CHAPTER 3

FINANCIAL STATEMENTS AND AUDITORS' REPORT

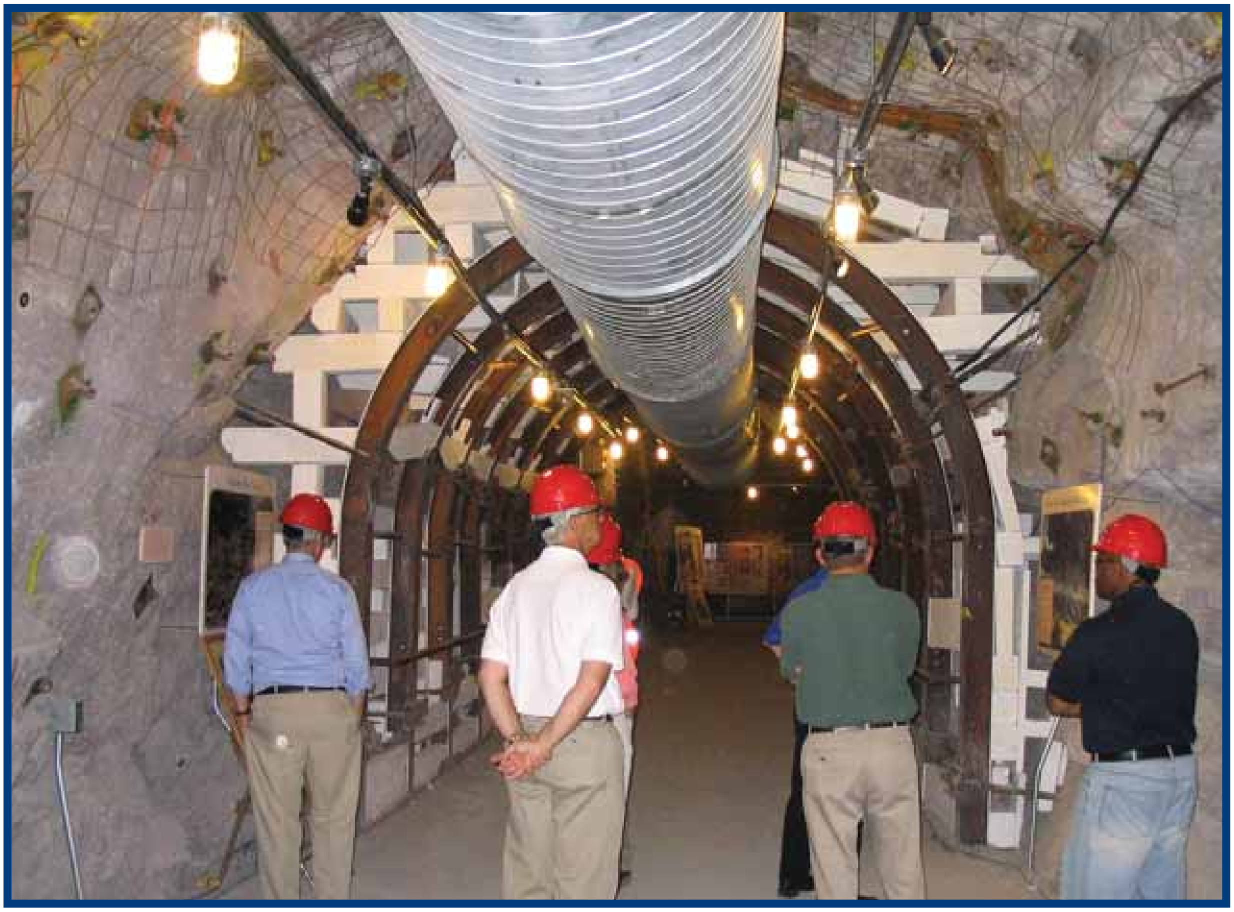

Photo Courtesy of the NRC Image Library.

NRC staff visiting the proposed high-level waste repository site at Yucca Mountain, NV.

A MESSAGE FROM THE CHIEF FINANCIAL OFFICER

I am pleased to present the financial statements for the U.S. Nuclear Regulatory Commission (NRC) fiscal year (FY) 2008 Performance and Accountability Report. For the fifth consecutive year, an independent auditor has rendered an unqualified opinion on the NRC financial statements. This past year, the NRC successfully implemented the corrective actions necessary to improve its information system security controls and eliminated the last remaining internal control material weakness identified during prior audits.

Furthermore, the NRC continues to meet the requirements of Office of Management and Budget (OMB) Circular A-123, Appendix A, "Internal Controls Over Financial Reporting." During FY 2008, NRC assessed nine key processes and tested 56 controls in five of these key processes to meet the OMB circular requirements. For the third consecutive year, no material weaknesses were identified for NRC financial reporting.

During FY 2008, the agency continued implementing the President's Management Agenda and further improving its financial systems and processes. Some specific NRC accomplishments include the following:

- Outsourcing the NRC payment function to a shared service provider, reducing transaction costs, and improving payment accuracy and timeliness.
- Completing the Federal Information Security Management Act (FISMA) certification and accreditation for the NRC time and labor system.
- Establishing an educational grant program payment process with the U.S. Department of the Treasury's Automated Standard Application for Payment System that allows award recipients more timely access to grant funds.
- Implementing a streamlined process with a new information technology system for budget formulation that resulted in improved transparency and coordination during the FY 2010 budget development process.

In the future, the NRC plans to complete additional initiatives to achieve its financial management goals of improving controls while providing more timely and accurate information to stakeholders. The most significant initiative in this area involves the replacement of several legacy systems with an integrated Web-based financial management system hosted by a Government shared service provider. In FY 2008, NRC established an interagency agreement with a shared service provider and is currently defining system requirements working towards implementing this new core financial system by FY 2011. In conjunction with this effort, the NRC is also streamlining its business processes and modernizing its time and labor system to create more robust and user-friendly systems. These process changes and replacement systems will improve the NRC's efficiency and provide agency managers with substantially greater access to financial information for improved decisionmaking.

The NRC is proud of its financial management accomplishments in FY 2008 and looks forward to continued improvement in FY 2009 and beyond. The agency takes its responsibility for effective stewardship of taxpayer money very seriously. The NRC is committed to effective and efficient management of Government resources to achieve its strategic goals for ensuring the safety and security of the Nation's civilian use of nuclear materials.

