



UNITED STATES
NUCLEAR REGULATORY COMMISSION

WASHINGTON, D.C. 20555-0001

MAR 30 2001

MEMORANDUM TO:

Chairman Meserve
Commissioner Dicus
Commissioner Diaz
Commissioner McGaffigan
Commissioner Merrifield

FROM:

Dennis K. Rathbun, Director
Office of Congressional Affairs *DR*

SUBJECT:

REP. HORN ISSUES REPORT CARD ON AGENCIES'
FINANCIAL MANAGEMENT, 3/30/01

Rep. Horn (R-CA), Chair of the House Government Reform Committee's Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations, held a hearing, "Are the Financial Records of the Federal Government Reliable?" At the hearing, he issued his annual report card on agencies' financial management grades, based on the financial statement audits. As it did last year, the NRC received a D+. The government-wide grade improved from a D+ last year to a C- this year.

Rep. Horn and GAO noted that progress continued to be made across the government with financial statements; however, significant challenges remained with having internal controls in place for systemic change. The NRC received an unqualified opinion for having reliable financial information; however, it continues to be downgraded for a lack of effective internal controls and for compliance with laws and regulations.

OCA is preparing a report on the hearing; a copy of the report card is attached.

Attachment: As stated

cc: SECY
OGC
OGC/Cyr
EDO
NRR
NMSS
RES
OIP
OCAA
OPA
OIG
CFO

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Fiscal Year 2000 (for the period ended September 30, 2000)

Financial Management Status Report

Federal Departments and Agencies	RELIABLE FINANCIAL INFORMATION (yes/qualified/no)	EFFECTIVE INTERNAL CONTROLS (yes/no)	COMPLIANCE WITH LAWS AND REGULATIONS (yes/no)	GRADE FY 1996	GRADE FY 1997	GRADE FY 1998	GRADE FY 1999	GRADE FY 2000
DOE Department of Energy	YES	YES	YES	A	A	C	B-	A
NASA National Aeronautics and Space Administration	YES	YES	YES	A	A	A	A	A
SBA Small Business Administration	YES	YES	YES	B-	D+	D+	D+	A
EPA Environmental Protection Agency	YES	YES	NO	C	D+	D+	D-	B-
GSA General Services Administration	YES	YES	NO	D+	B-	B-	B-	B-
Labor Department of Labor	YES	YES	NO	D	B-	B-	B-	B-
NSF National Science Foundation	YES	YES	NO	D	B+	A	A	B-
OPM Office of Personnel Management	YES	YES	NO	F	F	F	F	B-
SSA Social Security Administration	YES	YES	NO	A	B-	B-	B-	B- *
Commerce Department of Commerce	YES	NO	NO	F	F	F	D+	D+
FEMA Federal Emergency Management Administration	YES	NO	NO	F	D-	D+	D+	D+
HHS Department of Health and Human Services	YES	NO	NO	F	D-	D-	D+	D+
HUD Department of Housing and Urban Development	YES	NO	NO	D-	D-	D+	F	D+
Interior Department of the Interior	YES	NO	NO	D+	B-	D+	D+	D+
NRC Nuclear Regulatory Commission	YES	NO	NO	A	B-	D+	D+	D+
State Department of State	YES	NO	NO	D-	D-	D+	D+	D+
Treasury Department of the Treasury	YES	NO	NO	F	D-	D-	D-	D+
VA Department of Veterans Affairs	YES	NO	NO	F	D-	D-	D+	D+
Education Department of Education	Qualified	NO	NO	D+	D+	F	D-	D-
Justice Department of Justice	Qualified	NO	NO	F	F	F	D-	D-
DOT Department of Transportation	Qualified	NO	NO	F	F	F	D+	D-
AID Agency for International Development	NO	NO	NO	F	F	F	F	F
Agriculture Department of Agriculture	NO	NO	NO	F	F	F	F	F
DOD Department of Defense	NO	NO	NO	F	F	F	F	F
FEDERAL GOVERNMENT								C-

NOTES:

Agency grades are based on the audited financial statements prepared pursuant to the Government Management Reform Act of 1994 for three categories: RELIABLE FINANCIAL INFORMATION, EFFECTIVE INTERNAL CONTROLS, AND COMPLIANCE WITH LAWS AND REGULATIONS.

