



*Performance and
Accountability Highlights*

Fiscal Year 2007

MISSION

License and regulate the Nation's civilian use of byproduct, source, and special nuclear materials to ensure adequate protection of public health and safety, promote the common defense and security, and protect the environment.

VISION

Excellence in regulating the safe and secure use and management of radioactive materials for the public good.

Paperwork Reduction Act Statement

The information collections contained in this document are subject to the Paperwork Reduction Act of 1995 (44 U.S.C. 3501 et seq.), which were approved by the Office of Management and Budget (OMB), approval numbers 3150-0002, 3150-0003, 3150-0004, 3150-0009, 3150-0011, 3150-0012, 3150-0014, 3150-0058, 3150-0104, 3150-0123, 3150-0139, and 3150-0197.

Public Protection Notification

The NRC may not conduct or sponsor, and a person is not required to respond to, a request for information or an information collection requirement unless the requesting document displays a currently valid OMB control number.

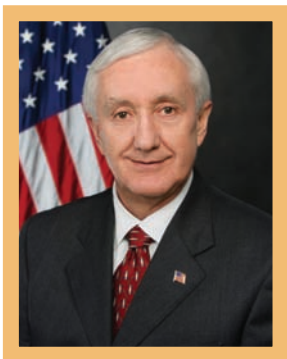
TABLE OF CONTENTS

A MESSAGE FROM THE CHAIRMAN	3
INTRODUCTION	4
ABOUT THE NRC	4
PROGRAM PERFORMANCE OVERVIEW	8
PROGRAM PERFORMANCE RESULTS	9
FUTURE CHALLENGES	13
A MESSAGE FROM THE CHIEF FINANCIAL OFFICER	15
FINANCIAL PERFORMANCE OVERVIEW	16
CONDENSED FINANCIAL STATEMENTS	21
SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE	23
INSPECTOR GENERAL'S TRANSMITTAL LETTER	27
INDEPENDENT AUDITORS' REPORT ON THE CONDENSED FINANCIAL STATEMENTS	28



Commissioner Gregory B. Jaczko, Chairman Dale E. Klein, and Commissioner Peter B. Lyons

A MESSAGE FROM THE CHAIRMAN



I am pleased to present the U.S. Nuclear Regulatory Commission's (NRC) *Performance and Accountability Highlights* for FY 2007. The NRC has again achieved its safety and security performance goals, and continues to position its resources and infrastructure to maintain its strong oversight of existing facilities and to review applications for new nuclear power reactors, license renewals for existing facilities, and a potential high-level waste depository.

The NRC is committed to ensuring that our resources are well managed. This report provides information that demonstrates that NRC's financial and performance data are reliable and complete and the prudent management of the funds entrusted to it by the American public. Continuing our history of financial management excellence, the auditors have rendered an unqualified opinion on the agency's FY 2007 financial statements. This year, the NRC implemented a number of internal control improvements, eliminated a long-standing material weakness relating to the fee billing process, and evaluated its internal controls, including those relating to financial reporting, and the agency's financial management systems as required by the Federal Managers' Financial Integrity Act of 1982 (Integrity Act). There is reasonable assurance that the NRC is in compliance with the FMFIA, with the exception of one material weakness related to implementation of the Federal Information Management Security Act associated with the agency's overall information technology (IT) security. The NRC has developed a corrective action plan and will continue to work to eliminate the material control weakness associated with IT security. In support of the President's Management Agenda, the NRC is currently cross servicing its Human Resources, Payroll, e-Travel, and Accounting systems. The agency is also in the process of integrating and modernizing its financial systems to enhance further controls, reporting, and decisionmaking.

The NRC conducts its regulatory responsibilities to enable the use and management of radioactive materials and nuclear fuel for beneficial civilian purposes in a manner that protects public health and safety and the environment, and promotes the security of the Nation. The Commission is proud of this year's performance in achieving the agency's safety and security goals and looks forward to continuing its high-quality service to the American public in FY 2008 and beyond.

A handwritten signature in black ink that reads "Dale Klein".

Dale E. Klein
November 15, 2007

INTRODUCTION

This Performance and Accountability Highlights report summarizes the information contained in the U.S. Nuclear Regulatory Commission's (NRC) Fiscal Year 2007 Performance and Accountability Report. This report contains information about the agency's mission, organizational structure, and regulatory responsibility. It also contains summarized information about the agency's success in achieving its Strategic goals and highlights the NRC's financial position and audit results. Other key legal and regulatory requirements are also described. This report was prepared according to the requirements of Office of Management and Budget (OMB) Circular A-136, "Financial Reporting Requirements."

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 Highlights, the full Performance and Accountability Report, and to learn more about who we are and what we do to serve the American public.

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 of the United States to serve as Chairman. The President appoints each member, with the advice and consent of the U.S. 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.

The NRC's headquarters is located in Rockville, MD. Four regional offices are located in King of Prussia, PA; Atlanta, GA; Lisle, IL; and Arlington, TX. The NRC's technical training center is located in Chattanooga, TN.

