INDEPENDENT AUDITORS REPORT AND
PRINCIPAL STATEMENTS FOR THE
YEAR ENDED SEPTEMBER 30, 1998

OIG/98A-09   March 1, 1999

March 1, 1999

MEMORANDUM TO: Chairman Jackson

FROM: Hubert T. Bell
Inspector General

SUBJECT: RESULTS OF THE AUDIT OF U.S. NUCLEAR REGULATORY COMMISSION'S FISCAL YEAR 1998 FINANCIAL STATEMENTS

Attached is the independent auditors' report on the U.S. Nuclear Regulatory Commission's (NRC) Fiscal Year 1998 financial statements. The Chief Financial Officers Act requires the Office of the Inspector General (OIG) to annually audit NRC's Principal Financial Statements. The report contains (1) the principal statements and the auditors' opinion on those statements, (2) the auditors' opinion on management's assertion about the effectiveness of internal controls, and (3) a report on NRC's compliance with laws and regulations. Written comments were obtained from the Chief Financial Officer (CFO) and are included as an appendix to the independent auditors' report.

Audit Results

The independent auditors issued an unqualified opinion on the Balance Sheet, the Statements of Changes in Net Position, Net Cost, Budgetary Resources, and Financing.

In the opinion on management's assertion about the effectiveness of internal controls, the auditors concluded that management's assertion is not fairly stated. The auditors reached this conclusion because management did not identify the lack of managerial cost accounting as a material weakness.[1]

The auditors identified four new reportable conditions and closed one prior-year reportable condition. The new conditions concern (1) the lack of managerial cost accounting, (2) the lack of fully aligned strategic, budget, and performance plans for financial reporting, (3) inadequate funds control for NRC's Comprehensive Information System Support Contract (CISSCO), and (4) improper revenue recognition for reimbursable agreements. The reportable condition closed concerned inadequate segregation of duties.

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[1] OIG's annual assessment of NRC's implementation of the Federal Managers Financial Integrity Act will also report the lack of managerial cost accounting as a material weakness.

The report on NRC's compliance with laws and regulations disclosed three noncompliances with laws and regulations. The first is that NRC's 10 CFR Part 170 license fee rates are not based on full cost. The second is that managerial cost accounting was not implemented, as required, and the third is that accounting information was not properly classified to support reporting of governmental and public information. Issues two and three are considered substantial noncompliances with the Federal Financial Management Improvement Act of 1996 (FFMIA).

Further, the prior year's reportable condition relating to business continuity plans for the general ledger system and fee systems remains in substantial noncompliance with FFMIA. Tests of compliance with selected provisions of other laws and regulations disclosed no other instances of noncompliance.

Performance Reporting

Office of Management and Budget Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements*, requires us to "obtain an understanding of the components of internal control relating to the existence and completeness of assertions relevant to the performance measures included in the Overview of the Reporting Entity." The Bulletin states that the objective of this work is to report deficiencies in the design of internal control, rather than plan the financial statement audit. With this requirement and objective in mind, OIG examined the control process for several performance measures. Our examination concluded that there were no deficiencies to report.

Comments of the Chief Financial Officer

The CFO disagreed with the auditors' conclusion that management's assertion about internal controls is not fairly stated. The CFO explained that the agency's management representation letter identified managerial cost accounting as a "significant weakness." However, as stated above, the auditors identified this issue as a "material weakness."

The CFO also disagreed with the auditors' conclusion that the fiscal year 1998 license fee rates were not developed in accordance with applicable laws and regulations. However, in his response to the attendant recommendation, the CFO advised that his office "will initiate a study to analyze those activities currently characterized as 'generic activities' for license fee development purposes." The CFO agreed with the remaining recommendations and indicated that corrective action is underway.

We appreciate NRC staff's cooperation and continued interest in improving financial management within NRC.

Attachment: As stated

U.S. NUCLEAR REGULATORY COMMISSION

INDEPENDENT AUDITORS' REPORT AND PRINCIPAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 1998

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I. INDEPENDENT AUDITORS REPORT

REPORT OF INDEPENDENT AUDITORS

Chairman Shirley A. Jackson
U.S. NUCLEAR REGULATORY COMMISSION
Rockville, Maryland

In our audit of the U. S. Nuclear Regulatory Commission for the year ended September 30, 1998, we found:

- The principal statements were fairly stated in all material respects;

- Management stated, except for a significant deficiency related to managerial cost accounting, that NRC's systems of accounting and the internal control in place as of September 30, 1998 are in compliance with the internal control objectives in Office of Management and Budget Bulletin No. 98-08, *Audit Requirement for Federal Financial Statements,* requiring that transactions be properly recorded, processed, and summarized to enable the preparation of the principal statements in accordance with Federal accounting standards, and safeguarding of assets against loss from unauthorized acquisition, use or disposal. Management did not identify the significant deficiency related to managerial cost accounting as a material weakness, therefore, management's assertion on internal controls is not fairly stated.

- Our audit identified four reportable conditions, Comment A, Managerial Cost Accounting, is considered a material weakness. We also identified three conditions relating to compliance with laws and regulations, two of which are in substantial non-compliance with the Federal Financial Management Improvement Act (FFMIA).

The following sections outline our conclusions.

INDEPENDENT AUDITORS' REPORT ON THE PRINCIPAL STATEMENTS

We have audited the U.S. Nuclear Regulatory Commission's (NRC) balance sheet, statements of net cost, changes in net position, budgetary resources, and financing as of and for the year ended September 30, 1998, herein referred to as the principal statements. The principal statements are the responsibility of NRC's management. Our responsibility is to express an opinion on the principal statements based on our audit.

SCOPE

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards,* issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the 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 believe that our audit provides a reasonable basis for our opinion.

MATTERS FOR EMPHASIS

Financial Reporting by Program

OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, provides guidance to federal agencies for preparing the principal statements which are the subject of this audit. Consistent with the requirements of the Government Performance and Results Act (GPRA) of 1993, the bulletin requires agencies to prepare the Statement of Net Cost (*for a description of the principal statements refer to Note 1.B., in the Notes to Principal Statements*) using programs that fully align to the agency's strategic, budget and performance plans. The NRC is in the process of moving to fully aligned strategic, budget and performance plans, therefore, the Statement of Net Cost in the current year includes programs as executed against the budget plan and not the strategic or performance plans. *(Refer to the Report on Management's Assertion About the Effectiveness of Internal Control, Comment B, Financial Reporting, for additional information on this condition.)*

Exchange Revenues Matched To Programs

The Federal Accounting Standards Advisory Board (FASAB) issued Statement of Federal Financial Accounting Standards (SFFAS) No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, whereby agencies were directed to record and present exchange revenues matched against program costs on the Statement of Net Cost. NRC cannot readily match exchange revenues by program in the current year. Therefore, NRC, with OMB concurrence, included on the Statement of Net Cost only the fee for services exchange revenue matched against its regulatory program. The exchange revenue generated by annual fees was presented on the Statement of Net Cost as "not directly assignable to programs." Although, this presentation does not fully incorporate the guidance in SFFAS No. 7, the Statement of Net Cost, as a whole presents fairly the net cost of NRC programs. *(Refer to Note 1.E. in the Notes to Principal Statements for the agency's policy on revenues and other financing sources.)*

Classification of Costs

OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, provides guidance to federal agencies for presenting program costs classified by intragovernmental and public components. The basis for classification relies on the concept of who received the benefit of the cost incurred (e.g. private sector licensees versus Federal licensees) rather than who was paid. However, following the advice of OMB, NRC classified the costs on the Statement of Net Cost using an underlying concept of who was paid. This presentation does not entirely incorporate the guidance in the Bulletin, however, it enables the agency to transition to the presentation required in the current year. *(Refer to Note 1.B., Basis of Presentation, in the Notes to Principal Statements for a discussion of the principal statements in the current year.)*

U.S. Department of Energy Expenses

NRC's principal statements include reimbursable expenses of the U.S. Department of Energy (DOE) National Laboratories. The NRC's Statement of Net Cost includes approximately $61 million of reimbursed expenses, which represent approximately 12% of total expenses. Our audit included testing these expenses for compliance with laws and regulations within NRC. The work placed with DOE is under the auspices of a Memorandum of Understanding between NRC and DOE. The examination of DOE National Laboratories for compliance with laws and regulations is DOE's responsibility. This responsibility was further clarified by a memorandum of the GAO's Assistant General Counsel, dated March 6, 1995, where he opined that "...DOE's inability to assure that its contractors' costs [National Laboratories] are legal and proper...does not compel a conclusion that NRC has failed to comply with laws and regulations." DOE also has the cognizant responsibility to assure audit resolution and should provide the results of its audits to NRC.

