

# Chapter 1

# MANAGEMENT'S DISCUSSION AND ANALYSIS



NRC Headquarters in Rockville, MD



Tour at Davis Besse Nuclear Power Plant

### INTRODUCTION

This Performance and Accountability Report represents the culmination of the U.S. Nuclear Regulatory Commission's (NRC) program and financial management processes, which began with mission and program planning, continued through the formulation and justification of NRC's budget to the President and the Congress, through budget execution, and ended with this report on the Agency's program performance and use of the resources with which it is entrusted. This report was prepared pursuant to the requirements of the Chief Financial Officers Act, as amended by the Reports Consolidation Act, and covers activities from October 1, 2005, to September 30, 2006.

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

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

### ABOUT THE NRC

The NRC was established on January 19, 1975, as an independent Federal agency to regulate various 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 the 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, 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.

### Organization

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

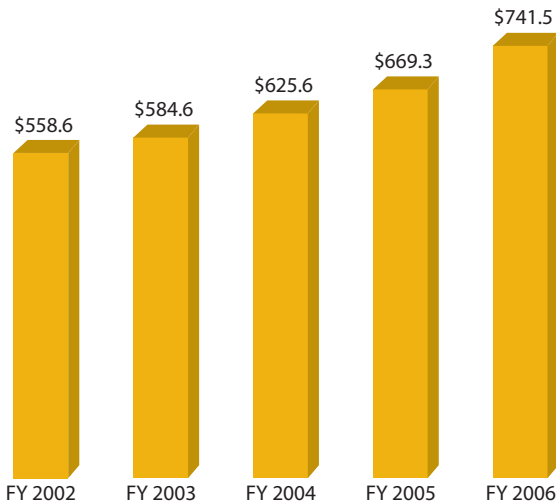
**NRC BUDGETARY AUTHORITY, FY 2002-2006**  
(Dollars in Millions)

Figure 1

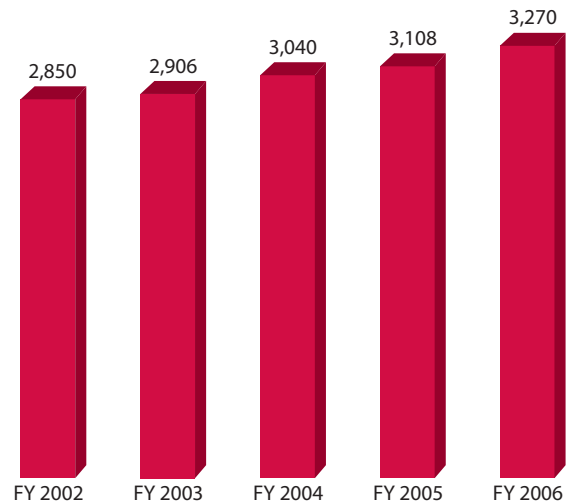
**NRC PERSONNEL CEILING, FY 2002-2006**  
(Staff)

Figure 2

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

The NRC's budget for fiscal year (FY) 2006 was \$741.5 million (see Figure 1) and 3,270 full-time equivalent staff (see Figure 2). The Agency's FY 2005 budget was \$669.3 million and 3,108 full-time equivalent staff. The NRC recovers most of its appropriations from fees paid by NRC licensees. Approximately 72 percent of the NRC's budget and 71 percent of its staff are associated with nuclear reactor safety, security, and emergency response.

### 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 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 (see Figure 3 on the next page). Since 1994, nuclear electric generation has increased by approximately 20 percent. The NRC expends over 368,500 hours annually inspecting operating reactors and licenses approximately 4,700 reactor operators.

The NRC oversees over 4,500 licenses for medical, academic, industrial, and general uses of nuclear materials (see Figure 4 on the next page). The Agency conducts approximately 1,500 health and safety inspections of its nuclear materials licensees annually. In addition,

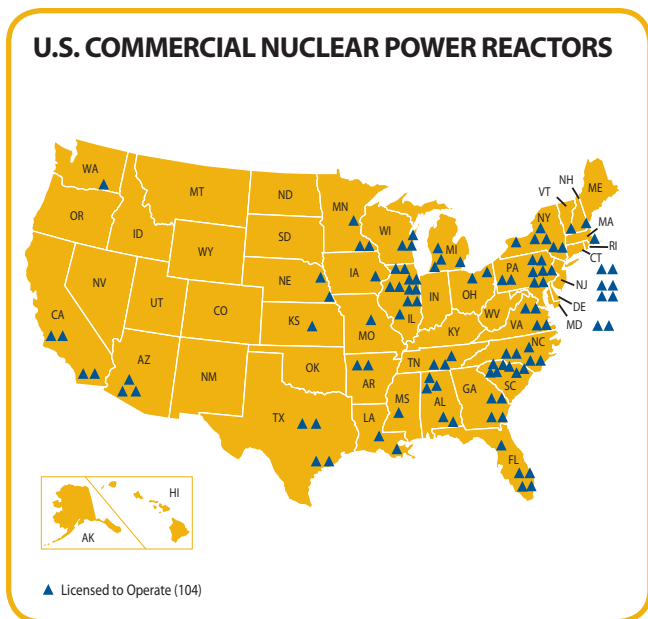


Figure 3

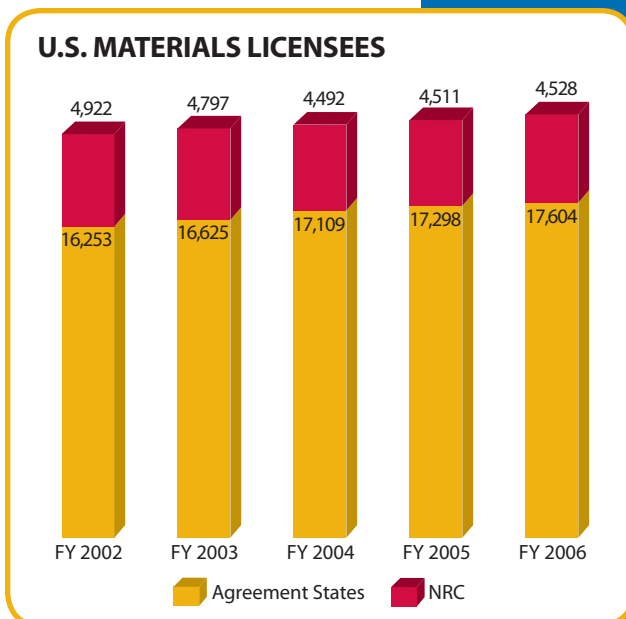


Figure 4

the 34 Agreement States oversee over 17,600 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), which are then loaded into metal fuel rods about 12 feet long and bundled into reactor fuel assemblies at a fuel fabrication facility. Assemblies are transported to nuclear power plants for use as fuel. The NRC licenses seven major fuel fabrication and production facilities and two uranium enrichment facilities licensed to operate in eight states. Because they handle hazardous material, these facilities take special precautions to prevent theft, diversion by terrorists, and dangerous exposures to workers and the public from the nuclear material they handle.

