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NUCLEAR REGULATORY COMMISSION

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UNITED STATES OF AMERICA
NUCLEAR REGULATORY COMMISSION

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BRIEFING ON NRC FINANCIAL MATTERS

- - - -

PUBLIC MEETING

Nuclear Regulatory Commission
One White Flint North
Rockville, Maryland

Monday, March 8, 1993

The Commission met in open session,
pursuant to notice, at 10:00 a.m., Ivan Selin,
Chairman, presiding.

COMMISSIONERS PRESENT:

IVAN SELIN, Chairman of the Commission
KENNETH C. ROGERS, Commissioner
FORREST J. REMICK, Commissioner
JAMES R. CURTISS, Commissioner
E. GAIL de PLANQUE, Commissioner

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STAFF SEATED AT THE COMMISSION TABLE:

SAMUEL J. CHILK, Secretary

JOE SCINTO, Office of the General Counsel

JAMES TAYLOR, Executive Director for Operations

RONALD SCROGGINS, Deputy Chief Financial Office,
Controller

JESSE FUNCHES, Deputy Controller

E. LEE HILLER, Director, Division of Accounting and
Finance

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P-R-O-C-E-E-D-I-N-G-S

10:00 a.m.

CHAIRMAN SELIN: Good morning, ladies and gentlemen.

This morning the Commission will be briefed by the staff on questions of NRC's internal financial management, the management of our own financial resources. The Chief Financial Officers Act of 1990 has put considerably more responsibility in the hands of the financial managers of the Agency, in this case the EDO is our CFO. The Act requires that the NRC prepare an annual financial statement which can be audited by the Office of Inspector General. So it's a challenge for both organizations.

In doing this work, a number of interesting topics, not so much quantitative but having to do with some of our financial management practices, have arisen. The report itself will be discussed today. That is the fiscal year 1992 unaudited financial statement. It has been submitted to the Commission for review and I assume there will be some management topics as well.

Mr. Taylor?

MR. TAYLOR: Good morning. I'm pleased to appear before the Commission for the first time in my

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1 capacity as Chief Financial Officer. At the table are
2 Ron Scroggins, the Deputy CFO and Controller, Jesse
3 Funches, the Deputy Controller, and Lee Hiller,
4 Director of the Division of Accounting and Finance.
5 Mr. Hiller's division is responsible for the financial
6 aspects of the statement.

7 (Slide) Chart 1, please.

8 At this briefing we plan to discuss two
9 topics. As you may be aware, the financial statement
10 itself is only one component of the government effort
11 to improve financial management at agencies and
12 departments. To place this financial statement in
13 context, I will first discuss the overall direction
14 that we are moving in to provide good financial
15 management at the NRC. Mr. Scroggins will then
16 discuss the NRC's first financial statement. A draft
17 of that statement was provided to the Commission on
18 February 25th for their consideration and approval.

19 Although the financial statement includes
20 both financial and program performance for fiscal year
21 1992, this briefing will be principally on financial
22 performance. We do not plan to discuss the program
23 performance and the indicators that were included in
24 the financial statement. However, we do believe they
25 are indicative of the Agency satisfactorily performing

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1 in meeting its basic obligation for protection of
2 public health and safety in the application of nuclear
3 materials and in reactors.

4 (Slide) Chart 2, please.

5 There are a number of changes that have
6 occurred that have impacted the government and
7 certainly NRC's approach to financial management. The
8 following external changes have caused specific
9 impacts here in NRC on our financial management and
10 what we do. First, as you mentioned, Mr. Chairman,
11 was the Chief Financial Officers Act itself. The
12 whole object of that act was to improve government
13 financial management and trying to make it more
14 "business like" and raising the organizational level
15 for financial management and integrating financial
16 management in the day to day activities of the agency.

17 The second major change was the 100
18 percent fee recovery rule or law, which has caused us,
19 of course, to issue rules. That has increased, I
20 believe, the industry and public's interest in our
21 financial management.

22 The third is the passage of the Inspector
23 General Act providing NRC with an inspector general.
24 That has certainly picked up the area of auditing of
25 our financial activities.

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1 In general, I believe that this increased
2 scrutiny has been healthy and we have and are taking
3 some broad-based steps to improve financial
4 management.

5 (Slide) Can I have chart 3, please?

6 First, we're raising NRC managers'
7 awareness of their individual financial management
8 responsibilities. For example, I've placed in each
9 SES contract a subelement on financial management
10 performance. Second, I personally meet with managers
11 and staff who have financial responsibilities to
12 reinforce my expectations on their performance in
13 controlling and managing our money. Third, I
14 emphasized in discussions at the senior management
15 meeting, this last one in January, all managers'
16 financial management responsibilities, including all
17 the offices and the regional administrators.

18 Financial management is a frequent topic
19 at the EDO staff meeting usually held every Friday.
20 The office directors and regions, regions by phone,
21 and I talk about ongoing problems.

22 Lastly, I've tried to recognize both staff
23 and managers where I see indications of good financial
24 management and careful tending of resources.

25 Another important step was the

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1 establishment of a financial council comprised of the
2 Office of the Controller, IRM and all allottees in the
3 offices and regions. This group will help by sharing
4 information on financial management, problems and
5 practices and solutions and fostering a professional
6 and corporate attitude about financial management.
7 That group is meeting on a regular basis under the
8 direction of the Deputy Controller and a lot of ideas
9 are surfacing about ways to improve our financial
10 management.

11 We're also trying to improve the tools
12 that are available for financial management within the
13 staff. For example, we have subscribed and are in the
14 process of implementing a federal financial system
15 provided to us under the auspices of the Department of
16 the Treasury. We're currently in the transition
17 period instituting that system fully for our
18 accounting and tracking in the Agency. This is a big
19 change and the first major change of this type in our
20 accounting and financial practices since the Agency
21 was founded.

22 We are also planning in fiscal year 1995,
23 is that right, Ron, to replace our existing payroll
24 system with an integrated payroll/personnel system.
25 That's still in the planning stages. We are placing

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1 more resources on financial management consistent with
2 its importance to the NRC and improving the controller
3 staff capabilities by increasing the number of trained
4 accountants and using contractors, qualified
5 contractors to provide unique expertise and help us
6 with some of our peak work loads and backlogs that
7 occur.

8 We're providing guidance and training to
9 program office staff and financial management
10 personnel in two high priority areas. One is the
11 administrative control of funds and in the interagency
12 activities and agreements with the Department of
13 Energy labs, which I know the Commission is aware we
14 spend a great deal of money through the labs.

15 Lastly, we continue to work as a staff to
16 assess financial management problems and risks and
17 deficiencies, both on our own and as identified by the
18 IG, to help improve our system.