J.E. Dyer
Chief Financial Officer
November 14, 2008

PRINCIPAL STATEMENTS

Balance Sheet (In Thousands)

As of September 30,	**2008**	2007
Assets		
Intragovernmental		
Fund balance with Treasury (Note 2)	**$ 393,478**	$ 356,399
Accounts receivable (Note 3)	**4,692**	5,228
Other—advances and prepayments	**4,121**	3,244
Total intragovernmental	**402,291**	364,871
Accounts receivable, net (Note 3)	**116,684**	88,666
Property and equipment, net (Note 4)	**35,475**	31,832
Other	**28**	39
Total Assets	**$ 554,478**	$ 485,408

Liabilities		
Intragovernmental		
Accounts payable	**$ 12,360**	$ 9,038
Other (Note 5)	**4,844**	110,797
Total intragovernmental	**17,204**	119,835
Accounts payable	**41,763**	18,672
Federal employee benefits (Note 6)	**7,059**	6,833
Other (Note 5)	**70,948**	58,877
Total Liabilities	**136,974**	204,217
Net Position		
Unexpended appropriations	**289,269**	254,027
Cumulative results of operations (Note 8)	**128,235**	27,164
Total Net Position	**417,504**	281,191
Total Liabilities and Net Position	**$ 554,478**	$ 485,408

The accompanying notes to the principal statements are an integral part of this statement.

Statement of Net Cost (In Thousands)

For the years ended September 30,	2008	2007
Nuclear Reactor Safety and Security		
Gross costs	**$ 705,832**	$ 582,212
Less: Earned revenue	**(725,840)**	(612,769)
Total Net Cost of Nuclear Reactor Safety and Security (Note 9)	**(20,008)**	(30,557)
Nuclear Materials and Waste Safety and Security		
Gross costs	**238,219**	204,495
Less: Earned revenue	**(71,740)**	(80,490)
Total Net Cost of Nuclear Materials and Waste Safety and Security (Note 9)	**166,479**	124,005
Net Cost of Operations	**$ 146,471**	$ 93,448

The accompanying notes to the principal statements are an integral part of this statement.

Statement Of Changes In Net Position (In Thousands)

For the years ended September 30,	**2008**	2007
Cumulative Results of Operations		
Beginning Balance	**$ 27,164**	$ 18,899
Budgetary Financing Sources		
Appropriations used	**98,172**	46,646
Non-exchange revenue (Note 11)	-	-
Transfers-in/out without reimbursement	**29,025**	45,826
Other Financing Sources		
Imputed financing from costs absorbed by others (Note 11)	**26,911**	27,627
Other—Revenue from excess collections	**93,434**	(18,386)
Total Financing Sources	**247,542**	101,713
Net Cost of Operations	**(146,471)**	(93,448)
Net Change	**101,071**	8,265
Cumulative Results of Operations	**$ 128,235**	$ 27,164
Unexpended Appropriations		
Beginning Balance	**$ 254,027**	$ 193,694
Adjustments:		
Change in accounting principle (Note 14)	-	(2,838)
Beginning Balance, as adjusted	**254,027**	190,856
Budgetary Financing Sources		
Appropriations received	**133,414**	109,817
Appropriations used	**(98,172)**	(46,646)
Total Budgetary Financing Sources	**35,242**	63,171
Total Unexpended Appropriations	**289,269**	254,027
Net Position	**$ 417,504**	$ 281,191

The accompanying notes to the principal statements are an integral part of this statement.

Statement Of Budgetary Resources (In Thousands)

For the years ended September 30,	2008	2007
Budgetary Resources		
Unobligated balance, brought forward, October 1	**$ 72,160**	$ 74,255
Recoveries of prior year unpaid obligations		
Actual	**21,937**	5,691
Budget authority		
Appropriation	**926,074**	824,893
Spending authority from offsetting collections		
Reimbursements earned—Collected	**6,709**	4,381
Reimbursements earned—Change in receivables	**222**	371
Change in unfilled customer orders—Advance received	**1,645**	1,433
Change in unfilled customer orders—Without advance	**65**	(93)
Subtotal—Spending authority from offsetting collections	**8,641**	6,092
Total Budgetary Resources	**$ 1,028,812**	$ 910,931
Status of Budgetary Resources		
Obligations incurred (Note 12)		
Direct	**$ 941,942**	$ 834,126
Reimbursable	**7,880**	4,645
Subtotal	**949,822**	838,771
Unobligated balance		
Apportioned	**69,024**	45,438
Exempt from apportionment	**9,853**	26,722
Subtotal	**78,877**	72,160
Unobligated balance, not available	**113**	-
Total Status of Budgetary Resources	**$ 1,028,812**	$ 910,931
Change in Obligated Balance		
Obligated balance, net		
Unpaid obligations brought forward, October 1	**$ 270,894**	$ 202,446
Obligations incurred, net	**949,822**	838,771
Gross outlays	**(884,004)**	(764,354)
Recoveries of prior year unpaid obligations, actual	**(21,937)**	(5,691)
Change in uncollected customer payments, from Federal sources	**(287)**	(278)
Obligated balance, net, end of period		
Unpaid obligations	**318,626**	274,745
Uncollected customer payments, from Federal sources	**(4,138)**	(3,851)
Total unpaid obligated balance, net, end of period	**$ 314,488**	$ 270,894
Net outlays		
Gross outlays	**$ 884,004**	$ 764,354
Offsetting collections	**(8,354)**	(5,814)
Distributed offsetting receipts	**(763,640)**	(669,245)
Net Outlays	**$ 112,010**	$ 89,295

The accompanying notes to the principal statements are an integral part of this statement.

NOTES TO PRINCIPAL STATEMENTS

Note 1. Summary Of Significant Accounting Policies (All tables are presented in thousands)

A. Reporting Entity

The U.S. Nuclear Regulatory Commission (NRC) is an independent regulatory agency of the Federal Government that was created by the U.S. Congress to regulate the Nation's civilian use of byproduct, source, and special nuclear materials to ensure adequate protection of the public health and safety, to promote the common defense and security, and to protect the environment. Its purposes are defined by the Energy Reorganization Act of 1974, as amended, along with the Atomic Energy Act of 1954, as amended, which provide the foundation for regulating the Nation's civilian use of nuclear materials.

The NRC operates through the execution of its congressionally approved appropriations for Salaries and Expenses and for the Office of the Inspector General, including funds derived from the Nuclear Waste Fund. In addition, the U.S. Agency for International Development (USAID) provides transfer appropriations to develop nuclear safety, regulatory authorities, and independent oversight of nuclear reactors in Russia, Ukraine, Kazakhstan, and Armenia.

B. Basis of Presentation

These principal statements were prepared to report the financial position and results of operations of the NRC as required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. These financial statements were prepared from the books and records of the NRC in conformance with generally accepted accounting principles (GAAP) of the United States, and the form and content for entity financial statements were specified by the Office of Management and Budget (OMB) in Circular No. A-136, "Financial Reporting Requirements." GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board, which is the official body for setting the accounting standards of the U.S. Government. These statements are, therefore, different from the financial reports, also prepared by the NRC pursuant to OMB directives, which are used to monitor and control NRC's use of budgetary resources.

The NRC has not presented a Statement of Custodial Activity because the amounts involved are immaterial and incidental to its operations and mission.