OPINION

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, 1998, and its net cost of programs, changes in net position, budgetary resources, and financing for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 1.B., Basis of Presentation, the form and content of the current year principal statements noticeably differ from the principal statements issued in the prior year. The change to the principal statements is required by OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements.*

REPORT ON MANAGEMENT'S ASSERTION ABOUT THE EFFECTIVENESS OF INTERNAL CONTROL

We have examined management's assertion that NRC's systems of accounting and internal control in place as of September 30, 1998 are in compliance with the internal control objectives in OMB Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements*. The Bulletin requires that transactions be properly recorded, processed, and summarized to enable the preparation of the principal statements in accordance with Federal accounting standards, and safeguarding of assets against loss from unauthorized acquisition, use or disposal.

Our examination was made in accordance with the standards established by the American Institute of Certified Public Accountants; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, OMB Bulletin No. 98-08. Accordingly, we considered NRC's internal control over financial reporting by obtaining an understanding of the agency's internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls and other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination was of the internal control in place as of September 30, 1998.

Because of inherent limitations in internal control, errors or fraud may occur and not be detected. Also, projections of any evaluation of the 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 the policies and procedures may deteriorate.

In our opinion, management's assertion that NRC's systems of accounting and the internal control in place as of September 30, 1998 are in compliance with the internal control objectives in OMB Bulletin No. 98-08, requiring that transactions be properly recorded, processed, and summarized to enable the preparation of the principal statements in accordance with Federal accounting standards, and safeguarding of assets against loss from unauthorized acquisition, use or disposal, is not fairly stated, because management did not identify the lack of managerial cost accounting as a material weakness.

Our consideration of management's assertion on internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components do not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted certain matters, discussed in the following paragraphs, involving the internal control and its operation that we consider to be reportable conditions. Comment A, Managerial Cost Accounting, was considered a material weakness and a substantial non-compliance with Federal Financial Management Improvement Act (FFMIA).

Current Year Comments

A. Managerial Cost Accounting

In 1995, the Federal Accounting Standards Advisory Board (FASAB) established requirements in Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Concepts and Standards*, whereby agencies were to develop and implement cost accounting practices and techniques by fiscal year 1997. In 1997, the FASAB, based on input from a variety of sources including the Chief Financial Officers' Council, delayed the implementation of this standard until fiscal year 1998. NRC did not implement this standard during fiscal year 1998.

SFFAS No. 4, Paragraph 4, states, "Managerial cost accounting should be a fundamental part of the financial management system and, to the extent practicable, should be integrated with other parts of the system." Paragraph 5, further states, "Each reporting entity should report the costs of its activities on a regular basis for management information purposes." Statement of Recommended Accounting Standards No. 9, *Deferral of the Effective Date of Managerial Cost Accounting Standards for the Federal Government in SFFAS No. 4*, states in paragraph 9, "The Board thus urges Federal entities to give implementation of SFFAS No. 4 a high priority and take immediate actions to define and structure responsibility segments and develop costing methodologies."

The Federal Financial Management Improvement Act, Section 803(a) states, "Each agency shall implement and maintain financial management systems that comply substantially with Federal financial management system requirements [OMB Circular Nos. A-127, A-130 and Joint Financial Management Improvement Program (JFMIP) requirements], applicable Federal accounting standards [Statements on Federal Financial Accounting Standards issued by FASAB], and the United States Government Standard General Ledger (SGL) at the transaction level." *[Criteria clarifications provided in brackets]*.

Cost accounting standards and concepts, as described in SFFAS No. 4, are designed to complement the financial accounting practices already in place at NRC. Managerial cost accounting focuses on the information needs of agency managers in order to support agency functions for planning, controlling costs, decision making and evaluating performance. Cost accounting is the process for tracing various input costs (i.e. direct labor, contract and indirect costs) to the outputs and outcomes realized by the agency. Implementation of cost accounting techniques and practices is essential to an agency's ability to prepare cost performance evaluations under the Government Performance and Results Act (GPRA) in fiscal year 1999.

In fiscal year 1998, the agency continued to use obligation data for decision making and assessment of the adequacy of managers' use of federal resources. A report detailing the allowance holders obligated, unobligated and liquidated amounts is produced monthly to enable managers to understand how they performed throughout the most current month end and year-to-date against their respective financial operating plans. During fiscal year 1998, cost finding techniques, studies or other methodologies were not used to provide agency managers routine, reliable and timely information on the full costs of NRC programs, activities or functions. Management did, however, employ cost finding techniques and allocation methodologies at year end to compile the data needed to prepare the current year's Statement of Net Cost.

During fiscal year 1998, NRC began a process for replacing its core financial management system. Implementation of the core system is planned for late fiscal year 1999. A cost accounting module is contemplated for the new core system (STARFIRE) as an integral part of the NRC's overall financial management system. At the end of fiscal year 1998, the agency contracted for services to begin an assessment of the needs of agency managers for cost accounting information.

Recommendation

The Chief Financial Officer (CFO) should assess the immediate needs of NRC managers to receive reliable and routine cost accounting information in light of performance and results mandates included in GPRA. Additionally, the CFO in preparing a remediation plan should develop a strategy, including milestones, to incorporate cost management standards and concepts throughout the agency. The plan developed could serve to identify, develop and implement those metrics that managers need now in order to best manage resources and assess performance against the agency's strategic and performance plans.

CFO's Comments

"Implementation of managerial cost accounting has been incorporated into a larger agency initiative of implementing an integrated, agency wide resource management system, STARFIRE. STARFIRE will include cost accounting and labor-cost distribution modules which will provide necessary tools for reporting costs and implementing cost accounting. Corrective action concerning the implementation of managerial cost accounting will be addressed in the remediation plan required by FFMIA. OCFO expects to complete this plan by July 1, 1999. An agency manager responsible for implementation will be announced at that time."

Auditors' Position

We disagree with the CFO's position that "...the lack of managerial costs accounting system did not have a material impact on the NRC's ability to perform its mission and to provide managers with the financial information they needed to manage...." The approach taken by the CFO precludes agency managers from having the tools to make informed decisions on the usage of resources and improvements needed to gain operating economies and efficiencies. NRC is a service organization, funded by its regulated community, that provides rulemaking, regulatory licensing, and inspection services. Therefore, it is essential that NRC management recognize the importance of "Reliable and timely costs information that helps them ensure that resources are spent to achieve expected results and outputs, and alerts them to waste and inefficiency..." [Cited excerpt from SFFAS No. 4, Paragraph 19]

The underlying premise stated by the FASAB in its concepts and standards is that financial managers should develop processes and systems to provide routine, reliable information to all managers. The NRC has not made significant progress in identifying the needs of managers, nor discussing what should be tracked and measured, nor what metrics will be used for measuring costs. Therefore, it seems premature for the CFO to judge implementation of this standard [SFFAS No. 4] as not having "...a material impact on the NRC's ability to perform its mission..." as indicated in his response. We firmly believe the lack of agency wide cost information or costs finding techniques to support agency managers' needs, causes the NRC to lose step with mandated financial management improvements for federal agencies. Additionally, we reiterate that the lack of cost accounting information undermines the agency's ability to demonstrate its readiness to fully comply with the requirements of GPRA in FY 1999.

However, we commend the CFO's STARFIRE initiative since it may provide the foundation to develop cost accounting and labor cost distribution. The CFO should assure that the new system has the flexibility to incorporate those metrics which will be necessary to provide managers routine, relevant and reliable data in future years. The remediation plan provided by the CFO should include the milestones planned for implementing the new system and the related modules, along with a discussion of the strategy that will be used to define the needs of managers and the capacity of the new system to be responsive to such needs. During a subsequent audit, OIG will assess the adequacy of the agency's actions.

B. Financial Reporting

OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, provides guidance to federal agencies for preparing the principal statements. Consistent with the requirements of the Government Performance and Results Act (GPRA) of 1993, the bulletin requires agencies to prepare the Statement of Net Cost using programs that fully align to the agency's strategic, budget and annual performance plan. During fiscal year 1998, NRC did not have fully aligned strategic, budget and performance plans. OMB Bulletin No. 97-01, states on page 26, Instructions for the Preparation of the Statement of Net Cost, "Preparers...should decide the exact classification of ...major programs based on the missions and outputs described in its GPRA strategic and annual plans, the entity's budget structure...."

NRC management understood that the requirement for having the three plans fully aligned would come into effect for fiscal year 1999, in accordance with the GPRA. The guidance in OMB Bulletin No. 97-01, was not considered, by NRC management, sufficiently clear to move the requirement for full alignment of the plans into fiscal year 1998. Therefore, the agency executed and classified transactions along budget plan programs without consideration for mission based programs which more closely align with the strategic plan and/or with the planned resource usage described in the annual performance plan.

For example, the budget plan was developed using five programs; the fiscal year 1998 initial strategic plan had seven programs; a subsequent proposed strategic plan had four programs; and the performance plan had eight programs. This lack of congruity between plans made it challenging for the agency to use one streamlined approach for planning, executing and reporting transactions.

