



U.S. NRC

United States Nuclear Regulatory Commission

Protecting People and the Environment



FISCAL YEAR 2011 SUMMARY OF PERFORMANCE AND FINANCIAL INFORMATION



MISSION

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

PAPERWORK REDUCTION ACT STATEMENT

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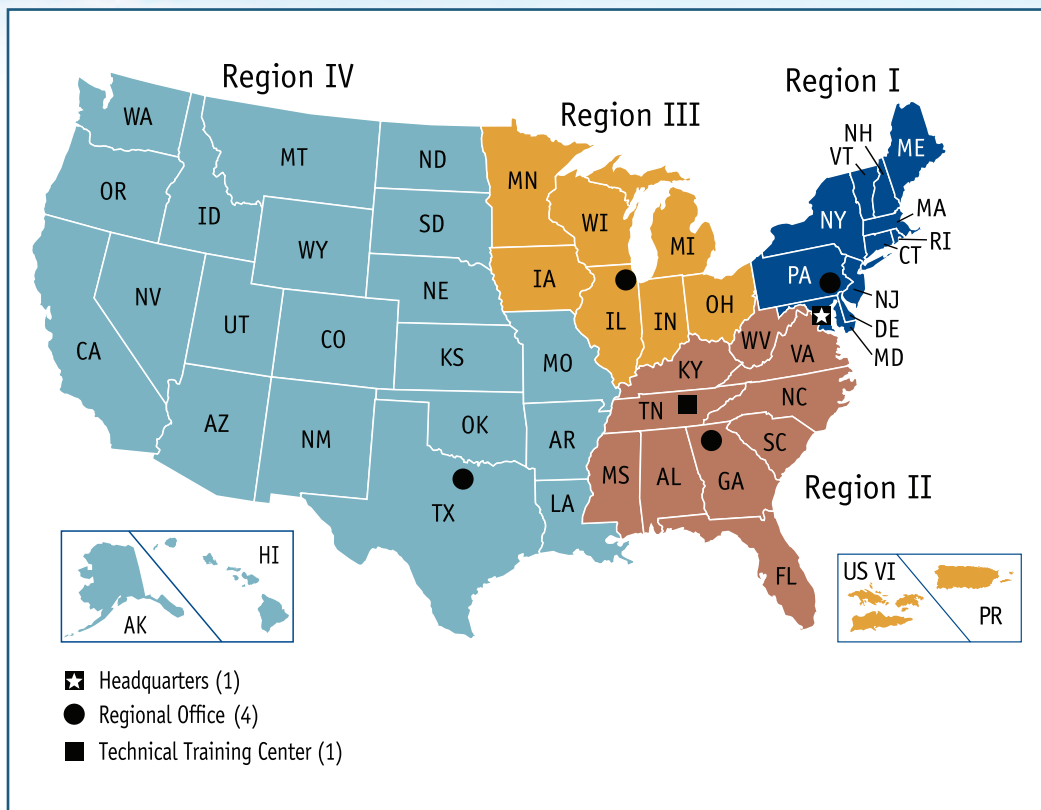
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This report is a summary of the U.S. Nuclear Regulatory Commission's (NRC's) Fiscal Year (FY) 2011 Performance and Accountability Report (PAR), published on November 15, 2011. This report is in an easy-to-read format and is available on the NRC Website <http://www.nrc.gov>. In addition, a video message from the Chairman and a full copy of the PAR are available on the DVD located on the back inside cover.



The U.S. Nuclear Regulatory Commission (NRC) Headquarters



A MESSAGE FROM THE CHAIRMAN



I am pleased to present the U.S. Nuclear Regulatory Commission (NRC) Summary of Performance and Financial Information for Fiscal Year (FY) 2011. The report provides key financial and performance information to Congress and the American people. For the tenth consecutive year, we received the Certificate of Excellence in Accountability Reporting from the Association of Government Accountants for our FY 2010 Performance and Accountability Report. This prestigious award recognizes our commitment to accountability and high-quality reporting of performance and financial information. This report highlights our achievements and challenges in meeting our mission through the agency's two strategic goals of Safety and Security.

In FY 2011, we continued to maintain effective and efficient oversight of the Nation's 104 nuclear reactors, placing continued emphasis on strengthening the interrelationship among safety, security, and emergency preparedness. We continued to review all safety aspects of new reactor designs, environmental siting, and combined license applications for the construction of new nuclear power plants. We also remained focused on the safe and secure use of nuclear materials through effective oversight of fuel facilities, uranium recovery sites, decommissioning sites, and nuclear material user licensees.

The devastating earthquake and tsunami that struck Japan on March 11, 2011 led to what is now widely recognized as one of the worst accidents in the history of nuclear power. In the aftermath of the Fukushima Dai-ichi emergency, the NRC took strong and immediate actions to ensure the continued safety of our Nation's nuclear power plants. Throughout our response, the NRC staff exhibited the same high level of dedication and professionalism that I have seen consistently throughout my seven years with the Commission.

The Commission established the Near-Term Japan Task Force, comprising of some of the agency's most senior staff and experts, to conduct a very thorough review of all available information and to develop a comprehensive set of recommendations for strengthening nuclear safety. Their work was made possible by the assistance of hundreds of other NRC staff who supported their efforts. This has been a tremendous accomplishment for the Task Force and the agency as a whole. The Japan situation required NRC staff to address new safety challenges while continuing to maintain a focus on our other important responsibilities. It also resulted in a high level of congressional and public interest in our response to the Fukushima accident and how we will continue to ensure nuclear safety in this country.

We are committed to prudently managing the resources entrusted to us by the American people. We will continue to evaluate, test, and strengthen our internal controls, including those related to financial reporting and financial management systems, as required by the *Federal Managers' Financial Integrity Act of 1982* (FMFIA). Based on the FMFIA assessments, I have concluded that there is reasonable assurance that the NRC is in substantial compliance with FMFIA, and the financial and performance data published in this report are complete, accurate, reliable, and timely, in accordance with the *Reports Consolidation Act of 2000* and Office of Management and Budget Circular A-136 requirements. Additionally, I have determined that the agency is in substantial compliance with the *Federal Financial Management Improvement Act of 1996* (FFMIA), based on the NRC's application of the FFMIA risk model.

I am proud of the performance of NRC employees in achieving the agency's Safety and Security goals and look forward to continuing the high-quality service the American people have come to expect from us.