### Reactors

Power plants change one form of energy into another. Electrical generating plants convert heat, the energy of wind or falling water, or solar energy into electricity. A nuclear power plant converts heat into electricity. The nuclear reactor’s fuel gives off energy as certain types of atoms split into pieces. This energy is in the form of fast-moving particles and radiation. As the particles and radiation move through the fuel and surrounding water, the energy is converted into heat. The heat is the useful energy resulting from the splitting of atoms. The radiation energy itself can be hazardous and requires special precautions to protect people and the environment.

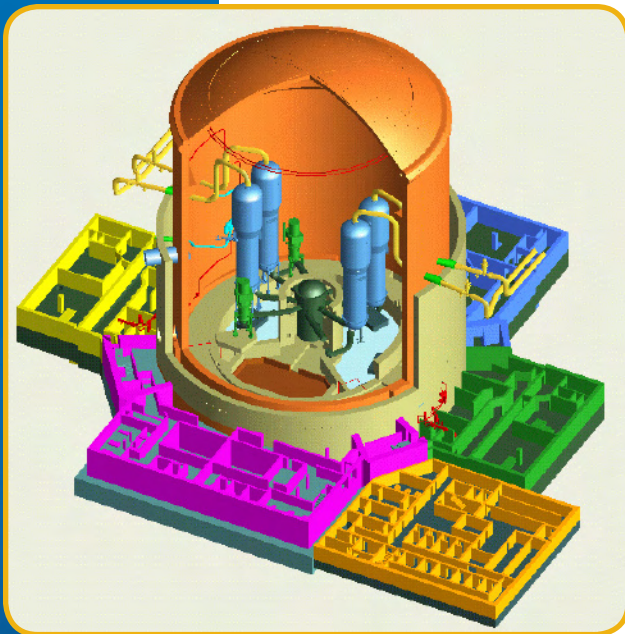


Figure 5 - Schematic of a nuclear power reactor

Because the fission reaction produces radioactive materials, nuclear power plants are equipped with numerous safety systems to protect workers, the public, and the environment. In a nuclear reactor, most radioactive substances, called fission byproducts, are trapped in the fuel pellets themselves or in the sealed metal tubes holding the fuel. Small amounts of these radioactive fission byproducts, principally gases, become mixed with the water passing through the reactor (see Figure 5). The water is processed and filtered to remove these radioactive impurities and then returned to the reactor cooling system.

### Materials Users

Nuclear materials are used extensively in the medical, academic, and industrial fields. For example, approximately 112 million nuclear medicine or radiation therapy procedures are performed annually, with the vast majority used in diagnoses. Used as a tool, radioisotopes give doctors the ability to “look” inside the body and observe soft tissues and organs in a manner similar to the way that x-rays provide images of bones. Radioisotopes carried in the blood help detect clogged arteries or check the functioning of the circulatory system. Radioisotopes are also used in the treatment of cancerous tissue.

Many of today’s industrial processes also use nuclear materials. High-tech methods that ensure the quality of manufactured products often rely on 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 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. Radioisotopes can also eliminate dust from film and compact discs and static electricity from can labels.

### Waste Disposal

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

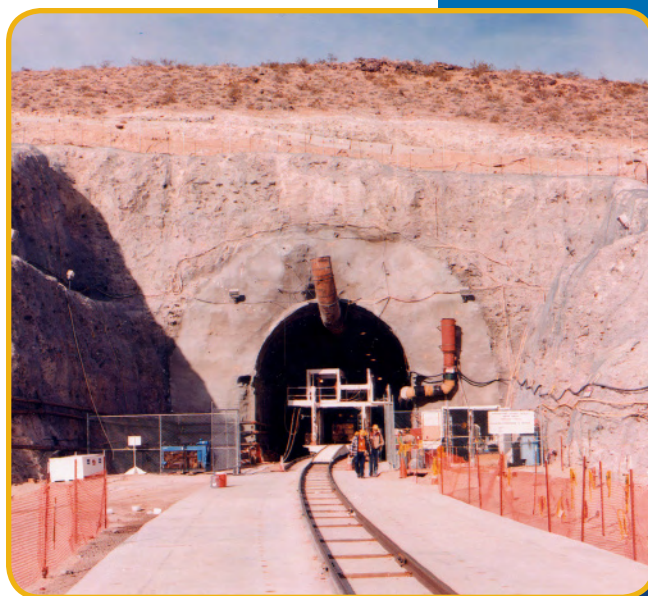


Dry Storage of Spent Fuel

Each type of waste is handled differently. Typically, the spent fuel from nuclear power plants is stored in water-filled pools and dry casks at each reactor site pending final dis-

posal. In dry cask storage, spent fuel is stored in heavy metal or concrete containers placed on concrete pads. Spent fuel is highly radioactive because it contains the fission byproducts that were created while the reactor was operating. The handling of spent fuel requires special procedures because the radiation levels can be dangerous without proper shielding. The water in the spent fuel storage pool provides cooling and adequate shielding from the radiation to protect workers in a nuclear plant. Concrete and steel in dry casks also provide adequate protection.

Most spent fuel remains stored at individual plants. Permanent disposal of spent fuel requires a facility that can provide reasonable assurance that the waste will remain isolated for thousands of years. The U.S. Department of Energy is developing plans for a permanent disposal facility at Yucca Mountain, Nevada, for spent fuel from nuclear power plants, as well as for the high-level waste produced by the Nation's nuclear weapons production activities.



Yucca Mountain Tunnel Entrance

### PROGRAM PERFORMANCE OVERVIEW

The NRC has five strategic goals—safety, security, openness, effectiveness, and management (see Figure 6). The Agency considers safety and security to be its highest priorities and the goals most closely aligned to the NRC's strategic objective. The NRC's ability to meet specific strategic outcomes defines the Agency's success in achieving each goal. To this end, the NRC 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 72 percent of the Agency's costs in FY 2006.

