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This report is available on the NRC Web site at www.nrc.gov.

- The NRC is headed by a Commission composed of five members, with one member designated by the President to serve as Chairman. Pictured below are (from left to right) Commissioners McGaffigan and Dicus, Chairman Meserve, and Commissioners Diaz and Merrifield.



CHAPTER 1:

MANAGEMENT'S DISCUSSION and ANALYSIS

A MESSAGE FROM THE CHAIRMAN



I am pleased to present the Nuclear Regulatory Commission's Performance and Accountability Report for Fiscal Year 2002. I am proud to report that, as a result of the hard work and dedication of Nuclear Regulatory Commission employees, we have again achieved all of our safety performance goals while at the same time addressing significantly heightened security concerns.

In the aftermath of the tragic events of September 11th, the Nuclear Regulatory Commission has conducted a comprehensive review of its programs and the security of the nuclear facilities and activities it regulates. We have made a number of significant changes to our regulatory programs and have enhanced the already robust security of our sensitive facilities and activities. The Nuclear Regulatory Commission will continue to work closely with other agencies and our licensees to protect the Nation's crucial infrastructure from future attacks. The ongoing terrorism threat requires that we continue to invest significant resources on homeland security activities.

At the same time, we have continued to build on the progress we have made over the past decade to improve nuclear safety. Our oversight of the industry is achieving the objective of protecting public health and safety while maintaining the energy output needed by our Nation. Moreover, we have and will continue to invest resources to prepare for the future. Demand for electric power and the improving economic fundamentals of nuclear power generation have resulted in renewed interest in nuclear power. As a result, licensees are seeking to renew their operating licenses for existing plants and are considering new reactor designs and new plant construction. We are also preparing to review the Department of Energy's application to construct and operate a first-of-a-kind repository to dispose of high-level nuclear waste at Yucca Mountain, Nevada.

In undertaking this work, it is essential that our resources are well managed and wisely used. This report provides financial information that shows the prudent management of the funds entrusted to us by the American people and describes our successes in implementing the President's Management Agenda to promote more efficient and effective government.

The Reports Consolidation Act of 2000 requires an assessment of the completeness and reliability of the program and financial data contained in this report based on evaluation criteria issued by the Office of Management and Budget. I believe that the data are complete and reliable. In addition, the Nuclear Regulatory Commission has evaluated its management controls and financial management systems, as required by the Federal Managers' Financial Integrity Act of 1982. On the basis of our comprehensive management control program, I am pleased to certify, with reasonable assurance, that the agency is in compliance with the provisions of this act.

The Nuclear Regulatory Commission is committed to conducting an effective regulatory program that allows the Nation to use nuclear materials in a manner that protects the public and the environment. We look forward to continuing to provide high-quality service to the American people.

A handwritten signature in black ink, appearing to read "Richard A. Meserve". The signature is fluid and cursive, written over a white background.

Richard A. Meserve
January 21, 2003



The NRC Mission

The U.S. Nuclear Regulatory Commission regulates 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.

CHAPTER 1: MANAGEMENT'S DISCUSSION and ANALYSIS

INTRODUCTION

This Performance and Accountability Report represents the culmination of the NRC's program and financial management processes, which began with mission and program planning, continued through the formulation and justification of the NRC's budget to the President and the Congress, and ended with this report on the use of the resources entrusted to us. This report was prepared pursuant to the requirements of the Chief Financial Officers Act, as amended by the Reports Consolidation Act of 2000, and covers activities from October 1, 2001, to September 30, 2002.

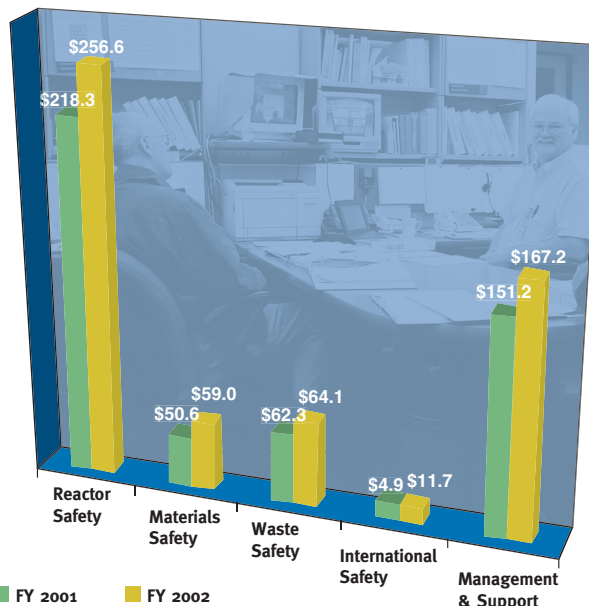
Chapter 1, Management's Discussion and Analysis, provides a high-level overview of the NRC. It consists of six sections: About the NRC, which describes the agency's mission, organizational structure, and regulatory responsibility; Future Challenges, which includes forward-looking information; Program Performance Overview, which discusses the agency's success in achieving its strategic goals; President's Management Agenda, which describes the agency progress in "Getting to Green" for the five management initiatives; Financial Performance Overview, which provides highlights of the NRC's financial position and audit results; and Systems, Controls, and Legal Compliance, which 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 Government agency to regulate various commercial and institutional uses of nuclear materials. The NRC's purpose is defined by the Atomic Energy Act of 1954, as amended, and