A handwritten signature in black ink that reads "Gregory B. Jaczko". The signature is written in a cursive, flowing style.

Gregory B. Jaczko
Chairman

February 9, 2012

INTRODUCTION

The U.S. Nuclear Regulatory Commission (NRC) Summary of Performance and Financial Information presents an overview of the agency's program performance and financial management information for fiscal year (FY) 2011, which covers the period from October 1, 2010, to September 30, 2011. This summary report provides an opportunity for the American public to assess how effectively the NRC uses its funds to achieve results.

ABOUT THE NRC

The NRC is an independent Federal agency. The *Atomic Energy Act of 1954*, as amended, and the *Energy Reorganization Act of 1974*, as amended, define the NRC's purpose. These acts provide the foundation for the NRC's mission to license and regulate the Nation's civilian use of byproduct, source, and special nuclear materials in order to protect public health and safety, to promote the common defense and security, and to protect the environment. The agency regulates civilian nuclear power plants, other nuclear facilities, and 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.

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 policies and

decisions made by the Commission and directs the activities of the programs.

The NRC's headquarters is located in Rockville, MD. The NRC has an Operations Center housed within the headquarters complex that coordinates communications with its licensees, State agencies, and other Federal agencies. This center is the focal point for assessing and responding to operating events in the industry. NRC operations officers staff the Operations Center 24 hours a day, seven days a week.

The NRC also has a regional office located in King of Prussia, PA; Atlanta, GA; Lisle, IL; and Arlington, TX. The regional offices allow the agency to work closely with the agency's licensees to ensure safety. The NRC also employs at least two resident inspectors at each of the Nation's nuclear power reactor sites.

The NRC's new budget authority for FY 2011 of \$1,054.2 million (before a \$0.3 million rescission of funds) supported 3,991 full-time equivalent staff. The NRC budget has been primarily covered by fees assessed to its licensees and applicants for a license. The agency collected approximately 90 percent of its budget from licensees, and applications for licenses, with the remaining funding provided by the U.S. Treasury.

THE NUCLEAR INDUSTRY

The NRC is responsible for regulating all aspects of the civilian nuclear industry. The industry can best be described by examining the nuclear material cycle. 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 agency's regulatory

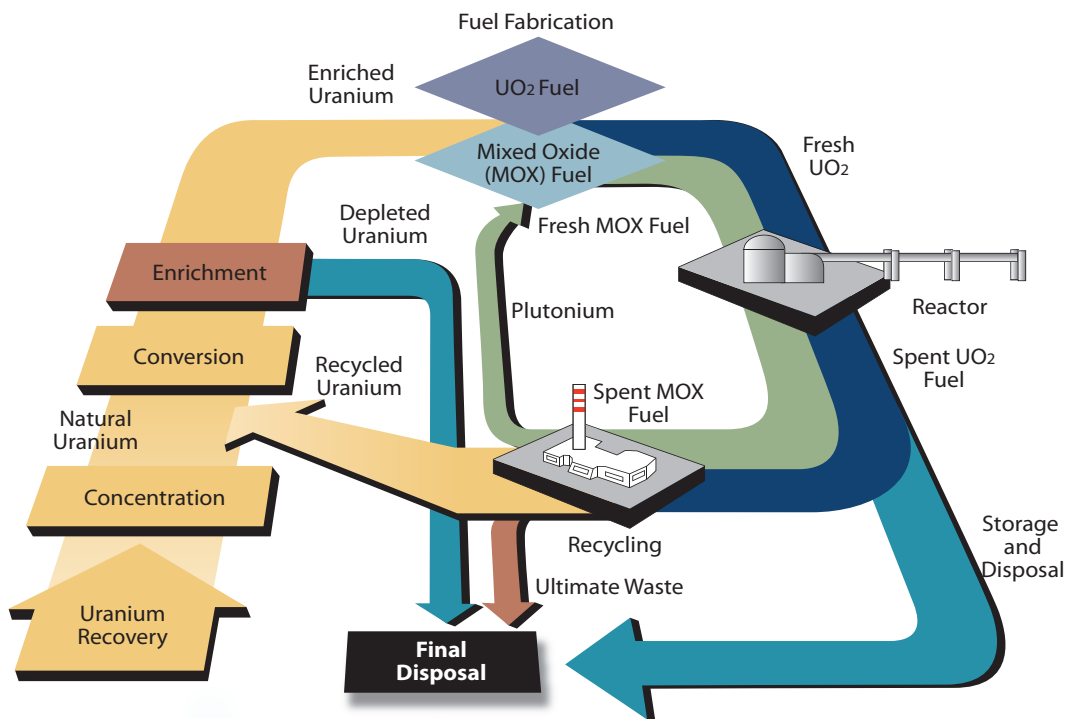
programs ensure that radioactive materials are used safely and securely at every stage in the nuclear material cycle. To address safety and security issues, the NRC has developed regulatory practices, knowledge, and expertise specific to each activity in the nuclear material cycle.

FUEL FACILITIES

The production of nuclear fuel (see Figure 1) begins at uranium mines, where milled uranium ore is used to produce a uranium concentrate called “yellowcake.” At a special facility, the yellowcake 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, non-power 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 1
SCHEMATIC OF THE NUCLEAR FUEL CYCLE



*The MOX fuel is a blend of Plutonium Dioxide and depleted Uranium Dioxide (UO₂) that is used as fuel in commercial nuclear power plants.
 Source: U.S. Nuclear Regulatory Commission*

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.

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 or damage these cells.

WASTE DISPOSAL

Typically, 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.

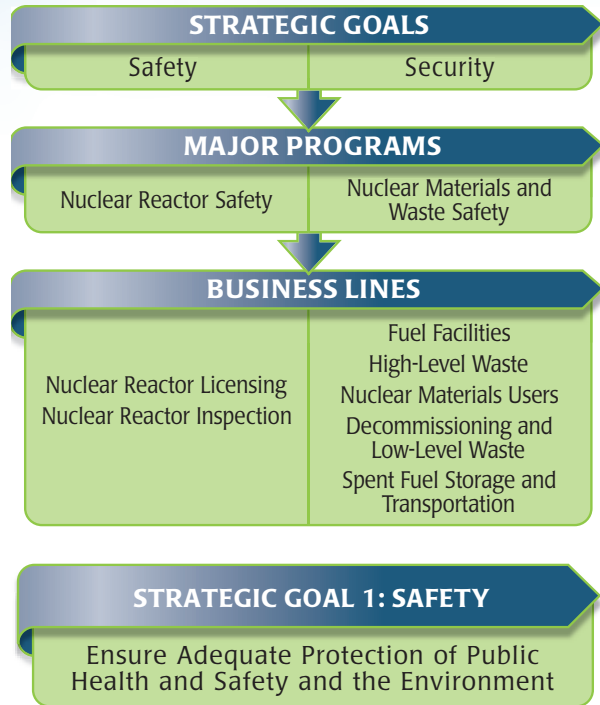
Nuclear power plants handle each type of radioactive waste differently. They must use special procedures in the handling of the spent fuel because

it contains the highly radioactive fission byproducts created while the reactor was operating. 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 also use 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.

