

CHAPTER 1

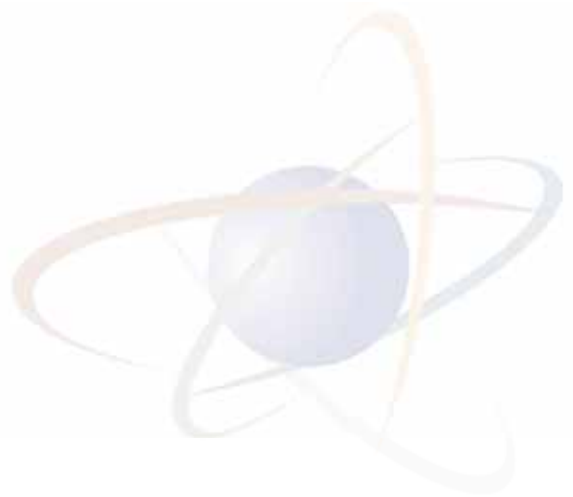
MANAGEMENT'S DISCUSSION AND ANALYSIS





Photo Courtesy of NRC Photo Library.

U.S. Nuclear Regulatory Commission headquarters in Rockville, MD.



INTRODUCTION

The U.S. Nuclear Regulatory Commission (NRC) Performance and Accountability Report presents the agency's program performance and financial management information during fiscal year (FY) 2008. The annual report provides an opportunity for the public to assess how effectively the NRC uses its funds to achieve results. When preparing this report, the NRC staff followed the requirements of the Chief Financial Officers Act, as amended by the Reports Consolidation Act, Government Management Reform Act of 1994, and Government Performance Results Act of 1993. This Performance and Accountability Report covers activities from October 1, 2007, to September 30, 2008.

The NRC emphasizes 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 and its accomplishments during FY 2008. Chapter 1 consists of the following seven 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; "Program Performance Results" shows the agency's program performance results; "Future Challenges" includes forward-looking information; "President's Management Agenda" describes the agency progress in 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 U.S. Congress established the NRC on January 19, 1975, as an independent Federal agency regulating the commercial and institutional uses of nuclear materials. The Atomic Energy Act, as amended, and the Energy Reorganization Act, as amended, define the NRC's purpose. These acts provide the foundation for the NRC's mission to regulate the Nation's civilian use of byproduct, source, and special nuclear materials to ensure adequate protection of public health and safety, to promote the common defense and security, and to protect the environment.

To fulfill its responsibility to protect public health and safety, the NRC performs the following three principal regulatory functions:

- (1) Establishes standards and regulations.
- (2) Issues licenses for nuclear facilities and users of nuclear materials.
- (3) Inspects facilities and users of nuclear materials to ensure compliance with regulatory requirements.

The agency regulates civilian nuclear power plants, other nuclear facilities, as well as other uses of nuclear materials. These other uses include nuclear medicine programs at hospitals; academic activities at educational institutions; research work; industrial applications, such as gauges and testing equipment; and the transport, storage, and disposal of nuclear materials and wastes.

ORGANIZATION

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

The NRC's headquarters is located in Rockville, MD. Four regional offices are located in King of Prussia, PA; Atlanta, GA; Lisle, IL; and Arlington, TX. The NRC's technical training center is located in Chattanooga, TN. The NRC also employs at least two resident inspectors at each of the Nation's nuclear power reactor sites. The NRC's Operations

Center, located at the headquarters building in Rockville, MD, is the focal point for the agency's communications with its licensees, State agencies, and other Federal agencies concerning operating events in the commercial nuclear sector. NRC operations officers staff the Operations Center 24 hours a day. Appendix F to this report presents the NRC organization chart.

Figure 1
NRC BUDGETARY AUTHORITY, FY 2003-2008
(Dollars in Millions)

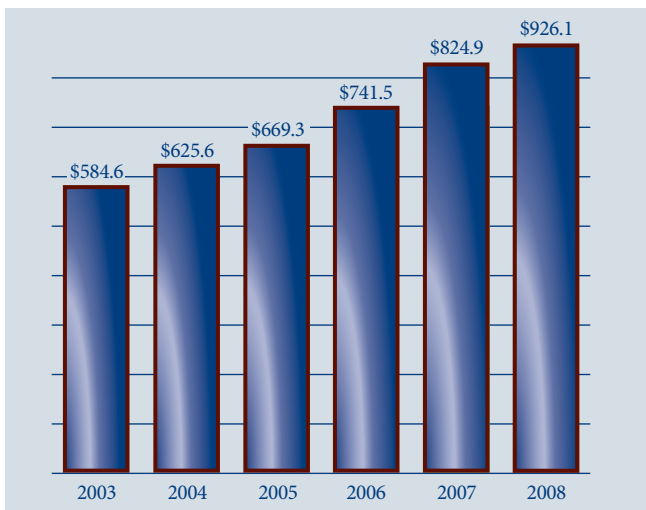
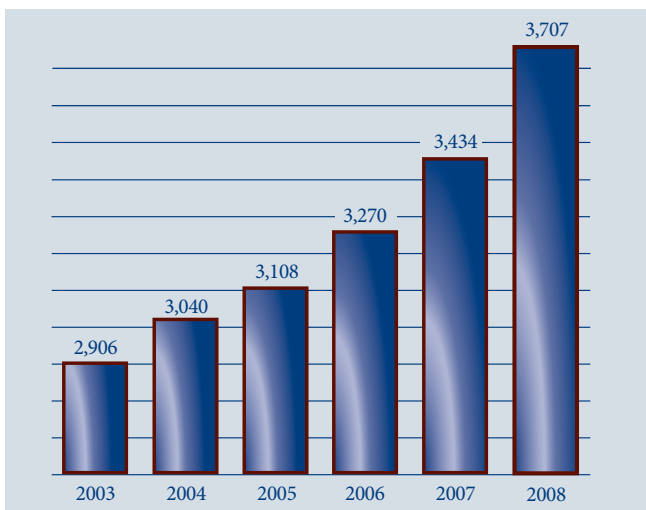


Figure 2
NRC PERSONNEL CEILING, FY 2003-2008
(Staff)



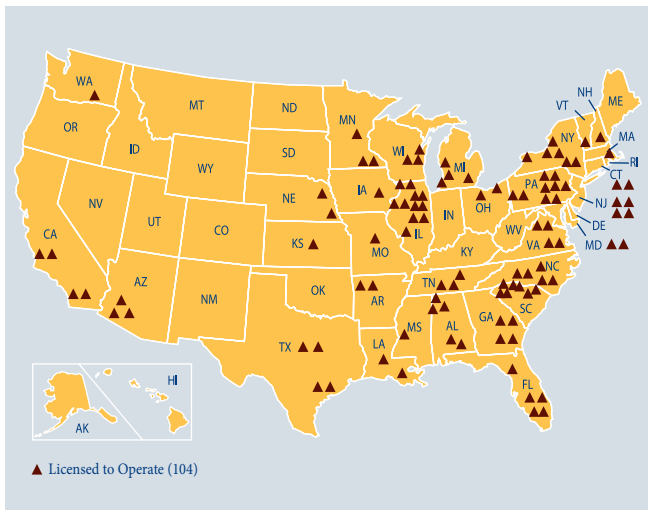
The NRC's budget for FY 2008 was \$926.1 million (see Figure 1) with 3,707 full-time equivalent staff (see Figure 2). The NRC recovers approximately 90% of its appropriations from fees paid by NRC licensees.

