



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

March 15, 2017

MEMORANDUM TO: Dr. Brett M. Baker  
Assistant Inspector General for Audits  
Office of the Inspector General

FROM: Maureen E. Wylie */RA/*  
Chief Financial Officer

Victor M. McCree */RA/*  
Executive Director for Operations

SUBJECT: STATUS OF RECOMMENDATIONS: AUDIT OF THE U.S.  
NUCLEAR REGULATORY COMMISSION'S IMPLEMENTATION  
OF FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT FOR  
FISCAL YEAR 2015 (OIG-16-A-20)

Please see below a status update pertaining to the subject audit report of September 19, 2016, and the Office of the Inspector General (OIG) correspondence of October 25, 2016.

Recommendation 1

Provide interim guidance via the Yellow Announcement process to update Management Directive (MD) 4.4, especially Chapter III.

Status

Agree. Staff has issued Yellow Announcement *Interim Guidance on Internal Control*. The Interim Guidance supersedes MD 4.4 Handbook, Section III, *Assessment of Internal Control over Program Operations (Non-Financial)* and Section V, *Assurance Certifications, Chairman's Statement, and Internal Requirements*. The revision to MD 4.4 will address the updates to the Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*.

Milestone:

- Issued *Interim Guidance on Internal Control* – Completed November 23, 2016 ([YA-16-0125](#))

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## Recommendation 2

Update and align agency guidance and processes related to internal control over program operations, quarterly performance review, and strategic planning.

### Status

Agree. As required by the OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, published in July 2016, the agency has developed an Enterprise Risk Management (ERM) Framework. The ERM framework will inform strategic and management decision making and ensure business processes, stakeholder analysis, and Full-Time Equivalent (FTE) utilization align with the agency's strategic plan, performance management, and control environment. The agency's implementation strategy of the ERM framework includes, leveraging appropriate risk, internal control, and agency governance organizations and processes currently in place, improving processes and developing solutions where gaps exist, and disseminating ERM and internal control awareness training for leadership and staff. Staff will also update MD 4.4, Internal Control, to incorporate ERM requirements as well as document alignment of internal control over programmatic operations, Quarterly Performance Review (QPR), and Strategic Planning processes.

In accordance with MD 4.4, Internal Control, the agency formed the Programmatic Senior Assessment Team (PSAT), comprised of the business line leads, in Fiscal Year (FY) 2016. The PSAT is a governance body that directs the assessment of internal control over programmatic operations, ensuring that program managers and staff are accountable for meeting their responsibility for adhering to internal control, as recommended in the Audit of the U.S. Nuclear Regulatory Commission's (NRC's) Reactor Business Lines' Compliance with Agency Non-Financial Internal Control Guidance (OIG-15-A-16). In addition, the PSAT will leverage the agency's QPR process to identify and document risks, make them transparent, and develop mitigation strategies as part of the agency's enterprise risk management framework.

## Recommendation 3

Develop and implement enhanced record retention requirements for documentation related to internal control and corrective action plans to conform to the guidance in MD 4.4, Section III.

Agree. In FY 2017 Q1, the Internal Control Plans (ICP) for all business lines were updated to better align current NRC MD and Handbook 4.4. The Office of Management and Budget (OMB) issued the revised Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, in mid-July 2016 and the staff is working on updating the MD 4.4 and Handbook. In the meantime, staff has issued the *Interim Guidance on Internal Control*. The Interim Guidance supersedes MD 4.4 Handbook, Section III, *Assessment of Internal Control over Program Operations (Non-Financial)* and Section V, *Assurance Certifications, Chairman's Statement, and Internal Requirements*. The revision to MD 4.4 will address the updates to A-123.

The ICPs document internal control risks, weaknesses, and reportable conditions. The ICPs include risk assessments, tests of program controls, self-assessments, and program evaluations. The ICPs track internal control activities, corrective actions, and the status of audit recommendations. The ICPs also include a section for closed actions. As control activities are completed throughout the FY, the actions will be moved to the closed section of the ICP. End-of-FY ICPs are stored on OCFO's G: drive. In addition, the Internal Control and Planning

Team has created an [Internal Control SharePoint site](#) as the agency's "one-stop-shop" for internal control statutory requirements, policy guidance, documentation and communications, including a "Standards and Guidance" catalog, organized by business line, containing links to MDs, interim staff guidance, inspection manuals, regulatory guides, office procedures, etc., that the business lines use in conducting their daily operations.

Milestones:

- Issue *Interim Guidance on Internal Control* – Completed ([ML16155A251](#))
- Update the Business Line Internal Control Plans – Completed (New Template [ML16155A232](#))
- OMB to issue the revised Circular A-123–Completed (Issued July 15, 2016, [OMB A-123](#))
- Update MD 4.4 and Handbook – March 2018

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SUBJECT: STATUS OF RECOMMENDATIONS: AUDIT OF THE U.S. NUCLEAR REGULATORY COMMISSION'S IMPLEMENTATION OF FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT FOR FISCAL YEAR 2015 (OIG-16-A-20), dated March 15, 2017

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