The Statement of Net Cost, for the current year, was prepared using the budget plan programs. Recorded transactions and other financial information available dictated using this approach. Additionally, using a variety of cost finding techniques (e.g. surveys, allocations, data mapping) at year end, the agency assigned two budgetary programs--management and support and inspector general--to the remaining three budgetary programs. The allocations facilitated the agency's development of costs by budget plan program included on the Statement of Net Cost.

Recommendation

The Chief Financial Officer should assure that the budget, strategic and performance plans are fully aligned. Employing such a concept would present one cohesive philosophy for agency managers to plan, record, process, and summarize financial activities; thus, enabling managers to evaluate their performance against financial operating plans, strategic goals and performance plans.

CFO's Comments

"The NRC's structure for budgeting and strategic and performance planning have been in an evolutionary development phase over the past 2 years as the agency has been transitioning to full alignment as required by GPRA for FY 1999. While the agency was in this transition period, it was not possible to implement the guidance in the Office of Management and Budget Bulletin No. 97-01, which required the full alignment of budget, strategic plan, and performance plan earlier than required by GPRA. As planned for FY 1999, NRC has fully aligned its budget, strategic plan, and performance plan. The *Budget Estimates and Performance Plan - Fiscal Year 2000* contains the budget and performance plan structure that the agency is executing for FY 1999 which is aligned with the current working draft of the strategic plan."

Auditors' Position

While we commend the CFO for moving forward with his planned action to align the agency's budget, strategic and performance plans, we re-emphasize the need to incorporate the results of its plan into the financial reporting model that will be used for the FY 1999 financial statements. During a subsequent audit, OIG will assess the adequacy of management's actions.

C. CISSCO Obligations

The Information Technology Management Reform Act of 1996 provided authority to OMB to designate an agency (General Services Administration (GSA) was selected) to procure government-wide contracts which other federal agencies could use. The NRC, through a Basic Agreement (BA) with GSA, gained access to the services of an information technology (IT) contractor. The NRC program used for IT services is known as the Comprehensive Information System Support Contract (CISSCO).

Management Directive 4.2, *Financial Management Administrative Control of Funds*, Part IV, states, "The NRC's funds control system is based on complementary and integrated fiduciary responsibilities for both the Chief Financial Officer (CFO) and the NRC officials who receive allowances of agency funds. OCFO is responsible for maintaining the NRC accounting system that contains the official balances of funds ...committed, obligated and paid. NRC allowance holders are responsible for internal records and controls in their organizational units." Part VI further states, "An 'obligation of funds' is an action that creates a liability or definite promise on the part of the Government to make payment at some later date....Obligations must be supported by appropriate documentation, such as written binding agreements...."

NRC did not follow established fund control policy and issued obligations to GSA without recording them in the NRC's general ledger system. Additionally, fund controls were set at the job code level, thereby precluding effective management control at the lowest functional level. The lowest functional level in the CISSCO program is known as a Task Assignment Control (TAC). Examples follow:

Representations to GSA

The CISSCO program used by NRC, within the Office of the Chief Information Officer (OCIO), included providing GSA Basic Agreement Amendments (BAA). These documents amended, as necessary, the obligation ceiling of the agreement. Internally, however, NRC considered the BAA a commitment. Although the documents provided to GSA stated that an obligation was being provided, no corresponding obligations were recorded in the Federal Financial System (FFS). Based on these documents, GSA directed their contractor to provide cost estimates and/or other services. This practice put the NRC at risk of incurring expenses without a valid obligation.

Funds Control

During fiscal year 1998 the OCFO reconciled obligations and costs and reclassified transactions from job codes to TAC numbers in order to gain accounting control over the program at the lowest functional level. While performing the reconciliation, OCFO identified the following funds control conditions in 30 of the 43 job codes reviewed with fiscal year 1996 and 1997 obligations:

Condition Encountered	No. of Job Codes	Percent of Total Job Nos.	Amount of Variance
Obligations by job number which exceeded the related TACs	18	41.8%	$ 1,187,404
Obligations by job number which under-funded the related TACs	12	28.0%	$ (1,275,525)

Approximately 70% of the job codes included in the CISSCO reconciliation were either over or underobligated. However, the exceptions identified do not rise to an antideficiency exception since the appropriations, allotments and allowances in total for the agency were not exceeded.

For example, one job code (J1075) required approximately $238,000 in fiscal year 1998 funds to cover $480,000 that was overexpended. The $242,000 balance was made up by fiscal year 1996 and 1997 job codes that had excess obligations.

The Office of the Inspector General has an audit of the CISSCO program underway, which will assess the adequacy of funds control.

Recommendation

The Chief Financial Officer (CFO) should reaffirm to senior managers that funds control policies are critical elements for managing agency resources. At a minimum all appropriate obligating documents should be provided to OCFO for recording obligations.

The CFO should ensure that new programs managed by the agency conform to established funds control practices embodied in the agency's respective management directives.

Furthermore, the CFO should clarify to senior managers agency policy for making funds control representations to other agencies. At a minimum, the information provided externally should be consistent with the official transactions recorded to the agency's accounting records.

CFO's Comments

"The agency's administrative control of funds policies and procedures are depicted in Management Directive and Handbook 4.2, *Administrative Control of Funds*. In addition, senior managers responsible for funds management are required to take two NRC developed training courses (1) Introduction to Federal Financial Management which reviews the concepts, processes, and procedures for Federal financial management and (2) Administrative Control of Funds which covers the NRC's system of administrative control of funds that is defined in Management Directive and Handbook 4.2. However, the OCFO will reaffirm to senior managers the agency's funds control policies and the necessity to provide to OCFO all appropriate obligating documents. Corrective action in the form of a memorandum to allowance financial managers is expected to be completed by April 1, 1999."

"The OCFO will ensure that new programs managed by the agency conform to established agency funds control guidance by requiring the program manager of the new activity to attend the two NRC training courses, Introduction to Federal Financial Management and Administrative Control [of] Funds. Allowance financial managers will be advised of this new requirement by memorandum by April 1, 1999."

" OCFO will clarify with senior managers the agency policy for making fund control representations to other agencies. Corrective action in the form of a memorandum to allowance financial managers is expected to be completed by April 1, 1999. In addition, future sessions of the Administrative Control of Funds training course will address this issue."

Auditors' Position

The actions described by the CFO should raise the awareness of agency personnel over the importance of funds control. During a subsequent audit, OIG will assess the improvements made by the agency.

D. Revenue from Reimbursable Agreements

Reimbursable agreements are a component of exchange revenue included in the Statement of Net Cost. These agreements are between NRC and other federal agencies, licensees and foreign governments. The services performed include inspections, research, and serving as a conduit for obtaining criminal and background checks on behalf of licensees.

Statement of Federal Financial Accounting Standards (SFFAS) No. 7, *Accounting for Revenue and Other Financing Sources, and Concepts for Reconciling Budgetary and Financial Accounting,* provides the standards to account for inflows of resources from revenues and other financing sources. SFFAS No. 7, states in paragraph 34, " Revenue from exchange transactions should be recognized when goods or services are provided to the public or another Government entity at a price." In other words, on the accrual basis of accounting.

The revenue from reimbursable agreements was not consistently recorded using accrual based revenue recognition principles. In some cases, revenue was recorded as contract support expenses were paid. In other cases, such as agreements with DOE, revenue was recorded as NRC employees performed services on the related projects, which is appropriate. Additionally, revenue from the foreign cooperative research program was recorded as research expenses were paid. Generally, revenue was recognized at the time when the related expenses were paid, on the cash basis of accounting. Examples of the revenue recognition practices follow:

Cooperative Agreements

In fiscal year 1998, revenue related to the foreign cooperative agreements was originally recorded as $3.5 million based on payments made to DOE laboratories and other contractors for research. At year-end, the balance sheet reflected advances of $2.7 million consisting of payments received in prior years and not applied to research costs. However, this treatment was not appropriate because there is no connection, using accrual based revenue recognition principles, between incurring research expenses and earning revenue.

The revenue from cooperative agreements should have been recognized based on the annual contributions specified in the agreements, net of an allowance for uncollectible amounts. As a result, we proposed a prior period adjustment of $3.9 million to adjust fiscal year 1998 revenue and to reclassify contributions recorded as advances in prior years.

Other Reimbursable Agreements

The exchange revenue from other agreements, such as the criminal history and information programs was also improperly recognized. Revenue was recorded as payments to the FBI, OPM and other contractors were made rather than as the services were provided. Also, the surcharges imposed by NRC to recover administrative costs were recorded when payments were made to the contractor rather than when the background checks were completed.

Recommendation

The Chief Financial Officer should implement procedures to ensure that revenue from reimbursable agreements is reflected on the principal statements on the accrual basis of accounting.