THE NUCLEAR INDUSTRY

The NRC regulates the commercial use of radioactive materials. The nuclear material cycle begins with the mining and production of nuclear fuel, continues with the use of nuclear fuel to power the Nation's 104 nuclear power plants, and ends with the safe transportation and storage of spent nuclear fuel and other nuclear waste. The NRC's regulatory programs ensure that radioactive materials are used safely and securely at every stage in the nuclear material cycle. Under the NRC's Agreement State program, 35 States have assumed primary regulatory responsibility over the industrial, medical, and other smaller users of nuclear materials in their States. The NRC works closely with these States to ensure that they maintain public safety. To address safety and security issues, the NRC has developed regulatory practices, knowledge, and expertise specific to each activity in the 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). Since 1996, nuclear electric generation has increased by approximately 20 percent. The NRC oversees 3,738 licenses for medical, academic, industrial, and general uses of nuclear materials (see Figure 4). The agency conducts approximately 1,287 health and safety inspections of its nuclear materials licensees annually. In addition, the 35 Agreement States oversee 18,700 licenses.

Figure 3
**U.S. COMMERCIAL NUCLEAR
 POWER REACTORS**



yellow cake is converted into uranium hexafluoride gas 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), loaded into metal fuel rods about 3.5 meters long, and bundled into reactor fuel assemblies at a fuel fabrication facility. Assemblies are then transported to nuclear power plants, nonpower research reactor facilities, and naval propulsion reactors for use as fuel. The NRC licenses eight major fuel fabrication and production facilities and three enrichment facilities in the United States. Because they handle extremely hazardous material, these facilities take special precautions to prevent theft, diversion by terrorists, and dangerous exposures to workers and the public from this nuclear material.

Figure 4
U.S. MATERIALS LICENSEES



The NRC, Agreement States, and their licensees share a common responsibility to protect public health and safety.

FUEL FACILITIES

The production of nuclear fuel begins at uranium mines where milled uranium ore is used to produce a uranium concentrate called “yellow cake.” At a special facility, the

REACTORS

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

Because the fission reaction produces potentially hazardous radioactive materials, nuclear power plants are equipped with safety systems to protect workers, the public, and the environment. Radioactive materials require careful use because they produce radiation, a form of energy that can damage human cells. Depending on the amount and duration of the exposure, radiation can potentially cause cancer. In

a nuclear reactor, most hazardous radioactive substances, called fission byproducts, are trapped in the fuel pellets or in the sealed metal tubes holding the fuel. However, small amounts of these radioactive fission byproducts, principally gases, become mixed with the water passing through the reactor. Other impurities in the water also become radioactive as they pass through the reactor. The facility processes and filters the water to remove these radioactive impurities and then returns the water to the reactor cooling system.

Figure 5

SCHEMATIC OF A NUCLEAR POWER REACTOR



MATERIALS USERS

The medical, academic, and industrial fields all use nuclear materials. For example, about one-third of all patients admitted to U.S. hospitals are diagnosed or treated using radioisotopes. Most major hospitals have specific departments dedicated to nuclear medicine. In all, about 112 million nuclear medicine or radiation therapy procedures are performed annually, with the vast majority used in diagnoses. Radioactive materials used as a diagnostic tool can identify the status of a disease and minimize the need for surgery. Radioisotopes give doctors the ability to look inside the body and observe soft tissues and organs, in a manner similar to the way X-rays provide images of

bones. Radioisotopes carried in the blood also allow doctors to detect clogged arteries or check the functioning of the circulatory system.

The same property that makes radiation hazardous can also make it useful in treating certain diseases like cancer. When living tissue is exposed to high levels of radiation, cells can be destroyed or damaged. Doctors can selectively expose cancerous cells (cells that are dividing uncontrollably) to radiation to either destroy these cells or damage them so they can no longer reproduce.

Many of today's industrial processes also use nuclear materials. High-tech methods that ensure the quality of manufactured products often rely on radiation generated by radioisotopes. To determine whether a well drilled deep into the ground has the potential for producing oil, geologists use nuclear well-logging, a technique that employs radiation from a radioisotope inside the well to detect the presence of different materials. Radioisotopes are also used to sterilize instruments; find flaws in critical steel parts and welds that go into automobiles and modern buildings; authenticate valuable works of art; and solve crimes by spotting trace elements of poison. Radioisotopes can also eliminate dust from film and compact discs and reduce static electricity (which may create a fire hazard) from can labels. In manufacturing, radiation can change the characteristics of materials, often giving them features that are highly desirable. For example, wood and plastic composites treated with gamma radiation resist abrasion and require low maintenance. As a result, they are used for some flooring in high-traffic areas of department stores, airports, hotels, and churches.

WASTE DISPOSAL

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

Nuclear power plants handle each type of radioactive waste differently. They must use special procedures in the

handling of the spent fuel because it contains the highly radioactive fission byproducts created while the reactor was operating. Typically, the spent fuel from nuclear power plants is stored in water-filled pools at each reactor site or at a storage facility in Illinois. The water in the spent fuel storage pool provides cooling and adequately shields and protects workers from the radiation. Several nuclear power plants have also begun using dry casks to store spent fuel. These heavy metal or concrete casks rest on concrete pads adjacent to the reactor facility. The thick layers of concrete and steel in these casks shield workers and the public from radiation.

Currently most spent fuel in the United States remains stored at individual plants. Permanent disposal of spent fuel from nuclear power plants requires a disposal facility that can provide reasonable assurance that the waste will remain isolated for thousands of years. The U.S. Department of Energy submitted an application for a permanent disposal facility at Yucca Mountain, NV, for spent fuel, which is docketed and under review.

Licensees often store low-level waste onsite until its radioactivity has decayed and the waste can be disposed of as ordinary trash, or until amounts are large enough for shipment to a low-level waste disposal site in containers approved by the U.S. Department of Transportation. The NRC has developed a waste classification system for low-level radioactive waste based on its potential hazards, and has specified disposal and waste form requirements for each of the following general classes of waste: Class A, Class B, and Class C waste. Generally, Class A waste contains lower concentrations of radioactive material than Class B and Class C wastes. There are two low-level disposal facilities that accept a broad range of low-level wastes. They are located in Barnwell, SC, and Richland, WA.

PROGRAM PERFORMANCE OVERVIEW

The NRC’s FY 2008–2013 Strategic Plan determines the agency’s long-term goals and strategic direction. The agency has two strategic goals: safety and security. To achieve its goals, the agency is organized into two major programs: the

Nuclear Reactor Safety Program, and Nuclear Materials and Waste Safety Program.

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, preserves the environment, and protects against radiological sabotage and theft or diversion of special nuclear materials.

NUCLEAR MATERIALS AND WASTE SAFETY PROGRAM

The Nuclear Materials and Waste Safety Program focuses on the safe and secure use of remaining radioactive materials. The Nuclear Materials and Waste Safety Program regulates fuel facilities, medical and industrial nuclear materials users, the disposal of both high-level and low-level waste, the decommissioning of power plants, and the storage and transportation of spent nuclear fuel.



