CHAPTER 1

Management's Discussion and Analysis

NRC Headquarters in Rockville, MD

Tour at Davis Besse Nuclear Power Plant near Oak Harbor, OH

INTRODUCTION

This Performance and Accountability Report represents the culmination of the U.S. Nuclear Regulatory Commission's (NRC) program and financial management processes. It began with mission and program planning, continued through the formulation and justification of NRC's budget to the President and the Congress, through budget execution, and ended with this report on the agency's program performance and use of the resources with which it is entrusted. This report was prepared pursuant to the requirements of the Chief Financial Officers Act, as amended by the Reports Consolidation Act, and covers activities from October 1, 2006, to September 30, 2007.

The NRC places a high importance on keeping the public informed of its activities. Visit our Web site at http://www.nrc.gov to access this report and to learn more about who we are and what we do to serve the American public.

Chapter 1; *Management's Discussion and Analysis*, provides an overview of the NRC. It consists of seven sections—*About the NRC* describes the agency's mission, organizational structure, and regulatory responsibility; the *Program Performance Overview* summarizes the agency's success in achieving its strategic goals, which are further described in Chapter 2; the *Program Performance Results* show the agency's program performance results; *Future Challenges* includes forward-looking information; the *President's Management Agenda* describes the agency progress in "Getting to Green" for five management initiatives; *Financial Performance Overview* highlights the NRC's financial position and audit results contained in Chapter 3; and *Systems, Controls, and Legal Compliance* describes the agency's compliance with key legal and regulatory requirements.

ABOUT THE NRC

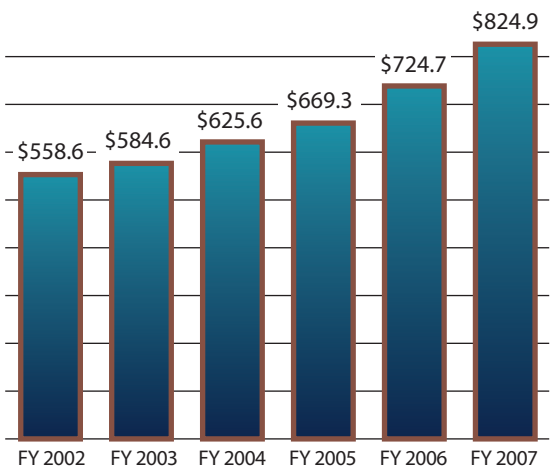
The NRC was established on January 19, 1975, as an independent Federal agency regulating commercial and institutional uses of nuclear materials. The Atomic Energy Act, as amended, and the Energy Reorganization Act, as amended, define the NRC's purpose. These acts provide the foundation for the NRC's mission to regulate the Nation's civilian use of byproduct, source, and special nuclear materials to ensure adequate protection of public health and safety, to promote the common defense and security, and to protect the environment.

To fulfill its responsibility to protect public health and safety, the NRC performs three principal regulatory functions. The agency (1) establishes standards and regulations, (2) issues licenses for nuclear facilities and users of nuclear materials, and (3) inspects facilities and users of nuclear materials to ensure compliance with regulatory requirements. These regulatory functions relate to civilian nuclear power plants, other nuclear facilities, and uses of nuclear materials. These include nuclear medicine programs at hospitals; academic activities at educational institutions; research work; industrial applications, such as gauges and testing equipment; and the transport, storage, and disposal of nuclear materials and wastes.

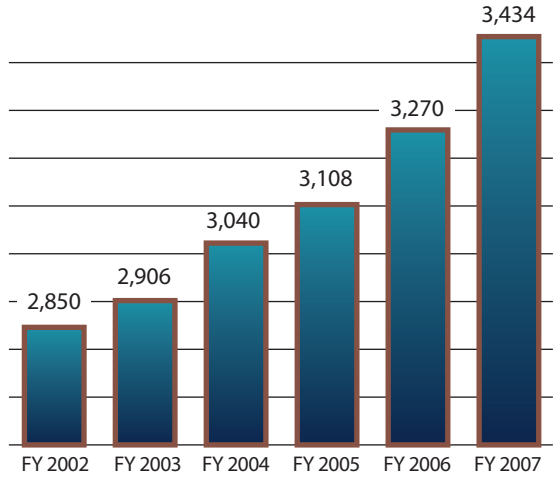
Organization

The NRC is headed by a Commission composed of five members, with one member designated by the President to serve as Chairman. The President appoints each member, with the advice and consent of the Senate, to serve a 5-year term. The Chairman is the principal executive officer and official spokesman for the Commission. The Executive Director for Operations carries out program policies and decisions made by the Commission.

NRC BUDGETARY AUTHORITY, FY 2002-2007
(Dollars in Millions) **Figure 1**



NRC PERSONNEL CEILING, FY 2002-2007
(Staff) **Figure 2**



The NRC's headquarters is located in Rockville, Maryland. Four regional offices are located in King of Prussia, Pennsylvania; Atlanta, Georgia; Lisle, Illinois; and Arlington, Texas. The NRC's technical training center is located in Chattanooga, Tennessee. The NRC also has at least two resident inspectors at each of the Nation's nuclear power reactor sites. The NRC's Operations Center which is located in the Headquarters building in Rockville, Maryland is the focal point for the agency's communications with its licensees, State agencies, and other Federal agencies concerning operating events in the commercial nuclear sector. The NRC operations officers staff the Operations Center 24 hours a day. Appendix G to this report presents the NRC organization chart.

The NRC's budget for fiscal year (FY) 2007 was $824.9 million (see Figure 1) with 3,434 full-time equivalent staff (see Figure 2). The NRC recovers most of its appropriations from fees paid by NRC licensees.

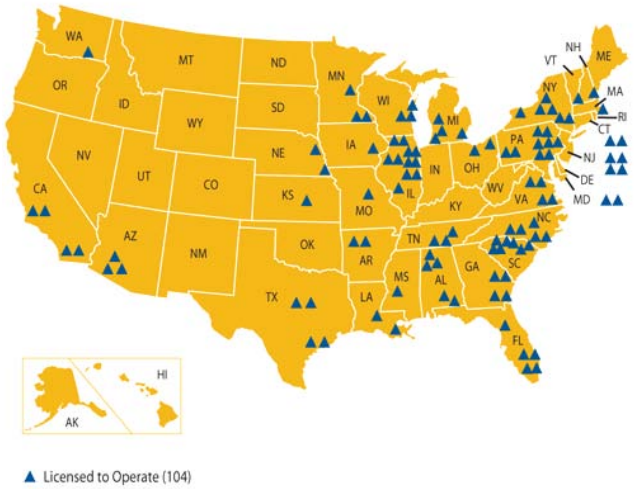
The Nuclear Industry

The NRC regulates all activities involved in the commercial use of radioactive materials. From nuclear fuel facilities, which produce the radioactive fuel used in the Nation's 104 nuclear power plants and other users of nuclear materials, through the safe transportation and disposal of nuclear waste, the NRC's regulatory programs ensure that radioactive materials are used safely and securely throughout this nuclear material cycle. Under the NRC's Agreement States program, 34 states have assumed the majority of regulatory responsibilities for overseeing the activities of industrial, medical and other smaller users of nuclear materials in their states. The NRC works closely with these states to ensure that public safety is maintained. The NRC has a defined set of regulatory practices, knowledge and expertise specific to each activity in the nuclear material cycle to address safety and security issues.

Approximately 20 percent of the Nation's electricity is generated by the 104 NRC-licensed commercial nuclear reactors operating in 31 States (see Figure 3). Since 1994, nuclear electric generation has increased by approximately 22 percent. The NRC oversees 4,369 licenses for medical, academic, industrial and general uses of nuclear materials (see Figure 4). The agency conducts approximately 1,500 health and safety inspections of its nuclear materials licensees annually. In addition, the 34 Agreement States oversee 17,807 licenses. These Agreement States have assumed the majority of regulatory responsibilities for overseeing

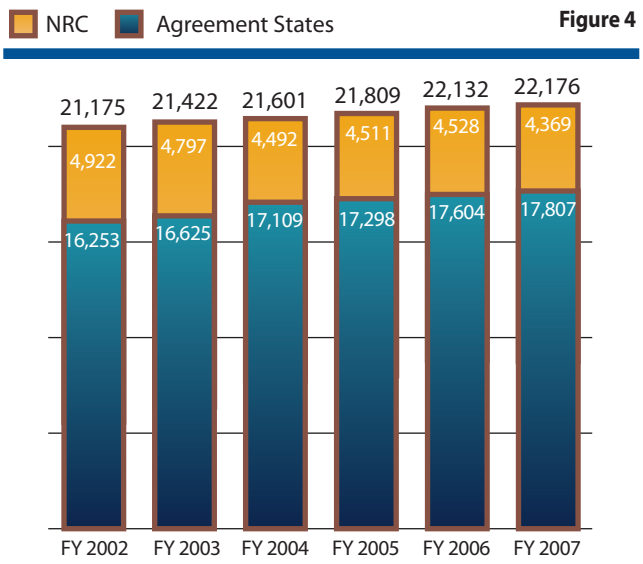
U.S. COMMERCIAL NUCLEAR POWER REACTORS

Figure 3



U.S. MATERIALS LICENSEES

Figure 4



the activities of industrial, medical, and other small users of nuclear material within their borders. The NRC, Agreement States, and their licensees share a common responsibility to protect public health and safety.