In FY 2008, the U.S. Department of Energy (DOE) submitted, and the NRC docketed for review, an application for a disposal facility at Yucca Mountain, NV. Subsequently, in FY 2010, the DOE filed a motion to withdraw its application with prejudice. In January 2010, Secretary of Energy Steven Chu convened the Blue Ribbon Commission on America's Nuclear Future to conduct a comprehensive review of policies for managing the back end of the nuclear fuel cycle and recommend a new plan. In the interim, most spent fuel in the United States will remain safely stored at individual plants.

PROGRAM PERFORMANCE OVERVIEW

The NRC's Strategic Plan describes the agency's mission, goals, and strategies. The Strategic Plan can be found on the NRC Website <http://www.nrc.gov>. The agency's two strategic goals are focused on safety and security. The Safety goal is to *Ensure adequate protection of public health and safety and the environment*. The Security goal is to *Ensure adequate protection in the secure use and management of radioactive materials*.



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 the agency's 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. The NRC Safety goal activities are designed to achieve 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.

These strategic outcomes specify the conditions under which the Safety goal can be considered to have been met.

SAFETY GOAL STRATEGIES

The NRC used the following safety strategies from its Strategic Plan to guide its activities and to achieve its Safety goal in FY 2011:

1. Develop, maintain, and implement licensing and regulatory programs for reactors, fuel facilities, materials users, spent fuel management, uranium recovery, and decommissioning activities to ensure the adequate protection of public health and safety, and the environment.
2. Continue to oversee the safe operation of existing plants while preparing for and managing the review of applications for new power reactors.
3. Conduct the NRC safety, security, and emergency preparedness programs in an integrated manner.
4. Improve the NRC's regulatory programs and apply safety-focused research to anticipate and resolve safety issues.
5. Use sound science and state-of-the-art methods to establish, where appropriate, risk-informed and performance-based regulations.
6. Promote focused attention on safety matters and individual accountability of those engaged in regulated activities.
7. Utilize domestic and international operating experience to inform decision-making.
8. Oversee licensee safety performance through inspections, investigations, enforcement, and performance assessment activities.
9. Effectively respond to events at NRC-licensed facilities and other events of national interest, including maintaining and enhancing the NRC's critical incident response and communication capabilities.

FY 2011 RESULTS

In FY 2011, 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 2011 (see Table 1).

The first three 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. This measure shows that there were no statistically significant adverse trends in any of the indicators in FY 2011.

The last two safety performance measures track harmful radiation exposures to the public and occupational workers, and radiation exposures that harm the environment. Neither of these two measures exceeded their targets in FY 2011.

Table 1: SAFETY GOAL PERFORMANCE MEASURES

Safety Performance Measures	2006	2007	2008	2009	2010	2011
1. Number of new conditions evaluated as red by the Reactor Oversight Process is ≤ 3 .	0	0	0	0	0	1
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 Inspection 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 ≤ 3 .	0	1	0	0	0	2
4. Number of significant adverse trends in industry safety performance with no trend exceeding the Abnormal Occurrence Criterion I.D.4 is ≤ 1 .	0	0	0	0	0	0
5. Number of events with radiation exposures to the public and occupational workers that exceed Abnormal Occurrence Criterion I.A. is:						
■ Reactors: 0	0	0	0	0	0	0
■ Materials: ≤ 2	0	0	0	0	0	0
■ Waste: 0	0	0	0	0	0	0
6. Number of radiological releases to the environment that exceed applicable regulatory limits is:						
■ Reactor: 0	0	0	0	0	0	0
■ Materials: ≤ 2	0	0	0	0	0	0
■ Waste: 0	0	0	0	0	0	0

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.

This strategic outcome specifies the condition under which the Security goal can be considered to have been met.

SECURITY GOAL STRATEGIES

The agency used the following security strategies from its Strategic Plan to guide its activities and achieve its Security goal in FY 2011:

1. Use relevant intelligence information and security assessments to maintain realistic and effective security requirements and mitigation measures.
2. Share security information with appropriate stakeholders and international partners.
3. Oversee licensee security performance through inspections and force-on-force exercises.
4. Control the handling and storage of sensitive security information and the communication of information to licensees and Federal, State, and local partners.

5. Support Federal response plans that employ an approach to the security of nuclear facilities and radioactive material that integrates the efforts of licensees and Federal, State, local, and Tribal governments.
6. Use a risk-informed approach to implement appropriate regulatory controls for the possession, handling, import, export, and transshipment of radioactive materials.
7. Enhance the programs for control of the security of radioactive sources and strategic special nuclear material commensurate with their risk, including enhancements required by the *Energy Policy Act of 2005*.
8. Promote U.S. national security interests and nuclear non-proliferation policy objectives for NRC-licensed imports and exports of source and special nuclear materials and nuclear equipment.

FY 2011 RESULTS

In FY 2011, 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 four of the five performance measure targets in FY 2011 (see Table 2).

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 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.