NRC PERFORMANCE MEASURE RESULTS

FY 2008 Safety Goal

Performance Measures	2003	2004	2005	2006	2007	2008
1. Number of new conditions evaluated as red by the Reactor Oversight Process is ≤ 3 .	1	1	0	0	0	0
2. Number of significant accident sequence precursors of a nuclear reactor accident is zero.	0	0	0	0	0	0
3. Number of operating reactors with integrated performance that entered the Manual Chapter 0350 process, or the multiple/repetitive degraded cornerstone column, or the unacceptable performance column of the Reactor Oversight Process Action Matrix, with no performance exceeding Abnormal Occurrence Criterion I.D.4 is ≤ 4 .	2	1	0	0	1	0
4. Number of significant adverse trends in industry safety performance with no trend exceeding the Abnormal Occurrence Criterion I.D.4 is ≤ 1 .	0	0	0	0	0	0
5. Number of events with radiation exposures to the public and occupational workers that exceed Abnormal Occurrence Criterion I.A is: Reactors: 0 Materials: ≤ 3 Waste: 0	0 0 0	0 0 0	0 1 0	0 0 0	0 0 0	0 0 0
6. Number of radiological releases to the environment that exceed applicable regulatory limits is: Reactor: ≤ 3 Materials: ≤ 2 Waste: 0	0 0 0	0 1 0	0 0 0	0 0 0	0 0 0	0 0 0

FY 2008 Security Goal

Performance Measures	2003	2004	2005	2006	2007	2008
1. Number of Unrecovered losses or thefts of risk-significant radioactive sources is zero.	0	0	0	0	0	0
2. Number of substantiated cases of theft or diversion of licensed, risk-significant radioactive sources or formula quantities of special nuclear material, or number of attacks that result in radiological sabotage, is zero.	0	0	0	0	0	0
3. Number of substantiated losses of formula quantities of special nuclear material or substantiated inventory discrepancies of formula quantities of special nuclear material that are caused by theft or diversion or by substantial breakdown of the accountability system sabotage is zero.	0	0	0	0	0	0
4. Number of substantial breakdowns of physical security or material control that significantly weaken the protection against theft, diversion, or sabotage is less than one.	0	0	0	0	0	0
5. Number of significant, unauthorized disclosures of classified and/or safeguards information is zero.	0	0	0	0	0	0

FY 2008 Organizational Excellence Objectives and Associated Measures

Measure	2003	2004	2005	2006	2007	2008
Organizational Excellence Objective 1: Openness						
1. Eighty-eight percent of selected openness output measures achieve performance targets.				50%	66%	80%
a. Ninety percent of stakeholder formal requests for information receive an NRC response within 60 days of receipt.				100%	100%	100%
b. Ninety percent of non-sensitive, unclassified regulatory documents generated by the NRC and sent to the agency's Document Processing Center are released to the public by the 6th working day after the date of the document.				63%	75%	82%
c. Ninety percent of non-sensitive, unclassified regulatory documents received by the NRC that are released to the public by the 6th working day after the document is added to the ADAMS main library.				77%	87%	66%
d. The NRC achieves a 71% user satisfaction score for the agency's public Web site greater than or equal to the Federal Agency Mean score based on results of the yearly American Customer Satisfaction Index for Federal Web sites.				70%	71%	71%
e. Complete 50% of Freedom of Information Act requests in 20 days (median).				61%	67%	71%
f. Issue 90% of Director's Decisions under 10 CFR 2.206 within 120 days.				100%	100%	100%
g. Make 90% of Final Significance Determination Process determinations within 90 days for all potentially greater-than-green findings.				92%	100%	100%
h. Ninety percent of stakeholders believe they were given sufficient opportunity to ask questions or express their views.				90%	96%	97%
i. At least 90% of Category 2 and 3 meetings on regulatory issues for which public notices are issued at least 10 days in advance of the meeting.				92%	93%	90%
j. Complete all of the key stakeholder and public interactions for the reactor performance assessment cycle.						Met
Organizational Excellence Objective 2: Effectiveness						
1. Ninety percent of selected processes deliver efficiency improvements.				25%	60%	80%
a. Reduce the average age at closure for licensing actions by 2.5%.						Not Met
b. At the rate of one per year, Category III license renewal applications will be considered for a 40-year license.				Not Met	Not Met	Met
c. Improve the timeliness of the review process for nuclear power reactor License Termination Plans by at least 30 percent over 3 years (FY 2006-FY 2008) as compared to the historical average.						38%
d. Implement process enhancements to permit improvement for the reactor rulemaking petition timeliness by 2.5%.					5%	Met
f. Reduce the staff cost for letters to DOE by 5%.						40%
2. No more than one instance per program where licensing or regulatory activities unnecessarily impede the safe and beneficial uses of radioactive materials.				0	0	0
Organizational Excellence Objective 3: Operational Excellence						
1. Ninety percent of selected support processes deliver efficiency improvements.				50%	0%	0%
a. Five percent reduction of agency FTE used to develop and submit the FY 2008 and FY 2009 performance budgets.				0%	2%* increase	6% increase
b. Issue offer letter 80% of the time within 45 work days of the closing date of the announcement.				67%	31%	56%
2. Eighty percent of selected NRC management programs deliver intended outcomes.			60%	80%	100%	100%
a. Infrastructure management program.			100%	100%	100%	100%
b. Financial Management & Budget and Performance Integration program.			67%	67%	88%	100%
c. Expanded electronic government program.			50%	75%	75%	75%
d. Management of Human Capital program.			80%	100%	80%	100%

*FY 2007 PAR showed 12%. Data were error and recalculated to be 2%.

PROGRAM PERFORMANCE RESULTS

STRATEGIC GOAL 1: SAFETY

Ensure Adequate Protection of Public Health and Safety and the Environment

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

Strategic Outcomes:

- Prevent the occurrence of any nuclear reactor accidents.
- Prevent the occurrence of any inadvertent criticality events.
- Prevent the occurrence of any acute radiation exposures resulting in fatalities.
- Prevent the occurrence of any releases of radioactive materials that result in significant radiation exposures.
- Prevent the occurrence of any releases of radioactive materials that cause significant adverse environmental impacts.

FY 2008 RESULTS

In FY 2008, the NRC achieved all five of its safety goal strategic outcomes. The NRC also uses six performance measures to determine whether it has met its safety goal. The agency met all six performance measure targets in FY 2008.

Three of the performance measures focus on performance at individual nuclear power plants. Inspection results show that all of the nuclear power plants are operating safely. The fourth measure tracks the trends of several key indicators of nuclear power plant safety. This measure is the broadest measure of the safety of nuclear power plants, incorporating

the performance results from all plants to determine industry average results. The measure results show that there were no statistically significant adverse trends in any of the indicators in FY 2008.

The last two safety performance measures track harmful radiation exposures to the public and occupational workers, and radiation exposures that harm the environment. None of these measures exceeded their targets in FY 2008.

STRATEGIC GOAL 2: SECURITY

Ensure Adequate Protection in the Secure Use and Management of Radioactive Materials

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

Strategic Outcome:

- Prevent any instances where licensed radioactive materials are used domestically in a manner hostile to the security of the United States.

FY 2008 RESULTS

In FY 2008, the NRC achieved its security goal strategic outcome. The NRC also uses five security goal performance measures to determine whether the agency has met its security goal. The agency met all five performance measure targets in FY 2008. The first performance measure tracks unrecovered losses or thefts of risk-significant radioactive sources. The measure ensures that those radioactive sources that the agency has determined to be risk-significant to the public health and safety are accounted for at all times. The ability to account for these sources is critical to secure the nation from “dirty bomb” attacks or other means of radiation dispersal.

