



DIRECTIVE

Subject: INTERNAL CONTROL PROGRAM

Number: D-22.1

Approved:

Review:

Certified:

Responsible Office: Office of the General Manager

1. **PURPOSE.** This Directive establishes the policy, requirements, and responsibilities for the Defense Nuclear Facilities Safety Board's (Board) Internal Control Program in order to implement the requirements of the *Federal Managers' Financial Integrity Act (FMFIA) of 1982*, and Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (July 15, 2016).
2. **CANCELLATION.** This Directive replaces Directive D-22.1, *Internal Control Program*, dated October 3, 2013.
3. **APPLICABILITY.** This Directive and its accompanying Operating Procedure, *Internal Control Program Operating Procedure (OP-22.1-1)*, dated August 19, 2019, or its successor, apply to all the Board's employees. The Board's staff at all levels are responsible for active participation in achieving the objectives of this Directive.
4. **EXEMPTIONS.** None.
5. **POLICY.** It is the policy of the Board to establish and maintain cost-effective internal controls that reasonably ensure programs achieve their intended results; resources are used consistent with the Board's mission; programs and resources are protected from waste, fraud, and mismanagement; laws and regulations are followed; and reliable and timely information is obtained, maintained, reported, and used for decision making.
6. **REQUIREMENTS.** Procedures will be designed to ensure the implementation of the following five standards identified in the Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*:
 - A. **Control Environment.** The establishment and maintenance of an organizational environment that is committed to integrity and ethical values, and a positive and supportive attitude toward internal control and conscientious management.
 - B. **Risk Assessment.** Effective identification, assessment, and response to risks the Board faces from both external and internal sources.
 - C. **Control Activities.** Policies, procedures, and techniques that help ensure management directives and control activities are implemented, and effective results are achieved.

- D. Information and Communications. Quality information is communicated internally and externally in a form and within a time frame to carry out responsibilities.
- E. Monitoring. Continuous monitoring, assessment, and improvement in the effectiveness of internal controls, quality of operational performance, and prompt resolution of identified deficiencies.

7. **RESPONSIBILITIES**.

A. Chairman.

- i. As Chief Executive Officer of the Board, ensures the Board has a viable Internal Control Program, including the establishment and maintenance of an environment that sets a positive and supportive attitude toward internal control and conscientious management.
- ii. Selects up to two Board Members, except him or herself, to serve on the Executive Committee on Internal Control (ECIC).
- iii. Signs an annual Statement of Assurance as to whether the Board's internal controls are achieving their intended objective, and provides a report (if applicable) on Material Weaknesses in the Board's internal controls; both are included in the Board's Annual Financial Report, which is submitted to the President and Congress.

B. ECIC.

- i. Ensures the Board's commitment to an appropriate system of internal controls.
- ii. Selects those Board work processes to receive a formal, annual internal control assessment as described in OP-22.1-1.
- iii. Monitors corrective action plans and assesses the adequacy of completed actions.
- iv. Reviews annual assurance assertions from the Board's Office Directors to assess the status of the agency's internal controls.
- v. Recommends the form of the annual Statement of Assurance to be used in the Annual Financial Report (i.e., unqualified, qualified, or none) and advises the Chairman whether Control Deficiencies are sufficiently serious to report as Material Weaknesses.

C. ECIC Chair.

- i. Is designated by the Chairman
- ii. Manages the Board's Internal Control Program, evaluates its effectiveness, and implements changes/improvements as needed.
- iii. Convenes ECIC meetings.

- iv. Complies with the requirements in Section 7.D. of this Directive, as appropriate.
- v. Notify the Board immediately of any mission-critical internal control issues.

D. Office Directors.

- i. Foster an environment that sets a positive and supportive attitude toward internal control and conscientious management.
- ii. Organize and assign responsibilities in a manner that reasonably ensures the objectives of this Directive are met.
- iii. Submit annual assurance assertions for area of management responsibility to the ECIC.
- iv. Serve on the ECIC.
- v. Notify the General Manager immediately of any mission-critical internal control issues.

E. Office of the Technical Director (OTD) Group Leads, Office of the General Manager (OGM) Division Directors, and Office of the General Counsel.

- i. Foster an environment that is positive and supportive toward internal control and conscientious management.
- ii. Organize and assign responsibilities in a manner that reasonably ensures the objectives of this Directive are met.
- iii. Submit annual assurance assertions for area of management responsibility to their Office Directors.
- iv. Notify the Technical Director or General Manager immediately of any mission-critical internal control issues.