#### Nuclear Materials and Waste Safety Program

The Nuclear Materials and Waste Safety Program focuses on the safety and security of the remaining users of radioactive materials. The Nuclear Materials and Waste Safety Program regulates fuel facilities, medical and industrial nuclear materials users, the disposal of both

#### NRC GOALS AND PROGRAMS

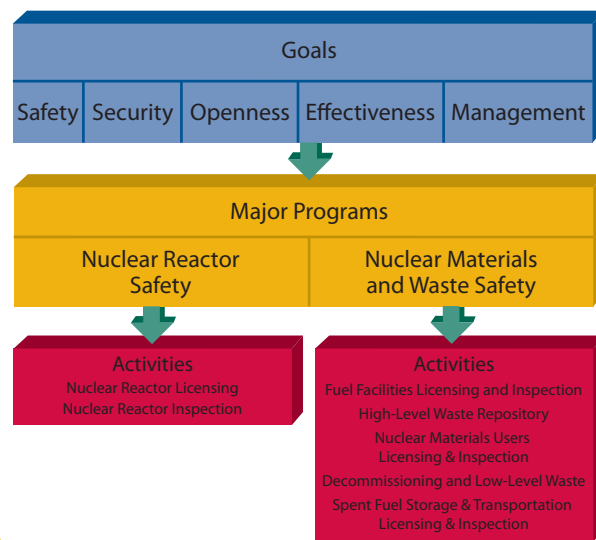


Figure 6

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 28 percent of the Agency's costs.

### The Agency's Five Strategic Goals

- (1) Safety: Ensure protection of public health and safety and the environment.
- (2) Security: Ensure the secure use and management of radioactive materials.
- (3) Openness: Ensure openness in our regulatory process.
- (4) Effectiveness: Ensure that our actions are effective, efficient, realistic, and timely.
- (5) Management: Ensure excellence in Agency management to carry out the NRC's strategic objective.

#### Goal 1: Ensure protection of public health and safety and the environment.

The NRC's primary goal is safety. The Agency achieves this goal by ensuring that the performance of licensees is at or above acceptable safety levels. The individual NRC programs partner with licensees for this purpose. The NRC's licensees are responsible for designing, constructing, and operating nuclear facilities safely, while the NRC is responsible for the regulatory oversight of the licensees. The strategic outcomes discussed below reflect specific hazards which NRC activities mitigate.

#### *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 2006 Results*

The NRC met all of its safety strategic outcomes in FY 2006. The NRC also uses six performance measures, in addition to the five strategic outcomes, to determine whether the Agency has met its safety goal. The Agency met its six performance measures in FY 2006. The first measure analyzes plant performance based on a large number of performance indicators and inspection findings. The second measure tracks significant precursor events determined by the likelihood of an event adversely impacting safety. The conditions in the third performance measure indicate whether the NRC identifies significant issues in a plant during inspections conducted under the reactor oversight program. The measures indicated that not only were the plants safely operated, but the events that did occur were of relatively minor significance.

Another 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. Results show no statistically significant adverse trends in any of the indicators in FY 2006.

The last two safety measures address harmful radiation exposures to the public and occupational workers and radiation exposures that harm the environment. None of these mea-



asures exceeded their targets in FY 2006. Ensuring that nuclear materials cause no harm to human health or the environment is the basis for the NRC's safety mission.

### **Goal 2: Ensure the secure use and management of radioactive materials.**

The NRC's Security goal responsibilities include regulating licensees' (a) accounting systems for special nuclear and source materials and (b) security programs and contingency plans for dealing with threats, thefts, and sabotage relating to special nuclear material, high-level radioactive wastes, nuclear facilities, and other radioactive materials and activities that the NRC regulates.

#### *Strategic Outcome:*

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

#### *FY 2006 Results*

The NRC uses three performance measures, in addition to the strategic outcome, to determine whether the Agency has met its security goal. The Agency met all three performance measure targets in FY 2006. The first performance measure addresses 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 essential to securing the Nation's critical infrastructure from "dirty bomb" attacks or other means of radiation dispersal.

The second performance measure evaluates the number of significant security events and incidents that occur at NRC-licensed facilities. The measure determines whether nuclear facilities are maintaining adequate protective forces to prevent theft or diversion of nuclear material or sabotage; whether systems at licensee plants are accurately accounting for the type and amount of materials which are processed, utilized, or stored, and whether the facilities are accounting for special nuclear material at all times and that no losses of this material has occurred. No events met the conditions for this measure in FY 2006.

The last performance measure tracks whether any significant unauthorized disclosure of classified and/or safeguard information that could cause damage to national security or public safety has occurred. This measure determines whether this type of information is stored and used in such a way as to prevent its disclosure from the public, terrorists, other nations, or personnel without a need to know. Unauthorized disclosure can harm national security or compromise public health and safety. The measure also determines whether controls are in place to maintain and secure the various devices and systems (electronic or paper based) which the Agency and its licensees use to store and transmit this information. No documented disclosures of this type of information occurred during FY 2006.

### **Goal 3: Ensure openness in our regulatory process.**

The Agency's openness goal recognizes the importance of informing the public about the NRC's regulatory processes. The Agency is committed to providing the public with an opportunity to participate in these processes. The NRC views nuclear regulation as the public's business and, as such, believes that it should be transacted openly and candidly in order to maintain the public's confidence. The Agency is committed to keeping the public informed and believes that a responsible and effective regulatory process includes an involved public.

### *Strategic Outcome*

- Stakeholders are informed and involved in NRC processes as appropriate.

### *FY 2006 Results*

The NRC uses two performance measures, in addition to the strategic outcome, to determine whether the Agency has met its openness goal. One performance measure target was not undertaken in FY 2006. That measure, the percentage of surveyed stakeholders that perceive the NRC to be open about its process, was not undertaken because cost considerations precluded conducting the survey.

The second performance measure consists of nine supporting output measures. The Agency met six of the nine output measures, but did not achieve the overall target for this performance measure. The output measures primarily focus on the Agency's responsiveness to the public through stakeholder requests for information, the release of regulatory documents, and Freedom of Information Act (FOIA) requests. In addition, a survey of the user satisfaction score for the Agency's public Web site was conducted. The Agency did not meet the target for this performance measure. To improve results in FY 2007, the Agency will take steps to ensure that documents are released within required time frames. In addition, the Agency web site will be upgraded to improve the current search engine.