C. Budgets and Budgetary Accounting

Budgetary accounting measures the appropriation and consumption of budget spending authority or other budgetary resources and facilitates compliance with legal constraints and controls over the use of Federal funds. Under budgetary reporting principles, budgetary resources are consumed at the time of purchase. Assets and liabilities, which do not consume current budgetary resources, are not reported, and only those liabilities for which valid obligations have been established are considered to consume budgetary resources.

For the past 34 years, Congress has enacted no-year appropriations, which are available for obligation by the NRC until expended. For FY 2008, the Consolidated Appropriations Act of 2008 requires the NRC to recover approximately 90 percent of its new budget authority of $926.1 million by assessing fees. Under Public Law 110-161, the agency does not have to recover the $29 million for the Nuclear Waste Fund, $2 million for waste incidental to reprocessing, and $29.4 for generic homeland security. The $926.1 million does not include any amounts transferred from the U.S. Agency for International Development.

For FY 2007, the NRC recovered approximately 90 percent of its budget authority of $824.9 million less amounts derived from the Nuclear Waste Fund of $45.8 million, waste incidental to reprocessing of $2.5 million, and generic homeland security of $33.0 million.

D. Basis of Accounting

These financial statements reflect both accrual and budgetary accounting transactions. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting is also used to record the obligation of funds prior to the accrual-based transaction. Interest on borrowings of the U.S. Department of the Treasury (Treasury) is not included as a cost to the NRC's programs and is not included in the accompanying financial statements.

E. Revenues and Other Financing Sources

The NRC is required to offset its appropriations by revenue received during the fiscal year from the assessment of fees. The NRC assesses two types of fees to recover its budget authority: (1) fees assessed under Title 10 of the *Code of Federal Regulations* (10 CFR), Part 170, "Fees for Facilities, Materials, Import and Export Licenses, and Other Regulatory Services under the Atomic Energy Act of 1954, as Amended," for licensing, inspection, and other services under the authority of the Independent Offices Appropriation Act of 1952 to recover the NRC's costs of providing individually identifiable services to specific applicants and licensees; and (2) annual fees assessed for nuclear facilities and materials licensees under 10 CFR Part 171, "Packaging and Transportation of Radioactive Material." All fees, with the exception of civil penalties, are exchange revenues in accordance with Statement of Federal Financial Accounting Standards No. 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting."

For accounting purposes, appropriations are recognized as financing sources (appropriations used) at the time expenses are accrued. At the end of the fiscal year, appropriations recognized are reduced by the amount of assessed fees collected during the fiscal year to the extent of new budget authority for the year. Collections which exceed the new budget authority are held to offset subsequent years' appropriations. Appropriations expended for property and equipment are recognized as expenses when the asset is consumed in operations (depreciation and amortization).

As stated in Section C of this note, the NRC is required to recover approximately 90 percent of its budget authority through fee billing and to return the collections to the Treasury. In FY 2007 when fee revenue was recorded, the NRC also recorded a corresponding liability to the Treasury for the eventual collections. As the actual collections were returned to the Treasury, the liability was reduced. In FY 2008, a change was made to the accounting treatment for recording fee revenue and the corresponding transfer of fee revenue collections to Treasury. The NRC no longer records the liability to the Treasury when fee revenue is recorded and no longer reduces the liability as the collections are returned to Treasury. These changes were made to reflect appropriations law and to ensure U.S. Standard General Ledger (USSGL) compliance and consistency.

F. Fund Balance with Treasury

The NRC's cash receipts and disbursements are processed by the Treasury. The fund balances with the Treasury are primarily appropriated funds that are available to pay current liabilities and to finance authorized purchase commitments. Funds with Treasury represent NRC's right to draw on the Treasury for allowable expenditures. All amounts are available to NRC for current use.

G. Accounts Receivable

Accounts receivable consist of amounts owed to the NRC by other Federal agencies and the public. Amounts due from the public are presented net of an allowance for uncollectible accounts. The allowance is based on an analysis of the outstanding balances. Receivables from Federal agencies are expected to be collected; therefore, there is no allowance for uncollectible accounts.

H. Nonentity Assets

Accounts receivable include nonentity assets of $28 thousand and $22 thousand at September 30, 2008, and 2007, respectively, and consist of miscellaneous penalties and interest due from the public, which, when collected, must be transferred to the Treasury.

I. Property and Equipment

Property and equipment consist primarily of typical office furnishings, leasehold improvements, nuclear reactor simulators, and computer hardware and software. The costs of internal use software include the full cost of salaries and benefits from agency personnel involved in software development. The Agency has no real property. The land and buildings in which NRC operates are provided by the General Services Administration (GSA), which charges NRC rent that approximates the commercial rental rates for similar properties.

Property with a cost of $50 thousand or more per unit and a useful life of 2 years or more is capitalized at cost and depreciated using the straight-line method over the useful life. Other property items are expensed when purchased. Normal repairs and maintenance are charged to expense as incurred.

J. Accounts Payable

The NRC uses an estimation methodology to calculate the accounts payable balance which represents costs for billed and unbilled goods and services received (prior to year end) that are unpaid. In FY 2007, the NRC used an algorithm that recognized accounts payable was a specific percentage of NRC's total expenses to date. Once this percentage was calculated, it was applied to an annualized expense figure. In FY 2008, the NRC implemented a revised methodology to calculate the accounts payable estimate. The new methodology involves analyzing the actual activity for the largest obligations to include in the estimate. For the remaining smaller obligations, the actual activity of a percentage of the obligations was analyzed, and an algorithm was developed to estimate the total amount to include in the accounts payable balance.

K. Liabilities Not Covered by Budgetary Resources

Liabilities represent the amount of monies or other resources that are likely to be paid by the NRC as the result of a transaction or event that has already occurred. No liability can be paid by the NRC absent an appropriation. Liabilities for which an appropriation has not been enacted are classified as "Liabilities Not Covered by Budgetary Resources." Also, the NRC liabilities arising from sources other than contracts can be abrogated by the Government acting in its sovereign capacity.

Intragovernmental

The U.S. Department of Labor (DOL) paid Federal Employees Compensation Act (FECA) benefits on behalf of NRC which had not been billed or paid by the NRC as of September 30, 2008, and 2007, respectively.

Federal Employee Benefits

Federal employee benefits represent the actuarial liability for estimated future FECA disability benefits. The future workers' compensation estimate was generated by DOL from an application of actuarial procedures developed to estimate the liability for FECA, which includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability was calculated using historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. These projected annual benefit payments were discounted to present value. The interest rate assumptions utilized for discounting benefits were 4.37 percent and 5.17 percent for FY 2008 and FY 2007, respectively.

Other

Accrued annual leave represents the amount of annual leave earned by NRC employees but not yet taken.