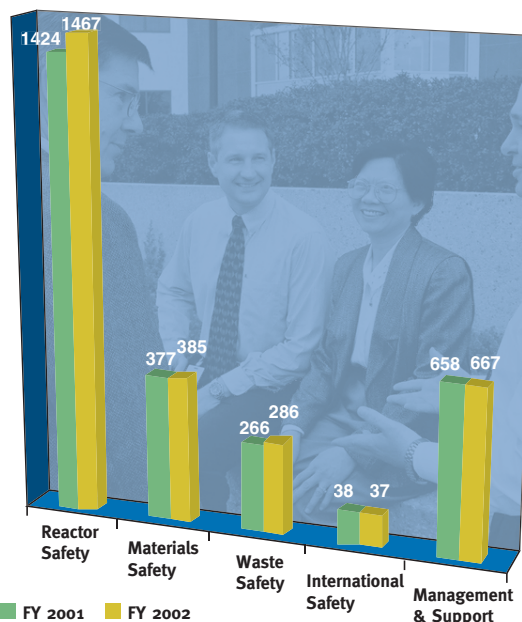
BUDGET AUTHORITY BY PROGRAM

In millions



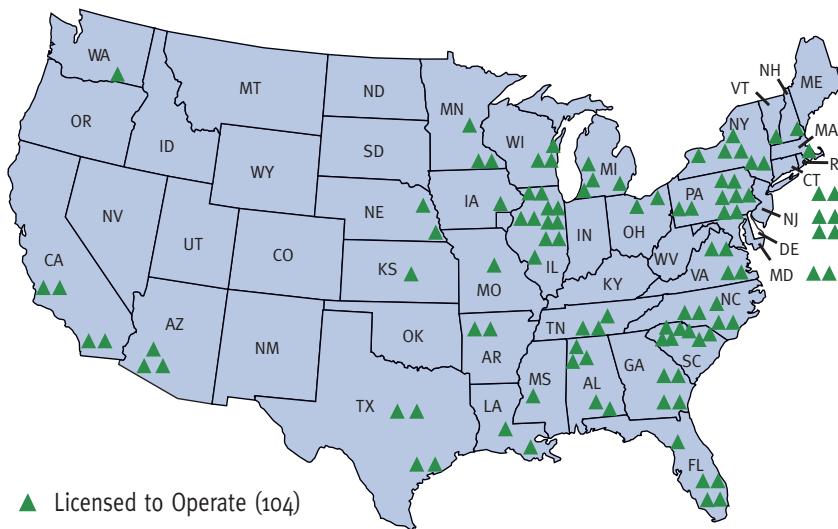
DISTRIBUTION OF EMPLOYEES BY PROGRAM

Full-time equivalents



CHAPTER 1: MANAGEMENT'S DISCUSSION and ANALYSIS

U.S. Commercial Nuclear Power Reactors

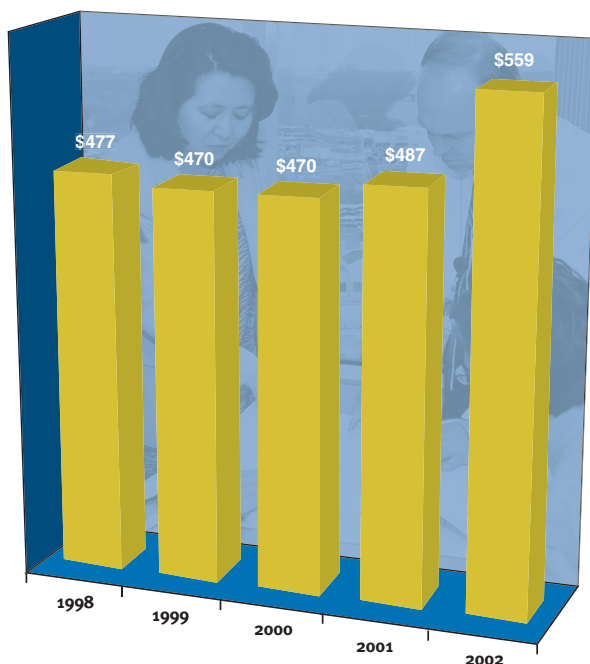


► **Note:** Includes Browns Ferry Unit 1, which has no fuel loaded and requires Commission approval to restart. There are no commercial reactors in Alaska or Hawaii.

Source: Nuclear Regulatory Commission

NRC NEW BUDGET AUTHORITY

In millions



the Energy Reorganization Act of 1974, as amended. These acts provide the foundation for regulating the Nation's civilian uses of nuclear materials.

Organization

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



The NRC's headquarters offices are located in Rockville, Maryland. Four regional offices are located in King of Prussia, Pennsylvania; Atlanta, Georgia; Lisle, Illinois; and Arlington, Texas; and a technical training center is located in Chattanooga, Tennessee. The NRC also has resident inspector offices at each commercial nuclear power plant.

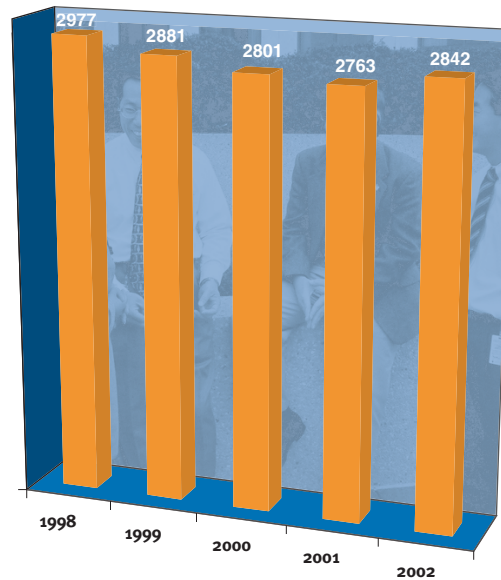
The NRC's FY 2002 budget was \$558.6 million and 2,842 full-time equivalent staff. The FY 2001 budget was \$487.3 million and 2,763 full-time equivalent staff. The NRC is a fee-based agency that recovers most of its funding from fees paid by those holding NRC licenses. Approximately 46 percent of the budget and 52 percent of the staff are allocated for reactor safety.

Regulatory Responsibility

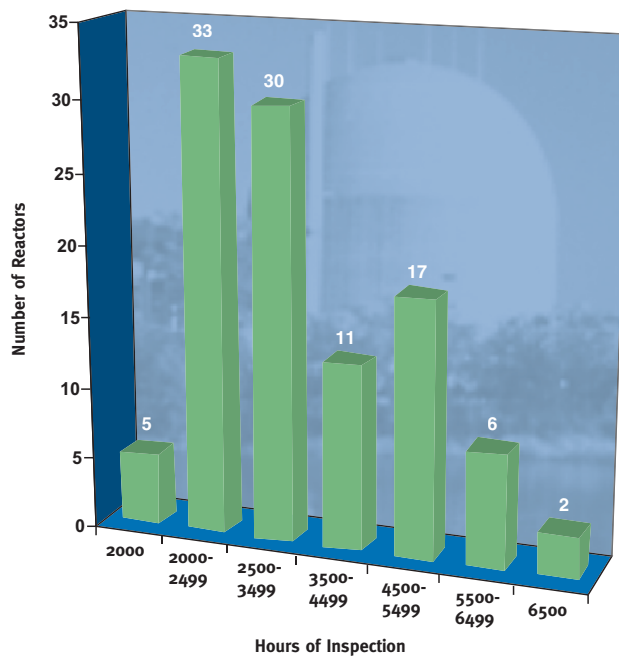
To fulfill its responsibility to protect the public health and safety, the NRC performs three principal regulatory functions: (1) establish standards and regulations, (2) issue licenses for nuclear facilities and users of nuclear materials, and (3) inspect facilities and users of nuclear materials to ensure compliance with regulatory requirements. These regulatory functions relate to both nuclear power plants and other civilian uses of nuclear materials, such as 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. The NRC has aligned its regulatory programs into the following four strategic arenas.