Table 2: SECURITY GOAL PERFORMANCE MEASURES

Security Performance Measures	2006	2007	2008	2009	2010	2011
1. Number of unrecovered losses or thefts of risk-significant radioactive sources is zero.	0	0	0	0	0	1
2. Number of substantiated cases of theft or diversion of licensed, risk-significant radioactive sources or formula quantities of special nuclear material, or attacks that result in radiological sabotage is zero.	0	0	0	0	0	0
3. Number of substantiated losses of formula quantities of special nuclear material or substantiated inventory discrepancies of formula quantities of special nuclear material that are caused by theft or diversion or by substantial breakdown of the accountability system is zero.	0	0	0	0	0	0
4. Number of substantial breakdowns of physical security or material control (i.e., access control containment or accountability system) that significantly weaken the protection against theft, diversion, or sabotage is less than or equal to one.	0	0	0	0	0	0
5. Number of significant, unauthorized disclosures of classified or safeguards information is zero.	0	0	0	0	0	0

There were no losses and one theft of radioactive nuclear material that the NRC considered to be risk-significant during FY 2011. On July 19, 2011, in Austin, TX, the Licensee (Acuren Inspections, Inc.) notified the Texas Department of Health that a truck had been broken into and that a radiography camera transportation container holding a QSA Global Model 880 D camera with a 33.7-curie iridium-192 source and a portable electric generator had been stolen. The agency will coordinate and review the increased controls applied to these sources and determine if additional controls need to be implemented for these sources. If changes to the increased controls are needed, they will also be considered in the ongoing rulemaking for Title 10 of the *Code of Federal Regulations* (10 CFR) Part 37, *Physical Protections of Byproduct Material*.

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 these measures in FY 2011.

The last security measure tracks significant unauthorized disclosures of classified 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) that the agency and its licensees use to store, transmit, and utilize this information. There were no documented disclosures of this type of information during FY 2011.

FUTURE CHALLENGES

The industry has experienced a substantial improvement in safety at nuclear power plants over the past 36 years as both the nuclear industry and the NRC have gained substantial experience in the operation and maintenance of nuclear power facilities. Despite its excellent safety record, the agency faces key challenges, such as ensuring that the new generation of nuclear power plants is built and operated safely and ensuring the safe disposal of nuclear waste. The NRC will continue to identify and address management challenges it faces in accomplishing its mission. The NRC's Inspector General has identified its most serious management and performance challenges facing the agency. These challenges are discussed in Chapter 4 of the Performance and Accountability Report, beginning on page 105.

Japanese Earthquake Evaluation

The NRC established a special task force in FY 2011 to conduct a review of its processes and regulations in light of the events at the Fukushima Dai-ichi Nuclear Power Plant in Japan. The NRC reviewed the manner in which it requires licensees to protect nuclear power plants from natural disasters. The review found that, based on the current regulations and nuclear plant capabilities, a sequence of events

like the Fukushima accident is unlikely to occur in the United States. Therefore, continued operation and licensing activities do not pose an imminent risk to public health and safety. However, the review did yield important insights into ways that the agency can improve its regulatory processes to account for events that exceed the current design-basis for natural disasters at nuclear power plants. The agency has reviewed the task force recommendations within the context of the NRC's existing regulatory framework and considered various regulatory vehicles available to the NRC to implement the recommendations and will proceed based on Commission direction.

Licensing New Reactors

Many factors contribute to the growing interest in nuclear power, such as rising electricity demand, clean-air concerns, performance and reliability of existing plants, and a wide range of policies included in the *Energy Policy Act of 2005* to encourage new reactor construction. In addition, the DOE loan guarantee program and nuclear energy production tax credits for the first 6,000 megawatts of electricity from new advanced reactors, and standby insurance underwritten by the Federal Government have influenced the renewed interest in nuclear power. Currently, the electric industry is pursuing plans to build 20 reactors based on five standard designs. As of June 2011, the NRC is reviewing 12 Combined Operating Licenses (COL) applications and expects to complete the licensing process for two applications in 2012. In an effort to improve regulatory efficiency and add greater predictability to the process, the NRC established 10 CFR Part 52, *Licenses Certification, Approvals for Nuclear Power Plants*, that includes the issuance of a COL. The NRC approval is necessary before a nuclear power plant can be built and operated.

The NRC maintains oversight of the construction and operation of a facility throughout its lifetime to ensure compliance with the Commission's regulations for the protection of public health and safety, the common defense and security, and the environment.

Integrated Spent Fuel Management

The ending of the Yucca Mountain high-level waste repository program will require the development of a new strategy for managing the Nation's nuclear waste. Although the spent fuel remains safe and secure at more than 100 nuclear power plant sites, not to mention the spent fuel and high-level waste already being stored by DOE at other locations around the country, the amount of spent fuel and high-level waste continues to grow with each passing month. All commercially viable nuclear fuel cycles contemplate the need for some permanent disposal capacity. The Blue Ribbon Commission on America's Future issued its final report in January 2012 and the administration will consider the Commission's results as it develops a new strategy for nuclear waste management and disposal.

Although the amounts of waste continue to increase, one constant is the NRC's continued focus on ensuring safety, security, and environmental protection. This mission needs to be accomplished regardless of the uncertainties and the variables that exist. In response to the recent changes in the national program for high-level waste management, the NRC has initiated a number of actions, including the following:

- evaluation of the technical and regulatory requirements to support long-term dry storage of spent fuel and deferred transportation of spent fuel

- identification of regulatory gaps and development of a regulatory framework for reprocessing
- consideration of a revised waste confidence rulemaking
- development of revisions to the NRC's regulatory and analytical tools to consider alternative waste disposal options.

Enhancing NRC Effectiveness and Efficiency in Business Support Services

Predicting the level of funding for the NRC's programs over the next several years is difficult. However, key factors suggest that the agency is entering an era of no growth or declining budgets. For the past two years, the NRC's budget has remained essentially flat. Further, with concerns over rising Federal spending and debt, there is strong congressional interest in reducing Government spending. With this fiscal outlook, it is essential for the NRC to find ways to improve

the delivery of business support services, including (1) administrative services, (2) human capital, (3) financial management (including contract management), (4) information management (IM), and (5) information technology (IT) in a more effective and efficient way, thereby reducing operational costs. Consequently, the agency undertook a study entitled "Transforming Assets into Business Solutions" (TABS), to identify ways to optimize business processes, eliminate work that is no longer necessary, and reduce duplication and overlap. The TABS report presented 10 recommendations that provide the NRC with opportunities to centralize and standardize business support processes. The agency is currently implementing these recommendations to optimize the delivery of services and achieve cost savings over the next several years. It will be important to have these changes made in a manner that avoids disruption and does not compromise the agency's ability to carry out its Safety and Security goals effectively.

INSPECTOR GENERAL'S ASSESSMENT OF THE MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES FACING NRC

BACKGROUND

The *Reports Consolidation Act of 2000* requires the Inspector General (IG) of each Federal agency to annually summarize what he or she considers to be the most serious management and performance challenges facing the agency and to assess the agency's progress in addressing those challenges.

