DIRECTIVE TRANSMITTAL

TN: DT-04-09

To: NRC Management Directives Custodians

Subject: Transmittal of Management Directive 4.4, “Management Controls”

Purpose: Directive and Handbook 4.4 are being revised to reflect the elimination of the extended Executive Council. As a result of this change, the extended Executive Council has been renamed the Executive Committee on Management Controls, which will periodically review office deficiencies and make recommendations to the Chairman as to which significant weaknesses are material and should be considered for inclusion in the annual Integrity Act report and whether sufficient action has been taken to declare that a material weakness has been corrected. (See Handbook 4.4, Part III.) Also, this revision includes revised “Standards for Internal Control in the Federal Government” issued by the General Accounting Office in November 1999. (See Handbook 4.4, Part V.)

Office and Division of Origin: Office of the Chief Financial Officer

Contact: Robert E. Rakowski, 301-415-7340

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Office of Administration
Michael T. Lesar, 301-415-7163
Christy Moore, 301-415-7086

Management Controls

Directive

4.4

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Management Controls
Directive 4.4

Policy
(4.4-01)

It is the policy of the U.S. Nuclear Regulatory Commission to establish and maintain cost-effective management controls that reasonably ensure programs achieve their intended results; resources are used consistent with the agency's mission; programs and resources are protected from waste, fraud, and mismanagement; laws and regulations are followed; and reliable and timely information is obtained, maintained, reported, and used for decisionmaking.

Objectives
(4.4-02)

- To improve the accountability and effectiveness of NRC programs and administrative operations by establishing, assessing, correcting, improving, and reporting on management controls. (021)

- To design management structures that help ensure accountability for results and include appropriate, cost-effective management controls. (022)

- To integrate management control responsibilities with other management requirements and policies, such as the Government Performance and Results Act, the Chief Financial Officers Act, the Government Management Reform Act, the

Objectives
(4.4-02) (continued)

Federal Financial Management Improvement Act, the Inspector General Act, the Clinger-Cohen Act of 1996, and other congressional and executive branch requirements. (023)

- To provide an early warning system that can anticipate, identify, and resolve mission-critical issues. (024)

Organizational Responsibilities and Delegations of Authority
(4.4-03)

Chairman
(031)

Signs and provides an annual report to the President and the Congress on NRC's management controls and financial systems that protect the integrity of agency programs and administrative activities as required by the Federal Managers' Financial Integrity Act of 1982 (Integrity Act).

Executive Director for Operations (EDO)
(032)

- Organizes and assigns responsibilities in a manner that reasonably ensures the NRC's management controls comply with the requirements of the Integrity Act, the Office of Management and Budget (OMB) Circular A-123, "Management Accountability and Control," and the General Accounting Office's (GAO's) Standards for Internal Control. (a)

- Chairs the Executive Committee on Management Controls (ECMC). (See Part III(A)(2) of Handbook 4.4 for the composition of the ECMC.) (b)

Organizational Responsibilities and Delegations of Authority
(4.4-03) (continued)

Executive Director for Operations (EDO)
(032) (continued)

- Provides guidance on the form and content of operating plans. (c)

Chief Financial Officer (CFO)
(033)

- Establishes and maintains a management control program for NRC program and administrative activities, including a system that reasonably ensures NRC's managers take the necessary action to determine that controls are functioning as prescribed or are modified as conditions change. (a)

- Organizes and assigns responsibilities in a manner that reasonably ensures the NRC's management controls comply with the requirements of the Integrity Act, OMB Circular A-123, and GAO's Standards for Internal Control. (b)

- Reasonably ensures the NRC's financial management systems are maintained in conformance with the Integrity Act, OMB Circular A-123, and GAO's Standards for Internal Controls. (c)

- Provides technical and administrative support to the ECMC. (d)

- Coordinates agencywide management control activities, training, and technical support to assist NRC managers in establishing, assessing, and improving management controls. Issues policies, procedures, and guidance for the agency to implement the Integrity Act, OMB Circular A-123, and GAO's Standards for Internal Control. (e)

Organizational Responsibilities and Delegations of Authority
(4.4-03) (continued)

Chief Financial Officer (CFO)
(033) (continued)

- Prepares an annual report for the ECMC that summarizes the agency's progress toward correcting previously reported management control weaknesses. The report also includes any new significant and material weaknesses reported in the annual reasonable assurance statements submitted by all offices and regions. See Part IV(F) of Handbook 4.4 for the requirements of a reasonable assurance statement. (f)

- Prepares the annual report to the President and the Congress on the status of the NRC's management controls. (g)

Inspector General
(034)

- Assists NRC management in developing effective management controls. (a)

- Serves as advisor to the ECMC and offers observations about NRC's management control program. (b)

- Maintains independence from the ECMC's decisionmaking process in that his or her advice and counsel will not constitute an endorsement of the ECMC's decisions, and future audits may examine and critically report on the effectiveness of management control issues. (c)

- Routinely includes evaluations of management controls in the scope of audits and other reviews. (d)

Organizational Responsibilities and Delegations of Authority
(4.4-03) (continued)

Office Directors and Regional Administrators
(035)

- Organize and assign responsibilities in a manner that reasonably ensures the NRC's management controls comply with the requirements of the Integrity Act, OMB Circular A-123, and GAO's Standards for Internal Control. (a)

- Take systematic and proactive measures to (i) develop and implement appropriate, cost-effective management controls for results-oriented management, (ii) assess the adequacy of management controls in their programs and operations, (iii) identify needed improvements, and (iv) take timely and effective action to correct deficiencies. (b)

- Submit annual reasonable assurance statements to the CFO. (c)

- Report significant weaknesses to their next level of management. (d)

- Notify their next level of management immediately of any mission-critical management control issues. (e)

Applicability
(4.4-04)

The policy and guidance in this directive and handbook apply to all NRC employees in headquarters and regional offices and for all program and administrative activities. NRC managers and supervisors at all levels are responsible for active participation in achieving the objectives of this directive.

