



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

August 24, 2015

MEMORANDUM TO: Mark A. Satorius  
Executive Director for Operations

Maureen E. Wylie  
Chief Financial Officer

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

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

REFERENCE: CHIEF FINANCIAL OFFICER AND EXECUTIVE  
DIRECTOR FOR OPERATIONS MEMORANDUM DATED  
JULY 29, 2015

Attached is the Office of the Inspector General's analysis and status of recommendations 1, 2, and 3 as discussed in the agency's response dated July 29, 2015. Based on this response, recommendations 1, 2, and 3 are resolved. Please provide an updated status of the resolved recommendations by January 15, 2016.

If you have questions or concerns, please call me at 415-5915 or R.K. Wild, Team Leader, at 415-5948.

Attachment: As stated

cc: M. Galloway, OEDO  
B. Pham, OEDO  
J. Arildsen, OEDO  
J. Jolicoeur, OEDO  
H. Rasouli, OEDO  
S. Hudson, OCFO  
EDO\_ACS Distribution  
Rids OCFO Mail Center

## Audit Report

### AUDIT OF NRC'S REACTOR BUSINESS LINES' COMPLIANCE WITH AGENCY NON-FINANCIAL INTERNAL CONTROL GUIDANCE

OIG-15-A-16

#### Status of Recommendations

Recommendation 1: Implement NRC Management Directive and Handbook 4.4, *Internal Control*, non-financial internal control requirements.

Agency Response  
Dated July 29, 2015:

The staff agrees with the recommendation.

Response: The staff will update the business line Internal Control Plans to reference documentation of how the agency meets the Federal Managers' Financial Integrity Act of 1982, Office of Management and Budget (OMB) Circular A-123 guidelines, and the General Accountability Office (GAO) Standards for Internal Control in the Federal Government (Green Book). Specifically, this will be accomplished by mapping the assessable unit's programmatic activities to the documentation of systematic reviews of controls. Additionally, the Internal Control Plans will be updated to reference the Memorandum of Understanding for Internal Control and the NRC's Quarterly Performance Reports, which identify and track programmatic risks and mitigation strategies.

The staff will also update MD and Handbook 4.4 to better align with the agency's programmatic internal control business practices, as well as incorporate the updated GAO Green Book, issued in FY 2015, and the updated Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Risk Management and Internal Control*, which OMB plans to issue in early FY 2016.

Estimated Completion Date: March 30, 2018, contingent upon OMB's issuance of Circular A-123

Contact: David Holley, OCFO  
Houman Rasouli, OEDO

OIG Analysis: The proposed actions partially meet the intent of the recommendation. The agency's plan to update business line Internal Control Plans for programmatic alignment with

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#### **Status of Recommendations**

Recommendation 1 (cont.):

internal control business practices addresses one subset of the agency's non-financial internal control process requirements detailed in the MD 4.4 Handbook. This proposed action does not indicate the action the agency will take to comply with the additional three sets of non-financial internal control process requirements identified in the audit report including:

- 1) The process for conducting risk assessment and evaluating key controls because the audit indicated that the agency's risk assessments specifically excluded the identification of program operations, functions, and activities.
- 2) How the safety business lines will 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. The audit report indicated that the reactor safety business lines did not conduct any tests of its internal controls.
- 3) How the safety business lines will write corrective action plans that will evaluate test findings and determine whether the existing internal control is sufficient to manage risk. The audit report indicated that the reactor safety business lines did not write corrective action plans.

In addition, because the planned MD 4.4 Handbook update will leave the agency out of compliance with its currently effective agency policy through 2018, OIG expects the agency to describe and implement compensating controls in order to comply with the agency's non-financial internal control process requirements detailed in the currently effective agency policy.

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#### **Status of Recommendations**

Recommendation 1 (cont.):

OIG will close this recommendation upon review of the reactor safety business lines' updated Internal Control Plans and the plan and process for conducting risk assessments, tests and writing corrective action plans for the internal controls identified in the Internal Control Plans, as well as the compensating controls enacted to mitigate risks associated with non-compliance with the current non-financial internal control requirements.

**Status:**

Resolved.

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#### Status of Recommendations

Recommendation 2: Implement steps that hold program managers and staff accountable for meeting their responsibility for adhering to internal controls.

Agency Response

Dated July 29, 2015: The staff agrees with the recommendation.

Response: The staff plans to establish a Programmatic Senior Assessment Team (PSAT) comprised of senior executives representing each business line that will provide oversight and accountability for risk management and internal control over program operations. The PSAT will assist the Executive Committee on Internal Control, the NRC's senior management council for internal control, to enable managers to connect the daily activities in the business lines to the language and requirements of OMB Circular A-123, the GAO Green Book, and the agency's Reasonable Assurance process.

Estimated Completion Date: March 31, 2016

Contact: David Holley, OCFO  
Houman Rasouli, OEDO

OIG Analysis: The proposed actions meet the intent of the recommendation. This recommendation will be closed upon OIG receipt and review of sufficient documentation showing the implementation of the oversight and accountability plan for risk management and internal control over program operations for each program managers' and staffs' business lines.

**Status:** Resolved.

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#### **Status of Recommendations**

Recommendation 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.

Agency Response  
Dated July 29, 2015:

The staff agrees with the recommendation.

Response #1: The CFO will issue a Yellow Announcement on internal control and its importance, including a link to a video presentation that she will deliver to all agency staff.

Estimated Completion Date: December 31, 2015

Contact: David Holley, OCFO  
Houman Rasouli, OEDO

Response #2: Staff will work to incorporate internal control responsibilities in the NRC Supervisor Development Program and the formal developmental programs listed on page 13 of the audit report: the Nuclear Safety Professional Development Program, Leadership Potential Program, and Senior Executive Service Candidate Development Program.

Estimated Completion Date: September 30, 2016

Contact: David Holley, OCFO  
Houman Rasouli, OEDO

OIG Analysis:

The proposed actions partially meet the intent of the recommendation. The yellow announcement and video presentation does not fit the definition of mandatory standalone internal control training courses for managers and staff. This recommendation will be closed upon OIG receipt and review of the content of the (1) Yellow Announcement on

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#### **Status of Recommendations**

Recommendation 3 (cont.):

internal control and its importance and (2) internal control training and guidance that includes mandatory standalone courses for managers and staff. Furthermore, OIG will close this recommendation after review of the agency's documentation indicating that it has incorporated internal control responsibilities in the NRC's formal developmental programs.

**Status:** Resolved.