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, MD, 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.

Figure 1
NRC BUDGETARY AUTHORITY, FY 2002-2007
(In Millions)

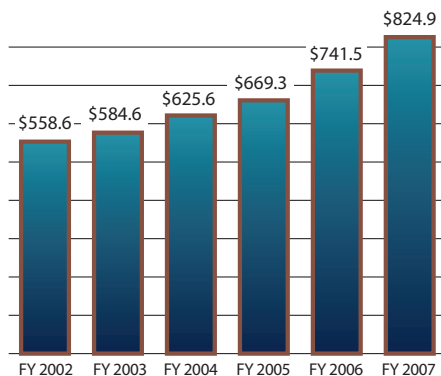
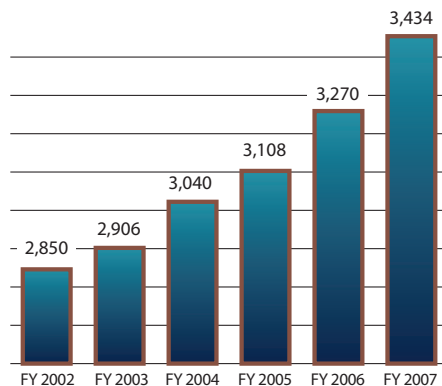


Figure 2
NRC PERSONNEL CEILING, FY 2002-2007
(Staff)



The NRC's budget for fiscal year (FY) 2007 was \$824.9 million with 3,434 full-time equivalent staff. 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.

Approximately 20 percent of the Nation's electricity is generated by the 104 NRC-licensed commercial nuclear reactors operating in 31 States. 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. 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 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), 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.

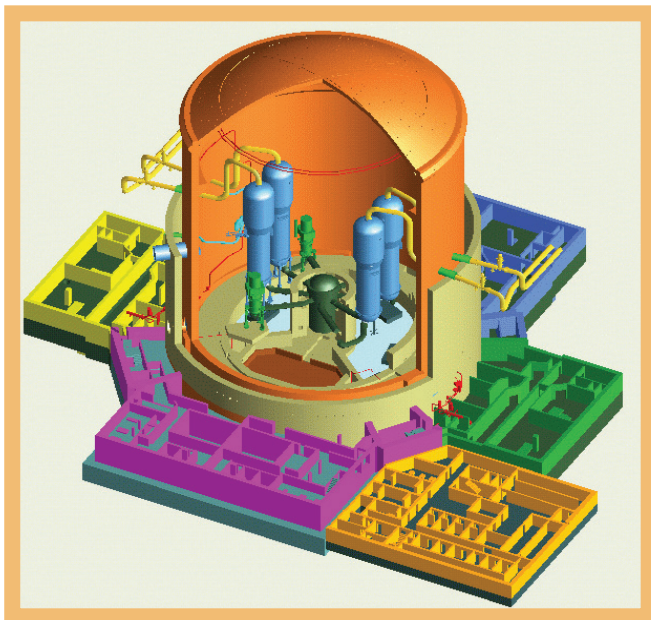
Reactors

Power plants change one form of energy into another. Electrical generating plants convert heat, the energy of wind, falling water, or the sun, 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 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. 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. However, small amounts of these radioactive fission byproducts, principally gases, 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.

Figure 3

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 material is a diagnostic tool that can identify the status of a disease

and minimize the need for surgery, reducing the risks from postoperative infection. Radioisotopes give doctors the ability to look inside the body and observe soft tissues and organs, similar to the way X-rays provide images of bones. Radioisotopes carried in the blood also allow doctors to detect clogged arteries or check circulatory system function.

The same property that makes radiation hazardous can also help 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, a form of uncontrolled cell division. Although some healthy tissue surrounding a tumor may be damaged during the treatment, 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 flooring in high-traffic areas of department stores, airports, hotels, and churches, because they resist abrasion and are low maintenance.

Waste Disposal

During normal operations, a nuclear power plant generates two types of radioactive waste: high-level waste, which consists of used fuel (usually called spent fuel), and low-level waste, which includes 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 waste.



Scott Atwater, Region IV DNMS inspector, checking dry fuel storage casks at Arkansas Nuclear One in Russellville, AR

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 or at one storage facility in Illinois. However, several utilities have begun using dry cask storage pending final disposal. In dry cask storage, spent fuel is stored in heavy metal or concrete containers placed on concrete pads adjacent to the reactor facility. High-level waste or spent fuel is highly radioactive because it contains the fission byproducts that were created while the reactor was operating.