CFO's Comments

"OCFO will perform an analysis of its reimbursable work and revenue recognition and establish the necessary procedures to ensure that revenue is appropriately recognized on the financial statements. Corrective action will be implemented by June 1, 1999."

Auditors' Position

The actions described by CFO appear appropriate. During a subsequent audit, OIG will assess the adequacy of actions taken.

Status of Prior Year Comments

Segregation of Duties - FFS

In the prior year, we found that employees holding "lead accountant" profiles and preparing reconciliations were performing incompatible functions in their normal duties. In his response, the CFO indicated that compensating controls would be instituted by requiring additional supervisory review and certification of data reconciliations performed by lead accountants. The described controls were implemented. This condition is resolved and closed.

Assurance on Performance Measures

With respect to internal controls related to performance measures, the Office of the Inspector General performed those procedures and will report this issue separately. Our procedures were not designed to provide assurance over reported performance measures, and, accordingly, we do not provide an opinion on such information.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

We conducted our audit in accordance with: generally accepted auditing standards; 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. 98-08, *Audit Requirements for Federal Financial Statements*.

NRC management is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether the agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations. Noncompliance with these provisions could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 98-08, and the Federal Financial Management Improvement Act (FFMIA) of 1996. Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph *exclusive* of FFMIA, disclosed instances of noncompliance with the following laws and regulations that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 98-08, are described below.

Current Year Comment - Non-FFMIA

Part 170 Hourly Rates

The Omnibus Budget Reconciliation Act (OBRA) of 1990 requires the NRC to recover approximately 100% of its budget authority by assessing fees. Accordingly, NRC assesses two types of fees to its licensees and applicants. One type, specified in 10 CFR Part 171, consists of annual fees assessed to power reactors, materials and other licensees. The other type, specified in 10 CFR Part 170 and authorized by the Independent Offices Appropriation Act (IOAA) of 1952 , is assessed to specific licensing actions, inspections and other services provided to licensees and applicants.

The IOAA in 31 U.S.C. Section 970 1(b) states "...each charge shall be (1) fair and (2) based on (A) the costs to the Government..." OMB Circular A-25, *User Charges*, provides guidance for assessing fees under the IOAA. Circular A-25 states in paragraph 6(a)(2)(a), "...user charges will be sufficient to recover the full cost to the Federal Government of providing the service, resource, or good when the Government is acting in its capacity as sovereign..." and paragraph (6)(d)(1) states, "...full cost includes all direct and indirect costs to any part of the Federal Government of providing a good, resource, or service."

Each year, the Office of the Chief Financial Officer (OCFO) computes the hourly rates used to charge for the time incurred by NRC personnel in providing Part 170 services. The rates are based on budgetary data and are used to price individually identifiable Part 170 services. The following table displays the basis for the fiscal year 1998 hourly rates.

Components of Part 170 Hourly Rates	Reactors	Materials
Direct salaries and benefits - program offices	$103.9	$20.5
Overhead salaries, benefits and support costs - program offices	55.3	14.8
Allocated indirect management and support costs	101.7	22.0
Total budgeted program costs (in $000s)	260.9	57.3
Divided by direct program FTEs	1,186.4	267.3
Costs by FTE	$219,900	$214,400
Divided by productive annual hours	1,776	1,776
Part 170 hourly rates - effective 08/10/98	$124.00	$121.00

The fiscal year 1998 rates were not developed in accordance with applicable laws and regulations because they are not based on the full cost of providing Part 170 services. For example, the calculations did not include certain contract support costs of approximately $70 million, net of contract support costs directly billable to licensees and applicants. The excluded contract support costs, $70 million, primarily consisted of research projects. The $70 million represents approximately 15% of the fiscal year 1998 NRC appropriation of $472.8 million.

The contract support costs were excluded because, based on the OBRA conference agreement, the OCFO classified these costs as "generic activities" that benefit licensees generally. Thus, NRC recovered these costs through the Part 171 annual fees.

Recommendation

The Chief Financial Officer should initiate an analysis of all contract support costs that were classified as "generic activities" and were excluded from the rate. The analysis should seek to determine the portion of those costs that benefit specific classes of licensees (i.e. power reactor or materials) and should, therefore, be included in the computation of Part 170 hourly rates.

CFO's Comments

"While OCFO believes its development of the license fee rates is compliant with applicable laws and regulations, it will initiate a study to analyze those activities currently characterized as "generic activities" for license fee development purposes. A multi-office team will be established by May 1, 1999, to conduct a study to determine whether the costs currently identified as "generic" continue to meet the definition contained in the Conference Report to the Omnibus Budget Reconciliation Act. The results of this analysis will be incorporated in the development of the FY 2000 fee rule."

Auditors' Position

On the first page of his comments, the CFO indicated disagreement with this condition. The condition remains as initially stated.

Our review disclosed that in response to OBRA 1990, the agency developed the methodology used for the current Part 170 fee structure. That methodology, among other things, had exclusions consistent with the Conference Report, such as generic, OIG and Commission costs. Since that time NRC has studied and included in the rate previously excluded costs, thus moving away from the initial interpretation adopted in the Conference Report. However, no initiatives have been undertaken to study the agency's practice for blanket exclusion of generic costs from the rate. Our point is that a complete review of the pricing policy is necessary to assess whether the costs included assure compliance with the full costs provisions of OMB A-25. Generic costs, like any other cost, may impact the computation of a full cost rate and enable NRC to define a more compliant methodology than the blanket exclusion practice currently in place.

We believe that the steps described by the CFO relating to the multi-office team to study this policy will enhance the agency's pricing practices. During a subsequent audit, OIG will assess the adequacy of the actions taken. Presently the OIG has a review of this process underway.

Current Year Comments - FFMIA

Under FFMIA, we are required to report whether the agency's financial management systems substantially comply with the Federal financial management systems requirements, Federal accounting standards, and the United States Government Standard General Ledger at the transaction level.

To meet this requirement, we performed tests of compliance using the implementation guidance for FFMIA included in Appendix D of OMB Bulletin No. 98-08.The results of our tests disclosed instances, described below, where the agency's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

A. Managerial Cost Accounting

Refer to the Report on Management's Assertion About the Effectiveness of Internal Control, Comment A, Managerial Cost Accounting, for a detailed discussion of the condition, recommendation. This condition was considered a material weakness and a Federal Financial Management Improvement Act substantial non-compliance.

B. Accounts Receivable Classifications

The agency's billing system is dependent on a series of interfaces to assure that information maintained in subsidiary data bases and systems is properly recorded at the transaction level and uploaded to the general ledger (FFS). We noted that information being uploaded for posting to the general ledger was not properly classified, thereby precluding the core accounting system from properly capturing, at the transaction level, information to support the intragovernmental and public information necessary to prepare the balance sheet at September 30, 1998.

Section 803(a) of the Federal Financial Management Improvement Act (FFMIA), states, "Each agency shall implement and maintain financial management systems that comply substantially with Federal financial management system requirements [OMB Circular A-127, A-130 and Joint Federal Management Improvement Program (JFMIP) requirements], applicable Federal accounting standards [Statements on Federal Financial Accounting Standards issued by FASAB], and the United States Government Standard General Ledger (SGL) at the transaction level." *[Criteria clarifications provided in brackets]*.

At our request, the Office of the Chief Financial Officer personnel performed an assessment of transaction level classifications and found a technical error in the interface's "file transfer protocols." Apparently when data interfaced with the general ledger, the program protocol which triggers the system to set the correct classification from the data files was inoperable. The amounts on the balance sheet, however, have been adjusted to reflect the proper financial line item classifications.

The lack of edits to detect errors in the data transfer protocols and the lack of proper transaction level review of the resulting uploaded data results in a substantial noncompliance as it relates to both the financial management system requirements under JFMIP and the U.S. Standard General Ledger at the transaction level.

Recommendation

The Chief Financial Officer should pursue technical enhancements to the file transfer protocols that are in place. The enhancements should be tested to ensure that the change made properly addresses the file transfer protocols between the subsidiary transactions and information uploaded to the core accounting system.

CFO's Comments

"The technical enhancements to the file transfer protocols have been completed and are in the process of being tested. We expect the enhancements to be implemented and operational by April 1, 1999; therefore, a remediation plan will not be developed for this finding."

Auditors' Position

We commend the CFO for the interim steps taken since the issue was brought to his attention. Additionally, we concur that if resolution of the condition is reached prior to the development of the July 1, 1999 remediation plan, that this item should not be included. During a subsequent audit, OIG will assess the adequacy of the actions taken.

Prior Year Status - FFMIA

Business Continuity

During the prior year, our assessment of NRC's management control program included a review of the agency's business continuity practices for major financial management systems. The major systems identified included (1) the core general ledger - Federal Financial System (FFS) operated by Treasury's Financial Management Service (FMS), (2) accounts receivable, and (3) the payroll system.