Fuel Facilities

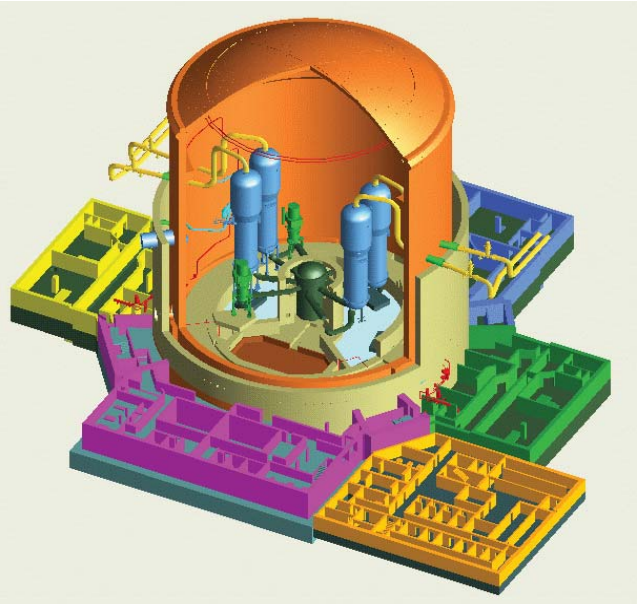
Nuclear fuel is derived from milled uranium ore extracted from the earth at uranium mines to produce uranium concentrate called "yellow cake." The yellow cake is converted into uranium hexafluoride gas at a special facility and loaded into cylinders. The cylinders are sent to a gaseous diffusion plant, where uranium is enriched for use as reactor fuel. The enriched uranium is then converted into oxide powder, fabricated into fuel pellets (each about the size of a fingertip),which are loaded into metal fuel rods about 12 feet long and bundled into reactor fuel assemblies at a fuel fabrication facility. Assemblies are then transported to nuclear power plants, non-power research reactor facilities, and naval propulsion reactors for use as fuel. Eight major fuel fabrication and production facilities and two enrichment facilities are licensed to operate in the United States. Because they handle extremely hazardous material, these facilities take special precautions to prevent theft, diversion by terrorists, and dangerous exposures to workers and the public from this nuclear material.

Reactors

Power plants change one form of energy into another. Electrical generating plants convert heat, the energy of wind or falling water, or solar energy into electricity. A nuclear power plant converts heat into electricity. Other types of heat-conversion plants burn coal, oil, or gas for a heat source that is used to produce electricity. Nuclear energy as it is used in a nuclear power plant cannot be seen. There is no burning of fuel in the usual sense. Rather, energy is given off by the nuclear fuel as certain types of atoms split into pieces. This energy is in the form of fast-moving particles and invisible radiation. As the particles and radiation move through the fuel and surrounding water, the energy is converted into heat. The heat is the useful energy resulting from the splitting of atoms. The radiation energy itself can be hazardous and requires special precautions to protect people and the environment.

Because the fission reaction produces radioactive materials, which can be hazardous, nuclear power plants are equipped with safety systems to protect

workers, the public, and the environment. Radioactive materials require careful use because they produce radiation, a form of energy that can damage human cells, and depending on the amount and duration of the exposure, can potentially cause cancer over long periods of time. In a nuclear reactor, most hazardous radioactive substances, called fission byproducts, are trapped in the fuel pellets themselves or in the sealed metal tubes holding the fuel. Small amounts of these radioactive fission byproducts, principally gases, however, become mixed with the water passing through the reactor. Other impurities in the water are also made radioactive as they pass through the reactor. The water is processed and filtered to remove these radioactive impurities and then returned to the reactor cooling system.



Schematic of a nuclear power reactor

Materials Users

Nuclear materials are used extensively in the medical, academic, and industrial fields. For example, about one-third of all patients admitted to U.S. hospitals are diagnosed or treated using radioisotopes. Most major hospitals have specific departments dedicated to radiation medicine. In all, about 112 million nuclear medicine or radiation therapy procedures are performed annually, with the vast majority used in diagnoses. Radioactive materials used as a diagnostic tool can identify the status of a disease and minimize the need for surgery, reducing the risks from post-operative infection. Radioisotopes give doctors the ability to "look" inside the body and observe soft tissues and organs, in a manner similar to the way X-rays provide images of bones. Radioisotopes carried in the blood also allow doctors to detect clogged arteries or check the functioning of the circulatory system.

The same property that makes radiation hazardous can also make it useful in helping the body heal. When living tissue is exposed to high levels of radiation, cells can be destroyed or damaged so they can neither reproduce nor continue their normal functions. For this reason radioisotopes are used in the treatment of cancer (which amounts to uncontrolled cell division). Although some healthy tissue surrounding a tumor may be damaged during the treatment, mostly cancerous tissue can be targeted for destruction.

Many of today's industrial processes also use nuclear materials. High-tech methods that ensure the quality of manufactured products often rely on radiation generated by radioisotopes. To determine whether a well drilled deep into the ground has the potential for producing oil, geologists use nuclear well-logging, a technique that employs radiation from a radioisotope inside the well to detect the presence of different materials. Radioisotopes are also used to sterilize instruments; to find flaws in critical steel parts and welds that go into automobiles and modern buildings; to authenticate valuable works of art; and to solve crimes by spotting trace elements of poison, among other uses. Radioisotopes can also eliminate dust from film and compact discs as well as static

electricity (which may create a fire hazard) from can labels. In manufacturing, radiation can change the characteristics of materials, often giving them features that are highly desirable. For example, wood and plastic composites treated with gamma radiation are used for some flooring in high-traffic areas of department stores, airports, hotels, and churches, because they resist abrasion and ensure low maintenance.

Waste Disposal

During normal operations, a nuclear power plant generates two types of radioactive wastes: high level waste, which consists of used fuel (usually called spent fuel), and low-level wastes, which include contaminated equipment, filters, maintenance materials, and resins used in purifying water for the reactor cooling system. Other users of radioactive materials, such as those discussed above, also generate low-level wastes.

Each type of waste is handled differently. Typically, the spent fuel from nuclear power plants is stored in water-filled pools at each reactor site and at one storage facility in Illinois. However, several utilities have begun using dry cask storage pending final disposal. In this way, spent fuel is stored in heavy metal or concrete containers placed on concrete pads adjacent to the reactor facility. Spent fuel is highly radioactive because it contains the fission byproducts that were created while the reactor was operating. Special procedures are needed in the handling of the spent fuel, since the radiation levels can be very dangerous without proper shielding. The water in the spent fuel storage pool provides cooling and adequately shields workers from the radiation to protect workers in a nuclear plant. Concrete and steel in dry casks provide adequate protection.

Currently most of the spent fuel remains stored at individual plants. Permanent disposal of spent fuel requires a disposal facility that can provide reasonable assurance that the waste will remain isolated for thousands of years. The Department of Energy is developing plans for a permanent disposal facility at Yucca Mountain, Nevada, for spent fuel from nuclear power plants.