NRC PERSONNEL CEILING

Full-time equivalents



NRC INSPECTION EFFORT AT OPERATING REACTORS, FY 2001



CHAPTER 1: MANAGEMENT'S DISCUSSION and ANALYSIS

- ▶ **Nuclear Reactor Safety**, which encompasses all NRC efforts to ensure that civilian nuclear power reactor facilities, as well as test and research reactors, are operated in a manner that adequately protects public health and safety and the environment, and that safeguards special nuclear materials used in reactors.
- ▶ **Nuclear Materials Safety**, which encompasses NRC efforts to ensure that nuclear fuel cycle facilities, and academic, industrial, and medical uses of nuclear materials are handled in a manner that adequately protects public health and safety and the environment, and protects against radiological sabotage and theft or diversion or special nuclear materials.
- ▶ **Nuclear Waste Safety**, which encompasses NRC efforts to ensure that the decommissioning of nuclear reactors and other facilities, storage of spent nuclear fuel, transportation of radioactive materials, and disposal of radioactive wastes are handled in a manner that adequately protects public health and safety and the environment, and protects against radiological sabotage and theft or diversion of special nuclear materials.
- ▶ **International Nuclear Safety Support**, which encompasses international nuclear safety and regulatory policy formulation, import-export licensing for nuclear materials and equipment, treaty implementation, and international information exchange.

The NRC also carries out a corporate management and support function for information technology, financial management, human resources, and other support functions. Efforts in this area are aligned with the President's Management Agenda and focus on the five Governmentwide initiatives aimed at improving agency management.

Approximately 20 percent of the Nation's electricity is generated by 104 commercial nuclear reactors, which are licensed by the NRC to operate in 31 States. Since 1991, nuclear electric generation has increased by 25 percent. The NRC expends an average of 3,400 hours of inspection effort at each operating reactor and licenses approximately 4,500 reactor operators.

The NRC oversees approximately 4,900 licenses for medical, academic, industrial, and general uses of nuclear materials. The NRC conducts approximately 1,500 health and safety inspections of its nuclear materials licensees annually. Additionally, approximately 16,300 licenses are administered by the 32 States that participate in the Agreement States Program, which authorizes the State to regulate the use of radioactive materials within that State. The NRC, Agreement States, and their licensees share a common responsibility to protect public health and safety.

The NRC places a high priority on keeping the public fully informed of its activities. Visit our Web site at www.nrc.gov to learn more about who we are and what we do to serve the American people.

FUTURE CHALLENGES

The Commission is focused on addressing a number of significant challenges, which will have long-term impact on accomplishment of its mission. The ongoing terrorism threat requires that the NRC invest significant resources on homeland security related activities. In addition, the NRC needs to review applications from industry in preparation for the possibility of new applications to construct nuclear power plants. A third major challenge is preparing for a potential license application for a high-level waste repository.

Homeland Security

Long before September 11, 2001, the NRC required that major NRC licensees maintain rigorous security programs. Although the details are classified, this typically involves a fenced perimeter, intrusion detection devices, access barriers, heavily armed and trained guard forces, and a comprehensive defensive strategy. Nuclear plant operators are subject to comprehensive regulatory requirements and detailed inspection, including periodic force-on-force exercises. However, the events of September 11 have changed the threat profile the industry faces.

Since September 2001, the NRC has been conducting a comprehensive review of its programs and security of the nuclear facilities and activities it regulates. The Commission has made a number of significant changes to its regulatory programs and has enhanced the already robust security of sensitive facilities and activities. A new Office of Nuclear Security and Incident Response was established to focus and coordinate the agency's efforts and expertise in the security and emer-

gency preparedness areas. The NRC implemented a new homeland security threat advisory system based on guidance from the Department of Homeland Security and has included additional classes of licensees in the threat advisory system. The NRC is studying the potential vulnerability of nuclear power plants, fuel cycle facilities, and nuclear fuel and materials storage and transportation containers, including deliberate aircraft crashes on power reactors and storage and transportation casks. The agency completed a new round of tabletop exercises using expanded threat scenarios for power reactor facilities and selected fuel cycle facilities in November 2002. The lessons learned from these exercises will be incorporated into an expanded force-on-force program. In the course of these efforts, the NRC has had the benefit of continuing interaction, consultation, and coordination with several Federal agencies and the State governments.

Next year, the Commission expects to complete its review and revision of the design basis threat that provides the foundation for the security programs of nuclear power plant and category I fuel facility licensees, and will then proceed to revise its safeguards and security requirements. The NRC plans to conduct full security performance reviews, including force-on-force exercises, at each nuclear power plant on a 3-year cycle instead of the 8-year cycle that had been used prior to September 11, 2001. The NRC will complete the vulnerability assessment studies, continue to evaluate vulnerabilities of the facilities, and implement appropriate measures to reduce identified vulnerability to these facilities. The agency is working with the Department of Energy (DOE) and the International Atomic Energy Agency (IAEA) to enhance the control of radioactive

material to prevent its use in radiological dispersal devices (dirty bombs), and are involved significantly in a review of controls of radioactive sources with the same objectives.

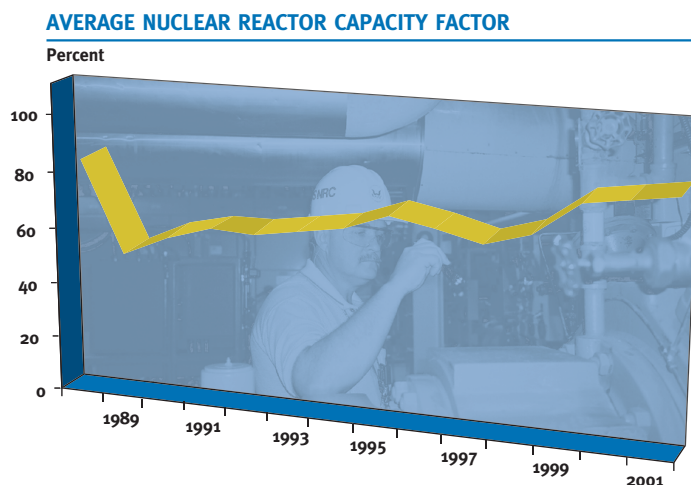
The NRC's activities are part of an integrated, national effort for the protection of the Nation's critical infrastructure. We continue to work closely with the Department of Homeland Security, other agencies, and our licensees to protect our country.

Nuclear Power and National Energy Needs

The question of where and how the United States will obtain the energy it needs, now and in the decades to come, is a matter of national importance. The availability and price of energy continues to play a crucial role in determining the quality of life for Americans now. Nuclear power currently supplies 20 percent of U.S. electricity needs. The President's National Energy Policy has cited nuclear power as a vital component of America's energy portfolio.