19 CHAIRMAN SELIN: Mr. Taylor, could you
20 just stop for a second? We've had the experience that
21 the unit rates that these different national labs
22 charge us are really quite different from one lab to
23 another. Is that the function of the financial
24 management people, to look in and see why and if
25 they're plausible, or is that more the program

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1 manager's responsibility?

2 MR. TAYLOR: Yes. I'll let Ron respond to
3 that.

4 MR. SCROGGINS: Actually, at this point
5 it's being handled pretty much by our procurement
6 people who are looking at that as part of the role
7 that they have assumed this year, which is sort of a
8 coordinated oversight of our operations with DOE
9 laboratories. We are still involved in the financial
10 management side with the interagency agreements on
11 what I'll call the financial aspects as to how
12 payments are made, billings, et cetera. But the
13 issue, for example, that you raise, which is the front
14 end billing rates, negotiating and what have you, that
15 is being looked at in the development of the new
16 management directives that are being handled by our
17 Office of Administration.

18 MR. TAYLOR: I'd like to acknowledge the
19 help that the Division of Contracts has provided to
20 the program staff in this area. They've been very,
21 very helpful under Pat Norry and Ed Halman in
22 providing us expertise to go after some of these
23 issues.

24 Now Mr. Scroggins will continue on some of
25 the lessons learned so far in preparing our first

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1 financial statement.

2 MR. SCROGGINS: (Slide) Okay. Chart 4,
3 please.

4 At the outset, I'd just like to put into
5 context in effect why we are here, having prepared a
6 financial statement for fiscal 1992. As indicated by
7 Jim, the Act -- and you Mr. Chairman, the Act does
8 require a financial statement. However, the Act is
9 very specific and requires a financial statement at
10 this time only for three types of accounts, revolving
11 funds, trust funds and what they define as substantial
12 commercial functions. During discussions with OMB
13 once the Act was put out, the NRC was included as a
14 substantial commercial function because of the 100
15 percent fee base. That is why we are doing a
16 financial statement.

17 Most agencies and departments are doing
18 only financial statements for the specific accounts
19 that meet the criteria laid out in the Act, in other
20 words for special funds and what have you. There are
21 five other agencies which are doing full financial
22 statements, but they're doing them as the result of
23 pilot programs that were initiated even prior to the
24 Act and they are Agriculture, Labor, VA, HUD and GSA.
25 Then the NRC is the sixth agency doing a total

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1 financial statement. Everybody else is just doing
2 pieces of the statements.

3 MR. TAYLOR: I might tell you that we
4 looked at those financial statements sort of as
5 guides. We obtained a number of these through the
6 past year or two where government departments have
7 been preparing this sort of document.

8 MR. SCROGGINS: Yes. I should mention
9 that the statements were initially required for fiscal
10 '91, but a waiver was allowable in the Act and most
11 agencies, including the NRC, did receive a waiver for
12 not doing a financial statement for fiscal '91. But
13 the Act allowed no waivers for fiscal '92, so
14 everybody is putting them out this year. So, we did
15 have fiscal '91 financial statements from some
16 agencies to look at prior to this.

17 COMMISSIONER REMICK: What's the rationale
18 of the 100 percent recovery being considered a
19 commercial function?

20 MR. SCROGGINS: The guidelines at OMB.
21 The initial intent of that by Congress was obviously
22 if you had a very specific commercial function you
23 were -- and I'll use as an example NOAA doing maps and
24 selling, let's say, maps out there that they were
25 charging almost like a commercial function, that

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1 that's something -- again, trying to look at financial
2 management in the government and bring some
3 commonality to how private industry and the commercial
4 functions do financing. That was what the original
5 intent was. When OMB laid out its guidelines as to
6 how it would meet that criteria, they used as a
7 guideline where fees greater than \$1 million were
8 collected. Essentially we fell within that guideline
9 and the Agency, after some discussions with OMB, both
10 the staff and the Inspector General decided to just
11 accept the definition and move on from that point.

12 COMMISSIONER ROGERS: Do you have any idea
13 that if you didn't have to produce such a complete
14 audit what the savings would be?

15 MR. SCROGGINS: Well, the cost of the
16 audit right now, the cost of the financial statement
17 this year, probably something between \$500,000.00 and
18 \$600,000.00, including staff and contractor time.
19 That does not include the cost of the audit.

20 COMMISSIONER ROGERS: You'd still have to
21 do some part of that.

22 MR. SCROGGINS: Oh, yes. One thing I
23 should mention is that we have always done a number of
24 reports to Treasury, to OMB, to GAO that have been
25 required by various regulations over the years. In

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1 fact, the principal statements that are included in
2 this financial statement are very similar, though not
3 exactly, are similar to a number of reports that have
4 gone to Treasury in the past. So, most of this data
5 was there and was presented in similar form. It's the
6 whole compilation of a financial statement and the
7 uniqueness of the audit aspect, which is clearly
8 different than just, "Here's what our systems show the
9 data to be."

10 CHAIRMAN SELIN: Do you have to send still
11 those specialized reports to Treasury or can we just
12 send them our financial statement and say, "Here it
13 is?"

14 MR. SCROGGINS: No, we still send the
15 specialized reports to Treasury.

16 CHAIRMAN SELIN: Well, we ought to try to
17 get some relief from that. I think it's foolish to do
18 these --

19 MR. SCROGGINS: That issue has come up in
20 the Chief Financial Officers Council. In fact, there
21 is one subcommittee that has been set up in what they
22 call the Deputy's Council to look at going back and
23 looking at all the requirements, given everything else
24 that has come on the table and trying to minimize --

25 CHAIRMAN SELIN: It doesn't make any sense

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1 to do a financial statement if it doesn't meet our
2 financial reporting requirements.

3 MR. TAYLOR: We'll pursue that now that we
4 have our first one.

5 MR. SCROGGINS: Good point.

6 COMMISSIONER REMICK: When they indicated
7 that the 100 percent fee recovery should be commercial
8 function, was the intent to protect the government or
9 protect the licensees, the commercial interest that we
10 charge?

11 MR. SCROGGINS: No, the original intent of
12 the Act, as I understand it in talking to some of the
13 people on the staff there, was that they were trying
14 to initially -- and they didn't really want agencies
15 to be doing full financial statements. They wanted to
16 go into a learning curve. What they wanted to do was
17 pick out those kinds of activities that were somewhat
18 akin to commercial type or special type of funds.
19 That's why they picked revolving funds, trust funds
20 that are commercial functions. I honestly do not
21 believe it was the intent of Congress when they passed
22 the Act that because we were doing a 100 percent fee
23 recovery for revenue, that that was what the intent of
24 calling that a commercial function. But we fell into
25 that definition and OMB obviously was very interested

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1 and so were the members -- the committees on the Hill
2 to move in the direction as rapidly as possible. So,
3 that's where we're at.