Exemptions
(4.4-05)

- Program or administrative activities that encompass matters such as statutory development or interpretation, determination of program need, resource allocation, rulemaking, or other discretionary policymaking processes are exempted from the management control process. (051)

- Exemptions include the NRC's senior decisionmaking processes that result in the establishment of policies or rules or the allocation of resources. However, the effects of such policies, rules, or resource allocation on a program or an administrative activity are not exempt from the provisions of this directive. The operational steps of programs and administrative activities are covered beginning at the point at which the program or administrative activity has been authorized by the policy-level official. The management of an exempt activity's resources and the associated management controls are not exempt from the management control process. (052)

Handbook
(4.4-06)

Handbook 4.4 provides guidance for implementing the NRC's management control program and the management control standards.

References
(4.4-07)

Executive Orders

E.O. 12861, "Elimination of One-Half of Executive Branch Internal Regulations."

References

(4.4-07) (continued)

General Accounting Office

GAO's "Standards for Internal Control in the Federal Government," November 1999.

Office of Management and Budget

OMB Circular A-123, "Management Accountability and Control," June 21, 1995.

Circular A-127, "Financial Management Systems," July 23, 1993. Transmittal Memorandum #2, June 10, 1999.

Circular A-130, Transmittal Memorandum #4, "Management of Federal Information Resources," November 28, 2000.

United States Code

Chief Financial Officers Act of 1990, as amended (Pub. L. 101-576).

Clinger-Cohen Act of 1996 (Pub. L. 104-106) (formerly the Information Technology Reform Act of 1996).

Federal Financial Management Improvement Act of 1996 (Pub. L. 104-208).

Federal Managers' Financial Integrity Act of 1982 (Pub. L. 97-255).

Government Management Reform Act of 1994 (Pub. L. 103-356).

Government Performance and Results Act of 1993 (Pub. L. 103-62).

Inspector General Act of 1978, as amended (Pub. L. 95-452).

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Part I
Introduction

The Federal Managers' Financial Integrity Act (Integrity Act) (A)

The proper stewardship of Federal resources is a fundamental responsibility of NRC managers and staff. The framework and strategy are given herein for implementing a management controls program in NRC that ensures appropriate action is taken throughout the year to meet the objectives of the Integrity Act. (1)

The Integrity Act requires executive agencies to establish controls to provide reasonable assurance that—(2)

- Obligations and costs comply with applicable law. (a)

- Assets are safeguarded against waste, loss, unauthorized use, or misappropriation. (b)

- Revenues and expenditures are properly recorded and accountability is maintained. (c)

The Integrity Act encompasses both programs and administrative activities and requires the Chairman to evaluate and annually report on the status of the agency's control and financial systems. (3)

The Integrity Act is implemented through Office of Management and Budget (OMB) Circular A-123, "Management Accountability and Control." This circular provides guidance to Federal managers for improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on management controls. (4)

Integration of the Integrity Act With Other Laws (B)

General (1)

Controls are not an isolated management tool but are woven into the day-to-day operational responsibilities of agency managers. Managers shall integrate their efforts to meet the requirements of the Integrity Act with their other efforts to improve effectiveness and accountability. Management controls are an integral part of the entire cycle of planning, budgeting, management, accounting, and auditing. They support the effectiveness and integrity of every step of this process and provide continual feedback to management. (a)

As one example, good management controls can ensure that performance measures are complete and accurate. As another example, the management control standards of organizations would align staff and authority with the program responsibilities to be carried out, improving both effectiveness and accountability. Similarly, accountability for resources is enhanced by aligning budget accounts with programs and charging them with all significant resources used to produce program outputs and outcomes. (b)

The Government Performance and Results Act (2)

To support results-oriented management, the Government Performance and Results Act requires agencies to develop strategic plans, set performance goals, and report annually on actual performance compared to goals. As NRC implements this legislation, these plans and goals should be integrated into—

- The planning and budget process (a)
- The operational management of the agency (b)
- Accountability reporting to the public on performance results and the integrity, efficiency, and effectiveness with which they are achieved (c)

Integration of the Integrity Act With Other Laws (B) (continued)

The Chief Financial Officers Act (3)

Meeting the requirements of the Chief Financial Officers Act provides the agency with a clear opportunity to establish, evaluate, and improve controls over its financial activities. This act requires the preparation and audit of financial statements, and in this process, auditors report on internal controls and compliance with laws and regulations.

The Government Management Reform Act (4)

To improve the efficiency of the agency's performance in implementing statutory requirements for reports to Congress, provide for more efficient workload distribution, or improve the quality of reports, the Government Management Reform Act allows the elimination or consolidation of obsolete or duplicative reporting requirements and adjustments to deadlines.

The Federal Financial Management Improvement Act (5)

The Federal Financial Management Improvement Act establishes in statute certain financial management system requirements that were already established by executive branch policies. It also establishes new requirements for auditors to report agency compliance with these basic requirements. The act requires the Chairman to determine annually whether the agency's financial management systems comply with the act. There is a close, if not overlapping, relationship between this act and the requirement of the Integrity Act to provide an annual assurance statement with regard to agency compliance with financial management system requirements.