L. Contingencies

Contingent liabilities are those where the existence or amount of the liability cannot be determined with certainty pending the outcome of future events. The NRC is a party to various administrative proceedings, legal actions, environmental suits, and claims brought by or against it. Based on the advice of legal counsel concerning contingencies, it is the opinion of management that the ultimate resolution of these proceedings, actions, suits, and claims will not materially affect the agency's financial statements.

M. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave liability account is adjusted to reflect current pay rates. To the extent that current or prior year funding is not available to cover annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of nonvested leave are expensed as taken.

N. Retirement Plans

The NRC employees belong to either the Federal Employees Retirement System (FERS) or the Civil Service Retirement System (CSRS). For FY 2008 and FY 2007, for employees belonging to FERS, the NRC withheld 0.8 percent of base pay earnings, in addition to Federal Insurance Contribution Act (FICA) withholdings, and matched the withholdings with an 11.2 percent contribution. The sum is transferred to the Federal Employees Retirement Fund. For employees covered by CSRS, NRC withholds 7 percent of base pay earnings. The NRC matched this withholding with a 7 percent contribution in FY 2008 and FY 2007.

The Thrift Savings Plan (TSP) is a retirement savings and investment plan for employees belonging to either FERS or CSRS. For employees belonging to FERS, NRC automatically contributes 1 percent of base pay to their account and matches contributions up to an additional 4 percent. The maximum percentage of base pay that an employee participating in FERS may contribute is unlimited in fiscal years 2008 and 2007. The Thrift Savings Plan (TSP) is a retirement savings and investment plan for employees belonging to either FERS or CSRS. The maximum percentage of base pay that an employee participating in FERS or CSRS may contribute is unlimited in fiscal years 2008 and 2007, subject to the maximum contribution of $15.5 thousand for both years. For employees participating in FERS, the NRC automatically contributes one percent of base pay to their account and matches contributions up to an additional four percent. For employees participating in CSRS, there is no NRC matching of the contribution. The sum of the employees' and NRC's contributions are transferred to the Federal Retirement Thrift Investment Board. The sum of the employees' and NRC's contributions are transferred to the Federal Retirement Thrift Investment Board.

The NRC does not report on its financial statements FERS and CSRS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of the U.S. Office of Personnel Management. The portion of the current and estimated future outlays for CSRS not paid by NRC is, in accordance with Statement of Federal Financial Accounting Standards No. 5, "Accounting for Liabilities of the Federal Government," included in NRC's financial statements as an imputed financing source.

O. Leases

The total capital lease liability is funded on an annual basis and included in NRC's annual budget. The NRC's capital leases are for personal property consisting of reproduction equipment which is installed at the NRC headquarters. For FY 2008 there are eight capital leases with terms of 5 years, consisting of two new capital leases added in FY 2008 with an interest rate of 3.99 percent, two capital leases that were added in FY 2007 with an interest rate of 4.58 percent, one capital lease in FY 2006 with an interest rate of 4.25 percent, and three capital leases for FY 2005 with an interest rate of 4.13 percent. The reproduction equipment is depreciated over 5 years using the straight-line method with no salvage value.

Operating leases consist of real property leases with GSA. The leases are for NRC's headquarters and regional offices. The GSA charges NRC lease rates which approximate commercial rates for comparable space.

P. U.S. Department of Energy Charges

Financial transactions between the U.S. Department of Energy (DOE) and the NRC are fully automated through the U.S. Treasury's Intragovernmental Payment and Collection (IPAC) System. The IPAC System allows DOE to collect amounts due from NRC directly from the NRC's account at the Treasury for goods or services rendered. Project manager verification of goods or services received is subsequently accomplished through a system-generated voucher approval process. The vouchers are returned to the Office of the Chief Financial Officer documenting that the charges have been accepted.

Q. Pricing Policy

The NRC provides goods and services to the public and other Government entities. In accordance with OMB Circular No. A-25, "User Charges," and the Independent Offices Appropriation Act of 1952, NRC assesses fees under 10 CFR Part 170 for licensing and inspection activities to recover the full cost of providing individually identifiable services.

The NRC's policy is to recover the full cost of goods and services provided to other Government entities where (1) the services performed are not part of its statutory mission and (2) the NRC has not received appropriations for those services. Fees for reimbursable work are assessed at the 10 CFR Part 170 rate with minor exceptions for programs that are nominal activities of the NRC.

R. Net Position

The NRC's net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent appropriated spending authority that is unobligated and has not been withdrawn by the U.S. Treasury, and obligations that have not been paid. Cumulative results of operations represent the excess of financing sources over expenses since inception.

S. Use of Management Estimates

The preparation of the accompanying financial statements in accordance with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. Actual results could differ from those estimates.

T. Appropriation Transfers

The NRC is a party to allocation transfers with another Federal agency (parent) as a receiving (child) entity. Allocation transfers are legal delegations by one agency of its authority to obligate budget authority and outlay funds to another agency. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. All financial activity related to these allocation transfers (e.g., budget authority, obligations, and outlays) is reported in the financial statements of the parent entity from which the underlying legislative authority, appropriations, and budget apportionments are derived. The NRC receives allocation transfers, as the child, from U.S. Agency for International Development (USAID). These transfers are for the international development of nuclear safety and regulatory authorities in Russia, Ukraine, Kazakhstan, Georgia, and Armenia for the startup, operation, shutdown, and decommissioning of Soviet-designed nuclear power plants; the safe and secure use of radioactive materials; and the accounting for and protection of nuclear materials.

Note 2. Fund Balance With Treasury

		2008		2007
Fund Balances				
Appropriated funds	$	371,714	$	301,751
Nuclear Waste Fund		21,764		41,300
Other fund types		-		13,348
Total	$	393,478	$	356,399
Status of Fund Balance with Treasury				
Unobligated balance				
Available				
Appropriated funds	$	78,877	$	72,160
Unavailable		113		-
Obligated balance not yet disbursed		314,488		270,894
Nonbudgetary funds with Treasury		-		13,345
Total	$	393,478	$	356,399

The Fund Balance with Treasury consists of unobligated and obligated balance budgetary accounts. It includes Nuclear Waste Fund activity. The Nuclear Waste Fund unobligated balance is $9.9 million and $26.7 million as of September 30, 2008, and 2007, respectively.