The remediation plan, dated June 1, 1998, prepared by the CFO described the strategy to design a solution and provided a timetable for resolving the substantial non-compliance. The plan was reviewed and accepted by the Office of the Inspector General and has been acted upon by NRC management as follows:

1. General Ledger - FFS: NRC contacted the Treasury's Financial Management Service (FMS) expressing concern about the lack of a plan that is fully tested and restated that the responsibility for maintaining and testing the plan rests with FMS and not NRC. FMS replied that action was being taken, however, the reasonable assurance letter issued to NRC by FMS at September 30, 1998, indicated that little to no progress has been made on this issue. The substantial non-compliance remains unresolved. NRC is dependent on FMS to resolve this condition.

   CFO's Comments

   "NRC is dependent on Treasury's Financial Management Service to resolve this condition. We do not expect, however, for Treasury to complete corrective action before FFS is replaced by NRC's new agency wide resource management system, STARFIRE, within the next 6 months."

   Auditors' Position

   None.

2. Fee Systems: The strategy developed in the remediation plan for this system has not been implemented. In December 1998, NRC accepted a technical proposal from a contractor to develop and test a continuity plan for the fee systems. On January 29, 1999, the contractor delivered a work plan that describes the work to be performed, the milestones and the deliverables. The substantial non-compliance remains unresolved.

CFO's Comments

"While implementation of corrective action for this system has been delayed, it is expected that a fully tested business continuity plan will be in place by April 1, 1999."

Auditors' Position

During a subsequent review OIG will assess corrective actions taken to resolve this condition.

3. Payroll System: During the prior audit, we recognized that NRC had an outdated business continuity plan for the Automated Payroll System. We reported that management planned to move to a new payroll system effective April 1998 (PAY/PERS) and that business continuity efforts should address the new system. PAY/PERS did not become the system of record during fiscal year 1998, therefore, management devoted resources to developing a contingency plan for the Automated Payroll System. Since a plan was developed and the Automated Payroll System is no longer the system of record, the substantial non-compliance is resolved and closed.

Consistency of Other Information

NRC's overview of program performance goals and results, and other supplemental financial and management information contain a wide range of data, some of which is not directly related to the principal statements. We do not express an opinion on this information. We have, however, compared this information for consistency with the principal statements and discussed the measurement and presentation methods with NRC management. Based on this limited effort, we found no material inconsistencies with the principal statements or noncompliance with OMB guidance.

Objectives, Scope and Methodology

NRC management is responsible for (1) preparing the principal statements in conformity with the basis of accounting described in Note 1 to the Notes to Principal Statements, (2) establishing, maintaining, and assessing internal controls to provide reasonable assurance that FMFIA's broad control objectives are met, and (3) complying with applicable laws and regulations including the requirements referred to in FFMIA.

We are responsible for expressing an opinion on whether (1) the principal statements are free of material misstatement and presented fairly, in all material respects, in conformity with the basis of accounting described in Note 1 to the principal statements, and (2) for obtaining reasonable assurance about whether management's assertion about the effectiveness of internal control is fairly stated, in all material respects, based upon criteria established by FMFIA and OMB Circular A-123, *Management Accountability and Control*. As of the date of our report, NRC management had completed its evaluation of financial controls.

We are also responsible for testing compliance with selected provisions of laws and regulations and for performing limited procedures with respect to certain other information in the principal statements. In order to fulfill these responsibilities, we:

- examined, on a test basis, evidence supporting the amounts and disclosures made in the principal statements;

- assessed the accounting principles used and significant estimates made by management;

- evaluated the overall presentation of the principal statements;

- obtained an understanding of internal controls related to safeguarding of assets, compliance with laws and regulations including execution of transactions in accordance with budget authority and financial reporting, in the principal statements;

- assessed control risk and tested relevant internal controls over safeguarding of assets, compliance, and financial reporting, and evaluated management's assertion about the effectiveness of internal control;

- tested compliance with selected provisions of the following laws and regulations: Anti-Deficiency Act (Title 31 U.S.C.), National Defense Appropriation Act (PL 101-510), Omnibus Budget Reconciliation Act of 1990 (PL 101-508), Debt Collection Act of 1982 (PL 97-365), Prompt Pay Act (PL 97-177), Civil Service Retirement Act of 1930, Civil Service Reform Act (PL 97-454), Federal Managers' Financial Integrity Act (PL 97-255), Chief Financial Officers' Act (PL 101-576), Budget and Accounting Act, Federal Financial Management Improvement Act (PL 104-208); and,

- reviewed compliance and reported in accordance with FFMIA whether the agency's financial management systems substantially comply with the Federal financial management system requirements, applicable accounting standards and the U.S. Standard General Ledger at the transaction level.

We did not evaluate all internal controls relevant to operating objectives as broadly as defined in FMFIA, such as those controls for preparing statistical reports and those for ensuring efficient and effective operations. We limited our internal control tests to those controls necessary to achieve the objectives described in our opinion on management's assertion about the effectiveness of internal controls. We performed our work in accordance with generally accepted auditing standards, *Government Auditing Standards* and OMB Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements*.

Agency Comments

On February 25, 1999, the CFO responded to the Inspector General on our draft report and addressed the recommendations noted in the report. However, the CFO did not provide specific remedial actions for the FFMIA exceptions noted in the report. The CFO indicated that a [remediation] plan will be prepared by July 1, 1999. Comment B, Accounts Receivable Classifications, an FFMIA condition, will not be included in the remediation plan since the CFO expects to have this condition resolved by April 1, 1999. Based on our review of the CFO's comments, we are satisfied that the actions described meet the intent of our recommendations and FFMIA guidelines. The CFO's comments are appended to this report in their entirety.

Under separate cover, comments will be provided to NRC management outlining opportunities for strengthening internal control and operating efficiency. We appreciate NRC staff cooperation and continued interest in improving financial management within the agency.

This report is intended for the management of the U.S. Nuclear Regulatory Commission, OMB, Congress and the NRC Office of the Inspector General (OIG). This restriction is not intended to limit the distribution of this report, which upon acceptance by the OIG, is a matter of public record.

February 5, 1999

II. PRINCIPAL STATEMENTS

BALANCE SHEET
As of September 30, 1998
(in dollars)

ASSETS	
Entity Assets:	
Intragovernmental assets:	
Fund balances with Treasury (Note 2)	$165,219,307
Accounts receivable, net (Note 4)	1,993,974
Advances and prepayments (Note 5)	2,091,378
Total intragovernmental assets	169,304,659
Cash (Note 3)	50,000
Accounts receivable, net (Note 4)	26,324,300
Advances and prepayments (Note 5)	218,772
Property and equipment, net (Note 6)	39,432,602
Total Entity Assets	235,330,333
Non-Entity Assets:	
Accounts receivable, net (Note 4)	36,606
Total Non-Entity Assets	36,606
TOTAL ASSETS	$235,366,939

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

BALANCE SHEET (Continued)
As of September 30, 1998
(in dollars)

LIABILITIES	
Liabilities Covered by Budgetary Resources:	
Intragovernmental liabilities:	
Accounts payable and advances (Note 7)	$ 11,715,665
Accrued benefits (Note 8)	2,094,961
Other intragovernmental liabilities (Note 9)	31,983,981
Total intragovernmental liabilities	45,794,607
Accounts payable (Note 7)	17,968,182
Other liabilities (Note 9)	1,769,829
Accrued payroll and benefits (Note 8)	11,614,850
Total Liabilities Covered by Budgetary Resources	77,147,468
Liabilities Not Covered by Budgetary Resources:	
Intragovernmental liabilities:	
Other intragovernmental liabilities (Note 10)	6,404,812
Other liabilities (Note 10)	26,049,638
Total Liabilities Not Covered by Budgetary Resources	32,454,450
TOTAL LIABILITIES	109,601,918
NET POSITION	
Unexpended appropriations (Note 12)	116,022,952
Cumulative results of operations (Note 13)	9,742,069
TOTAL NET POSITION	125,765,021
Total Liabilities and Net Position	$235,366,939

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

STATEMENT OF NET COST
For the year ended September 30, 1998
(in dollars)

Costs:		
Regulatory Program		
Intragovernmental	$ 94,919,617	
With the public	259,985,218	
Total	354,904,835	
Less directly assignable revenue (Note 16)	(96,718,258)	
Regulatory Program costs, net of assignable revenue		$258,186,577
Regulatory Effectiveness Program		
Intragovernmental	75,606,111	
With the public	76,283,200	
Regulatory Effectiveness Program costs		151,889,311
Regulation of DOE Program		
Intragovernmental	714,039	
With the public	3,668,313	
Regulation of DOE Program costs		4,382,352
Total program costs, net of directly assignable earned revenues		414,458,240
Less earned revenues not directly assignable to programs (Note 16)		(365,619,349)
Net Cost of Operations		$ 48,838,891