The Inspector General Act (6)

The Inspector General Act provides for independent reviews of agency programs and operations. Offices of inspectors general

Integration of the Integrity Act With Other Laws (B) (continued)

The Inspector General Act (6) (continued)

and other external audit organizations may cite specific deficiencies in management controls and recommend opportunities for improvements. Agency managers, who are required by this act to follow up on audit recommendations, can use these reviews to identify and correct problems resulting from inadequate, excessive, or poorly designed controls and to build appropriate controls into new programs and administrative activities.

The Clinger-Cohen Act of 1996 (7)

The Clinger-Cohen Act of 1996 repealed the General Services Administration central authority for acquisition of information technology (IT) and established the position of Chief Information Officer (CIO). This act requires agencies to establish a capital planning and investment control process as part of the budget process that analyzes, tracks, and evaluates the risks and results of all major capital investments. It also requires that performance measurements be prescribed for IT used by, or acquired for, the agency and that the performance measurements measure how well IT supports agency programs. The Clinger-Cohen Act requires the CIO to develop, maintain, and facilitate the implementation of a sound, integrated IT architecture and promote the effective and efficient design of all information resource management processes, including improvements to the work process of the agency. Lastly, the act requires the Chairman to report on any major IT program, or any phase or increment thereof, that has deviated from the cost, performance, or schedule goals established for the program.

Executive Order 12861 (8)

Federal managers must carefully consider the appropriate balance of controls in their programs and operations. Fulfilling

Integration of the Integrity Act With Other Laws (B) (continued)

Executive Order 12861 (8) (continued)

requirements to eliminate regulations in accordance with Executive Order 12861, "Elimination of One-Half of Executive Branch Internal Regulations," reinforces the concept that too many controls can result in inefficient and ineffective Government, and managers must ensure an appropriate balance between too many controls and too few.

Part II
The NRC Management Control Program

Establishing Management Controls (A)

Management controls are the organization, policies, and procedures used by NRC to reasonably ensure that—(1)

- Programs achieve their intended results. (a)
- Resources are used consistent with the agency's mission. (b)
- Programs and resources are protected from waste, fraud, and mismanagement. (c)
- Laws and regulations are followed. (d)
- Reliable and timely information is obtained, maintained, reported, and used for decisionmaking. (e)

Management controls are an integral part of day-to-day management at all levels of the organization and shall assist management to fulfill its responsibilities. (2)

Management controls include processes for planning, organizing, directing, and controlling program operations. A subset of management controls is the internal controls used to ensure there is prevention or timely detection of unauthorized acquisition, use, or disposition of the NRC's assets. (3)

NRC managers shall incorporate management controls in the strategies, plans, guidance, and procedures that govern their programs and operations. As NRC's managers develop and execute strategies for implementing or reengineering agency programs and operations, they should design management

Establishing Management Controls (A) (continued)

structures that help ensure accountability for results. Accountability for results is the concept that managers are responsible for the quality and timeliness of program performance, increasing productivity, controlling costs, and mitigating adverse aspects of agency operations, and for ensuring that programs are managed with integrity and in compliance with applicable laws and regulations. (4)

Managers must take systematic and proactive measures to develop and implement appropriate, cost-effective management controls. Controls must be developed as programs are initially implemented, as well as when they are reengineered. Appropriate management controls shall be integrated into each system established by the agency to direct and guide its operations. Controls shall be consistent with the components of management control standards and the control activities that are included in Part V of this handbook. The expertise of the NRC's Chief Financial Officer (CFO) and the Inspector General, or his or her designee, can be helpful in developing appropriate controls. (5)

Management controls do not guarantee the success of NRC's programs, or the absence of waste, fraud, and mismanagement, but they are a means of managing the risk associated with these programs and operations. To help ensure that controls are appropriate and cost-effective, managers must consider the extent and cost of controls relative to the importance and risk associated with a given program. (6)

Assessing Management Controls (B)

General (1)

NRC managers should continuously monitor, evaluate, and improve the effectiveness of management controls associated with

Assessing Management Controls (B) (continued)

General (1) (continued)

their programs and administrative activities. This continuous process, along with other periodic evaluations, should provide the basis for the Chairman's annual evaluation of, and report on, management controls required by the Integrity Act. Managers are responsible for determining the appropriate level of documentation needed to support their monitoring and evaluation of management controls. (a)

The adequacy of NRC's management controls will be assessed within a reasonable time, as established by the office director, following the establishment of new or modified organizations or major redirection of programs and administrative activities. The modification of an organization that will affect management controls, such as making existing controls unnecessary or requiring additional controls over new activities, will trigger the need for an assessment of controls in the portion of the organization affected by the modification. (b)

Sources of Information (2)

The assessment of management controls can be performed using a variety of information sources. Managers have primary responsibility for monitoring and assessing controls and can use other sources as a supplement to—not a replacement for—their own judgment. Sources of information include—(a)

- Management knowledge gained from the daily operation of agency programs, administrative activities, and systems (i)

- Management reviews conducted expressly for the purpose of assessing management controls or for other purposes with an assessment of management controls as a byproduct of the review (ii)

Assessing Management Controls (B) (continued)

Sources of Information (2) (continued)

- Reports from the Office of the Inspector General (OIG) and the General Accounting Office, including reports of audits, special evaluations, investigations, event inquiries, management implication analyses, inspections, and other reviews (iii)

- Program evaluations (iv)

- Audits of financial statements conducted pursuant to the Chief Financial Officers Act, as amended, including—(v)

  – Information revealed in preparing the financial statements (*a*)

  – The auditor's reports on the financial statements, internal controls, and compliance with laws and regulations (*b*)

  – Any other materials prepared relating to the statements (*c*)

