



# OFFICE OF THE INSPECTOR GENERAL

U.S. NUCLEAR REGULATORY COMMISSION

DEFENSE NUCLEAR FACILITIES SAFETY BOARD

## Audit of NRC's Reactor Business Lines' Compliance With Agency Non-Financial Internal Control Guidance

OIG-15-A-16  
June 25, 2015



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**UNITED STATES**  
**NUCLEAR REGULATORY COMMISSION**  
WASHINGTON, D.C. 20555-0001

**OFFICE OF THE  
INSPECTOR GENERAL**

June 25, 2016

MEMORANDUM TO: Mark A. Satorius  
Executive Director for Operations

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

SUBJECT: AUDIT OF NRC'S REACTOR BUSINESS LINES'  
COMPLIANCE WITH AGENCY NON-FINANCIAL  
INTERNAL CONTROL GUIDANCE (OIG-15-A-16)

Attached is the Office of the Inspector General's (OIG) audit report titled *Audit of NRC's Reactor Business Lines' Compliance With Agency Non-Financial Internal Control Guidance*.

The report presents the results of the subject audit. Following the May 1, 2015, exit conference, OIG revised the draft report to include the agency's informal written, verbal and editorial comments, as appropriate. The agency reviewed the changes to the report and provided formal written comments to OIG on May 26, 2015, which appear in Appendix D of the report.

Please provide information on actions taken or planned on each of the recommendations within 30 days of the date of this memorandum. Actions taken or planned are subject to OIG followup as stated in Management Directive 6.1.

We appreciate the cooperation extended to us by members of your staff during the audit. If you have any questions or comments about our report, please contact me at (301) 415-5915 or Robert K. Wild, Team Leader, at (301) 415-5948.

Attachment: As stated





# Office of the Inspector General

U.S. Nuclear Regulatory Commission  
Defense Nuclear Facilities Safety Board

OIG-15-A-16  
June 25, 2015

## Results in Brief

### Why We Did This Review

All Federal agencies are required to have internal controls in place for both financial and non-financial processes. Internal controls include activities to ensure that agency programs and processes work as intended.

The Nuclear Regulatory Commission (NRC) has organized all NRC programs, functions, and major activities into internal control areas referred to as business lines to provide a consistent framework for assessing internal control. A business line is a subdivision or component part of an agency program or administrative function that can be assessed for risks and allow for meaningful evaluation of internal control.

The audit objective was to determine the extent to which NRC has developed effective reactor safety business line internal control processes for non-financial, programmatic activities.

To meet this objective, the Office of the Inspector General (OIG) assessed NRC's Nuclear Reactor Safety Programs' two reactor safety business lines' (the Operating Reactors Business Line and the New Reactors Business Line) compliance with 76 non-financial internal control requirements contained in NRC Management Directive (MD) and Handbook 4.4, Internal Control.

### *Audit of NRC's Reactor Business Lines' Compliance With Agency Non-Financial Internal Control Guidance*

#### What We Found

NRC's two safety business lines do not comply with the majority of the agency's non-financial internal control process requirements detailed in the MD 4.4 Handbook. Specifically, for the required steps in the process:

Planning: The agency did not write detailed Internal Control Plans that identify key elements that NRC staff would use to document organizational control activities.

Assessing Risk: The process for conducting risk assessment and evaluating key controls excluded the identification of program operations, functions, and activities.

Testing: The two safety business lines did not conduct tests of internal controls using the prescribed, detailed examination of a selected number of activities to verify the effectiveness of internal controls and to determine if the internal controls are, in fact, operating as intended.

Taking Corrective Actions: The two safety business lines did not write corrective action plans that would have evaluated test findings and determine whether the existing internal control is sufficient to manage risk. Furthermore, this category requires identification of internal control weaknesses, a responsible official, milestones toward completion of the action, metrics which measure progress and remediation, and dates when these milestones will be addressed.

Non-compliance with the non-financial internal control requirements occurs because business line staff are unfamiliar with the internal control process in the MD 4.4 Handbook, business line managers do not emphasize using the MD 4.4 Handbook, and the business lines rely on the Office of the Chief Financial Officer for non-financial internal control compliance. As a result, agency managers and staff may not discover existing and prevent future non-financial internal control weaknesses.

#### What We Recommend

This report makes recommendations that will increase compliance with agency programmatic, non-financial internal control guidance. Management stated their agreement with the recommendations in this report.

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## ABBREVIATIONS AND ACRONYMS

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CAP	Corrective Action Plan
ECIC	Executive Committee on Internal Control
FY	Fiscal Year
GAO	Government Accountability Office
ICC	Internal Control Coordinator
ICP	Internal Control Plan
MD	Management Directive
NRC	Nuclear Regulatory Commission
OCFO	Office of the Chief Financial Officer
OEDO	Office of the Executive Director for Operations
OIG	Office of the Inspector General
PSAT	Programmatic Senior Assessment Team
SAT	Senior Assessment Team
TAC	Task Assignment Control

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## I. BACKGROUND

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Internal controls are the plans, methods, policies, and procedures an organization employs to ensure effective resource use in fulfilling its mission, goals, objectives, and strategic plan. A quality internal control program promotes operational efficiency, ensures that established policies are followed and performed in a thorough manner, prevents fraud, minimizes errors, and verifies the accuracy and reliability of data.

The Nuclear Regulatory Commission (NRC) is mandated by the Federal Managers' Financial Integrity Act of 1982 with the responsibility for establishing and maintaining effective internal control. The Office of Management and Budget's Circular A-123, "Management's Responsibility for Internal Control," provides Federal agencies with guidance for complying with the Federal Managers' Financial Integrity Act of 1982. In concert with the Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*, Circular A-123 also defines management's responsibility for establishing and maintaining internal control to achieve the objectives of effective and efficient operations, reliable reporting, and compliance with applicable laws and regulations. This guidance is applicable to both financial and non-financial programmatic internal control.

NRC Management Directive and Handbook 4.4, *Internal Control* (MD 4.4), approved in October 2012, establishes agency policy, objectives, and procedures for implementing and maintaining effective internal control in accordance with the aforementioned mandate and guidance. NRC managers, supervisors, and staff at all levels are responsible for active participation in achieving the internal control objectives. MD 4.4 Handbook Section III, "Assessment of Internal Control Over Program Operations (Non-Financial)," provides specific agency guidance for assessing internal control over programmatic, non-financial operations, which is the scope of this audit. Non-financial internal controls would include activities implemented to ensure that appropriate controls are in place so that NRC's reactor oversight programs and processes work as intended. An example might be a manager who implements steps to ensure staff follow program guidance for operations related to reactor

licensing and inspections, in contrast with financial internal control guidance for financial processes related to collecting fees and preparing financial statements. Potential goals, examples, and impacts of non-financial and financial controls are differentiated in Figure 1.

