely basis. Our opinion is based on criteria established under 31 U.S.C. 3512 (c), (d), the Federal Managers' Financial Integrity Act (FMFIA).

Compliance with Laws and Regulations

The results of our tests of compliance with laws and regulations disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Providing an opinion on compliance with laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

Under the Federal Financial Management Improvement Act (FFMIA), we are required to report whether the NRC's financial management systems substantially comply with the federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger (USSGL) at the transaction level. To meet this requirement, we performed tests of compliance with the provisions of FFMIA section 803(a). The results of our tests disclosed no substantial noncompliance with federal financial management systems requirements, applicable Federal accounting standards, and the USSGL at the transaction level.

Other Information

The information in the Management's Discussion and Analysis section of the NRC's Performance and Accountability Report is not a required part of the Principal Statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The Program Performance and Appendices listed in the Table of Contents are presented for additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Management Responsibilities

Management is responsible for (1) preparing the Principal Statements in conformity with accounting principles generally accepted in the United States of America, (2) establishing and maintaining effective internal control over financial reporting, and evaluating its effectiveness, (3) ensuring that the NRC's financial management systems substantially comply with FFMIA, and (4) complying with applicable laws and regulations. NRC management evaluated the effectiveness of NRC's internal control over financial reporting as of September 30, 2009, based on criteria established under FMFIA. NRC management's assurances are included in the Systems, Controls, and Legal Compliance section of the Management's Discussion and Analysis.

INDEPENDENT AUDITOR'S REPORT, Continued

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

Objectives, Scope and Methodology

We are responsible for planning and performing our audit to obtain reasonable assurance about whether the 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.

We are responsible for planning and performing our examination to obtain reasonable assurance about whether management maintained, in all material respects, effective internal control over financial reporting as of September 30, 2009. Our examination included obtaining an understanding of NRC and its operations, including internal control over financial reporting; considering NRC's process for evaluating and reporting on internal control over financial reporting which the NRC is required to perform by FMFIA; assessing the risk that a material misstatement exists in the financial statements and the risk that a material weakness exists in internal control over financial reporting; evaluating the design and operating effectiveness of internal control and assessing risk; testing relevant internal controls over financial reporting; and performing such other procedures as we considered necessary in the circumstances. We did not test all internal controls relevant to operating objectives as broadly defined by FMFIA.

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.

We are also responsible for testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements. We did not test compliance with all laws and regulations applicable to the NRC. We limited our tests of compliance to those laws and regulations required by OMB audit guidance that we deemed applicable to the financial statements for the fiscal years ended September 30, 2009 and 2008. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We conducted our audit and examinations 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 OMB Bulletin

INDEPENDENT AUDITOR'S REPORT, Continued

No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. We believe that our audit and examinations provide a reasonable basis for our opinions.

We noted less significant matters involving the NRC's internal control and its operation, which we have reported to the management of the NRC separately.

Distribution

This report is intended solely for the information and use of the NRC OIG, the management of NRC, OMB, the Government Accountability Office and the Congress of the United States, and is not intended to be and should not be used by anyone other than these specified parties.

Urbach Kahn & Werlin LLP

Arlington, Virginia
November 6, 2009

Appendix A
Status of Prior Year Findings and Recommendations

Our assessment of the current status of the significant deficiency and other reportable condition identified in the prior year audit is presented below:

| <i>Prior Recommendation</i> | <i>Type</i> | <i>Fiscal Year 2009 Status</i> |
|--|---|---------------------------------------|
| 1. The NRC CFO should continue to enhance its procedures for determining accounts payable. | 2008 Significant Deficiency | Closed. |
| 2. The NRC CIO should complete its certification and accreditation for the License Fee Billing System. | 2008 Substantial Noncompliance with laws and regulations. | Closed. |