

February 2, 2006

MEMORANDUM TO: Jesse L. Funches  
Chief Financial Officer

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

SUBJECT: STATUS OF RECOMMENDATIONS: AUDIT OF THE  
NUCLEAR REGULATORY COMMISSION'S FY 2005  
FINANCIAL STATEMENTS (OIG-06-A-01)

REFERENCE: CHIEF FINANCIAL OFFICER MEMORANDA DATED  
NOVEMBER 9, 2005 AND JANUARY 19, 2006

Attached is the Office of the Inspector General's analysis and status of recommendations as discussed in the agency responses dated November 9, 2005, and January 19, 2006. Based on these responses, recommendations 1 through 9 and 11 are resolved and recommendation 10 is closed. Should we be able to close other recommendations during the course of the FY 2006 financial statement audit, we will provide written notification accordingly. Otherwise, a determination of the status of the resolved recommendations will be made at the conclusion of the FY 2006 financial statement audit.

If you have any questions or concerns, please call me on 415-5915.

Attachment: As stated

cc: William Dean, OEDO  
Melinda Malloy, OEDO  
Patty Tressler, OEDO

**Audit Report**  
**Audit of the Nuclear Regulatory Commission's**  
**FY 2005 Financial Statements**  
**(OIG-06-A-01)**  
**Status of Recommendations**

Recommendation 1: The Chief Financial Officer (CFO) should direct an assessment of all aspects of the Fee Billing System to ensure that the remediation plan is updated as necessary and implemented in a timely manner to enhance the controls over fee billing processes.

Response dated  
November 9, 2005:

Agree. By March 2006, the Office of the Chief Financial Officer (OCFO) will assess the operating aspects of the Fee Billing System that are essential to the internal control over fee billings, including the processes related to data obtained from feeder systems, to identify cost-effective controls that will strengthen the completeness and reliability of the fee billing processes. The remediation plan will be updated as necessary based on the results of the assessment.

OIG Analysis:

The proposed corrective action addresses the intent of the recommendation. We will continue to evaluate the corrective actions taken to implement this recommendation during the course of the FY 2006 financial statement audit.

**Status:**

Resolved.

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**Status of Recommendations**

Recommendation 2: The CFO should define, design, and implement compensating controls over the fee billing system, while the system is being considered for redesign.

Response dated  
November 9, 2005: Agree. By July 2006, the OCFO will use the results of the assessment performed in the response to Recommendation 1, and the experience gained implementing improved controls and quality assurance procedures, to establish additional cost-effective compensating controls in the existing fee billing processes.

OIG Analysis: The proposed corrective action addresses the intent of the recommendation. We will continue to evaluate the corrective actions taken to implement this recommendation during the course of the FY 2006 financial statement audit.

**Status:** Resolved

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Recommendation 3: As the CFO identifies needed improvement of internal controls outside OCFO's business domain, there should be coordination and collaboration with the Executive Director for Operations as to how, when and to what extent the internal controls should be strengthened in operational program feeder systems, relied upon by OCFO for billing preparation purposes.

Response dated  
November 9, 2005:           Agree.

OIG Analysis:               We will continue to evaluate the corrective actions taken to implement this recommendation during the course of the FY 2006 financial statement audit.

**Status:**                   Resolved.

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**Status of Recommendations**

Recommendation 4: The CFO should continue to promote strengthening internal use software practices, in order to encourage project managers to comply with procedures in effect governing the completeness of new and existing development initiatives.

Response dated  
January 19, 2006: In January 2006, the OCFO developed a comprehensive plan of actions to further promote and strengthen internal use software practices.

Response dated  
November 9, 2005: Agree. The OIG has acknowledged that a significant amount of work has been done by the OCFO over the years to promote and strengthen internal use software practices. However, the OCFO will seek to identify further measures that can be taken and will develop a plan of additional actions by January 2006.

OIG Analysis: The proposed corrective action addresses the intent of the recommendation. We will continue to evaluate the corrective actions taken to implement this recommendation during the course of the FY 2006 financial statement audit.

**Status:** Resolved.

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Recommendation 5: The CFO should coordinate with the Office of Information Services and the Executive Director for Operations to keep abreast of progress in implementing the recommendations made in the OIG's report. This awareness will enable the CFO to better plan his information system security needs.

Response dated  
January 19, 2006:

The OCFO has established regular communication with the OEDO and OIS regarding the progress to address OIG FISMA security findings. We have met with and established monthly status meetings with the OIS Business Process Improvement and Applications Division management, responsible for the agency's information security program. These meetings will focus on progress made on the OCFO's certification and accreditation (C&A) efforts and actions to mitigate vulnerabilities to the general support systems which support OCFO financial systems.

Response dated  
November 9, 2005:

Agree.

OIG Analysis:

The proposed corrective action addresses the intent of the recommendation. We will continue to evaluate the corrective actions taken to implement this recommendation during the course of the FY 2006 financial statement audit.

**Status:**

Resolved.

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Recommendation 6: The CFO should establish procedures to monitor and participate in customer advisory work groups on information security issues with the service bureau. At a minimum, the CFO should devise a communication process to stay informed about information security testing and the related results.