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

STATEMENT OF CHANGES IN NET POSITION
For the year ended September 30, 1998
(in dollars)

Net Cost of Operations		$ (48,838,891)
Financing sources (other than exchange revenues):		
Appropriations used, net (Note 14)	37,516,139	
Non-exchange revenue (Note 1.B.)	7,015,287	
Imputed financing (Note 15)	17,961,303	
Transfers - out	(7,015,287)	
Total financing sources		55,477,442
Net results of operations		6,638,551
Decrease in unexpended appropriations		(13,262,129)
Change in Net Position		(6,623,578)
Net Position - Beginning of Period	128,447,809	
Prior-period adjustment (Note 18)	3,940,790	
Net Position - Restated Beginning of Period		132,388,599
Net Position - End of Period		$125,765,021

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

STATEMENT OF BUDGETARY RESOURCES
For the year ended September 30, 1998
(in dollars)

Budgetary Resources (Note 19):	
Budget authority	$481,125,000
Unobligated balances - beginning of period	29,370,393
Spending authority from offsetting collections	4,908,396
Adjustments (Note 19)	9,895,274
Total Budgetary Resources	$525,299,063
Status of Budgetary Resources:	
Obligations incurred	$490,118,464
Unobligated balances - available	35,180,599
Total Status of Budgetary Resources	$525,299,063
Outlays:	
Obligations incurred	$490,118,464
Less: Spending authority from offsetting collections and adjustments	(14,803,670)
Subtotal	475,314,794
Obligated balances, net - beginning of period	145,827,462
Less: obligated balances, net - end of period	(124,700,809)
Total Outlays	$496,441,447

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

STATEMENT OF FINANCING
For the year ended September 30, 1998
(in dollars)

Obligations and Nonbudgetary Resources	
Obligations incurred	$490,118,464
Less: Spending authority for offsetting collections and adjustments	(14,803,670)
Imputed financing (Note 15)	17,961,303
Exchange revenues not in the budget (Note 16)	(456,251,634)
Total Obligations and Nonbudgetary Resources	37,024,463
Resources That Do Not Fund Net Cost of Operations	
Change in amount of goods, services, and benefits ordered but not yet received or provided	18,452,978
Costs capitalized on the balance sheet (Note 6)	(9,674,767)
Financing sources that fund costs of prior periods	(4,325,044)
Other	1,646,170
Total Resources That Do Not Fund Net Cost of Operations	6,099,337
Costs That Do Not Require Resources	
Depreciation and amortization	5,571,440
Total Costs That Do Not Require Resources	5,571,440
Financing Sources Yet to be Provided	143,651
Net Cost of Operations	$ 48,838,891

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

NOTES TO PRINCIPAL STATEMENTS
September 30, 1998

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 uses of nuclear materials.

The NRC has two appropriations:

- 31X0200 - Salaries and Expenses
- 31X0300 - Office of Inspector General

The NRC is under budget functional classification 276 - Energy information, policy, and regulation and departmental code 31.

The 31X0200 appropriation includes approximately $19 million of funds derived from the Nuclear Waste Fund ($15 million appropriated for Nuclear Waste Policy Act work and $4 million for licensing a multi-purpose canister design) and $3 million from the General Fund for assistance provided to the U. S. Department of Energy (DOE).

In addition, $8.1 million was available for obligation from appropriations provided by the U. S. Agency for International Development. The transfer was for the Nuclear Safety Assistance Program in Russia, Armenia, Kazakhstan and the Ukraine.

The accompanying financial statements of NRC include the accounts of all funds under NRC control.

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 accordance with the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, and NRC accounting policies which are summarized in this note. 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.

NOTES TO PRINCIPAL STATEMENTS
September 30, 1998

The principal financial statements are noticeably different from last year's statements. The Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Concepts Number 2, *Entity and Display*, recommended new principal financial statements. Based on this Concept Statement, OMB Bulletin No. 97-01 now requires the following statements: Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and the Statement of Financing. The Statement of Financial Position contained in prior reports has been renamed the Balance Sheet. The NRC has not prepared a Statement of Custodial Activity because the amounts involved are immaterial and are incidental to its operations and mission.

The NRC assesses two types of fees to recover its budget authority: (1) fees assessed under 10 CFR Part 170 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. All fees, with the exception of civil penalties, are considered exchange revenues in accordance with Statement of Federal Financial Accounting Standards Number 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting.* Non-exchange revenue of $7,015,287 consists of $6,501,603, received from civil penalties, and $513,684 of miscellaneous receipts, which includes interest on delinquent debt, late penalties, Freedom of Information Act fees, and indemnity fees.

In the Statement of Net Cost, fees assessed under 10 CFR Part 170 are shown as revenues under the Regulatory Program. Fees assessed under 10 CFR Part 171 are shown as revenues not directly assignable to programs. Revenue from reimbursable agreements is included in this statement, as well.

The programs as presented on the Statement of Net Cost were based on the FY 1998 budget structure. Other budget line items, such as Management and Support and the Office of the Inspector General, were allocated using cost-finding techniques consistent with Statement of Federal Financial Accounting Standards Number 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*. The NRC's three programs are described as follows:

1. **Regulatory Program** encompasses all NRC efforts to ensure that the operation of commercial and nonpower nuclear reactor facilities and all NRC-regulated aspects of nuclear fuel cycle facilities; nuclear materials licensing; nuclear waste transport, storage, and disposal; and decommissioning activities are conducted in a manner that provides reasonable assurance of adequate protection of public health and safety, as required by the Atomic Energy Act of 1954 and other relevant laws.

2. **Regulatory Effectiveness Program** helps ensure adequate protection of the public health and safety, as required by the Atomic Energy Act of 1954, by providing the Commission with the technical bases for regulatory decisions for all regulatory programs.

NOTES TO PRINCIPAL STATEMENTS
September 30, 1998

3. **Regulation of DOE Program** involves the continued commitment of DOE and NRC to resolve issues of concern to either agency that relate to the regulation of nuclear facilities, projects, and activities in the protection of public health and safety and the environment.

C. Budgets and Budgetary Accounting

For the past 24 years, Congress has enacted no-year appropriations which are available for obligation by NRC until expended. The Omnibus Budget Reconciliation Act (OBRA) of 1990, as amended, requires the NRC to recover approximately 100 percent of its new budget authority of $472.8 million, less the amounts derived from the Nuclear Waste Fund of $15 million, by assessing fees. In addition, for FY 1998, Congress appropriated $3 million from the General Fund. At the end of the fiscal year, NRC's appropriations were reduced by $454.8 million, which is the amount of collections made during the fiscal year.

D. Basis of Accounting

Transactions are recorded on both an accrual accounting basis and on a budgetary basis. 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 facilitates compliance with legal constraints and control over the use of Federal funds. Interest on borrowings of the U. S. Treasury is not included as a cost to NRC’s programs and is not included in the accompanying financial statements

E. Revenues and Other Financing Sources

Licensing fees and fees for inspections and other services, assessed in accordance with 10 CFR Parts 170 and 171, are recognized as revenue when earned. In accordance with Federal Government accounting guidance, the NRC classifies revenues as either exchange revenue or non-exchange revenue. Exchange revenues are those that are derived from transactions in which both the Government and the public receive value. These revenues are presented on the Statement of Net Cost and serve to reduce the reported cost of NRC’s programs. Non-exchange revenues are derived from the Government’s sovereign right to demand payment, including fines for violation of laws or regulations. These financing sources do not reduce the cost of NRC’s programs and are reported on the Statement of Changes in Net Position.

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). Appropriations used does not include (a) expenses incurred but not yet funded by Congress, such as workers' compensation benefits and annual leave expenses; and (b) expenses which are paid by other Federal agencies, such as retirement benefits.

NOTES TO PRINCIPAL STATEMENTS
September 30, 1998

F. Funds with the U. S. Treasury and Cash

The NRC's cash receipts and disbursements are processed by the U.S. Treasury. The fund balances with the Treasury and cash are primarily appropriated funds that are available to pay current liabilities and to finance authorized purchase commitments. Cash balances held outside the U.S. Treasury are not material.

G. Accounts Receivable, Net of Allowance

The amounts due for receivables, except those due from Federal agencies, are stated net of an allowance for uncollectible accounts. Since receivables from Federal agencies are expected to be collected, there is no allowance for uncollectible accounts. The estimate of the allowance is based on an analysis of the outstanding balances and the application of estimated uncollectible percentages to categories of aged receivable balances.

H. Advances and Prepayments

The NRC makes cash payments to other Federal agencies, employees, grantees, and contractors to provide for future NRC program expenditures. These advance payments are recorded as assets which are reduced when NRC receives reports of expenditures or when accruals of cost estimates are made.