The second, third, and fourth performance measures evaluate the number of significant security events and incidents that occur at NRC-licensed facilities. These measures determine whether nuclear facilities maintain

adequate protective forces to prevent theft or diversion of nuclear material or sabotage; whether systems in place at licensee plants accurately account for the type and amount of materials processed, utilized, or stored; and whether the facilities account for special nuclear material at all times with no losses of this material. There were no events that met the conditions for this measure in FY 2008.

The last security measure tracks significant unauthorized disclosures of classified and/or safeguards information that may cause damage to national security or public safety. This measure focuses on whether classified information or safeguards information is stored and utilized in such a way as to prevent its disclosure to the public, terrorist organizations, other nations, or personnel without a need to know. Unauthorized disclosures can harm national security or compromise public health and safety. The measure also focuses on whether controls are in place to maintain and secure the various devices and systems (electronic or paper based) which the agency and its licensees use to store, transmit, and utilize this information. There were no documented disclosures of this type of information during FY 2008.

ORGANIZATIONAL EXCELLENCE OBJECTIVES

Openness, Effectiveness, and Operational Excellence

This FY 2008 Performance and Accountability Report reflects the agency's new FY 2008–2013 Strategic Plan. Under this new strategic plan, the former goals of openness, effectiveness, and operational excellence are now considered to be organizational excellence objectives because they support achievement of the agency's two strategic goals of safety and security. The performance measures related to these three former strategic goals remain in effect in FY 2008, as required by the Government Performance Results Act (GPRA). These measures will not be reported after this year's report.

Openness

The agency missed its openness measure target requiring that 88 percent of selected openness output measures achieve their goals. The agency achieved a score on this measure of 80 percent, missing 2 out of 10 output measure targets.

The agency missed the output measure target that called for 90 percent of nonsensitive, unclassified regulatory documents generated by the NRC and sent to the agency's Document Processing Center be released to the public by the 6th working day after the date of the document. However, the agency has improved since FY 2006, increasing from 63 percent to 75 percent in FY 2007 and 82 percent in FY 2008. The agency continues to struggle to meet this measure because of the time it takes to conduct its internal document review processes. The agency will continue to review these processes to find additional efficiencies to reduce the amount of time necessary to release documents.

The agency also missed the output measure target requiring 90 percent of nonsensitive, unclassified regulatory documents to be released by the 6th working day after the document is added to the Agencywide Documents Access and Management System (ADAMS). The results declined from 87 percent in FY 2007 to 66 percent in FY 2008. As with the previous measure, the NRC needs to find efficiencies to reduce the time to process documents. The agency is also engaging in activities to increase staff training as a means to close the gap on this measure.

Effectiveness

The agency successfully met the targets for its two performance measures for effectiveness. The effectiveness measures focus on achieving efficiencies in agency processes.

Operational Excellence

The agency achieved one of two operational excellence performance measures. The first measure, to deliver efficiency improvements for selected support processes, was not achieved. The agency set a target to reduce the agency staff hours used to develop its performance budget by 5 percent.

However, the NRC experienced a large growth in staff due to the New Reactor Program ramping up to receive applications from licensees to develop and construct new reactors. As a result, additional budget staff was hired to manage the program. The agency is developing a new budget process that is expected to generate efficiencies that will reduce budget staff hours in FY 2009. In addition the agency was unable to issue an offer letter to new employees within 45 work days of the closing date of the employment announcement 80 percent of the time. Offer letters were issued within 45 days only 56 percent of the time in FY 2008. As a result, the NRC undertook a Lean Six Sigma study, a corporate improvement methodology, during the second quarter of FY 2007 to evaluate the hiring process from the closing date of the announcement to the offer date and develop recommendations to help streamline that process. The agency is currently leading a separate effort to implement the recommendations made by the Lean Six Sigma study workgroup and to develop a plan to assess the NRC’s progress towards reducing the hiring time frame to meet the 45-day target.

The second operational excellence performance measure assessed the agency’s performance in delivering outcomes in four management programs: infrastructure management, financial management, information technology management, and human capital management. These programs were able to meet their intended outcomes.

DATA COMPLETENESS AND RELIABILITY

The NRC considers the data contained in this report to be complete, reliable, and relevant. The data are complete because the agency reports actual performance data for every performance goal and indicator in the report. The agency also considers the data in this report reliable and relevant, because it has been validated and verified. Appendix D, “Verification and Validation of NRC’s Measures and Metrics,” contains the processes the agency uses to collect, validate, and verify performance data in this report.

PROGRAM ASSESSMENT RATING TOOL RESULTS

There were no Program Assessment Rating Tool (PART) reviews conducted by the agency during FYs 2006 and 2008. The following table shows the results of the agency’s PART scores from FY 2003 to FY 2007.

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

FUTURE CHALLENGES

The NRC ensures that the health and safety of the American public and the environment are adequately protected from any harmful effects of using nuclear materials. The industry has experienced a substantial improvement in safety at nuclear power plants over the past 20 years as both the nuclear industry and the NRC have gained substantial experience in the operation and maintenance of nuclear power facilities. Improvements in safety have occurred at a time when nuclear power generation has increased significantly from 675,000 gigawatt hours in calendar year (CY) 1996 to approximately 806,000 gigawatt hours in CY 2007. However,

despite the excellent safety and security record of the industry, the agency cannot rest on its achievements. The primary challenges the agency faces are the large number of new nuclear plants expected to apply for licenses, the safe disposal of high-level nuclear waste, and the need to ensure security at nuclear facilities.

NEW NUCLEAR POWER PLANTS

With increased concerns about the continued availability and cost of oil as well as concerns over the environmental damage caused by coal-burning electrical plants, the amount of electricity supplied by nuclear power is likely to increase substantially in the future. The NRC last issued a nuclear power plant construction permit in 1977. To date, the agency has received a total of 17 Combined Operating License (COL) applications for sites across the country. The agency's primary challenge is to license new reactors to ensure that they will operate safely as they provide electricity required by the Nation for economic growth. However, before licensing any new nuclear reactor, the agency requires a detailed analysis of new reactor designs. This analysis includes a study of the reactor's vulnerability to accidents and security compromises. It also includes the development of inspection procedures, tests, analyses, and acceptable criteria for construction. The NRC is also evaluating commercial gas centrifuge facilities that utilize new methods of enriching nuclear fuel for reactors.

SAFE DISPOSAL OF HIGH-LEVEL WASTE

Safely disposing of the waste from nuclear power plants is vital to protecting public health and the environment. Lack of storage options would become a major road block for the continued growth of the industry. Earlier in FY 2008, the U.S. Department of Energy (DOE) filed a license application to establish the Nation's first repository for high-level radioactive waste at Yucca Mountain, NV. The NRC staff accepted and docketed the application. The agency has begun a review to evaluate a wide range of technical and scientific issues and will attempt to resolve regulatory concerns. In the meantime, the agency must ensure safe and secure interim

storage capacity until a repository is licensed and ready to receive high-level nuclear waste. Most nuclear waste is now safely and securely stored at reactor sites. In addition to the storage of nuclear waste, safely transporting spent nuclear fuel is a significant issue for the public and the agency. More than 1,300 spent fuel shipments regulated by the NRC have been safely transported in the United States in the past 25 years. The NRC anticipates that the bulk of nuclear waste now stored at the reactor sites will eventually be moved to a permanent storage site. Therefore, the agency must be able to assure the public that all movements of nuclear waste, including those to a permanent storage site, will be safe and secure.