- Reviews of financial systems that consider whether the requirements of the Office of Management and Budget (OMB) Circular A-127, "Financial Management Systems," are being met (vi)

- Reviews of information resource management functions, applications, and processes that consider whether requirements of the Paperwork Reduction Act, the Clinger-Cohen Act, the Computer Security Act, and implementing regulations in OMB Circular A-130, "Management of Federal Information Resources," are being met (vii)

- Annual performance plans and reports developed pursuant to the Government Performance and Results Act (viii)

Assessing Management Controls (B) (continued)

Sources of Information (2) (continued)

- Reports and other information provided by the NRC's congressional oversight committees (ix)

- Other reviews or reports relating to agency operations (x)

Use of a source of information shall take into consideration whether the process included an evaluation of management controls. NRC managers shall avoid duplicating reviews that assess management controls and shall coordinate their management control efforts with other evaluations to the extent practicable. (b)

If a manager determines that there is insufficient information on which to base an assessment of management controls, he or she shall schedule risk assessments or management control reviews that will provide information about the adequacy and effectiveness of controls. (c)

Identification of Deficiencies (C)

General (1)

NRC managers and employees may identify deficiencies in management controls from the sources of information described in Section (B)(2) of this part. A deficiency must be reported if it is, or should be, of interest to the next level of management. Managers generally report deficiencies to the next supervisory level, thus allowing the chain of command structure to determine the relative importance of each deficiency. (a)

Managers and staff are encouraged to identify and report deficiencies, as this step reflects positively on the agency's

Identification of Deficiencies (C) (continued)

General (1) (continued)

commitment to recognizing and addressing management problems. Failing to report a known deficiency reflects adversely on the agency. (b)

There are three categories of management control deficiencies: material weaknesses, significant weaknesses, and weaknesses. Material weaknesses must be reported to the President and the Congress in the NRC's annual Integrity Act report. (See Part VI of this handbook for examples of weaknesses.) (c)

Material Weaknesses (2)

A deficiency that the Chairman determines to be significant enough to be reported in the annual Integrity Act report (included as part of the NRC Performance and Accountability Report issued by the Office of the CFO) shall be considered a "material weakness." This designation requires a judgment as to the relative risk and significance of the deficiency and whether it merits the attention of the Executive Office of the President or the relevant congressional oversight committees. These include deficiencies that are of such a nature that their omission from the annual Integrity Act report could reflect adversely on the management integrity of the agency. In identifying and assessing the relative importance of deficiencies, consideration shall be given to the views of OIG. (a)

This handbook's use of the term "material weakness" should not be confused with use of the same term by Government auditors to identify management control weaknesses that, in their opinion, pose a risk or a threat to the internal control systems of an audited entity, such as a program or an operation. Auditors are required to identify and report those types of weaknesses at any level of operation or organization, even if the management of the audited entity would not report the weaknesses outside the agency. (b)

Identification of Deficiencies (C) (continued)

Material Weaknesses (2) (continued)

The Executive Committee on Management Controls (ECMC) will make recommendations to the Chairman as to which "significant weaknesses" are deemed material to the agency as a whole and should be considered for inclusion in the annual Integrity Act report to the President and the Congress. This process will help identify deficiencies that, although minor individually, may constitute a material weakness in the aggregate. The ECMC also will advise the Chairman, when requested, on whether or not sufficient action has been taken to declare that a material weakness has been corrected. (See Part III (A)(1) of this handbook for more details on the functions of the ECMC.) (c)

Significant Weaknesses (3)

A deficiency that is significant enough to be reported to the ECMC is considered a "significant weakness." This would include weaknesses characterized by any of the following that—(a)

- Impair fulfillment of the mission of the agency or an agency component (i)
- Deprive the public of needed services (ii)
- Violate statutory or regulatory requirements (iii)
- Significantly weaken safeguards against waste, loss, unauthorized use or misappropriation of funds, property, or other assets (iv)
- Result in a conflict of interest (v)
- Exist in a major program or administrative function (vi)
- Merit the attention of senior management (vii)

Identification of Deficiencies (C) (continued)

Weaknesses (4)

A deficiency that requires corrective action but is not significant enough to report to the ECMC is considered a "weakness." If there is any doubt about whether a weakness should be considered significant, it must be reported as significant.

Identification of Systemic Problems (5)

Managers shall carefully consider whether systemic problems exist that adversely affect management controls across organizational or program lines. Managers of other offices, including the CFO, the Chief Information Officer, and the Director of the Office of Administration, may need to be involved in identifying and ensuring correction of systemic deficiencies relating to their respective functions. The ECMC will determine whether it is necessary to ask managers of other offices to become involved in identifying and implementing corrective action.

Improving Management Controls (D)

General (1)

NRC managers are responsible for taking timely and effective action to correct management control deficiencies identified by the variety of sources discussed in Section (B)(2) of this part. Correcting deficiencies is an integral part of management accountability, and managers shall consider this task a priority.

