



OFFICE OF THE
INSPECTOR GENERAL

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

February 4, 2016

MEMORANDUM TO: Victor M. McCree
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
JANUARY 15, 2016

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 January 15, 2016. Based on this response, recommendations 1, 2, and 3 are resolved. Please provide an updated status of the resolved recommendations by June 17, 2016.

If you have questions or concerns, please call me at 415-5915 or Paul Rades, Team Leader, at 415-6228.

Attachment: As stated

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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 January 15, 2016: Agree. Staff is updating the business line Internal Control Plans to better align with the current Nuclear Regulatory Commission (NRC) Management Directive (MD) and Handbook 4.4. After the Office of Management and Budget (OMB) issues the revised Circular A-123, Management's Responsibility for Risk Management and Internal Control, staff will update the MD and Handbook 4.4. To cover the time period between the revisions of A-123 and MD 4.4, staff is drafting Interim Guidance on Internal Control and Risk Management.

Milestones:

- OMB to issue the revised Circular A-123 – Expected in Fiscal Year (FY) 2016 Q2
- Issue Interim Guidance on Internal Control and Risk Management – March 2016
- Update the Business Line Internal Control Plans – March 2016
- Update MD 4.4 and Handbook – March 2018

OIG Analysis:

The agency's proposed actions to issue interim guidance on internal control and risk management and to update business line Internal Control Plans are measures for NRC's compliance with the non-financial internal control process requirements identified in this audit report. These actions are also evidence of compensating controls needed for mitigating risks associated with non-compliance with the current non-financial internal control requirements, until OMB issues the revised Circular A-123 in Q2, FY 2016 and NRC updates MD 4.4 and Handbook in March 2018. OIG will close this recommendation upon verification that the reactor safety business lines have fully complied with the non-financial internal control process requirements identified in the audit report to include implementing:

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 (cont.):

- (1) The process for conducting risk assessment and evaluating key controls, which includes identification of program operations, functions, and activities.
- (2) The process for conducting 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.
- (3) The process for writing the safety business lines' corrective action plans, which includes evaluation of test findings and determinations of whether the existing internal control is sufficient to manage risk.

Status: Resolved.

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

Agency Response

Dated January 15, 2016: Agree. The agency will establish a Programmatic Senior Assessment Team (PSAT) for internal control over program operations. From the Draft Revision of A-123, November 10, 2015, the name of the PSAT may change to "Senior Management Council" in order to meet A-123. The Senior Assessment Team remains a requirement for financial reporting, which NRC has in place. Additionally, the Draft Revision of A-123 includes guidance about developing a risk profile and an Enterprise Risk Management maturity model approach. The staff anticipates that the revised A-123 requirements will meet the intent of the recommendation.

Milestones:

- Establish a Senior Management Council – March 2016
- Additional milestones to be determined pending the revised OMB Circular A-123 – Expected in FY 2016 Q2

OIG Analysis: The proposed actions continue to meet the intent of the recommendation. This recommendation will be closed upon OIG verification that NRC has established the PSAT or Senior Management Council, as appropriate, and has implemented measures needed to hold program managers and staff accountable for meeting their responsibility for adhering to internal controls.

Status: Resolved.

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 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 January 15, 2016: Agree. A Yellow Announcement was originally scheduled for December 31, 2015, to follow the issuance of A-123 in early FY 2016. The staff is awaiting the revised A-123 in order to ensure that NRC guidance aligns with the final version of OMB's guidance. The staff discussed this with Robert K. Wild, OIG Team Leader, on December 24, 2015, and formally requests an extension via this memo.

Milestones:

- OMB to issue the revised Circular A-123 – Expected in FY 2016 Q2
- Issue a Yellow Announcement on the importance of internal control and risk management – March 2016
- Obtain approval from the NRC Human Capital Council to designate a standalone course on internal control as one-time mandatory training for all staff, managers, and contractors – March 2016
- Update and launch the course in iLearn – September 2016
- Work with OIG and the Office of the Chief Human Capital Officer to bring a speaker from the Government Accountability Office (GAO) to discuss internal control, the GAO Green Book, and A-123 – September 2016
- Incorporate a video of the GAO speaker into the NRC Supervisor Development Program, Nuclear Safety Professional Development Program, Leadership Potential Program, and Senior Executive Service Candidate Development Program – September 2016

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 3 (cont.):

OIG Analysis:

The proposed actions continue to meet the intent of the recommendation. This recommendation will be closed upon OIG verification that internal control training and guidance includes mandatory standalone courses for managers and staff, and that internal control responsibilities are incorporated in NRC's formal developmental programs.

Status:

Resolved.