### **Goal 4: Ensure that our actions are effective, efficient, realistic, and timely.**

Over the next several years, the NRC anticipates a significant increase in Agency workload. In particular, the future workload is likely to include licensing requests of unprecedented technical complexity, including the U.S. Department of Energy's application to license the Yucca Mountain high-level radioactive waste repository and requests to license the next generation of nuclear reactors. In addition, security demands are becoming more complex, requiring diverse professional expertise and close coordination with other Federal, State, and local agencies. This goal focuses the NRC on continuously improving regulatory processes to ensure achievement of its goals in the midst of these new requirements.

### *Strategic Outcome:*

- No significant licensing or regulatory impediments to the safe and beneficial uses of radioactive materials.

Many factors could contribute to licensing and regulatory impediments, such as an inadequate regulatory framework, an ineffective program, or an inefficient process that leads to an untimely regulatory decision. The NRC is committed to addressing such issues through initiatives related to this goal, and it will also monitor the regulated community for instances in which Agency actions may have unnecessarily impeded licensees and applicants. In conducting this monitoring, the NRC may consider the results of self and external assessments, feedback from stakeholders, Congressional direction, and other sources.

### *FY 2006 Results*

The NRC uses three performance measures, in addition to the strategic outcome, to determine whether the Agency has met its efficiency goal. One performance measure was to limit to one the instances per program in which licensing or regulatory activities unnecessarily impeded the safe and beneficial uses of radioactive materials. This performance

measure is designed to capture instances in which NRC programs may have unnecessarily impeded the use of radioactive materials, but which did not meet the requirements of the strategic outcome for a “significant” impediment. Examples include missing a key timeliness measure or not adjusting the regulatory framework to support new technologies or otherwise respond to significant changes in the regulatory environment. To date, the NRC regulatory processes have been shown not to be an unnecessary impediment to the safe and beneficial uses of radioactive materials.

Another measure is to achieve a score of 85 percent on the Agency’s Performance Assessment Rating Tool conducted by the Office of Management and Budget. The Office of Management and Budget postponed this review and therefore no results are presented for this measure. For the final measure, the Agency chose to improve efficiency for five processes. The results of this effort were disappointing. The Agency did not meet its target for this measure as it only showed improvements for one process. Of the remaining four processes, one had no activity, so it could not demonstrate progress, and three processes failed to show efficiency improvements for FY 2006. The Agency expects to reevaluate the process improvement plans to determine why gains were not achieved this year and how gains may be achieved in the future.

### **Goal 5: Ensure excellence in Agency management to carry out the NRC’s strategic objective.**

The NRC strives for management excellence in carrying out its regulatory responsibilities. The Agency believes that management excellence should be achieved while fostering the successful conduct of priority activities. In setting this goal, the NRC considered the management and support needed to achieve the Agency’s mission, preexisting management challenges, and other initiatives identified by central organizations such as the Government Accountability Office, the Office of Management and Budget, and the Office of Personnel Management. This goal includes strategies for the management of human capital and infrastructure, improved financial performance, expanded electronic government, budget and performance integration, and internal communications.

### *Strategic Outcomes*

- Continuous improvement in the NRC’s leadership and management effectiveness in delivering the mission.
- A diverse, skilled workforce and an infrastructure that fully support the Agency’s mission and goals.

### *FY 2006 Results*

The NRC uses two performance measures, in addition to the strategic outcomes, to determine whether the Agency has met its management excellence goal.

The Agency met the first performance measure to determine whether selected NRC management programs deliver their intended outcomes. Those programs include infrastructure management, financial management integration, budget and performance integration, expanded electronic government, human capital management, and internal communications. Several of these areas draw directly from the President’s Management Agenda. These activities provide for a safe work environment for the Agency’s employees and guests, manage the Agency’s funds responsibly, use technology to its fullest extent, attract and retain the Agency’s highly skilled workforce, and provide that workforce with the information it needs to be successful.

The Agency did not meet the second performance measure to address whether selected support processes deliver efficiency improvements. The processes include drug testing, budget formulation, contracting for wireless communications, and hiring. The Agency will be reviewing these support process efficiency improvement plans to determine why gains were not achieved this year and how gains may be achieved in the future.

### Program Assessment Rating Tool Results

Another measure of the effectiveness of the Agency's programs is the Program Assessment Rating Tool (PART) reviews conducted by the Office of Management and Budget. Since FY 2002, PART reviews of most of the NRC's activities have been conducted. The activities that have been assessed include nuclear reactor inspection, fuel facilities, nuclear materials users, nuclear reactor licensing, and spent fuel storage and transportation. The Office of Management and Budget rated four of the five Agency programs as "effective," the highest category provided for in PART. The remaining NRC program received a "moderately effective" rating, the second highest category.

In revisiting NRC programs subject to PART in prior years, the Office of Management and Budget recommended that the Agency better link budget requests to the NRC's annual and long-term goals, as well as link performance measures in the organization's operating plan to the safety performance measures in the Agency's FY 2004–FY 2009 Strategic Plan. A further recommendation was for more transparency in how allocation decisions are made and how an activity contributes to achievement of the Agency's long-term goals. In addition, the Office of Management and Budget recommended a complete review of operating plan format and content to improve the effectiveness of these plans as management tools. The NRC has addressed these recommendations.

### FUTURE CHALLENGES

Primary future challenges for the NRC involve the expected receipt of applications to construct and operate new nuclear plants and dispose of high-level nuclear waste. The nuclear industry has indicated that it expects to submit at least 20 combined license applications to the NRC to construct and operate almost 29 new nuclear power reactors over the next few years. The NRC needs to obtain additional resources to meet this increased workload, hire and train several hundred new technical staff, update the agency's regulatory review and construction inspection guidelines, and expand its infrastructure to accommodate this growth.

The NRC also faces a major challenge as the U.S. Department of Energy prepares to submit an application to construct the Nation's first repository for high-level radioactive waste at Yucca Mountain, Nevada. Safe disposal of the waste from nuclear power plants is vital to protect public health and the environment. The U.S. Department of Energy has indicated that it may file a license application for the Yucca Mountain repository in FY 2008. The NRC must be adequately prepared to review that application. The NRC's review will require the evaluation and resolution of a wide range of technical and scientific issues, site inspections, and conduct of an adjudicatory hearing. Until a repository is licensed and ready to receive high-level nuclear waste, spent nuclear fuel will be safely and securely stored primarily at reactor sites.

While addressing these challenges, the safety and security of the existing fleet of reactor, fuel facility, and nuclear materials licenses will remain the Commission's highest priority.