Management Control Framework (2)

All NRC offices and regions will include newly identified management control deficiencies and corrective action plan updates as part of their operating plan, which will be updated periodically. The periodic updates to the operating plans, in

Improving Management Controls (D) (continued)

Management Control Framework (2) (continued)

conjunction with the annual reasonable assurance statement submitted by each office and region, will provide the framework for monitoring and improving the NRC's management controls on an ongoing basis. The Executive Director for Operations (EDO) will issue guidance for the preparation of operating plans and subsequent updates. As part of its oversight role, the ECMC may identify significant management control areas of concern that must be addressed in the operating plans. (a)

Although the format for the operating plan will be prescribed by the EDO's office, the content and format for documenting proactive measures and deficiencies should, as a minimum, include the following elements: (b)

- An identification of major risk areas and plans for minimizing risk, where appropriate. (Major risk areas that are not, or cannot be, adequately controlled should be reported in the operating plan. If an area has adequate controls that are being implemented, the area is no longer a major risk and need not be included in the operating plan as a major risk. If managers want to include areas in their plans that would be major risks if not adequately controlled, they can do so as this information can be a useful reminder to the managers from year to year that these are areas that need to be watched.) (i)

- Significant control areas that managers plan to evaluate; the method of evaluation, such as a risk assessment, management control review, or other type of evaluation; the objectives of the evaluation; and a timetable for completion of the evaluation. (ii)

- Significant weaknesses not previously reported in the annual reasonable assurance statement. (A description of the corrective action that is planned to minimize risk or resolve the

Improving Management Controls (D) (continued)

Management Control Framework (2) (continued)

weakness and a timetable for completion also must be provided. Any coordination with, and assistance from, other offices that is required to correct the deficiency shall be noted.) (iii)

- The status of corrective action for deficiencies previously included in the operating plan, including revised timetables for completion. (Corrective action that resolves previously identified deficiencies is included, along with the date by which validation of the corrective action will occur.) (iv)

- The results of validation reviews performed during the reporting period. (A statement must be provided as to whether the corrective action resolved the deficiency identified and, if not, what further action will be taken to resolve the deficiency and the timetable for completion.) (v)

- Systemic problems not previously reported to the ECMC. (vi)

- The reasons for discontinuing planned activities previously reported. (vii)

Monitoring Corrective Action (3)

Managers must monitor the progress of corrective action to ensure timely and effective results. The extent to which the progress of corrective action is monitored by the agency is commensurate with the severity of the deficiency. Corrective action plans must be developed for material and significant weaknesses. Progress must be assessed against these plans and reported quarterly to the CFO, along with annual reasonable assurance statements (see Part IV (F) of this handbook, "Reasonable Assurance Statements From Office Directors and Regional Administrators"). The CFO will provide a consolidated report to the ECMC concerning progress

Improving Management Controls (D) (continued)

Monitoring Corrective Action (3) (continued)

to correct significant and material weaknesses. For weaknesses that are not material or significant in nature, corrective action plans shall be developed and monitored at the office level or below, as appropriate.

Tracking Corrective Action (4)

The status of corrective action on deficiencies in management controls identified through any source is tracked at the appropriate level as determined by the offices. The status of corrective action will be tracked in the operating plan and subsequent periodic updates. Deficiencies included in the operating plan will be identified as to their significance (i.e., weakness, significant weakness, or material weakness). See Section (C) of this part for definitions. (a)

Useful information for tracking corrective actions includes the title and date of the review in which the deficiency was identified, a description of the deficiency, the status of the corrective action, an estimated date for completion of the corrective action, and the name of the employee responsible for taking the corrective action. (b)

Reporting Corrective Action (5)

A determination that a deficiency has been corrected may be made only when sufficient corrective action has been taken and the desired results achieved. This determination must be in writing and maintained along with other appropriate documentation for review by appropriate officials.

Part III
Quality Assurance Program for Management Controls

Executive Committee on Management Controls (ECMC) Oversight (A)

Management Control Functions of the ECMC (1)

The ECMC is responsible for the following management control functions:

- Addresses management accountability and related issues within the broader context of NRC operations. (a)
- Ensures the NRC's commitment to an appropriate system of management controls. (b)
- Provides overall strategy and direction to the management control program using the collective judgment of NRC's senior managers. (c)
- Identifies agencywide management control issues and develops expectations to be addressed by office directors and regional administrators as a result of periodic program reviews. The ECMC may identify significant areas of concern for individual offices to address in their management control plans. (d)
- Provides guidance on major evaluations of risk and management controls (for example, multi-office teams or a contractor). (e)
- Recommends evaluations of management controls to be requested of the Office of the Inspector General (OIG). (f)

Executive Committee on Management Controls (ECMC) Oversight (A) (continued)

Management Control Functions of the ECMC (1) (continued)

- Reviews management control deficiencies submitted by NRC offices and regions as part of their operating plans and provides overall guidance to improve the adequacy of the plans and issues included in the plans. The ECMC may provide feedback to the offices or regions when it determines that the proposed corrective action for correcting a deficiency is inadequate or needs significant improvement. The ECMC ensures appropriate priorities are assigned to planned evaluations based on risk. (g)

- Reviews annual letters of assurance from NRC office directors and regional administrators to assess the status of the agency's management controls. (h)

- Reviews the OIG's audit reports on implementation of the requirements of the Integrity Act and assesses the adequacy of corrective action proposed by managers. (i)

- Recommends the type of assurance to be included in the NRC's annual Integrity Act report. (j)

- Advises the Chairman on whether management control deficiencies are sufficiently serious to report as material weaknesses in the NRC's annual Integrity Act report. (k)

- Monitors the status of action to correct significant and material weaknesses and assesses the adequacy of completed action. Requests, if necessary, additional information on the action taken to correct a deficiency and, in some instances, assigns a review team, under its direction, to perform an independent review of the corrective action. Determines, when consulted by the Chairman, whether sufficient action has been taken to declare that a deficiency has been corrected. (l)

Executive Committee on Management Controls (ECMC) Oversight (A) (continued)

Management Control Functions of the ECMC (1) (continued)

- Provides advice regarding the level and priority of resource needs to correct deficiencies. (m)

Structure of the ECMC (2)

The ECMC is chaired by the Executive Director for Operations (EDO) and is composed of the following officials: (a)