I. Property and Equipment

Property and equipment consists primarily of typical office furnishings, nuclear reactor simulators, and computer hardware and software. The agency has no real property.

The land and buildings in which NRC operates are provided by the U. S. General Services Administration (GSA), which charges NRC rent that approximates the commercial rental rates for similar properties.

Property with a cost of $50,000 or more per unit and a useful life of 2 years or more is capitalized at cost and depreciated. Other property items are expensed when purchased. Normal repairs and maintenance are charged to expense as incurred.

J. Accounts Payable and Advances

Accounts payable represent vendor invoices for services received by NRC that will be paid (liquidated) in the next fiscal year. Advances represent collections received in advance of performing services under a variety of reimbursable agreements. The services will be provided and the revenue earned in the subsequent fiscal year.

NOTES TO PRINCIPAL STATEMENTS
September 30, 1998

K. Liabilities Not Covered by Budget Resources

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

L. Contingencies

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 position or results of operations.

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.

Sick leave and other types of nonvested leave are expensed as taken.

N. Retirement Plans

The NRC employees hired after December 31, 1983, are automatically covered by the Federal Employees' Retirement System (FERS), which was implemented on January 1, 1987. Employees hired prior to that date could elect to join FERS or to remain in the Civil Service Retirement System (CSRS). Approximately 51 percent of NRC employees belong to CSRS and 49 percent belong to FERS. In FY 1998, for employees in FERS, the NRC withheld 0.8 percent of base pay earnings in addition to Federal Insurance Contribution Act (FICA) withholdings and matched the withholding with an 10.7 percent contribution. The sum was transferred to the Federal Employees Retirement Fund. For employees covered by CSRS, NRC withholds 7 percent of their base pay earnings. This withholding is matched by NRC with an 8.51 percent contribution, and the sum of the withholding and the match is transferred to the CSRS.

On April 1, 1987, the Federal government initiated the Thrift Savings Plan (TSP) which is a retirement savings and investment plan for employees covered by either FERS or CSRS. For employees covered by FERS, NRC automatically contributes one percent of base pay to their account and matches contributions up to an additional four percent. The maximum percentage that an employee participating in FERS may contribute is 10 percent of base pay. Employees covered by CSRS may contribute up to five percent of their base pay, but there is no NRC matching of the contribution. The maximum amount that either FERS or CSRS employees may contribute to the plan in a calendar year is $10,000. The sum

NOTES TO PRINCIPAL STATEMENTS
September 30, 1998

of the employees' and NRC's contributions is 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 included in NRC's financial statements as an imputed financing source (see Note 15).

O. U. S. Department of Energy Charges

Financial transactions between the DOE and NRC are fully automated through the U. S. Treasury's On-Line Payment and Collection (OPAC) System. The OPAC System allows DOE to collect amounts due from NRC directly from NRC's account at the U. S. Treasury for goods and/or services rendered. Project manager verification of goods and/or services received is subsequently accomplished through a system-generated voucher approval system. The vouchers are returned to the Office of the Chief Financial Officer documenting that the charges have been accepted. For the year ended September 30, 1998, NRC had expenses of approximately $61 million for research conducted by the DOE National Laboratories.

P. Pricing Policy

The NRC provides goods and services to the public and other Government entities. In accordance with OMB Circular No. A-25 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. In accordance with the Omnibus Budget Reconciliation Act of 1990, annual fees are assessed to licensees under 10 CFR Part 171 to recover approximately 100 percent of new budget authority, less amounts excluded from fee recovery and those recovered under 10 CFR Part 170.

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) 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.

Q. Use of Management Estimates

The preparation of the accompanying financial statements requires management to make certain estimates and assumptions that directly affect the results of reported assets, liabilities, revenue, and expenses. Actual results may differ from these estimates.

NOTES TO PRINCIPAL STATEMENTS
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NOTE 2. FUND BALANCES WITH THE U. S. TREASURY

Fund balances with the U. S. Treasury consist of the following amounts as of September 30, 1998:

Appropriated funds:	
Obligated	$131,051,246
Unobligated	28,826,389
	159,877,635
Other fund types	5,341,672
	$165,219,307

U. S. Government cash is handled on an overall consolidated basis by the U. S. Treasury. Funds with Treasury represent NRC's right to draw on the U. S. Treasury for allowable expenditures. All amounts are available to NRC for current use. The obligated and unobligated balances exclude amounts related to unfilled customer orders.

NOTE 3. CASH

Cash consists of an imprest fund of $50,000 as of September 30, 1998.

NOTE 4. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, is composed of the following as of September 30, 1998:

Entity Assets

Intragovernmental accounts receivable consists primarily of receivables and reimbursements due from other Federal agencies which were $1,993,974 at September 30, 1998.

The non-Federal accounts receivable is comprised of the following amounts as of September 30, 1998:

Materials and facilities fees - billed	$ 6,126,004
Materials and facilities fees - unbilled	21,404,719
Other	136,805
Total accounts receivable	27,667,528
Less: Allowance for uncollectible accounts	(1,343,228)
Accounts receivable, net	$26,324,300

Other accounts receivable represent amounts due for fees assessed for licensing and inspections of nuclear facilities, the handling of nuclear materials, and other services. In the year collected, the amounts will be used to offset NRC's appropriations.

NOTES TO PRINCIPAL STATEMENTS
September 30, 1998

Non-Entity Assets

Accounts receivable represents miscellaneous penalties and interest due from the public of $36,606 at September 30, 1998, which, when collected, must be transferred to the U. S. Treasury.

The NRC's methodology to estimate the allowance for uncollectible accounts is based on an analysis of the outstanding balances and the application of estimated uncollectible percentages to categories of aged receivable balances.

NOTE 5. ADVANCES AND PREPAYMENTS

Advances and prepayments as of September 30, 1998, consist primarily of the following:

Intragovernmental:	
Advances - other Federal agencies	$2,091,378
Advances and prepayments	$ 218,772

Advances and prepayments are recorded as assets until receipt of the goods or services involved or until contract terms are met. When goods or services are received or contract terms are met, the advance or prepayment is reduced and the expense or acquired asset is recognized.

NOTE 6. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consists of the following as of September 30, 1998:

Fixed Assets Class	Service Years	Acquisition Value	Accumulated Depreciation	Net Book Value
Equipment	5-8	$24,215,428	$(20,148,650)	$ 4,066,778
ADP software	5	38,010,869	(34,526,507)	3,484,362
ADP software under development		17,106,701	-	17,106,701
Leasehold improvements	20	19,504,015	(4,777,216)	14,726,799
Leasehold improvements in progress		47,962	-	47,962
Total		**$98,884,975**	**$(59,452,373)**	**$39,432,602**

Property with a cost of $50,000 or more per unit and a useful life of 2 years or more are capitalized at cost and depreciated. During FY 1998, the NRC capitalized $9,674,767 in property and equipment.

The land and buildings occupied by the NRC are provided by GSA. The GSA charged NRC $19,368,097 for the use of these facilities based on a rental fee which approximates the commercial rates for similar properties.

NOTES TO PRINCIPAL STATEMENTS
September 30, 1998

NOTE 7. ACCOUNTS PAYABLE AND ADVANCES

Accounts payable and advances consist of the following as of September 30, 1998:

Intragovernmental:	
Accounts payable	
Department of Energy	$5,632,116
Other Federal agencies	6,078,057
	11,710,173
Advances	5,492
	$11,715,665

The non-Federal accounts payable include:

Accounts payable	
Vendors payable	15,983,576
Contract holdbacks	1,984,606
	$17,968,182

The vendors payable are all current. Current payables represent amounts which are expected to be paid within the fiscal year following the reporting date.

NOTE 8. ACCRUED PAYROLL AND BENEFITS

Accrued payroll and benefits as of September 30, 1998, consists of:

Intragovernmental:	
Accrued benefits	$ 2,094,961

The non-Federal accrued personnel services include:

Accrued payroll and benefits	$11,614,850

Accrued payroll and benefits represent wages and benefits which have been earned but not paid as of the financial statement date.

NOTES TO PRINCIPAL STATEMENTS
September 30, 1998

NOTE 9. OTHER LIABILITIES COVERED BY BUDGETARY RESOURCES

Other liabilities as of September 30, 1998, include:

Intragovernmental:	
Liability to offset net accounts receivable for fees assessed	$27,764,482
Liability related to fees collected which will offset subsequent years' appropriations	4,182,693
Liability to offset miscellaneous accounts receivable	36,806
	$31,983,981

The liability to offset the net accounts receivable for fees assessed represents amounts which, when collected, will be transferred to the U. S. Treasury to offset NRC's appropriations in the year collected. The liability related to fees collected which will be used to offset subsequent years' appropriations represents amounts which will be transferred to the U. S. Treasury to offset subsequent years' appropriations. The liability to offset miscellaneous accounts receivable represents amounts which will be reverted to the U. S. Treasury when collected.