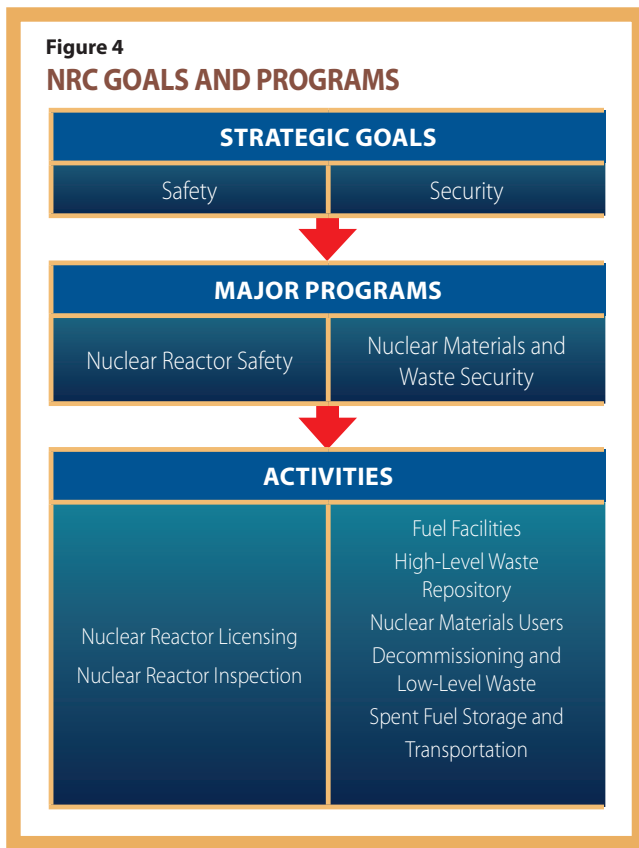
Special procedures are needed in the handling of the spent fuel, since the radiation levels can be very dangerous without proper shielding. The water in

the spent fuel storage pool provides cooling and shields workers from radiation. Concrete and steel, used in dry casks, also provide 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 U.S. Department of Energy (DOE) is developing plans for a permanent disposal facility at Yucca Mountain, NV, 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.

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

- **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.

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 six performance 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 Nuclear Generating Station 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 that 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 measure 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 measure 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

- **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.



Yucca Mountain Tunnel Entrance, Eureka County, NV

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 necessary 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. The measures also determine whether systems in place at licensee plants are accurately accounting for the type and amount of materials which are processed, utilized, or stored. And finally, these measures determine 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 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 to the public, terrorist organizations, other nations, or personnel without a need to know. Unauthorized disclosures can harm national security and 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) that 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. Surveys show that 94 percent of stakeholders perceive the agency to be open in its processes. 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 sites*, missed its target by one percentage point with a score of 71 percent. The agency will continue to work on the Web site to 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 reduce the time needed to release a document.

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 agency has improved efficiency in the alternative dispute resolution process which should allow it 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.

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

The management performance measure not met assessed the agency's performance in delivering efficiency improvements for selected support processes. Both targets 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*. In fact, 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 implementing the recommendations made by the Lean Six Sigma study workgroup.

The second target that was missed was a *5 percent reduction of agency Full Time Equivalent (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 expansion of New Reactor Program. Additional budget staff was hired to manage the program resulting in the agency exceeding the target for this measure.

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.

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.

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 that the program uses regular independent assessments 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 agency annual and long-term goals. This would help 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 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 used regular, independent assessments to help the program become more results focused and satisfy 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.

Figure 5

PROGRAM YEAR SCORE RATING

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

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 industry has experienced a substantial improvement in safety at nuclear power plants over the past 20 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 calendar year (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 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 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 DOE 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 protecting public health and the environment. Lack of storage options would become a major roadblock for the continued growth of the industry. DOE 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. 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



Tour at Davis-Besse Nuclear Power Station near Oak Harbor, OH

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. The NRC constantly monitors the level of threat faced by nuclear facilities.

A MESSAGE FROM THE CHIEF FINANCIAL OFFICER



I am pleased to present the *Nuclear Regulatory Commission's (NRC) Performance and Accountability Highlights* for Fiscal Year 2007. Our independent auditors have once again rendered an unqualified (“clean”) opinion for our financial statements, which demonstrates a continued commitment to being good stewards of taxpayers’ dollars and ensuring resources are appropriately applied in support of the agency’s mission.

As of September 30, 2007, the financial condition of the NRC is sound with respect to having sufficient funds to meet its mission and having adequate control of these funds to ensure our budget authority is not exceeded. As the Chief Financial Officer of the NRC, I take my responsibility for the financial health of the agency very seriously and I am committed to continuous improvement in our financial management.

Fiscal Year 2007 was a year of great progress for two major initiatives that strengthened financial management. First and foremost, the auditors removed the material weakness finding for the legacy License Fee Billing System. This is primarily due to the extensive effort the agency has made to put in place compensating controls over the past two years that mitigate the risks inherent in the current system. Second, the NRC continued to execute OMB’s revised Circular A-123, Appendix A, “Internal Control Over Financial Reporting.” NRC’s FY 2007 assessment of Appendix A compliance, while conducted in greater depth with more testing than in FY 2006, again did not identify any material weaknesses. A discussion of the assessment results is included in this report.