Figure 1

Internal Controls		
	<u><b>Non-Financial Control</b></u>	<u><b>Financial Control</b></u>
<b>Goals:</b>	✓ Ensure reactor oversight programs work as intended	✓ Protect the financial assets of the agency
<b>Examples:</b>	<ul style="list-style-type: none"> <li>▪ Supervisory approval of inspection plan</li> <li>▪ Panel review of potentially significant inspection findings</li> </ul>	<ul style="list-style-type: none"> <li>▪ Fee received from licensee deposited in lockbox</li> <li>▪ Separation of duties between billing and accounting</li> </ul>
<b>Impacts:</b>	<ul style="list-style-type: none"> <li>➤ Does not impact agency financial statements</li> <li>➤ Impacts successful conduct of program</li> </ul>	<ul style="list-style-type: none"> <li>➤ A problem with financial internal control may impact agency financial statements</li> <li>➤ Audited during annual financial statement audit</li> </ul>

Source: OIG-generated from analysis of agency documentation.

NRC has organized all NRC programs, functions, and major activities into internal control areas referred to as business lines to provide a consistent framework for assessing internal control. A business line is a subdivision or component part of an agency program or administrative function that can be assessed for risks and allow for a meaningful evaluation of internal control. A responsible lead office and Business Line Manager for each business line is tasked with assigning responsibilities to staff within the business line in a manner that reasonably ensures the agency's internal control complies with Federal and NRC requirements.

For example, NRC's Nuclear Reactor Safety Major Programs consists of two reactor safety business lines: the Operating Reactors Business Line and the New Reactors Business Line, which are also the focus of this

audit. The Office of Nuclear Reactor Regulation is the responsible lead office for the Operating Reactors Business Line, and this office director serves as the Business Line Manager. Similarly, the Office of New Reactors is the responsible lead office for the New Reactors Business Line, and this office director is the Business Line Manager. For a complete listing of the NRC Business Line Managers by Major Program, see Appendix B.



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## II. OBJECTIVE

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The audit objective was to determine the extent to which NRC has developed effective reactor safety business line internal control processes for non-financial, programmatic activities.

To accomplish this objective, Office of the Inspector General (OIG) auditors evaluated relevant documentation and interviewed cognizant staff and managers in order to ascertain NRC compliance with MD 4.4 Handbook Section III, "Assessment of Internal Control over Program Operations (Non-Financial)." Appendix A contains additional information on the audit scope and methodology.

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## III. FINDING

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### **Low Compliance With Agency Internal Control Requirements**

MD 4.4 Handbook Section III specifies the requirements for evaluating programmatic internal control over non-financial operations. However, NRC's two safety business lines do not comply with the majority of the agency's non-financial internal control requirements for planning, assessing risk, testing, and taking corrective actions because the agency needs to improve its internal control approach. As a result, agency managers and staff may not discover existing and prevent future non-financial internal control weaknesses.

## ***What Is Required***

### **Agency Policy Requires Internal Control Planning, Assessing Risk, Testing, and Taking Corrective Action**

MD 4.4 Handbook Section III provides 76 requirements<sup>1</sup> for evaluating programmatic internal control over non-financial operations, and identifies management and staff roles and responsibilities for implementing internal control activities. MD 4.4 Handbook Section III describes the agency's process for assessing programmatic, non-financial internal control and includes requirements associated with the following four steps:<sup>2</sup>

Step 1 – “Plan the Overall Process, Develop, and Update Internal Control Plan (ICP).” ICPs are executive summaries of an office's approach to implementing an effective internal control program. MD 4.4 Handbook Section III includes 25 internal control planning requirements.

Step 2 – “Conduct Risk Assessments and Evaluate Controls.” A “risk” is anything that endangers the achievement of an objective. MD 4.4 Handbook Section III contains 25 requirements for NRC to identify, analyze, and manage potential risks using a comprehensive screening process for the identification of potential problems or risks from both internal and external sources, referred to as “risk assessment.”

Step 3 – “Test Programmatic Internal Control.” Testing is detailed examination of a selected number of transactions for a specific assessable unit<sup>3</sup> to verify the effectiveness of internal controls in operation by determining if they are, in fact, operating as intended, meeting the control objectives, and reducing risks. MD 4.4 Handbook Section III contains 10 test and document program control requirements.

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<sup>1</sup> Appendix C includes a list of the 76 requirements OIG identified in MD 4.4 Handbook Section III.

<sup>2</sup> MD 4.4 Handbook Section III also includes a Step 5, “Submit Assurance Statement.” OIG did not evaluate Step 5 as part of this audit because it is based almost entirely on Handbook Section V, which is focused on submitting reasonable assurance statements and thus was out of scope for this audit.

<sup>3</sup> NRC has designated its assessable units to be NRC's Business Lines. The term assessable unit manager is synonymous with the NRC Business Line Manager. For the purposes of this report, OIG replaced the term, “assessable unit” with the term, “business line.”

Step 4 – “Report the Results and Take Corrective Actions.” The next assessment category is for NRC managers to evaluate their test findings and determine whether the existing internal control is sufficient to manage the risk. Furthermore, this category requires Business Line Managers to write a statement of the corrective actions related to a weakness or recommendation. This statement, referred to as a corrective action plan or CAP, is to include a responsible official, milestones toward completion of the action, metrics which measure progress and remediation, and dates when these milestones will be addressed. In all, MD 4.4 Handbook Section III provides 16 internal control evaluation and corrective action requirements.

## ***What We Found***

### **The Majority of Agency Non-Financial Internal Control Evaluation Requirements Are Not Met**

NRC's two reactor safety business lines do not comply with the majority of MD 4.4 Handbook Section III requirements for evaluating non-financial, programmatic internal controls. This is true within each of the four categories of internal control requirements described above. Figure 2 summarizes the agency's compliance with MD 4.4 Handbook Section III requirements.

Figure 2

Low Compliance With MD 4.4 Internal Control Requirements				
	Plan, Develop, and Update Internal Control Plan <i>25 Requirements</i>	Conduct Risk Assessment/Evaluate Key Controls <i>25 Requirements</i>	Test Program Controls <i>10 Requirements</i>	Report Results/Take Corrective Action <i>16 Requirements</i>
Operating Reactors Business Line	28%	28%	0%	0%
New Reactors Business Line	28%	28%	0%	0%

Source: OIG-generated figures from analysis of agency documentation.

#### Step 1 - Plan, Develop, and Update ICP

The reactor safety business lines do not meet the majority of requirements for compliance with internal control process planning. Of the 25 requirements for planning, developing, and updating ICPs contained in MD 4.4 Handbook Section III, the two NRC reactor safety business lines each comply with 7 requirements, which equates to 28-percent compliance.

The Operating Reactors Business Line and New Reactors Business Line ICPs do not identify key elements that NRC staff would use to document organizational control activities. Specifically, the ICPs do not have the required executive summary with an introduction, agency mission, organizational structure, and management's key internal controls sections that would identify internal control information, such as the business lines'

- Approach for implementing an effective internal control program.
- Commitment to maintaining effective internal control.
- Mission and mandate, citing applicable statutory references.

- Executive manager names and titles, number of employees, and key staff and their responsibilities for providing technical support and assistance.
- Schedule of planned reviews that would be conducted within a specified 5-year timeframe.

#### Step 2 - Conduct Risk Assessments and Evaluate Controls

The reactor safety business lines do not meet the majority of MD 4.4 Handbook Section III requirements for conducting risk assessment and evaluating key controls requirements. Of the 25 requirements for conducting risk assessment and evaluating key controls in MD 4.4 Handbook Section III, the two NRC reactor safety business lines each comply with 7 requirements, which equates to 28-percent compliance.

