MD 4.4	INTERNAL CONTROL	DT-12-09

Volume 4:	Financial Management
Approved By:	Allison M. Macfarlane, Chairman
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EXECUTIVE SUMMARY

Directive and Handbook 4.4 are being revised to:

- Comply with Federal Managers' Financial Integrity Act (FMFIA or the Integrity Act) requirements.

- Incorporate the revised Office of Management and Budget (OMB) Circular A-123, "Management's Responsibility for Internal Control," dated December 21, 2004, including its new appendices and guidelines—

  - Appendix A, "Internal Control over Financial Reporting";
  - Appendix B, "Improving the Management of Government Charge Card Programs";
  - Appendix C, "Requirements for Effective Measurement and Remediation of Improper Payments"; and
  - Guidelines for conducting entity-level internal control reviews of the acquisition function as discussed in OMB memorandum, "Conducting Acquisition Assessments under OMB Circular A-123," dated May 21, 2008.

This directive has been renamed from "Management Controls" to "Internal Control."

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I. POLICY

The U.S. Nuclear Regulatory Commission is mandated by the Federal Managers' Financial Integrity Act (FMFIA or the Integrity Act) with the responsibility to establish and maintain effective internal control. Office of Management and Budget Circular A-123, "Management's Responsibility for Internal Control," provides Federal agencies with guidance for complying with the Integrity Act and defines management's responsibility for establishing and maintaining internal control to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. Internal control helps the agency operate more efficiently and effectively with assurances that established procedures are performed in a thorough manner, policies are consistently adhered to, and assets are protected.

II. OBJECTIVES

– Provide an overall framework for establishing and maintaining internal control, and identify and address major performance and management challenges and areas of greatest risk of fraud, waste, abuse, and mismanagement.

– Improve the accountability and effectiveness of NRC programs and operations by leveraging internal control best practices.

–   Integrate internal control activities comprising responsibilities such as performance plans, quarterly performance reporting, Internal Control Plans (ICP), performance improvement initiatives, Lessons-Learned Oversight Board and Agency Action Review Meeting decisions, and Office of Inspector General (OIG) and General Accounting Office (GAO) findings and recommendations to support the Chairman's annual statement.

–   Evaluate and report on the internal control and financial systems (Sections 2 and 4 of the Integrity Act, respectively).

–   Provide an early warning system through the NRC reasonable assurance process that can anticipate, highlight, and resolve programmatic or administrative problems or potential high risks.

–   Coordinate annual assurance certifications by the NRC management for inclusion in the agency's annual Performance and Accountability Report (PAR).

–   Establish a centralized repository for all documents relevant to the internal control process across the agency in the Agencywide Documents Access and Management System (ADAMS).

–   Increase awareness regarding the importance of internal control to improve all levels of the NRC compliance activities.

–   Establish internal control program methodologies to reflect the fair presentation of assets, liabilities, and financial transactions included in the financial statements and accompanying notes.

–   Ensure the following Internal Control objectives are in place:

   •   The effectiveness and efficiency of operations;

   •   The compliance with applicable laws and regulations; and

   •   The reliability of financial reporting.

III. ORGANIZATIONAL RESPONSIBILITIES AND DELEGATIONS OF AUTHORITY

A. Chairman

   1. Serves as the highest authority for reasonable assurance of internal control throughout the NRC.

   2. Approves agencywide assurance statement on NRC assessments, which is included in the annual NRC PAR.

B. Executive Director for Operations (EDO)

1. Provides oversight and leadership for internal control over programmatic operations to include compliance with the Office of Management and Budget's (OMB) Circular A-123, "Management's Responsibility for Internal Control," and other laws and regulations.

2. Assigns responsibilities in a manner that reasonably ensures the organizational components' internal control complies with the requirements of NRC's ICP.

3. Approves (or delegates approval of) the NRC assessable units (AUs) structure.

4. Chairs the Executive Committee on Internal Control (ECIC) and issues letters of designation to ECIC members.

5. Provides guidance on the form and content of performance plans and performance reporting.

6. Coordinates, in conjunction with the Chief Financial Officer (CFO), activities, training, and technical support to the NRC Business Line Managers and partner offices and regions for internal control over programmatic operations.

7. Oversees the official agency record of internal control-related documents in ADAMS.

8. Maintains a comprehensive framework for ensuring the effectiveness of information security controls over automated information resources in support of NRC assets, and financial operations.

9. Reasonably ensures that the NRC automated systems are maintained and in conformance with the following:

    (a) FMFIA,

    (b) Clinger-Cohen Act of 1996,

    (c) OMB Circular A-127, "Financial Management Systems,"

    (d) OMB Circular A-130, "Management of Federal Information Resources," and

    (e) GAO's Standards for Internal Control.

10. In coordination with the Office of the Chief Financial Officer (OCFO), manages and funds a training program for staff in support of NRC's internal control program.

11. Incorporates internal control into the management development training program.

C. Chief Financial Officer (CFO)

1. Establishes and maintains an internal control program for NRC programmatic and administrative activities, including revisions to this directive.

2. Provides oversight and quality control reviews, monitoring, and testing of financial management processes and procedures as defined by OMB Circular A-123, Appendix A, "Internal Control over Financial Reporting."

3. Reasonably ensures that NRC's financial management systems comply with the following:

   (a) FMFIA,

   (b) Federal Information Security Management Act (FISMA),

   (c) OMB Circular A-123,

   (d) OMB Circular A-127,

   (e) GAO's Standards for Internal Control, and

   (f) Other applicable laws and regulations.

4. Coordinates internal control activities, training, and technical support to the NRC Business Lines and partner offices and regions.

5. Serves as Co-Chair of the ECIC.

6. Coordinates an annual report or briefing for the ECIC summarizing the NRC progress toward correcting previously reported internal control weaknesses.

7. Coordinates the annual Statement of Assurance on internal control over financial reporting, as a subset of Management Assurance Statements stipulated by OMB Circular A-123 and FMFIA.

8. Oversees the preparation of the annual PAR to the President and the Congress on the status of the NRC internal control.

9. Chairs the Senior Assessment Team (SAT) that is responsible for the internal control assessment process specifically related to financial reporting.

10. Designates an Assessment Liaison staff to manage the annual financial assessment with relevant support, possibly from a working group comprised of contractor and NRC staff.

11. Provides the NRC Business Lines and partner offices and regions support in conducting internal control reviews, plans, and other internal control documentation.

D. Inspector General (IG)

1. Assists NRC management in developing effective internal control.

2. Serves as an observer (or designates the observer) to the ECIC on internal control matters.

3. Maintains independence from ECIC's decisionmaking process.

    (a) Provides an independent perspective on identification, assessment, and closure of major deficiencies.

    (b) Provides independent advice and counsel that will not constitute an endorsement of the ECIC's decisions.

    (c) Ensures that future IG audits may examine and report on the effectiveness of internal control issues.

4. Oversees independent audits and investigations regarding possible violations of law, fraud, waste, abuse, and other internal control deficiencies based upon mandates of the Inspector General Act.

5. Serves as a member of the SAT and PSAT in an independent advisory capacity.

E. Office Directors and Regional Administrators

1. Organize and assign responsibilities in a manner that reasonably ensures the agency's internal control complies with Federal and NRC requirements.

2. Take systematic and proactive measures to—

    (a) develop and implement appropriate, effective internal control for results-oriented management;

    (b) assess the adequacy of internal control in their programs and operations, and monitor their effectiveness;

    (c) identify needed improvements;

    (d) take timely and effective action to correct deficiencies; and

    (e) modify internal control as programs or conditions change.

3. Coordinate cross-cutting issues, consistent with ECIC and OCFO guidance, with other organizational units to increase the likelihood of achieving intended outcomes.

4. Report significant weaknesses of any mission-critical internal control to the next level of management.

5. Delegate internal control responsibilities to employees and assign appropriate managerial staff as the office Internal Control Coordinator.

6. Delegate staff to work with the NRC Internal Control Coordinator, or other relevant entities to update the nonfinancial areas of this directive when appropriate.

7. Coordinate and communicate with NRC Business Line Managers, where appropriate, to ensure that interdependencies that may exist among offices are addressed and clearly communicated to ensure complexities and risks are mitigated, and programs are managed efficiently and effectively.

F. NRC Business Line Manager

1. Organize and assign responsibilities in a manner that reasonably ensures the agency's internal control complies with Federal and NRC requirements.

2. Coordinate, and delegate as appropriate, work assignments and project management, ensuring that interdependencies that may exist among offices are addressed and clearly communicated to office directors, regional administrators, and key staff.

3. Coordinate cross-cutting issues, consistent with ECIC and OCFO guidance, with other organizational units to increase the likelihood of achieving intended outcomes.

4. Coordinate the development of, and approve Annual Internal Control Plans prepared by Business Line, and establish Business Line-specific procedures and guidelines for the internal control implementation.

5. Modify Internal Control Plans as programs or conditions change.

6. Coordinate with the NRC Internal Control Coordinator, the monitoring of Internal Control Plan implementation activities and outcomes.

7. Report quarterly to OEDO and OCFO, the status of Business Line operations, including any mission-critical internal control activities and/or significant weaknesses.

8. Delegate staff to work with OCFO or other relevant entities to update the nonfinancial areas of this directive when appropriate.

9. Prepare an annual reasonable assurance certification to ensure the following objectives are achieved:

   (a) programs and operations achieve their intended results, and are protected from waste, fraud, abuse, and mismanagement;

   (b) resources are used in a manner consistent with the agency's mission;

   (c) information systems are authorized and appropriately secured;

   (d) laws and regulations are followed, and

   (e) reliable and timely information is obtained, maintained, reported, and used for sound decisionmaking.

10. Submit annual reasonable assurance statements to the CFO and NRC Internal Control Coordinator.

IV. APPLICABILITY

Directive and Handbook 4.4 are intended to assist the staff in maintaining effective internal control. The policies in this directive and handbook apply to all NRC employees in headquarters and regional offices, and for all financial, program, and administrative activities. NRC managers, supervisors, and staff at all levels are responsible for active participation in achieving the objectives of this directive.

V. DIRECTIVE HANDBOOK

Handbook 4.4 provides procedures to implement the stated policy of the NRC internal control program and standards.

VI. REFERENCES

Executive Orders

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

E.O. 13450, "Improving Government Program Performance."

General Accounting Office

GAO-12-331G, "Government Auditing Standards," December 2011.

GAO-01-1008G, "Internal Control Management and Evaluation Tool," August 2001.