PROGRAM PERFORMANCE OVERVIEW

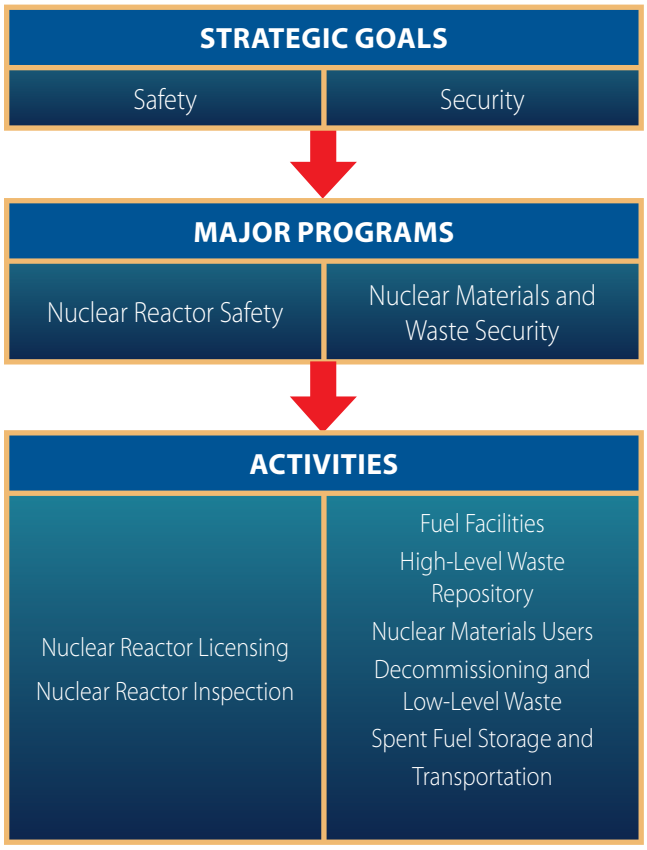
The NRC is developing a new Strategic Plan for FY 2008-FY 2013 that determines the agency's long-term strategic direction. The Commission has approved the framework for the draft Strategic Plan. The Performance and Accountability Report reflects the new goal structure proposed in the agency's draft Strategic Plan and reports performance in support of the Safety and Security strategic goals, as well as Openness, Effectiveness and Management which are referred to as operational goals in this report.

To achieve its goals, the agency is organized into two major programs: Nuclear Reactor Safety, and Nuclear Materials and Waste Safety.

Nuclear Reactor Safety Program

The Nuclear Reactor Safety Program encompasses all NRC efforts to ensure that civilian nuclear power reactor facilities, and research and test reactors are licensed and operated in a manner that adequately protects the public health and safety, and the environment and protects against radiological sabotage and theft or diversion of special nuclear materials. The Nuclear Reactor Safety Program accounted for 74 percent of the agency's costs in FY 2007.

NRC Goals and Programs



Nuclear Materials and Waste Safety Program

The Nuclear Materials and Waste Safety Program focuses on the safe and secure use of remaining radioactive materials. The Nuclear Materials and Waste Safety Program regulates fuel facilities, medical and industrial nuclear materials users, the disposal of both high-level and low-level waste, the decommissioning of power plants, and the storage and transportation of spent nuclear fuel. The Nuclear Materials and Waste Safety Program accounted for the remaining 26 percent of the agency's costs in FY 2007.

PROGRAM PERFORMANCE RESULTS

STRATEGIC GOAL 1: SAFETY

Ensure protection of public health and safety and the environment.

- Safety: Ensure protection of public health and safety and the environment

Safety is the primary goal of the NRC. The agency achieves its safety goal by ensuring that the performance of licensees is at or above acceptable safety levels. NRC programs work in conjunction with our licensees in a partnership to achieve the safety goal. The NRC licensees are responsible for designing, constructing, and operating nuclear facilities safely, while regulatory oversight of the licensees is the responsibility of the NRC. The strategic outcomes, below, are specific hazards that NRC activities are designed to mitigate against.

Strategic Outcomes:

- No nuclear reactor accidents.
- No inadvertent criticality events.
- No acute radiation exposures resulting in fatalities.
- No releases of radioactive materials that result in significant radiation exposures.
- No releases of radioactive materials that cause significant adverse environmental impacts.

NRC PERFORMANCE MEASURE RESULTS

FY 2007 Safety Goal

Performance Measures	2002	2003	2004	2005	2006	2007
1. Number of new conditions evaluated as red by the Reactor Oversight Process is ≤3.	2	1	1	0	0	0
2. Number of significant accident sequence precursors of a nuclear reactor accident is zero.	1	0	0	0	0	0
3. Number of operating reactors with integrated performance that entered the Manual Chapter 0350 process, or the multiple/repetitive degraded cornerstone column or the unacceptable performance column of the Reactor Oversight Program Action Matrix, with no performance exceeding Abnormal Occurrence Criterion I.D.4 is ≤4.	3	2	1	0	0	1
4. Number of significant adverse trends in industry safety performance with no trend exceeding the Abnormal Occurrence Criterion I.D.4 is ≤1.	0	0	0	0	0	0
5. Number of events with radiation exposures to the public and occupational workers that exceed Abnormal Occurrence Criterion I.A is:						
Reactors: 0	0	0	0	0	0	0
Materials: ≤3	0	0	0	1	0	0
Waste: 0	0	0	0	0	0	0
6. Number of radiological releases to the environment that exceed applicable regulatory limits is:						
Reactors: 3	0	0	0	0	0	0
Materials: 2	4	0	1	0	0	0
Waste: 0	0	0	0	0	0	0

FY 2007 Security Goal

Performance Measures	2002	2003	2004	2005	2006	2007
1. Unrecovered losses or thefts of risk-significant radioactive sources is zero.	0	0	0	0	0	0
2. Number of substantiated cases of theft or diversion of licensed, risk-significant radioactive sources or formula quantities of special nuclear material; or attacks that result in radiological sabotage is zero.	0	0	0	0	0	0
3. Number of substantiated losses of formula quantities of special nuclear material or substantiated inventory discrepancies of formula quantities of special nuclear material that are caused by theft or diversion or by substantial breakdown of the accountability system sabotage is zero.	0	0	0	0	0	0
4. Number of substantial breakdowns of physical security or material control that significantly weaken the protection against theft, diversion, or sabotage is less than one security events and incidents that exceed Abnormal Occurrence Criteria I.C.2B4 is ≤4.	0	0	0	0	0	0
5. Number of significant unauthorized disclosures of classified and/or safeguards information is zero.	0	0	0	0	0	0

FY 2007 Operational Goals and Associated Performance Measures

Measure	2002	2003	2004	2005	2006	2007
Goal 3: Openness						
1. 90% of surveyed stakeholders that perceive the NRC to be open in its processes.			New measure in FY 2006		N/A	94%
2. 88% of selected openness output measures that achieve performance targets. **Not Achieved**			New measure in FY 2006		50%	**66%**
a. Ninety percent of stakeholder formal requests for information receive an NRC response within 60 days of receipt.			New measure in FY 2006		100%	100%
b. The NRC achieves a 72% user satisfaction score for the agency's public Web site greater than or equal to the Federal Agency Mean score based on results of the yearly American Customer Satisfaction Index for Federal Web sites. **Not Achieved**			New measure in FY 2006		70%	**71%**

FY 2007 Operational Goals and Associated Performance Measures (continued)

Measure	2002	2003	2004	2005	2006	2007
c. Complete 50% of Freedom of Information Act requests in 20 days (median).		New measure in FY 2006			61%	67%
d. Issue 90% of Director's Decisions under 2.206 within 120 days.		New measure in FY 2006			100%	100%
e. Make 90% of Final Significance Determination Process Determinations within 90 days for all potentially greater than green findings:		New measure in FY 2006			92%	100%
f. 90% of stakeholders believe they were given sufficient opportunity to ask questions or express their views.		New measure in FY 2006			90%	96%
g. At least 90% of Category 2 and 3 meetings on regulatory issues for which public notices are issued at least 10 days in advance of the meeting		New measure in FY 2006			92%	93%
h. 90% of non-sensitive, unclassified regulatory documents generated by the NRC and sent to the agency's Document Processing Center that are released to the public by the 6th working day after the date of the document. **Not Achieved**		New measure in FY 2006			63%	**75%**
i. 90% of non-sensitive, unclassified regulatory documents received by the NRC that are released to the public by the 6th working day after the document is added to the ADAMS main library. **Not Achieved**		New measure in FY 2006			77%	**87%**
Goal 4: Effectiveness						
1. 70% of selected processes deliver efficiency improvements. **Not Achieved**		New measure in FY 2006			25%	**60%**
a. 10% reduction in the average enforcement processing time for Handling Discrimination Allegations. **Not Achieved**		New measure in FY 2006			N/A	**0%**
b. Eliminate the requirement for license renewal and approve a living license for the two category III facilities which have been renewed in FY 2006 and FY 2007. **Not Achieved**		New measure in FY 2006			**Not Eliminated**	**Not Eliminated**
c. Improve the timeliness of the review process for nuclear power reactor License Termination Plans by at least 30% over 3 years (FY 2006-FY 2008) as compared to the historical average.		New measure in FY 2006			N/A	N/A
d. Reduce resources expended in support of each interagency exercise by 5% while still accomplishing agency goals for each exercise.		New measure in FY 2006			N/A	5%
e. Implement process enhancements to permit improvement f the reactor rulemaking petition timeliness by 5%.		New measure in FY 2006			N/A	5%
f. Achieve an average 5% reduction on license renewal resources for applications completed in FY 2007.		New measure in FY 2006			N/A	5%
2. No more than one instance per program where licensing or regulatory activities unnecessarily impede the safe and beneficial uses of radioactive materials.		New measure in FY 2006			0	0
Goal 5: Management						
1. 70% of selected support processes deliver efficiency improvements. **Not Achieved**		New measure in FY 2006			50%	**0%**
a. Percent reduction in time (10% in FY 2006 and 5 % in FY 2007) necessary to add or remove employees from drug testing pool.		New measure in FY 2006			10%	N/A
b. 5% reduction of agency FTE used to develop and submit the FY 2008 and FY 2009 performance budgets. **Not Achieved**		New measure in FY 2006			0%	**12%**
c. Issue offer letter 80% of the time within 45 work days of the closing date of the announcement. **Not Achieved**		New measure in FY 2006			67%	**31%**
2. 70% of selected NRC management programs deliver intended outcomes.		New measure in FY 2005		60%	80%	100%
a. Infrastructure management program		New measure in FY 2005		100%	100%	100%
b. Financial Management & Budget and Performance Integration program		New measure in FY 2005		67%	67%	88%
c. Expanded electronic government program.		New measure in FY 2005		50%	75%	75%
d. Management of Human Capital program		New measure in FY 2005		80%	100%	80%
e. Internal Communication program: 100% of activities achieve their targets		New measure in FY 2005		100%	100%	N/A