- Chief Financial Officer (CFO) (i)
- Chief Information Officer (CIO) (ii)
- Deputy Executive Director for Reactor Programs, Office of the EDO (OEDO) (iii)
- Deputy Executive Director for Materials, Research, and State Programs, OEDO (iv)
- Deputy Executive Director for Homeland Protection and Preparedness, OEDO (v)
- Deputy Executive Director for Management Services, OEDO (vi)
- Assistant for Operations, OEDO (vii)
- Deputy CFO, Office of the CFO (viii)

The Inspector General (or the Assistant Inspector General for Audits, as designated) and the General Counsel serve as advisors to the ECMC on management control matters. (b)

Review by the Office of the Inspector General of the NRC Management Control Program (B)

The OIG periodically reviews the NRC's management control program and reports to the Chairman on whether the program is conducted in accordance with the Office of Management and Budget guidelines. The ECMC shall review the OIG's report to identify any action that needs to be taken to correct deficiencies in the management control program and takes, or recommends, corrective action as appropriate.

Corrective Action Validation (C)

NRC office directors and regional administrators are responsible for validating the effectiveness of all corrective action. Additionally, the OIG may conduct reviews, as necessary, to determine the adequacy of corrective action. (1)

Within 6 months after corrective action is completed, the organization responsible for correcting the management control deficiency will review the action to ensure that it had the intended result and that the necessary management controls are in place and functioning. (2)

The results of validation reviews are reported in the same manner that the corrective action being validated was reported. A statement shall be provided as to whether or not the corrective action resolved the deficiency identified and, if not, what further action will be taken to resolve the deficiency. A timetable for completion of any further corrective action shall be established and reported. (3)

If the organization determines that not enough experience has been gained during the 6-month period to evaluate the effectiveness of the corrective action, a timetable for validation will be established and the validation process will be tracked, monitored, and reported in the same manner as the original corrective action. (4)

Corrective Action Validation (C) (continued)

OIG may review corrective action on management control deficiencies as part of its ongoing audit activity. If OIG determines that corrective action has been effective in resolving the deficiency identified, reliance may be placed on the OIG's determination and a separate validation review will not be required unless the manager believes it is necessary. Additionally, reviews of corrective action by OEDO staff may be substituted for validation reviews. (5)

Part IV
Reporting on Management Controls

Reporting Pursuant to Section 2 of the Federal Managers' Financial Integrity Act (Integrity Act) (A)

The Integrity Act requires the Chairman to submit annually to the President and the Congress (1) a statement on whether there is reasonable assurance that the agency's controls are achieving their intended objectives and (2) a report on material weaknesses in the agency's controls. The Office of Management and Budget (OMB) may provide guidance on the composition of the annual report. This report is included as part of the NRC Performance and Accountability Report issued by the Office of the Chief Financial Officer (OCFO).

Statement of Reasonable Assurance (B)

The statement of reasonable assurance represents the Chairman's informed judgment as to the overall adequacy and effectiveness of management controls within the agency. The statement must take one of the following forms: statement of assurance, qualified statement of assurance considering the exceptions explicitly noted, or statement of no assurance. (1)

In deciding on the type of assurance to provide, the Chairman will consider information from the sources described in Part II(B)(2) of this handbook, with input from the Executive Committee on Management Controls (ECMC) and the Inspector General (IG). The assurance statement must include a description of the analytical basis for the type of assurance being provided and the extent to which agency activities were assessed. The Chairman must sign the assurance statement. (2)

Report on Material Weaknesses (C)

The Integrity Act report must include material weaknesses in management controls, the agency's plans to correct the weaknesses, and progress toward completing those plans.

Reporting Pursuant to Section 4 of the Integrity Act (D)

Section 4 of the Integrity Act requires an annual statement on whether the agency's financial management systems conform with Governmentwide requirements provided in OMB Circular A-127, "Financial Management Systems," Section 7. If the NRC does not conform with the financial system requirements, the statement must discuss the agency's plans for bringing its systems into compliance. (1)

If the Chairman judges a deficiency in financial management systems and/or operations to be material when weighed against other agency deficiencies, the deficiency must be reported in the annual Integrity Act report in the same manner as other material weaknesses. (2)

Distribution of the Integrity Act Report (E)

The assurance statement and information related to both Sections 2 and 4 of the Integrity Act must be provided in a single Integrity Act report. Copies of the report are transmitted to the President, Congress, and OMB through the Annual Performance and Accountability Report.

Reasonable Assurance Statements From Office Directors and Regional Administrators (F)

Individual reasonable assurance statements (assurance statements) from NRC office directors and regional administrators provide the primary basis for preparing the Integrity Act report. Assurance statements must be submitted to the CFO annually. The statement is addressed to the CFO, and a copy is sent to the submitting office's next level of management and the IG. The CFO will issue a formal request for the annual assurance statement. (1)

The assurance statement represents an office director's or a regional administrator's informed judgment as to the overall adequacy and effectiveness of management controls within his or her organization as of September 30 of each year. Statements should not be signed before that date. Issues arising late in the year should be included as a statement of fact in the reasonable assurance statement, with additional information to follow. The assurance statement must include the following information. (2)

Level of Assurance (a)

The statement must state whether there is reasonable assurance that management controls are adequate and effective. The statement must take one of the following forms: statement of assurance, qualified statement of assurance considering the exceptions explicitly noted, or statement of no assurance. The General Accounting Office's (GAO's) Standards for Internal Control are provided in Part V of this handbook for use in determining the level of assurance.

Basis for the Level of Assurance (b)

The basis for the level of assurance provided and the extent to which the organization's activities were assessed must be included in the assurance statement. A variety of information sources can provide the basis for the assurance statement, including the sources listed in Part II(B)(2) of this handbook.