4 (Slide) Can I have chart 5, please?

5 The Act also prescribed some very specific
6 dates. It prescribes that the head of the agency must
7 submit the unaudited financial statement to OMB no
8 later than March 31 and that is the statement that has
9 been submitted to the Commission. It is our intent at
10 that time to also submit the unaudited statement to
11 the Appropriation and the Oversight Committees at the
12 same time that it is submitted to OMB. The Act also
13 then requires that the formal and final audit of the
14 statement be submitted to the Chairman by the
15 Inspector General no later than June 30.

16 Two points I'd like to make on that. One
17 is that the intent of that audit, given the guidelines
18 that we have received, both on how to prepare the
19 audit, the agency, and how to prepare the statement,
20 is that the basic approach or the intent of an audit
21 is is this statement a fair and reasonable portrayal
22 of the financial condition of the agency. There is
23 also within the guidelines the stressing the point
24 that it is an iterative and continual process. In
25 other words, the unaudited statement that you have now

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1 is now expected to be final, that during this current
2 time that we're continuing to look at it, the IG has
3 already received the copy of the same draft statement
4 that you have and during their formal audit phase,
5 that if points are raised, if there is an ability to
6 go in and make some changes to make it more clear or
7 more understandable or more descriptive of what
8 actually has occurred, it is -- the guidance that both
9 we and the IG have received is that you go and make
10 changes in the financial statement all the way up
11 until the time of, in effect, June 30 you have that
12 ability to do so. The guidance that we have both
13 received encourages that where appropriate. So,
14 again, the financial statement is the best statement
15 possibly that the Agency can make.

16 The final then presentation required in
17 the Act is in the CFO annual report, that in effect
18 the CFO makes to the Chairman and OMB at the end of
19 August. That report is to include the financial
20 statement, the audit of the financial statement. It
21 also includes summaries of the Financial Management
22 Federal Integrity Act, the internal control process
23 and other statements of other status of actions
24 underway in financial management. That is where
25 everything is then packaged finally at the end of

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1 August.

2 (Slide) Chart 6.

3 Just very briefly, the guidance from OMB
4 specified actually, in effect, five sections, one we
5 do not have to do. There's the overview section,
6 which in our case overview briefly describes the NRC,
7 its mission, summarizes the financial performance for
8 fiscal '92 and also summarizes the program
9 performance. The principal statements, as I indicated
10 earlier, as somewhat similar. They are different
11 previous Treasury reports and continuing reports that
12 we do. They look more like the standard commercial
13 annual reports. The footnotes, and the footnotes are
14 very important because the footnotes, the principal
15 statements are essentially numbers. The footnotes
16 describe those numbers, describe the basis for them,
17 define them and any comments or uncertainties
18 regarding those numbers. Finally the supplemental
19 financial management is anything else in a sense that
20 you wish to include and in our supplemental
21 information we have more detailed descriptions of
22 certain of our activities, such as the fees, the
23 missions, the performance measures, et cetera.

24 There's one other section which is so-
25 called combined statements. It does not apply to this

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1 Agency, but that is the intent there, is where because
2 of given accounts where you might have bureaus and
3 departments within agencies that have multiple
4 accounts, you would do a combined statement so you
5 could see the total financial picture of that bureau
6 or that department or that overall program in a more
7 clear manner than just giving the subaccount. Since
8 we're doing the entire Agency, that doesn't apply
9 here.

10 (Slide) Chart 7.

11 In preparing the statement, just some
12 points that I'd like to make. The form and content of
13 the statement was prescribed by OMB, but to put into
14 context, the final form and content guidance from OMB
15 was received in October 1992. So, it was received
16 after the fiscal year. So, there was a fair amount of
17 activity to conform some of the data into the new
18 format that OMB has. It's going to be an ongoing
19 thing which I'll mention later for a number of years.

20 We did receive assistance from an
21 independent CPA firm to help us in the preparation of
22 the statement and I should note also that the
23 Inspector General has an independent firm almost
24 helping it, assisting it in doing its audit.

25 A very large activity went on into

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1 reconciliation of accounts. Recognizing that we have
2 existing systems in fiscal '92, we had to reconcile
3 those to the new form and content. We have a number
4 of subsidiary ledgers. There was a significant
5 activity that went on in an effect reconciling our
6 data with Treasury, with all of our subsidiary
7 ledgers, to the general ledger, et cetera, and this
8 was a -- and the contractor assisted in this, but this
9 was a very significant activity on the staff.

10 One point I should make that most
11 financial statements and would be expected, certainly
12 in our case in the future, one very important part of
13 it is comparing how did you do this year, where were
14 you the year before. Since this is a first financial
15 statement for the Agency and it's done in certain
16 matters like accrual cost basis which most of our
17 reports have not been in the past. We have no basis
18 for that comparison, but certainly that would occur in
19 the future. That would be an aspect of the next
20 financial statement, would be comparing where we're at
21 in say, for example, '93 to '92.

22 We've also had continual action with the
23 IG through this whole process, starting back really
24 late summer, early fall, even before the end of the
25 fiscal year. Drafts of sections that we've been

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1 preparing have been going back and forth for comments
2 from the IG. They've had the benefit of our
3 contractor. We've had benefit of some of the
4 preliminary -- I won't call them audits, but
5 preliminary reviews by their contractor. So, there
6 has been a continual interaction with the IG and
7 that's been the intent. Again, the intent by Congress
8 and by the federal government in taking these, shall
9 we say, activities on financial statements is really
10 to not play "gotcha" games. The intent is to do the
11 best job you can in laying out what the financial
12 position is and it's going to be expected to be a
13 learning process over a number of years and the intent
14 is for all parties to work together to, in effect, end
15 up with something that everybody feels that we are now
16 finally understanding the financial status in the
17 federal government and presenting it in a manner which
18 is understandable to people. That's what the full
19 intent is.

20 (Slide) Chart 8.

21 I'd now like to very briefly summarize
22 over the next few charts some of the financial
23 information that's included in the statement. The
24 first one here is the sources of our funds that were
25 available during fiscal '92. Primary source obviously

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1 was our new budget authority which we received from
2 Appropriation of that \$512.5 million, just to note
3 that about \$20 million of that was appropriated from
4 the waste fund, the rest appropriated from the general
5 fund. We also received reimbursable authority, about
6 \$4.5 million. That is much higher than we normally
7 have been and the reason for that is that about \$4
8 million of that was aid money that was received late
9 in September. We've normally not run this kind of
10 level of reimbursable from other appropriation
11 accounts.