FY 2007 Results

The NRC achieved all five of its Safety goal strategic outcomes shown above in FY 2007. The NRC also uses six performance measures, to determine whether it has met its Safety goal. All six performance measure targets were met in FY 2007.

Three of the measures focus on performance at individual nuclear power plants. Inspection results show that all of the nuclear power plants are operating safely. However, one measure, *Number of operating reactors with integrated performance that entered the Manual Chapter 0350 process, or the multiple/repetitive degraded cornerstone column or the unacceptable performance column of the Reactor Oversight Program Action Matrix, with no performance exceeding Abnormal Occurrence Criterion I.D.4*, shows an increase from 0 to 1 during FY 2007. One reactor met the conditions in this measure during FY 2007. The Palo Verde Unit 3 entered the multiple/repetitive degraded cornerstone column because of safety system equipment problems and the licensee was not effective at addressing and fixing them. NRC inspections identified the issue and brought it to the attention of licensee management for correction. Palo Verde is scheduled for a significant site review in FY 2008. In addition, another measure uses risk analysis to determine safe operations shows that none of the plants experienced a significant precursor, defined as an event which has a 1 in 1,000 probability of leading to substantial damage to the reactor fuel. This mea-sure indicates that not only were the plants operated safely, but the events that did occur were of relatively minor significance.

The fourth measure tracks the trends of several key indicators of nuclear power plant safety. This mea-sure is the broadest measure of the safety of nuclear power plants, incorporating the performance results from all plants to determine industry average results. The measure results show that there were no statistically significant adverse trends in any of the indicators in FY 2007.

The last two safety measures track harmful radiation exposures to the public and occupational workers, and radiation exposures that harm the environment. None of these measures exceeded their targets in FY 2007.

STRATEGIC GOAL 2: SECURITY

Ensure the secure use and management of radioactive materials.

- Security: Ensure the secure use and management of radioactive materials

The NRC must remain vigilant in ensuring the security of nuclear facilities and materials in an elevated threat environment. The agency achieves its common defense and security goal using licensing and oversight programs similar to those employed in achieving its safety goal.

Strategic Outcome:

- No instances where licensed radioactive materials are used domestically in a manner hostile to the security of the United States.

FY 2007 Results

The NRC achieved its one Security goal strategic outcome shown above in FY 2007. The NRC also uses five Security goal performance measures, in addition to the Security goal strategic outcomes to determine whether we have met our Security goal. All five performance measure targets were met in FY 2007. The first performance measure is whether there were any unrecovered losses or thefts of risk-significant radioactive sources. The measure ensures that those radioactive sources that the agency has determined to be risk-significant to the public health and safety are accounted for at all times. The ability to account for these sources is critical to secure the critical infrastructure of the nation from "dirty bomb" attacks, or other means of radiation dispersal.

The second, third, and fourth performance measures evaluate the number of significant security events and incidents that occur at NRC licensed facilities. These measures determine whether nuclear facilities are maintaining adequate protective forces to prevent theft or diversion of nuclear material or sabotage, whether systems in place at licensee plants are accurately accounting for the type and amount of materials which are processed, utilized, or stored, and whether the facilities are accounting for special nuclear material at all times and that no losses of this material has occurred. There were no events that met the conditions for this measure in FY 2007.

The last security measure is whether there were any significant unauthorized disclosures of classified and/or safeguard information that may cause damage to national security or public safety. This measure determines whether classified information or safeguards information is stored and utilized in such a way as to prevent its disclosure from the public, terrorist organizations, other nations, or personnel without a need to know. Unauthorized disclosures can harm national security or compromise public health and safety. The measure also determines whether controls are in place to maintain and secure the various devices and systems (electronic or paper based) which the agency and its licensees use to store, transmit, and utilize this information. There were no documented disclosures of this type of information during FY 2007.

Operational Goals: Openness, Effectiveness, and Management

Openness

Under Openness, the agency achieved one of two performance measures. The agency achieved its performance measure of stakeholders that perceive the agency to be open in its processes, with a survey score of 94 percent. However, it missed the performance measure target of 88 percent for selected openness output measures that achieve their output targets. The agency achieved a score on this measure of 66 percent because it missed three output measure targets.

The first missed output measure under the performance measure, *The NRC achieves a 72 percent user satisfaction score for the agency's public Web site greater than or equal to the Federal Agency Mean score based on results of the yearly American Customer Satisfaction Index for Federal Web site*s missed its target by one percentage point with a score of 71 percent. The agency will continue to work on the Web site to improve it so it can meet the target.

The second output measure that missed its target, *90 percent of non-sensitive, unclassified regulatory documents generated by the NRC and sent to the agency's Document Processing Center that are released to the public by the 6th working day after the date of the document,* showed significant improvement over the 2006 result increasing from 63 percent to 75 percent yet still fell below the 90 percent target. The agency will continue to review its internal review processes to find efficiencies so that the amount of time necessary to release documents can be reduced.

The third output measure that missed its target, *90 percent of non-sensitive, unclassified regulatory documents received by the NRC that are released to the public by the 6th working day after the document is added to the ADAMS main library*, also showed significant improvement from 77 percent to 87 percent. However, it was still 3 percent below the 90 percent target. The agency will continue its staff training efforts to close the gap on this measure

Effectiveness

Under Effectiveness, the agency achieved one of two performance measures. The agency missed two of five targets associated with the first measure *70 percent of*

selected processes deliver efficiency improvement. The first output under the measure that was missed called for a *10 percent reduction in the average enforcement processing time for handling discrimination allegations.* Two discrimination cases were processed during FY 2007. They took an average of 236 days to process.

The agency was not able to meet the 10 percent reduction in processing time due to the complexity of utilizing alternative dispute resolution in the case. The direct costs associated with post-investigation alternative dispute resolution are greater than the costs for processing traditional enforcement actions. Efficiencies have been made and continue to be made in the alternative dispute resolution process which should allow the agency to reduce the processing time for these cases. The second missed output under the measure was to *Eliminate the requirement for license renewal and approve a living license for the two Category III facilities which have been renewed in FY 2006 and FY 2007.* The agency has not approved a living license for these facilities yet.

The agency met its second effectiveness performance measure regarding the number of instances per program where licensing or regulatory activities unnecessarily impede the safe and beneficial uses of radioactive materials.

Management

Under Management, the agency achieved one of two performance measures. The first measure, to deliver efficiency improvements for selected support processes, was not achieved. Both outputs under the measure were missed. The first target that was missed was to *issue an offer letter to new employees within 45 work days of the closing date of the employment announcement 80 percent of the time.* However, offer letters were issued within 45 days only 31 percent of the time in FY 2007. The NRC undertook a Lean Six Sigma study during the second quarter of FY 2007 to evaluate the hiring process from the closing date of the announcement to the offer date and develop recommendations to help streamline that process. The agency is currently leading a separate effort to implement the recommendations made by the Lean Six Sigma study workgroup and to develop a plan to assess NRC's progress towards reducing the hiring time frame to meet the 45-day target.