OBJECTIVE

In accordance with the act, the IG at the U.S. Nuclear Regulatory Commission (NRC) updated what he considers to be the most serious management and performance challenges facing NRC. The IG considered the overall work of the Office of the Inspector General (OIG), the OIG staff's general knowledge of agency operations, and other relevant information to develop and update his list of management and performance challenges. In addition, OIG staff sought input from NRC's Chairman, Commissioners, and management to obtain their views on what challenges the agency is facing and what efforts the agency has taken or are underway or planned to address previously identified management and performance challenges.

RESULTS IN BRIEF

The IG identified seven challenges that he considers the most serious management and performance challenges facing NRC. The challenges identify critical areas or difficult tasks that warrant high-level management attention.

The 2011 list of challenges reflects two changes from the 2010 list. Prior Challenge 1, *Protection of nuclear material used for civilian purposes*, was reworded to *Oversight of nuclear material used for civilian purposes*. This change was made to more accurately describe NRC's regulatory oversight role relative to nuclear material as NRC does not directly protect nuclear material, but provides oversight of licensees who are charged to protect the material. Prior Challenge 3, *Ability to modify regulatory processes to meet a changing environment, to include the licensing of new nuclear facilities*, was reworded to

INSPECTOR GENERAL'S ASSESSMENT OF THE MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES FACING NRC

reflect changing economic conditions for new facility construction, as well as ongoing efforts to evaluate post-Fukushima Dai-ichi lessons learned for NRC's oversight of currently operating facilities. Current Challenge 3 now reads *Ability to modify regulatory processes to meet a changing environment in the oversight of nuclear facilities.*

The following chart provides an overview of the seven most serious management and performance challenges as of October 1, 2011.

Most Serious Management and Performance Challenges Facing the Nuclear Regulatory Commission as of October 1, 2011* <i>(as identified by the Inspector General)</i>	
Challenge 1	<i>Oversight of nuclear material used for civilian purposes.</i>
Challenge 2	<i>Managing information to balance security with openness and accountability.</i>
Challenge 3	<i>Ability to modify regulatory processes to meet a changing environment in the oversight of nuclear facilities.</i>
Challenge 4	<i>Oversight of radiological waste.</i>
Challenge 5	<i>Implementation of information technology and information security measures.</i>
Challenge 6	<i>Administration of all aspects of financial management and procurement.</i>
Challenge 7	<i>Managing human capital.</i>
*The most serious management and performance challenges are not ranked in any order of importance.	

INSPECTOR GENERAL'S ASSESSMENT OF THE MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES FACING NRC

CONCLUSION

The seven challenges contained in this report are distinct, yet interdependent relative to the accomplishment of NRC's mission. For example, the challenge of managing human capital affects all other management and performance challenges.

The agency's continued progress in taking actions to address the challenges presented should facilitate achieving the agency's mission and goals.

A MESSAGE FROM THE CHIEF FINANCIAL OFFICER



I am pleased to present the condensed financial statements for the U.S. Nuclear Regulatory Commission (NRC) Fiscal Year (FY) 2011 Summary of Performance and Financial Information extracted from the complete financial statements presented in the FY 2011 Performance and Accountability Report. For the eighth consecutive year, an independent auditor has rendered an unqualified opinion on the NRC financial statements. The auditor also rendered an unqualified opinion on our internal controls concluding that the NRC had no reportable conditions or significant deficiencies.

FY 2011 was financially challenging for the NRC. On October 1, 2010, the NRC successfully transitioned from our legacy core financial system that consisted of five stand-alone systems with nine subsystems to an externally hosted integrated core financial system. However, production challenges with the new system delayed issuing reports from the cost accounting and fee billing modules, necessitating enhanced administrative controls to ensure data quality for financial operations and reporting. Additionally, the NRC budget execution was challenged during the year by emerging work associated with the agency response to the nuclear accident in Japan during the period of extended Continuing Resolution Appropriations. Agency actions were successful in meeting mission needs and maintaining a clean opinion on our financial statements, but some of our planned financial system improvements were delayed.

In FY 2012, we expect the challenging financial situation to continue as we adjust agency workload to implement the Japan Nuclear Accident Lessons Learned improvements under the Government-wide tight budgetary conditions. The NRC plans to continue its financial system modernization to enhance financial operations and streamline agency operations. We plan to re-host the core financial system and continue development of system enhancements to seamlessly align budget development and execution functions. We also plan to modernize our Time and Labor System at the beginning of the fiscal year to improve its usability. We will also update the NRC Strategic Plan to set clear high-level direction and goals for the agency in accordance with the *Government Performance and Results Modernization Act of 2010*. The new Strategic Plan will improve the link between the NRC budget structure and strategies for accomplishing our mission.

The NRC is committed to ensuring the safety and security of the Nation's civilian use of nuclear materials in the most effective and efficient manner. The regulation of the Nation's nuclear industry during this period of expansion and change requires rigorous stewardship of limited taxpayer resources and demands superior financial performance. I am proud of the progress we have made during the past year to promote sound business practices in the conduct of our regulatory mission and am confident that we will continue to make future improvements.

A handwritten signature in blue ink that reads "J.E. Dyer". The signature is written in a cursive, professional style.

J.E. Dyer
Chief Financial Officer
February 9, 2012

FINANCIAL PERFORMANCE OVERVIEW

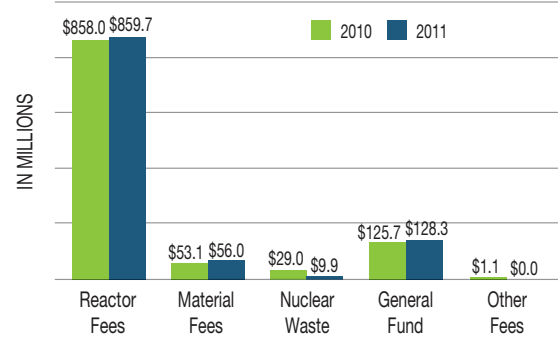
As of September 30, 2011, the financial condition of the NRC was sound with respect to having sufficient funds to meet program needs, and adequate control of these funds was in place to ensure obligations did not exceed budget authority. The NRC prepared its financial statements in accordance with the accounting standards codified in the Statements of Federal Financial Accounting Standards and the 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 new FY 2011 budget authority was \$1,054.2 million, which was reduced by a \$0.3 million rescission of funds, bringing the total new budget authority to \$1,053.9 million (see Figure 2). Of this amount, \$1,043.1 million was for the Salary and Expenses appropriation, of which \$9.9 million was derived from the Nuclear Waste Fund for activities relating to the *Nuclear Waste Policy Act of 1982*, as amended, and \$10.8 million was for the Office of the Inspector General appropriation. This represents a decrease in new budget authority of \$13.0 million compared to FY 2010 (\$13.0 million for the Salaries and Expenses appropriation and no change for the Office of the Inspector General appropriation). In addition, \$52.6 million from prior-year appropriations, \$10.9 million from prior-year reimbursable work, and \$14.5 million for new reimbursable work to be performed for others were available to obligate in FY 2011. The sum

of all funds available to obligate for FY 2011 was \$1,131.9 million, a decrease of \$31.9 million from the FY 2010 amount of \$1,163.8 million.