12 Budget authority from prior years, that
13 includes not only carryover from fiscal '91 to '92,
14 but the monies that were made available during fiscal
15 '92 from deobligations. I should indicate that about
16 \$6.5 million of that total was monies that were made
17 available during the fiscal year from deobligating
18 prior year monies, closing out of contracts, et
19 cetera.

20 CHAIRMAN SELIN: Do you expect that to run
21 over five percent a year indefinitely or is that --

22 MR. SCROGGINS: The overall carryover?

23 CHAIRMAN SELIN: Yes.

24 MR. SCROGGINS: No, I expect that to come
25 down some. There were some uniquenesses to that

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1 number that year. The carryover was not \$28 million.
2 The carryover was about \$21 to \$22 million from the
3 prior year. Like I say, this includes the monies made
4 available during the year from deobligating.

5 MR. TAYLOR: We've had a big campaign to
6 deobligate money and to close contract accounts that
7 provided us funds.

8 MR. SCROGGINS: And you'll see that when
9 the end --

10 CHAIRMAN SELIN: I should tell you I'm
11 comfortable with having some unobligated funds because
12 that's much better than the end of the year waste
13 campaign. But getting the pressure up to deobligate
14 the money is clearly something that yes, we need to do
15 more.

16 MR. TAYLOR: Yes.

17 MR. SCROGGINS: And you'll see that
18 reflected in the numbers when you see at the end of
19 '92 because, as Jim was indicating, there was a very
20 significant activity starting in '91 and also during
21 '92 to close out old contracts and that has
22 contributed also to the balance at the end of '92 as
23 well.

24 The GSA transfers just monies that are
25 made available from GSA to maintain our facilities as

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1 part of our agreement.

2 (Slide) Chart 9.

3 During the year, we obligated against that
4 authority the \$520 million. Just a couple points to
5 make here. Obviously the two primary sources of our
6 fund obligations were in salaries and benefits for the
7 employees and in our contractual support, which is
8 shown here, split as program and administrative
9 support, the program support just being the more
10 technically oriented contractual support to the major
11 programs of the Agency and the administrative support
12 being the more classical, rent telephones, et cetera,
13 type of costs.

14 The only other point I'd like to make here
15 is that you will note that we only obligated about
16 \$200,000.00 of that over \$4 million in reimbursable
17 and the reason for that is that AID money was received
18 essentially in the last week of September. So, there
19 was clearly no time frame to obligate those funds.

20 MR. TAYLOR: In fact, we didn't reach
21 agreement until the 30th of September.

22 MR. SCROGGINS: Basically, it was almost
23 an instantaneous --

24 MR. TAYLOR: Last minute.

25 MR. SCROGGINS: AID got it off of their

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1 books, but it came on our books at that point in time.

2 (Slide) Go to chart 10.

3 This is, in a sense, a point that you
4 raised, Mr. Chairman. If you just take the previous
5 two charts and say, "Here's what we had available,
6 here's what we obligated," the amount of monies that
7 we then transferred from fiscal '92 into '93 is the
8 \$28 million there. But I would like to put that into
9 context. That does include about \$4.5 million in
10 reimbursable, which is a number which is significantly
11 higher, almost by that amount than we've ever had in
12 the past and that resulted because of the action of
13 receiving the money from AID at the end of the fiscal
14 year. It also includes close to \$6 million of funds
15 that were committed and were, in fact, in the process
16 of being obligated but had just not been obligated as
17 of midnight September 30. This would be contract
18 actions that were in contracts but the contract hadn't
19 been signed. It could even include orders to
20 laboratories where the order had not been received
21 back from the lab and therefore was not officially
22 obligated as of September 30.

23 Now, what usually happens there is that
24 once we receive our apportionment for the new fiscal
25 year, those monies are then -- which includes monies

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1 that are carried over, our estimates of that, those
2 monies are reallocated back to the source of the
3 commitment so that the obligation is usually made
4 within the first month or so of the fiscal year.

5 It also includes -- and I think this was
6 a point we were starting to make. It includes the
7 results of I think some very good financial management
8 actions taken during the fiscal year. During fiscal
9 '92, as we say, we deobligated about \$6.5 million of
10 prior year money. This was closing out of old
11 contracts, et cetera. So, those monies became
12 available.

13 There are a number of other actions that
14 were taken. One example was that of significant
15 negotiations with GSA on the rent that the Agency
16 paid. At the beginning of the year we had certain
17 estimates from GSA based upon how they felt they were
18 going to charge us given their estimated increases due
19 to inflation, et cetera. We felt that the numbers --
20 and we had built that into the budget, but then we
21 felt that the numbers were definitely over excessive
22 and we went back and negotiated and actually I think
23 it was about \$1.5 million, something like that, that
24 we actually reduced on the rent charges. That money
25 also became available near the end of the year. So,

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1 there were a number of actions like this which, in
2 effect, give this number appearance to be what it is.

3 But I think putting it in context, it
4 still comes out to less than three percent of our
5 total budget authority. So, we are obligating 97 to
6 98 percent of our budget authority. Whether that's
7 good or bad, I'm not -- but that puts it into context.

8 CHAIRMAN SELIN: \$28 million is six
9 percent of the --

10 MR. SCROGGINS: Well, I'm saying the
11 reimbursable and the committed. If you take that
12 away, then basically you're in the \$17, \$15, \$17
13 range. That's putting that in context.

14 (Slide) Chart 11.

15 CHAIRMAN SELIN: That's not right because
16 you have that money at the beginning of the next -- I
17 mean the beginning of the fiscal year you're
18 obligating funds that were left over from the year
19 before. It's just a rolling quantity.

20 MR. SCROGGINS: It is, but it's also
21 identified. Like, for example, the reimbursable can
22 only be used for those specific purposes. It's not
23 generally available, is I think the point I was trying
24 to make, and the same with the committed.

25 The next chart, and I'll just briefly

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1 touch on this one, this is just a summary of what is
2 in the financial statement that sort of keeps the
3 auditors happy and that says that the liabilities in
4 that position equals the assets.

5 The assets as indicated here, financial
6 and non-financial, just a couple of points. The
7 financial assets are essentially the unobligated and
8 unexpended obligations that exist primarily in
9 Treasury, our accounts receivable. The non-financial
10 assets is primarily what equipment we have and it is
11 not large. I think we're on the order of like \$15
12 million of equipment that the Agency has. The
13 liabilities are basically the accounts, accrued costs
14 where payments have not been made and certain other
15 accruals, such as payroll, leave, et cetera. These
16 are the kinds of things that are defined as the
17 liabilities and these are defined in the financial
18 statement.