SECURITY AT NUCLEAR FACILITIES

In addition to safety, the security of nuclear materials is of paramount importance to the Nation. Nuclear facilities are among the most secure facilities in the Nation. The NRC, in concert with other Federal agencies, constantly monitors intelligence to determine the level of threat faced by nuclear facilities. The agency continues to improve the regulatory requirements to better ensure the security of nuclear materials and facilities. The threat faced by the Nation from those seeking to steal classified information has become more urgent in recent years. Nuclear facilities have implemented increased security measures, including "force-on-force" training exercises, to help ensure protection of this vital national infrastructure.

PRESIDENT'S MANAGEMENT AGENDA

INITIATIVE 1

Strategic Management of Human Capital

One of the agency's biggest challenges is training the more than 1,531 new staff members hired between October 2004 and October 2008. While many of these new employees come to the NRC with experience and a variety of valuable

skills, many others have a solid educational background but little or no experience. This means that the agency will have to conduct extensive training for many staff members while at the same time working to orient them in the regulatory culture of the agency.

In FY 2008, the staff implemented a comprehensive knowledge management (KM) program. NRC headquarters and regional offices have developed their own KM plans. Staff have designed these KM plans to achieve the following three goals:

- (1) Maintain human resource processes, policies, and practices to attract and retain knowledgeable staff.
- (2) Share best practices in KM to build a culture of knowledge retention.
- (3) Use information technology application to facilitate the acquisition, storage, and sharing of knowledge.

The agency has created a KM Steering Committee composed of managers and staff and chaired by senior leadership, hired a full-time KM expert from industry, designed a Web-based “KM Dashboard” to facilitate knowledge sharing about successful KM activities across the agency, and designed an expertise exchange program that formalizes the mentoring of newer employees by more experienced staff.

INITIATIVE 2

Budget and Performance Integration

The NRC continues to make progress in integrating its budget and performance management processes. This progress includes improved management of agency performance resulting from a revised agency Strategic Plan, accurate monitoring of agency program performance, and integrated performance goal and cost information.

The NRC will continue this progress by updating and improving the agency’s financial systems. The agency is replacing its core accounting system, as well as its License Fee Billing System, Cost Accounting System, Allotment/Allowance Financial Plan System, and Capitalized

Property System. At the same time, the agency is aligning its budget and accounting structures. This will enable the NRC to use cost and other financial data together to evaluate agency program performance. The integration of financial, budget, and performance data will provide managers the kinds of information that can be used to drive improved agency performance.

INITIATIVE 3

Competitive Sourcing

One of the NRC’s corporate management strategies is to acquire goods and services efficiently. To achieve this, the NRC established output measures associated with the competitive sourcing initiative of the President’s Management Agenda, adopted a performance-based approach to contracting, and posted procurement synopses on the agency’s Web site.

The NRC uploaded its Year 2008 Federal Activities Inventory Reform Act inventory spreadsheet to the Office of Management and Budget’s Workforce Inventories Tracking System on June 30, 2008. In accordance with the NRC’s Competitive Sourcing Plan, the agency completed four business case analyses of commercial activities that were available for competition in FY 2008.

INITIATIVE 4

Expanded Electronic Government

The NRC has aligned its IT investments with the Federal Government’s Electronic Government (e-Gov) program. The NRC has transitioned to a number of e-Gov services and is in the process of transitioning to others. The agency has also institutionalized internal processes to ensure the effective use of, and compliance with, e-Gov initiatives. The NRC emphasizes enterprise architecture in its systems development lifecycle methodology. It has a project management methodology in place that provides full lifecycle guidance for the agency in terms of enterprise architecture, capital planning and investment control,

infrastructure development, and lifecycle management processes. The Information Technology Senior Advisory Council, comprised of senior business managers, plays an integral role in establishing priorities and ensuring that technology investments align with the agency's mission and goals.

INITIATIVE 5

Improved Financial Management

The agency's goals for improved financial management include providing reliable, transparent, useful, and timely information for stakeholder knowledge and for management decisionmaking; maintaining effective internal controls; and implementing integrated and compliant systems to meet the agency's reporting needs. These strategies will ensure that the agency adequately protects its financial assets, consistent with risk. Over the next 2 years, the agency will be conducting a major financial systems modernization project that will impact all NRC financial systems. The project will consolidate the NRC's financial systems into a single integrated financial management system that a shared service provider will host and maintain. This single integrated system will result in more efficient transaction processing using electronic workflow, greater access to information through the use of ad hoc reporting tools, and improved overall system performance. An integrated financial management system will also improve internal controls in the following two ways: (1) It will eliminate multiple data transfers between stand-alone systems. (2) It will also eliminate the resultant manual reconciliations that staff currently perform to ensure data integrity.

FINANCIAL PERFORMANCE OVERVIEW

As of September 30, 2008, 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.

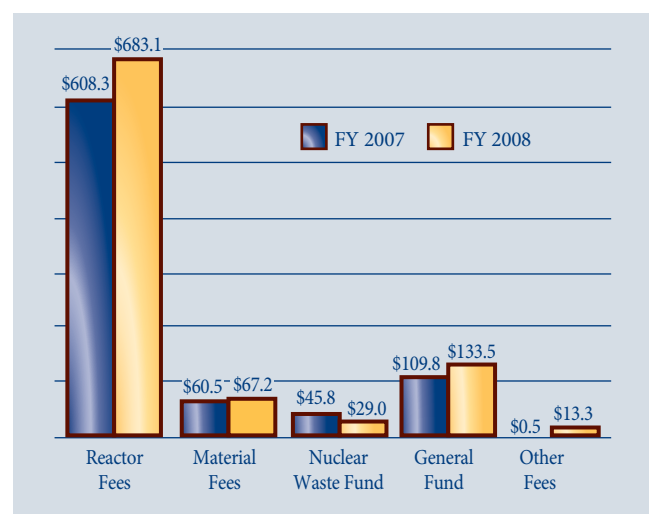
The NRC prepared its financial statements in accordance with the accounting standards codified in the Statements of Federal Financial Accounting Standards (SFFAS) and Office of Management and Budget (OMB) Circular A-136, "Financial Reporting Requirements."

SOURCES OF FUNDS

The NRC has two appropriations, salaries and expenses and Office of the Inspector General. Funds for both appropriations are available until expended. The NRC's total new FY 2008 budget authority was \$926.1 million. Of this amount, \$917.3 million was for the salaries and expenses appropriation, and \$8.7 million was for the Office of the Inspector General appropriation. This represents an increase in new budget authority of \$101.2 million over FY 2007 (\$100.8 million for the Salaries and Expenses appropriation and \$0.4 million for the Office of the Inspector General appropriation). In addition, \$87.6 million from prior-year appropriations, \$6.3 million from prior-year reimbursable work, and \$8.8 million for new reimbursable work to be performed for others was available to obligate in FY 2008. The sum of all funds available to obligate for FY 2008 was \$1,028.8 million, which is a \$117.9 million increase over the FY 2007 amount of \$910.9 million.

Figure 6

SOURCES OF FUNDS (In Millions)



The Omnibus Budget Reconciliation Act of 1990 (OBRA-90), as amended, requires the NRC to collect fees to offset approximately 90 percent of its new budget authority, less the amount appropriated to the NRC from the Nuclear Waste Fund and amounts appropriated for waste incidental to reprocessing and generic homeland security for FY 2008. The NRC recovered \$763.6 million in fees in FY 2008. This is 98 percent of the fee recovery requirement.