Figure 2
SOURCES OF FUNDS (PROJECTED)



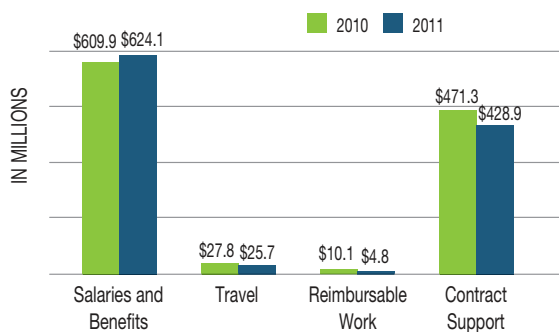
The *Omnibus Budget Reconciliation Act of 1990*, as amended, requires the NRC to collect fees to offset approximately 90 percent of its new budget authority, less the amount appropriated to the NRC from the Nuclear Waste Fund, amounts appropriated for waste incidental to reprocessing and generic homeland security for FY 2011. The projected amount to be received from reactor and material fees in FY 2011 was \$916.2 million after accounting for billing adjustments. The NRC collected \$911.0 million of the required \$915.8 million in fees for the year, which represents 99.5 percent of the 90 percent fee recovery requirement.

USES OF FUNDS BY FUNCTION

The NRC incurred obligations of \$1,083.5 million in FY 2011, which was a decrease of \$35.6 million over FY 2010 obligations incurred (see Figure 3). Approximately 58 percent of obligations were used for salaries and benefits. The remaining 42 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), to pay for staff travel, and to cover reimbursable work.

Figure 3
USES OF FUNDS BY FUNCTION



The unobligated budget authority available at the end of FY 2011 was \$48.5 million, a \$3.8 million increase compared to the FY 2010 amount of \$44.7 million. Of this \$48.5 million, \$13.1 million was for reimbursable work and \$35.4 million was available to fund critical NRC needs in FY 2012.

AUDIT RESULTS

The NRC received an unqualified audit opinion on its FY 2011 financial statements and internal controls. The auditors found no instances of noncompliance or substantial noncompliance with laws and regulations during the FY 2011 audit. The Summary of the Financial Statement Audit and Management Assurances is included on page 30 of this report.

LIMITATIONS OF THE FINANCIAL STATEMENTS

The condensed financial statements have been prepared 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 for Federal entities and the formats prescribed by 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.

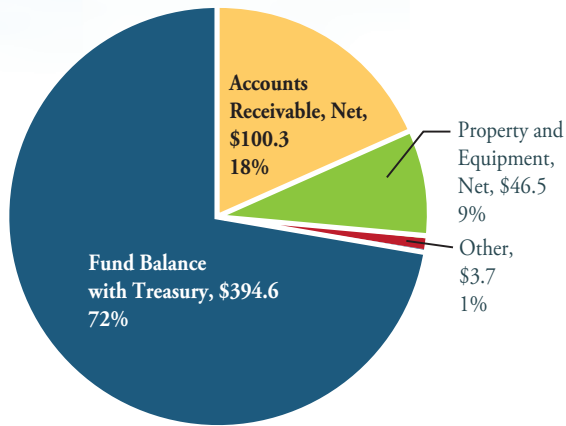
FINANCIAL STATEMENT HIGHLIGHTS

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

ANALYSIS OF THE BALANCE SHEET

Assets. The NRC's assets (see Figure 4) were \$545.1 million as of September 30, 2011, a decrease of \$45.2 million from the end of FY 2010. The decrease is primarily due to decreases of \$30.6 million in Accounts Receivable, Net and \$25.5 million in the Fund Balance with Treasury, offset by a \$10.3 million increase in Property & Equipment, Net. The assets reported in the NRC's Balance Sheet are summarized in the Condensed Balance Sheet on page 29.

Figure 4
ASSET SUMMARY (in Millions)



The Fund Balance with Treasury was \$394.6 million at September 30, 2011, which accounts for 72 percent of total assets. This account represents appropriated funds, collected license fees, and other funds maintained at the U.S. Department of the Treasury (Treasury) to pay for current liabilities and to finance authorized purchase commitments. The \$25.5 million decrease in the fund balance is primarily the result of a decrease of \$28.5 million in the beginning balance compared with the prior year. Receipts from appropriated funds decreased \$13.0 million from FY 2010 as a result of new budget authority (including a decrease of \$19.1 million for the Nuclear Waste Fund and a \$0.3 million rescission of FY 2011 current year funds returned to Treasury), offset by \$18.0 million for the FY 2010 rescission of prior-year unobligated funds that were returned to Treasury resulting in a net increase of \$5.0 million in the fund balance. Fees collected, and then transferred to Treasury, increased \$1.4 million over FY 2010, having a net offsetting

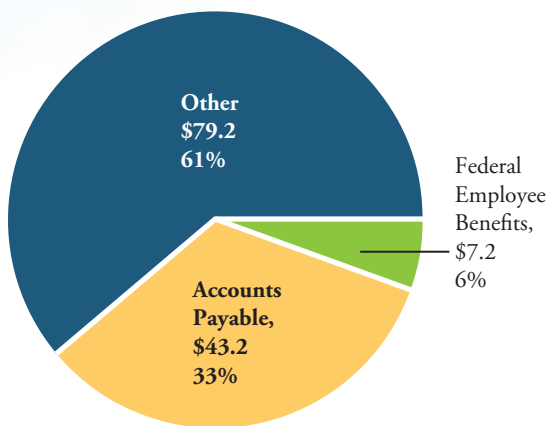
effect on the fund balance. (The revenue generated by fees assessed to licensees as required by law is sent to Treasury to offset approximately 90 percent of the NRC's appropriations received during the year.) Payments, which reduce the fund balance, had a net decrease of \$0.3 million and comprised primarily of a decrease of \$40.2 million in general disbursements, offset by increases of \$36.3 million in salaries and benefits disbursements and \$2.3 million in grant disbursements.