Looking to the future, we will continue to be engaged in additional initiatives designed to improve day-to-day operations and achieve long-term strategic planning goals in financial management. The most significant effort entails the replacement of several legacy systems with an integrated, Web-enabled financial management system based on commercial off-the-shelf (COTS) software. The new system will integrate the functionality of a number of current systems including: core accounting, billing, time and labor, cost accounting, and capitalized property systems into a single enterprise-wide system. NRC is currently evaluating and streamlining agency business processes to support a smooth transition to the COTS software. The process changes and replacement systems will improve efficiency and effectiveness while providing agency managers with substantially greater access to timely financial information on which to base their decisions.

To ensure that the NRC’s financial assets are adequately protected and reported, 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. I look forward to the upcoming year to further improve financial management at the NRC, as we make progress in achieving our goals.

A handwritten signature in black ink that reads "William M. McCabe". The signature is written in a cursive, flowing style.

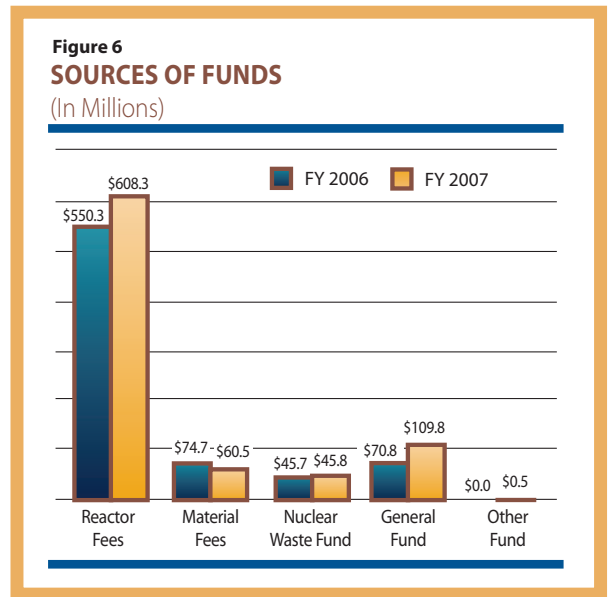
William M. McCabe
Chief Financial Officer
November 15, 2007

FINANCIAL PERFORMANCE OVERVIEW

As of September 30, 2007 and 2006, 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 appropriated for Salaries and Expenses and \$8.4 million was appropriated for the Office of the Inspector General. This represents an increase in new budget authority of \$83.4 million over FY 2006 (\$83.3 million for the Salaries and Expenses 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 6). For FY 2006, OBRA-90 also 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.

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, and to cover operating expenses, (e.g., building rentals, transportation, printing, security services, supplies, office automation, training), staff travel, and reimbursable work (see Figure 7). The unobligated budget authority available at the end of

FY 2007 was \$72.2 million, a decrease 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.

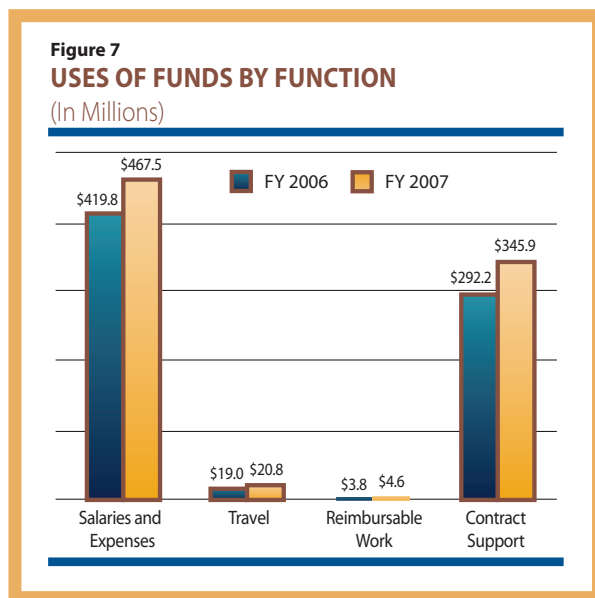
Audit Results

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 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. 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 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 hourly rates for license fees as stipulated by Title 10 of the *Code of Federal Regulations*, Part 170, "Fees for Facilities, Materials, Import and Export Licenses, and Other Regulatory Services under the Atomic Energy Act of 1954," as Amended.



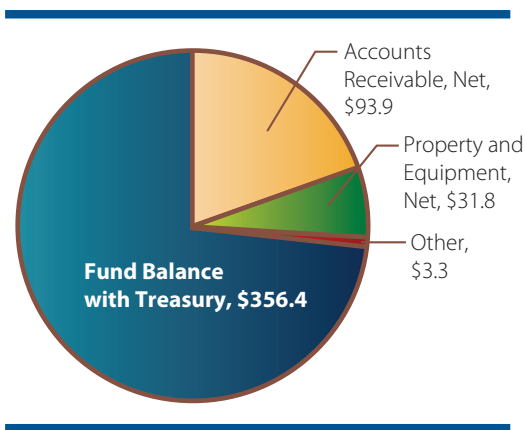
Financial Statement Highlights

The NRC's financial statements summarize the financial activity and financial position of the agency.