Primarily, the Operating Reactors Business Line and New Reactors Business Line processes for conducting risk assessments and evaluating key controls excluded identifying their program operations, including all of the organization's functions or activities. Furthermore, neither business line (1) assessed and evaluated risk categories to determine whether existing or previously completed corrective action should be revised, (2) identified how it would update the risk assessment when the business line was impacted by changes affecting risk or controls, or (3) identified which high risk activities would be reviewed more frequently and which low risk activities will be reviewed once every 3 to 5 years.

#### Step 3 - Test Programmatic Internal Control

The reactor safety business lines meet none of the 10 MD 4.4 Handbook Section III requirements for testing program controls. Unable to locate internal control testing documentation or procedures, OIG auditors queried seven business line and program managers about locating such documents. The managers variously stated that the agency did not conduct tests of programmatic internal controls, or they were not certain about testing. Office of the Chief Financial Officer (OCFO) staff later provided documentation on behalf of the Operating Reactors Business Line and New Reactors Business Line which was described as the first two internal control tests. However, OIG concluded that these documents do not meet the requirements for testing because the two topic areas—specifically, Rulemaking and Homeland Security—are not identified as internal control activities in the Operating Reactors and New Reactors Business Lines' ICPs and/or risk assessments.



#### Step 4 - Report the Results and Take Corrective Actions

The reactor safety business lines met none of the 16 MD 4.4 requirements for evaluating test results and taking corrective actions. Principally, the two business lines did not develop and write corrective action plans although the Operating Reactors Business Line and New Reactors Business Line identified abbreviated corrective actions on their ICPs.

#### Management and Staff Representation of Internal Controls

At the May 1, 2015, exit conference, NRC management officials acknowledged that the two reactor business lines are not in complete compliance with MD 4.4 Handbook Section III. However, they explained that NRC addresses these requirements through established programs for self-assessment and oversight of licensee safety. The agency provided multiple examples—such as the Reactor Oversight Process Annual Self-Assessment—that the agency believes demonstrate a rigorous programmatic internal control environment.

OIG acknowledges that some of the agency's examples may constitute rigorous internal controls. However, the scope of this audit was not to evaluate whether the agency's non-financial internal controls were adequate, but rather the effectiveness of the agency's non-financial internal control processes as implemented through the MD 4.4 Handbook Section III. As such, OIG evaluated whether the agency's implementation of non-financial internal controls incorporates the identification of program risk areas and control needs, followed by documenting, testing, and revising the internal controls over program functions and workflows, as required. OIG found that the agency's examples of programmatic activities are not assessed as part of an overall, systematic review of controls as outlined in MD 4.4 Handbook Section III. Therefore, in most cases, OIG could not appropriately credit the agency with meeting MD 4.4 Handbook Section III requirements.

## ***Why This Occurred***

### **Internal Control Approach Needs Improvement**

The two reactor safety business lines are not in compliance with the non-financial internal control requirements in MD 4.4 Handbook Section III because its internal control approach needs improvement, characterized by the following:

- Lack of agency managers' emphasis on the importance of using the procedures identified in MD 4.4 Handbook Section III to carry out non-financial internal control processes.
- Reliance on the OCFO for non-financial internal control compliance.
- Staff unfamiliarity with the internal control process in MD 4.4 Handbook Section III.

#### Lack of Emphasis on the Importance of Non-Financial Internal Controls

There is a lack of emphasis on non-financial internal control processes, as stated in MD 4.4, in the two reactor business lines, especially when compared with the agency's implementation of internal controls over financial reporting. For example, MD 4.4, *Internal Control*, outlines both Senior Assessment Team (SAT)<sup>4</sup> and Programmatic Senior Assessment Team (PSAT)<sup>5</sup> roles. However, agency senior managers opted to not establish the PSAT which, under the direction of the Office of the Executive Director for Operations (OEDO), would have been charged with overseeing the non-financial internal control program operations. An NRC official explained that at one time, OEDO had responsibility over the implementation of non-financial programmatic internal controls but did not take the same rigorous approach towards implementing the internal control process as OCFO does with internal controls related to financial reporting.

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<sup>4</sup> The SAT is an oversight board led by the Chief Financial Officer and composed of program executives who are tasked with directing the assessment of internal controls over financial reporting.

<sup>5</sup> The PSAT was to have similar duties as the SAT, with the exception of overseeing areas pertaining to financial reporting. The PSAT is meant to be led by the Office of the Executive Director for Operations, which also designates the members of the PSAT.

Additionally, the non-financial internal controls process is not integrated into daily work. Both the Operating Reactors and New Reactors Business Lines wait for OCFO to prompt them for the annual assessment of internal controls before performing any internal control-related actions, rather than working on them throughout the year. An NRC official described the internal control process as a corporate support activity that technical staff view as not being part of the NRC mission, "which is considered the 'real work' of the agency."

Another indicator of a lack of emphasis on non-financial internal controls is demonstrated by how the business line managers take a reactive rather than proactive approach towards the non-financial internal control process. NRC managers described a reactive approach towards the internal control process where internal control weaknesses are not proactively identified and corrected until the weaknesses have already occurred. This is evidenced, for example, by the Operating Reactors Business Line's ICP, where the majority of control activities are derived from the GAO, OIG, and other external entity reviews.

A final indicator of lack of emphasis on non-financial internal control can be derived from payroll data. NRC has established a Task Assignment Control (TAC)<sup>6</sup> code for tracking hours performed working on non-financial internal controls; however, it is rarely used. The total hours for the entire agency's non-financial internal controls TAC code were relatively minor, at approximately 574 hours, between fiscal year (FY) 2013 and FY 2014 (FY13 and FY14). In comparison, the Operating Reactors Business Line charged a total 2,520,909 hours to all TAC codes, while the New Reactors Business Line charged a total 1,002,378 hours to all TAC codes for FY13 and FY14, and OIG could find no evidence of those business lines using the non-financial internal controls TAC code at all. Agency management stated in informal written comments to the discussion draft report that the agency's internal controls are woven into the fabric of the staff's routine, daily work. As such, the staff submits the time spent on internal controls through the TAC codes that report their daily work. Even if fully implementing MD 4.4, managers said they would not expect their staff to charge such activities under the internal control TAC codes, but rather as the mission critical work that they are. Agency managers further stated that TAC charges are not now, and will not become, an indicator of internal control level of effort.

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<sup>6</sup> TAC codes are used by NRC as part of the time and labor process to track work and hours allocated.

### Reliance on OCFO for Non-Financial Internal Control Compliance

OEDO and the two nuclear reactor business lines rely on OCFO for compliance with the internal control process, even though MD 4.4 Handbook Section III designates OEDO and the business lines with non-financial internal controls oversight responsibilities. For example, contrary to MD 4.4 Handbook Section III's specific guidance for conducting risk assessments, OEDO and the business lines have relied on OCFO to conduct the initial risk assessments for non-financial internal controls. In addition, business lines rely on OCFO to issue internal control guidance and maintain the documentation regarding the internal control process, even for programmatic business lines.

Moreover, the agency's organizational structure for internal controls gives the appearance that internal control compliance is mainly a function and responsibility of the OCFO. Specifically, the Internal Controls and Planning Branch—which is the branch charged with leading and executing the agency's Programmatic Internal Control Program—is located within OCFO's Budget Division. Agency managers state that NRC's internal control is centralized in OCFO to establish and maintain the program, provide oversight, coordinate activities and reporting, and to prevent duplication of efforts. However, the GAO guidance indicates that non-financial internal controls should not be viewed as a strictly budgetary function.