19 CHAIRMAN SELIN: The interesting questions
20 are sort of the subcategories of receivables, like
21 advances to employees or fees and things like that
22 which have to be monitored separately. I assume we
23 have subledgers that we keep track of --

24 MR. SCROGGINS: Oh, yes, like for the
25 accounts receivable -- I mean, as you say, the travel

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1 advances, these type of things are managed as part of
2 our travel system, et cetera. In fact, we put out
3 most of these areas, for example the one you
4 mentioned, we put out reports to the program offices
5 and the employees on a continual basis so they know
6 where they're at with regard to advances. We take
7 certain actions to try to keep them down to a minimum
8 and if the advance hasn't been returned and the trip
9 hasn't been taken to receive those monies back and
10 that's just one example.

11 MR. FUNCHES: One of the performance
12 measures that we do look at in a year are done by the
13 execution in relation to those accounts receivable
14 both in travel and in fees.

15 CHAIRMAN SELIN: Did the amounts of
16 advances go down significantly when we issued credit
17 cards or did people still take the same larger --

18 MR. SCROGGINS: No, no. They have gone
19 down significantly. In fact, that was part of our
20 cash management type of actions that we took. The
21 credit cards went down and also another thing in cash
22 management was the issuance of the third party drafts
23 and the traveler's checks as part of the advance as
24 well. So, while there are advances involved, the cash
25 part of advance has gone down significantly over the

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1 past two to three years.

2 (Slide) Chart 12.

3 Again, in summary, these are how the
4 expenses that we accrued during the year and I have to
5 put this in appropriate accounting terms. These
6 expenses are accrued costs. They are not just
7 disbursements. They do include in addition -- though
8 they are primarily disbursements that we made out of
9 Treasury, it also includes such things as accrued
10 payroll and bills that we have received where the
11 service obviously had been rendered but the
12 disbursement had not yet been made come October 1.
13 So, these are accrued costs, but this is mostly what
14 has been disbursed.

15 It's presented here in the classical
16 object classes which we have to report to Treasury, et
17 cetera. And again, the major point here is clearly
18 most of our expenses are in the personnel services and
19 benefits and our contractual services.

20 (Slide) Chart 13.

21 The last set of numbers relates to the
22 fees. As we've indicated earlier, we are required to
23 collect 100 percent of our budget authority less those
24 monies appropriated from the waste fund, which for
25 fiscal '92, in round figure, was \$492.5 million. We

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1 did collect, as you will see here, a little under \$490
2 million in fiscal '92. The great majority obviously
3 in the annual fees, vis-a-vis the license fees. The
4 only other point that I'd like to make on this is of
5 all the fees that have been billed in fiscals '91 and
6 '92, at the end of '92 less than two percent of those
7 dollars were still accounts receivable, that we had
8 actually collected over 98 percent of all the dollars
9 that were billed in both fiscal years combined '91 and
10 '92.

11 So, while there's a lot of action still
12 going on there as far as a number of accounts that are
13 billed, the dollars are very, very small.

14 MR. TAYLOR: I'm very pleased with this
15 rate of collection of fees. I think it's -- and the
16 branch works very hard. A lot of the fees are small,
17 but they work very hard to turn in this kind of
18 performance.

19 CHAIRMAN SELIN: That's exceptional. Are
20 there any particular characteristics of the late
21 payers?

22 MR. SCROGGINS: They tend to be in most
23 all cases, let's say the non-reactor reactors.

24 MR. TAYLOR: They're easier to collect.

25 MR. SCROGGINS: They gripe, but they pay.

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1 In fact, they're mostly the materials licensees.
2 They're in many cases the ones, for example, in
3 accounts receivable would be licensees who are in the
4 process of trying to maybe terminate their license or
5 they're still concerned about it, et cetera.

6 CHAIRMAN SELIN: But they're still liable?

7 MR. TAYLOR: Yes, sir.

8 MR. SCROGGINS: Yes. Now, we are in the
9 process and have initiated a year ago, we do have a
10 debt collection process that is time consuming as
11 required by law and also by our rules. We give up to
12 three notices. We then go through a process, and I
13 have been signing out orders terminating licenses on
14 the basis of non-payment of fees. But it is very time
15 consuming.

16 From a legal standpoint we make sure
17 everything is -- we've tied a ribbon around everything
18 before we take that final action. In fact, even prior
19 to me signing an order, all licensees are contacted
20 usually by telephone and told what is happening, that
21 an order is being sent up to my office to sign. We've
22 found that in many of those cases, especially where
23 there were other federal agencies, that the payment
24 was then received very post haste and orders were not
25 signed. In fact --

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1 MR. TAYLOR: We reduced the list of
2 federal agencies markedly after a series of phone
3 calls from Scroggins to some of the people because we
4 did have quite a list.

5 MR. SCROGGINS: Yes, we had a very large
6 number. I think I've only signed one order for
7 another federal agency terminating their license, or
8 at least a small bureau of a federal agency. There
9 may be a few more than that, but it has not been
10 large.

11 Finally, in summary, and I will certainly
12 make this first bullet as my statement, not speaking
13 for the Inspector General but my personal opinion is
14 that the statement we have put together, and I'll give
15 a number of reasons why I believe, I think does
16 provide a reasonable portrayal of our financial
17 condition.

18 I certainly would not sit here and say
19 that every figure there is exact to the penny by any
20 manner of means. There's a number of estimates. We
21 have to live with the systems that we had in place.
22 I think we've done a very good job in trying to
23 reconcile and understand where these uncertainties
24 are, but I do not think that they are material in the
25 sense that there are large differences that would give

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1 people a totally different view of where we were. I
2 think we really do stand.

3 Obviously our financial condition is not
4 unsound. We certainly have not obligated more funds
5 than we had available. Resources were not a problem
6 during fiscal '92 and in meeting our mission. We did
7 collect almost all the monies we had to collect
8 through fees.

9 In putting that into context, that next
10 bullet is really what I'm trying to say. Financially
11 we are not a complex agency. We don't have
12 significant contingent liabilities, large loans and
13 other monies out there that we're trying to collect.
14 We don't have a huge property, for example like HUD,
15 that we're trying to manage and what have you, and
16 grants like in the contingent liabilities and loans
17 like Education. We don't have a lot of complex
18 special accounts, revolving funds, trust funds and
19 what have you. So, in a sense, financially we are a
20 fairly straightforward and simple agency financially.
21 I'm not unhappy about that.