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 Condensed Balance Sheet on page 21.

Figure 8
ASSETS SUMMARY FY 2007
(In Millions)



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 (see Figure 8). 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 IT software and leasehold improvements.

The NRC's liabilities were \$204.2 million as of September 30, 2007. The increase in Total Liabilities of \$30.7 million from the FY 2006 year-end balance of \$173.5 million 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 of \$169.7 million 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 (see Figure 9). 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. The liabilities reported in NRC's Balance Sheet are summarized in the Condensed Balance Sheet on page 21.

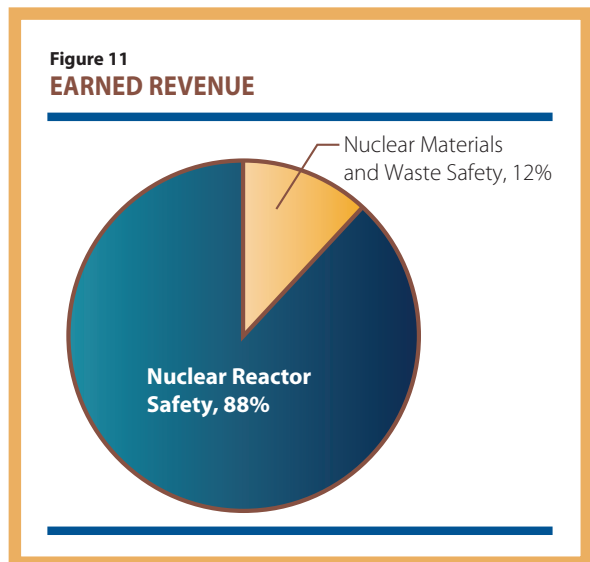
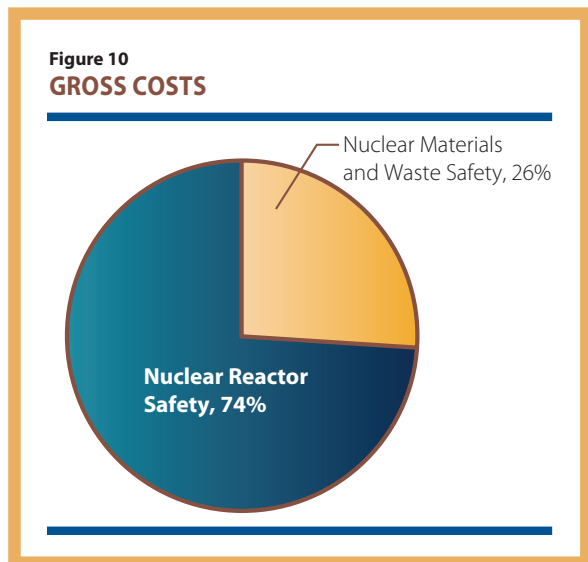
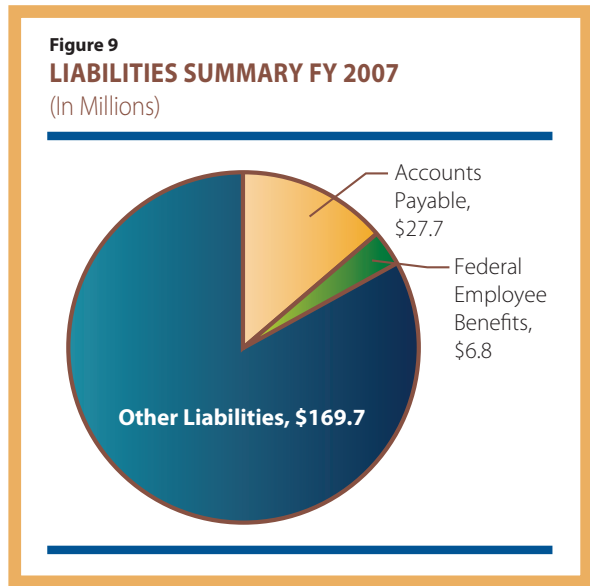
The difference between Total Assets and Total Liabilities, Net Position, was \$281.2 million as of September 30, 2007. This is an increase of \$68.6 million from the FY 2006 year-end balance.

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.

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 Statement of Net Cost on page 21. Gross costs increased primarily due to an increase in Nuclear Reactor Safety in the areas of new reactor and existing licensing programs (see Figure 10). 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 (see Figure 11).



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.