GAO/AIMD-00-21.3.1, "Standards for Internal Control in the Federal Government," November 1999.

Nuclear Regulatory Commission Documents

"ADAMS [Agencywide Documents Access and Management System] Desk Reference Guide," Office of Information Services, Information Records Services Division, April 2010, ML051110390.

Management Directive 6.1, "Resolution and Followup of Audit Recommendations," February 20, 2006.

Management Directive 6.8, "Lessons-Learned Program," August 1, 2006.

NUREG-0910, "NRC Comprehensive Records Disposition Schedule," Revision 4, March 2005.

"Reasonable Assurance Certification (Without Exceptions)," ML102670706.

Office of Management and Budget

Circular A-123, "Management's Responsibility for Internal Control," December 21, 2004.

– – – – –. Appendix A, "Internal Control over Financial Reporting," August 1, 2005.

– – – – –. Appendix B, "Improving the Management of Government Charge Card Programs," January 15, 2009.

– – – – –. Appendix C, "Requirements for effective measurement and Remediation of Improper Payments," March 22, 2010.

– – – – –. OMB memorandum, Implementation Guide for OMB, "Conducting Acquisition Assessments Under OMB Circular A-123," May 21, 2008.

Chief Financial Officers Council, "Implementation Guide for OMB Circular A-123," July 5, 2005, available at the Chief Financial Officers Council Web Site.

Circular A-127, "Financial Management Systems," January 9, 2009.

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

United States Code

Accountability of Tax Dollars Act of 2002 (Pub. L. 107-289).

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

Clinger-Cohen Act of 1996 (Pub. L. 104-106).

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

Federal Information Security Management Act (FISMA) of 2002 (Pub. L.107-347, Title III).

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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I. OVERVIEW OF THIS HANDBOOK

A. Purpose of This Handbook

1. This handbook is a tool that implements the policy set forth in the U.S. Nuclear Regulatory Commission Management Directive (MD) 4.4, "Internal Control." It specifies procedures for establishing a uniform, agencywide process which meets Governmentwide requirements. This handbook provides a general framework for implementing the entire internal control cycle of planning, budgeting, management, accounting, and auditing. It is management's responsibility to develop the detailed internal control policies, procedures, and practices that best fit each business need.

2. This handbook was developed to improve effectiveness and accountability of NRC internal control.

   (a) Every employee has some role in effecting internal control. Therefore, managers and employees can better understand the elements of their jobs that contribute to the internal control structure, improve performance, and provide continual feedback to management.

   (b) There are no perfect systems of internal control. In addition, costs may prevent management from implementing an ideal system. NRC's internal control program relies on management's judgment to provide reasonable assurance that program, administrative, and financial objectives are being achieved. This general guidance does not address every potential control weakness or deficiency.

3. NRC Business Lines and partner offices and regions will receive templates or other tools to accurately and uniformly identify, document, and report circumstances and weaknesses, as well as plans of action to address the deficiencies. The templates or tools will change as the Office of Management and Budget (OMB) guidance and industry best practices dictate. These templates or tools will be sent with the fiscal year guidance.

B. Roadmap

This handbook addresses four performance and compliance areas.

1. NRC Internal Control

Section II of this handbook provides a brief overview of the historical perspective of the significance of internal control in the Federal Government, agency specific roles and responsibilities, and general reporting timeframes of the NRC's internal control program.

2. Assessment of Internal Control over Program Operations (Non-Financial)

   Section III of this handbook provides general steps, as well as examples to guide organizational units in conducting assessments of their programs for adhering to the revised OMB Circular A-123, "Management's Responsibility for Internal Control."

3. Assessment of Internal Control Over Financial Reporting

   Section IV of this handbook focuses on adhering to OMB Circular A-123 and lists the guidelines for evaluating Appendix A, "Internal Control over Financial Reporting."

4. Assurance Certifications, Chairman's Statement, and Internal Requirements

   Section V of this handbook explains the preparation of assurance certifications, Chairman's statements, and internal requirements (i.e., agency's documentation requirements and training).

II. NRC INTERNAL CONTROL

> **"Internal Control -- organization, policies, and procedures – are tools to help program and financial managers achieve results and safeguard the integrity of their programs."**
>
> *Office of Management and Budget Circular A-123*

A. Overview

1. The proper stewardship of Federal resources is a fundamental responsibility of NRC managers and staff. NRC managers are continually seeking ways to achieve the agency's mission and program results; in other words, managers are seeking systematic and proactive measures to improve accountability.

2. A key factor in helping to achieve accountability is to implement appropriate internal control. (See Section VII of this handbook for definition of internal control.) Essentially, internal control embodies using good "common sense." Internal control serves as the first line of defense in safeguarding assets and preventing and detecting errors, fraud, abuse, inefficiency, and mismanagement.

3. NRC management is expected to conduct reviews, tests, and analyses of internal control to ensure effectiveness each year and as needed. Section III of this handbook provides guidance for assessing programmatic internal control.

4. NRC management is responsible for the efficiency and effectiveness of internal control, as well as the identification, reporting, and remediation of any deficiencies. When weaknesses are identified, including any internal or external audit findings, responsible offices and regions must prepare a plan and schedule for corrective action.

5. Organizational units within the NRC perform internal control activities such as developing performance plans, monitoring budgetary expenditures, and preparing performance reports for the accountability of assets as part of their routine operations.

6. Instead of considering internal control to be an isolated management tool, this handbook illustrates how internal control is an integral component of the NRC management, strategic, and operating activities.

B. NRC's Internal Control Policy

1. OMB Circular A-123, "Management's Responsibility for Internal Control," provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on internal control. NRC is mandated by law with the responsibility to establish and maintain effective internal control for reasonable assurance that programs achieve their intended results.

2. It is the policy of the NRC to establish and maintain effective internal control, pursuant to Federal Managers' Financial Integrity Act (FMFIA) and OMB Circular A-123.

    (a) Senior Management

    Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

      (i) effectiveness and efficiency of operations,

     (ii) reliability of financial reporting, and

    (iii) compliance with applicable laws and regulations.

    (b) NRC Program and Financial Managers

      (i) Internal control helps program and financial managers achieve results and safeguard the integrity of their program. Internal control applies to all aspects of an entity's operations (programmatic, financial, and compliance), including

organization, policies, and procedures. When integrated into NRC practices, internal control assures that:

- established procedures are performed in a thorough and effective manner,

- policies are consistently followed, and

- assets are protected.

(ii) All employees have an active part in the NRC internal control program; however, NRC managers must take systematic and proactive measures to:

- Develop and implement appropriate cost-effective internal control for results-oriented management.

- Assess the adequacy of internal control in Federal programs and operations.

- Identify needed improvements.

- Take corresponding corrective action.

- Separately assess and document internal control over financial reporting.

- Report annually on internal control through management assurance certifications.

3. NRC publishes the Performance and Accountability Report (PAR) annually. The Chairman reports on the status of internal control, financial reporting, and financial systems in the agency's FMFIA Statement (which is published in the PAR). Section V of this handbook provides additional information on the FMFIA Statement.

4. In an effort to provide a general overview of the NRC activities involving internal control, Figure 1 provides a summary of the planning, preparation and coordination required for publishing the FMFIA Statement and performance reporting.
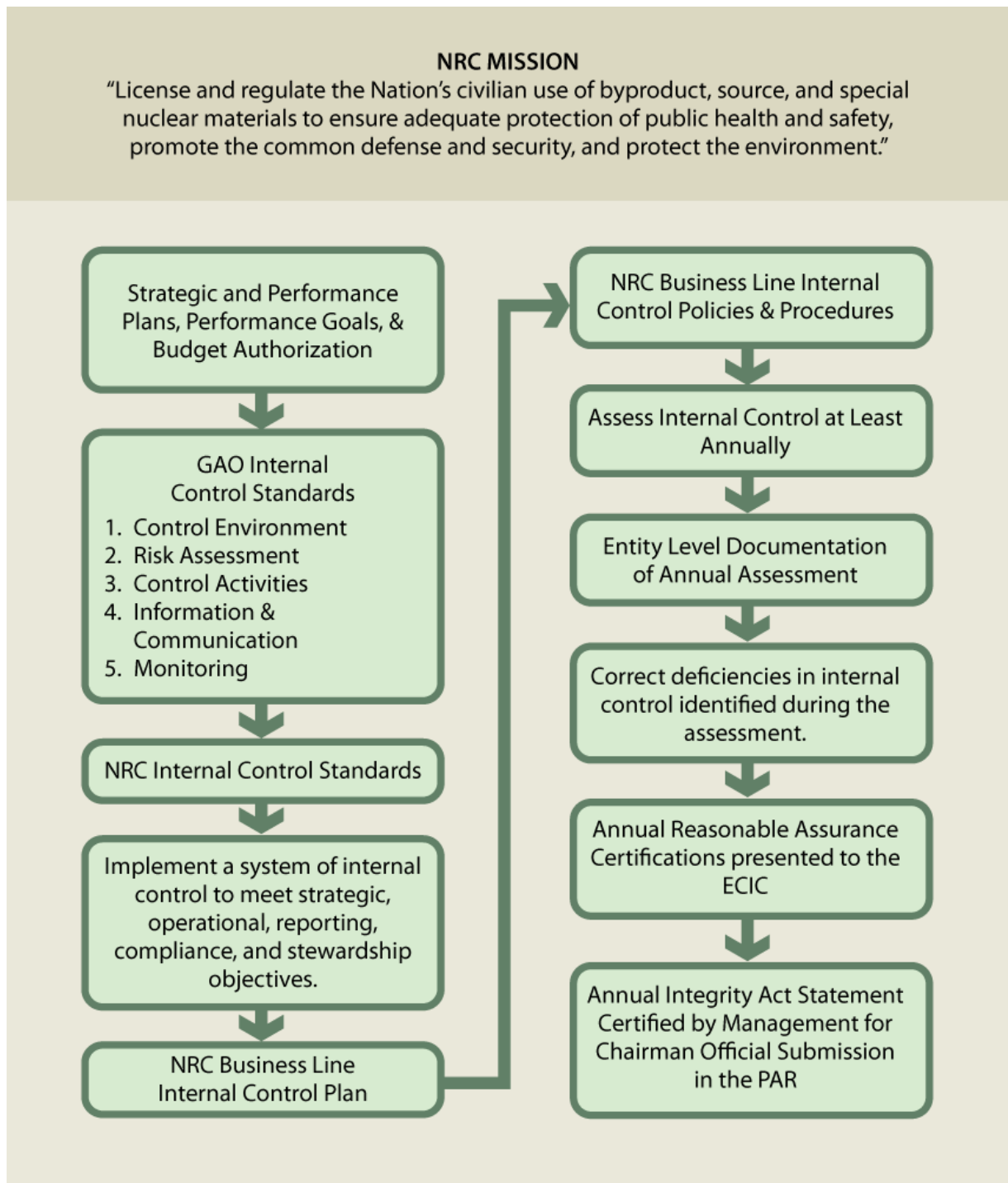
Figure 1   Overview of NRC Integrated Framework for Annual Reporting on Internal Control in the Performance and Accountability Report (PAR)

C. Five Standards for Internal Control

1. Five Standards Originally Issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission

   (a) COSO is a voluntary private sector organization dedicated to providing guidance to governance entities on the critical aspects of business ethics and effective internal control, risk management, fraud, financial reporting and corporate governance. It has defined internal control, standards, and criteria against which Governmental entities, companies, and organizations can assess their control systems.