Note 3. Accounts Receivable

		2008		2007
Intragovernmental				
Receivables and reimbursements	$	4,692	$	5,228
Receivables with the Public				
Materials and facilities fees—billed	$	2,204	$	2,533
Materials and facilities fees—unbilled		116,162		90,718
Other		67		86
Total Accounts Receivable		118,433		93,337
Less: Allowance for uncollectible accounts		(1,749)		(4,671)
Accounts Receivable, Net	$	116,684	$	88,666

Note 4. Property And Equipment, Net

Fixed Assets Class	Service Years	Acquisition Value	Accumulated Depreciation and Amortization	2008 Net Book Value	2007 Net Book Value
Equipment	5-8	$ 11,864	$ (10,578)	**$ 1,286**	$ 1,138
Leased equipment	5-8	1,712	(473)	**1,239**	841
IT software	5	50,907	(43,726)	**7,181**	4,686
IT software under development	-	12,110	-	**12,110**	12,988
Leasehold improvements	20	27,819	(17,738)	**10,081**	9,558
Leasehold improvements in progress	-	3,578	-	**3,578**	2,621
Total		$ 107,990	$ (72,515)	**$ 35,475**	$ 31,832

Note 5. Other Liabilities

	2008	2007
Intragovernmental		
Liability to offset net accounts receivable for fees assessed	**$ -**	$ 93,434
Liability from fees collected which will offset current year's appropriations	-	13,340
Liability to offset miscellaneous accounts receivable	**28**	22
Liability for advances from other agencies	**74**	88
Accrued workers' compensation	**1,710**	1,659
Accrued unemployment compensation	**27**	6
Employee benefit contributions	**3,005**	2,248
Total Intragovernmental Other Liabilities	**$ 4,844**	$ 110,797

The liability to offset the net accounts receivable for fees assessed represents amounts which, when collected, will be transferred to the Treasury to offset NRC's appropriations in the year collected. Beginning in 2008, this liability is no longer being recorded due to a change in methodology for fees recorded and transferred. See Note 1.

	2008	2007
Accrued annual leave	**$ 43,675**	$ 38,327
Accrued salaries	**19,683**	15,962
Contract holdbacks, advances, and other	**6,929**	4,588
Grants payable	**661**	-
Total Other Liabilities	**$ 70,948**	$ 58,877

Other liabilities, except accrued annual leave, contract holdbacks, and advances from others are current.

Note 6. Liabilities Not Covered By Budgetary Resources

	2008	2007
Intragovernmental		
FECA paid by DOL	$ 1,710	$ 1,659
Accrued unemployment compensation	27	6
Federal Employee Benefits		
Future FECA	7,059	6,833
Other		
Accrued annual leave	43,675	38,327
Total Liabilities not Covered by Budgetary Resources	$ 52,471	$ 46,825

Note 7. Leases

	2008	2007
Assets under capital leases:		
Copiers and booklet maker	$ 1,712	$ 1,638
Accumulated depreciation	(473)	(797)
Net assets under capital leases	$ 1,239	$ 841

Future Lease Payments Due:

Fiscal Year	Capital	Operating	2008	2007
2008	$ -	$ -	$ -	$ 23,447
2009	362	32,322	32,684	20,778
2010	336	32,518	32,854	20,836
2011	284	32,353	32,637	20,537
2012	272	30,236	30,508	18,403
2013 and thereafter	14	48,603	48,617	23,412
Total Lease Liability	1,268	176,032	177,300	127,413
Add: Imputed Interest	107	-	107	86
Total Future Lease Payments	$ 1,375	$ 176,032	$ 177,407	$ 127,499

The capital lease liability of $1,268 thousand is included in Other Liabilities (Note 5).

Note 8. Cumulative Results of Operations

	2008	2007
Future funding requirements	**$ (52,471)**	$ (46,825)
Investment in property and equipment, net	**35,475**	31,832
Contributions from foreign cooperative research agreements	**3,054**	3,184
Change in Nuclear Waste Fund	**21,439**	38,933
Other	**120,738**	40
Cumulative Results of Operations	**$ 128,235**	$ 27,164

Future funding requirements represent the amount of future funding needed to pay the accrued unfunded expenses as of September 30, 2008, and 2007. These accruals are not funded from current or prior-year appropriations and assessments, but rather should be funded from future appropriations and assessments. Accordingly, future funding requirements have been recognized for the expenses that will be paid from future appropriations.

Note 9. Statement of Net Cost

The programs as presented on the "Statement of Net Cost" are based on the annual performance budget and are described as follows:

Nuclear Reactor Safety and Security encompasses all NRC efforts to ensure that civilian nuclear power reactor facilities and research and test reactors are licensed and operated in a manner that adequately protects the public health and safety, the environment, and protects against radiological sabotage and theft or diversion of special nuclear materials. The Nuclear Reactor Safety and Security program contains the following activities: new reactors, nuclear reactor licensing and rulemaking, and nuclear reactor oversight, and incident response.

Nuclear Materials and Waste Safety and Security encompasses all NRC efforts to protect the public health and safety and the environment, and ensures the secure use and management of radioactive materials. The Nuclear Materials and Waste Safety and Security program contains five activities: fuel facilities licensing and inspection, nuclear materials users licensing and inspection, high-level waste repository, decommissioning and low-level waste, and spent fuel storage and transportation licensing and inspection.

For intragovernmental gross costs, the buyers and sellers are both Federal entities. For earned revenues from the public, the buyers of the goods or services are non-Federal entities.

Note 9. Statement of Net Cost (continued)

For the years ended September 30,		2008		2007
Nuclear Reactor Safety				
Intragovernmental gross costs	$	**205,183**	$	157,582
Less: Intragovernmental earned revenue		**(32,710)**		(36,519)
Intragovernmental net costs		**172,473**		121,063
Gross costs with the public		**500,649**		424,630
Less: Earned revenues from the public		**(693,130)**		(576,250)
Net costs with the public		**(192,481)**		(151,620)
Total Net Cost of Nuclear Reactor Safety	$	**(20,008)**	$	(30,557)

Nuclear Materials and Waste Safety				
Intragovernmental gross costs	$	**54,978**	$	45,287
Less: Intragovernmental earned revenue		**(6,011)**		(7,154)
Intragovernmental net costs		**48,967**		38,133
Gross costs with the public		**183,241**		159,208
Less: Earned revenues from the public		**(65,729)**		(73,336)
Net costs with the public		**117,512**		85,872
Total Net Cost of Nuclear Materials and Waste Safety	$	**166,479**	$	124,005

Note 10. Exchange Revenues

		2008		2007
Fees for licensing, inspection, and other services	$	**790,910**	$	687,632
Revenue from reimbursable work		**6,670**		5,627
Total Exchange Revenues	$	**797,580**	$	693,259

NOTE 11. FINANCING SOURCES OTHER THAN EXCHANGE REVENUE

Appropriations Used

Collections were used to reduce the fiscal year's appropriations recognized:

	2008	2007
Funds consumed	**$ 908,330**	$ 757,892
Less: Collection from fees assessed	**(763,640)**	(669,246)
Less: Nuclear Waste Funding Used	**(46,518)**	(42,000)
Appropriations Used	**$ 98,172**	$ 46,646

Funds consumed include $72.2 million and $74.3 million through September 30, 2008, and 2007, respectively, of available funds from prior years.

