U.S. SMALL BUSINESS ADMINISTRATION
OFFICE OF INSPECTOR GENERAL
WASHINGTON, D.C. 20416

August 24, 2009

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

Subject: System Review Report on the U.S. Nuclear Regulatory Commission's Office of Inspector General Audit Organization

Dear Mr. Bell:

Attached is the Final System Review Report of the U.S. Nuclear Regulatory Commission's Office of Inspector General audit organization conducted in accordance with *Government Auditing Standards* and Council of the Inspectors General on Integrity and Efficiency guidelines. Your response to the draft report is included as Enclosure 2 with excerpts incorporated into the relevant sections of the report.

We agree with your proposed corrective action to the recommendation. We thank you and all of your staff that we dealt with for your assistance and cooperation during the conduct of the review.

Peter L. McClintock
Acting Inspector General

Enclosures (2)

U.S. SMALL BUSINESS ADMINISTRATION
OFFICE OF INSPECTOR GENERAL
WASHINGTON, D.C. 20416

August 24, 2009

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

We have reviewed the system of quality control for the audit organization of the U.S. Nuclear Regulatory Commission (NRC) Office of Inspector General (OIG) in effect for the year ended March 31, 2009. A system of quality control encompasses the NRC OIG's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with *Government Auditing Standards*. The elements of quality control are described in *Government Auditing Standards*. The NRC OIG is responsible for designing a system of quality control and complying with it to provide the NRC OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the NRC OIG's compliance therewith based on our review.

Our review was conducted in accordance with *Government Auditing Standards* and guidelines established by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). During our review, we interviewed NRC OIG personnel and obtained an understanding of the nature of the NRC OIG audit organization, and the design of the NRC OIG's system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected engagements and administrative files to test for conformity with professional standards and compliance with the NRC OIG's system of quality control. The engagements selected represented a reasonable cross-section of the NRC OIG's audit organization, with emphasis on higher-risk engagements. Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with NRC OIG management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

In performing our review, we obtained an understanding of the system of quality control for the NRC OIG's audit organization. In addition, we tested compliance with the NRC OIG's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the NRC OIG's policies and procedures on selected engagements. Our review was based on selected tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it.

There are inherent limitations in the effectiveness of any system of quality control, and therefore noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the 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.

Enclosure 1 to this report identifies the offices of the NRC OIG that we visited and the engagements that we reviewed.

In our opinion, the system of quality control for the audit organization of the NRC OIG in effect for the year ended March 31, 2009, has been suitably designed and complied with to provide the NRC OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Federal audit organizations can receive a rating of *pass, pass with deficiencies*, or *fail*. The NRC OIG has received a peer review rating of *pass*.

As is customary, we have issued a letter dated July 30, 2009, that sets forth findings that were not considered to be of sufficient significance to affect our opinion expressed in this report. Enclosure 2 to this report contains your response to our findings.

In addition to reviewing NRC OIG's system of quality control to ensure adherence with *Government Auditing Standards*, we applied certain limited procedures in accordance with guidance established by the CIGIE related to its monitoring of engagements performed by Independent Public Accountants (IPA) under contract where the IPA served as the principal auditor. It should be noted that monitoring of engagements performed by IPAs is not an audit and therefore is not subject to the requirements of *Government Auditing Standards*. The purpose of our limited procedures was to determine whether the NRC OIG had controls to ensure IPAs performed contracted work in accordance with professional standards. However, our objective was not to express an opinion and accordingly, we do not express an opinion, on the NRC OIG's monitoring of work performed by IPAs.

Sincerely,

Peter L. McClintock
Acting Inspector General

Enclosures

SCOPE AND METHODOLOGY (Enclosure 1)

Scope and Methodology

We tested compliance with the NRC OIG audit organization's system of quality control to the extent we considered appropriate. The tests included a review of 8 of 20 audit and attestation reports issued during the period April 1, 2008 through March 31, 2009 and semiannual reporting periods ending on September 30, 2008 and March 31, 2009. We also reviewed the internal quality control reviews performed by the NRC OIG.

In addition, we reviewed the NRC OIG's monitoring of engagements performed by IPAs where the IPA served as the principal auditor during the period April 1, 2008 through March 31, 2009. During the period, NRC OIG contracted for the audit of its agency's Fiscal Year 2008 financial statements. The NRC OIG also contracted for certain other engagements that were to be performed in accordance with *Government Auditing Standards*.

We visited the Rockville, MD office of the NRC OIG.

Reviewed Engagements Performed by the NRC OIG

Report No.	Report Date	Report Title
OIG-08-A-12	7-15-2008	Audit of NRC's USAID-Funded Activities
OIG-08-A-16	9-15-2008	Audit of NRC's Premium Class Travel
OIG-08-A-17	9-26-2008	Audit of NRC's Enforcement Program
OIG-08-A-19	9-30-2008	Audit of NRC's Laptop Management
OIG-09-A-03	11-20-2008	Audit of National Source Tracking System Information System Development
OIG-09-A-08	3-16-2009	Audit of NRC's Agreement State Program

Reviewed Monitoring Files of NRC OIG for Contracted Engagements

Report No.	Report Date	Report Title
OIG-08-A-11	6-17-2008	Audit of NRC's Accounting and Control Over Time And Labor Reporting
OIG-09-A-01	11-10-2008	Results of the Audit of the NRC's Financial Statements For FY 2008

Enclosure 2

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

OFFICE OF THE
INSPECTOR GENERAL

August 3, 2009

Peter L. McClintock
Acting Inspector General
U.S. Small Business Administration
Washington, DC 20416

Dear Mr. McClintock:

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 your rating of pass as expressed in the report.

I also agree with the recommendation on including documentation about auditee oral comments in the *Audit Manual*. The manual will be revised within 90 days.

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, your peer review team pursued a constructive, cooperative approach that resulted in a positive experience and a beneficial recommendation that will help ensure the quality of our operation.

Sincerely,

Hubert T. Bell
Inspector General