

November 9, 2000

MEMORANDUM TO: James Turdici, Director ~~IRA~~
Division of Accounting and Finance
Office of the Chief Financial Officer

FROM: Graham D. Johnson, Acting Chief
General Accounting Branch
Division of Accounting and Finance
Office of the Chief Financial Officer

SUBJECT: FY 2000 REASONABLE ASSURANCE STATEMENT

As requested in the CFO's October 10, 2000, memorandum, and as required by NRC Management Directive 4.4, *Management Controls*, I have assessed the adequacy and effectiveness of the management controls and financial systems within the General Accounting Branch (GAB). This is to certify that as of September 30, 2000, the management controls in effect at this time in GAB, taken as a whole, provide reasonable assurance, with exceptions, that the following management control objectives were achieved:

- (1) Programs are achieving their intended results;
- (2) Resources are being used consistent with the agency's mission;
- (3) Programs and resources are protected from waste, fraud, and mismanagement;
- (4) Laws and regulations are followed; and
- (5) Reliable and timely information is obtained, maintained, reported, and used for decision making.

In reaching this determination, I have relied on all available sources of information to include those identified in Management Directive 4.4 and the accompanying Handbook. Extensive reliance has also been placed on discussions with Anthony C. Rossi, Chief, GAB, during the entire FY 2000. A complete description of significant deficiencies identified in the assessment process and a remediation plan for each of these deficiencies are provided in the attachment. Further, I understand that it is the responsibility of the Chief, GAB, to monitor the corrective actions in the rededication plans and to advise you when corrective actions are complete.

Attachment: As stated

FY 2000 REASONABLE ASSURANCE STATEMENT

Significant Deficiencies and Remediation Plans

Managerial Cost Accounting

Deficiency

There has been insufficient implementation of managerial cost accounting to comply with Statement of Federal Financial Accounting Standards Number 4 (SFFAS 4), *Managerial Cost Accounting Concepts and Standards for the Federal Government*. SFFAS 4 requires Federal agencies to accumulate and report the costs of their activities on a regular basis for management information purposes. This has been recognized previously as a significant weakness pursuant to the Federal Managers' Financial Integrity Act and as a substantial noncompliance with the Federal Financial Management Improvement Act.

Remediation Plan

Implementation of managerial cost accounting has been incorporated into a larger agency initiative of implementing an integrated, agencywide resource management system, STARFIRE. STARFIRE will include labor distribution and cost accounting modules which will provide necessary tools for reporting costs and implementing managerial cost accounting. Corrective action concerning the implementation of managerial cost accounting is fully addressed in a revision to the remediation plan originally issued in July 1999. A proposed revise to this remediation plan has gone forward in November 2000 to the Chief Financial Officer for approval.

Program Cost Accounting

Deficiency

During FY 1999, the agency did not have a general ledger process that supported the preparation of the financial statements at the transaction level because the payroll system could not aggregate payroll transactions at the agency's strategic arena level. This was identified as a substantial noncompliance with the Federal Financial Management Improvement Act.

Remediation Plan

For FY 2000, the payroll system was modified to address this deficiency. Corrective action is fully addressed in a remediation plan issued in May 2000.

In addition, during FY 2001, the agency plans to implement a new integrated resource management system which will include cost accounting and labor-cost distribution modules which will enable the agency to aggregate all costs at the transaction level.

Business Continuity Plan

Deficiency

The agency's core accounting system is not in full compliance with OMB Circular A-130, *Management of Federal Information Resources*, because its disaster recovery plan is untested. NRC uses FFS under a cross-servicing agreement with Treasury's Financial Management Service (FMS). FMS has been unable to demonstrate the ability to perform data recovery and backup capabilities of the FFS application in the event of a disaster. FMS has concluded that its management control and financial systems, taken as a whole, provide reasonable assurance that the objectives of the Federal Managers' Financial Integrity Act and the Federal Financial Management Improvement Act were achieved and identified the need for backup capabilities as a material non-conformance.

Remediation Plan

In a memorandum, dated November 22, 1999, FY 1999 Annual Statement of Assurance, FMS indicated a backup recovery plan had been developed but not tested and would not be tested until May 31, 2001. However, FMS testing of the plan is contingent upon available resources and the completion of other tasks with a higher priority. The OIG acknowledges that the NRC can not compel the FMS to comply with a disaster recovery plan and, as a result, has not recommended further action other than to continue to monitor the situation. The CFO, in his letter of February 8, 2000, requested the Commissioner, FMS, to resolve this issue before the close of FY 2000. FMS advised they could not move up the test date due to other priority items.

Reliance on Contractors

Deficiency

In streamlining and downsizing the accounting operations, GAB has expanded its reliance on contractual support for general ledger reconciliations and compilation of the financial statements. This reliance on contractors increases the risk that insufficient expertise will be retained in GAB to properly perform some accounting operations, especially if contract funds are reduced. In addition, the increased reliance on IT contractual staff for financial report development and data inquiry has resulted in delays in accomplishing key tasks.

Remediation Plan

GAB needs to ensure that a balance is maintained between the expertise within the branch and that which is contractual as well as ensuring that contractual support is adequately dedicated to the support of accounting functions. Insufficient contractor support would be partially mitigated by having funding available to address unanticipated needs.

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Distribution:

A. Rossi, CFO/DAF/GAB
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