22 CHAIRMAN SELIN: If you can't get it
23 right, you have no excuse.

24 MR. SCROGGINS: Right. That's a point
25 that my staff has pointed out, that there's no reason

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1 -- I think the phrase was used by one of my staff that
2 we're sort of a vanilla agency financially and in a
3 sense we are. And there is no reason, therefore,
4 since we don't have these huge complexities, that we
5 cannot come into the modern day and be able to do a
6 very good job.

7 MR. TAYLOR: There's still cobwebs in the
8 attic.

9 MR. SCROGGINS: Right. And as I point out
10 here, we've learned a lot of things in preparing the
11 financial statement. We've been learning things
12 during a lot of the other actions that Jim mentioned
13 at the outset in our financial management activities.
14 We still have a lot of work to do on systems, as he
15 indicated. We, for fiscal '93, are just, in fact,
16 still in the process of converting and transitioning
17 into the new federal financial system that's put out
18 by Treasury. We're not utilizing all of its
19 capabilities at the outset because that would be too
20 difficult. So, those will be coming along.

21 For example, we're not utilizing the full
22 accounts receivable capability, but we plan to do that
23 for fiscal '94.

24 CHAIRMAN SELIN: But what about the
25 general ledger? Where do you stand on the general

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1 ledger?

2 MR. SCROGGINS: On the general ledger,
3 again we know that there are some problems. But the
4 primary problems tend to be in the interfaces with the
5 subsidiary ledgers, as pointed out by the IG, and we
6 agree. There's no indication that there are a large
7 number of problems there. The concern that the IG has
8 pointed out to us on a primarily basis is the concern
9 of risk because a number of the interfaces are manual
10 and a number of the interfaces need to -- there need
11 to be more attention given when a change is made in
12 the general ledger of making sure the change is then
13 made back in a subsidiary ledger and what have you,
14 though very honestly based on our interactions with
15 the IG to date, there has been nothing that's come out
16 that points out that because of this that there is a
17 large number of problems. But there is high risk and
18 there are concerns. Therefore, they've pointed out
19 the need and that was the second point there, the need
20 to have much more attention and discipline in the
21 controls and how we control interact on this basis,
22 and we accept that as a very valid concern on their
23 part.

24 I'll just mention a few things on the
25 systems. We are working on accounts receivable,

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1 bringing that into play. We will need to over the
2 next year or so, this year actually, to define for
3 fiscal '94 a better way of tracking our property, for
4 example. We do have property systems in the Agency,
5 but they are essentially inventory systems. They're
6 not "financial" systems. So, we need to do that
7 instead of doing what we did this year which is go to
8 a number of contractual documents, documents in our
9 subsidiary ledgers and the past system to try to come
10 up with a valid definition of what our property values
11 are. And we will be going in the future, in a couple
12 of years anyway, we have already reached a tentative
13 agreement with HHS and we will be cross servicing on
14 their paper system. The current schedule, as Jim
15 indicated, was fiscal '95 and there is a task force
16 that's been put together between my office, between
17 IRM and the Office of Personnel to bring that into
18 play by that time frame.

19 There's going to be other things that are
20 going to be identified during the audit, clearly, and
21 a continuing basis. I guess putting things into
22 context, we expect guidance from OMB. We'll be still
23 changing. They indicate over the next three to five
24 years they will still be learning and revising how the
25 financial statements will be done and we will

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1 obviously conform with that. As I've indicated, we
2 are just now getting into a new system. That will
3 point out some things that we don't know right now
4 when we get into its use and prepare for the '93
5 statement. Certainly the findings of the IG audit and
6 other audits that it does on a continual basis will
7 impact what we do. We know some of these systems that
8 we're trying to improve now this fiscal year, we would
9 not have them available for the '93 statement, but
10 hope, for example, like property and accounts
11 receivable, that they would be available for the '94
12 statement.

13 So, it's still going to be a learning
14 process, but certainly the intent being that each year
15 will show improvement over the prior year. That's
16 certainly what our goal is.

17 That's sort of where we're at at this
18 point.

19 CHAIRMAN SELIN: I'd like to ask you one
20 question and stress a couple points.

21 There's really no intrinsic reason that we
22 and the IG need separate contractors. I realize we're
23 going through a kind of a write-up process where we
24 have to get the accounting straight and it's not
25 appropriate for the one who does the accounting to do

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1 the audit. But once that's done, once we really have
2 our accounts in order, then you're just getting
3 advice, what's the proper way to score something or
4 what should the controls be. We could save the
5 government some money if we can get to the point where
6 we don't have contractors briefing each other on
7 what's going -- no company I know of as a separate
8 accounting contractor and auditing contractor, unless
9 they're really in a mess, and I don't think we're
10 really in a mess. So, it seems to me that unless
11 there's something in the law about procurement, that
12 that's an objective to the --

13 MR. SCROGGINS: No, Mr. Chairman, let me
14 just comment that a number of other agencies, in fact,
15 are using the same contractor to assist both in the
16 preparation and the audit and, in fact, both of our
17 contractors, both ours and the IG's this year, are off
18 the Department of Labor's, in effect, list which they
19 have been doing both preparation and audit. It was a
20 decision -- in fact early this year there was some
21 discussions with us in the IG of having only one
22 contractor, but the decision was made at least for the
23 time being by the IG to go with separate contractors.

24 CHAIRMAN SELIN: Let me stress something.
25 You can't have the same fellow do the accounting, but

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1 we're supposed to do the accounting. They're just
2 supposed to give us generic advice, not classified
3 specific transactions. As soon as we can get to that
4 point, then there's no reason to have two separate
5 contractors.

6 MR. TAYLOR: We'll work with the IG on
7 that.

8 CHAIRMAN SELIN: The other thing I'd like
9 to stress is this briefing is a little mistitled.
10 This is an accounting briefing and that's fine. It's
11 sort of depicting the situation after the fact. As
12 you point out, we're a plain vanilla agency. That's
13 pretty easy. The reason to get a financial statement
14 is for a HUD or an HHS or somebody that has student
15 loans that are very complicated. In our case, the
16 real emphasis has to be on the financial operations,
17 not on the accounting, to control our cash, get our
18 money obligated faster, have a much clearer idea of
19 where we stand on obligations, deobligations, contract
20 management.

21 So, this is a very good report, but let's
22 really put the effort where we have to do, which is on
23 the financial management of the agency rather than the
24 depiction of our financial situation. I'd be stunned
25 if you ever came in and said, "We're not in a position

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1 to carry out our business."

2 MR. TAYLOR: Contract management both in
3 the labs and outside the lab is a very important
4 element of what we do.

5 CHAIRMAN SELIN: Contract management,
6 short-term forecasts, making sure that our allotments
7 are reasonable, things like that, which are the
8 operations, the real financial management.