   (b) Applicable to programmatic, administrative, and financial operations, these standards were originally issued by COSO (www.coso.org).

2. Five Standards Adopted by Government Accountability Office (GAO)

   (a) In November 1999, the GAO published five standards for internal control (standards). GAO based its standards on the "COSO Internal Control Integrated Framework." These standards define the minimum level of quality acceptable for internal control in Government and provide a basis against which internal control is to be evaluated.

   (b) ***NRC controls must follow the five GAO Standards.*** Specifically, the NRC program and financial processes identified in Sections III and IV of this handbook must follow the GAO standards.

      (i) GAO presents these standards in GAO/AIMD-00-21.3.1, "Standards for Internal Control in the Federal Government," November 1999.

      (ii) GAO further describes these standards in GAO-01-1008G, "Internal Control Management and Evaluation Tool," August 2001.

      (iii) These standards are also incorporated in the OMB Circular A-123.

3. GAO Standards at the NRC

   Managers must incorporate the GAO standards into their daily operations and assessment documentation. Figure 2 shows the GAO standards with NRC examples. A brief explanation of each of the five GAO Standards is provided as follows:

   (a) Control Environment

   The environment "sets the tone" of an organization, provides the discipline and structure, and is the foundation for all other components of internal control. It is

the organizational structure and culture created by management and employees to sustain organizational support for effective internal control. It includes—

  (i) integrity and ethical values,

  (ii) commitment to competence,

  (iii) NRC control environment structure,

  (iv) management's philosophy and operating style,

  (v) organizational structure,

  (vi) assignment of authority and responsibility, and

  (vii) human resource policies and procedures.

(b) Risk Assessment (RA)

  (i) OMB Circular A-123 states that management should identify internal and external risks that may prevent the organization from meeting its objectives.

  (ii) Identified risks should also be analyzed for their potential effect or impact on the agency.

(c) Control Activities

  (i) Control activities include policies, procedures, and practices that help ensure the agency is accomplishing its mission, goals, and objectives efficiently and effectively.

  (ii) Examples of control activities include the NRC Strategic Plan, Control Activities, performance plans, management directives, office procedures, regional instructions, and office guidance memoranda.

(d) Information and Communications

  (i) The NRC control structure must provide for the identification, capture, and exchange of information both within the agency and with external parties.

  (ii) Accurate information communicated in a timely manner is, therefore, the focus of this standard of internal control.

(e) Monitoring

(i) Monitoring should occur in the normal course of business.

(ii) A systematic process should be in place for addressing deficiencies.

(iii) Deficiencies found in internal control should be reported to the appropriate personnel and management responsible for that area.

(iv) Findings of audits and other reviews are promptly resolved.

Control Environment	Risk Assessment	Control Activities	Information and Communications	Monitoring

• Compliance with Laws and Regulations
 	
• Management's Strong Commitment to Integrity and Ethics and Maintaining Ethical Tone
 	
• Management's Strong Support of Employees Raising Safety Concerns (Safety Culture)
 	
• Management's Commitment to Staff Competence (Recruiting, Hiring, Evaluating and Retaining Competent Staff; Robust Training Program; Selecting Competent Contractors)
 	
• Adequate Space, Building Infrastructure and Computer Capabilities
 	
• Management Appropriately Addresses Concerns from External Stakeholders
 	
• Appropriate Perspectives on Risk-Taking By Evaluating Costs and Benefits
 	
• Appropriate Policies and Procedures for Safeguarding Assets and Information
	• Establishment and Communication of NRC Strategic Goals and NRC Office and Program Goals and Objectives
	
	• Clear Relationship Between NRC Strategic Goals and Objectives and Those of NRC Offices and Programs
	
	• Identification of Program Goals and Objectives that are Critical to Ensure Success of NRC Goals and Objectives
	
	• Mechanisms or Processes to Evaluate and Manage Appropriate Level of Resources Commensurate with Program Goals and Objectives (e.g., NRC Internal Control Risk Assessment)
	
	• Mechanisms or Process to Identify and Evaluate Risks to NRC and Program Goals and Objectives and Establish Appropriate Corrective Actions (e.g., NRC Internal Control Risk Assessment; Other Program Office Self-Assessments)
		• Establishing and Maintaining Up-To-Date Management Directives
		
		• Appropriate Policies, Procedures, Techniques, and Mechanisms that Implement Management Directives (e.g., Yellow Announcements, Office Instructions, Inspection Procedures, etc.)
		
		• Management and Staff Understanding on Their Responsibility for Internal Control over Programmatic Operations (e.g., Internal Control Training, Yellow Announcement on Internal Control)
		
		• Periodic Reviews of the Relevance of Policies, Procedures, Techniques, and Mechanisms that Implement Management Directives (e.g., Office Assessments)
		
		• Effective Performance Monitoring and Improvement Plans (e.g., Performance Plans, Performance and Accountability Report, etc.)
			• Internal Communication of Information Critical to Achieving Program Goals and Objectives Up Through Various Management Levels in Timely Manner (e.g., Various Meetings; Face-To-Face Communication; Email)
			
			• Verbal and Written Communications are Relevant, Consistent and Distributed to Right People in the Right Form with Appropriate Level of Detail
			
			• Clear and Effective Internal Communication Occurs Bottom-Up and Top-Down Relative To:
			  – Program Performance and Procedural Issues;
			  – Program Risks;
			  – Major Initiatives;
			  – Changes to Program Goals and Objectives in Management Expectations;
			  – Employee Duties and Performance
			
			• Clear and Effective External Communication Occurs with Congress, External Stakeholders, Members of the Public, Office of the Inspector General (IG), Other Governmental Agencies
				• Strategy to Ensure that Ongoing Internal Control Monitoring Is Effective and Will Trigger Separate Evaluations Where Problems Are Identified or Systems Are Critical and Testing Is Periodically Desirable (e.g., Management Review of 5 Year Internal Control Plan (ICP))
				
				• Monitoring Strategy Includes: Methods to Emphasize Program Manager and Staff Responsibility for Internal Control; Identification of Critical Operational and Mission Support Systems; Periodic Evaluation of Control Activities
				
				• Managers Obtain Information About Whether Internal Control Is Functioning Properly
				
				• Communications from External Parties Should Corroborate Internally Generated Data or Indicate Problems with Internal Control

Figure 2   Government Accountability Office Standards (With NRC Examples)

D. NRC's Federal Managers' Financial Integrity Act (FMFIA or the Integrity Act) Statement

1. An effective internal control program will serve as management's basis for the NRC Annual Integrity Act Statement. The NRC promotes the continuous monitoring of internal control as part of the daily program duties. Monitoring will strengthen management accountability and enhance and improve program performance and operations.

2. The Chairman's reasonable assurance certification on the adequacy of internal control and conformance of financial systems with Government standards is included in the annual NRC PAR.

3. Each year, NRC Business Line Managers prepare a reasonable assurance certification to verify the following objectives:

   (a) Programs and operations achieve their intended results.

   (b) Resources are used consistent with the agency's mission.

   (c) Programs and resources are protected from waste, fraud, and mismanagement.

   (d) Laws and regulations are followed.

   (e) Reliable and timely information is obtained, maintained, reported, and used for sound decisionmaking.

4. NRC Business Line Managers prepare reasonable assurances certifications (submitted to the Chief Financial Officer (CFO)) to support the Chairman's reasonable assurance certification. The Office of the Chief Financial Officer (OCFO) annually issues the guidance on office and region assurance certifications.

5. The request for preparation of the reasonable assurance certifications normally begins when the CFO transmits a memorandum to the NRC Business Line Managers. This memorandum explains the assurance process and assigns the due date for submitting reasonable assurance certifications to the CFO, which is after the end of the fiscal year.

6. NRC Business Line Managers must document the basis for their assurance, sign and date their certification (on or after October 1), save the signed certification in the designated Agencywide Documents Access and Management System (ADAMS) folder, and transmit the reasonable assurance certification along with the ADAMS accession number to the CFO.

7. All NRC managers are required to continuously monitor, evaluate, and improve the effectiveness of internal control associated with their programmatic, administrative, and financial activities. Therefore, NRC Business Line Managers must consider the annual assurance certifications provided by partner offices and regions.

8. As submitted to the CFO, the reasonable assurance certification represents the NRC Business Line Managers' informed judgment as to the overall adequacy and effectiveness of internal control within their organization as of September 30 (the end of the fiscal year).

9. In collaboration with the Office of the Executive Director for Operations (OEDO), OCFO performs the following:

   (a) Reviews each assurance certification and its supporting documentation.[1]

   (b) Summarizes significant weaknesses the Executive Committee on Internal Control (ECIC) should consider (if any).

   (c) Prepares briefing material for the ECIC.

5. Under the direction of the CFO, a Senior Assessment Team (SAT) directs the assessment of internal control over financial reporting.

6. Under the direction of the Executive Director for Operations (EDO) and the CFO, the Programmatic Senior Assessment Team (PSAT) directs the assessment of internal control over programmatic operations.

7. The Programmatic Internal Control Program Manager and the Internal Control Working Group (ICWG) assist and make recommendations to the PSAT and SAT.

8. Working with the offices represented by the SAT, the OCFO coordinates the annual assurance statement on the effectiveness of internal control over financial reporting.

9. The ECIC may meet throughout the fiscal year. However, it typically meets in October to provide the Chairman with a recommendation for the agency's FMFIA Statement. During this meeting, the CFO presents the following:

   (a) findings associated with internal control over program operations, financial reporting and financial systems, and

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[1] These certifications become part of the briefing material, which is reviewed by the ECIC.