### Staff Unfamiliarity With the Agency's Internal Control Process

NRC staff and managers conveyed a lack of familiarity regarding the internal control process in MD 4.4 Handbook Section III. NRC managers interviewed by OIG for this audit all stated that guidance documents are essential for internal controls. The internal control process in MD Handbook 4.4 Section III would require that if guidance is an internal control, then guidance would need to be assessed for risk, tested, and have a corrective action plan. Managers did not convey or provide documentation that indicates how guidance is assessed for risk, tested, or has corrective action plans. Additionally, one manager had no knowledge of MD 4.4 and its requirements.

To better understand the lack of familiarity with internal controls, OIG reviewed the agency's training requirements for internal controls. Currently, NRC does not have any mandatory, standalone internal control training or guidance for all managers and staff that emphasizes the

importance of internal controls. Moreover, internal control training is not covered in the NRC's formal development programs, such as the Nuclear Safety Professional Development Program, Leadership Potential Program, or the Senior Executive Service Candidate Development Program.

### ***Why This Is Important***

#### **Non-Financial Internal Control Weaknesses May Not Be Discovered and Addressed**

Given the lack of emphasis on adherence to MD 4.4 Handbook Section III non-financial internal control processes, NRC managers and staff may not discover existing and prevent future non-financial internal control weaknesses that would help to achieve programmatic goals. In not complying with MD Handbook 4.4 Section III, agency managers and staff are missing the opportunity as the subject matter experts over NRC programs to self-identify internal control weaknesses. By not following the non-financial programmatic internal control process and not mapping NRC programs/processes to an internal control assessment, NRC is potentially at risk for having unknown internal control weaknesses in program/process areas that have not been assessed. With a weak non-financial programmatic internal control process, NRC may lose a valuable tool to ensure that agency objectives are met within the New Reactors Business Line and Operating Reactors Business Lines.

Furthermore, the reactor business lines will likely continue to receive a high percentage of audit recommendations related to internal controls if the business lines do not adhere to rigorous non-financial internal control processes, such as that outlined in MD 4.4 Handbook Section III. Historically, approximately 64 percent of OIG's findings for audits conducted in the two reactor business lines were attributable to internal control deficiencies. A change in the agency's approach to its non-financial internal control processes can help the agency improve its overall controls and likely result in fewer OIG internal control findings.



## **Recommendations**

OIG recommends that the Executive Director for Operations:

1. Implement NRC Management Directive and Handbook 4.4, *Internal Control*, non-financial internal control requirements.
2. Implement steps that hold program managers and staff accountable for meeting their responsibility for adhering to internal controls.
3. Develop internal control training and guidance to include mandatory standalone courses for managers and staff, and incorporate internal control responsibilities in the NRC formal developmental programs.

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## **IV. AGENCY COMMENTS**

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On April 16, 2015, OIG provided the agency with a discussion draft of this report, prior to the exit conference which has held on May 1, 2015. Subsequently, agency management provided supplemental information via informal written and verbal comments that have been incorporated into this report, as appropriate.

On May 26, 2015, agency management provided formal comments to the draft report that indicated agreement with the recommendations contained in the audit report. Appendix D contains a copy of the agency's formal comments. Appendix E contains OIG analysis of the agency's formal comments.

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## OBJECTIVE, SCOPE, AND METHODOLOGY

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### Objective

The audit objective was to determine the extent to which NRC has developed effective reactor safety business line internal control processes for non-financial, programmatic activities.

### Scope

The audit focused on assessing NRC's implementation of the non-financial, programmatic internal control process indicated in MD Handbook 4.4 Section III for the two business lines in the Nuclear Reactor Safety Major Program: the Operating Reactors Business Line and the New Reactors Business Line. The scope was also limited to the review of information pertaining to FY13 and FY14.

We conducted this performance audit at NRC headquarters in Rockville, MD, from September 2014 through March 2015.

### Methodology

To evaluate NRC's compliance with non-financial internal control processes outlined in MD 4.4 Handbook Section III, OIG reviewed relevant Federal laws, standards, regulations, and agency guidance. Specifically, OIG assessed the compliance with MD 4.4 Handbook Section III, "Assessment of Internal Control Over Program Operations (Non-Financial)" which provides specific step-by-step agency guidance for assessing internal control over programmatic, non-financial operations. Auditors broke-down the requirements in MD 4.4 Handbook Section III by (1) the step in the process; (2) the office, manager or staff responsible for meeting the requirements; and (3) whether the narrative indicates that the item "must," "shall," "will," is a "goal," is "critical," and/or "should" be completed.

Accordingly, OIG auditors reviewed the Operating Reactors Business Line and the New Reactors Business Line internal control plans, risk assessments, and performance measurement documentation. Auditors also interviewed staff from the Operating Reactors Business Line, the New Reactors Business Line, OCFO, and OEDO to obtain their perspectives and opinions on how they meet the non-financial, programmatic MD 4.4 Handbook Section III requirements, to ascertain their internal control practices, and to collect supporting documentation.

To further address the audit objective within the scope of this audit, auditors attended the FY14 4th quarter performance review meeting to observe the presentations of the Operating Reactors and New Reactors Business Line leads' 4<sup>th</sup> quarter performance and related activities. These presentations included agencywide and crosscutting issues; follow-up on "parking lot" items as appropriate; discussion of challenges and how they will impact the future performance of the business line; and discussion of high level accomplishments of the business line. Additionally, auditors attended a presentation from a GAO management official to better understand the 2014 revision to *GAO Standards for Internal Control in the Federal Government* (Green Book) and to obtain insight into non-financial internal controls.

Internal control processes within MD 4.4 Handbook Section III as related to the audit objectives were reviewed and analyzed. Throughout the audit, auditors were aware of the possibility of fraud, waste or abuse in the program.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The audit was conducted by R.K.Wild, Team Leader; Kevin Nietmann, Senior Technical Advisor; Vicki Foster, Audit Manager; Avinash Jaigobind, Senior Auditor; Tincy Thomas, Senior Auditor; Ebaide Esoimeme, Auditor; and Meredith Johnson, Student Analyst.

Appendix B

**NRC Business Line Managers by Major Program**

MAJOR PROGRAM	BUSINESS LINE	RESPONSIBLE LEAD OFFICE
<b>Nuclear Reactor Safety</b>	New Reactors	NRO
	Operating Reactors	NRR
<b>Nuclear Materials and Waste Safety</b>	Fuel Facilities	NMSS
	Spent Fuel Storage and Transp.	NMSS
	Nuclear Materials Users	FSME
	Decommissioning and LLW	FSME
<b>Corporate Support</b>	<b>Agencywide Infrastructure Product Lines</b>	
	Human Resources Mgt.	HR
	Outreach	HR
	Training	HR
	Administrative Services	ADM
	Acquisitions	ADM
	Financial Management	OCFO
	Policy Support	OCFO
	Information Management	OIS
	Information Technology	OIS

**NOTE:** OEDO/OCFO has chosen to treat the product lines under "Corporate Support" as business lines.

Source: NRC Management Directive 4.4, *Internal Control*

The Office of Federal and State Materials and Environmental Management Programs (FSME) was merged with the Office of Nuclear Material Safety and Safeguards (NMSS).

