

December 22, 2004

MEMORANDUM TO: Luis A. Reyes  
Executive Director for Operations

Jesse L. Funches  
Chief Financial Officer

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

SUBJECT: MEMORANDUM REPORT: REVIEW OF NRC'S  
IMPLEMENTATION OF THE FEDERAL MANAGERS'  
FINANCIAL INTEGRITY ACT FOR FISCAL YEAR 2004  
(OIG-05-A-07)

This report reflects the Office of the Inspector General's (OIG) assessment of the Nuclear Regulatory Commission's (NRC) FY 2004 compliance with the *Federal Managers' Financial Integrity Act (FMFIA) of 1982*. We found that, except for the fee billing system material weakness, NRC complied with the FMFIA. This report contains no recommendations because the fee billing system material weakness and the associated audit recommendations are included in the OIG's report on NRC's financial statements for FYs 2004 and 2003, report number OIG-05-A-02, dated November 12, 2004.

### BACKGROUND

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

The FMFIA requires that, each year, the head of each executive agency (subject to the FMFIA) shall submit a report to the President and the Congress on the status of management controls and financial systems that protect the integrity of agency programs and administrative activities. NRC incorporates its FMFIA assessment and report in its annual *Performance and Accountability Report*.

## RESULTS

The Chairman and the Inspector General each reported different results on the agency's FY 2004 compliance with the FMFIA because they each properly used different criteria in their respective analyses. The Chairman certified the agency's compliance with the provisions of the FMFIA and did not identify any material weakness. The Inspector General identified one FMFIA material weakness concerning the agency's fee billing system.

### Chairman's Criteria and Results

Office of Management and Budget Circular A-123, Revised, *Management Accountability and Control*, is the agency's implementing guidance for FMFIA. It states, "A deficiency that the agency head determines to be significant enough to be reported outside the agency (i.e., included in the annual Integrity Act report to the President and the Congress) shall be considered a 'material weakness.'..." NRC includes this criteria in its Management Directive 4.4, *Management Controls*. The term "internal controls," as envisioned by the FMFIA, is synonymous with "management controls" and encompasses program and administrative areas, as well as the accounting and financial management areas.

Using this criteria, the Chairman, in the NRC's *FY 2004 Performance and Accountability Report*, explained that NRC evaluated its management controls and financial management systems as required by the FMFIA. Based on the agency's comprehensive management control program, the Chairman certified, with reasonable assurance, that the NRC is in compliance with the provisions of the FMFIA.

### Inspector General's Criteria and Results

Office of Management and Budget Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, dated October 16, 2000, provides the criteria used by the Inspector General. Paragraph 2.j. of the Attachment to the Circular states:

"Material weaknesses in internal control" are reportable conditions in which the design or operation of the internal control does not reduce to a relatively low level the risk that errors, fraud or noncompliance in amounts that would be material in relation to the Principal Statements or Required Supplementary Stewardship Information being audited, or material to a performance measure or aggregation of related performance measures, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. The auditor shall

use this definition of material weaknesses to report on an entity's internal control in accordance with the requirements of Government Auditing Standards and this Bulletin, rather than the definition of material weaknesses used by management to prepare an agency's Federal Managers' Financial Integrity Act (FMFIA) of 1982 report.

The Inspector General applied the aforementioned criteria and found that, for FY 2004, except for the fee billing system material weakness, the NRC complied with the provisions of the FMFIA. The fee billing system material weakness is fully explained in OIG's report on NRC's financial statements for FYs 2004 and 2003, report number OIG-05-A-02, dated November 12, 2004.

### AGENCY COMMENTS

A draft of the report was shared with NRC management. On December 16, 2004, the Chief Financial Officer replied that the Office of the Executive Director for Operations and the Office of the Chief Financial Officer had no comments.

### SCOPE/CONTRIBUTORS

We evaluated the management controls related to the NRC's implementation of the FMFIA for FY 2004, and conducted our work in October and November 2004, in accordance with generally accepted Government auditing standards. This audit was conducted by Steven Shea, Senior Auditor.

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

cc: Chairman Diaz  
Commissioner McGaffigan  
Commissioner Merrifield  
W. Dean, OEDO  
M. Malloy, OEDO  
P. Tressler, OEDO