(b) a synopsis of all reasonable assurance certifications submitted by office directors and regional administrators, along with their concerns.

10. The ECIC also has an opportunity to present items not included by the CFO, office directors, or regional administrators. Based on the results of its meeting, the ECIC agrees on a recommendation to the Chairman.

11. The OCFO and the OEDO finalize a memorandum to the NRC Chairman outlining the reasonable assurance process and documenting the recommendation for the reasonable assurance statement.

12. See Sections II.E, II.F, and II.G, respectively, of this handbook for a description of the ECIC, SAT, and PSAT.

E. Executive Committee on Internal Control (ECIC)

1. The ECIC is the executive body that advises the Chairman on whether there are any internal control deficiencies that are serious enough to report as material weaknesses to the President and the Congress. The ECIC has the following roles and responsibilities that OMB Circular A-123 designated to be performed by a "Senior Management Council":

   (a) Establish accountability for the internal control assessment process within NRC.

   (b) Approve the NRC assessable unit (AU) structure.

   (c) Direct the development and implementation of each office's or region's ICP.

   (d) Approve the agencywide 5-Year ICP annually.

   (e) Conduct quarterly reviews of follow-up audit findings and corrective action plans (CAPs) in conjunction with the quarterly reviews of each office and region's performance plan, as determined by the ECIC.

   (f) Assign appropriate priorities to planned evaluations.

   (g) Review reasonable assurance certifications from Business Line Managers to assess the status of the agency's internal control.

2. The ECIC comprises of the following members:

   (a) the EDO (chairs the ECIC),

   (b) the CFO (co-chairs the ECIC),

   (c) the Deputy CFO,

(d) the three Deputy EDOs, and

(e) the OEDO Assistant for Operations.

3. The General Counsel and the IG serve as advisors, and the IG observes the process and issues an annual report.

F. Senior Assessment Team (SAT)

1. The NRC established an SAT under the direction of the CFO to direct the assessment of internal control over financial reporting.

2. The members of the SAT are designated by the CFO and include executives from areas responsible for maintaining controls over key processes that feed information to the financial statements.

3. The SAT provides oversight and accountability for the NRC internal control over financial reporting, and helps create an environment from top down that promotes strong internal control.

4. In accordance with OMB Circular A-123, Appendix A, the SAT has the following roles and responsibilities:

(a) Ensures assessment objectives for internal control over financial reporting are clearly communicated throughout the agency.

(b) Ensures the assessment is carried out in a thorough, effective, and timely manner.

(c) Ensures adequate funding and resources are made available for the assessment.

(d) Identifies staff and procure contract support to perform the assessment.

(e) Determines the scope of the assessment (i.e., financial reports and programs/activities covered by the assessment) and the process that impact those reports.

(f) Determines the assessment design and methodology.

(g) Ensures documentation of assessment design methodology and results are adequate.

(h) Ensures NRC and contract staff receive adequate training to conduct the assessment.

(i) Analyzes testing results.

       (j) Reports on the results of the assessment.

       (k) Monitors corrective actions.

G. Programmatic Senior Assessment Team (PSAT)

1. The PSAT, under the direction of the EDO, has the aforementioned roles and responsibilities for program operations, minus the oversight of financial reporting.

2. The EDO designates the members of the PSAT.

H. Programmatic Internal Control Program Manager

The Programmatic Internal Control Program Manager and staff are designated by the CFO. The Program Manager has the following responsibilities:

1. Drafts the overall framework and charter for the Programmatic Internal Control Program.

2. Drafts and updates the PSAT and ICWG Charters and maintains lists of PSAT and Internal Control Working Group members.

3. Prepares the agenda for the PSAT and Working Group meetings.

4. Documents PSAT and Working Group meeting minutes.

5. Establishes lines of communication between the CFO, PSAT, Working Group, contract staff, and the IG.

6. Prepares programmatic internal control briefings, monitors the schedule of the internal control contractor; as well as action items from the PSAT and Working Group.

7. Drafts programmatic internal control and reasonable assurance guidance for CFO approval.

I. Internal Control Coordinator (ICC)

1. The role of the ICC is to plan, direct, and control the evaluation process. NRC employees retain primary responsibility for program operating performance.

2. The ICC should be a senior staff with clear authority, delegated from the office director or regional administrator, to establish and oversee effective internal control processes.

3. Each ICC has the following responsibilities:

   (a) Ensures the standardization of information.

   (b) Oversees the tracking of processes across their office or region.

   (c) Leads the review of internal control within the office or region.

   (d) Prepares the internal control plans and reasonable assurance certifications for signature.

   (e) Recommends corrective actions, as necessary.

4. NRC is mandated by law to meet the requirements of all applicable laws related to FMFIA and audit requirements.

5. An annual audit is required of all executive-level agencies, subject to the following regulations:

   (a) the Chief Financial Officers Act of 1990 (CFO Act),

   (b) the Government Management Reform Act of 1994, and

   (c) the Accountability of Tax Dollars Act of 2002.

J. At a Glance – NRC's Timeline of Reasonable Assurance Assessment Activities

1. NRC Business Line Managers are required to submit a reasonable assurance certification annually.

2. The reasonable assurance certifications provide the basis for the Chairman's statement to the President and the Congress. The reasonable assurance certifications provide a report on the following:

   (a) whether there is reasonable assurance that the agency's internal control is achieving their intended objectives, and

   (b) whether there are any material weaknesses in the agency's controls.

3. The general timeframe of key NRC assessment activities and the required coordination for the process are presented in Figure 3. Note: Figure 3 is not intended to be an exhaustive analysis of NRC activities but rather an overview of agency events. A timeline will be included in the reasonable assurance process guidance each fiscal year.
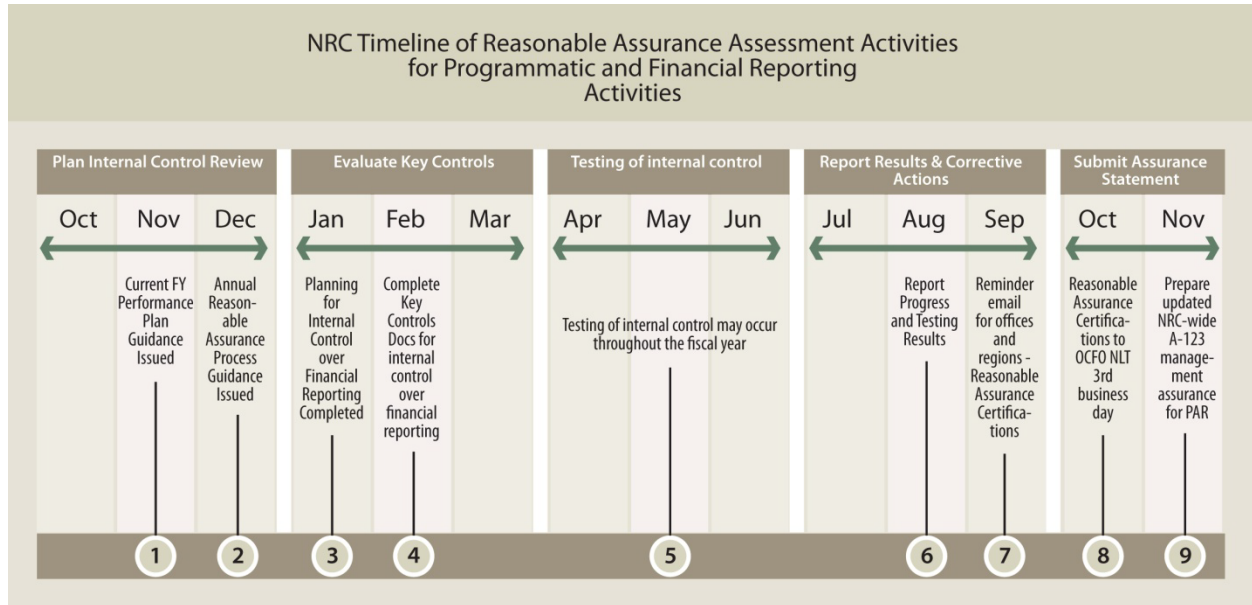
Figure 3   NRC Timeline

III. ASSESSMENT OF INTERNAL CONTROL OVER PROGRAM OPERATIONS (NON-FINANCIAL)

> **The FMFIA encompasses accounting and administrative controls. Such controls include program, operational, and administrative areas as well as accounting and financial management.**
>
> *OMB Circular A-123*

A. Overview

1. There is no single prescribed methodology for conducting an evaluation of internal control. As programs, services, and technology naturally evolve, the NRC must continually develop, implement, and update specific control activities.

2. In such a continuous changing environment, the NRC must periodically and systematically assess internal control and all supporting control activities.

3. The NRC has already adopted one of several Risk Assessment (RA) models. The model generally involves an assessment of program controls, as well as fiscal controls.

4. A plan to evaluate programmatic internal control, using a five-step approach is referenced in Section III, Figure 4, of this handbook.

5. NRC Business Line Managers will recommend key processes which the ECIC will approve.

Step 1	Step 2	Step 3	Step 4	Step 5
Plan, Develop and Update Internal Control Plan (ICP)	Conduct Risk Assessment and Evaluate Key Controls	Test Program Controls	Report Results and Take Corrective Actions	Submit Assurance Statement

Figure 4   Five-Step Approach to Evaluate Programmatic Internal Control

B. Step 1 - Plan the Overall Process, Develop, and Update Internal Control Plan (ICP)

1. The OEDO provides guidance to NRC Business Line Managers on developing performance plans and performance reports.

2. Performance Plan

   (a) The performance plan is a management tool by which NRC Business Line Managers monitor the performance of their programs, projects, activities, and resources.

   (b) Performance plans for each fiscal year are submitted annually to the OEDO as the baseline document for their activities.

   (c) The performance plan is the summary of activities that structure the baseline workload for a business line to accomplish the NRC Strategic Plan goals and strategies.

   (d) NRC partner offices and regions shall follow similar actions to document and monitor performance.

3. Internal Control Plan (ICP)

   Each NRC Business Line Manager will develop the ICP for the Business Line. The ICP is an executive summary of the office's or region's approach to implementing an effective internal control program. It should include internal control related to programmatic, administrative, and financial operations. The ICP serves as the first resource for the ICCs to document the organizational control activities. It also provides a vehicle for tracking required corrective actions, and may take any form, but must identify the key elements identified below.