USES OF FUNDS BY FUNCTION

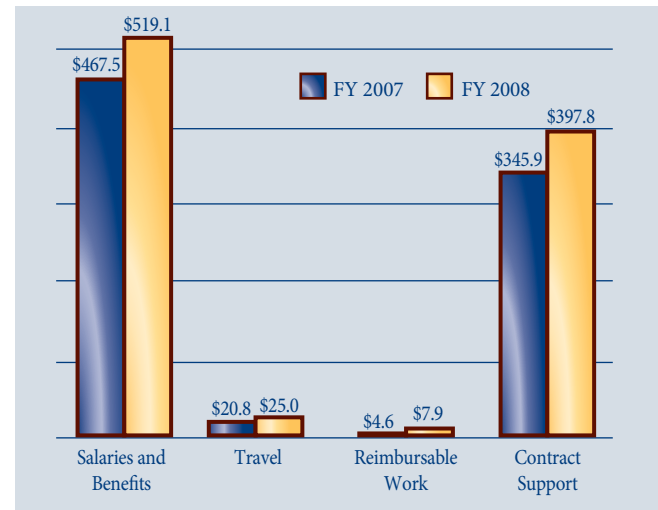
The NRC incurred obligations of \$949.8 million in FY 2008, which was an increase of \$111.0 million over FY 2007. Approximately 55 percent of obligations were used for salaries and benefits. The remaining 45 percent was used to obtain technical assistance for the NRC's principal regulatory programs, to conduct confirmatory safety research, to cover operating expenses, (e.g., building rentals, transportation, printing, security services, supplies, office automation, and training), staff travel, and reimbursable work. The unobligated budget authority available at the end of FY 2008 of \$79.0 million, increased compared to the FY 2007 amount of \$72.2 million. Of this \$79.0 million, \$7.3 million is for reimbursable work and \$71.7 million is available to fund critical NRC needs in FY 2009.

AUDIT RESULTS

The NRC received an unqualified audit opinion on its FY 2008 financial statements. In FY 2007, the auditors identified a continuing material weakness in the agency's information systemwide security controls related to an Office of the Inspector General (OIG) independent evaluation of the NRC's implementation of the Federal Information Security Management Act (FISMA). The FISMA report identified two significant deficiencies related to a lack of contingency plan testing for information security systems, and a lack of certification and accreditation for most of the agency's major information systems. These deficiencies were also identified as a material weakness in the agency's FY 2007 Federal Managers' Financial Integrity Act (Integrity Act) assurance statement. In FY 2008, during the FISMA

Figure 7

USES OF FUNDS BY FUNCTION (In Millions)



evaluation, the OIG found that improvements in contingency plan testing, and certification and accreditation had been sufficient enough to remove the significant deficiency. As a result, the NRC reported no material weaknesses for internal control in the Integrity Act assurance statement.

In FY 2004, FY 2005, and FY 2006, the auditors identified a material weakness concerning the Fee Billing System and the quality assurance process over fee billing. In FY 2007, the auditors downgraded this finding to a significant deficiency due to successful implementation of quality assurance procedures over fee billing. In FY 2008, the auditors closed this significant deficiency due to continued diligence in performing quality assurance efforts.

In FY 2008, the auditors identified a significant deficiency related to the method by which the NRC estimates the accounts payable balance which represents costs for billed and unbilled goods and services received (prior to year end) that are unpaid. Prior to FY 2008, the NRC used an algorithm that recognized accounts payable as a specific percentage of NRC's total expenses to date. Once this percentage was calculated, it was applied to an annualized expense figure. In FY 2008, the NRC implemented a revised methodology to calculate the accounts payable estimate. The new methodology involves analyzing the actual activity

for the largest obligations to include in the estimate. For the remaining smaller obligations, the actual activity of a percentage of the obligations was analyzed and an algorithm was developed to estimate the total amount to include in the accounts payable balance. In FY 2009, the NRC will continue to refine this new estimation methodology to ensure accuracy.

In FY 2007, the Fee Billing System was also identified as a substantial noncompliance with the Federal Financial Management Improvement Act (Improvement Act). In FY 2008, the Fee Billing System continues to be substantially noncompliant with the Improvement Act due to a lack of current certification and accreditation. Although there may be a potential risk with security controls, there are a number of existing mitigating controls that provide NRC management reasonable assurance that the financial data resulting from financial management systems is accurate. NRC plans to complete certification and accreditation activities for the Fee Billing System in FY 2009.

A summary of the Financial Statement Audit Results is included in Appendix C.

LIMITATIONS OF THE FINANCIAL STATEMENTS

Staff have prepared principal statement to report the financial position and results of operations of the NRC, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of the NRC in accordance with Generally Accepted Accounting Principles (GAAP) for Federal Entities and the formats prescribed by the Office of Management and Budget (OMB), the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

FINANCIAL STATEMENT HIGHLIGHTS

The NRC's financial statements summarize the financial activity and financial position of the agency. The financial statements, footnotes, and required supplementary

information appear in Chapter 3, "Financial Statements and Auditors' Report." Analysis of the principal statements follows.

Analysis of the Balance Sheet

The NRC's assets were \$554.5 million as of September 30, 2008. This is an increase of \$69.1 million from the end of FY 2007. The assets reported in NRC's Balance Sheet are summarized in the accompanying table.

ASSET SUMMARY (In Millions)

	FY 2008	FY 2007
Fund Balance with Treasury	\$393.5	\$356.4
Accounts Receivable, Net	\$121.4	\$93.9
Property & Equipment, Net	\$35.5	\$31.8
Other	\$4.1	\$3.3
Total Assets	\$554.5	\$485.4

The fund balance with the U.S. Department of the Treasury (Treasury) represents the NRC's largest asset of \$393.5 million as of September 30, 2008, an increase of \$37.1 million from the FY 2007 year-end balance. This balance accounts for 71 percent of Total Assets and represents appropriated funds, collected license fees, and other funds maintained at the Treasury to pay current liabilities. The increase in Fund Balance with Treasury is primarily due to \$926.1 million in new budget authority and \$8.3 million in reimbursable collections which are offset by \$884.0 million in expenditures and a \$13.3 million decrease in fee overcollections.

Accounts Receivable, Net, as of September 30, 2008, was \$121.4 million, which includes an offsetting allowance for doubtful accounts of \$1.7 million. This is a 29 percent increase from the FY 2007 year-end Accounts Receivable, Net, balance of \$93.9 million. The increase is primarily due to fees for new reactor licensing, and materials and facilities inspections. The value of Property and Equipment, Net, was \$35.5 million, representing 6 percent of Total Assets. The

majority of this balance represents information technology software and leasehold improvements.

LIABILITIES SUMMARY

(In Millions)

	FY 2008	FY 2007
Accounts Payable	\$54.1	\$27.7
Federal Employee Benefits	7.1	6.8
Other Liabilities	75.8	169.7
Total Liabilities	\$137.0	\$204.2

The NRC's liabilities were \$137.0 million as of September 30, 2008. The accompanying table shows a decrease in Total Liabilities of \$67.2 million from the FY 2007 year-end balance of \$204.2 million. This decrease is primarily due to a decrease of \$93.9 million as a result of a change in accounting for fee revenue and the corresponding transfer of fee revenue collections to Treasury. Beginning in FY 2008, this liability is no longer being recorded. The decrease is offset by an increase of \$26.4 million in Accounts Payable for new reactors and existing reactor and materials licensing tasks. Of the agency's liabilities, \$52.5 million were not covered by budgetary resources, which is a 12 percent increase over the balance of \$46.8 million as of September 30, 2007. The liabilities not covered by budgetary resources include unfunded accrued annual leave and future workers' compensation.