The second target that was missed was a *5 percent reduction of agency Full Time Equivalents (FTE) used to develop and submit the FY 2008 and FY 2009 performance budgets.* The agency has experienced a large growth in FTEs within the last year due to the New Reactor Program ramping up to receive applications from licensees to develop and construct new reactors. As a result, additional budget staff was hired to manage the program which resulted in the agency exceeding the target for this measure. However, the Office of the Chief Financial Officer is currently developing a new budget process as directed by the Commission and it is anticipated that there should be a reduction in FTEs to develop the FY 2010 Performance Budget.

The second Management performance measure assessed the agency's performance in delivering outcomes in four management programs: infrastructure management, financial management, information technology management, and human capital management. These programs were able to meet their intended outcomes based on successfully meeting the sub-measures within each program.

Program Assessment Rating Tool Results

Another important measure of the effectiveness of the agency's programs are Program Assessment Rating Tool (PART) reviews of the agency's program

activities conducted by the Office of Management and Budget. The results of the agency's PART scores are shown below:

Program	Year	Score	Rating
Reactor Inspection and Performance Assessment	2003	89	Effective
Fuel Facilities Licensing and Inspection	2003	89	Effective
Nuclear Materials Users Licensing and Inspection	2004	93	Effective
Reactor Licensing	2005	74	Moderately Effective
Spent Fuel Storage and Transportation Licensing and Inspection	2005	89	Effective
Decommissioning and Low-Level Waste	2007	91	Effective
High-Level Waste Repository	2007	87	Effective

Brief discussions of the PART analyses completed in FY 2007 are presented below.

Decommissioning and Low-Level Waste

This program was rated effective in FY 2007. The program earned high scores for Program Purpose and Design and for Program Management. The PART noted that the purpose was clear and the program uses regular independent assessments have helped the program to become more results-focused. The program achieves its long-term safety and security goals with respect to the safe management and cleanup of an increasing number of NRC licensed sites that use radioactive material.

The improvement plan for the program includes developing better linkage of budget requests to the program's success in accomplishing annual and agency long-term goals to make clear how funding affects program accomplishment. Another follow-up action is to improve quantitative measurements of efficiency, including baselines and annual targets to better demonstrate year-to-year performance trends.

High-Level Waste Repository

This program is rated effective in FY 2007. The program earned high scores for Program Purpose and Design and for Program Management. The PART noted that the purpose was clear and the program used regular, independent assessments to help the program become more results focused and satisfying NRC's Nuclear Waste Policy Act responsibilities and pre-licensing functions. The PART also indicated that the program has made significant progress toward meeting the goal of establishing a regulatory system to ensure the repository achieves long-term safety and security goals.

The improvement plan for the program includes developing better linkage of budget requests to the program's success in accomplishing annual and agency long-term goals to make clear how funding affects program accomplishment. Another follow-up action is to improve quantitative measurements of efficiency, including baselines and annual targets to better demonstrate year-to-year performance trends.

FUTURE CHALLENGES

The NRC ensures that the health and safety of the American public and the environment is adequately protected from any harmful effects of using nuclear materials. The industry has experienced a substantial improvement in safety at nuclear power plants over the past twenty years as both the nuclear industry and the NRC have gained substantial experience in the operation and maintenance of nuclear power facilities. Improvements in safety have occurred at a time when nuclear power generation has increased significantly, from 610,000 gigawatt hours in CY 1993 to approximately 787,000 gigawatt hours in CY 2006. However, despite the excellent safety and security record in the industry, the agency cannot rest on its achievements. The primary challenges faced by the agency are the expected large number of new nuclear plants expected to apply for licenses, the safe disposal of high-level nuclear waste, materials degradation, and security at nuclear facilities.

New Nuclear Power Plants

With increased concerns about the continued availability and cost of oil as well as environmental damage caused by coal burning electrical plants, the amount of electricity supplied by nuclear power is likely to increase substantially in the future. The agency expects a large number of applications for the construction of new power plants to be filed over the next few years. The last nuclear power plant construction permit was issued in 1977. The agency's primary challenge is to license the next generation of nuclear reactors to ensure that they will operate safely while providing electricity required by the Nation for economic growth. These new reactor designs require detailed analysis of their vulnerability to accidents and security compromises, as well as development of inspection procedures, tests, analysis, and acceptable criteria for their construction. The NRC is also evaluating commercial gas centrifuge facilities that utilize new methods of enriching nuclear fuel to supply fuel for the reactors.

Safe Disposal of High-Level Waste

The NRC also faces a major challenge as the Department of Energy prepares an application to establish the Nation's first repository for high-level radioactive waste at Yucca Mountain, NV. Safely disposing of the waste from nuclear power plants is vital to protect public health and the environment. Lack of storage options would become a major roadblock for the continued growth of the industry if storage options are not available. The Department of Energy has indicated that a license application may not be filed until mid-2008. The NRC's review of this application will require the evaluation of a wide-range of technical and scientific issues and resolution of many difficult regulatory concerns. Safe and secure interim storage capacity must be ensured until a repository is licensed and ready to receive high-level nuclear waste. In addition to the storage of nuclear waste, safely transporting spent nuclear fuel is a significant issue for the public and the agency. Most nuclear waste is now safely and securely stored at the reactor sites. More than 1,300 spent fuel shipments regulated by the NRC have been safely transported in the United States in the past 25 years. It is anticipated that the bulk of the nuclear waste now stored at the reactor sites will eventually be moved to a permanent storage site. Therefore, the agency must be able to assure the public that all movements of nuclear waste, including those to a permanent storage site, will be safe and secure.

Security at Nuclear Facilities

In addition to the safety issues, the security of nuclear materials is of paramount importance to the Nation. The agency continues to improve the requirements which better ensure the security of nuclear materials and facilities. The threat faced by the Nation from those seeking to steal classified information has become more urgent in recent years. Nuclear facilities have implemented increased security measures, including force-on-force exercises, to help ensure protection of this vital national infrastructure. Nuclear facilities are among the most secure facilities in the nation. Intelligence is constantly monitored to determine the level of threat faced by nuclear facilities.

PRESIDENT'S MANAGEMENT AGENDA

INITIATIVE 1

Strategic Management of Human Capital

The NRC's ability to accomplish its mission depends on the availability of a highly skilled and experienced workforce. The Commission is proud of the NRC's ranking as the Best Place to Work in the Federal Government based on responses to the 2006 Federal Human Capital survey. To ensure flexibility in its management of human capital and to promote efficiency, the NRC has streamlined recruitment and the review and approval process for relocation and retention incentives. Through the use of an automated strategic workforce planning tool, the NRC is able to determine what critical skill/knowledge gaps exist and can gear its recruitment and other programs (e.g., grants and fellowships) appropriately.

INITIATIVE 2

Budget and Performance Integration

The NRC continues to make progress in achieving budget and performance integration in accordance with the President's Management Agenda. This progress includes developing and ultimately adopting new outcome-based performance measures and revising the agency's Strategic Plan, accurately monitoring program performance, and integrating performance goal information with associated costs.

INITIATIVE 3

Competitive Sourcing

One of the NRC's corporate management strategies is to acquire goods and services in an efficient manner. To achieve this, the NRC established output measures associated with the implementation of the competitive sourcing initiative under the President's Management Agenda, adopted a performance-based approach to contracting, and posted procurement synopses on the agency's Web site. The NRC uploaded its Year 2007 Federal Activities Inventory Reform Act inventory in the Office of Management and Budget's Workforce Inventories Tracking System on June 29, 2007. In accordance with NRC's Competitive Sourcing Plan, potential commercial activities have been identified to be studied to determine which are appropriate for public-private competition. The NRC completed three business case analyses by the end of FY 2007.

INITIATIVE 4

Expanded Electronic Government

The NRC has aligned its information technology investments with the Federal Government's Electronic Government program (e-gov). NRC has completed migration to a number of e-gov services and is in the process of migrating to others. NRC has also institutionalized internal processes to ensure effective use and compliance with e-gov. The NRC emphasizes enterprise architecture in its systems development life cycle methodology and has a Project Management Methodology in place. The Project Management Methodology provides full life cycle guidance for the agency, providing guidance for enterprise architecture, capital planning and investment control (CPIC), infrastructure development, and life cycle management processes. An Information Technology Senior Advisory Council, comprising senior business managers, plays an integral role in ensuring technology investments align to the agency's mission and goals and in establishing priorities.

INITIATIVE 5

Improved Financial Management

The agency's goals for improved financial management include providing reliable, transparent, useful, and timely information to stakeholders and for management decision making; maintaining adequate controls; and implementing integrated and flexible systems to meet the agency's reporting needs. This will ensure that NRC's financial assets are adequately protected consistent with risk. The agency is implementing a new core financial management system hosted by a shared service provider based on Web-enabled commercial off-the-shelf software. The new system will combine the functionality of the existing core accounting, license fee billing, cost accounting, allotment/allowance financial plan, and the capitalized property systems into a single enterprise-wide system. This systems strategy will result in more efficient transaction processing utilizing electronic workflow management, greater access to information through the use of ad-hoc reporting tools, and improved overall system performance. An integrated financial management system will also improve internal controls by eliminating multiple data transfers between stand alone systems and the resultant manual reconciliations currently performed to ensure data integrity.