Response dated  
January 19, 2006:

The CFO sent a letter to the Director of the DOI-NBC dated November 29, 2005, in response to the National Business Center FY 2005 Annual Assurance Statement on Management Controls dated October 5, 2005. This communication conveyed the need for regular updates on corrective actions taken by the NBC to resolve its information security issues. As a result, a meeting was held on January 10, 2006, between the CFO and NBC's Director to discuss the identified security vulnerabilities and the corrective actions being taken by the NBC. The NBC provided us a status of their corrective actions and agreed to provide periodic progress updates. The CFO provided NBC a proposed written agreement with us to formally document communication of security/operational issues.

Response dated  
November 9, 2005:

Agree. As a follow-up to his verbal communications with the service bureau, I will write to the Director and CFO of the Department of Interior National Business Center (DOI-NBC) to document concerns about the security of DOI-NBC's network and mainframe, and to establish an agreement to be informed timely of information security issues and documented completion of corrective actions. The letter will be sent by December 2005.

OIG Analysis:

The proposed corrective action addresses the intent of the recommendation. We will continue to evaluate the corrective actions taken to implement this recommendation during the course of the FY 2006 financial statement audit.

**Status:**

Resolved.

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**Status of Recommendations**

Recommendation 7: The CFO should direct an assessment of financial controls over disbursement activities. At a minimum, the assessment should provide for the development and implementation of second party reviews of the propriety and accuracy of edits to vendor tables.

Response dated  
November 9, 2005:

Agree. The OCFO will perform an assessment of the financial controls over disbursement activities and make necessary revisions to our existing procedures. This will be completed by June 30, 2006. Additionally, by December 15, 2005, secondary reviews of revisions to the vendor tables in the core financial system will be implemented.

OIG Analysis:

The proposed corrective action addresses the intent of the recommendation. We will continue to evaluate the corrective actions taken to implement this recommendation during the course of the FY 2006 financial statement audit.

**Status:**

Resolved.

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**Status of Recommendations**

Recommendation 8: The CFO should periodically assess whether CCR data can be used to provide an electronic validation of EFT information against NRC's payment system prior to certifying the payment.

Response dated  
November 9, 2005:

Agree. The Central Contractor Registration (CCR) data will be made available in the NRC's core financial system by the end of February 2006, for validation of payments. OCFO will semiannually assess whether CCR data can be used to provide an electronic validation of EFT information for payments. We will perform the next assessment by March 30, 2006.

OIG Analysis:

The proposed corrective action addresses the intent of the recommendation. We will continue to evaluate the corrective actions taken to implement this recommendation during the course of the FY 2006 financial statement audit.

**Status:**

Resolved.

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Recommendation 9: The CFO should establish a secondary review of high value payments. The secondary review should be performed by parties that are not involved directly in payment processing.

Response dated  
November 9, 2005:

Agree. By December 15, 2005, the OCFO will implement secondary reviews of high value payments. These reviews will be performed by staff not involved directly in payment processing.

OIG Analysis:

The proposed corrective action addresses the intent of the recommendation. We will continue to evaluate the corrective actions taken to implement this recommendation during the course of the FY 2006 financial statement audit.

**Status:**

Resolved.

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**Status of Recommendations**

Recommendation 10: The CFO should reiterate to all agency managers the importance of having full and open discussion about internal control impacting the reliability and completeness of the agency's financial statements. This discussion could be incorporated during the upcoming implementation of OMB Circular A-123.

Response dated  
January 19, 2006: The CFO sent a memorandum to NRC managers and supervisors entitled *Internal Controls – Management's Responsibility*, dated December 22, 2005, emphasizing the importance of a full and open discussion relating to internal controls impacting the reliability and completeness of NRC's financial statements.

Response dated  
November 9, 2005: Agree. I am committed to ensuring that integrity and ethical values are not compromised and will continue to emphasize the importance of having full and open discussion relating to internal controls impacting the reliability and completeness of NRC's financial statements. By December 15, 2005, I will issue a memorandum to all agency managers emphasizing the importance of a full and open discussion relating to internal controls impacting the reliability and completeness of NRC's financial statements.

OIG Analysis: OIG received and reviewed the memorandum referred to in the January 19, 2006, response. The memorandum adequately addressed the issue of emphasizing the importance of having full and open discussion about internal control impacting the reliability and completeness of the agency's financial statements. The recommendation is therefore closed.

**Status:** Closed.

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**Status of Recommendations**

Recommendation 11: The CFO should continue to pursue the proposed calculation strategy and develop rates in compliance with OMB Circular A-25. OCFO management should inform the Office of Inspector General of the progress and actions taken to correct this condition.

Response dated  
November 9, 2005:

Agree. We will continue with plans to calculate 10 CFR Part 170 hourly rates using actual cost data from the Cost Accounting System. We may use these rates to recover the costs of activities under 10 CFR Part 170 beginning with the FY 2006 fee rule. We will continue to keep the Office of the Inspector General informed of progress and actions.

OIG Analysis:

Subsequent to the November 9, 2005, response, OCFO and OIG met to discuss OCFO's proposal to calculate the 10 CFR Part 170 (Part 170) hourly rates using actual cost data. As a result of those discussions, OCFO decided to retract its proposal to calculate Part 170 hourly rates using actual cost data. OCFO indicated that it would continue to calculate the Part 170 hourly rates using budgetary data. Additionally, OCFO agreed to perform an annual validation using actual cost data and review and analyze differences, as appropriate, for the purpose of refining the methodology used to calculate the hourly rates. OIG is awaiting receipt of OCFO's new policies and procedures. We will continue to evaluate any corrective actions taken to implement this recommendation during the course of the FY 2006 financial statement audit.

**Status:**

Resolved.