   (a) Introduction

      (i) This section of the ICP should identify NRC Business Line key staff and their responsibilities for providing technical support and assistance.

      (ii) The introduction should also identify other internal control contacts or team members. A brief narrative should address:

         • the type and frequency of internal control evaluations (i.e., self-assessment, independent program evaluation, Business Process Improvement review, and the Office of Inspector General (OIG) audit),

         • the commitment to maintaining effective internal control, and

- how recommendations for improvement are managed, including those based on the findings of the OIG and other Federal auditors, if applicable.

(b) Agency Mission

This section of the ICP states the NRC Business Line's mission and mandate and cites applicable statutory references.

(c) Organizational Structure

This section of the ICP includes the names and titles of executive management and discusses agency programs, the number of employees, and the organization's internal plan.

(d) Management's Key Internal Control Concepts

This section of the ICP discusses the key internal control concepts, philosophies and actions already being performed by the office or region that significantly strengthen the agency's overall control environment. Note: It's very important that management captures all key concepts and activities to avoid duplication of efforts.

(i) The NRC Business Line's governance documents are incorporated into this section of the ICP.

(ii) The ICP also includes an inventory of the office's and the region's AUs, along with assigned risk ratings. (See Section III.C of this handbook for "Conduct Risk Assessments and Evaluate Controls.") The inventory of the office and region assessable risks include the following:

- the name of the AU manager and ICC;

- the type and year of prior internal control reviews (ICRs), self-assessments, independent program evaluations, audits; and

- a schedule of planned reviews (i.e., interval evaluations that will be conducted within a specified 5-year timeframe).

4. Performance and Accountability Report (PAR)

The PAR provides the following:

(a) extensive information about NRC mission, goals, programs, performance measures, and recent financial statements, and

(b) a sound background for understanding key elements of NRC and its mission that affect risk and the design of internal control.

5. Other Considerations

When classified activities are included in the ICP, special arrangements may be made with the ECIC Chairman and Co-Chairman regarding the activities in question in order to protect the evaluation process and the classified materials.

(a) Reporting of these activities is managed on a need-to-know basis.

(b) All documentation resulting from an evaluation must be kept by the responsible organization for the classified activities.

C. **Step 2 - Conduct Risk Assessments and Evaluate Controls**

1. A "risk" is anything that endangers the achievement of an objective.

2. The second internal control component of the GAO framework is the process used to identify, analyze, and manage potential risks. Risk identification methods may include:

(a) qualitative and quantitative ranking activities,

(b) issues identified during management conferences or meetings,

(c) forecasting and strategic planning, and

(d) consideration of previous audit findings.

3. In attempting to identify risk, managers need to ask the following two questions:

(a) What could go wrong?

(b) Which assets do we need to protect?

4. A risk assessment (RA) is a comprehensive screening process for the identification of potential problems or risks from both internal and external sources.

5. Risks may or may not require corrective actions. For example, a risk category assessed at a low level would not require corrective action if the cost of implementing the corrective action would significantly exceed the cost of the associated risk.

(a) The assessment is critical to determine the following:

(i) any risk level changes in the organization from one period to another or as the result of program or statutory changes, and

(ii) if existing or previously completed corrective actions should be revised if the risk has not been minimized or it has increased.

(b) The AU manager[2] is responsible for conducting RAs and analyzing potential risks associated with their program areas (see Section III.C.7 of this handbook).

(c) RAs should identify internal and external risks that may prevent the organization from meeting its objectives.

6. The RA is the second critical step in a standardized process that should be updated whenever the AU is impacted by changes affecting risk or controls to support the reasonable assurance certification. See Section VII of this handbook for a definition of AU.

7. AU Manager

(a) The responsible AU manager will respond to the guidance.

(b) The RA ratings for each AU and the overall RA rating will be the baseline documentation used to determine the areas that will be reviewed and the frequency of the review.

(c) Generally, high risk activities will be reviewed more frequently.

(d) Low risk activities will be reviewed once every 3 - 5 years.

8. Establish AUs and Identify Responsible Manager

(a) An AU is:

(i) referred to as an internal control area, and

(ii) a subdivision or component part of a program or administrative function that can be assessed for risks.

(b) In order to provide a consistent framework for assessing internal control, NRC's Budget Structure Business Line is segmented into AUs.

(c) All NRC programs, functions, and major activities must be included in the AUs to allow for a meaningful evaluation of internal control.

(d) Internal control within each AU must be documented. To the extent possible, offices should align their product lines, organizational components, and performance plans to align within the budget structure.

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[2] Assessable Unit (AU) manager is synonymous with the NRC Business Line Manager.

(e) Each office may segment its internal control responsibilities along organizational, functional, or programmatic lines at the discretion of the AU manager. Specific guidance may be issued by the CFO or EDO.

(f) The goal is to ensure that all organization's functions or activities are included in an AU.

9. Cross-Cutting AU

There will be agency programs and functions that cut across organizational boundaries, e.g., contracting, research, budget formulation and execution, and support to various technical programs.

10. Example of Proper Risk Assessment

(a) If a purchase card program were being assessed, identifiable risks might include:

(i) Purchase cards could be used for unauthorized purchases.

(ii) Purchase card holders could spend above their maximum purchase card limits.

(iii) Purchase cards could be lost or stolen.

(b) A programmatic risk could be a contract deliverable received so late that the project's results could not be factored into a technical decision.

11. AU Managers Assign Level of Risk

(a) AU managers are responsible for assigning the level of risk for the programs within their AU.

(b) After assigning the risk levels, AU managers then consider the control activities (i.e., regulations, procedures, business process improvements) for mitigating those risks.

(c) Based on this analysis, a risk level would be assigned.

(d) The OCFO and the OEDO will provide specific guidance on conducting the RA in a memorandum annually or when needed.

12. Internal Control Documentation

(a) AU managers interview and involve other senior operational managers in order to document key controls. This section, III.C.12, documents the following:

(i)   the types and the flow of program operations, and

(ii) the persons involved in program operations and the related control features, such as reviews and approvals, and measures to assess program performance.

(b) The OCFO and the OEDO will provide specific guidance to NRC Business Line Managers on internal control documentation requirements. The documentation may include specific templates and formats, such as:

(i)   checklists,

(ii) questionnaires,

(iii) flow charts,

(iv) narratives, and

(v)   software packages.

(c) AU mangers initially focus on key processes and key check points. With each successive review, more details can be added.

(d) The ICC should request the AU to make the following records available:

(i)   flowcharts,

(ii) policies and procedure manuals,

(iii) desk procedure manuals,

(iv) position descriptions,

(v)   business unit organizational charts, and

(vi) output reports.

D. Step 3 - Test Programmatic Internal Control

1. The third step in the Internal Control Process is to conduct internal control assessments. All control evaluations require appropriate tests of programmatic internal control. There are two types of control evaluations: Internal Control Review (ICR) and Alternative Internal Control Review (AICR).

(a) Internal Control Review

   (i) ICRs are detailed evaluations of the system of internal control used for a particular program, function, or activity, i.e., the organization's AU.

   (ii) ICRs help determine whether controls are adequate and are working as intended. If internal control is effective, the likelihood of fraud, waste, abuse, and mismanagement is minimized.

   (iii) Depending on the size and complexity of the program/function under review, the size of the review team, and other factors, ICRs take various timeframes to complete.

(b) Alternative Internal Control Review (AICR)

   (i) AICRs are systematic examinations of processes and operations to determine their level of performance against established goals, performance measures, customer satisfaction ratings, and/or obligations.

   (ii) AICRs accomplish many of the same objectives as ICRs.

   (iii) Examples of AICRs include:

- evaluation or performance audits,
- Government Performance and Results Act (GPRA) reports,
- GAO reviews,
- OIG products,
- OCFO reviews or evaluations,
- accreditation reports,
- Business Process Improvement assessments,
- Agency Action Review Meetings,
- Integrated Regulatory Review Service Reports,
- Integrated Materials Performance Evaluation Program Reports, and
- Lessons Learned Oversight Board Reports.

2. Modifications Affect Internal Control

   (a) The following modifications of an organization will affect internal control:

       (i)   reorganization,

       (ii) realignment, or

       (iii) any other event that might make existing internal control unnecessary or require additional internal control over new activities.

   (b) Modifications will trigger the need for an assessment of internal control in the portion of the organization affected by the modification. The assessment should occur as soon as feasible within the fiscal year.

3. Techniques to Test Internal Control

   (a) NRC managers should use a variety of techniques to test internal control and gather evidence.

   (b) For example, an agency's "control environment" may be verified through—

       (i)   document reviews,

       (ii) employee surveys, and

       (iii) management inquiries.

   (c) For transaction-oriented controls, an employee focus group may be used to help identify the various control points in a processing stream and then perform a "walk-through" to test prescribed procedures against actual operations.

4. Testing Methods

   Staff may test internal control using the following methods:

   (a) Document analysis. Reviewing existing records, completed forms, or other documentation.

   (b) Transaction testing. Entering and processing transaction data through the system or tracing transactions through the system.

   (c) Observation. Watching the performance of specific control techniques.

   (d) Interview. Inquiring information from the staff that perform the control technique.

5. Required Testing

   (a) The amount of testing to be performed is a matter of judgment.

   (b) After performing some initial testing, the control team will draw a conclusion about the effectiveness of the internal control as a whole (not individual controls standing alone). Then the internal control team will determine the amount of required testing based on the following:

      (i) the team's assessment of the agency's overall control environment, and

      (ii) the significance of the business cycle, process or activity to the agency's mission.

6. Ensuring that Reviews are Conducted in Accordance with GAO Standards

   (a) The AU managers are primarily responsible for ensuring that all reviews are conducted in accordance with the ICP.

   (b) It is the ICC's primary responsibility to coordinate all efforts and ensure that the reviews incorporate principles outlined in the GAO Standards.

   (c) The internal control package in ADAMS (ML102790438) contains an assessment checklist for internal control that can be used as additional guidance through the review process.

E. Step 4 - Report the Results and Take Corrective Actions

1. The next step is for NRC managers to evaluate their findings and determine whether existing internal control is sufficient to manage the risk. OCFO will issue guidance annually on how to report results and take corrective action.

2. AU managers will:

   (a) make certain to confirm findings, evaluations, and recommendations by discussing them with appropriate staff, management, PSAT, Working Group, and the ECIC, and

   (b) work with the ICC to develop CAPs and submit a schedule for completion for problem areas to the Programmatic Internal Control Program Manager.