FINANCIAL PERFORMANCE OVERVIEW

As of September 30, 2007, the financial condition of the NRC was sound with respect to having sufficient funds to meet program needs and adequate control of these funds in place to ensure obligations did not exceed budget authority. The NRC prepared its financial statements in accordance with the accounting standards codified in the Statements of Federal Financial Accounting Standards (SFFAS) and OMB Circular A-136, Financial Reporting Requirements.

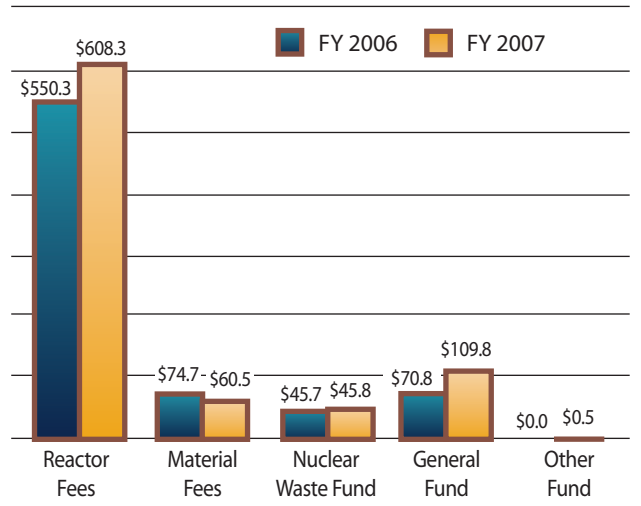
Sources of Funds

The NRC has two appropriations, Salaries and Expenses and Office of the Inspector General and funds for both appropriations are available until expended. The NRC's total new FY 2007 budget authority was $824.9 million. Of this amount, $816.5 million was for the Salaries and Expenses appropriation and $8.4 million was for the Office of the Inspector General appropriation. This represents an increase in new budget authority of $83.4 million over FY 2006 ($83.3 million for the Salaries and Expenses appropriation and $0.1 million for the Office of the Inspector General appropriation). In addition, $74.8 million from prior-year appropriations, $3.5 million from prior-year reimbursable work, and $7.7 million for new reimbursable work to be performed for others was available to obligate in FY 2007. The sum of all funds available to obligate for FY 2007 was $910.9 million, which is a $101.9 million increase over the FY 2006 amount of $809.0 million.

The Omnibus Budget Reconciliation Act of 1990 (OBRA-90), as amended, required the NRC to collect fees to offset approximately 90 percent of its new budget authority, less the amount appropriated to the NRC from the Nuclear Waste Fund and amounts appropriated for waste incidental to reprocessing and generic homeland security for FY 2007. The NRC collected $668.8 million in reactor and material fees in FY 2007 (see Figure 5). For FY 2006, OBRA-90 required NRC to collect approximately 90 percent of its new budget authority, excluding appropriations from the Nuclear Waste Fund and amounts appropriated for waste incidental to reprocessing.

SOURCES OF FUNDS

(In Millions) **Figure 5**



Uses of Funds by Function

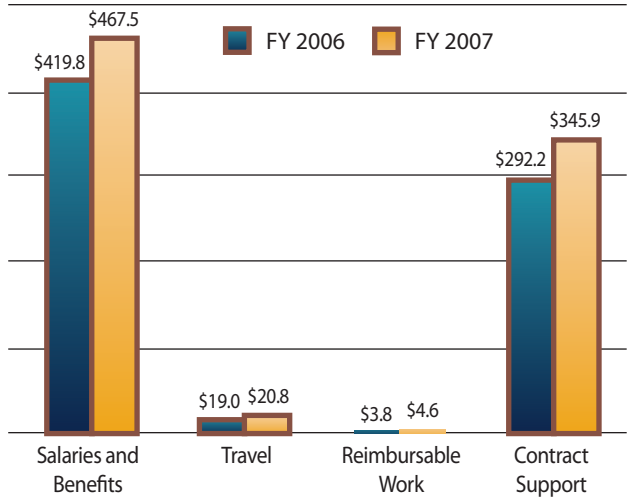
The NRC incurred obligations of $838.8 million in FY 2007, which was an increase of $104.0 million over FY 2006. Approximately 56 percent of obligations were used for salaries and benefits. The remaining 44 percent was used to obtain technical assistance for the NRC's principal regulatory programs, to conduct confirmatory safety research, to cover operating expenses, (e.g., building rentals, transportation, printing, security services, supplies, office automation, training), staff travel, and reimbursable work (see Figure 6). The unobligated budget authority available at the end of FY 2007 of $72.2 million, decreased compared to the FY 2006 amount of $74.3 million. Of this $72.2 million, $6.6 million is for reimbursable work and $65.6 million is available to fund critical NRC needs in FY 2008.

Audit Results

The NRC received an unqualified audit opinion on its FY 2007 financial statements. In FY 2007, the auditors identified a continuing material weakness in the agency's information system-wide security

USES OF FUNDS BY FUNCTION
(In Millions)

Figure 6



controls related to an independent evaluation of the NRC's implementation of the Federal Information Security Management Act (FISMA). The FISMA report identified two significant deficiencies related to a lack of contingency plan testing for information security systems, and a lack of certification and accreditation for most of the agency's major information systems. These deficiencies were also identified as a material weakness in the agency's Federal Managers' Financial Integrity Act (Integrity Act) assurance statement. The NRC plans to have contingency plan testing completed during FY 2008 and one-half of the systems certified and accredited by September 2008, with the remaining systems being certified and accredited by September 2009.

In FY 2004, FY 2005, and FY 2006, the auditors identified a material weakness concerning the Fee Billing System and the quality assurance process over fee billing. In FY 2007, the auditors downgraded this to a significant deficiency. NRC management has classified the fee billing process as a control deficiency in the annual Integrity Act assurance statement based on the corrective actions to implement compensating controls during the current and prior fiscal years (see Chapter 1, *Management Assurances*). In FY 2006, the Fee Billing System was also identified as a substantial non-compliance with the Federal Financial Management Improvement Act (Improvement Act).

In FY 2007, the Fee Billing System and Human Resources Management System are substantially non-compliant with the Improvement Act due to a lack of current certification and accreditation. In addition, a general support system, which all financial management systems either reside on or rely on, does not have a current certification and accreditation and did not have the annual contingency plan tested. Although there may be a potential risk with security controls, there are a number of existing mitigating controls that provide NRC management reasonable assurance that the financial data resulting from financial management systems is accurate. NRC will continue to improve internal controls by implementing and monitoring corrective actions during the agency's internal control assessment.

The auditors closed the remaining prior-year reportable condition concerning 10 CFR Part 170 hourly rates for license fees. A summary of the Financial Statement Audit Results is included in Appendix D.

Limitations of the Financial Statements

The principal statements have been prepared to report the financial position and results of operations of the NRC, pursuant to the requirements of the Chief Financial Officers Act of 1990, as amended by the Government Management and Reform Act of 1994. These statements have been prepared for the books and records of the NRC in accordance with the formats prescribed by the Office of Management and Budget and in accordance with accounting principles generally accepted in the United States. However, these statements differ from the financial reports used to monitor and control budgetary resources that are prepared from the same books and records. The principal statements should be read with the realization that they are for a sovereign entity, liabilities not covered by budgetary resources cannot be liquidated without enactment of an appropriation, and the payment of all liabilities other than for contracts can be abrogated by the sovereign entity. Other limitations are discussed in the footnotes to the principal statements.

The NRC's FY 2007 financial statements were audited by R. Navarro and Associates, Inc., under contract to the NRC Office of the Inspector General.

Financial Statement Highlights

The NRC's financial statements summarize the financial activity and financial position of the agency. The financial statements, footnotes, and required supplementary information, appear in Chapter 3, *Financial Statements and Auditors' Report*. Analysis of the principal statements follows:

ASSET SUMMARY (IN MILLIONS)

	FY 2007	FY 2006
Fund Balance with Treasury	$ 356.4	$ 281.7
Accounts Receivable, Net	93.9	75.2
Property & Equipment, Net	31.8	26.9
Other	3.3	2.3
Total Assets	$ 485.4	$ 386.1

Analysis of the Balance Sheet

The NRC's assets were approximately $485.4 million as of September 30, 2007. This is an increase of $99.3 million from the end of FY 2006. The assets reported in NRC's Balance Sheet are summarized in the accompanying table.