9 Commissioner Rogers?

10 COMMISSIONER ROGERS: Well, yes. I had
11 somewhat the same thoughts, that I'd be shocked if I
12 found our condition wasn't excellent, our financial
13 condition by the bottom line. But it is the systems
14 that are important here that are looked at.

15 As you move more and more into new systems
16 that you share with other people and less hand work
17 and more computer systems, the IG's concern about
18 computer security, I think, becomes even more and more
19 important, as is obvious. But I think it is something
20 that has very much to be kept in mind as to the
21 vulnerabilities of the Agency to mischief. It should
22 not be possible to get into our system and alter
23 records. The hacker problem has not gone away and
24 it's something that I think we have to be very mindful
25 of.

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1 I just wanted to say that I thought the
2 report was a very readable one. I found it easy to
3 read and somewhat -- I won't say particularly
4 illuminating but I thought it was clear. So, I want
5 to just compliment whoever wrote it, that the prose
6 was pretty good.

7 MR. SCROGGINS: Thank you.

8 CHAIRMAN SELIN: Commissioner Curtiss?
9 Commissioner Remick?

10 COMMISSIONER REMICK: No, thank you.

11 CHAIRMAN SELIN: Commissioner de Planque?

12 Fine. Thank you for -- it's really very
13 heartening to see so much progress in such a short
14 time. The Department of Agriculture has been working
15 their financial statements for 20 years. They really
16 are a leader for the whole government.

17 MR. SCROGGINS: Yes, they are.

18 CHAIRMAN SELIN: And we stand to learn
19 something from them.

20 MR. SCROGGINS: Yes, we have.

21 CHAIRMAN SELIN: Fine. Thank you very
22 much.

23 MR. SCROGGINS: Thank you.

24 (Whereupon, at 10:51 a.m., the above-
25 entitled matter was concluded.)

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CERTIFICATE OF TRANSCRIBER

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MATTERS

PLACE OF MEETING: ROCKVILLE, MARYLAND

DATE OF MEETING: MARCH 8, 1993

were transcribed by me. I further certify that said transcription
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PRESENTATION TO THE COMMISSION

NRC FINANCIAL STATEMENT

MARCH 8, 1993

**James M. Taylor, CFO
Ronald M. Scroggins, DCFO/Controller**

Contact: Jesse Funches

Phone: 492-7351

PURPOSE OF BRIEFING

- o Overall Direction for Financial Management
- o First NRC Financial Statement (FY 1992)
 - Discussion of Financial Performance
 - Program Performance Summary

SIGNIFICANT CHANGES IMPACTING FINANCIAL MANAGEMENT

- o IG Act of 1988**
- o CFO Act of 1990**
- o OBRA of 1990 100% Fee Recovery Requirements**

STRATEGIES OF ENHANCING FINANCIAL MANAGEMENT

- o Raise Managers' Awareness of Their Financial Management Responsibilities
- o Establish Financial Managers' Council
- o Improve Financial Systems
- o Increase Financial Management Resources
- o Improve Staff Capabilities/Skills
- o Improve Guidance and Training
- o Improve Accounting Policy and Procedures
- o Assess Financial Management Risk and Implement Improvements

CHIEF FINANCIAL OFFICERS ACT OF 1990

- o Annual Audited Financial Statement Required For:
 - Revolving and Trust Funds
 - Accounts with Substantial Commercial Functions
 - NRC Appropriations Considered Commercial Functions Due to Fees

MILESTONES ASSOCIATED WITH FINANCIAL STATEMENT FOR FY 1992

- o Unaudited Financial Statement to OMB by 3/31
- o Audit of Financial Statement to the Chairman by 6/30
- o CFO Annual Report to Chairman and OMB by 8/31

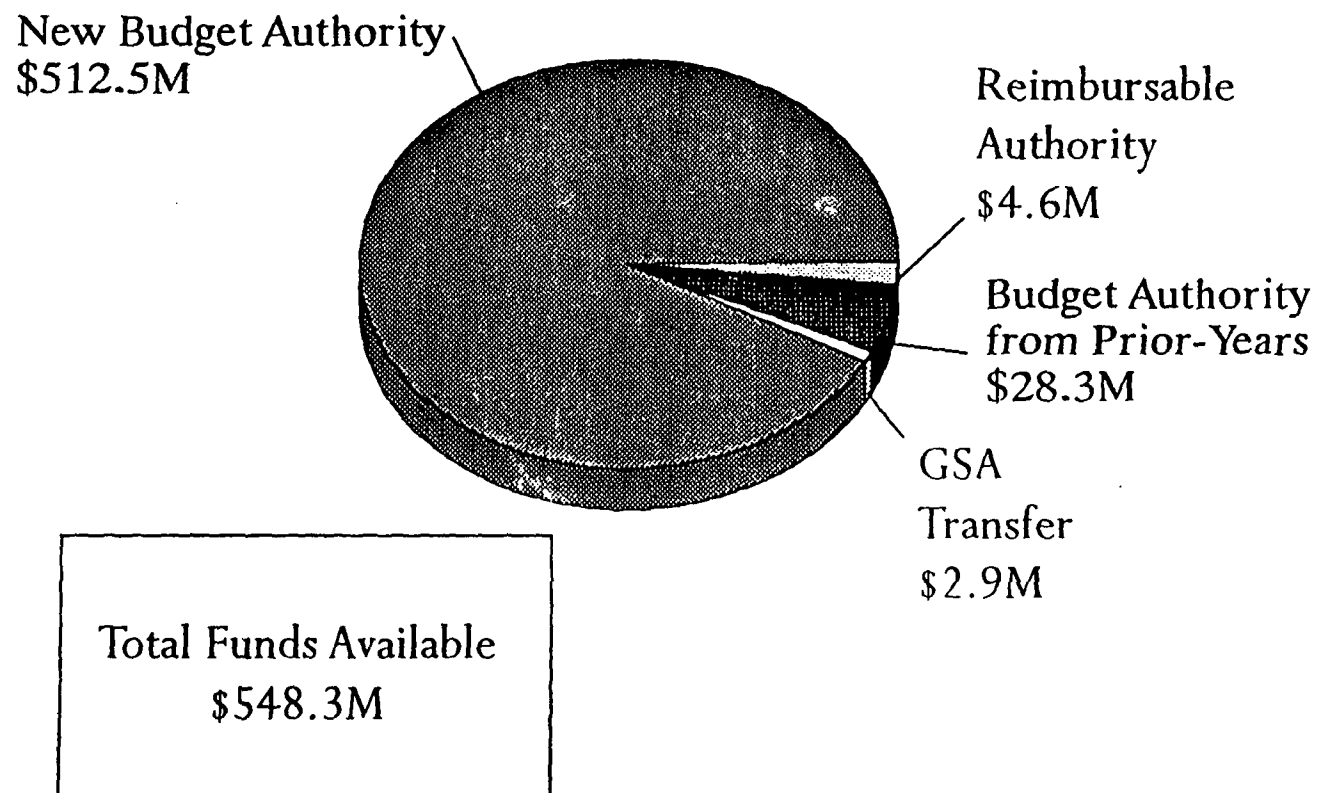
FY 1992 FINANCIAL STATEMENT CONTENT

- o Overview Section**
- o Principal Statements and Related Footnotes**
- o Supplemental Financial Management Information**