The NRC's mission is to ensure the protection of the public health and safety in the use of nuclear materials. The NRC also has an obligation to fulfill its regulatory duties without imposing unnecessary burdens on the industry. The challenge is to allow for innovation and improvements by operators in utilizing their power generation facilities while ensuring that the focus on safety remains the first priority in the use of nuclear power.

Compared to the operating record at the beginning of the 1990s, nuclear power plants today are more efficiently run, with fewer outages and greater reliability. In less than a decade, average capacity utilization in the industry has increased from 70 percent to nearly 90 percent in 2001. At the same time, objective measures of safety performance have also shown considerable improvement. The growth in demand for electric power, improved economic fundamentals for nuclear power generation, and concerns about the supply of energy from other sources and their environmental impact have increased electric utilities' interest in building and operating new nuclear power plants. The NRC is currently reviewing one design certification application and expects to receive up to four additional applications in the next 2 years. Three early site permit applications are also expected within the next year. The NRC is also putting in place the necessary regulatory processes to review an application for a new plant and to monitor its construction. The NRC must meet the challenge of keeping pace with industry plans and schedules for new reactor licensing activities, including early site permit reviews, design reviews, and enhancement to the regulatory infrastructure.





Despite the overall improvement in safety indicators, the Commission must always be prepared to respond to unexpected events that occur at nuclear power reactors. For example, in March 2002, during NRC-mandated assessment activities, a cavity in the reactor pressure vessel head was discovered at the Davis-Besse Nuclear Power Station by the licensee. The NRC dispatched an inspection team to gather facts surrounding the circumstances associated with the event. As a result, the NRC has required all pressurized-water reactor licensees to ensure that similar degradation has not occurred at other plants and to ensure the continued safety of the reactors. The NRC also formed a task force to assess its regulatory processes as a result of this significant incident. The task force issued its report on September 30, 2002, and the agency is using the report to develop future agency actions. (A copy of the task force's report, as well as a host of other information relating to reactor vessel head degradation and the Davis-Besse event, can be found on the NRC's Web site.) The plant remains shut down for replacement of the reactor vessel head and for broad safety reviews and performance improvement activities. NRC approval is required before the plant can restart.

Nuclear Waste

Radioactive waste is a byproduct of generating nuclear power. In April 2002, the President accepted the Secretary of Energy's recommendation that the Yucca Mountain site be developed as a potential repository for the disposal of high-level nuclear wastes and spent nuclear fuel. In July 2002, Congress approved a resolution of siting approval, which authorizes DOE to apply to the NRC for a license to operate Yucca Mountain as a nuclear waste repository. The NRC will be prepared to review a potential

license application from DOE, which is expected to be filed in late 2004. This includes resolving key technical issues through prelicensing consultations with DOE, observing DOE's quality assurance audits, and communicating extensively with stakeholders. The NRC will also prepare for hearings on the potential license application.

PROGRAM PERFORMANCE OVERVIEW

Federal agencies provide an annual performance plan to Congress, setting goals with measurable target levels of performance based on the Government Performance and Results Act (GPRA). The NRC evaluates its program performance within a structured planning, budgeting, and performance management (PBPM) process. As such, the NRC has organized its strategic goals, performance goals, and strategies for achieving its mission into four strategic arenas. Our highest priority is safety, and our strategic goals focus on the achievement of this priority.

Nuclear Reactor Safety

Strategic Goal: Prevent radiation-related deaths and illnesses, promote the common defense and security, and protect the environment in the use of civilian nuclear reactors.

The NRC regulates 104 civilian nuclear power reactors licensed to operate and 36 non-power reactors. During FYs 2001 and 2002, the NRC met all five of the strategic goal measures for this arena.

For the past year, the NRC met or exceeded all established schedules for license renewal activities. This is significant given the interest by our licensees whose licenses need to be renewed to continue operations. In addition, during FY 2002 the NRC approved 17

CHAPTER 1: MANAGEMENT'S DISCUSSION and ANALYSIS

requests from licensees for power uprates, which increase the electrical generating capacity of the licensees' nuclear reactor power plants. To date, the NRC has approved 81 requests from licensees for power uprates. Approval of power uprates has resulted in an electrical generating capacity gain equivalent to approximately three large nuclear power plants. To promote common defense and security, the NRC took significant actions requiring licensees to enhance the already robust security at nuclear power plants and other sensitive facilities.

Nuclear Materials Safety

Strategic Goal: Prevent radiation-related deaths and illnesses, promote the common defense and security, and protect the environment in the use of source, byproduct, and special nuclear material.

The NRC has regulatory oversight for 44 fuel cycle facilities, including eight major fuel cycle facilities and two gaseous diffusion plants. This strategic arena also includes oversight of approximately 21,000 specific and 150,000 general licenses regulated by the NRC and the 32 Agreement States. During FYs 2001 and 2002, the NRC met all five of its strategic goal measures for this arena.

In addition to achieving our strategic goal measures, it is noteworthy to describe the NRC's progress in reviewing an application from Duke, Cogema, Stone & Webster to construct a mixed-oxide (MOX) fuel fabrication facility at the DOE's Savannah River site near Aiken, South Carolina. The proposed use of MOX fuel is part of a national non-proliferation effort to dispose of surplus weapons-usable plutonium by irradiating it in existing commercial light-water reactors. The NRC issued a draft Safety

Evaluation Report for construction in April 2002, documenting its preliminary safety conclusions. The NRC discussed its review process and preliminary conclusions at a public meeting held in South Carolina in August 2002. In response to changes in the national non-proliferation effort, the applicant submitted a revised construction authorization request in October 2002. NRC staff have begun review of the revised construction authorization request and plan to complete a revised draft Safety Evaluation Report in spring 2003.

Nuclear Waste Safety

Strategic Goal: Prevent significant adverse impacts from radioactive waste to the current and future public health and safety and the environment, and promote the common defense and security.

The Nuclear Waste Safety arena encompasses regulatory activities associated with the decommissioning of nuclear reactors and other facilities, storage of spent nuclear fuel, transportation of radioactive materials, and disposal of radioactive waste. For FYs 2001 and 2002, the NRC met all four of its strategic goal measures for this arena.

In 1987, the Nuclear Waste Policy Act (NWPA) was amended directing the DOE to characterize only one site at Yucca Mountain in the State of Nevada. In April 2002, the President accepted the Secretary of Energy's recommendation that the Yucca Mountain site be developed as a potential repository for the disposal of high-level nuclear wastes and spent nuclear fuel. In July 2002, Congress approved a resolution of siting approval, which authorizes DOE to apply to the NRC for a license to operate Yucca Mountain as a nuclear waste repository.