CONDENSED FINANCIAL STATEMENTS

CONDENSED BALANCE SHEET*

(IN THOUSANDS)

As of September 30,	2007	2006
Assets		
Fund balances with Treasury	\$ 356,399	\$ 281,715
Accounts receivable, net	93,894	75,191
Property and equipment, net	31,832	26,915
Other	3,283	2,266
Total Assets	\$ 485,408	\$ 386,087
Liabilities		
Accounts payable	27,710	31,165
Federal employee benefits	6,833	7,434
Other	169,674	134,895
Total Liabilities	204,217	173,494
Net Position		
Unexpended appropriations	254,027	193,694
Cumulative results of operations	27,164	18,899
Total Net Position	281,191	212,593
Total Liabilities and Net Position	\$ 485,408	\$ 386,087

STATEMENT OF NET COST*

(IN THOUSANDS)

For the years ended September 30,	2007	2006
Nuclear Reactor Safety		
Gross costs	\$ 582,212	\$ 515,374
Less: Earned revenue	(612,769)	(562,502)
Total Net Cost of Nuclear Reactor Safety	(30,557)	(47,128)
Nuclear Materials and Waste Safety		
Gross costs	204,495	205,221
Less: Earned revenue	(80,490)	(77,539)
Total Net Cost of Nuclear Materials and Waste Safety	124,005	127,682
Net Cost of Operations	\$ 93,448	\$ 80,554

*For a complete set of financial statements and notes see Chapter 3, "Financial Statements and Auditors' Report," in the *FY 2007 Performance and Accountability Report*. This report can be accessed at <http://www.nrc.gov>.

STATEMENT OF CHANGES IN NET POSITION*

(IN THOUSANDS)

For the years ended September 30,	2007	2006
Cumulative Results of Operations		
Beginning Balance	\$ 18,899	\$ (13,353)
Budgetary Financing Sources		
Appropriations used	46,646	50,542
Non-exchange revenue	-	590
Transfers-in/out without reimbursement	45,826	45,067
Other Financing Sources		
Imputed financing from costs absorbed by others	27,627	28,022
Other - Revenue from excess collections	(18,386)	(11,415)
Total Financing Sources	101,713	112,806
Net Cost of Operations	(93,448)	(80,554)
Net Change	8,265	32,252
Cumulative Results of Operations	\$ 27,164	\$ 18,899
Unexpended Appropriations		
Beginning Balance	\$ 193,694	\$ 170,836
Adjustment:		
Change in accounting principle	(2,838)	-
Beginning Balance, as adjusted	190,856	170,836
Budgetary Financing Sources		
Appropriations received	109,817	72,532
Appropriations transferred-in/out	-	1,587
Appropriations used	(46,646)	(50,542)
Other adjustments	-	(719)
Total Budgetary Financing Sources	63,171	22,858
Total Unexpended Appropriations	254,027	193,694
Net Position	\$ 281,191	\$ 212,593

*For a complete set of financial statements and notes see Chapter 3, "Financial Statements and Auditors' Report," in the *FY 2007 Performance and Accountability Report*. This report can be accessed at <http://www.nrc.gov>.



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.

A handwritten signature in black ink, appearing to read "Dale Klein".

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

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.

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 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. 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.

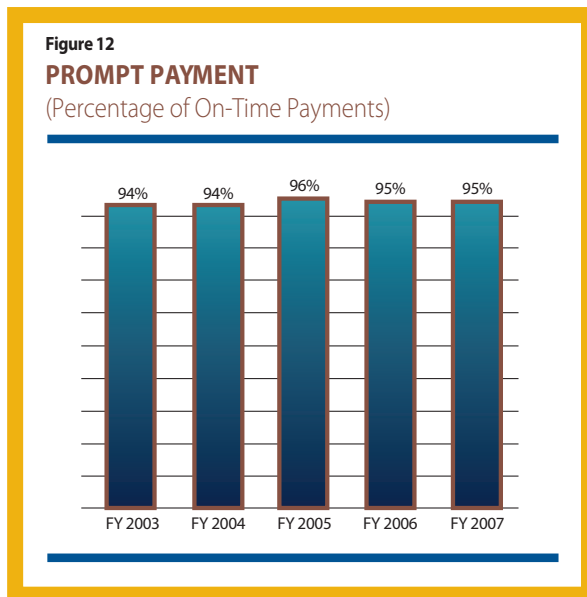
As of September 30, 2007, the agency's financial management systems are in substantial compliance with the Improvement Act, except for two systems which are in substantial noncompliance because of FISMA significant deficiencies related to lack of current certification and accreditation. In addition, 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.

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 12). The amount of interest penalties incurred during FY 2007 was \$11,160.

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 Department of the Interior - National Business Center's (DOI-NBC) 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

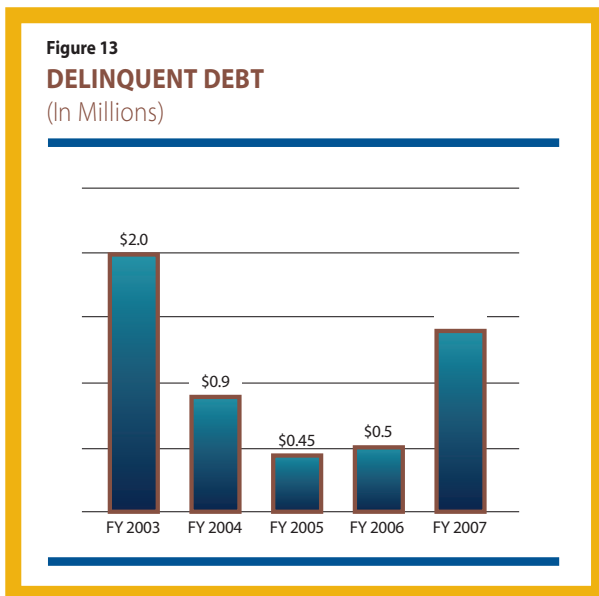
The Debt Collection Improvement Act enhances the ability of the Federal Government to service and collect debts. The agency's goal is to maintain the delinquent debt owed to the NRC, at year end, to less than 1 percent of its annual billings. The NRC continues to meet this goal. At the end of FY 2007, delinquent debt was \$1.4 million (see Figure 13). 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.