NET POSITION SUMMARY

(In Millions)

	FY 2008	FY 2007
Unexpended Appropriations	\$289.3	\$254.0
Cumulative Results of Operations	128.2	27.2
Total Net Position	\$417.5	\$281.2

The difference between Total Assets and Total Liabilities, Net Position, was \$417.5 million as of September 30, 2008. This is an increase of \$136.3 million from the FY 2007

year-end balance. Net Position is comprised of two components: Unexpended Appropriations and Cumulative Results of Operations as shown in the accompanying table. Unexpended Appropriations is the amount of authority granted by Congress that has not been expended. The increase of Unexpended Appropriations of \$35.3 million for FY 2008 is primarily due to funding for expected added volume of new reactor licensing activities. Cumulative Results of Operations represents the cumulative excess of financing sources over expenses. The increase is due primarily to a change in accounting for fee revenue and the corresponding transfer of fee revenue collections to Treasury.

Analysis of the Statement of Net Cost

The Statement of Net Cost presents the net cost of NRC's two programs as identified in the NRC Annual Performance Plan. The purpose of this statement is to link program performance to the cost of programs. The NRC's Net Cost of Operations for the year ended September 30, 2008, was \$146.5 million, which is an increase of \$53.1 million over the FY 2007 net cost of \$93.4 million. Net costs by program are shown in the following table.

NET COST OF OPERATIONS

(In Millions)

	FY 2008	FY 2007
Nuclear Reactor Safety and Security	\$(20.0)	\$(30.6)
Nuclear Materials & Waste Safety and Security	166.5	124.0
Net Cost of Operations	\$146.5	\$93.4

Net Costs are gross costs offset by earned revenue. Gross costs increased in Nuclear Reactor Safety and Security in the areas of new reactor and existing licensing tasks and in Nuclear Materials & Waste Safety and Security due to contract support for high-level waste, nuclear materials licenses, fuel facilities, and spent fuel storage and transport. Earned revenue increased primarily because of the increase in appropriations for NRC activities, of which the NRC is required to collect 90 percent through fee billing.

Total earned revenue for the year ended September 30, 2008, was \$797.6 million, which is an increase of \$104.3 million from the earned revenue of \$693.3 million for the year ended September 30, 2007. Earned revenue is derived from fees for reactor and materials licensing and inspections in accordance with Title 10 of the *Code of Federal Regulations* (10 CFR) Part 170, "Fees for Facilities, Materials, Import and Export Licenses, and Other Regulatory Services under the Atomic Energy Act of 1954, as Amended," and 10 CFR Part 171, "Annual Fees for Reactor Licenses and Fuel Cycle Licenses and Materials Licenses, Including Holders of Certificates of Compliance, Registrations, and Quality Assurance Program Approvals and Government Agencies Licensed by the NRC."

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 \$136.3 million from FY 2007 to FY 2008 is due primarily to an increase in the net change in Cumulative Results of Operations of \$101.0 million primarily due to the change in accounting for fee revenue and the corresponding transfer of fee revenue collections to Treasury. The increase in Unexpended Appropriations of \$35.3 million is primarily due to the increase in the appropriation for FY 2008 for the expected added volume of new reactor licensing activities.

Analysis of the Statement of Budgetary Resources

The Statement of Budgetary Resources reports the source and status of budgetary resources at the end of the period. It presents the relationship between budget authority and budget outlays, and the reconciliation of obligations to total outlays. For FY 2008, NRC had Total Budgetary Resources available of \$1,028.8 million, the majority of which was derived from new budget authority. This represents a 13 percent increase over FY 2007 budgetary resources

available of \$910.9 million. The increase provides funding for growth in new reactor licensing including costs for staffing and office space.

For FY 2008, the NRC had Obligations Incurred of \$949.8 million, compared to FY 2007 Obligations Incurred of \$838.8 million. This increase was due primarily to the increase of appropriations received for new and existing reactor licensing activities. Gross outlays for FY 2008 were \$884.0 million, which represents a \$119.6 million increase from FY 2007 total outlays of \$764.4 million. The increase is primarily due to the increase in spending in the area of Nuclear Reactor Safety and Security for new reactor and existing reactor licensing programs.

SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

MANAGEMENT ASSURANCES

This section provides information on the NRC's compliance with the Federal Managers' Financial Integrity Act, the Office of Management and Budget (OMB) Circular A-123, "Management's Responsibility for Internal Control," and the Federal Financial Management Improvement Act. Appendix C, "Summary of Financial Statement Audit and Management Assurances," includes a summary of management assurances.

Federal Managers Financial Integrity Act

The Federal Managers Financial Integrity Act (Integrity Act) mandates that agencies establish controls that reasonably ensure that (1) obligations and costs comply with applicable law; (2) assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and (3) revenues and expenditures are properly accounted for and recorded. The Integrity 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 on the 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 responsibility. Each Office Director and Regional Administrator prepares an annual assurance statement that identifies any control weaknesses requiring 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 U.S. Government Accountability Office reports, and reports and other information provided by the congressional committees of jurisdiction.

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

The NRC's ongoing internal control program requires, among other things, that reports on 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. Combined with the individual assurance statements discussed previously, the internal control information in these plans provides the framework for monitoring and improving the agency's internal controls on an ongoing basis.

FY 2008 Integrity Act Results

The NRC evaluated its internal control systems for the fiscal year ending September 30, 2008. The



U.S. NUCLEAR REGULATORY COMMISSION FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT STATEMENT FOR FY 2008

The U.S. Nuclear Regulatory Commission's (NRC) management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers Financial Integrity Act (FMFIA). The NRC conducted its assessment of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations, and in accordance with OMB Circular A-123, "Management's Responsibility for Internal Control." Based on the results of this evaluation, the NRC can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2008, was operating effectively and no material weaknesses were found in the design or operation of internal control.

In addition, the NRC conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of the evaluation, the NRC can provide reasonable assurance that NRC's internal control over financial reporting as of June 30, 2008, 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 14, 2008

NRC is able to provide a statement of assurance, based on this evaluation, that the internal controls and financial management systems meet the objectives of the Integrity Act. The NRC has reasonable assurance that its internal controls are effective and that its financial management systems conform to governmentwide standards.

Resolution of FY 2007 Material Weakness

The FY 2007 independent evaluation of the NRC's Implementation of the Federal Information Security Management Act (FISMA) identified the following two significant deficiencies in the NRC's information technology (IT) security program:

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

The NRC reported these two findings as one material weakness associated with the Agency's overall IT security program under the provisions of the Integrity Act.

The Office of the Inspector General performed an independent evaluation of the NRC's implementation of the Federal Information Security Management Act for FY 2008. The independent evaluator no longer considers either of these items as significant deficiencies, since one-half of the systems have a current certification and accreditation, and annual contingency plan testing was completed for all systems. As a result of this evaluation, the NRC no longer considers this a material weakness.