NRC renamed the Office of Human Resources (HR) as the Office of the Chief Human Capital Officer.



Appendix C

**MANAGEMENT DIRECTIVE 4.4, *INTERNAL CONTROL*, HANDBOOK SECTION III,  
REQUIREMENTS FOR EVALUATING PROGRAMMATIC INTERNAL CONTROL OVER  
NON-FINANCIAL OPERATIONS**

Appendix C-1, MD 4.4 Handbook Section III Requirements <sup>7</sup> for Planning the Overall Process, Develop and Update Internal Control Plan	Requirement Met	
	Operating Reactors Business Line	New Reactors Business Line
1. OEDO is to provide guidance to the Operating Reactor Business Line Managers on developing performance plans and performance reports.	Yes	Yes
2. Business Line is to submit performance plan to the OEDO.	Yes	Yes
3. Business Line performance plan is to provide a summary of activities that structure the baseline workload for a business line to accomplish the NRC Strategic Plan goals and strategies.	Yes	Yes
4. Each Business Line Manager is to develop the ICP for the Business Line.	No	No
5. The Business Line ICP is to include internal control related to programmatic operations.	Yes	Yes
6. The Business Line ICP is to include internal control related to administrative operations.	Yes	Yes
7. The Business Line ICP is to include internal control related to financial operations.	No	No
8. The Business Line ICP must include an introduction section that identifies NRC Business Line key staff and their responsibilities for providing technical support and assistance.	No	No
9. The Business Line ICP must include an introduction section that identifies other internal control contacts or team members.	No	No

<sup>7</sup> When MD Handbook Section III is ambiguous or silent on the subject of a requirement, OIG asserts that the following applies:

- A. In accordance with MD 4.4, the policies in MD 4.4 apply to all NRC employees. NRC managers, supervisors and staff at all levels are responsible for active participation in achieving the objectives of this directive.
- B. Also, in accordance with MD.4.4, NRC managers must follow the five GAO standards contained in [GAO Standards for Internal Control in the Federal Government \(GAO/AIMD-00-21.3.1\)](#), and managers must incorporate the GAO standards into their daily operations and assessment documentation.

Appendix C-1, MD 4.4 Handbook Section III Requirements <sup>7</sup> for Planning the Overall Process, Develop and Update Internal Control Plan	Requirement Met	
	Operating Reactors Business Line	New Reactors Business Line
10. The Business Line ICP narrative in the introduction section must address the type and frequency of internal control evaluations.	Yes	Yes
11. The Business Line ICP must include an introduction section that addresses the commitment to maintaining effective internal control.	No	No
12. The Business Line ICP must include an introduction section that identifies how recommendations for improvement are managed.	No	No
13. The Business Line ICP must include an agency mission section that states the Business Line mission and mandate and cite applicable statutory references.	No	No
14. The Business Line ICP must have an organizational structure section that includes the names and titles of executive management and discusses agency programs, the number of employees, and the organization's internal plan.	No	No
15. The Business Line ICP must include a management's key internal control concepts section that discusses philosophies and actions already being performed by the Business Line that significantly strengthens the agency's overall control environment.	No	No
16. The Business Line must incorporate the Business Line's governance document in the management's key internal control concepts section of their ICP.	No	No
17. The Business Line must include in a management's key internal control concepts section of their ICP, an inventory of the office's and the region's assessable units along with assigned risk ratings.	No	No
18. The Business Line must include in a management's key internal control concepts section of their ICP, an inventory of the office and the regions' assessable risks including the name of the assessable unit manager and Internal Control Coordinator (ICC). <sup>8</sup>	No	No

<sup>8</sup> OCFO staff indicated that they serve as the ICCs. However, according to MD 4.4, each office should have an ICC whose role is to plan, direct, and control the evaluation process, but they do not. NRC employees retain primary responsibility for program operating performance. The ICC should be a senior staff with clear authority, delegated from the office director to establish and oversee effective internal control processes. Each ICC has the following responsibilities:

- (a) Ensures the standardization of information.
- (b) Oversees the tracking of processes across their office or region.
- (c) Leads the review of internal control within the office or region.
- (d) Prepares the internal control plans and reasonable assurance certifications for signature.
- (e) Recommends corrective actions, as necessary.

Appendix C-1, MD 4.4 Handbook Section III Requirements <sup>9</sup> for Planning the Overall Process, Develop and Update Internal Control Plan	Requirement Met	
	Operating Reactors Business Line	New Reactors Business Line
19. The Business Line must include in a management's key internal control concepts section of their ICP, an inventory of the office and the region's assessable risks including the type and year of prior internal control reviews (ICRs), self-assessments, independent program evaluations, and audits.	No	No
20. The Business Line must include in a management's key internal control concepts section of their ICP, an inventory of the office and the region's assessable risks including a schedule of planned reviews (i.e., interval evaluations that will be conducted within a specified 5-year timeframe).	No	No
21. Managers are to include in the Performance and Accountability Report (PAR), extensive information about NRC mission, goals, programs, performance measures, and recent financial statements.	Yes	Yes
22. Managers are to include in the PAR, a sound background for understanding key elements of NRC and its mission that affect risk and the design of internal control.	No	No
23. The Business Line is to make special arrangements with the Executive Committee on Internal Control (ECIC), <sup>9</sup> Chairman, and Co-Chairman regarding classified activities in the ICP, in order to protect the evaluation process and the classified materials.	No	No
24. The Business Line is to manage the reporting of classified activities, included in the ICP, on a need-to-know basis.	No	No
25. The responsible organization must keep all documentation resulting from an evaluation of reported classified activities included in the ICP.	No	No

<sup>9</sup> The ECIC is the NRC senior management council, chaired by the Executive Director for Operations and co-chaired by the Chief Financial Officer, whose membership includes senior agency managers, that are responsible for assessing, monitoring, and providing general oversight of all agency internal control.

Appendix C-2, MD 4.4 Handbook Section III Requirements for Conducting Risk Assessment and Evaluating Key Controls	Requirement Met	
	Operating Reactors Business Line	New Reactors Business Line
1. Managers are to use any of the following methods to identify potential risks: <sup>10</sup> (a) qualitative and quantitative ranking activities, (b) issues identified during management conferences or meetings, (c) forecasting and strategic planning, (d) consideration of previous audit findings.	Yes	Yes
2. Managers need to ask, "What could go wrong?" during the risk identification process.	Yes	Yes
3. Managers need to ask, "Which assets do we need to protect?" during the risk identification process.	No	No
4. It is critical for managers to determine from the assessment whether NRC had any risk level changes in the organization from one period to another or as the result of program or statutory changes.	Yes	Yes
5. It is critical for managers to determine from the assessment whether existing or previously completed corrective action should be revised if the risk has not been minimized or it has increased.	No	No
6. The Business Line Manager is responsible for conducting risk assessments and analyzing potential risks associated with their program area. <sup>11</sup>	No	No
7. The Business Line Manager is to identify, in the risk assessment, internal and external risk that could have prevented the organization from meeting its objectives.	No	No
8. The Business Line is to update its risk assessment when the Business Line is impacted by changes affecting risk or controls to support the reasonable assurance certification.	No	No
9. The Business Line Manager is to respond to the guidance.	No	No
10. The Business Line Manager is to establish the Risk Assessment rating for its Business Line and use the Risk Assessment rating for the baseline documentation in determining areas that will be reviewed and the frequency of review.	No	No
11. The Business Line Manager is to identify which high risk activities would be	No	No

<sup>10</sup> A risk is anything that endangers the achievement of an objective.