Accounts receivable consists of amounts owed to the NRC by other Federal agencies and the public. Accounts Receivable, Net, as of September 30, 2011, was \$100.3 million, which includes an offsetting allowance for doubtful accounts of \$4.5 million. This is a 23 percent decrease from the FY 2010 year-end Accounts Receivable, Net, balance of \$130.9 million. The variance is due to a reduction of \$30.6 million in accounts receivable for material and facilities fees for work performed for licensees, primarily due to a process change for invoicing inspection fees.

Liabilities. Total liabilities (see Figure 5) were \$129.6 million as of September 30, 2011, a decrease of \$30.5 million from the FY 2010 year-end balance of \$160.1 million. The decrease is primarily due to a change in Other Liabilities of \$32.8 million, resulting from the removal in FY 2011 of a contingent liability recorded in FY 2010 of \$11.8 million for the probable likelihood of an adverse outcome of legal claims, and a decrease of \$17.5 million in accrued funded salaries and benefits.

Liabilities not covered by budgetary resources were \$58.9 million, representing 45 percent of total liabilities. The liabilities not covered by budgetary resources in FY 2011 include \$49.9 million in

Figure 5
LIABILITIES SUMMARY (in Millions)



*Other Liabilities: \$49.9 Accrued Annual Leave, \$9.1 Accrued Salaries and Benefits, \$10.8 Grants Payable, \$9.4 Other.

unfunded accrued annual leave included in Other Liabilities for the amount of leave earned but not yet taken and \$9.0 million in accrued and future workers' compensation. Compared to the prior year, liabilities not covered by budgetary resources showed a decrease of 18 percent from the balance of \$71.5 million as of September 30, 2010. The decrease of \$12.6 million is primarily due to a contingent liability recorded in FY 2010 of \$11.8 million that was removed in FY 2011.

Net Position. The difference between Total Assets and Total Liabilities, Net Position, was \$415.5 million as of September 30, 2011, a decrease of \$14.7 million from the FY 2010 year-end balance. Net Position has two components: Unexpended Appropriations and Cumulative Results of Operations. Unexpended Appropriations is the amount of spending authority granted by Congress that remains unused by the agency. Unexpended Appropriations was \$310.3 million at the end of

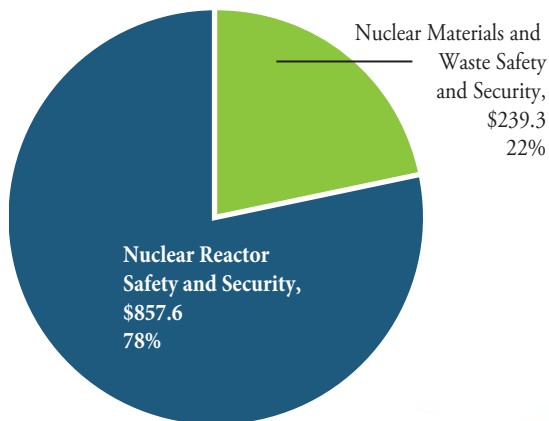
FY 2011, a slight decrease of \$1.6 million from the prior fiscal year end. Cumulative Results of Operations, which represents the cumulative excess of financing sources over expenses, decreased \$13.1 million.

ANALYSIS OF THE STATEMENT OF NET COST

Net costs are gross costs offset by earned revenue. The Statement of Net Cost represents the net cost of the 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, 2011, was \$208.2 million, which is a decrease of \$8.8 million over the FY 2010 net cost of \$217.0 million. Net costs by program are shown in the Statement of Net Cost on page 29.

The NRC's total gross costs (see Figure 6) decreased \$43.6 million. Gross costs decreased \$25.0 million in the Nuclear Reactor Safety and Security

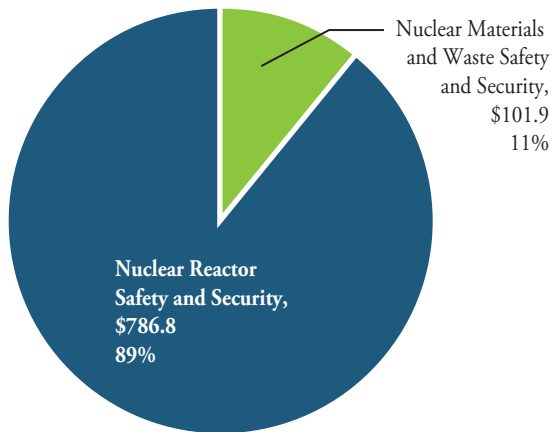
Figure 6
GROSS COSTS (in Millions)



program, primarily in the area of the Operating Reactor business line. The Nuclear Materials and Waste Safety and Security program gross costs decreased \$18.6 million, primarily due to workload changes in the Nuclear Materials Users and High-Level Waste business lines, offset by increases in the Spent Fuel Storage and Transportation business line.

Total earned revenue (see Figure 7) at September 30, 2011, was \$888.7 million, a decrease of \$34.8 million from the earned revenue for the year ended September 30, 2010, which was \$923.5 million. The decrease is primarily due to a reduction of \$30.6 million in accounts receivable for material and facilities fees due to a process change for invoicing inspection fees.

Figure 7
EARNED REVENUE (in Millions)



Fees collected (earned primarily in FY 2011) and transferred to Treasury during FY 2011 were \$911.0 million, compared to \$909.5 million for FY 2010. The NRC is required to collect approximately 90 percent of appropriations for NRC

activities through fee billing. Fees for reactor and materials licensing and inspections are collected in accordance with 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 THE STATEMENT OF CHANGES IN NET POSITION

The Statement of Changes in Net Position reports the change in net position for the reporting period. Net position is affected by changes in its two components—Cumulative Results of Operations and Unexpended Appropriations. The decrease in Net Position of \$14.7 million from FY 2010 to FY 2011 was due to decreases of \$13.1 million in Cumulative Results of Operations and \$1.6 million in Unexpended Appropriations.