In FY 2002, NRC continued to build and refine the regulatory framework that will be used to evaluate a license application for the proposed Yucca Mountain repository. The NRC's final regulation for Yucca Mountain in 10 CFR Part 63 was issued in November 2001. NRC staff also published, for public comment, a proposed rule that addresses "unlikely events"—events that can be excluded from certain required assessments due to their low probability of occurrence—for the proposed Yucca Mountain repository. The NRC also issued, for public comment, the draft Yucca Mountain Review Plan, Revision 2, an important companion to the rules in 10 CFR Part 63. The Review Plan describes the information the staff is to review in the license application and the criteria for determining whether issues have been satisfactorily addressed.

International Nuclear Safety Support

Strategic Goal: Support U.S. interests in the safe and secure use of nuclear materials and in nuclear non-proliferation.

This arena encompasses international nuclear policy formulation, export-import licensing for nuclear materials and equipment, treaty implementation, nuclear proliferation deterrence, international safety assistance, and safeguards support and assistance. All three measures established for this arena were met in FYs 2001 and 2002.

During FY 2002, the NRC participated in IAEA Operational Safety Review Team activities in the Czech Republic and Hungary; International Regulatory Review Team activities in Armenia, Mexico, Lithuania, the Czech Republic; and Radiation Protection activities in Tajikistan. In

addition, bilateral assistance activities were conducted for nuclear safety and safeguards with Russia, the Ukraine, Armenia, Kazakhstan, and countries of central and Eastern Europe in close coordination with the departments of State and Energy. These activities provide an objective international peer review of nuclear power plant operational safety against international standards and practices. The international composition of the review team enables it to provide observations that may not have been previously considered by U.S. industry or regulators.

The NRC also successfully concluded eight bilateral exchange agreements in FY 2002 between the NRC and appropriate foreign counterparts, to ensure that an effective framework for the NRC's international exchanges is in place.

PRESIDENT'S MANAGEMENT AGENDA

In August 2001, the President launched a management reform agenda targeted to "address the most apparent deficiencies where the opportunity to improve performance is the greatest." The Governmentwide initiatives of the President's Management Agenda are to reform Government to be more citizen-centered, results-oriented, and market-based and to actively promote competition. As a result, the President identified five Governmentwide goals: (1) strategic management of human capital, (2) competitive sourcing, (3) improved financial management, (4) expanded E-government, and (5) budget and performance integration. The NRC is actively responding to the call from the President to improve the management and performance of the Federal Government. Chapter 2 of this report discusses our accomplishments in these important areas.

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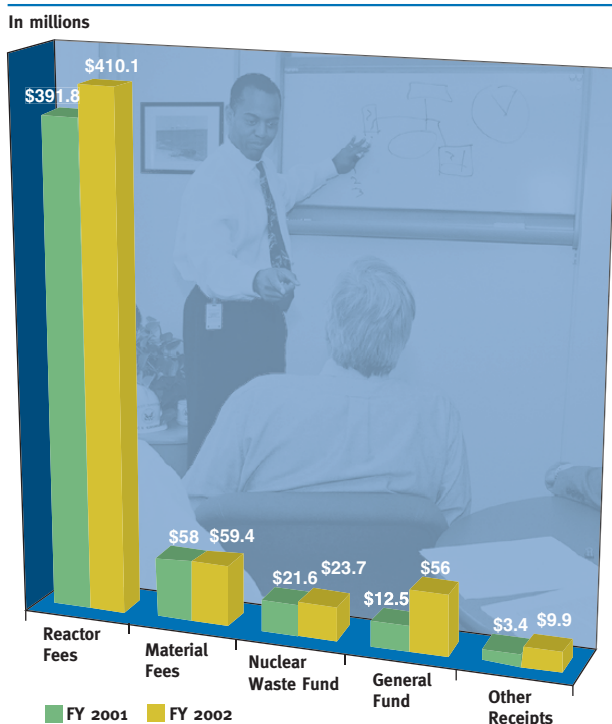
FINANCIAL PERFORMANCE OVERVIEW

As of September 30, 2002, and 2001, 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 Office of Management and Budget (OMB) Bulletin No. 01-09, Form and Content of Agency Financial Statements.

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 2002 budget authority was \$558.6 million, of this amount \$552.4 million is for the Salaries and Expenses appropriation, which included \$36 million in Emergency Supplemental funding to respond to the terrorist attacks on the United States, and \$6.2 million is for the Office of the Inspector General appropriation. This represents an overall increase in new budget authority of \$71.3 million over FY 2001 (\$70.6 million for the Salaries and Expenses appropriation and \$0.7 million for the Office of the Inspector General appropriation). In addition, \$28.6 million from prior-year appropriations, \$2.7 million from prior-year reimbursable work, and \$6.1 million for new reimbursable work to be performed for others were available to obligate in FY 2002. The sum of all funds available to obligate for FY 2002 was \$596.0 million, which is a \$68.7 million increase over the FY 2001 amount of \$527.4 million.

SOURCES OF FUNDS



Consistent with the requirements of the Omnibus Budget Reconciliation Act of 1990, as amended, the NRC collected fees to offset approximately 96 percent of its new budget authority in FY 2002 and approximately 98 percent of its new budget authority in FY 2001, excluding funds derived from the Nuclear Waste Fund, General Fund, and other offsetting receipts.

➤ NRC assesses the impact of nuclear power production on the environment



Uses of Funds by Function

The NRC incurred obligations of \$558.7 million, which was an increase of \$58.0 million over FY 2001. 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. The unobligated budget authority available at the end of FY 2002 was \$37.3 million, which is an increase over the FY 2001 amount of \$26.7 million. Of this \$37.3 million total, \$3.2 million was for reimbursable work and \$34.1 million is available to fund critical needs in FY 2003.

Audit Results

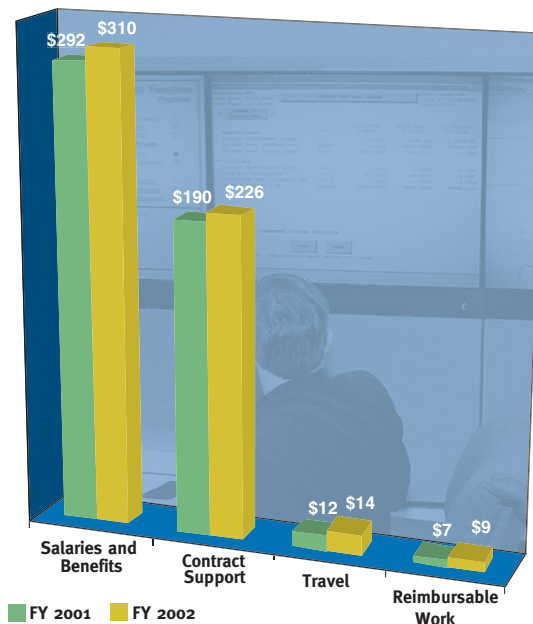
The NRC received an unqualified audit opinion on its FY 2002 financial statements. This was the ninth consecutive year the agency has received an unqualified opinion. For FY 2002, the auditors identified one material weakness regarding the implementation of SFFAS Number 4, Managerial Cost Accounting Concepts and Standards for the Federal Government. The auditors also identified this as a substantial non-compliance with the Federal Financial Management Improvement Act (FFMIA) of 1996. NRC's management disagrees, in part, with the auditor's assessment. A discussion of this issue can be found in Chapter 3 in the auditor's report and management's response to the audit report.