3. In coordination with the ICC, PSAT, and Working Group, the AU managers should document all findings and recommendations in a written report that is presented to the CFO, EDO, and the Programmatic Internal Control Program Manager. The report should include recommendations for improvements and

identify any redundant processes or internal control that should be modified or eliminated, including modifications to the CAPs and associated schedules. At a minimum the report should include:

(a) a statement describing management's responsibility for establishing and maintaining internal control,

(b) a statement of the framework or criteria used to evaluate the effectiveness of internal control,

(c) a statement about the inherent limitations of the existing internal control program,

(d) a statement on the overall effectiveness of internal control in the AU, including disclosure of any significant or internal control deficiencies identified,

(e) a summary of the steps the AU manager plans to take to correct any reported deficiencies and the estimated dates of completion, and

(f) comments on control weaknesses identified in prior reports, including the following:

   (i) whether the weaknesses have been corrected, and

   (ii) whether the new policies and/or procedures have been in place for a sufficient period of time to determine if they are operating effectively.

4. NRC managers should continuously monitor, evaluate, and improve the effectiveness of internal control associated with 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, internal control as required by FMFIA.

5. AU managers will work with the responsible officials and staff to determine which deficiencies to correct based in part on the cost-benefit analysis. A CAP is a proposed sequence of actions to correct internal control weaknesses. The plan includes:

(a) Targeted milestones and completion dates for proposed corrections and progress to be monitored.

(b) Measurable indicators of compliance and resolution to assess and validate progress throughout the resolution cycle.

6. For weaknesses that are programmatic in nature, CAPs shall be developed, vetted through the PSAT, and forwarded to the ECIC for review. The PSAT shall review the plans quarterly to ensure that progress is being made toward resolution of the issue(s) requiring the plan.

7. ECIC will track corrective actions and their target dates, resulting from ICRs. The ECIC may decide to track corrective actions resulting from other reviews, such as management evaluations or reviews of other agency activities, if they have significant internal control implications. Corrective actions resulting from audit reports will be tracked in the agency's audit follow-up system described in MD 6.1, "Resolution and Followup of Audit Recommendations" and the OIG/GAO Liaison will share audit information with the ECIC, PSAT, and Programmatic Internal Control Program Manager to eliminate duplication of efforts. A CAP format is also outlined in MD 6.8, "Lessons-Learned Program."

8. A Corrective Action Review (CAR) is an examination used to verify that a CAP has been deployed and that these actions have corrected the reported weakness. CARs should be conducted approximately 1 year after a CAP has been implemented.

9. Within 6 months after the corrective action has been completed, the organization responsible for correcting the internal control deficiency will review the action to ensure that the intended results have been achieved and the necessary internal control is functioning properly.

10. If the organization determines that the 6-month period has been insufficient to evaluate the effectiveness of the corrective action, then a timetable for validation will be established. The validation process will be tracked, monitored, and reported in the same manner as the original corrective action.

11. Within 3 months after being advised that the corrective action has been completed, the ECIC will remind the office or region of the due date for the validation review.

F. Step 5 - Submit Assurance Statement

OCFO shall provide guidance for preparation of the assurance certification annually. See Section V of this handbook for an overview of assurance certification.

IV. ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING

> **Recent government-wide initiatives have also contributed to improvements in financial management and placed greater emphasis on implementing and maintaining effective internal control over financial reporting.**
>
> *OMB Circular A-123*

A. Overview

1. The revised OMB Circular A-123 includes, Appendix A, "Internal Control over Financial Reporting." To assist agencies with this effort, the Chief Financial Officers Council (CFOC) issued the Implementation Guide for OMB Circular A-123, "Management's Responsibility for Internal Control, Appendix A - Internal Control over Financial Reporting."

2. Appendix A —

   (a) Specifically addresses internal control over financial reporting (ICOFR).

      (i) ICOFR is a process designed to provide reasonable assurance regarding the reliability of financial reporting.

      (ii) The NRC OCFO leads and the administrative offices participate in the ICOFR process.

      (iii) See Section IV of this handbook for guidelines that are only required if an organizational unit has been notified by OCFO to participate in ICOFR process. OCFO will notify the offices via memorandum annually as to their participation on the ICOFR process.

   (b) Strengthens the requirements for conducting management's assessment of ICOFR and provides a methodology for agencies to follow in complying with OMB Circular A-123.

(c) Brings the CFO Act agencies very close to the COSO model by renewing a more intense focus on—

(i) documentation,

(ii) monitoring, and

(iii) reporting.

3. NRC's CFO serves as a member of the CFOC. The CFOC, mandated by the CFO Act, developed a guide to assist Federal agencies with their implementation of OMB Circular A-123, Appendix A. It has been adopted by the NRC as guidance in its efforts to comply with the requirements.

B. Scope of Financial Reports

1. At a minimum, the NRC will include the basic quarterly and year-end financial statements and disclosures in the annual assessments.

2. The report shall include:

(a) balance sheet which captures assets, liabilities, and net position components of the NRC,

(b) statement of net cost, which reports the NRC revenue and costs by the major programs based on the annual performance budget,

(c) statement of changes in net position presents changes in the financial position of the NRC due to the results of operations and unexpended appropriations,

(d) statement of budgetary resources provides information on budgetary resources available to the NRC and the status of those resources, and

(e) accompanying financial statement footnotes provides additional disclosures related to the annual statements and other specific NRC financial operations.

C. Implementation of Internal Control Over Financial Reporting – The Assessment Process

The Implementation Guide for OMB Circular A-123, "Management's Responsibility for Internal Control" (Implementation Guide) outlines a five step process for conducting an assessment of internal control over financial reporting. Discussed below are the attributes for each of the five assessment steps.

1. Step 1: Planning

   (a) OCFO's implementation of internal control over financial reporting commenced with planning. Planning includes—

      (i)   establishing an SAT (See Section II of this handbook),

      (ii) determining materiality levels,

      (iii) establishing key processes,

      (iv) assessing risk,

      (v)   planning the monitoring and testing approach, and

      (vi) developing standard documentation.

   (b) Some of these steps are initially completed with the assistance of a contractor.

   (c) To assess risk and to assist with determining testing plans for internal control over financial reporting, NRC considers the following types of risks:

      (i)   Inherent risk – the vulnerability of an activity to waste, loss, unauthorized use, or misappropriation because of the nature of the activity. Factors that influence the level of inherent risk are purpose and characteristics of the activity, budget level impact outside the agency, age and life expectancy of the activity, degree of decentralization, special concerns, prior reviews, and management responsiveness.

      (ii) Control risk – the risk that misstatements will not be prevented or detected by the agency's internal control (assessed separately for each significant financial statement assertion in each significant cycle or accounting application). See Section IV.B, "Scope of Financial Reports," of this handbook for the financial statement assertions.

      (iii) Combined risk – the likelihood that a material misstatement would occur (inherent risk) and not be prevented or detected on a timely basis by the agency's internal control (control risk).

      (iv) Fraud risk – the risk that there may be fraudulent financial reporting or misappropriation of assets that causes a material misstatement of the financial statements.

2. Step 2: Evaluating Internal Control at the Entity Level

    (a) The Implementation Guide for Internal Control over Financial Reporting states the following:

        (i) Entitywide level control can have a pervasive effect on the organization. This is a logical starting point in an overall assessment of effectiveness of internal control over financial reporting in any department or agency.

        (ii) Evaluation at the entitywide level can also provide information that will aide in determining the nature and extent of internal control testing that may be required at the transaction or process level.

        (iii) Consideration should be given to the five standards of internal control (control environment, RA, control activities, information and communications, and monitoring) that can have a pervasive effect on the risk of error or fraud.

    (b) With the oversight of the SAT, OCFO lead efforts to evaluate internal control at the entity level. However, efforts to understand key financial reporting processes and key controls are at the process level.

3. Step 3: Evaluating Internal Control at the Process Level

    (a) OCFO organizations work and continue efforts to—

        (i) understand key financial reporting processes,

        (ii) identify and update key controls,

        (iii) understand the control design,

        (iv) document key business processes and related key controls, and

        (v) work with OIS to understand the information technology infrastructure and associated risks.

    (b) Multiple tools are available for documenting key controls, to include:

        (i) organization charts,

        (ii) flowcharts,

        (iii) questionnaires,

        (iv) decision tables,

(v) policy or accounting manuals,

(vi) cycle or process memoranda, and

(vii) checklists.

4. Step 4: Testing at the Transaction Level

(a) Internal control over financial reporting requires testing at the transaction level. Management may take a risk-based approach in determining when to test key controls. Key processes may be tested every year to once every 5 years.

(b) Risk-based approach to testing requires that controls are stable, there are no known deficiencies, and controls will be tested at least every 3 years. The Implementation Guide outlines more specific criteria for testing control. Critical aspects of the risk-based criteria, as outlined in the Implementation Guide, include the following:

(i) there are no known weaknesses in the function of the control,

(ii) the control has been tested within the past 3 years, and

(iii) there have been no changes in the design or operation since it was last tested (e.g., change in personnel responsible for implementing the control).

(c) While testing key control procedures, it is also important to complete the following—

(i) prepare a test plan,

(ii) identify control gaps, and

(iii) document results.

(d) A testing technique is inquiry. Inquiry involves asking people if certain controls are in place and functioning. Testing by inquiry, however, does not provide sufficient evidence whether a control is functioning. It is the weakest type of testing technique. Other more substantive testing techniques, presented in order of assurance are:

(i) Inspection – Looking at evidence of a given control procedure (e.g., looking for signatures of a reviewing official or reviewing past reconciliations).

(ii) Observation – Observing actual controls in operation (e.g., observing a physical inventory or watching a reconciliation occur).

(iii) Performing – performing a given control procedure (e.g., recalculating an estimate or reperforming a reconciliation).

(e) Multiple factors are considered to determine how frequent to test a key control procedure. For example:

(i) Highly complex controls performed daily may be tested more frequently than less complex controls performed annually.

(ii) If the frequency of a key control procedure needs to be tested, see Section IV.C.1 of this handbook.

(iii) Ultimately, testing at the transaction level requires management judgment.

5. Step 5: Concluding, Reporting, and Correcting Deficiencies and Weaknesses

Management's judgment may be supported by results of testing. Control deficiencies may require the preparation of comprehensive CAPs which will be monitored by the SAT.