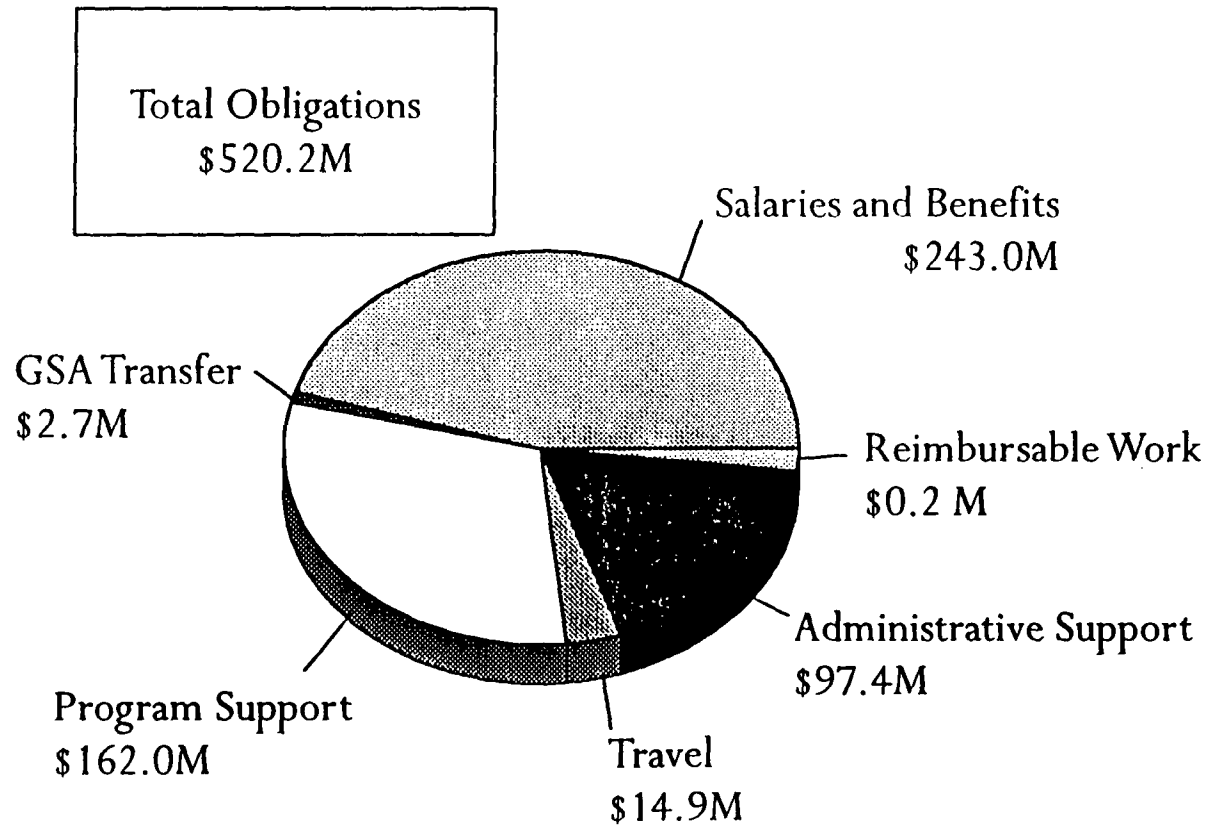
PREPARATION OF THE FY 1992 FINANCIAL STATEMENT

- o Form and Content of the Financial Statement Prescribed by OMB
- o Assistance From Independent CPA Firm
- o Reconciliation of Accounts
- o No Comparative Analyses in a First-Year Statement
- o Continual Interaction with OIG

SOURCES OF FY 1992 FUNDS



FY 1992 NRC OBLIGATIONS



FY 1992 UNOBLIGATED FUNDS AVAILABLE
FOR FUTURE USE

	<u>MILLIONS</u>
o Total Funds Available for FY 1992	\$548.3
Less: Total Obligated in FY 1992	<u>520.2</u>
o Total Funds Unobligated and Available for Future Use	<u>\$28.1</u>

NRC'S FINANCIAL POSITION (AS OF 9/30/92)

	<u>MILLIONS</u>
o Assets	<u>\$242.9</u>
Financial	
Non-Financial	
o Liabilities	74.6
Funded	
Unfunded	
o Net Position	<u>168.3</u>
Fund Balance	
Less: Future Funding Requirements	
o Total Liabilities and Net Position	<u>242.9</u>

FY 1992 NRC OPERATING EXPENSES BY OBJECT CLASS

	<u>MILLIONS</u>
o Personnel Services and Benefits	\$244.3
o Travel and Transportation	16.1
o Rent, Communication and Utilities	29.6
o Printing and Reproduction	2.1
o Contractual Services	195.2
o Supplies and Materials	13.2
o Grants, Subsidies and Contributions	1.4
o Insurance Claims and Indemnities	<u>.1</u>
Total Operating Expenses	<u>\$502.0</u>

FEES COLLECTED IN FY 1992

- o Collected 99.3% of FY 1992 New Budget Authority

	<u>REACTORS</u>	<u>NONREACTORS</u>	<u>TOTAL</u>
License Fees	\$ 93.3	\$13.5	\$106.8
Annual Fees	<u>338.4</u>	<u>44.1</u>	<u>382.5</u>
Total Fees	<u>\$431.7</u>	<u>\$57.6</u>	<u>\$489.3</u>

SUMMARY

- o Financial Statement Provides a Reasonable Portrayal of NRC's Financial Condition
- o Financial Condition is Sound at the End of FY 1992
 - Sufficient Funds to Carry Out the Mission of NRC During FY 1992
 - Approximately 100% of Budget Recovered Through Fees
- o No Significant Contingent Liabilities, Non-Financial Assets, Special Accounts
- o Improvements Needed
 - Systems
 - Controls
 - To Be Identified - Audit/Annual Report