Non-Exchange Revenue

	2008	2007
Civil penalties	**$ 1,102**	$ 450
Miscellaneous receipts	**211**	1,681
Contra-Revenue	**(1,313)**	(2,131)
Total Non-Exchange Revenue	**$ -**	$ -

Imputed Financing

	2008	2007
Civil Service Retirement System	**$ 10,239**	$ 10,593
Federal Employee Health Benefit	**16,589**	16,956
Federal Employee Group Life Insurance	**79**	71
Judgements Awards	**4**	7
Total Imputed Financing	**$ 26,911**	$ 27,627

Note 12. Total Obligations Incurred

	2008	2007
Direct Obligations		
Category A	$ 895,751	$ 788,875
Exempt from Apportionment	46,191	45,251
Total Direct Obligations	941,942	834,126
Reimbursable Obligations	7,880	4,645
Total Obligations Incurred	$ 949,822	$ 838,771

Obligations exempt from apportionment are the result of funds derived from the Nuclear Waste Fund. Category A obligations consist of NRC appropriations only. Undelivered orders for the Nuclear Waste Fund are $ 11.6 million and $12.2 million, salaries and expenses are $ 228.4 million and $215.0 million, and the Office of the Inspector General are $ 1.5 million and $1.7 million through September 30, 2008, and 2007, respectively.

Note 13. Nuclear Waste Fund

Included in the NRC's budget for FY 2008 and 2007 are $29.0 million and $45.8 million, respectively, provided from the Nuclear Waste Fund. Statement of Federal Financial Accounting Standards (SFFAS) No. 27, "Identifying and Reporting Earmarked Funds," lists three defining criteria for an earmarked fund. Generally, an earmarked fund is established by law to use specifically identified financing sources only for designated activities, and the statute provides explicit authority to retain current, unused revenues for future use. Also, the law includes a requirement to account for and report on the receipt and use of the financing sources as distinguished from general revenues.

In 1982, Congress passed the Nuclear Waste Policy Act of 1982 (Public Law 97-425) establishing the Nuclear Waste Fund (NWF) to be administered by the U.S. Department of Energy (DOE) (42 U.S.C. 10222). Given the terms of the statute, the NWF clearly meets the definition of an earmarked fund from DOE's perspective, and DOE does indeed report the NWF as an earmarked fund in its Performance and Accountability Report (PAR).

However, to the NRC, the NWF transfer is a source of financing; its receipt of NWF funds is a use of NWF resources. The NRC collects no revenue on behalf of the NWF and has no administrative control over it. Furthermore, the Treasury has no separate fund symbol for the NWF under the NRC's agency location code (ALC). The receipt and expenditure of NWF money is reported to Treasury under the NRC's primary Salaries and Expenses fund (X0200).

Based on these facts, the NWF is not an earmarked fund from NRC's perspective. However, in order to provide additional information to the users of these financial statements, enhanced disclosure of the fund is presented below.

The funding provided to the NRC in FY 2008 and 2007 was for the purpose of performing activities associated with DOE's application for a high-level waste repository at Yucca Mountain, NV. These activities included assistance to DOE with the application, review of the application, the conduct of thorough safety and security evaluations, preparation of the safety evaluation report, initiation of the inspection program, ensuring that the regulation process was made available to stakeholders and the general public, and to provide legal advice and representation for staff reviews and Commission actions.

The NWF amounts received, expended, obligated, and unobligated balances as of September 30, 2008, and 2007, are shown in the following:

		2008		2007
Appropriations Received	**$**	**29,025**	$	45,826
Expended Appropriations	**$**	**48,885**	$	45,640
Obligations Incurred	**$**	**46,191**	$	45,247
Unobligated Balances	**$**	**9,853**	$	26,717

Note 14. Change in Accounting Principle

As discussed in Note 1T, the NRC receives allocation transfers from USAID. In prior years, the NRC appropriately reported the proprietary activity related to the allocation transfers on its financial statements.

Effective in FY 2007, OMB Circular A-136, "Financial Reporting Requirements," mandated that a parent entity must report all budgetary and proprietary activity in its financial statements, whether material to a child entity or not. The effect of this reporting change on prior periods should be reported as a change in accounting principle consistent with SFFAS 21, "Reporting Corrections of Errors and Changes in Accounting Principles." The cumulative effect of the change on beginning unexpended appropriations is reported in the accompanying FY 2007 Statement of Changes in Net Position as follows:

Unexpended Appropriations:		
Beginning Balances, October 1, 2006	$	193,694
Less: USAID Allocation transfers		(2,838)
Restated beginning balance, October 1, 2006	$	190,856

Note 15. Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the U.S. Government

Statement of Federal Financial Standards (SFFAS) No. 7, "Accounting for Revenue and Other Financing Sources," requires the NRC to reconcile the budgetary resources reported on the Statement of Budgetary Resources to the prior fiscal year actual budgetary resources presented in the Budget of the U.S. Government and to explain any material differences. The NRC does not have any material differences between the Statement of Budgetary Resources and the Budget of the U.S. Government. The President's Budget with actual results for the NRC has not been published for FY 2008. It is expected to be published in February 2009.

Note 16. Reconciliation of Net Cost of Operations to Budgetary Resources

For the years ended June 30,	2008	2007
Budgetary Resources Obligated		
Obligations incurred (Note 12)	**$ 949,822**	$ 838,771
Less: Spending authority from offsetting collections and recoveries	**(30,578)**	(11,783)
Less: Distributed offsetting receipts	**(763,640)**	(669,245)
Net Obligations	**155,604**	157,743
Other Resources		
Imputed financing from costs absorbed by others	**26,911**	27,627
Other—Revenue from excess collections	**93,434**	(18,386)
Non-Exchange Revenue	**-**	-
Net Other Resources Used to Finance Activities	**120,345**	9,241
Total Resources Used to Finance Activities	**275,949**	166,984
Resources Used to Finance Items not Part of the Net Cost of Operations	**(19,841)**	(79,278)
Total Resources Used to Finance the Net Cost of Operations	**256,108**	87,706
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period	**(109,637)**	5,742
Net Cost of Operations	**$ 146,471**	$ 93,448

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Budgetary Resources (In Thousands)