Reasonable Assurance Statements From Office Directors and Regional Administrators (F) (continued)

Report of Significant Weaknesses and Systemic Problems (c)

NRC office directors and regional administrators shall report to the ECMC significant weaknesses and systemic problems that adversely affect management controls across organizational lines.

Plans for Corrective Action (d)

For each significant weakness reported in the assurance statement, a description of the corrective action planned to minimize risk or resolve the deficiency shall be included, along with a timetable for completion. Any coordination with and assistance from other offices required to correct the deficiency shall be noted.

Status of Corrective Action (e)

The results of validation reviews during the reporting period shall be reported in the assurance statement. A statement shall be provided as to whether or not the corrective action resolved the deficiency identified and, if not, what further action will be taken to resolve the deficiency and the timetable for completion. (i)

If reporting of a previously identified weakness is discontinued for reasons other than completion of corrective action, a comment in the assurance statement must be provided explaining why the item is no longer being reported. This discontinuation could occur if an item is downgraded from a significant weakness to a weakness, is overtaken by events, or for some other reason. (ii)

Part V
Management Control Standards

General Accounting Office (GAO) Standards (A)

Changes in information technology, emerging issues involving human capital management, and requirements of recent financial management related legislation prompted GAO to revise and reissue "Standards for Internal Control in the Federal Government," November 1999. These standards provide the overall framework for establishing and maintaining management controls and for identifying and addressing major performance challenges and areas at greatest risk for fraud, waste, abuse, and mismanagement. To help agencies implement GAO's revised management control standards, GAO issued a Management and Evaluation Tool in August 2001. (1)

Section 035(b) of Directive 4.4 requires, in part, NRC managers to develop and implement appropriate, cost-effective management controls. In doing so, these controls should be consistent with the following GAO management control standards. (2)

Components of Management Control (a)

- **Control Environment**. Management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management. (i)

- **Risk Assessment**. Internal control should provide for an assessment of the risks the agency faces from both internal and external sources. (ii)

General Accounting Office (GAO) Standards (A) (continued)

Components of Management Control (a) (continued)

- **Control Activities**. Internal control activities help ensure that the directives of management are carried out. The control activities should be effective and efficient in accomplishing the agency's control objectives. (iii)

- **Information and Communications**. Employees and managers should record and communicate information to management and others within the entity who need it and in a form and within a timeframe that enables them to carry out their internal control and other responsibilities. (iv)

- **Monitoring**. Internal control monitoring should assess the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved. (v)

Examples of Control Activities (b)

These examples are meant only to illustrate the range and variety of control activities that may be useful. They are not all-inclusive. Managers should exercise judgment to tailor control activities to fit their particular needs.

- **Top-Level Reviews of Actual Performance**. Managers should track major agency achievements and compare them to the plans, goals, and objectives established under the Government Performance and Results Act. (i)

- **Reviews by Management at the Functional or Activity Level**. Managers also need to compare actual performance to planned or expected results throughout the organization and analyze significant differences. (ii)

- **Management of Human Capital**. Effective management of an organization's workforce is essential to achieving results and

General Accounting Office (GAO) Standards (A) (continued)

Examples of Control Activities (b) (continued)

is an important part of internal control. Managers should ensure that skill needs are continually assessed and that the organization is able to obtain a workforce that has the required skills that match those necessary to achieve organizational goals. Training should be aimed at developing and retaining employee skill levels to meet changing organizational needs. Qualified and continuous supervision should be provided to ensure that internal control objectives are achieved. Performance evaluation and feedback, supplemented by an effective reward system, should be designed to help employees understand the connection between their performance and the organization's success. As a part of its human capital planning, managers should also consider how best to retain valuable employees, plan for their eventual succession, and ensure continuity of needed skills and abilities. (iii)

- **Controls Over Information Processing**. Many control activities are used in information processing, and some examples include edit checks of data entered, accounting for transactions in numerical sequences, comparing file totals with control accounts, and controlling access to data, files, and programs. (iv)

- **Physical Control Over Vulnerable Assets**. Physical control to secure and safeguard vulnerable assets must be established. Examples of physical control include security for and limited access to assets such as cash, securities, inventories, and equipment that might be vulnerable to risk of loss or unauthorized use. Such assets should be periodically counted and compared to control records. (v)

- **Establishment and Review of Performance Measures and Indicators**. These controls could call for assessments and

General Accounting Office (GAO) Standards (A) (continued)

Examples of Control Activities (b) (continued)

comparisons of different sets of data to one another so that analyses of the relationships can be made and appropriate actions taken. Controls should also be aimed at validating the propriety and integrity of both organizational and individual performance measures and indicators. (vi)

- **Segregation of Duties**. Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This segregation should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event. (vii)

- **Proper Execution of Transactions and Events**. Transactions and other significant events should be authorized and executed only by persons acting within the scope of their authority. This is the principal means of assuring that only valid transactions to exchange, transfer, use, or commit resources and other events are initiated or entered into. Authorizations should be clearly communicated to managers and employees. (viii)

- **Accurate and Timely Recording of Transactions and Events**. Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This requirement applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help ensure that all transactions are completely and accurately recorded. (ix)

General Accounting Office (GAO) Standards (A) (continued)

Examples of Control Activities (b) (continued)

- **Access Restrictions to and Accountability for Resources and Records**. Access to resources and records should be limited to authorized individuals, and accountability for their custody and use should be assigned and maintained. Periodic comparison of resources with the recorded accountability should be made to help reduce the risk of errors, fraud, misuse, or unauthorized alteration. (x)