In FY 2001, the auditors also identified incomplete implementation of SFFAS Number 10, Accounting for Internal Use Software, as a material weakness and substantial non-compliance with FFMIA. During FY 2002, the auditors evaluated the NRC's corrective actions and closed this material weakness and substantial noncompliance.

For FY 2002, the auditors also identified two new reportable conditions concerning accounting for internal use software and external financial reporting. In addition, seven reportable conditions were carried over from FY 2001. Two of these reportable conditions remained open at the end of FY 2002 concerning the development of the hourly rate for license

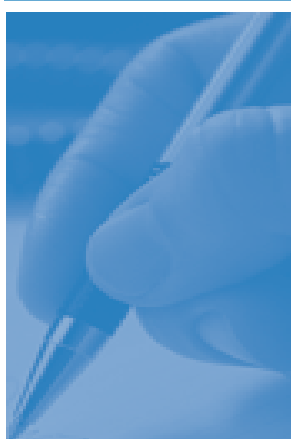
USES OF FUNDS BY FUNCTION

In millions



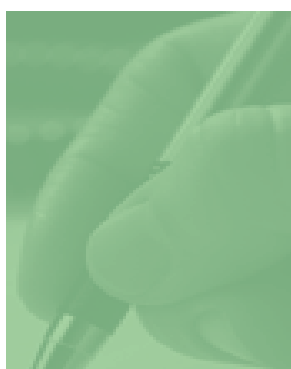
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ASSET SUMMARY (in millions)



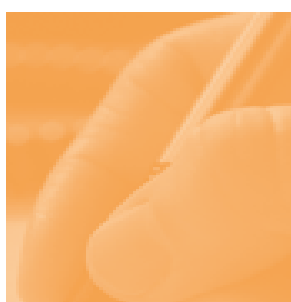
	FY 2002	FY 2001
Fund Balance with Treasury	\$181.4	\$140.5
Accounts Receivable, Net	44.8	51.4
Property, Plant, & Equipment, Net	36.9	43.8
Other	1.2	1.2
Total Assets	\$264.3	\$236.9

LIABILITIES SUMMARY (in millions)



	FY 2002	FY 2001
Accounts Payable	\$28.4	\$28.5
Federal Employee Benefits	9.1	10.8
Other Liabilities	99.0	103.9
Total Liabilities	\$136.5	\$143.2

NET POSITION SUMMARY (in millions)



	FY 2002	FY 2001
Unexpended Appropriations	\$128.3	\$87.0
Cumulative Results of Operations	(0.4)	6.7
Total Net Position	\$127.9	\$93.7

fees and processing of contract closeouts. A reportable condition on compliance with computer software accountability, which is also still open, will no longer be reported as part of the principal statements. The agency has taken action on these audit findings and expects to fully implement corrective action during FY 2003.

Financial Statement Highlights

The NRC's financial statements summarize the financial activity and financial position of the agency. The financial statements, footnotes, and the balance of the required supplementary information, appear in Chapter 3 of this report. Analysis of the principal statements follows.

Analysis of the Balance Sheet

The NRC's assets were approximately \$264.3 million as of September 30, 2002. This is an increase of \$27.4 million from the end of FY 2001 and is mainly due to an increase in Fund Balance with Treasury. The assets reported in the NRC's Balance Sheet are summarized in the table (above left).

The Fund Balance with Treasury represents the NRC's largest asset of \$181.4 million as of September 30, 2002, an increase of \$40.9 million from the FY 2001 year-end balance. This balance accounts for approximately 70 percent of total assets and represents appropriated funds, collected license fees, and other funds maintained at the U.S. Treasury to pay current liabilities.

Accounts Receivable, Net, as of September 30, 2002, were \$44.8 million and includes an offsetting allowance for doubtful accounts of \$2.7 million.

This is a 13 percent decrease over the FY 2001 year-end Accounts Receivable, Net, balance of \$51.4 million. Accounts Receivable Due from the Public is \$42.8 million, representing 16 percent of total assets.

The value of Property, Plant, and Equipment, Net, was \$36.9 million, representing 14 percent of total assets. The majority of the balance is comprised of nuclear reactor simulators, leasehold improvements, and computer hardware and software. The Property, Plant, and Equipment line item reflects the adoption of capitalizing the full costs of developing internal use software, as required by SSFAS Number 10, Accounting for Internal Use Software, implemented on October 1, 2000.

The NRC's liabilities were \$136.5 million as of September 30, 2002. The table on page 14 shows a decrease in total liabilities of \$6.7 million from the FY 2001 year-end balance of \$143.2 million. This is mainly due to a decrease of \$6.6 million in the liability to the U.S. Treasury for assessed license fees, which, when collected, are used to offset the NRC's appropriations. Other liabilities include \$44.2 million for recoveries from unbilled accounts receivable, \$18.1 million for accrued salaries to employees, and \$28.3 million for accrued annual leave. Of the agency's liabilities, \$39.3 million were not covered by budgetary resources, which equaled the balance as of September 30, 2001. Liabilities not covered by budgetary resources are unfunded pension expenses, accrued annual leave, and future workers' compensation. The Federal budget process does not recognize the cost of future benefits for today's employees. Instead, the Federal budget process recognizes those costs in future years when they are actually paid.

The difference between total assets and total liabilities, net position, was \$127.9 million as of September 30, 2002. The table at the bottom of page 14 shows an increase of \$34.2 million from the FY 2001 year-end balance. The increase is mainly the result of an increase in Unexpended Appropriations, which is the amount of authority granted by Congress that has not been expended. The increase is due to receipt in January 2002 of Emergency Supplemental Appropriation funding of \$36.0 million to respond to the terrorist attacks on the United States. Cumulative results of operations represent net results of operations since the NRC's inception. Prior-period adjustments are included in net results of operations.