For the year ended September 30, 2008	Salaries & Expenses X0200	Office of Inspector General X0300	Nuclear Facility Fees X5280	Total
Budgetary Resources				
Unobligated balances, brought forward, October 1	$ 71,610	$ 546	$ 4	**$ 72,160**
Recoveries of prior year obligations				
Actual	21,624	313	-	**21,937**
Budget authority				
Appropriation	917,335	8,743	(4)	**926,074**
Spending authority from offsetting collections				
Reimbursements earned—Collected	6,709	-	-	**6,709**
Reimbursements earned—Change in receivables	222	-	-	**222**
Change in unfilled customer orders—Advance received	1,645	-	-	**1,645**
Change in unfilled customer orders—Without advance	65	-	-	**65**
Subtotal—Spending authority from offsetting collections	8,641	-	-	**8,641**
Total Budgetary Resources	$ 1,019,210	$9,602	$ -	**$ 1,028,812**
Status of Budgetary Resources				
Obligations incurred (Note 12)				
Direct	$ 933,139	$ 8,803	$ -	**$ 941,942**
Reimbursable	7,880	-	-	**7,880**
Subtotal	941,019	8,803	-	**949,822**
Unobligated balance				
Apportioned	68,338	686	-	**69,024**
Exempt from apportionment	9,853	-	-	**9,853**
Subtotal	78,191	686	-	**78,877**
Unobligated balance, not available	-	113	-	**113**
Total Status of Budgetary Resources	$ 1,019,210	$ 9,602	$ -	**$ 1,028,812**
Change in Obligated Balance				
Obligated balance, net				
Unpaid obligations, brought forward, October 1	$ 269,637	$ 1,257	$ -	**$ 270,894**
Obligations incurred, net	941,019	8,803	-	**949,822**
Gross outlays	(875,172)	(8,832)	-	**(884,004)**
Recoveries of prior year obligations, actual	(21,624)	(313)	-	**(21,937)**
Change in uncollected customer payments, from Federal sources	(287)	-	-	**(287)**
Obligated balance, net, end of period				
Unpaid obligations	317,711	915		**318,626**
Uncollected customer payments, from Federal sources	(4,138)	-	-	**(4,138)**
Total unpaid obligated balance, net , end of period	$ 313,573	$ 915	$ -	**$ 314,488**
Net outlays				
Gross outlays	$ 875,172	$ 8,832	$ -	**$ 884,004**
Offsetting collections	(8,354)	-	-	**(8,354)**
Distributed offsetting receipts	-	-	(763,640)	**(763,640)**
Net Outlays	$ 866,818	$ 8,832	$ (763,640)	**$ 112,010**

AUDITOR'S REPORT

UNITED STATES
NUCLEAR REGULATORY COMMISSION
WASHINGTON, DC 20555-0001

OFFICE OF THE
INSPECTOR GENERAL

November 10, 2008

MEMORANDUM TO: Chairman Klein

FROM: Hubert T. Bell
Inspector General

SUBJECT: RESULTS OF THE AUDIT OF THE UNITED STATES NUCLEAR REGULATORY COMMISSION'S FINANCIAL STATEMENTS FOR FISCAL YEAR 2008 (OIG-09-A-01)

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 U.S. 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 2008 and FY 2007. Therefore, it is important to note that R. Navarro & Associates, Inc. performed the audit of NRC's FY 2007 financial statements.

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; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. The audit included obtaining an understanding of the internal controls over financial reporting and testing and evaluating the design and operating effectiveness of the internal controls. Because of inherent limitations in any internal control, there is a risk that errors or fraud may occur and not be detected. Also, projections of an evaluation of internal control over financial reporting 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 policies or procedures may deteriorate.

FY 2008 Audit Results

The results are as follows:

Financial Statements

- Unqualified opinion

Internal Controls

- Unqualified opinion
- Significant Deficiency
  - Estimation of accounts payable year-end balance

Compliance with Laws and Regulations

- Substantial noncompliance:
  - License Fee Billing System lack of certification and accreditation

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 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 7, 2008, 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.

It is noted that OIG performed similar oversight of R. Navarro & Associates, Inc.'s audit of NRC's FY 2007 financial statements.

Meeting with the Chief Financial Officer

At the exit conference on November 7, 2008, representatives of the Office of the Chief Financial Officer, OIG, and UKW discussed the issues in the report related to the results of the audit.

Comments of the Chief Financial Officer

In his response, the Chief Financial Officer (CFO) generally agreed with the auditors' recommendations. We will follow up on the CFO's implementation of planned corrective actions during FY 2009. 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.

INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

UK &W Urbach Kahn & Werlin LLP
CERTIFIED PUBLIC ACCOUNTANTS

Inspector General
United States Nuclear Regulatory Commission

Chairman
United States Nuclear Regulatory Commission

We have audited the accompanying balance sheet of the United States Nuclear Regulatory Commission (NRC), as of September 30, 2008, and the related statements of net cost, changes in net position, and budgetary resources (Principal Statements) for the year then ended. The Principal Statements of NRC as of and for the year ended September 30, 2007 were audited by other auditors. We also examined the NRC's internal control over financial reporting as of September 30, 2008.

Summary

We concluded that the NRC's 2008 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, although improvements are needed as noted below, the NRC had effective internal control over financial reporting (including the safeguarding of assets):

- The NRC should continue to enhance its procedures for determining accounts payable

We found one reportable instance of noncompliance with laws and regulations.

This report (including Appendices A through D) discusses: (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, (4) management's response and our evaluation of their response, and (5) 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, 2008, and its net cost, changes in net position, and budgetary resources for the year then ended, in conformity with accounting principles generally accepted in the United States of America. The Principal Statements of NRC

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as of and for the year ended September 30, 2007 were audited by other auditors, whose report, dated November 7, 2007, expressed an unqualified opinion on those statements.

As described in footnote 1 of the Principal Statements, the NRC revised its methodology for accounting for accounts payable as of September 30, 2008. We have not determined what impact, if any, this revised methodology may have had on the Principal Statements if applied in the prior year.

Opinion on Internal Control

In our opinion, the NRC maintained, in all material respects, effective control over financial reporting (including safeguarding of assets) as of September 30, 2008 that provided reasonable assurance that misstatements, losses or noncompliance material in relation to the financial statements would be prevented 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, and the Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*.

However, we noted the matter summarized below and more fully described in Appendix A, involving the internal control and its operation that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a deficiency in internal control, or a combination of deficiencies, that adversely affects the NRC's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the NRC's Principal Statements that is more than inconsequential will not be prevented or detected by the NRC's internal control.

The NRC should continue to enhance its procedures for determining accrued accounts payable

The NRC currently does not have a business process to record accounts payable and related accrued expenses in the general ledger at the transaction level. For the last several years, the NRC used an estimation methodology based on historical expenses to estimate these balances. Because of material variances in their prior estimates, and because the NRC transferred its bill paying function to the Department of Interior's National Business Center during fiscal year 2008, the NRC did not have adequate historical data to fully support its estimate recorded as of September 30, 2008. For September 30, 2008, the NRC requested its program managers to calculate, confirm or estimate the amounts of goods and services received but not yet paid for its 200 largest open obligations. An estimated amount for unbilled and/or unpaid goods and services was applied to the remaining balances based on the results of a sample of smaller obligations. We were able to perform adequate compensating procedures to determine the potential effect of this deficiency.