*The grade for SSA is based on the SSA Office of the Inspector General's belief that SSA does not substantially comply with laws and regulations; however the independent public accountant who performed the audit believes that SSA does substantially comply.

Basis For Agency Financial Management Grades

The grades for each of the 24 departments and agencies are based on the results of the financial statement audits. These audits were performed by the agency's Inspector General, an independent public accounting firm, and the General Accounting Office. All auditors were required to follow generally accepted Government auditing standards (GAGAS). These standards incorporate the American Institute of Certified Public Accountant's Statements on Auditing Standards, the same standards required for audits of private sector entities. However, GAGAS adds certain requirements beyond the Statements on Auditing Standards. Most notably, GAGAS has additional reporting requirements beyond an opinion on the financial statements.

Three reports are required at the completion of each audit of Government entities under GAGAS and as incorporated in OMB Bulletin 01-02, Audit Requirements for Federal Financial Statements.¹ These reports are an opinion of the financial statements, a report on internal control, and a report on compliance with laws and regulations.

The opinion provides the auditor's assessment of the reliability of the information contained in the financial statements. There are four types of opinions that the auditor can render—Unqualified, Qualified, Adverse, or Disclaimer. An unqualified opinion signifies that the information in the financial statements was reliable in all material respects.

¹ OMB Bulletin 01-02, Audit Requirements for Federal Financial Statements, establishes requirements and guidance for auditors to follow in auditing Federal financial statements.

A qualified opinion signifies that, except for specified information in the financial statements, the information is reliable. An adverse opinion means the statements are not reliable. Lastly, a disclaimer of opinion signifies that the auditor was unable to determine if material information in the statements was reliable.

The report on internal control provides an assessment by the auditors of the effectiveness of internal controls. Internal controls can be simply defined as the methods by which an organization governs its activities to accomplish its mission effectively and efficiently. The report is required to identify any instances of material weaknesses or reportable conditions in internal control that surfaced during the course of the audit. The American Institute of Certified Public Accountants defines a material weakness in internal control as "...a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities 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 assigned functions."²

The report on compliance with the laws and regulations provides the auditor's assessment of instances in which the agency did not follow or conform materially to requirements of the laws and regulations deemed material to the financial operations of that agency. The Office of Management and Budget also provides guidance to the

² Codification of Statements on Auditing Standards (Including Statements on Standards for Attestation Engagements), Numbers 1 to 82, American Institute of Certified Public Accountants, as of January 1, 1997; AU Section 325.15.

auditors in OMB Bulletin 01-02 regarding which general laws and regulations need to be considered during the audit.

Starting in fiscal year 1997, an agency's adherence to Federal Financial Management Improvement Act of 1996 (FFMIA) requirements must be assessed in the report on compliance with laws and regulations, in accordance with OMB guidance. The FFMIA specifically requires that agencies financial management systems comply substantially with promulgated Federal Government accounting and systems standards, and use the United States Government standard general ledger. Many agencies did not substantially comply with the requirements of FFMIA.

The subcommittee reviewed each financial report on an absolute scale and assessed grades on a four point scale with "A" = 4, "B" = 3, "C" = 2, "D" = 1, and "F" = 0. In the financial information category, when an unqualified opinion was rendered by the auditor, an "A" (4 points) was given; a qualified opinion received a "C" (2 points) and a disclaimer received an "F" (0 points). There were no adverse opinions rendered in fiscal years 1996 through 2000, however, an adverse opinion would have also received an "F."

If no material weaknesses in internal control were reported, the agency received an "A" (4 points). Conversely, if material weaknesses were reported, the agency received an "F" (0 points) in this category.

Similarly, if the auditor reported that the agency had no known instances of non-compliance with laws and regulations an "A" (4 points) was awarded. If material non-compliances were reported, an "F" (0 points) was given.

These grades were then averaged (with equal weight) to determine the overall grade for the agency.

The grades included in this report are based on audit reports issued as of the publication of this report card. By law, agencies are required to submit audited financial statements for the fiscal year to the Director of OMB by March 1 of the succeeding year. This date is five months after the close of the Federal Government's fiscal year on September 30. For the first time, all agencies issued their fiscal year 2000 audited financial statements by the March 1, 2001 deadline.