<sup>11</sup> There was no evidence that the Business Line Managers developed or concurred on the FY 2013 Operating Reactors Business Line and New Reactors Business Line risk assessments.

Appendix C-2, MD 4.4 Handbook Section III Requirements for Conducting Risk Assessment and Evaluating Key Controls	Requirement Met	
	Operating Reactors Business Line	New Reactors Business Line
reviewed more frequently.		
12. The Business Line Manager is to identify which low risk activities will be reviewed once every 3-5 years.	No	No
13. Managers are to establish business lines and identify the responsible manager for the business line that is referred to as an internal control area and a subdivision or component part of a program or administrative function that can be assessed for risks.	No	No
14. Managers are to establish business lines and identify the responsible manager for all NRC programs, functions, and major activities that must be included in the business line to allow for a meaningful evaluation of internal control.	No	No
15. Managers are to document internal control within each business line.	No	No
16. Managers are to establish business lines and identify the responsible manager for the goal of ensuring that all organization's functions or activities are included in the business line.	No	No
17. Managers are to identify agency programs and functions that cut across organizational boundaries, e.g., contracting, research, budget formulation and execution, and support to various technical programs.	Yes	Yes
18. The Business Line Manager is to assign the level of risk for programs within their business line.	No	No
19. The Business Line Manager after assigning the risk levels is to then consider the control activities (i.e., regulations, procedures, business process improvements) for mitigating those risks.	No	No
20. OCFO is to provide Business Line Managers with specific guidance on conducting the risk assessment in a memorandum annually or when needed.	Yes	Yes
21. OEDO is to provide the Business Line Manager with specific guidance on conducting the risk assessment in a memorandum annually or when needed.	No	No
22. Business Line Managers are to interview and involve other senior operational managers in order to document key controls, including the following: (i) the types and the flow of program operations, and (ii) the persons involved in program operations and the related control features, such as reviews and approvals, and measures to assess program performance.	No	No



Appendix C-2, MD 4.4 Handbook Section III Requirements for Conducting Risk Assessment and Evaluating Key Controls	Requirement Met	
	Operating Reactors Business Line	New Reactors Business Line
23. OCFO is to provide specific guidance to Business Line Managers on internal control documentation requirements.	Yes	Yes
24. OEDO is to provide specific guidance to Business Line Managers on internal control documentation requirements.	No	No
25. The ICC is to request that the Business Line make the following records available: (i) flowcharts, (ii) policies and procedure manuals, (iii) desk procedure manuals, (iv) position descriptions, (v) business unit organizational charts, and (vi) output reports.	Yes	Yes

Appendix C-3, MD 4.4 Handbook Section III Requirements for Testing Program Controls	Requirement Met	
	Operating Reactors Business Line	New Reactors Business Line
1. Managers are to conduct internal control assessments.	No	No
2. Managers are to conduct appropriate tests of programmatic internal control using either Internal Control Review or Alternative Internal Control Review for all control evaluations.	No	No
3. Managers are to reassess internal controls following modifications of the organization such as reorganization, realignment or any other event that would have triggered the need for an assessment of internal control.	No	No
4. Managers are to use a variety of techniques to test internal control and gather evidence.	No	No
5. Staff is to use any of the following methods to test internal controls: document analysis, transaction testing, observation, and interview.	No	No
6. The internal control team <sup>12</sup> is to perform required testing based on assessment of the agency's overall control environment.	No	No
7. Business Line internal control team is to perform required testing based on the significance of the business cycle, process or activity to the agency's missions.	No	No
8. Business Line Managers are primarily responsible for ensuring that reviews are conducted in accordance with the ICP.	No	No
9. The ICC is primarily responsible for coordinating all efforts and ensuring that the reviews incorporate principles outlined in the Government Accountability Office standards.	No	No
10. Business Line is to use the assessment checklist for internal control contained in ADAMS package ML102790438 as guidance through the review process.	No	No

<sup>12</sup> MD 4.4 does not identify the NRC staff that would comprise the internal control team.

Appendix C-4, MD 4.4 Handbook Requirements for Evaluating Results and Taking Corrective Action	Requirement Met	
	Operating Reactors Business Line	New Reactors Business Line
1. Managers are to evaluate their internal control test findings to determine whether the existing internal control is sufficient to manage the risk.	No	No
2. OCFO is to issue guidance annually on how to report test results and take corrective actions.	No	No
3. Business Line Managers make certain to confirm findings and recommendations by discussing them with appropriate staff, management, PSAT, working groups, and the ECIC.	No	No
4. Business Line Managers work with the ICC to develop CAPs and submit a schedule for completion for problem areas to the Programmatic Internal Control Program Manager.	No	No
5. Business Line Managers document all findings and recommendations in a written report that is presented to the Chief Financial Officer, Executive Director for Operations, and Programmatic Internal Control Program Manager.	No	No
6. The Business Line Manager's written report is to include recommendations for improvement, and identify any redundant process or internal control, that should be modified or eliminated, including modifications to the CAPS and associated schedules. At minimum, the written report is to include: (a) a statement describing management's responsibility for establishing and maintaining internal control, (b) a statement of the framework or criteria used to evaluate the effectiveness of internal control, (c) a statement about the inherent limitations of the existing internal control program, (d) a statement on the overall effectiveness of internal control in the business line, including disclosure of any significant or internal control deficiencies identified, (e) a summary of the steps the Business Line Manager plans to take to correct any reported deficiencies and the estimated dates of completion, and (f) comments on control weaknesses identified in prior reports, including the following: (i) whether the weaknesses have been corrected, and (ii) whether the new policies and/or procedures have been in place for a sufficient period of time to determine if they are operating effectively.	No	No
7. Managers are to continuously monitor, evaluate, and improve the effectiveness of internal control associated with their programs and administrative activities.	No	No

Appendix C-4, MD 4.4 Handbook Requirements for Evaluating Results and Taking Corrective Action	Requirement Met	
	Operating Reactors Business Line	New Reactors Business Line
8. The Business Line Manager is to work with responsible officials and staff to determine which deficiencies to correct based in part on the cost analysis benefit.	No	No
9. Business Line Managers are to include in their CAP, targeted milestones and completion dates for proposed corrections and progress to be monitored.	No	No
10. Business Line Managers are to include in their CAP, measureable indicators of compliance and resolution, to assess and validate progress throughout the resolution cycle.	No	No
11. Business Line Managers are to develop CAPs vetted through the PSAT and reviewed by the ECIC for weaknesses that are programmatic in nature.	No	No
12. The PSAT will review the CAPs quarterly, to ensure that progress was being made toward resolution of the issue(s) requiring the plan.	No	No
13. ECIC will track corrective actions and their target dates resulting from information collection requirements.	No	No
14. Managers are to conduct a Corrective Action Review 1 year after the CAP was implemented.	No	No
15. The organization responsible for correcting the internal control deficiency will review the action within 6 months to ensure that the intended results have been achieved, and the necessary internal control is functioning properly.	No	No
16. The ECIC will remind the office or region of the due date for the validation review within 3 months after being advised that the corrective action has been completed.	No	No