F. General Counsel.

- i. Provides legal and policy advice to Board Members and legal advice to Office Directors during the planning and execution of the Board's Internal Control Program.
- ii. Complies with the requirements of Section 7.D. of this Directive.

G. Deputy General Counsel. Performs the above duties under Section 6.F. in the General Counsel's absence.

- H. Employees.
- i. Identify deficiencies in internal controls based on their knowledge of and experience with specific Board practices and procedures.
 - ii. Report all identified Control Deficiencies to their supervisors.
8. **CONTROLS AND MEASURES.** The ECIC shall annually assess the internal control program as stipulated herein.
9. **RECORDS.** The Office of the General Manager will maintain documentation regarding the annual Internal Control Program assessment.
10. **REFERENCES.**
- A. **Federal Managers' Financial Integrity Act (FMFIA) of 1982**, (Pub. L. No. 97-255, 96 Stat. 814), requires ongoing evaluations and reports of the adequacy of internal accounting and administrative controls (in accordance with standards prescribed by the Comptroller General) of each executive agency to be established to provide reasonable assurance that:
- i. Obligations and costs comply with applicable law;
 - ii. Assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
 - iii. Revenues and expenditures are properly recorded and accounted for to permit the preparation of reliable financial reports and maintain accountability over assets.
- FMFIA also requires the Chairman to evaluate and annually report on the status of the agency's internal controls.
- B. **OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*** (July 15, 2016) defines management's responsibilities for enterprise risk management (ERM) and internal control, to improve accountability and effectiveness of Federal programs as well as mission support operations through implementation of ERM practices. The circular requires agencies to integrate risk management and internal control functions, and an assessment process based on GAO's *Standards for Internal Control in the Federal Government*, GAO-14-704G, (the Green Book), that management must implement in order to properly assess and improve internal controls over operations, reporting, and compliance.
- C. **Government Accountability Office, GAO-14-704G, *Standards for Internal Control in the Federal Government*** (September 2014), provides managers with criteria for designing, implementing, and operating an effective internal control system.

11. **DEFINITIONS.**

- A. **Assurance Assertion.** A statement representing a manager's informed judgment as to the overall adequacy and effectiveness of the internal control program within his or her area of management responsibility. This statement helps to support the FMFIA-required Chairman's statement to the President and Congress on whether there is a reasonable assurance that the agency's internal control program is achieving the intended objectives, or if there are material weaknesses in the agency's internal controls.
- B. **Control Activity.** A policy, procedure, technique, or mechanism that enforces management's directives. Examples of control activities are shown in Exhibit G.
- C. **Control Deficiency.** A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect significant problems on a timely basis. The following are two types of control deficiencies:
- i. A *design deficiency* exists when a control necessary to meet the control objective is missing or an existing control is not properly designed, so that even if the control operates as designed the control objective is not always met.
 - ii. An *operation deficiency* exists when a properly designed control does not operate as designed or when the person operating the control is not qualified or properly skilled to effectively perform the control.
- D. **Documentation.** Materials (written or computer-generated) that serve as evidence of an action, decision, or a conclusion. Each step of the internal control process requires documentation.
- E. **Effective (Control Measures).** Control measures that are producing the desired results, are working as intended, and are being carried out by staff. No corrective actions are needed.
- F. **Effective/Improvements Needed (Control Measures).** Control measures in a program or an administrative activity that that have broken down and/or need strengthening. A corrective action plan is needed to prevent the risk of potential waste, loss, unauthorized use, misappropriation, inability to perform mission-related work, or noncompliance with law or regulation.
- G. **Effective with Minor Exception (Control Measures).** Control measures that are effective but may need to be re-certified, or updated (e.g., updating directives, operating procedures, flowcharts) to reflect current work practices and procedures. This rating does not require a corrective action plan; however, deficiencies identified shall be corrected expeditiously with documented monitoring at the office level.