### PRESIDENT'S MANAGEMENT AGENDA

The President's Management Agenda prescribes Governmentwide initiatives to ensure that Government agencies become more citizen centered, results oriented, and market based and actively promote competition rather than stifle innovation. To achieve this goal, the Administration has identified the following five initiatives to improve Government performance.

#### Strategic Management of Human Capital

The Agency has streamlined recruitment, relocation, and retention incentives to expedite review and approval, thereby allowing offices to extend job and incentive offers to outside applicants and positioning the Agency to handle anticipated workload growth, especially in reactor licensing reviews. The NRC is also coordinating its efforts to implement knowledge management strategies, including the development of a knowledge management Web site.

#### Budget and Performance Integration

The NRC's planning, budgeting, and performance management process links the Agency's various budget accounts to its safety and security goals and clearly identifies the budgetary resources devoted to them. The Agency's budget identifies the alignment of resources to the NRC's safety and security goals. The associated output measures are also clearly linked to the safety, security, and management and support goals and performance measures.

#### Competitive Sourcing

The NRC continues to implement performance-based contracting for facility management services, data entry, information technology, and other support services. To give vendors a better understanding and perform to the contract requirements, the NRC includes such criteria as measurable performance requirements, quality standards, quality surveillance plans, and provisions for imposing penalties when the vendor fails to meet contract expectations.

#### Expanded Electronic Government

The NRC is integrating and aligning its information technology investments with the Federal Government's Electronic Government Program. The NRC uses electronic government services for payroll, security clearance, acquisition support, Governmentwide customer service, and recruitment, and is currently implementing support for travel and training. In addition, the NRC established procedures to avoid information technology investments that would duplicate other Federal electronic government programs. The NRC is also participating in the Financial Management and Human Capital Lines of Business. Further, the NRC is participating in the Information Technology Security Lines of Business.

#### Improved Financial Performance

The NRC's financial management systems strategy is to improve business processes, systems performance, and information access and to reduce life-cycle costs by relying on off-the-shelf software hosted by shared service providers. A Federal shared service provider currently hosts and operates the NRC's core accounting, payroll, and human resource systems. The NRC maintains its other financial management systems, which interface with the core accounting and payroll systems, internally. The Agency's vision for improving the financial

management system is to integrate, to the extent possible, the requirements of various functions into one or a few systems, including core accounting, fee billing, and cost accounting. The NRC also began work on upgrading its time and labor system, with the goal of having the system hosted and operated by a shared service provider.

In FY 2006, the NRC completed its first year of implementing the new OMB requirements for assessing its policies and procedures related to internal control over financial reporting. The deficiencies noted during testing were classified as either an internal control deficiency or reportable condition. No material weaknesses were identified. The NRC then implemented corrective actions to remediate those deficiencies. The Agency included the results of the assessment in the Federal Managers' Financial Integrity Act Statement of Assurance (see Chapter 1, *Management Assurances*).

## FINANCIAL PERFORMANCE OVERVIEW

As of September 30, 2006, and 2005, 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 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 2006 budget authority was \$741.5 million. Of this amount, \$733.2 million was for the Salaries and Expenses appropriation and \$8.3 million was for the Office of the Inspector General appropriation. This represents an increase in new budget authority of \$72.2

million over FY 2005 (\$71.4 million for the Salaries and Expenses appropriation and \$0.8 million for the Office of the Inspector General appropriation). In addition, \$58.3 million from prior-year appropriations, \$4.9 million from prior-year reimbursable work, and \$4.3 million for new reimbursable work to be performed for others was available to obligate in FY 2006. The sum of all funds available to obligate for FY 2006 was \$809.0 million, which is a \$86.1 million increase over the FY 2005 amount of \$722.9 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 Waste Incidental to Reprocessing for FY 2006. The NRC collected \$625.0 million in reactor and material fees in FY 2006 (see Figure 7). This is 100 percent of the fee recovery requirement. For FY 2005, OBRA-90 required NRC to collect approximately 90 percent of its new budget authority, excluding appropriations from the Nuclear Waste Fund.

#### SOURCES OF FUNDS (In Millions)

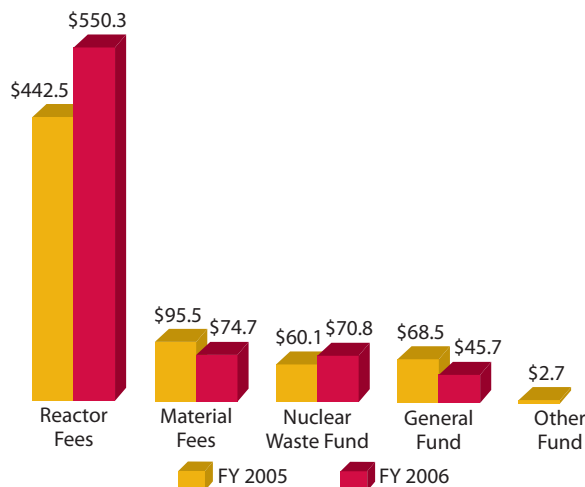


Figure 7

**Uses of Funds by Function**

The NRC incurred obligations of \$734.7 million in FY 2006, which was an increase of \$69.2 million over FY 2005. Approximately 57 percent of obligations were used for salaries and benefits. The remaining 43 percent was used to obtain technical assistance for the NRC's principal regulatory programs, to conduct confirmatory safety research, to cover operating expenses, (e.g., building rentals, transportation, printing, security services, supplies, office automation, training), staff travel, and reimbursable work (see Figure 8). The unobligated budget authority available at the end of FY 2006 of \$74.3 million increased compared to the FY 2005 amount of \$57.3 million. Of this \$74.3 million, \$5.4 million is for reimbursable work and \$68.9 million is available to fund critical NRC needs in FY 2007.

**Audit Results**

The NRC received an unqualified audit opinion on its FY 2006 financial statements. In FY 2006, the auditors identified a new 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 material weaknesses in the Agency's Federal Managers' Financial Integrity Act (Integrity Act) assurance statement. The NRC plans to have contingency plan testing completed during FY 2007 and all systems certified and accredited by FY 2008. For FY 2005, the auditors identified the weakness in information system-wide security controls as a reportable condition.

In FY 2004 and FY 2005, the auditors identified a material internal control weakness concerning the Fee Billing System and the quality assurance process over fee billing. In FY 2006, the auditors continued to classify this as a material weakness. NRC management has classified fee billing as a reportable condition in the annual Integrity Act assurance statement based on the corrective actions to implement compensating controls during the fiscal year (Chapter 1, *Management Assurances*). The Fee Billing System was also identified as a substantial noncompliance with the Federal Financial Management Improvement Act (Improvement Act). NRC will continue to improve internal controls by implementing and monitoring corrective actions during the agency's internal control assessment.