## AGENCY FORMAL COMMENTS

### Appendix D



UNITED STATES  
NUCLEAR REGULATORY COMMISSION  
WASHINGTON, D.C. 20555-0001

May 26, 2015

MEMORANDUM TO: Stephen D. Dingbaum  
Assistant Inspector General for Audits  
Office of the Inspector General

FROM: Maureen E. Wylie  
Chief Financial Officer  
Office of the Chief Financial Officer

Michael R. Johnson  
Deputy Executive Director for Reactor  
and Preparedness Programs  
Office of the Executive Director for Operations

SUBJECT: FORMAL COMMENTS ON THE OFFICE OF THE INSPECTOR  
GENERAL DRAFT REPORT ON THE U.S. NUCLEAR  
REGULATORY COMMISSION'S REACTOR BUSINESS LINES'  
COMPLIANCE WITH AGENCY NON-FINANCIAL INTERNAL  
CONTROLS GUIDANCE

This memorandum responds to the May 15, 2015, Office of the Inspector General (OIG) final draft report, "Audit of NRC [U.S. Nuclear Regulatory Commission] Reactor Business Lines' Compliance with Agency Non-Financial Internal Controls Guidance." The report was revised following receipt of the agency's informal written comments of April 29, 2015, verbal comments provided during the May 1, 2015, exit conference, and editorial comments provided on May 13, 2015.

The NRC staff appreciates the cooperation of your team and agrees with the recommendations to:

1. Implement NRC Management Directive and Handbook 4.4, Internal Control non-financial internal control requirements.
2. Implement steps that hold program managers and staff accountable for meeting their responsibility adhering to internal controls.
3. Develop internal control training and guidance to include mandatory standalone courses for managers and staff, and incorporate internal control responsibilities in the NRC formal developmental programs.

In addition, the NRC staff has reviewed the report and found no sensitive, proprietary, personally identifiable information, or classified or other information that would necessitate redaction prior to issuing the report as publicly available.

CONTACT: Jesse Arildsen, OEDO  
(301) 415-1785

S. D. Dingbaum

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It is important to us that the report be taken in the context of our control environment and that the context be provided to the reader.

Because of its strong attention to its mission and function as a regulator, the NRC is continuously focused on planning, assessing risk, testing, and identifying and implementing corrective actions. These internal control activities are conducted by the staff and management through well-documented programs for self-assessment of its processes and substantial efforts associated with its oversight of licensee safety. The NRC performs these activities as part of its everyday work and ensures that the programs/processes are incorporated into supporting documentation for management's review of program operations.

NRC staff significantly improved the NRC's non-financial (programmatic) internal control framework in FY 2013 based on the Government Accountability Office (GAO) Standards for Internal Control in the Federal Government. As a way to illustrate the agency's diligent and comprehensive approach on management and internal controls, Enclosure 1 provides a subset of the programs within the Reactor Business Lines that support internal control processes to meet GAO Standards. NRC staff concurs that the improved framework is carried out differently than described in parts of MD 4.4 Handbook Section III ("Assessment of Internal Control over Program Operations (Non-financial)"), which was the subject of the audit. As part of the agency's continuous process improvements, the new framework cross-references the internal control programs/processes to responsibilities described in a Memorandum of Understanding for each business line and its partner offices. This is an enhancement to MD 4.4 Handbook Section III, where the Internal Control Plan (ICP) is identified as the basis for mapping programs/processes to internal control. The NRC consciously decided not to repeat information in the ICPs and to prevent unnecessary duplication of effort. As the improvements are recent and continuing, MD 4.4 does not contain this modification and will be updated by the staff after Office of Management and Budget (OMB) next updates Circular A-123 in 2016.

While the audit didn't include step 5 in its scope, "Submit Assurance Statement," the Reactor Business Lines met the MD 4.4 requirements for developing and certifying their respective assurance statements. Specifically in MD 4.4 Handbook Section III, the final step in the internal control process for an NRC Business Line Manager is to submit the reasonable assurance statement at the end of each fiscal year, a key element for preparing the Performance and Accountability Report. Business Line Managers must submit annual assurance statements in accordance with annual Programmatic Internal Control and Reasonable Assurance Guidance issued by the Executive Director for Operations and Chief Financial Officer. Business Line Managers consider programmatic, administrative, and financial programs when signing the assurance statement. The two business lines do identify all such programmatic products and services and their associated internal control activities and objectives in their annual reasonable assurance statements and supporting documentation.