The Fund Balance with Treasury represents the NRC's largest asset of $356.4 million as of September 30, 2007, an increase of $74.7 million from the FY 2006 year-end balance. This balance accounts for approximately 73 percent of total assets and represents appropriated funds, collected license fees, and other funds maintained at the U.S. Treasury to pay current liabilities. The increase in Fund Balance with the U.S. Treasury is primarily due to an $83.4 million increase in new budget authority offset by a $77.8 million increase in expenditures, a $58.1 million increase in fees collected, and a $16.9 million increase in the fund balance carryover from the prior year.

Accounts Receivable, Net, as of September 30, 2007, was $93.9 million which includes an offsetting allowance for doubtful accounts of $4.7 million. This is a 25 percent increase from the FY 2006 year-end Accounts Receivable, Net, balance of $75.2 million. The increase was primarily due to an increase in annual fees for reactor licensing and an increase in the hourly rates for materials and facilities inspection fees. The value of Property, Plant, and Equipment, Net, was $31.8 million, representing 7 percent of total assets. The majority of this balance represents information technology software and leasehold improvements.

LIABILITIES SUMMARY (IN MILLIONS)

	FY 2007	FY 2006
Accounts Payable	$ 27.7	$ 31.2
Federal Employee Benefits	6.8	7.4
Other Liabilities	169.7	134.9
Total Liabilities	$ 204.2	$ 173.5

The NRC's liabilities were $204.2 million as of September 30, 2007. The accompanying table shows an increase in Total Liabilities of $30.7 million from the FY 2006 year-end balance of $173.5 million. This increase is primarily due to the increase in the liability that relates to future collections, which will be paid to the U.S. Treasury. Other Liabilities include $93.4 million for recoveries from accounts receivable, $38.3 million for accrued annual leave, and $16.0 million for accrued salaries to employees. Of the agency's liabilities, $46.8 million were not covered by budgetary resources, which is a slight increase over the balance as of September 30, 2006. The liabilities not covered by budgetary resources include unfunded accrued annual leave and future workers' compensation.

NET POSITION SUMMARY (IN MILLIONS)

	FY 2007	FY 2006
Unexpended Appropriations	$ 254.0	$ 193.7
Cumulative Results of Operations	27.2	18.9
Total Net Position	$ 281.2	$ 212.6

The difference between Total Assets and Total Liabilities, Net Position, was $281.2 million as of September 30, 2007. This is an increase of $68.6 million from the FY 2006 year-end balance. Net Position is comprised of two sections: Unexpended Appropriations and Cumulative Results of Operations. Unexpended Appropriations is the amount of authority granted by Congress that has not been expended. The increase of Unexpended Appropriations of $60.3 million for FY 2007 is primarily due to funding for the expected added volume of new reactor licensing activities.

NET COST OF OPERATIONS (IN MILLIONS)

	FY 2007	FY 2006
Nuclear Reactor Safety	$ (30.6)	$ (47.1)
Nuclear Materials & Waste Safety	124.0	127.7
Net Cost of Operations	$ 93.4	$ 80.6

Analysis of the Statement of Net Cost

The Statement of Net Cost presents the net cost of NRC's two programs as identified in the NRC Annual Performance Plan. The purpose of this statement is to link program performance to the cost of programs. The NRC's net cost of operations for the year ended September 30, 2007, was $93.4 million, which is an increase of $12.8 million over the FY 2006 net cost of $80.6 million. Net costs by program are shown in the accompanying table. Gross costs increased primarily due to an increase in Nuclear Reactor Safety in the areas of new reactor and existing licensing programs. Earned Revenue increased primarily because of the increase in appropriations for NRC activities, of which the NRC is required to collect 90 percent through fee billing.

Total earned revenue for the year ended September 30, 2007, was $693.3 million, which is an increase of $53.3 million from the earned revenue of $640.0 million for the year ended September 30, 2006. Earned revenue is derived from fees for reactor and materials licensing and inspections in accordance with 10 CFR Parts 170 and 171.

Analysis of Statement of Changes in Net Position

The Statement of Changes in Net Position reports the change in net position during the reporting period. Net position is affected by changes in its two components—Cumulative Results of Operations and Unexpended Appropriations. The increase in Net Position of $68.6 million from FY 2006 to FY 2007 is due primarily from an increase in the net change in Unexpended Appropriations of $60.3 million. This increase is primarily due to the increase in the appropriation for FY 2007 for the expected added volume of new reactor licensing activities.

Analysis of the Statement of Budgetary Resources

The Statement of Budgetary Resources reports the source and status of budgetary resources at the end of the period. It presents the relationship between budget authority and budget outlays, and the reconciliation of obligations to total outlays. For FY 2007, NRC had Total Budgetary Resources available of $910.9 million, the majority of which was derived from new budget authority. This represents a 13 percent increase over FY 2006 budgetary resources available of $809.0 million. The increase provides funding for the anticipated growth in new reactor licensing including costs for staffing, pre-application activities, and office space.

For FY 2007, the NRC had Obligations Incurred of $838.8 million, or 92 percent of funds available, compared to FY 2006 Obligations Incurred of $734.8 million, at 91 percent of funds available. This increase was due primarily to the increase of appropriations received for new reactor licensing activities. Gross outlays for FY 2007 were $764.4 million, which represents a $77.8 million increase from FY 2006 total outlays of $686.6 million primarily due to the increase in spending in the area of Nuclear Reactor Safety for new reactor and existing reactor licensing programs.

U.S. NUCLEAR REGULATORY COMMISSION
FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT
STATEMENT FOR FY 2007

The U.S. Nuclear Regulatory Commission's (NRC) management is responsible for establishing and maintaining effective internal controls and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). The NRC is able to provide a qualified statement of assurance that the internal controls and financial management systems meet the objectives of FMFIA, with the exception of one material weakness noted herein.

The NRC conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, Management's Responsibility for Internal Control. Based on the results of this evaluation, the NRC identified one material weakness in its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2007. Other than this exception, the internal controls were operating effectively, and no other material weaknesses were found in the design or operation of the internal controls.

In addition, the NRC conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of the evaluation, the NRC can provide reasonable assurance that its internal control over financial reporting as of June 30, 2007, was operating effectively, and no material weaknesses were found in the design or operation of the internal control over financial reporting.

Dale E. Klein
Chairman
U.S. Nuclear Regulatory Commission
November 15, 2007

SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

Management Assurances

This section provides information on the NRC's compliance with the Federal Managers' Financial Integrity Act, OMB Circular A-123, Management's Responsibility for Internal Control, and the Federal Financial Management Improvement Act. A summary of Management Assurances is included in Appendix D.

Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act (Integrity Act) mandates that agencies establish controls that reasonably ensure that (1) obligations and costs comply with applicable law; (2) assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and (3) revenues and expenditures are properly recorded and accounted for. This Act encompasses program, operational, and administrative areas, as well as accounting and financial management. It also requires the Chairman to provide an assurance statement on the adequacy of internal controls and conformance of financial systems with governmentwide standards.

Management Control Review Program

Managers throughout the NRC are responsible for implementing effective controls in their areas of responsibilities. Each office director and regional administrator prepares an annual assurance statement, which identifies any control weaknesses that require the attention of the NRC's Executive Committee on Internal Control (ECIC). These statements are based on various sources including management knowledge gained from the daily operation of agency programs and reviews, management reviews, program evaluations, audits of financial statements, reviews of financial systems, annual performance plans, Inspector General and Government Accountability Office reports, and reports and other information provided by the Congressional committees of jurisdiction.

The NRC's ECIC is comprised of senior executives from the offices of the Chief Financial Officer and the Executive Director of Operations, with the General Counsel and the Inspector General participating as advisors. The ECIC met and reviewed the assurance statements provided by the offices and regions. The ECIC then informed the Chairman as to whether the NRC had any internal control deficiencies serious enough to be reported as a material weakness or material noncompliance.

The NRC's ongoing internal control program requires, among other things, that internal control deficiencies be integrated into the offices' and regions' annual operating plans. The operating plan process provides for periodic updates and ensures that key issues receive senior management attention. The internal control information in these plans, combined with the individual assurance statements discussed previously, provide the framework for monitoring and improving the agency's internal controls on an ongoing basis.

FY 2007 Integrity Act Results

The NRC evaluated its internal control systems for the fiscal year ending September 30, 2007. This evaluation provided reasonable assurance that the agency's internal controls achieved their intended objectives in accordance with the Integrity Act. The NRC is able to provide a qualified statement of assurance that the internal controls and financial management systems meet the objectives of the Integrity Act, with the exception of one material weakness.