V. ASSURANCE CERTIFICATIONS, CHAIRMAN'S STATEMENT, AND INTERNAL REQUREMENTS

> **The statement of assurance represents the agency head's informed judgment as to the overall adequacy and effectiveness of internal control within the agency.**

A. Assurance Certifications and the Chairman's Integrity Act Statement

1. The NRC is required to provide a statement of assurance on the effectiveness of internal control over financial reporting as of June 30 of the fiscal year. NRC is also required to submit an overall statement of assurance as of September 30 of the fiscal year in accordance with FMFIA requirements. Both statements are combined in the "Federal Managers' Financial Integrity Act Statement" (FMFIA Statement or Reasonable Assurance Certification).

2. The ECIC is asked to recommend the FMFIA Statement during its meeting held after the end of the fiscal year (October). Once this recommendation occurs, OCFO prepares a memorandum and FMFIA Statement, which are signed by the CFO and EDO (as co-chairman of the ECIC) and then forwarded to the Chairman for review and approval. Following the Chairman's review and approval of the FMFIA Statement, the NRC publishes the FMFIA Statement in the agency's PAR, which is

issued every year in November. The reasonable assurance certification included in the PAR is required to include the following:

(a) A statement of management's responsibility for establishing and maintaining adequate internal control over financial reporting for the NRC.

(b) A statement identifying OMB Circular A-123, "Management's Responsibility for Internal Control," as the framework used by management to conduct the assessment of the effectiveness of NRC internal control over financial reporting.

(c) An assessment of the effectiveness of NRC internal control over financial reporting as of June 30 of the reporting year, including an explicit conclusion as to whether control over financial reporting is effective. The statement can be stated in the following form, as outlined by OMB Circular A-123:

    (i) Unqualified - No material weaknesses noted.

    (ii) Qualified - Material weaknesses were noted, but not pervasive.

    (iii) Statement of No Assurance - No assessment process is in place or noted material weaknesses were pervasive.

3. OMB Circular A-123 requires senior agency managers and the IG to provide input into the agency's reasonable assurance certification statement.

(a) The ECIC's recommendation to the Chairman on the statement (unqualified, qualified, or no statement of assurance) must describe the analytical basis for the type of assurance being provided, and the extent to which agency activities were assessed.

(b) If there is one or more material weaknesses, management is precluded from concluding that the agency's internal control is effective (unqualified statement of assurance).

4. NRC prepares the initial assurance statement for ICOFR as of June 30.

(a) Through the activities of the SAT, the NRC management spends July, August, and September addressing concerns identified as of June 30.

(b) This includes planning the procedures necessary to update the June 30 results. These procedures may entail the following:

    (i) validating corrective action(s) to remediate a reported material weakness, and

(ii) assessing the status of management and independent auditor testing of controls from the date of the assessment through the PAR issuance date to determine if any unreported material weaknesses exist.

5. In accordance with statutory guidance, the NRC is required to submit the PAR to OMB annually.

   (a) The PAR contains the Chairman's FMFIA statement, which includes information related to both Sections 2 and 4 of the FMFIA.

   (b) It is placed in the Chapter entitled, "Management's Discussions and Assurance" within the section labeled "Management Assurances."

   (c) NRC is required to submit the annual report to OMB within 45 days from the end of the fiscal year.

   (d) Copies of the report are also transmitted to the President and the Congress.

B. Reasonable Assurance Certifications from the NRC Business Line Manager

1. Individual reasonable assurance certifications (FMFIA Statements) from an NRC Business Line Manager provide the primary basis for preparing the Performance and Accountability Report. Assurance certification must be submitted to the CFO annually. The sources of information include:

   (a) business line's quarterly EDO performance reports and updates,

   (b) quarterly ICP updates, and

   (c) quarterly strategic plan and output measures updates.

2. Programmatic, administrative, and financial programs should be considered when signing the assurance certification.

3. The CFO and the EDO annually issue a formal request for the annual assurance certification to NRC Business Line Manager.

4. The assurance statement represents an NRC Business Line Manager's informed judgment as to the overall adequacy and effectiveness of internal control within his or her organization as of September 30.

   (a) Annual statements should not be signed prior to October 1.

(b) Issues arising late in the year should be included as a statement of fact in the reasonable assurance statement, with additional information included in the submission.

(c) The internal control package in ADAMS provides several examples of the NRC assurance statements.

C. Documentation Requirements

1. Written documentation of each RA conducted must be maintained in order to provide—

   (a) a permanent record of the methods used,

   (b) the staff involved and their respective roles,

   (c) key factors considered, and

   (d) conclusions reached.

2. Documentation must be maintained for use in subsequent ICRs and to provide an audit trail.

3. RA and all other internal control documents will be located in the office or region's internal control folder in ADAMS to ensure that overall program information and supporting documentation is centralized and easily retrievable.

4. Records and documentation will include the results of ECIC deliberation notes, annual Reasonable Assurance Statements and supporting analysis.

5. An internal control folder has been established in ADAMS as the repository for all documents relevant to the Internal Control process within the agency. All such documents will be added to ADAMS in accordance with the procedures presented in the ADAMS Desk Reference Guide. Each program office and region will have a designated sub-folder under the main root (IC) folder where documents will be further segregated by year.

6. The official ADAMS copy of all IC documents will be maintained consistent with the retention schedule established by the National Archives and Records Administration (NARA) and in accordance with NUREG-0910, "NRC Comprehensive Records Disposition Schedule," Revision 4, March 2005.

D. Training

1. Training on agency internal control policies and procedures developed by the OCFO, in conjunction with the OEDO, will be provided on an annual basis for all managers and for staff involved in conducting ICR or other internal control activities. This training will be managed by the Office of Human Resources and incorporated into the agency's Leadership Training Program. All managers and supervisors must complete this training to ensure that they have a clear understanding of their roles and responsibilities with regard to the implementation of internal control.

2. Web-based internal control training is available for all NRC staff via iLearn. The training is required for all new employees.

VI. ACRONYMS

ADAMS	Agencywide Documents Access and Management System
AICR	Alternative Internal Control Review
AU	Assessable Unit
CAP	Corrective Action Plan
CAR	Corrective Action Review
CFO	Chief Financial Officer
COSO	Committee of Sponsoring Organizations
ECIC	Executive Committee on Internal Control
EDO	Executive Director for Operations
E.O.	Executive Order
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers' Financial Integrity Act or the Integrity Act
GAO	Government Accountability Office
ICC	Internal Control Coordinator

ICP   Internal Control Plan

ICR   Internal Control Review

ICWG   Internal Control Working Group (A-123 Working Group)

IG   Inspector General

NRC   U. S. Nuclear Regulatory Commission

OCFO   Office of the Chief Financial Officer

OEDO   Office of the Executive Director for Operations

OIG   Office of the Inspector General

OMB   Office of Management and Budget

PAR   Performance and Accountability Report

PSAT   Programmatic Senior Assessment Team

RA   Risk Assessment

SAT   Senior Assessment Team

VII. DEFINITIONS

Agency Component

A major program or administrative activity, organization, or functional subdivision of the agency.

Alternative Internal Control Review (AICR)

A systematic evaluation of processes or operations to determine their level of performance against established goals, performance measures, customer satisfaction ratings, and/or obligations.

Annual Assurance Statement (Chairman's Integrity Act Statement)

An annual statement required by the Federal Manager's Financial Integrity Act of 1982 (FMFIA or the Integrity Act) that represents the Chairman's informed judgment as to the

overall adequacy and effectiveness of internal control within the agency. The statement reports the results of evaluations made on the agency's systems of programs, financial reporting, information technology systems, and administrative controls including any material weaknesses identified during the fiscal year and also updates corrective action progress made on existing material weaknesses. This statement is based upon a fiscal year, October 1 through September 30.

Annual Assurance Certification (Assurance Statement by an Office Director or Regional Administrator)

An annual certification which summarizes, as of September 30, an office/region's compliance with the requirements of the Integrity Act which relates to financial reporting and programmatic internal control. This certification is submitted through the office director or regional administrator to the Chief Financial Officer (CFO). The CFO or, in collaboration with the Executive Director for Operations (EDO) will review the certification and the supporting documentation. The certifications are provided to the Office of the Chief Financial Officer (OCFO) for consolidation into an agencywide assurance process and presented to the Executive Committee on Internal Control (ECIC). As a result of the annual ECIC meeting conducted in October, after each fiscal year, the CFO and EDO sign a memorandum to the Chairman recommending the agencywide Integrity Act Statement, which is included in the agency's annual Performance and Accountability Report (PAR).

Assessable Unit (AU)

A subdivision or component part of the agency's program or administrative functions with a single responsible manager that can be assessed for risk and allow for meaningful evaluation of internal control. The NRC has designated its Assessable Units to be NRC's Business Lines.

Combined Risk

The likelihood that a material misstatement would occur (inherent risk) and not be prevented or detected on a timely basis by the agency's internal control (control risk).

Control Activities

Documented activities that include policies, procedures, and mechanisms in place to help the agency meet its objectives, attain its goals, and accomplish its mission. Examples include; proper segregation of duties, physical controls over assets, proper authorization, appropriate documentation and access to that documentation.

Control Environment

The organizational structure and culture created by management and employees to sustain organizational support for effective internal control.

Control Risk

The risk that misstatements will not be prevented or detected by the agency's internal control (asessed separately for each significant financial statement assertion in each significant cycle or accounting application).

Corrective Action

Development and implementation of action(s) required to correct an internal control or a material weakness or a problem in an assessable unit (AU) and/or close an external recommendation.

Corrective Action Plan (CAP)

Statement of the corrective actions related to a weakness or recommendation, to include a responsible official, milestones toward completion of the action, metrics which measure progress and remediation, and dates when these milestones will be addressed. Corrective action plans (CAPs) are to be maintained by the office/region and the status reported quarterly or as otherwise directed.

Deficiency or Internal Control Weakness

The breakdown of internal control in a program or administrative activity that does not meet the criteria of a material weakness or significant concern but that must be corrected to prevent the possible occurrence of waste, loss, unauthorized use or misappropriation.

Documentation

Materials (written or computer-generated) that serve as evidence of an action, a decision, or a conclusion. Documentation is required for each step in the internal control process. For internal control purposes, documentation consists of written material of two types:

1. System Documentation

   System documentation includes policies and procedures, organization charts, manuals, memoranda, flowcharts and structure, operating procedures and administrative practices, and communication responsibilities and authorities for

accomplishing program and administrative activities. Such documentation should be required by management to effectively control operations.