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 of the Fiscal Year 2007 *Performance and Accountability Report* includes this information, as well as data concerning disallowed costs determined through contract audits conducted by the Defense Contract Audit agency.




INSPECTOR GENERAL'S TRANSMITTAL LETTER



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

December 12, 2007

MEMORANDUM TO: Chairman Klein

FROM: Hubert T. Bell 
Inspector General

SUBJECT: TRANSMITTAL OF THE INDEPENDENT AUDITORS'
REPORT ON THE CONDENSED FINANCIAL
STATEMENTS OF THE UNITED STATES NUCLEAR
REGULATORY COMMISSION FOR FISCAL YEARS 2007
AND 2006 (OIG-08-A-04)

Office of Management and Budget Circular No. A-136, Revised, July 29, 2007, *Financial Reporting Requirements*, encourages all entities that produce a Performance and Accountability Report (PAR) to prepare a PAR Highlights Document (the Document). The objective of the Document is to highlight some of the more important aspects of the PAR, and to make available to interested parties a condensed document that is more "user-friendly" than the detailed, full-scope PAR. The purpose of this memorandum is to transmit R. Navarro & Associates, Inc. (RNA) Auditors' Report on the Condensed Financial Statements included in the Document.

RNA is responsible for the attached unqualified auditors' opinion, dated November 7, 2007. The Office of the Inspector General (OIG) is responsible for technical and administrative oversight regarding the firm's performance under the terms of the contract. Our oversight of RNA's work, as differentiated from an audit in conformance with *Government Auditing Standards*, was not intended to enable us to express, and accordingly we do not express, an opinion on the condensed financial statements included in the Document. However, OIG's oversight of RNA's work disclosed no instances where RNA did not comply with applicable auditing standards.

We appreciate the cooperation provided by NRC staff.

INDEPENDENT AUDITORS' REPORT ON THE CONDENSED FINANCIAL STATEMENTS



2831 Camino Del Rio South, Suite 306
San Diego, California 92108
(619) 298-8193

Chairman Dale E. Klein
U.S. Nuclear Regulatory Commission
Rockville, Maryland

We have audited, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, the balance sheets of the U.S. Nuclear Regulatory Commission (NRC) as of September 30, 2007, and 2006, and the related statements of net cost, statements of changes in net position and statements of budgetary resources for the fiscal years then ended. In our report dated November 7, 2007, we expressed an unqualified opinion on those financial statements.

As discussed in Note 14 to the financial statements referred to above, NRC changed its presentation of allocation transfers as required by OMB Circular A-136, "Financial Reporting Requirements."

In our opinion, the information set forth in the accompanying condensed financial statements is fairly stated in all material respects in relation to the financial statements referred to above from which it has been derived.

In accordance with *Government Auditing Standards*, our report on the financial statements referred to above includes a report on the effectiveness of internal control over financial reporting and a report on compliance with laws and regulations for the fiscal year ended September 30, 2007. In those reports, we identified a material weakness related to information systems security controls, a significant deficiency related to the fee billing system and a substantial noncompliance with the Federal financial management system requirements under the Federal Financial Management Improvement Act related to information systems security controls. Those reports are integral parts of a financial statement audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