Specific details and the related recommendations for this finding are provided in Appendix A of this report.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in a more than remote likelihood that a material misstatement of the Principal Statements will not be prevented or detected by the NRC's internal control. We do not consider this matter to be a material weakness.

Compliance with Laws and Regulations

The results of our tests of compliance with laws and regulations, exclusive of those referred to under the Federal Financial Management Improvement Act (FFMIA), 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 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 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 one substantial noncompliance with federal financial management systems requirements.

> The NRC did not complete its certification and accreditation (C&A) for the License Fee Billing System (FEES). The NRC is currently reevaluating its process for the modernization of its financial management systems as part of the core financial system replacement and has delayed the timeline for the replacement of FEES. Management intends to complete the C&A for the system by the end of the second quarter of FY 2009.

The current status of prior year findings and recommendations is included in Appendix B.

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, maintaining and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers Financial Integrity Act of 1982 are met; (3) ensuring that the NRC's financial management systems substantially comply with FFMIA; and (4) complying with applicable laws and regulations.

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

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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 effective internal control over financial reporting (including safeguarding of assets) and compliance with applicable laws and regulations based on criteria established under 31 U.S.C. 3512 (c), (d), the Federal Managers' Financial Integrity Act, and OMB Circular A-123, *Management's Responsibility for Internal Control*. Our examination included obtaining an understanding of internal control related to financial reporting (including safeguarding assets) and compliance with laws and regulations (including execution of transactions in accordance with budget authority); testing relevant internal controls over financial reporting (including safeguarding assets) and compliance, evaluating the design and operating effectiveness of internal control; 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 the Federal Managers' Financial Integrity Act.

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 year ended September 30, 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 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 also noted other less significant matters involving the NRC's internal control and its operation, which we have reported to the management of the NRC in a separate letter, dated November 7, 2008.

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 7, 2008

Appendix A – Significant Deficiency

In our report dated November 7, 2008, we described the results of our audit of the consolidated balance sheet of the Nuclear Regulatory Commission (NRC), as of September 30, 2008, and the related consolidated statements of net cost, changes in net position, and the combined statement of budgetary resources (Principal Statements) for the year then ended. The objective of our audit was to express an opinion on these financial statements. In connection with our audit, we also considered the NRC's internal control over financial reporting and tested the NRC's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its financial statements. The following presents additional detail on the internal control deficiency discussed in that report.

1. **The NRC should continue to enhance its procedures for determining accrued accounts payable.**

The NRC currently does not have a business process to record accounts payable and related accrued expenses in the general ledger at the transaction level. For the last few years, the NRC has used an estimation methodology based on historical average percentage of actual accounts payable to expenses. The actual amount of accounts payable for a prior period was calculated through a review of subsequent disbursements. During fiscal year 2008, the NRC's management identified errors in its subsequent review procedures and found that their methodology was not reliable in estimating the September 30, 2007 non-federal accounts payable balance.

During fiscal year 2008, the NRC also transferred its bill paying function to the Department of Interior's National Business Center. Although management does not believe this transition has materially impacted its bill paying patterns for the fiscal year end, they did not have sufficient time to analyze this data to support their historical estimation methodology for the current fiscal year end.

For September 30, 2008, the NRC requested its program managers to calculate, confirm or estimate the amounts of goods and services received but not yet paid for its 200 largest open obligations. An estimated amount for unbilled and/or unpaid goods and services was applied to the remaining balances based on the results of a sample of smaller obligations.

While this new methodology should reduce the risk of misstatements in the recorded balance for non-federal accounts payable, the NRC has not fully documented its business processes and policies related to this methodology. In addition, the NRC has not established historical relationships between the accrued accounts payable balances and unliquidated obligations in order to corroborate the results of this process. We were able to perform adequate compensating procedures to determine the potential effect of this deficiency.

Without effective documented procedures and historical analysis, management cannot adequately ensure that the potential misstatement related to using this methodology rather than recording accounts payable and the related accrued expenses at the transaction level is appropriately immaterial.

We recommend that the NRC's Chief Financial Officer:

1. Ensure the NRC's long term plans for replacing the core financial management system evaluate the system requirements for recording accounts payable and related accrued expenses at the transaction level. (New)
2. Document the NRC's policies and procedures for calculating, estimating and recording accounts payable for the largest obligations quarterly. (New)
3. Consider the accounts payable process a high risk area in connection with the agency's management control program and conduct reviews and testing of the interim quarters for FY 2009 accordingly. (New)
4. Establish historical relationships between accrued expenses and unliquidated obligation levels that may support near term calculations of accounts payable and related accrued expenses. (New)

Appendix B – Status of Prior Year Findings and Recommendations

Our assessment of the current status of reportable conditions and material weaknesses identified in prior year audits is presented below:

Prior Recommendation	Type	Fiscal Year 2008 Status
1. The NRC CFO should coordinate with the Office of Information Services and the Executive Director for Operations to ensure that any vulnerabilities of the general support systems and the financial management systems are addressed and resolved timely.	2007 Material Weakness/ Substantial Noncompliance with Laws and Regulations	Closed.
2. The NRC CFO should continue to define, design and implement compensating controls over the fee billing system.	2007 Significant Deficiency	Closed.

MANAGEMENT'S RESPONSE TO THE INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

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

OFFICE OF THE
CHIEF FINANCIAL OFFICER

November 7, 2008

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

FROM: J. E. Dyer
Chief Financial Officer

SUBJECT: AUDIT OF THE FISCAL YEAR 2008 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 auditors' report of the agency's fiscal year 2008 financial statements and are in general agreement with the report and overall findings.

Our responses to the recommendations follow:

Recommendation 1

Ensure the NRC's long term plans for replacing the core financial management system evaluate the system requirements for recording accounts payable and related accrued expenses at the transaction level.

Response

Agree. The Office of the Chief Financial Officer (OCFO) will include system requirements for recording accounts payable and related accrued expenses at the transaction level in the functional requirements of the new core financial system.

Recommendation 2

Document the NRC's policies and procedures for calculating, estimating, and recording accounts payable for the largest obligations quarterly.

Response

Agree. The OCFO will document the policies and procedures for calculating, estimating and recording accounts payable for the largest obligations quarterly.

Recommendation 3

Consider the accounts payable process a high-risk area in connection with the agency's management control program and conduct reviews and testing of the interim quarters for FY 2009 accordingly.

Response

Agree. While we do not consider the accounts payable process to be a high-risk area in connection with our management control program, it merits the continued attention of management. NRC will conduct reviews and testing of the interim quarters for FY 2009 accordingly.

Recommendation 4

Establish historical relationships between accrued expenses and unliquidated obligation levels that may support near term calculations of accounts payable and related accrued expenses.

Response

Agree. The OCFO will begin to establish our understanding of the historical relationship between accrued expenses and unliquidated obligation levels through various means including trend analysis.