Other liabilities as of September 30, 1998, include:

Liability for deposit funds	$1,111,270
Advances from others	658,559
	$1,769,829

The liability for deposit funds consists primarily of liabilities arising from payroll deductions and tax withholdings.

All other liabilities except advances from others are current. Current liabilities represent amounts which are expected to be paid within the fiscal year following the reporting date. Advances from others may not be liquidated in the fiscal year following the reporting date.

NOTES TO PRINCIPAL STATEMENTS
September 30, 1998

NOTE 10. OTHER LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Unfunded liabilities as of September 30, 1998, include:

Intragovernmental:	
Accrued workers' compensation:	
Benefits paid	$1,609,812
Estimated future benefits	4,795,000
	$6,404,812
Accrued annual leave	$26,049,638

Accrued annual leave represents the amount of annual leave earned by NRC employees but not yet taken. Accrued workers' compensation includes: (a) FECA benefits paid by the U. S. Department of Labor (DOL) on NRC's behalf which had not been billed to or paid by NRC as of June 30, 1998, and (b) an actuarial estimate for future 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.

Accrued annual leave and accrued workers' compensation are not funded by current or prior years' appropriations and assessments. Funding will be provided from future years' appropriations.

NOTE 11. LEASES

A description of lease agreements as of September 30, 1998, follows:

Capital Leases

Future payments due:

Fiscal Year	Lease Payments
1999	$127,358
2000	60,215
2001	63,139
2002	66,204
2003	51,754
2004 and thereafter	-
Total future lease payments	$368,670
Less: imputed interest	(35,556)
Total capital lease liability	$333,114

NOTES TO PRINCIPAL STATEMENTS
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The total capital lease liability is considered unfunded as of September 30, 1998.

The NRC's capital leases are for personal property consisting of reproduction equipment, which is installed in various NRC facilities. The length of the leases vary from 4 to 5 years and the imputed interest rate, based on rates paid, was 4.75 percent. The reproduction equipment is depreciated over 5 years using the straight-line method with no salvage value.

Operating Leases

Future payments due:

Fiscal Year	Lease Payments
1999	$ 19,868,835
2000	20,033,846
2001	19,739,445
2002	19,527,849
2003	19,429,474
2004 and thereafter	178,143,462
Total future lease payments	$276,742,911

Operating leases consist of real property leases with GSA. The leases are for NRC's headquarters offices, regional offices, and the Washington, DC, reading room. The leases have terms over 2 years and annual lease payments of $25,000 or more. The GSA charges NRC lease rates which approximate commercial rates for comparable space.

NOTE 12. UNEXPENDED APPROPRIATIONS

The unexpended appropriations consist of the following as of September 30, 1998:

Unexpended appropriations:	
Unobligated	$ 31,396,370
Undelivered orders	84,626,582
	$116,022,952

Unexpended appropriations include (a) unobligated appropriation balances and (b) undelivered orders, which are amounts which have been obligated but not yet expended. The unobligated appropriations balance does not include $3,784,228 in unfilled customer orders - unobligated as of September 30, 1998. The undelivered orders balance does not include $2,569,983 in unfilled customer orders - obligated as of September 30, 1998.

NOTES TO PRINCIPAL STATEMENTS
September 30, 1998

NOTE 13. CUMULATIVE RESULTS OF OPERATIONS

The cumulative results of operations as of September 30, 1998, consist of the following:

Future funding requirements	$(32,454,450)	
Investment in property and equipment, net		39,432,603
Accounts receivable - refunds, net		27,900
Revenue from foreign cooperative agreements		2,736,016
		$ 9,742,069

Future funding requirements represent the amount of future funding needed to pay the accrued unfunded expenses as of September 30, 1998. 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 14. APPROPRIATIONS USED

Appropriations Used, a financing source, is recognized to the extent that appropriated funds have been consumed less the amount collected from fees assessed for licensing, inspections, and other services. During the year ended September 30, 1998, $458,982,693 was collected from fees assessed for licensing, inspections, and other services. 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. Included in the $458,982,693 of fees collected is $4,182,693 available to offset subsequent years' appropriations.

For the year ended September 30, 1998, $454,800,000 of collections were used to reduce the fiscal year's appropriations recognized:

Appropriated funds consumed	$ 493,767,773
Less: Collection from fees assessed	(454,800,000)
	38,967,773
Collection to offset subsequent years' appropriations	(1,451,634)
	$ 37,516,139

Appropriations Used includes $29,370,393 of available funds from prior years.

NOTES TO PRINCIPAL STATEMENTS
September 30, 1998

NOTE 15. IMPUTED FINANCING

In accordance with Statement of Federal Financial Accounting Standards Number 5, *Accounting for Liabilities of the Federal Government*, the Statement of Changes in Net Position includes an imputed financing source of $17,961,303. The imputed financing source represents the service costs related to NRC employees' post-employment benefits which are paid by the U. S. Office of Personnel Management, as follows:

Civil Service Retirement System	$11,164,423
Federal Employee Health Benefit	6,753,062
Federal Employee Group Life Insurance	43,818
	$17,961,303

NOTE 16. EXCHANGE REVENUES

Exchange revenues for the year ended September 30, 1998, were:

Fees for licensing, inspection, and other services	$456,251,634
Revenue from reimbursable work	6,085,973
	$462,337,607

The exchange revenue assigned to programs and revenue not assignable to programs, is as follows:

Regulatory program revenue	$ 96,718,258
Revenue not assignable to programs	365,619,349
	$462,337,607

NOTE 17. EMPLOYEE RETIREMENT PLANS

The NRC's contributions for employee retirement plans were as follows:

Civil Service Retirement System	$10,479,550
Federal Employees' Retirement System	10,416,742
Federal Insurance Contribution Act	8,879,543
Thrift Savings Plan	4,305,298
	$34,081,133

NOTES TO PRINCIPAL STATEMENTS
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Data on the actuarial present value of accumulated benefits, assets available for benefits, and unfunded pension liability are maintained by other Federal agencies and are not allocated to individual departments and agencies. The portion of the current and estimated future outlays for CSRS not paid by NRC is included in NRC's financial statements as an imputed financing source (see Note 15).

NOTE 18. PRIOR-PERIOD ADJUSTMENT

The prior-period adjustment of $3,940,790 consists of the following:

Reimbursable revenue earned in prior years	$3,896,137
Correction of expenditure refunds	44,653
	$3,940,790

The $3,896,137 represents reimbursable revenue from foreign cooperative agreements applicable to prior years. Consistent with Statement of Federal Financial Accounting Standards Number 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, this revenue should have been recognized as revenue in prior years. The impact of this adjustment is to increase the cumulative results of operations as of September 30, 1997, by $3,896,137.

The $44,653 represents a correction to the beginning balance of unexpended appropriations and cumulative results of operations for the recording of receivables for expenditure refunds and the associated allowance for uncollectible accounts in prior years. There is no effect on net position.

NOTES TO PRINCIPAL STATEMENTS
September 30, 1998

NOTE 19. SUMMARY OF BUDGETARY RESOURCES

The budgetary resources by major fund follows:

Budgetary Resources:	X0200	X0300	Other Funds	Combined Total
Budget authority	$ 472,025,000	$ 4,800,000	$ 4,300,000	$ 481,125,000
Unobligated balances - beginning of period	24,048,047	1,632,146	3,690,200	29,370,393
Spending authority from offsetting collections	4,908,396	-	-	4,908,396
Adjustments	9,672,512	98,667	124,095	9,895,274
Total Budgetary Resources	$ 510,653,955	$ 6,530,813	$ 8,114,295	$ 525,299,063
Status of Budgetary Resources:				
Obligations incurred	$ 482,034,605	$ 5,328,929	$ 2,754,930	$ 490,118,464
Unobligated balances - available	28,619,350	1,201,884	5,359,365	35,180,599
Total Status of Budgetary Resources	$ 510,653,955	$ 6,530,813	$ 8,114,295	$ 525,299,063
Outlays:				
Obligations incurred	$ 482,034,605	$ 5,328,929	$ 2,754,930	$ 490,118,464
Less: Spending authority from offsetting collections and adjustments	(14,580,908)	(98,667)	(124,095)	(14,803,670)
Subtotal	467,453,697	5,230,262	2,630,835	475,314,794
Obligated balances, net - beginning of period	141,162,720	1,350,282	3,314,460	145,827,462
Less: obligated balance, net - end of period	(121,515,836)	(1,385,322)	(1,799,651)	(124,700,809)
Total Outlays	$ 487,100,581	$ 5,195,222	$ 4,145,644	$ 496,441,447

The adjustments of $9,895,274 to budgetary resources above consist of recoveries of prior-year obligations.

III. APPENDIX