Material Weakness

The Office of the Inspector General performed an independent evaluation of the NRC's implementation of the Federal Information Security Management Act for FY 2007. The following two findings were identified as significant deficiencies in NRC's information technology (IT) security program:

- Only 2 of 30 operational NRC information systems have a current certification and accreditation, and only 4 out of the 11 systems used or operated by a contractor or other organization on behalf of the agency have a current certification and accreditation.
- Annual contingency plan testing is still not being performed for all of the NRC's operational information systems.

As a result of this evaluation, the NRC identified these two findings as one material weakness associated with the agency's overall IT security program under the provisions of the Integrity Act. The NRC will implement the following corrective actions to resolve this material weakness:

- The NRC's FY 2008 budget includes additional resources and the agency has developed a milestone plan to ensure that one-half of the systems will be certified and accredited by September 2008, with the remaining systems being certified and accredited by September 2009.
- All system contingency plan testing will be completed during FY 2008.

OMB Circular A-123, Management's Responsibility for Internal Control, Including Appendix A, Internal Control over Financial Reporting

In FY 2006, the NRC implemented the requirements of the Office of Management and Budget revised Circular A-123, which defined and strengthened management's responsibility for internal control in Federal agencies. The revised Circular included updated internal control standards and a new section, Appendix A, which required Federal agencies to assess the effectiveness of internal control over their financial reporting and prepare a separate statement of assurance as of June 30.

In FY 2007, the NRC continued its assessment of internal control over financial reporting. The scope of financial reports, materiality values, risk assessments, key processes and key controls were re-evaluated. A three-year rotational testing plan was developed, and three of the original nine key processes from FY 2006 were determined to be significant enough to be included in the testing each year of the 3-year cycle. The remaining six key processes will be tested once in the 3-year cycle beginning this year, two each year. Based on the results of this evaluation, the NRC can provide reasonable assurance that its internal control over financial reporting was operating effectively as of June 30, 2007, and that no material weaknesses were found in the design or operation of the internal controls over financial reporting.

Federal Financial Management Improvement Act

The Federal Financial Management Improvement Act (Improvement Act) requires each agency to implement and maintain systems that comply substantially with (1) Federal financial management system requirements, (2) applicable Federal accounting standards, and (3) the standard general ledger at the transaction level. The Improvement Act requires the Chairman to determine whether the agency's financial management systems comply with the Improvement Act and to develop remediation plans for systems that do not comply.

FY 2007 Improvement Act Results

As of September 30, 2007, the NRC evaluated its financial systems to determine if they complied with applicable Federal requirements and accounting standards required by the Improvement Act. The following eight systems were evaluated—the Federal Financial System, Federal Personnel and Payroll system, Human Resources Management System, Cost Accounting System, Advice of Allotments/Financial Plan System, Capitalized Property System, Fee Billing System, and Controller Resource Database System.

As of September 30, 2007, the agency's financial management systems are in substantial compliance with the Improvement Act, except for two systems which are in substantial noncompliance because of FISMA significant deficiencies related to lack of current certification and accreditation. In addition, a general support system, which all financial management systems either reside on or rely on, does not have a current certification and accreditation and did not have the annual contingency plan tested. Although there may be a potential risk with security controls, there are a number of existing mitigating controls that provide NRC management reasonable assurance that the financial data resulting from financial management systems is accurate. In making this determination, the NRC considered all the information available to them, including the report from the NRC Executive Committee on Internal Control on the effectiveness of internal controls, Office of the Inspector General Audit reports, and the results of the agency's financial management systems reviews. The agency also relied on the Department of the Interior National Business Center's (DOI-NBC) annual reasonable assurance statement in which they concluded that, for FY 2007, the cross-serviced financial systems are in substantial compliance with Federal financial management systems requirements.

The Fee Billing System was identified by the independent auditors as an Improvement Act noncompliance in the FY 2004 through FY 2006 Financial Statement Audit. The agency has taken a number of additional remediation actions during FY 2007 to improve quality assurance over license fee

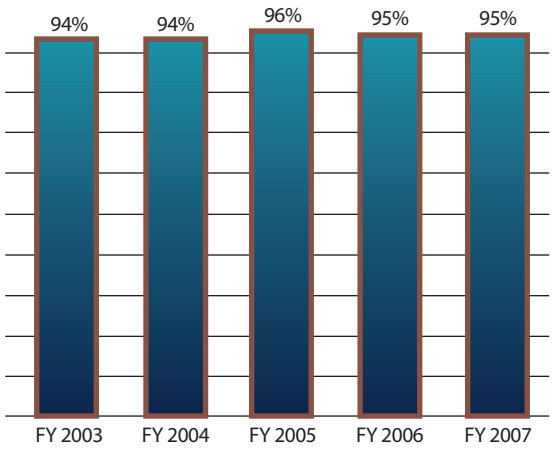
billing processes. Mitigating controls are currently in place to resolve the finding of substantial non-compliance related to quality assurance procedures and to reduce the risk that errors will go undetected.

Prompt Payment

The Prompt Payment Act requires Federal agencies to make timely payments to vendors for supplies and services, to pay interest penalties when payments are made after the due date, and to take cash discounts when they are economically justified. In FY 2007, the NRC paid 8,966 invoices that were subject to the Prompt Payment Act. The NRC percentage of on-time payments subject to the Prompt Payment Act for FY 2007 is 95 percent (see Figure 7). The amount of interest penalties incurred during FY 2007 was $11,160.

PROMPT PAYMENT
(Percentage)

Figure 7



Improper Payments

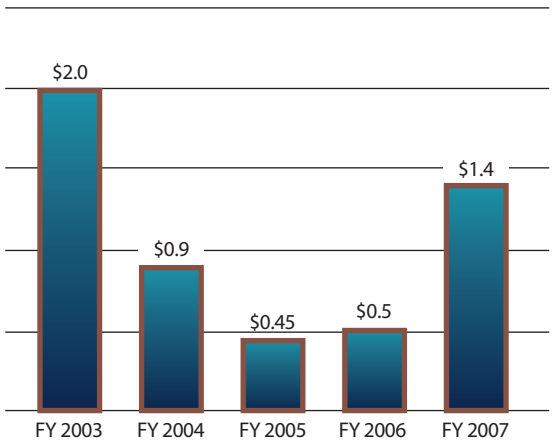
Improper payments continue to be at low risk for the agency. The NRC continues to evaluate its internal controls to guard against improper payments and monitors and reports on improper payments within its programs. At the present time, NRC's payments consist of commercial vendor, interagency, and travel reimbursements. The DOI-NBC's Federal Personnel/Payroll System, as the system of record for payroll disbursements, is responsible for monitoring and reporting on any improper payroll-related payments. The NRC continues to perform annual risk assessments for each of these areas. Based on the FY 2007 risk assessments, the number of and amount of improper payments fall below external reporting requirement established by OMB guidance on what is considered to be a significant risk. NRC awards less than $500 million in annual contracts, and, therefore, is not subject to annual reporting under the Recovery Auditing Act.

Debt Collection

The Debt Collection Improvement Act enhances the ability of the Federal Government to service and collect debts. The agency's goal is to maintain the delinquent debt owed to the NRC, at year end, to less than 1 percent of its annual billings. The NRC continues to meet this goal and at the end of FY 2007 delinquent debt was $1.4 million (see Figure 8). The NRC continues to pursue the collection of delinquent debt and refers all eligible delinquent debt over 180 days to the U.S. Treasury for collection.

DELINQUENT DEBT
(In Millions)

Figure 8



Biennial Review of User Fees

The Chief Financial Officers Act requires agencies to conduct a biennial review of fees, royalties, rents, and other charges imposed by agencies, and make revisions to cover program and administrative costs incurred. Each year, the NRC revises the hourly rates for license and inspection fees and adjusts the annual fees to meet the fee collection requirements of the Omnibus Budget Reconciliation Act of 1990, as amended. The most recent changes to the license, inspection, and annual fees are described in the *Federal Register* (72 FR 31401, June 6, 2007).

The NRC also revised the fees and charges for the Criminal History Program to more appropriately recognize actual costs. Reviews of other types of fees concluded that revisions were not warranted at this time.

Inspector General Act

The agency has established and continues to maintain an excellent record in resolving and implementing open audit recommendations presented in reports from the Office of the Inspector General. Section 5(b) of the Inspector General Act requires agencies to report on final actions taken on audit recommendations. Appendix C includes this information, as well as data concerning disallowed costs determined through contract audits conducted by the Defense Contract Audit Agency.

The Monticello Nuclear Power Plant is located in Monticello, MN, 30 miles northwest of Minneapolis, MN