Nuclear Regulatory Commission (NRC)/Office of the Inspector General (OIG) Comments on the 2013 Exposure Draft – Standards for Internal Control in the Federal Government

General Comment:

The revised GAO Standards for Internal Control in the Federal Government (Green Book) clearly has more detailed information regarding management responsibilities on internal control and it aligns better with the Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control framework. However, the additional language to the revised Green Book considerably expanded the length of the guidance, making it more difficult for auditors to keep up with all the different requirements and guidance.

NRC/OIG's Answers to the questions in Page IV of the Exposure Draft

1. Is the hierarchy of components, principles, and attributes clearly explained?

    - Yes. The overview lays out the relationship between the tiers of information presented. However, the fourth level, the one below attributes, should also be named for ease of reading and for reference purposes. Are these items the application material? If the answer is yes, please include these items when the components are introduced and defined in Overview Section 2.

2. Are there any internal control concepts unique to the government environment that should be in the Green Book that are not currently included?

    - No.

3. Does the framework provide the necessary information to allow program managers to evaluate the internal controls for their programs?

    - Yes.

4. Does the Green Book provide adequate criteria for auditors?

    - Yes.

5. Are the requirements for management to design, implement, and operate an internal control system clear, understandable, and adequate?

    - Yes, the requirements are covered in the overview.

6. Is the evaluation of deficiencies discussion clear, understandable, and adequate?

    - Principle 17 and the Overview section contain a very thorough discussion of deficiencies.

7. Are the roles, divisions, and overlaps of responsibility for the oversight body, management, and personnel clear, understandable, and adequate?

    - Yes, that discussion is well-covered in the overview and principles 2 and 3.

8. Are the documentation requirements included in the Green Book clear, understandable, and adequate?

    - The sections highlighted on page 17 have clear, understandable, and adequate documentation requirements. However, GAO may want to give equal attention to documentation requirements for each of the five components of internal control. There are documentation requirements scattered throughout the document.

9. Is there a need for additional internal control implementation guidance? If so, what form should it take?

    - None that we can see at this time.

10. Is this Green Book written in such a way to allow state, local, and quasi-governmental entities, as well as not-for-profit organizations, to adapt it for their own use?

    - Yes, it is more generic to allow non-federal entities to more easily use the document. However, the tradeoff is that certain federal-specific concepts, such as GPRA, are not identified.

Comments from NRC/OIG staff:

1. It may be useful to some readers to clarify how the updated Green Book differs from the Committee of Sponsoring Organizations of the Treadway Commission's revision of its "Internal Control: Integrated Framework." It may also be useful to explain why the differences exist.

2. One major issue with the previous Green Book as a program analyst/auditor is that the unit of analysis has been described at the agency level. This has made it more difficult for analysts/auditors to extrapolate to lower (sub-agency) levels of analysis, right on down to the program level. As a result, both senior and lower-level program managers often express surprise that internal controls should apply at a sub-agency level, which further compounds the common auditor challenge of getting the auditee to accept internal control-based recommendations for less-than-agencywide/program-level audits. The newest draft version

appears to acknowledge this issue, but I think it could be made even more clear.

- It now repeatedly uses the word “entity” instead of “agency” throughout…a positive step. Yet “entity”—which first appears on page 1 of the Foreword—is never defined. Moreover, in some places, ”entity” and “organization” get used seemingly interchangeably (see, for example, page 9 and following pages, starting with section O2.14). This is reminiscent of the previous Green Book’s interchangeable use of the word “agency” and “organization.” I kept wanting “entity” to be defined as something that applies both organizational-wide and at a unit/function level….

- ….and the draft Green Book sort of delivers on that. Note the chart on page 9 and the text below it at O2.12 that states that internal controls applies to the entire organizational structure, including at the sub-entity division, operating unit, and function levels. Then, no more mention of those sub-entity structures, or the responsibilities of specific managers of those structures to carry out internal control activities.

3. I would have appreciated more guidance including a schedule illustrating the changes between the current and proposed Green Book instead of the information provided in “Enclosure I: Summary of Major Changes.” This revision represents a significant change in focus and emphasis. For those of us comfortable with the current Green Book, a cross-walk from the old to the new would have facilitated a more effective review. Without the crosswalk I spent some time ensuring that I could locate the new equivalent of concepts I routinely rely upon in the current version.

4. I note that there is an increased emphasis on fraud, segregation of duties, and external communication. I would appreciate some insight into the “why” behind these additions. It could be that the information is found in the COSO report, but if the Green Book is to be an effective stand-alone document, I would appreciate more discussion regarding the rationale behind the changes in the Summary of Major Changes.

5. The proposed changes to the draft represent a greatly expanded (81 page) source to provide management criteria for designing, implementing, and operating an internal control system and reinforce management’s accountability for internal control. We will miss the prior (20 page) “Green Book,” which represented a convenient “pocket guide” reference on standards for internal control.

6. The exposure draft has very little discussion about “alternative control activities.” The draft should, as a minimum, contain some discussion and examples (without being too prescriptive) on what management should do if there isn’t enough staff or other circumstances to segregate incompatible duties. Therefore, we propose the following language for inclusion in the draft:

- Some areas, by virtue of their size, are not able to implement basic controls such as segregation of duties without an unreasonable expenditure of funds, e.g., costs of the control exceed the benefit of segregating the duties. In these instances, it is important that management institute compensating controls to cover for the lack of a basic control. Compensating controls protect employees and the entity.

- Compensating controls are obviously less desirable than the segregation of duties internal control because these types of controls generally occur after the transaction is complete. Also, it generally takes more resources to investigate, correct errors, and recover losses than it does to prevent them in the first place.

Technical comments:

1. Page 6 "monitoring" bullet. GAO should qualify monitoring to state that it may be continuous or periodic. We often have a finding element (usually cause or condition) that has to do with a lack of monitoring. Have something to tie it back to with regard to how often monitoring should be done would be helpful. In addition, we would like to see something that the monitoring is being recorded or tracked so that there is evidence of how frequently it is performed. Ongoing monitoring is first used in section 16.

2. Page 30 section 4.08. Unclear what "conduct procedures" means? Perhaps “develop and implement procedures” would work better?

3. Page 30 section 4.08 should establish whether mentoring should be informal, formal, or both. Also there does not appear to be any language regarding development programs.
4. Page 32 section 5.02: What is an "excessive pressure?" Excessive is subjective and not defined. Suggest clearer definition of what is meant by "excessive pressure" as it is repeatedly used in document heretofore. (see section 5.10 and 8.07 also)

5. On document page 3 it states: “We have clearly marked the requirements for the Green Book through the use of “must” and “should.’” However, a search of the document shows only one other use of “must” on document page 5. Suggest for clarity that you either delete the first reference to “must” or increase the use of “must” in the document.

6. Paragraph 02.22: The first sentence of this paragraph states, "In the government sector, objectives related to compliance with applicable laws and regulations can be more significant than in the private sector." This sentence should be deleted. The comparison of compliance objectives in the government sector to those in the private sector seems unnecessary.