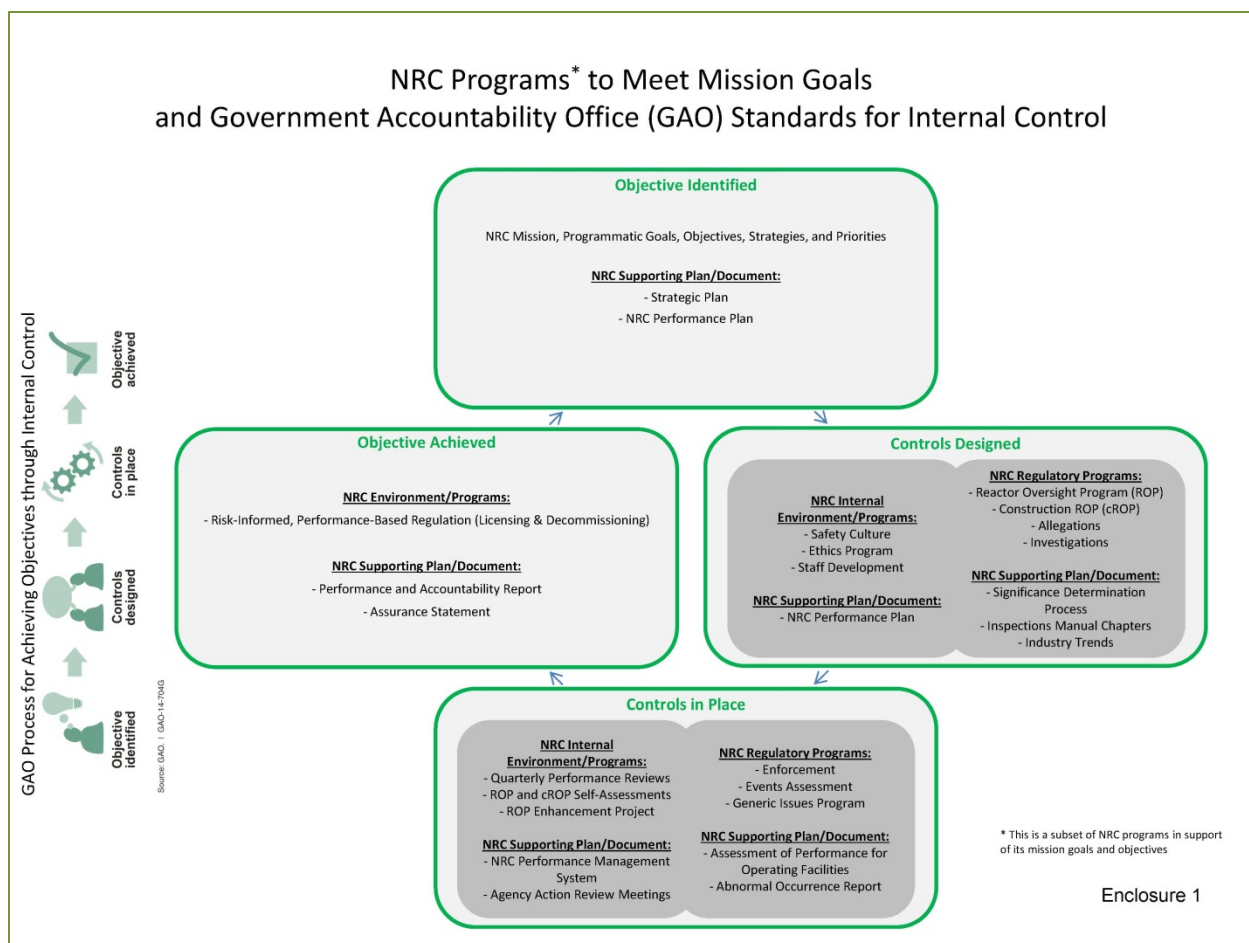
S. D. Dingbaum

- 3 -

We appreciate your willingness to consider these comments as you finalize your report. If you need additional information, please contact Mr. Jesse Arildsen in OEDO at (301) 415-1785.

Enclosure:  
As stated

cc: Chairman Burns  
Commissioner Svinicki  
Commissioner Ostendorff  
Commissioner Baran  
SECY  
OGC  
OPA  
OCA





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## OIG ANALYSIS OF AGENCY FORMAL COMMENTS

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On April 16, 2015, OIG issued the discussion draft of this report to the Executive Director for Operations. OIG met with NRC management and staff on May 1, 2015, at an exit conference and on May 6, 2015, at a staff meeting to discuss the draft report content. At these meetings, the agency provided informal comments, which OIG subsequently incorporated into the draft report as appropriate. On May 26, 2015, NRC provided formal comments to the draft report that indicated their agreement with the audit recommendations. OIG has assigned a reference number to each of the agency's formal comments to aid the following point-by-point analysis:

### Agency Comment 1:

It is important to us that the report be taken in the context of our control environment and that the context be provided to the reader.

### OIG Analysis of Agency Comment 1:

OIG maintains that NRC needs to improve its approach for implementing an effective internal control program, within the context of the current control environment as described in the formal comments.

### Agency Comment 2:

Because of its strong attention to its mission and function as a regulator, the NRC is continuously focused on planning, assessing risk, testing, and identifying and implementing corrective actions. These internal control activities are conducted by the staff and management through well-documented programs for self-assessment of its processes and substantial efforts associated with its oversight of licensee safety. The NRC performs these activities as part of its everyday work and ensures that the programs/processes are incorporated into supporting documentation for management's review of program operations.

### OIG Analysis of Agency Comment 2:

OIG provided the agency's explanation on page 9 of this report that the agency believes that NRC addresses non-financial internal control requirements for planning, assessing risk, testing, and identifying and

implementing corrective actions requirements through established programs for self-assessment and oversight of licensee safety. However, OIG maintains that the agency's examples of programmatic activities are not assessed as part of an overall, systematic review of controls as outlined in MD 4.4 Handbook Section III. Specifically, the agency's programs for self-assessment do not include the required identification, tests, and written documentation regarding the internal controls established over the Reactor Safety Business Lines' functions and flow of program operations.

Agency Comment 3:

NRC staff significantly improved the NRC's non-financial (programmatic) internal control framework in FY 2013 based on the Government Accountability Office (GAO) Standards for Internal Control in the Federal Government. As a way to illustrate the agency's diligent and comprehensive approach on management and internal controls, Enclosure 1 provides a subset of the programs within the Reactor Business Lines that support internal control processes to meet GAO Standards. NRC staff concurs that the improved framework is carried out differently than described in parts of MD 4.4 Handbook Section III ("Assessment of Internal Control over Program Operations (Non-Financial)"), which was the subject of the audit. As part of the agency's continuous process improvements, the new framework cross-references the internal control programs/processes to responsibilities described in a Memorandum of Understanding [MOU] for each business line and its partner offices. This is an enhancement to MD 4.4 Handbook Section III, where the Internal Control Plan (ICP) is identified as the basis for mapping programs/processes to internal control. The NRC consciously decided not to repeat information in the ICPs and to prevent unnecessary duplication of effort. As the improvements are recent and continuing, MD 4.4 does not contain this modification and will be updated by the staff after Office of Management and Budget (OMB) next updates Circular A-123 in 2016.

OIG Analysis of Agency Comment 3:

MOUs for each business line and its partner offices are not required elements for non-financial internal controls. However, OIG notes that the MOU the agency describes in its formal comments to this report does not repeat information contained in the ICP. The purpose of the MOU between the Business Line Lead and its partner offices is to identify,

clarify, and communicate mutual mission expectations as they relate to programmatic internal control and reasonable assurance certification. The MOU facilitates the transition to the NRC's updated programmatic internal control framework that requires reasonable assurance certification by business line, which, previous to the updated framework, was by office. The MOU also establishes organizational responsibilities where appropriate. The MOU does not detail the required non-financial ICP information as identified in Appendix C of this report and serves a different purpose than the ICP. Therefore, preparing an ICP would not be a duplication of effort.

Moreover, only one manager provided a copy of the business line's MOU as internal control documentation and did not indicate the view that the information in the MOU repeated information contained in the Business Line's ICP.

Agency Comment 4:

While the audit didn't include step 5 in its scope, "Submit Assurance Statement," the Reactor Business Lines met the MD 4.4 requirements for developing and certifying their respective assurance statements. Specifically in MD 4.4 Handbook Section III, the final step in the internal control process for an NRC Business Line Manager is to submit the reasonable assurance statement at the end of each fiscal year, a key element for preparing the Performance and Accountability Report. Business Line Managers must submit annual assurance statements in accordance with annual Programmatic Internal Control and Reasonable Assurance Guidance issued by the Executive Director for Operations and Chief Financial Officer. Business Line Managers consider programmatic, administrative, and financial programs when signing the assurance statement. The two business lines do identify all such programmatic products and services and their associated internal control activities and objectives in their annual reasonable assurance statements and supporting documentation.

OIG Analysis of Agency Comment 4:

OIG acknowledged on page 5, footnote 2 of this report that MD 4.4 Handbook Section III also includes a Step 5 "Submit Assurance Statement." This requirement briefly states that "OCFO shall provide guidance for preparation of the assurance certification annually. See Section V of this handbook for an overview of assurance certification."

OIG did not evaluate Step 5 as part of this audit because it is based almost entirely on Handbook Section V, which is focused on submitting reasonable assurance statements and thus was out of scope for this audit.

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## TO REPORT FRAUD, WASTE, OR ABUSE

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Office of the Inspector General  
Hotline Program  
Mail Stop O5-E13  
11555 Rockville Pike  
Rockville, MD 20852

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## COMMENTS AND SUGGESTIONS

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If you wish to provide comments on this report, please email OIG using this [link](#).

In addition, if you have suggestions for future OIG audits, please provide them using this [link](#).