Analysis of the Statement of Net Cost

The Statement of Net Cost presents the net cost of NRC's four strategic arenas as identified in the NRC Annual Performance Plan. The purpose of this statement is to link program performance under GPRA reporting to the cost of programs. The NRC's net cost of operations for the year ended September 30, 2002, was \$79.2 million, which is an increase of \$28.6 million over the FY 2001 net cost of \$50.6 million. This increase is due to funding homeland security from the General Fund and a reduction of the NRC budget recovered by license fees. Net costs by strategic arena are shown in the table on page 16.

Total exchange revenue was \$473.1 million for the year ended September 30, 2002, which is an increase of \$9.1 million over the exchange revenue of \$464.0 million for the year ended September 30, 2001. Exchange revenue is derived from fees for licensing inspections, other services, and annual fees assessed in accordance with 10 CFR Parts 170 and 171.

CHAPTER 1: MANAGEMENT'S DISCUSSION and ANALYSIS

The net cost of operations is expected to decrease in FY 2003 due to the potential appropriation of fee recoverable funds for homeland security activities. The requirement to recover approximately 100 percent of the agency's new budget authority by assessing fees, less amounts appropriated from the Nuclear Waste Fund and the General Fund, was reduced to 96 percent in FY 2002 and will continue to decrease two percent each year until FY 2005, when the fee recovery amount will be 90 percent.

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 \$34.2 million from FY 2001 to FY 2002 represents the net change in Cumulative Results of Operations of -\$7.1 million and an increase in Unexpended Appropriations of \$41.5 million.

Analysis of the Statement of Budgetary Resources

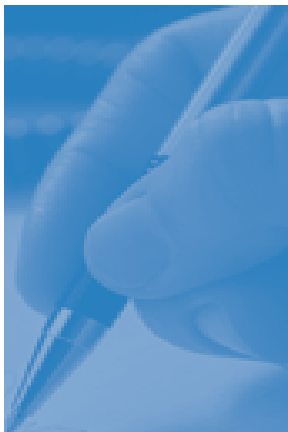
The Statement of Budgetary Resources shows the sources of budgetary resources available and the status at the end of the period. It presents the relationship between budget authority and budget outlays, and reconciles obligations to total outlays. For FY 2002, NRC had budgetary resources available of \$596.0 million, the majority of which was derived from new budget authority. This represents a 13 percent increase over FY 2001 budgetary resources available of \$527.4 million.

For FY 2002, the status of budgetary resources showed obligations of \$558.7 million, or 94 percent of funds available. This is comparable to FY 2001 obligations of \$500.7 million, or 95 percent of funds available. Total outlays for FY 2002 were \$516.1 million, which represents a \$32 million increase from FY 2001 total outlays of \$484.1 million.

Analysis of the Statement of Financing

The Statement of Financing is designed to provide the bridge between accrual-based (financial accounting) information in the Statement of Net Cost and obligation-based (budgetary accounting) information in the Statement of Budgetary Resources by reporting the differences and reconciling the two statements. This reconciliation ensures that the proprietary and budgetary accounts in the financial management system are in balance. The Statement of Financing takes budgetary obligations of \$558.7 million and reconciles to the net cost of operations of \$79.2 million by deducting nonbudgetary resources, costs not requiring resources, and financing sources yet to be provided.

NET COST OF OPERATIONS (in millions)



	FY 2002	FY 2001
Nuclear Reactor Safety	\$(43.5)	\$(57.8)
Nuclear Materials Safety	38.7	29.4
Nuclear Waste Safety	72.1	67.4
International Nuclear Safety Support	11.9	11.6
Net Cost of Operations	\$79.2	\$50.6

- Commissioner's hearing room at NRC headquarters in Rockville, Maryland.



SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

This section provides information on the NRC's compliance with the:

- Federal Managers' Financial Integrity Act of 1982
- Federal Financial Management Improvement Act of 1996
- Prompt Payment Act
- Debt Collection Improvement Act of 1996
- Biennial Review of User Fees
- Inspector General Act of 1978
- Other key legal and regulatory requirements

Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act of 1982 (Integrity Act) mandates that agencies establish controls that reasonably ensure that: (i) obligations and costs comply with applicable law; (ii) assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and (iii) revenues and expenditures are properly recorded and accounted for. This act encompasses program, operational, and administrative areas as well as accounting and financial management. The act requires the Chairman to provide an assurance statement on the adequacy of management controls and conformance of financial systems with Governmentwide standards.



CHAIRMAN

Integrity Act Statement

The U.S. Nuclear Regulatory Commission evaluated its management controls and financial management systems for FY 2002, as required by the Federal Managers' Financial Integrity Act of 1982. On the basis of the NRC's comprehensive management control program, I am pleased to certify, with reasonable assurance, that the agency is in compliance with the provisions of this act.

Richard A. Meserve
CHAIRMAN
U.S. NUCLEAR REGULATORY COMMISSION
DECEMBER 24, 2002

CHAPTER 1: MANAGEMENT'S DISCUSSION and ANALYSIS

Management Control Review Program

Managers throughout the NRC are responsible for ensuring that effective controls are implemented in their areas of responsibilities. Each office director and regional administrator prepared an annual assurance statement that identified any control weaknesses that required the attention of an executive review committee. These statements were based on various sources and included:

- 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 General Accounting Office reports
- Reports and other information provided by the congressional committees of jurisdiction

A committee of agency executives, comprised of senior executives from offices of the Chief Financial Officer and the Executive Director of Operations, with the General Counsel and the Inspector General participating as advisors, met and reviewed these individual assurance statements. The committee then advised the Chairman whether NRC had any management control deficiencies serious enough to be reported as a material weakness or material non-compliance.

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

FY 2002 Integrity Act Results

The NRC evaluated its management control systems for the fiscal year ending September 30, 2002. This evaluation provided reasonable assurance that the agency's management controls achieved their intended objectives. As a result, management concluded that the NRC did not have any material weaknesses in its programmatic or administrative activities. However, the NRC's implementation of managerial cost accounting (SFFAS Number 4) was identified as a significant weakness that merits the attention of senior management. A prior-year deficiency on implementation of accounting for internal use software (SFFAS Number 10) was eliminated as a significant weakness.

The implementation of managerial cost accounting was reported as a significant weakness last year and continues to receive the close attention of senior management. Significant progress was made during FY 2002. A cost accounting system was implemented using commercial off-the-shelf software and quarterly internal cost reports were provided to agency managers as additional input to their decision-making activities. The agency will continue to refine its use of cost accounting.