The auditors closed two of the remaining three prior-year reportable conditions concerning the accounting for internal use software and financial controls over disbursements. The remaining reportable condition concerns the development of the hourly rate for license fees. In FY 2006, the agency implemented several corrective actions for the hourly rate development process for license fees and closure of this finding is pending the agency fully implementing the corrective action plan.

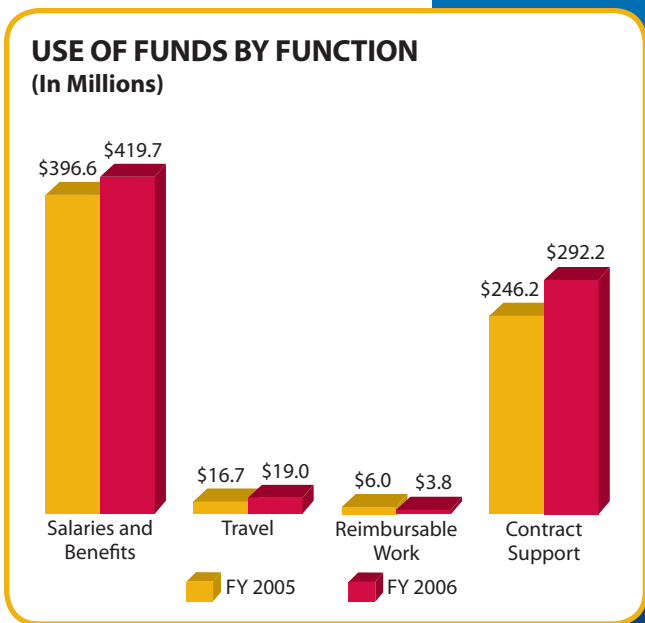


Figure 8

## Limitations of the Financial Statements

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

The NRC's FY 2006 financial statements were audited by R. Navarro and Associates, under contract to the NRC Office of the Inspector General.

## Financial Statement Highlights

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

### *Analysis of the Balance Sheet*

The NRC's assets were approximately \$386.1 million as of September 30, 2006. This is an increase of \$72.4 million from the end of FY 2005. The assets reported in NRC's Balance Sheet are summarized in the accompanying table.

The Fund Balance with Treasury represents the NRC's largest asset of \$281.7 million as of September 30, 2006, an increase of \$61.0 million from the FY 2005 year-end balance. This balance accounts for approximately 73 percent of total assets and represents appropriated funds, collected license fees, and other funds maintained at the U.S. Treasury to pay current liabilities. The increase in Fund Balance with the U.S. Treasury is primarily due to an increase in new reactor licensing activities and homeland security related activities, and the impact of a \$72.2 million increase in new budget authority offset by a \$35.2 million increase in expenditures.

#### ASSET SUMMARY (in millions)

	FY 2006	FY 2005
Fund Balance with Treasury	\$281.7	\$220.7
Accounts Receivable, Net	75.2	64.0
Property, Plant, & Equipment, Net	26.9	27.0
Other	2.3	2.0
<b>Total Assets</b>	<b>\$386.1</b>	<b>\$313.7</b>

Account Receivable, Net, as of September 30, 2006, was \$75.2 million and includes an offsetting allowance for doubtful accounts of \$3.0 million. This is a 18 percent increase from the FY 2005 year-end Accounts Receivable, Net, balance of \$64.0 million. This increase was primarily due to the increase in the hourly rates for materials and facilities inspection fees. Accounts Receivable Due from the Public was \$71.3 million, representing 18 percent of total assets. The value of Property, Plant, and Equipment, Net, was \$26.9 million, representing 7 percent of total assets. The majority of this balance represents information technology software and leasehold improvements.



The NRC's liabilities were \$173.5 million as of September 30, 2006. The accompanying table shows an increase in Total Liabilities of \$17.3 million from the FY 2005 year-end balance of \$156.2 million. This increase is primarily due to the liability that relates to future collections, which will be paid to the U.S. Treasury. Other Liabilities include \$75.0 million for recoveries from unbilled accounts receivable, \$36.0 million for accrued annual leave, and \$13.8 million for accrued salaries to employees. Of the Agency's liabilities, \$45.3 million were not covered by budgetary resources, which is a slight increase over the balance as of September 30, 2005. These liabilities not covered by budgetary resources include unfunded pension expenses, accrued annual leave, and future workers' compensation. It should be noted that the Federal budget process does not recognize the cost of future benefits for today's employees until they are actually paid.

	<b>FY 2006</b>	<b>FY 2005</b>
Accounts Payable	\$31.2	\$29.0
Federal Employee Benefits	7.4	8.4
Other Liabilities	134.9	118.8
<b>Total Liabilities</b>	<b>\$173.5</b>	<b>\$156.2</b>

The difference between Total Assets and Total Liabilities, Net Position, was \$212.6 million as of September 30, 2006. This is an increase of \$55.1 million from the FY 2005 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 \$22.9 million is primarily due to the increase in Fund Balance with Treasury as a result of new reactor licensing activities and homeland security activities. The increase is also due to the change in the accounting treatment for the Nuclear Waste Fund (NWF) transfer in FY 2006 that is now classified to Cumulative Results of Operations. In FY 2005, the NWF transfer was reported as Unexpended Appropriations. Cumulative Results of Operations represent net results of operations since the NRC's inception. The increase of \$32.2 million is mainly due to the change in the accounting treatment of the NWF transfer.

	<b>FY 2006</b>	<b>FY 2005</b>
Unexpended Appropriations	\$193.7	\$170.8
Cumulative Results of Operations	18.9	(13.3)
<b>Total Net Position</b>	<b>\$212.6</b>	<b>\$157.5</b>

*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 program cost. The NRC's net cost of operations for the year ended September 30, 2006, was \$80.6 million, which is a decrease of \$52.4 million over the FY 2005 net cost of \$133.0 million. Net cost by program is shown in the accompanying table. Gross costs increased primarily due to new reactor licensing and homeland security activities. Earned Revenue increased primarily due to the increase in appropriations for NRC activities, of which the NRC is required to collect 90 percent through fee billing.

