



Office of the Inspector General

Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902-1401

Richard W. Moore  
Inspector General

June 29, 2006

The Honorable Hubert T. Bell  
Inspector General  
U.S. Nuclear Regulatory Commission  
Mail Stop T5-D28  
Washington, DC 20555

Dear Mr. Bell:

REPORT ON THE EXTERNAL QUALITY CONTROL REVIEW OF THE U.S. NUCLEAR  
REGULATORY COMMISSION'S INSPECTOR GENERAL AUDIT ORGANIZATION

This report presents the results of our External Quality Control Review of the U.S. Nuclear Regulatory Commission's Inspector General Audit Organization conducted in accordance with the President's Council on Integrity and Efficiency guidelines. Your response to the draft report is included as Enclosure 2 with excerpts and our position incorporated into the relevant sections of the report.

We agree with your proposed corrective action to our suggestion. We thank you and all of your staff that we dealt with for your assistance and cooperation during the conduct of the review. We commend you for having such a professional and talented audit staff.

If you have any questions, please have your staff contact Ben R. Wagner,  
Assistant Inspector General, Audits and Inspections, at (865) 632-6309.

Very truly yours,

Richard W. Moore

Enclosures



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June 29, 2006

The Honorable Hubert T. Bell  
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U.S. Nuclear Regulatory Commission  
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Washington, DC 20555

Dear Mr. Bell:

We have reviewed the system of quality control for the audit function of the U.S. Nuclear Regulatory Commission (NRC) Office of the Inspector General (OIG) in effect for the year ended March 31, 2006. A system of quality control encompasses the OIG's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with generally accepted government auditing standards (GAGAS). The elements of quality control are described in GAGAS, promulgated by the Comptroller General of the United States. The design of the system, and compliance with it in all material respects, are the responsibility of the U.S. NRC OIG. Our objective was to determine whether the internal quality control system was adequate as designed and complied with to provide reasonable assurance that applicable auditing standards, policies, and procedures were met. Our responsibility is to express an opinion on the design of the system and the OIG's compliance with the system based on our review.

Our review was conducted in accordance with the guidelines established by the President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency. In performing our review, we obtained an understanding of the system of quality control for the OIG. In addition, we tested compliance with the OIG's quality control policies and procedures to the extent we considered appropriate. These tests included the application of the OIG's policies and procedures on selected audits. Because our review was based on selective tests, it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it. Nevertheless, we believe that the procedures we performed provide a reasonable basis for our opinion.

Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected. Also, projection of any evaluation of a system of quality control to future periods is subject to risk that the system of quality control may become inadequate because of changes in conditions or because the degree of compliance with the policies or procedures may deteriorate.

Our scope and methodology is described in Enclosure 1.

In our opinion, the system of quality control for the audit function of the U.S. NRC OIG in effect for the year ended March 31, 2006, has been designed to meet the requirements of the quality control standards established by the Comptroller General of the United States for a Federal Government audit organization and was complied with during the year ended to provide the OIG with reasonable assurance of conforming with applicable auditing standards, policies, and procedures.

We noted, however, opportunities for improvement you may want to consider though they did not impact our opinion. These matters are described in the Findings and Suggestions that follow.

## **FINDINGS AND SUGGESTIONS**

### **Quality Assurance Program**

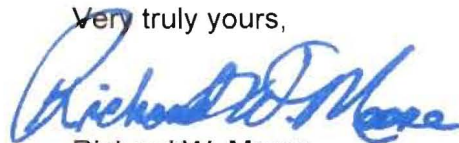
In accordance with the Quality Standards for Federal Offices of Inspector General (October 2003), the NRC OIG audit organization has established and maintains a quality assurance program to ensure that work performed adheres to established OIG policies and procedures; meets established standards of performance, including applicable professional standards; and is carried out economically, efficiently, and effectively. However, the NRC OIG's program has not been formalized in a written policy or procedure.

Accordingly, we suggest the NRC OIG revise its Audit Manual to include a policy and procedure for ensuring the implementation of a quality assurance program of the NRC OIG audit operations.

Views of Responsible Official – The NRC IG agreed with our suggestion to include a quality assurance program for audit operations in the NRC OIG Audit Manual. The NRC IG's complete response is included as Enclosure 2.

We agree with your proposed corrective action to our suggestion.

Very truly yours,



Richard W. Moore

Enclosures



**PEER REVIEW SCOPE AND METHODOLOGY****Scope and Methodology**

We tested compliance with the Office of Inspector General's (OIG) system of quality control to the extent we considered appropriate. These tests included a review of 7 of 24 audit reports issued during the semiannual reporting periods beginning April 1, 2005, and ending March 31, 2006. In addition, we reviewed the monitoring activities covering the Fiscal Year (FY) 2005 financial statements for the Nuclear Regulatory Commission (NRC) that were performed under contract by R. Navarro & Associates, Inc. We also reviewed the internal quality control reviews performed by the NRC OIG. We were not provided access to workpapers for one project, Report 06-A-11, NRC Byproduct Materials License Application and Review Process. NRC OIG stated this audit contained safeguard information that required clearances which the peer review team members did not possess.

**OIG Offices Reviewed**

We visited the NRC OIG offices in Washington, DC.

**Audit Reports Reviewed**

<u>Report Number</u>	<u>Report Date</u>	<u>Report Title</u>
05-A-17	09/21/05	NRC's Decommissioning Program
05-A-19	09/30/05	NRC's Generic Communications Program
06-A-01	11/10/05	NRC's FY 2005 Financial Statements
06-A-02	11/18/05	Independent Auditors' Report on NRC's Special-Purpose Financial Statements as of September 30, 2005 and 2004
06-A-03	12/02/05	Independent Accountants' Report on the Application of Agreed-Upon Procedures on Intragovernmental Activity and Balances
06-A-06	01/09/06	NRC's Integrated Personnel Security System
06-A-09	02/16/06	NRC's Office of Nuclear Security and Incident Response



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

June 21, 2006

OFFICE OF THE  
INSPECTOR GENERAL

The Honorable Richard W. Moore  
Inspector General  
Tennessee Valley Authority  
400 West Summit Hill Drive  
Knoxville, Tennessee 37902-1401

Dear Mr. Moore:

I have reviewed the draft external quality control review report of the U.S. Nuclear Regulatory Commission's Inspector General Audit Organization. I concur with the unmodified opinion expressed in the report.

I also agree with the suggestion on including a quality assurance program for our audit operations in the *Audit Manual*. The manual is currently being revised and should be issued by July 31, 2006.

I commend your assistance to my audit organization and the highly professional quality of your team. The review was performed in a conscious effort to minimize disruption to our ongoing work. Throughout the review, Mr. Paul E. Ivie and his associates, Ms. Louise B. Beck and Ms. Phyllis R. Palmer, pursued a constructive, cooperative approach that resulted in a positive experience and a beneficial suggestion that should improve the quality of our operation.

Sincerely,

A handwritten signature in dark ink, appearing to read "Hubert T. Bell".

Hubert T. Bell  
Inspector General