- **Appropriate Documentation of Transactions and Internal Control**. Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained. (xi)

- **General Control for All Information Systems**. This category includes entitywide security program planning, management, control over data center operations, system software acquisition and maintenance, access security, and application system development and maintenance. (xii)

  – Data center and client-server operations controls include backup and recovery procedures, and contingency and disaster planning. In addition, data center operations controls also include job setup and scheduling procedures and controls over operator activities. (*a*)

  – System software control includes control over the acquisition, implementation, and maintenance of all system software, including the operating system, data-based management systems, telecommunications, security software, and utility programs. (*b*)

General Accounting Office (GAO) Standards (A) (continued)

Examples of Control Activities (b) (continued)

– Access security control protects the systems and network from inappropriate access and unauthorized use by hackers and other trespassers or inappropriate use by agency personnel. Specific control activities include frequent changes of dial-up numbers; use of dial-back access; restrictions on users to allow access hardware “firewalls” to restrict access to assets, computers, and networks by external persons; and frequent changes of passwords and deactivation of passwords of former employees. (*c*)

– Application system development and maintenance control provide the structure for safely developing new systems and modifying existing systems. Included are documentation requirements; authorizations for undertaking projects; and reviews, testing, and approvals of development and modification activities before placing systems into operation. An alternative to in-house development is the procurement of commercial software, but control is necessary to ensure that selected software meets the user’s needs and that it is properly placed in operation. (*d*)

- **Application Control for Processing Data Within Application Software** (xiii)

  – This control is designed to help ensure completeness, accuracy, authorization, and validity of all transactions during application processing. Control should be installed at an application’s interfaces with other systems to ensure that all inputs are received and are valid and outputs are correct and properly distributed. An example is a computerized edit check built into the system to review the format, existence, and reasonableness of data. (*a*)

General Accounting Office (GAO) Standards (A) (continued)

Examples of Control Activities (b) (continued)

– General control and application control over computer systems are interrelated. General control supports the functioning of application control, and both are needed to ensure complete and accurate information processing. Because information technology changes rapidly, controls must evolve in order for them to remain effective. (*b*)

Other Policy Documents (B)

Other policy documents may describe additional specific standards for particular functional or program activities. For example, Office of Management and Budget Circular A-127, "Financial Management Systems," describes Governmentwide requirements for financial systems.

Part VI
Examples of Weaknesses

The following are examples of significant weaknesses that might be considered agency material weaknesses. These examples of weaknesses in agency processes could result in undesired occurrences or situations. The examples are provided to allow a basis of comparison for the situations being considered for materiality. They are not designed to be minimum thresholds or all-encompassing.

A Weakness That Significantly Impairs Fulfillment of the Mission of the Agency (A)

- Failure to have in place inspection or review criteria that would identify weaknesses in licensee security, contingency, and guard training programs to deter, prevent, or respond to theft or diversion of nuclear material or sabotage of nuclear facilities. (1)

- An NRC inspection program deficiency resulting in no inspection of construction or testing of the plant safety system. (2)

- Deficiency in the 10 CFR Part 21, “Reporting of Defects and Noncompliance,” followup process that would lead to a failure to detect defective material being used in power plants. (3)

- Agency codes for reactor vessel analysis that are found to be incorrect, resulting in the acceptance by the agency of licensee analyses and plant operation with significant degradation. (4)

- Failure to ensure a formal information system is in effect to develop a timely response to inspectors' needs that are transmitted to headquarters. (As an example, is there a need for inspection criteria and instructions for the release of contaminated sites for public use?) (5)

A Weakness That Significantly Impairs Fulfillment of the Mission of the Agency (A) (continued)

- Breakdown in agency controls over review and inspection that would allow inadequate emergency response capability at a nuclear facility to go undetected by the agency. (6)

A Weakness That Deprives the Public of Needed Services (B)

Such a weakness would be a substantive failure by the agency to adequately staff for review and inspection of plant readiness, resulting in excessive restart delay or delay in plant operations, yielding commensurate cost to the licensee and the ratepayer.

A Weakness That Violates Statutory or Regulatory Requirements (C)

Failure to have controls in place to identify and prevent—

- Committing or incurring new obligations against an expired annual appropriation. (1)

- Obligating funds in excess of the amount allocated to agency organizations. (2)

- Significant nonconformance with the Chief Financial Officers Act of 1990, the Nuclear Waste Policy Act of 1982, and the Omnibus Budget Reconciliation Act of 1990. (3)

A Weakness That Significantly Weakens Safeguards Against Waste, Loss, Unauthorized Use, or Misappropriation of Funds, Property, or Other Assets (D)

- Failure to have controls in place to identify and prevent—(1)

A Weakness That Significantly Weakens Safeguards Against Waste, Loss, Unauthorized Use, or Misappropriation of Funds, Property, or Other Assets (D) (continued)

- Inadequate control and monitoring of full-time equivalent staff use compared to allocation. (a)

- Travel fraud. (b)

- Improper modification of time and attendance records by an authorized user for personal gain. (c)

- Failure to have adequate controls in place to provide reasonable assurance that deliverables or products contracted for are needed and used to carry out NRC's mission. (2)

- Failure to require and conduct periodic property inventories. (3)

A Weakness That Results in a Conflict of Interest (E)

- Failure to have controls in place to identify contractors or laboratories providing technical guidance and advice to both the agency and a licensee on the same matter at the same site. (Such a dual role would place the contractor or the laboratory in a position in which its judgment could be biased in relationship to its work for the agency.) (1)

- Failure to have controls in place to ensure that agency employees are advised of the prohibition against owning stock in organizations subject to agency regulations. (2)