	<b>FY 2006</b>	<b>FY 2005</b>
Nuclear Reactor Safety	\$(50.4)	\$0.5
Nuclear Materials & Waste Safety	131.0	132.5
<b>Net Cost of Operations</b>	<b>\$80.6</b>	<b>\$133.0</b>

Total exchange revenue for the year ended September 30, 2006, was \$640.1 million, which is an increase of \$90.1 million from the exchange revenue of \$550.0 million for the year ended September 30, 2005. Exchange revenue is derived from fees for reactor and materi-

als licensing, inspections, and other services assessed in accordance with 10 CFR Parts 170 and 171.

### *Analysis of Statement of Changes in Net Position*

The Statement of Changes in Net Position reports the change in net position during the reporting period. Net position is affected by changes in its two components—Cumulative Results of Operations and Unexpended Appropriations. The increase in Net Position of \$55.1 million from FY 2005 to FY 2006 is due primarily from the net change in Cumulative Results of Operations. This increase of \$32.3 million is primarily due to higher fees collected for FY 2006. When fees are collected they are transferred to the U.S. Treasury offsetting Appropriations Used, resulting in a higher Cumulative Results of Operations. During FY 2006, NRC changed the accounting treatment of the Nuclear Waste Fund transfer. The Nuclear Waste Fund transfer is now classified in Cumulative Results of Operations under Transfers-in/out without reimbursement and in FY 2005 it was classified to Unexpended Appropriations.

### *Analysis of the Statement of Budgetary Resources*

The Statement of Budgetary Resources reports the source and status of budgetary resources during the period. It presents the relationship between budget authority and budget outlays, and the reconciliation of obligations to total outlays. For FY 2006, NRC had Total Budgetary Resources available of \$809.0 million, the majority of which was derived from new budget authority. This represents a 12 percent increase over FY 2005 budgetary resources available of \$722.9 million. This increase is primarily due to new reactor licensing and homeland security activities.

For FY 2006, the Status of Budgetary Resources reported Obligations incurred of \$734.8 million, or 91 percent of funds available increased compared to FY 2005 obligations of \$665.5 million, at 92 percent of funds available due to the increase of appropriations received for new reactor licensing and homeland security activities. Gross outlays for FY 2006 were \$686.6 million, which represents a \$35.2 million increase from FY 2005 total outlays of \$651.4 million due to the increase in new reactor licensing and homeland security activities.

### *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 \$734.8 million and reconciles to the Net Cost of Operations of \$80.6 million by deducting non-budgetary resources, costs not requiring resources, and financing sources yet to be provided.

## **SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE**

This section contains information concerning Management Assurances, Prompt Payment Act, Debt Collection Improvement Act, Biennial Review of User Fees, Inspector General Act, and Other key legal and regulatory requirements.

### Management Assurances

This section provides information on the NRC's compliance with the Federal Managers' Financial Integrity Act, Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Internal Control, and the Federal Financial Management Improvement Act.

#### *Federal Managers' Financial Integrity Act*

The Federal Managers' Financial Integrity Act (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. It also requires the Chairman to provide an assurance statement on the adequacy of internal controls and conformance of financial systems with governmentwide standards.

#### **Management Control Review Program**

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

The NRC's ECIC comprises senior executives from the offices of the Chief Financial Officer and Executive Director of Operations, with the General Counsel and Inspector General par-



### INTEGRITY ACT STATEMENT FOR FY 2006

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 two material weaknesses and one non-conformance 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 two material weaknesses and one non-conformance in its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2006. Other than these exceptions, 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 this evaluation, the NRC can provide reasonable assurance that its internal control over financial reporting as of June 30, 2006, was operating effectively, and no material weaknesses were found in the design or operation of the internal control over financial reporting.

Dale E. Klein  
Chairman  
U.S. Nuclear Regulatory Commission  
November 15, 2006

icipating as advisors. The ECIC met and reviewed the assurance statements provided by the offices and regions. The ECIC then informed the Chairman as to whether the NRC had any internal control deficiencies serious enough to be reported as a material weakness or material noncompliance.

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

### **FY 2006 Integrity Act Results**

The NRC evaluated its internal control systems for the fiscal year ending September 30, 2006. 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 two material weaknesses and one nonconformance.

### **Material Weaknesses**

The Office of the Inspector General (IG) performed an independent evaluation of the NRC's implementation of the Federal Information Security Management Act (FISMA) for FY 2006. The following two significant deficiencies were identified in the NRC's information system security program:

- Only 1 of 30 operational NRC information systems has a current certification and accreditation, and only 4 out of the 12 systems used or operated by a contractor or organization on behalf of the Agency have been certified and accredited.
- Annual contingency plan testing is not being performed for most of the NRC's operational information systems.

As a result of this evaluation, the NRC identified these two findings as material weaknesses under the provisions of the Integrity Act. The NRC will implement the following corrective actions to resolve these material weaknesses:

- For the certification and accreditation effort, the NRC's FY 2007 and FY 2008 budget include additional resources and the Agency has developed a milestone plan to ensure that one-half of the listed systems will be certified and accredited by September 2007, with the remaining systems being certified and accredited by September 2008. In addition, the Agency is evaluating its current certification and accreditation process to determine what can be streamlined.
- All system contingency plan testing will be completed by July 2007.

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

The Office of Management and Budget revised Circular A-123, stressing the added importance of internal control in light of the new requirements for publicly traded companies contained in the Sarbanes-Oxley Act of 2002. The Circular defines and strengthens management's responsibility for internal control in Federal agencies. The revised Circular includes updated internal control standards and a new section, Appendix A, which requires

Federal agencies to implement procedures for assessing the effectiveness of internal control over financial reporting. Federal agency heads are required to sign a separate statement of assurance for internal control over financial reporting as of June 30, 2006. This statement is a subset of the overall Integrity Act statement of assurance.

The NRC's Chief Financial Officer established a Senior Assessment Team (SAT), consisting of senior managers from the Office of the Chief Information Officer, the Office of Information Services, Human Resources, and the Office of Administration to ensure that the assessment of internal control over financial reporting was carried out in a thorough, effective, and timely manner. The scope of financial reports and materiality values were determined. Nine financial reporting processes were determined to be key contributors to the Agency's financial statement balances. A testing plan was developed, and all key controls were tested to establish a baseline for the year of implementation. The Senior Assessment Team analyzed the test results and found no material weaknesses. The team shared these results at their annual briefing. 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, 2006, and that no material weaknesses were found in the design or operation of the internal controls over financial reporting.

With respect to the fee billing process, the deficiency was recognized as a material weakness by the auditors in the FY 2006 financial statement audit. This deficiency is associated with intensive manual processes, lack of comprehensive quality assurance procedures, and fee billing feeder processes (*see Chapter 3, Auditors' Report*).