R. Navarro & Associates, Inc.

November 7, 2007

NRC FORM 335 (2-89) NRCM 1102, 3201, 3202	U.S. NUCLEAR REGULATORY COMMISSION	1. REPORT NUMBER (Assigned by NRC, Add Vol., Supp., Rev., and Addendum Numbers. if anv.) NUREG-1542, Vol. 13, Supp. 1				
BIBLIOGRAPHIC DATA SHEET <i>(See instructions on the reverse)</i>		3. DATE REPORT PUBLISHED <table border="1" style="width: 100%;"> <tr> <td style="width: 50%; text-align: center;">MONTH</td> <td style="width: 50%; text-align: center;">YEAR</td> </tr> <tr> <td style="text-align: center;">February</td> <td style="text-align: center;">2008</td> </tr> </table>	MONTH	YEAR	February	2008
MONTH	YEAR					
February	2008					
2. TITLE AND SUBTITLE U.S. Nuclear Regulatory Commission Performance and Accountability Highlights FY 2007	4. FIN OR GRANT NUMBER n/a					
5. AUTHOR(S) Richard Rough, et. al	6. TYPE OF REPORT Annual 7. PERIOD COVERED <i>(Inclusive Dates)</i> FY 2007					
8. PERFORMING ORGANIZATION - NAME AND ADDRESS <i>(If NRC, provide Division, Office or Region, U.S. Nuclear Regulatory Commission, and mailing address; if contractor, provide name and mailing address.)</i> Resource Management and Support Staff Office of the Chief Financial Officer U.S. Nuclear Regulatory Commission Washington, DC 20555-0001						
9. SPONSORING ORGANIZATION - NAME AND ADDRESS <i>(If NRC, type "Same as above"; if contractor, provide NRC Division, Office or Region, U.S. Nuclear Regulatory Commission, and mailing address.)</i> Same as 8, above						
10. SUPPLEMENTARY NOTES						
11. ABSTRACT <i>(200 words or less)</i> The FY 2007 Performance and Accountability Highlights provide performance results and audited financial statements that enable Congress, the President, and the public to assess the performance of the agency in achieving its mission and stewardship of its resources. The report contains a concise overview, Management's Discussion and Analysis, as well as performance and financial sections. Additional details of performance results and program evaluations can be found in the appendices.						
12. KEY WORDS/DESCRIPTORS <i>(List words or phrases that will assist researchers in locating the report.)</i> Performance and Accountability Highlights FY 2007 PAR	13. AVAILABILITY STATEMENT unlimited 14. SECURITY CLASSIFICATION <i>(This Page)</i> unclassified <i>(This Report)</i> unclassified 15. NUMBER OF PAGES 16. PRICE					

AVAILABILITY OF REFERENCE MATERIALS IN NRC PUBLICATIONS

NRC Reference Material

As of November 1999, you may electronically access NUREG-series publications and other NRC records at NRC's Public Electronic Reading Room at <http://www.nrc.gov/reading-rm.html>.

Publicly released records include, to name a few, NUREG-series publications; *Federal Register* notices; applicant, licensee, and vendor documents and correspondence; NRC correspondence and internal memoranda; bulletins and information notices; inspection and investigative reports; licensee event reports; and Commission papers and their attachments.

NRC publications in the NUREG series, NRC regulations, and *Title 10, Energy*, in the Code of *Federal Regulations* may also be purchased from one of these two sources.

1. The Superintendent of Documents
U.S. Government Printing Office
Mail Stop SSOP
Washington, DC 20402-0001
Internet: bookstore.gpo.gov
Telephone: 202-512-1800
Fax: 202-512-2250
2. The National Technical Information Service
Springfield, VA 22161-0002
www.ntis.gov
1-800-553-6847 or, locally, 703-605-6000

A single copy of each NRC draft report for comment is available free, to the extent of supply, upon written request as follows:

Address: Office of Administration,
Printing and Mail Services Branch
U.S. Nuclear Regulatory Commission
Washington, DC 20555-0001

E-mail: DISTRIBUTION@nrc.gov
Facsimile: 301-415-2289

Some publications in the NUREG series that are posted at NRC's Web site address <http://www.nrc.gov/reading-rm/doc-collections/nuregs> are updated periodically and may differ from the last printed version. Although references to material found on a Web site bear the date the material was accessed, the material available on the date cited may subsequently be removed from the site.

Non-NRC Reference Material

Documents available from public and special technical libraries include all open literature items, such as books, journal articles, and transactions, *Federal Register* notices, Federal and State legislation, and congressional reports. Such documents as theses, dissertations, foreign reports and translations, and non-NRC conference proceedings may be purchased from their sponsoring organization.

Copies of industry codes and standards used in a substantive manner in the NRC regulatory process are maintained at—

The NRC Technical Library
Two White Flint North
11545 Rockville Pike
Rockville, MD 20852-2738

These standards are available in the library for reference use by the public. Codes and standards are usually copyrighted and may be purchased from the originating organization or, if they are American National Standards, from—

American National Standards Institute
11 West 42nd Street
New York, NY 10036-8002
www.ansi.org
212-642-4900

Legally binding regulatory requirements are stated only in laws; NRC regulations; licenses, including technical specifications; or orders, not in NUREG-series publications. The views expressed in contractor-prepared publications in this series are not necessarily those of the NRC.

The NUREG series comprises (1) technical and administrative reports and books prepared by the staff (NUREG-XXXX) or agency contractors (NUREG/CR-XXXX), (2) proceedings of conferences (NUREG/CP-XXXX), (3) reports resulting from international agreements (NUREG/IA-XXXX), (4) brochures (NUREG/BR-XXXX), and (5) compilations of legal decisions and orders of the Commission and Atomic and Safety Licensing Boards and of Directors' decisions under Section 2.206 of NRC's regulations (NUREG-0750).





U. S. NUCLEAR REGULATORY COMMISSION
WASHINGTON, DC 20555-0001

www.nrc.gov

NUREG-1542, Vol. 13, Supp. 1
February 2008