- H. **Executive Committee on Internal Control (ECIC)**. The executive body that advises the Board's chairman on whether there are any internal control deficiencies that are serious enough to report as material weaknesses to the President and Congress. This group of senior management officials manages the Board's internal control program. The general manager chairs ECIC, which is composed of the following additional officials:
- i. Up to two Board members (the Chairman may not serve on the ECIC);
 - ii. The technical director;
 - iii. The general counsel; and
 - iv. OIG representative (advisory only).
- I. **Ineffective (Control Measure)**. An internal control deficiency that can be considered a reportable condition and which could, if not corrected, develop into a material weakness. This rating requires a corrective action plan.
- J. **Internal Control**. An integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:
- i. Effective and efficient operations;
 - ii. Reliability of financial reporting;
 - iii. Compliance with applicable laws and regulations; and
 - iv. Safeguarding of assets to prevent or promptly detect unauthorized acquisition, use, or disposition of an agency's assets.
- K. **Material Weakness**.
- i. ***Financial Reporting*** – A material weakness in financial reporting is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable probability that a material misstatement of the Board's financial statements 1) will not be prevented or 2) will not be detected and corrected on a timely basis.
 - ii. ***Other than Financial Reporting*** – A material weakness in an area other than financial reporting is a reportable condition that the Board's chairman determines to be significant enough to be included in the Board's AFR (e.g., one that would significantly impair fulfillment of the Board's mission; deprive the public of needed services; violate statutory or regulatory requirements; significantly weaken safeguards against waste, loss, unauthorized use or misappropriation of funds, property, or other assets; and/or result in a conflict of interest).

- L. **Reportable Condition**. A control deficiency, or combination of control deficiencies, that in management's judgment, should be reported internally because it represents significant weaknesses in the design or operation of internal controls that could adversely affect the organization's ability to meet its internal control program objectives. Examples of control deficiencies that might be reported are shown in Exhibit H.
- M. **Risk**. The chance that a threat or a particular vulnerability causes something negative to happen that would result in harm or loss to the Board.
- N. **Risk Assessment**. The identification, measurement, and analysis of program risks, both internal and external, controllable and uncontrollable, at individual office levels and for the Board as a whole. Management must assess all risks facing the Board because uncontrolled risk-taking could prevent the Board from reaching its objectives or could jeopardize its operations.
- O. **Significant Deficiency**. A deficiency, or combination of deficiencies, in internal controls for financial planning that is less severe than a material weakness, yet important enough to merit attention by ECIC.
- P. **Statement of Assurance**. A statement representing the Board's chairman's informed judgment as to the overall adequacy and effectiveness of the Board's internal control program. The statement must take one of the following forms:
- i. *Unqualified assurance* (no material weaknesses reported);
 - ii. *Qualified assurance* (one or more material weaknesses reported); or
 - iii. *No assurance* (no processes in place or pervasive material weaknesses).
- Q. **Weakness**. A deficiency that requires corrective action but is not significant enough to report to ECIC.
- R. **Work Process**. A collection of related, structured activities or tasks that produce a specific service or product.

12. **CONTACT.** Address questions concerning this Directive to the Office of the General Manager.

Bruce Hamilton
Chairman

AFFIRMATION OF BOARD VOTING RECORD

SUBJECT: Internal Control Program

Doc Control#: 2019-300-0048

The Board acted on the above document on 11/07/2019. The document was Approved.

The votes were recorded as:

	APRVD	DISAPRVD	ABSTAIN	NOT PARTICIPATING	COMMENT	DATE
Bruce Hamilton	✓	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	11/05/2019
Jessie H. Roberson	✓	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	11/07/2019
Joyce L. Connery	✓	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	11/07/2019

This Record contains a summary of voting on this matter together with the individual vote sheets, views and comments of the Board Members.

Nicholas Moore

Executive Secretary to the Board

Attachments:

1. Voting Summary
2. Board Member Vote Sheets

DEFENSE NUCLEAR FACILITIES SAFETY BOARD

NOTATIONAL VOTE RESPONSE SHEET

FROM: Bruce Hamilton

SUBJECT: Internal Control Program

Doc Control#: 2019-300-0048

DATE: 11/05/2019

VOTE: Approved

COMMENTS:

None

Bruce Hamilton

DEFENSE NUCLEAR FACILITIES SAFETY BOARD
NOTATIONAL VOTE RESPONSE SHEET

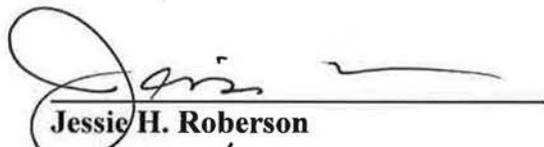
FROM: **Jessie H. Roberson**

SUBJECT: **Internal Control Program**

Doc Control#2019-300-048

Approved **Disapproved** _____ **Abstain** _____
Recusal – Not Participating _____

COMMENTS: **Below** _____ **Attached** _____ **None**



Jessie H. Roberson
11/5/2019

Date

DEFENSE NUCLEAR FACILITIES SAFETY BOARD

NOTATIONAL VOTE RESPONSE SHEET

FROM: Joyce L. Connery

SUBJECT: Internal Control Program

Doc Control#: 2019-300-0048

DATE: 11/07/2019

VOTE: Approved

COMMENTS:

None

Joyce L. Connery