The SAT concluded that the fee billing process does not rise to the level of a material weakness to be reported externally. The SAT reached this conclusion based on the low level of risk associated with the annual fee billings which comprise approximately 71 percent of fee billing revenue and the additional internal controls implemented for the annual fee and fee for service billing processes in FY 2006. For example, the new quality assurance review process demonstrated that errors were low in number and dollar value, and a statistical sampling test of annual fee billings, for small material licensees also demonstrated that the error rate and dollar value were minimal. In addition, an internal control assessment conducted in FY 2006 specifically identified this weakness as a reportable condition.

### **Nonconformance**

The NRC's financial management systems substantially conform to governmentwide requirements, except for the Fee Billing System. The issues related to the Fee Billing System include intensive manual processes and the lack of comprehensive quality assurance procedures.

During FY 2006, the NRC implemented a remediation plan for the fee billing system. The plan detailed the NRC's approach for overcoming the deficiencies that resulted in the finding of nonconformance. The plan included an assessment of the feasibility of bringing the fee billing system into substantial compliance, as well as the schedule to replace it with a compliant system. The Fee Systems Replacement Project is scheduled to be completed by FY 2009.

### ***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 (i) Federal fi-

financial management system requirements, (ii) applicable Federal accounting standards, and (iii) the standard general ledger at the transaction level. The Improvement Act requires the Chairman to determine whether the Agency's financial management systems comply with the Improvement Act and to develop remediation plans for systems that do not comply.

### FY 2006 Improvement Act Results

As of September 30, 2006, the NRC evaluated its financial systems to determine if they complied with applicable Federal requirements and accounting standards required by the Improvement Act. The following eight systems were evaluated—the Federal Financial System, Federal Personnel and Payroll System, Human Resources Management System, Cost Accounting System, Advice of Allotments/Financial Plan System, Capitalized Property System, Fee Billing System, and Controller Resource Database System.

The Chairman determined that, as of September 30, 2006, the NRC financial management systems were in substantial compliance with the Improvement Act, except for the Fee Billing System, which is in substantial noncompliance because it does not meet Governmentwide standards as defined by the Financial System Integration Office (FSIO), formerly known as the Joint Financial Management Improvement Program (JFMIP). In making his determination, the Chairman considered all the information available to him, including the report from the NRC Executive Committee on Internal Control on the effectiveness of internal controls, Office of the Inspector General audit reports, and the results of the Agency's financial management systems reviews. He also relied on the Department of the Interior National Business Center's (DOI-NBC) annual reasonable assurance statement in which they concluded that, for FY 2006, the financial systems the NRC cross-services with them, are in substantial compliance with Federal financial management systems requirements.

#### PROMPT PAYMENT (Percent of On-Time Payments)

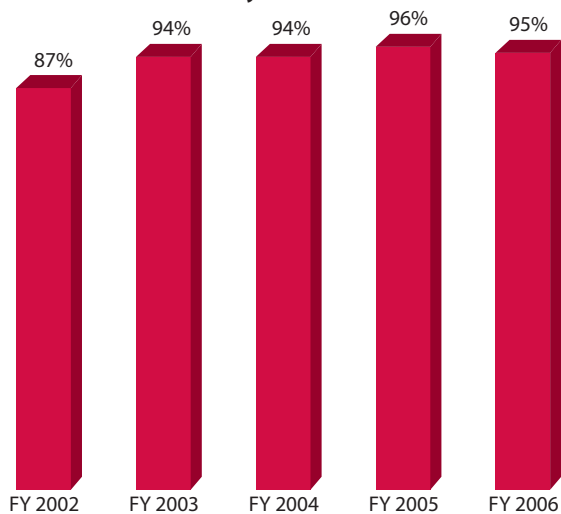


Figure 9

### Prompt Payment Act

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 2005 to FY 2006, the NRC paid 8,860 invoices that were subject to the Prompt Payment Act. The NRC percentage of on-time payments subject to the Prompt Payment Act for FY 2006 is 95 percent (see Figure 9). The amount of interest penalties incurred during FY 2006 was \$4,874 which is a decrease from FY 2005's amount of \$8,850

### 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 inventory of functional payment areas consists of commercial vendor, interagency, and travel payments. The DOI-NBC is responsible for monitoring and reporting on any improper payroll-related payments since they are the system of record for payroll disbursements. The NRC will continue to perform annual risk assessments for

each of these areas. Based on the FY 2006 risk assessments, the number and amount of improper payments fall below external reporting requirement established by Office of Management and Budget guidance on what is considered to be a significant risk.

### Debt Collection Improvement Act

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 one percent of its annual billings. The NRC continues to meet this goal and at the end of FY 2006 delinquent debt was \$0.5 million (see Figure 10). 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 (71 FR 30722, May 30, 2006).

The NRC also revised the fees and charges for the Materials Access Authorization Program and Information Access Authorization Program to more appropriately recognize actual costs. The Agency concluded that other types of fees did not warrant revisions 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 B includes this information, as well as data concerning disallowed costs determined through contract audits conducted by the Defense Contract Audit Agency.

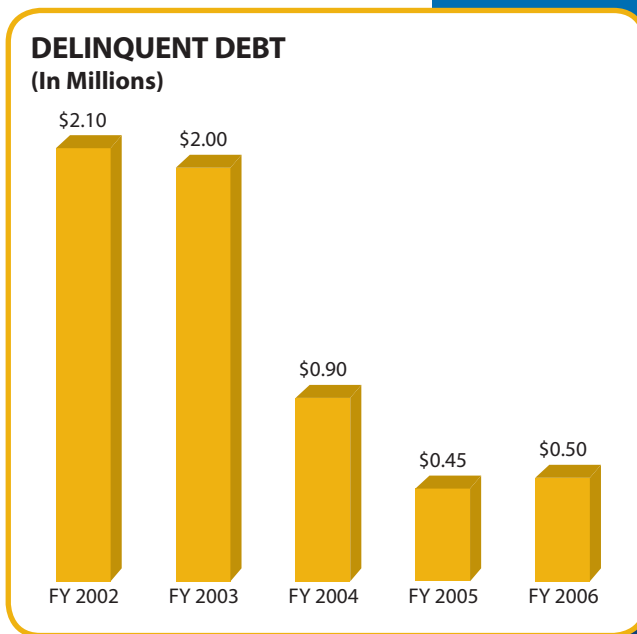


Figure 10