Federal Financial Management Improvement Act

The Federal Financial Management Improvement Act of 1996 (Improvement Act) requires each agency to implement and maintain systems that comply substantially with: (i) Federal financial management system requirements, (ii) applicable Federal accounting standards, and (iii) the standard general ledger at the transaction level. The 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 2002 Improvement Act Results

As of September 30, 2002, the NRC evaluated its seven financial systems: the Federal Financial System (FFS), Human Resources Management System (HRMS), Managerial Cost Accounting, Capitalized Property System, License Fee Bill Generator System, Allotment/Financial Plan System, and Budget Formulation System. The NRC evaluated its financial management systems to determine if they complied with applicable Federal requirements and accounting standards required by the Improvement Act.

The Chairman of the NRC determined that as of September 30, 2002, NRC financial management systems were in substantial compliance with Federal financial management system requirements, except for instances where the managerial cost accounting system did not fully meet Governmentwide financial management systems requirements. In making his determination, the Chairman considered all the information available to him, including the Executive Committee on Management Control's report on the

effectiveness of internal controls and the auditor's opinion on the agency's FY 2002 financial statements. He also considered the results of the financial management systems reviews conducted by the agency.

The following actions are underway during FY 2003 to improve the managerial cost accounting system:

- Complete correction of deficiencies identified during the development and evaluation of the Security Plan Risk Assessment and Business Continuity Plan.
- Perform a post-implementation assessment of the system, identify areas for improved efficiency and effectiveness, and take appropriate action.
- Continue with cost management improvement activities related to assessing and refining the agency's needs for cost information.

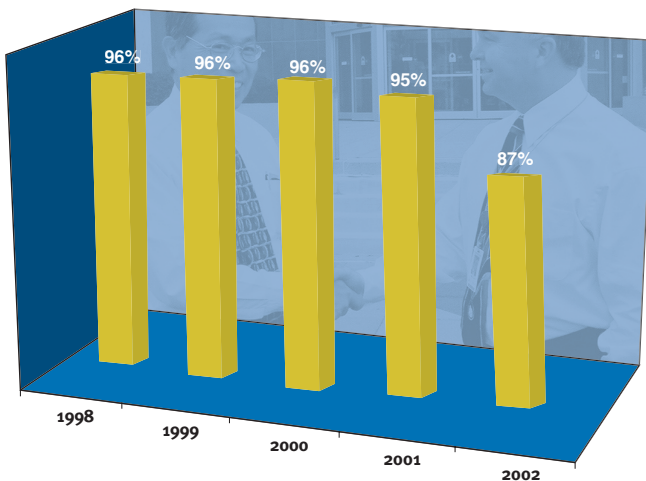
Prompt Payment

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. From FY 2001 to FY 2002, the NRC had a decrease of 2,201 invoices (from 8,745 to 6,544) that were paid and subject to the Prompt Payment Act. For FY 2002, the NRC made 87 percent of its payments on-time that were subject to the Prompt Payment Act. The NRC incurred \$6,992 in interest penalties in FY 2002, which was an increase over the FY 2001 amount of \$3,151. The increase in interest penalties and decrease

CHAPTER 1: MANAGEMENT'S DISCUSSION and ANALYSIS

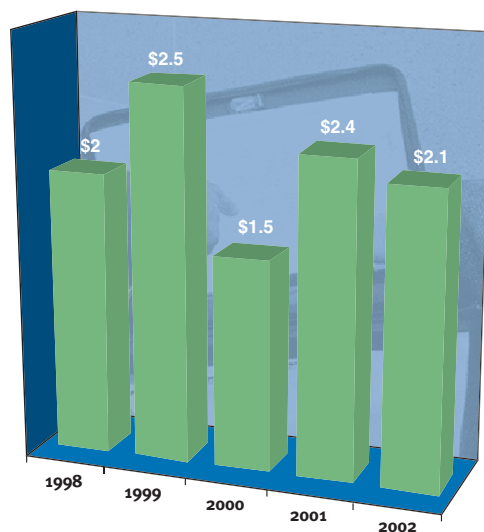
PROMPT PAYMENT

On-time payments



DELINQUENT DEBT

In millions



in prompt payment performance was due to severe mail disruptions caused by the National emergency as a result of the anthrax contamination of post offices that processed NRC mail. The agency made over 99 percent of its vendor payments electronically.

Debt Collection

The Debt Collection Improvement Act of 1996 was enacted to enhance 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 at less than one percent of its annual billings. The NRC continues to meet its goal and has kept delinquent debt at less than one percent for the past five years. Delinquent debt at the end of FY 2002 was \$2.0 million. This is a decrease of \$0.4 million over FY 2001; however, it reflects an increase in the number of outstanding receivables from 208 to 280. The NRC continues to aggressively pursue the collection of delinquent debt and continues to meet the requirement that all eligible delinquent debt over 180 days is referred to the U.S. Treasury for collection.

Biennial Review of User Fees

The Chief Financial Officers Act of 1990 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. During FY 2001 and FY 2002, the NRC reviewed each type of fee subject to the biennial review requirement. 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 (67 FR 42612, June 24, 2002). The following fees and charges were also revised to more appropriately recognize actual costs: fees for public use of the auditorium, administrative charges imposed on delinquent debt [10 CFR 15.37(f)], fees for search and review time to respond to Freedom of Information Act and Privacy Act requests, and license fees based on average number of hours. Reviews of other types of fees concluded that fee revisions were not warranted at this time.

Treasury Performance Measure Summary

Treasury has five key elements for measuring how agencies complied with reporting requirements for FACTS I (trial balance) and intragovernmental activity. Overall for FY 2001, the NRC complied with the five reporting elements for timely reporting, reconciliation of beginning and ending net position differences, reliability of FACTS I reporting, consistency of audited financial statements to FACTS I reporting, and intragovernmental activity for elimination of differences. Treasury has not issued its FY 2002 Performance Measure Summary.

Inspector General Act

The agency has established and continues to maintain an excellent record in resolving and implementing open audit recommendations presented in Office of the Inspector General (OIG) reports. Section 5(b) of the Inspector General Act of 1978, as amended, requires agencies to report on final actions taken on OIG audit recommendations. This information as well as data concerning disallowed costs determined through contract audits conducted by the Defense Contract Audit Agency can be found in Appendix B.

Improper Payments

The General Accounting Office (GAO) reported that improper payments are a widespread and significant problem in the Federal Government. The NRC was requested to evaluate its own internal controls and to implement those strategies that are appropriate to guard against improper payments. The NRC's evaluation disclosed that its instances of improper payments was minimal and that NRC has effective management controls designed to prevent improper payments.

Payment data for the period October 2000 to September 2002 was collected and analyzed to determine the number and dollar value of improper payments compared to total payments made. The results showed that there were 100 improper payments out of 103,724 total payments, or 0.1 percent. The dollar value of improper payments was \$135,626 out of \$409,728,369 total dollars, or 0.03 percent. This data supports the NRC's initial assessment that improper payments are an area of low management control risk. The agency will continue to monitor improper payments.