2. Review Documentation

Review documentation shows the type and scope of management review, the responsible official, the pertinent dates and facts, the key findings, and the recommended corrective actions. Documentation is adequate if the information is understandable to a reasonably knowledgeable reviewer. The materials should be in a form that permits review by management.

Early Warning

A situation that may not rise to the level of a material weakness and that would not be reported to the President and the Congress, but is significant enough to be promptly reported to senior management, even though a corrective action plan (CAP) may not have yet been formulated.

Event Cycle

A series of related steps that constitute a distinct and separate process or activity within an agency component.

Executive Committee on Internal Control (ECIC)

The NRC senior management council, chaired by the Executive Director for Operations and co-chaired by the Chief Financial Officer, whose membership includes senior agency managers, that is responsible for assessing, monitoring, and providing general oversight of all agency internal control. The predecessor organization to the Executive Committee on Internal Control (ECIC) was the Executive Committee on Management Controls.

Function

One or more related program or administrative activities needed to achieve agency goals.

Federal Managers' Financial Integrity Act (FMFIA)

FMFIA directs the heads of Federal agencies to establish and maintain an effective internal control program and make an annual evaluation of their controls.

Fraud Risk

The risk that there may be fraudulent financial reporting or misappropriation of assets that causes a material misstatement of the financial statements.

General Control Environment

A term used to describe all aspects of the work setting that supports internal control. The general control environment can be thought of as a life support system for internal control. Management's overall attitude concerning internal control pervades the general control environment.

High-Risk Area

A material weakness, a combination of material weaknesses, or an issue area that is sufficiently serious to require continuing direction and oversight by the agency Chairman.

Inherent Risk

The vulnerability of an activity to waste, loss, unauthorized use, or misappropriation because of the nature of the activity. Factors that influence the level of inherent risk are purpose and characteristics of the activity, budget level impact outside the agency, age and life expectancy of the activity, degree of decentralization, special concerns, prior reviews and management responsiveness.

Inspection

Looking at evidence of a given control procedure (e.g., looking for signatures of a reviewing official or reviewing past reconciliations).

Internal Control

1. Internal control, in the broadest sense, includes not only the plan of organization but also the program, administrative, and financial controls adopted by management in order to meet its goals.

2. Internal control also includes processes for planning, organizing, directing, controlling, and reporting on agency operations. Internal control provides reasonable assurance that the agency is accomplishing its mission, goals, and objectives efficiently and effectively.

3. The three objectives of internal control are:

   (a) effectiveness and efficiency of operations,

   (b) reliability of financial reporting, and

   (c) compliance with applicable laws, regulations, and policies.

4. The safeguarding of assets is a subset of all of the three objectives listed above.

5. Internal control safeguards funds, property, and other resources against waste, loss, unauthorized use, or misappropriation.

6. When revenues and expenditures are properly recorded, then accounts can be properly prepared and reliable financial and statistical reports can be generated.

7. When properly implemented, internal control yields improvements in the following–

    (a) policy guidance,

    (b) program planning and execution,

    (c) compliance with laws and regulations,

    (d) resource management and utilization, and

    (e) prudent expenditure of funds.

Internal Control Coordinator (ICC)

A senior manager or technical assistant designated by the office director or regional administrator to oversee the office/region's internal control program.

Internal Control Objective

1. An internal control objective is a desired condition for a specific event cycle that:

    (a) reduces the potential for waste, loss, unauthorized use, or misappropriation within the event cycle, and

    (b) helps to ensure that a component's mission and functions and GPRA's goals and measures are accomplished.

2. An internal control objective is affected by factors such as—

    (a) budget constraints,

    (b) statutory and regulatory restrictions,

    (c) staff limitations, and

    (d) cost-benefit considerations.

3. The lack of achievement of a control objective does not necessarily indicate a deficiency in internal control.

4. Examples of control objectives are below:

(a) assuring that programs are effectively and efficiently managed,

(b) protecting resources from waste and unauthorized use, and

(c) assuring that efforts focus on priority needs.

Internal Control Plan (ICP)

1. An internal control plan is a brief written plan that summarizes the following:

(a) The agency's RAs.

(b) The agency's internal control evaluations.

2. The internal control plan provides reasonable assurance that controls are in place to adequately protect Government resources.

Internal Control Program

The internal control program defines the activities to be performed by NRC managers and is intended to achieve the following objectives:

1. Resources are used consistent with the NRC mission and the NRC strategic goals.

2. Programs, resources, and management activities are protected from fraud, waste, abuse, and mismanagement.

3. Costs are controlled and risks are sufficiently assessed and mitigated.

4. Laws and regulations are followed.

5. Best available and realistic information is obtained and used for decisionmaking.

6. Programs achieve their intended results.

7. Program review activities comply with Directive Handbook 4.4.

8. RAs, self assessments, audits, and other review activities actively engage management's attention and direction to correct any deficiencies and make improvements to internal control.

9. Internal control may not prevent or solve all operational issues. Reasonable assurance provides managers with a confidence level that sufficient actions were taken to help prevent adverse conditions.

10. Controls should provide early warning on deficiencies and/or procedures that may need to be modified in order to address problems before they escalate into significant agency losses. Internal control is important to ensure that what should happen does occur.

11. All NRC programs and services are entrusted with financial and other assets and are required to achieve the internal control objectives embodied in this directive.

Internal Control Review (ICR)

1. An internal control review is a detailed evaluation of a program or administrative activity to determine the following:

    (a) if programmatic internal control in operation is producing the intended results, and

    (b) if programmatic internal control is implemented in a cost-effective manner.

2. The purpose of an internal control review is to prevent or detect the occurrence of the following—

    (a) waste,

    (b) loss,

    (c) unauthorized acquisition or use of Government resources, and

    (d) misappropriation of Government resources.

Internal Control Standards

The standards developed by the General Accountability Office and published in "Standards for Internal Control in the Federal Government," November 1999. Implementation of the standards should be in accordance with this management directive and consistent with agency needs for sound cost-effective internal control systems.

Internal Control Techniques

The internal control processes and documents necessary to accomplish internal control objectives or to reduce risks to an acceptable level. Examples of internal control techniques include passwords to limit access to databases, written delegations of authority, technical reports, periodic supervisory reviews, comparisons of actual to planned results and segregating duties among several individuals.

Internal Control Weakness or Deficiency

The breakdown of internal control in a program or administrative activity that does not meet the criteria of a material weakness or significant concern but that must be corrected to prevent the possible occurrence of waste, loss, unauthorized use, or misappropriation.

Material Weakness: Financial Reporting

Reportable condition or combination of reportable conditions, that results in more than a remote likelihood that a material misstatement of the financial statements, or other significant financial reports, will not be prevented or detected.

Material Weakness: Integrity Act Overall

A reportable condition which the agency head determines to be significant enough to report outside of the agency. Such weakness would significantly impair the fulfillment of the agency's mission; deprive the public of needed services; violate statutory or regulatory requirements; weaken the safeguards against waste, loss, unauthorized use, or misappropriation of Government resources; or increase the conflict-of-interest level.

Observation

Observing actual controls in operation (e.g., observing a physical inventory or watching a reconciliation occur).

Office of Management and Budget Circular A-123

Office of Management and Budget Circular A-123, "Management's Responsibility for Internal Control," provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on internal control.

Performance and Accountability Report (PAR)

An annual report submitted by the head of the agency to the President and the Congress within 45 days after the end of the fiscal year. The report describes the agency's progress in meeting its strategic goals and outcomes and reports on the cost of achieving the agency's goals.

Performance Assessment Rating Tool (PART)

A diagnostic tool used to assess the performance of program activities systematically across the Federal Government and to improve program performance. It is intended to

improve program management and financial management in support of agencies overall internal control framework.

Performance Standards

Indicators that measure program activity against desired outcomes.

Reasonable Assurance

A managerial decision, based on available information that the internal control in place provides a satisfactory level of confidence that internal control objectives will be met. The standard of reasonable assurance prescribed by the Office of Management and Budget and the Government Accountability Office recognizes that the cost of internal control should not exceed the benefits derived and that errors or irregularities may occur and go undetected because of inherent limitations in internal control resulting from resource constraints, statutory and regulatory restrictions, and other factors.

Reportable Condition

Control deficiency or combination of control deficiencies that in management's judgment represent significant deficiencies in the design or operation of internal control that could adversely affect the organization's ability to meet its internal control objectives.

Review Team

Staff and/or contractors designated by the office/region to perform financial and program internal control reviews.

Risk

The likelihood or possibility of loss as well as the impact of such loss upon resources, both financial and non-financial.

Risk Assessment (RA)

A documented judgmental review of the susceptibility of a program or administrative function not achieving its internal control objectives to prevent waste loss unauthorized use or misappropriation in an efficient and effective manner. RA is a critical step in the process of determining the extent of controls.

Safeguard

An established procedure or action described in policy, directives, or memoranda that is designed to prevent or minimize waste, loss, unauthorized use or misappropriation in agency program and administrative functions and resources.

Segmentation

The subdivision of agency program and administrative functions into assessable units (see definition above) for the purpose of assessing the vulnerability and evaluating the internal control of each unit. The goal of segmentation is to develop an inventory of assessable units of an appropriate nature and size in order to conduct a meaningful review of the entire agency's program and administrative functions to determine the degree of risk associated with each assessable units.

Significant Concern

An internal control deficiency of significant importance to be reported to the agency Chairman and which could, if not corrected, develop into a material weakness.

Testing

A detailed examination of a selected number of transactions for a specific assessable unit to verify the effectiveness of internal control in operation by determining if they are, in fact, operating as intended, meeting the control objectives and reducing risks.

Validation

The process of ensuring that an internal control weakness has been corrected.

Exhibit

Exhibit 1   NRC Business Line Managers by Major Program

MAJOR PROGRAM	BUSINESS LINE	RESPONSIBLE LEAD OFFICE
Nuclear Reactor Safety	New Reactors	NRO
	Operating Reactors	NRR
Nuclear Materials and Waste Safety	Fuel Facilities	NMSS
	Spent Fuel Storage and Transp.	NMSS
	Nuclear Materials Users	FSME
	Decommissioning and LLW	FSME
Corporate Support	**Agencywide Infrastructure Product Lines**	
	Human Resources Mgt.	HR
	Outreach	HR
	Training	HR
	Administrative Services	ADM
	Acquisitions	ADM
	Financial Management	OCFO
	Policy Support	OCFO
	Information Management	OIS
	Information Technology	OIS

NOTE: OEDO/OCFO has chosen to treat the product lines under "Corporate Support" as business lines.