Office of Management and Budget Circular A-123, "Management's Responsibility for Internal Control," Including Appendix A, "Internal Control over Financial Reporting"

In FY 2006, the NRC implemented the requirements of the Office of Management and Budget revised Circular A-123, which defined and strengthened management's responsibility for internal control in Federal agencies. The revised Circular

included updated internal control standards. A new section, Appendix A, "Internal Control over Financial Reporting," required Federal agencies to assess the effectiveness of internal control over their financial reporting and to prepare a separate statement of assurance as of June 30, every year.

In FY 2008, the NRC continued its assessment of internal control over financial reporting. The scope of financial reports, materiality values, risk assessments, key processes, and key controls was reevaluated. A 3-year rotational testing plan was adopted last year in FY 2007. Three of the original nine key processes were determined to be significant enough to be included in the testing each year of the 3-year cycle. The remaining six key processes will be tested once in the 3-year cycle, two each year. Based on the results of this evaluation, the NRC can provide reasonable assurance that its internal control over financial reporting was operating effectively as of June 30, 2008, and that the evaluation found no material weaknesses in the design or operation of the internal controls over financial reporting.

Federal Financial Management Improvement Act

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

FY 2008 Improvement Act Results

As of September 30, 2008, the NRC evaluated its financial systems to determine if they complied with applicable Federal requirements and accounting standards required by the Improvement Act. The NRC evaluated the following eight systems: the Federal Financial System, Federal Personnel Payroll Systems, Human Resources Management System, Cost Accounting System, Advice of

Allotments/Financial Plan System, Capitalized Property System, Fee Billing System, and Controller Resource Database System.

As of September 30, 2008, the agency's financial management systems are in substantial compliance with the Improvement Act, except for one system which is in substantial noncompliance because of a FISMA finding related to a lack of current certification and accreditation. The NRC plans to complete the certification and accreditation activities by March 31, 2009, and to request an authority to operate. In making this determination, the NRC considered all the information available, including the report from the NRC ECIC on the effectiveness of internal controls, the Office of the Inspector General audit reports, and the results of the agency's financial management systems reviews. The agency also relied on the Department of the Interior National Business Center (DOI-NBC) annual reasonable assurance statement, which concluded that, for FY 2008, the cross-serviced financial systems are in substantial compliance with Federal financial management system requirements.

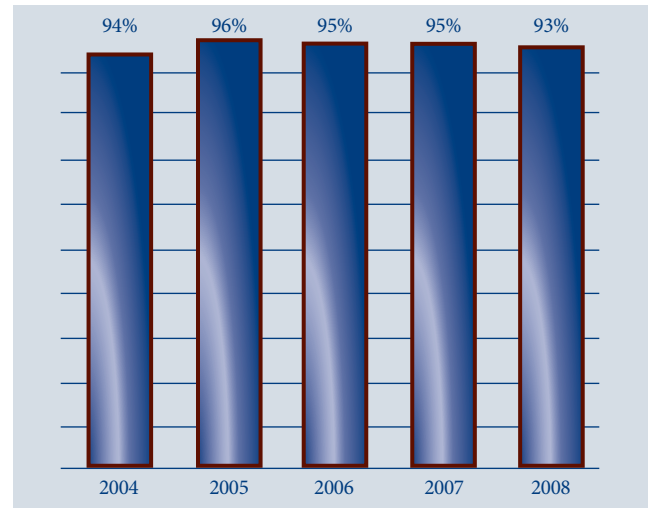
The Inspector General auditors identified the Fee Billing System as an Improvement Act noncompliance in the FY 2004 through FY 2006 Financial Statement Audit. The NRC took a number of additional remedial actions during FY 2007 to improve quality assurance over license fee billing processes and eliminated the noncompliance issue related to these fee billing processes. The NRC continues to define and implement compensating controls over this system, to maintain quality assurance procedures, and to reduce the risk that errors will go undetected.

PROMPT PAYMENT

The Prompt Payment Act requires Federal agencies to make timely payments to vendors for supplies and services, to pay interest penalties when payments are made after the due date, and to take cash discounts when they are economically justified. In FY 2008, the NRC paid 93 percent

Figure 8

PROMPT PAYMENT (Percentage)



of the 10,368 invoices subject to the Prompt Payment Act on time (see Figure 8). The NRC incurred \$20,852 in interest penalties during FY 2008.

IMPROPER PAYMENTS

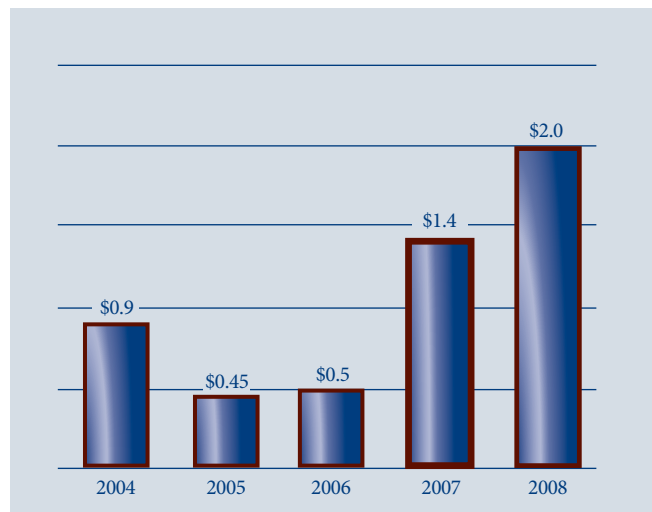
The NRC remains at low risk of making improper payments. At the present time, the NRC's payments consist of commercial vendor, interagency, and travel reimbursements. The NRC monitors and reports improper payments within its programs and continues to evaluate internal controls guarding against improper payments. The NRC continues to perform annual risk assessments for each of these areas. Based on the FY 2008 risk assessments, the number and amount of improper payments fall below the external reporting requirement established by OMB guidance on what is considered a significant risk. The NRC awards less than \$500 million in annual contracts, and, therefore, is not subject to annual reporting under the Recovery Auditing Act.

The DOI-NBC's Federal Personnel/Payroll System, as the system of record for payroll disbursements, is responsible for monitoring and reporting on any improper payroll-related payments.

DEBT COLLECTION

The Debt Collection Improvement Act enhances the ability of the Federal Government to service and collect debts. The agency's goal is to maintain the level of delinquent debt owed to the NRC at year end to less than 1 percent of its annual billings. The NRC continues to meet this goal, and at the end of FY 2008, delinquent debt was \$2.0 million (Figure 9). The NRC continues to pursue the collection of

Figure 9
DELINQUENT DEBT
(In Millions)



delinquent debt and refers all eligible debt over 180 days delinquent to the 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 to 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* (73 FR 32385, June 6, 2008).

In order to more appropriately recover actual costs, the NRC revised the fees and charges for the Material Access Authorization Program, for the Information Access Authorization Program, and for administrative charges for delinquent debt. The NRC conducted no other reviews this year.

INSPECTOR GENERAL ACT

The agency has established and continues to maintain an excellent record in resolving and implementing Office of the Inspector General open 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.



Photo Courtesy of NRC Photo Library.

NRC Chairman Dale E. Klein and University of Illinois at Urbana Champaign (UI) Head of the Department of Nuclear, Plasma, and Radiological Engineering, Professor Jim Stubbins, hold a ceremonial check representing the nearly \$740,000 in grants the NRC recently provided for nuclear-related education at UI. Chairman Klein was on campus to observe a forum marking the 50th anniversary of nuclear engineering on campus.