The decrease in Cumulative Results of Operations of \$13.1 million was primarily due to decreases in the beginning balance of \$10.1 million and in financing sources of \$11.8 million, offset by \$8.8 million in the net cost of operations. Financing sources primarily include imputed financing costs absorbed by others and appropriations used, which are funds consumed, reduced by the collection of fees assessed and the Nuclear Waste Funding expense. Imputed finance costs increased \$9.8 million due to a cost recorded in FY 2011 of \$12.7 million for judgments and awards, offset by a decrease of \$2.9 million in cost for retirement and health benefits. Appropriations used decreased \$2.5 million from the prior year primarily due to a decrease in funds consumed of

\$19.6 million, reduced by a decrease in the Nuclear Waste Funding expense of \$18.6 million, offset by an increase in collection of fees assessed of \$1.5 million.

A change in unexpended appropriations primarily results from appropriations received and adjustments (e.g., rescissions) being more, or less, than appropriations used during the fiscal year. In FY 2011, appropriations received of \$133.3 million consisted of the NRC's total appropriation of \$1,053.9 million (including a \$0.3 million rescission for current year funds), reduced by \$911.0 million in fee collections returned to Treasury and the Nuclear Waste Fund transfer of \$9.9 million. Appropriations used in FY 2011 totaled \$134.6 million and consisted of \$1,060.2 million in funds used, reduced by the collection of \$911.0 million in fees assessed and Nuclear Waste Fund expenses of \$14.6 million. The Condensed Statement of Changes in Net Position is presented on page 30.

MANAGEMENT ASSURANCES, SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

This section provides information on the NRC's compliance with the *Federal Managers' Financial Integrity Act of 1982* (Public Law 97-255), OMB Circular A-123, *Management's Responsibility for Internal Control*, and the *Federal Financial Management Improvement Act of 1996*.

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

The *Federal Managers' Financial Integrity Act of 1982* (Integrity Act) mandates that agencies establish internal control to provide reasonable

assurance that the agency complies with applicable laws and regulations; safeguards assets against waste, loss, unauthorized use, or misappropriation; and properly accounts for and records revenues and expenditures. 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 Government-wide standards, shown below.

INTERNAL CONTROL PROGRAM

Internal controls are the organization, policies, and procedures to help program and financial managers achieve results and safeguard the integrity of their programs. The NRC managers are responsible for designing and implementing effective internal controls in their areas of responsibility. Each office director and regional administrator prepares an annual assurance certification that identifies any control weaknesses requiring the attention of the NRC Executive Committee on Internal Control (ECIC). These certifications are based on internal control activities such as risk assessments, as well as other activities such as Integrated Regulatory Review Service self-assessments, lessons learned oversight board activities, agency action review meetings, senior leadership meetings, audits of financial statements, reviews of financial statements, Inspector General and U.S. Government Accountability Office audits and reports, and other information provided by the congressional committees of jurisdiction.

The ECIC consists of senior executives from the Office of the Chief Financial Officer and the Office of the Executive Director for Operations. The

agency's General Counsel and Inspector General participate as advisors.

The ECIC met and reviewed the reasonable assurance certifications 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 weakness or noncompliance.

The NRC's internal control program requires that internal control deficiencies be documented and reported in office and regional internal control plans and operating plans. The internal control plans provide for annual reporting, and the operating plan process provides for quarterly updates; together, both ensure 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 control on an ongoing basis.

FY 2011 INTEGRITY ACT RESULTS

The NRC evaluated its internal control systems for the fiscal year ending September 30, 2011. Based on this evaluation, the NRC is able to provide a statement of assurance that the internal controls and financial 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 Government-wide standards.



**U.S. NUCLEAR REGULATORY COMMISSION
FISCAL YEAR 2011
FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT STATEMENT**

The U.S. Nuclear Regulatory Commission (NRC) managers are responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the *Federal Managers' Financial Integrity Act* (Integrity Act). The NRC conducted its assessment of internal control over programmatic operations in accordance with Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control* (A-123) guidelines. Based on the results of this evaluation, NRC can provide reasonable assurance that its internal control over programmatic operations is in compliance with applicable laws and guidance, and no material weaknesses were found as of September 30, 2011.

In addition, 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 A-123. Based on the results of the evaluation, NRC can provide reasonable assurance that its internal control over financial reporting as of June 30, 2011, was operating effectively, and no material weaknesses were found in the design or operation of the internal control over financial reporting.

The NRC can also provide reasonable assurance that its financial systems substantially comply with applicable Federal accounting standards as required by the *Federal Financial Management Improvement Act of 1996*.

Gregory B. Jaczko
Chairman
U.S. Nuclear Regulatory Commission
November 9, 2011

OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-123, "MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROL"

Internal Control Over Financial Reporting (Appendix A)

In FY 2006, the NRC implemented the requirements of the revised OMB Circular A-123, which defined and strengthened management's responsibility for internal control in Federal

agencies. The revised circular included updated internal control standards. Appendix A requires Federal agencies to assess the effectiveness of internal controls over financial reporting and to prepare a separate annual statement of assurance as of June 30, 2011.

In FY 2007, the NRC adopted a 3-year rotational testing plan. The agency determined that three of the original nine key processes were significant enough to include in the testing each year of the 3-year cycle. The remaining six key processes were to be tested once in the 3-year cycle, two each year. In FY 2011, the NRC continued its assessment of internal control over financial reporting. The agency reevaluated its scope of financial reports, materiality values, risk assessments, key processes, and key controls. 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, 2011, and the evaluation found no material weaknesses in design or operation of the internal control over financial reporting.

Requirements For Effective Measurement And Remediation Of Improper Payments (Appendix C)

In FY 2011, OMB revised Parts I and II to Appendix C of OMB Circular A-123. Appendix C “Requirements for Effective Measurement and Remediation of Improper Payments,” as amended, implemented the *Improper Payments Information Act of 2002* and the *Improper Payments Elimination and Recovery Act of 2010*. The purpose of this guidance is to reduce improper payments, hold agencies accountable for reducing improper payments, and increase penalties for contractors

who fail to disclose improper payments in a timely manner. The NRC complied with this guidance by incorporating improper payments testing into the FY 2011 A-123 Appendix A assessment.

The NRC performed a risk assessment to determine which programs would be included in the improper payments testing. Based on a risk based analysis of susceptibility of payment streams to improper payments, management determined that the scope of the assessment would be limited to commercial payments. The scope of the assessment was further refined through the identification of 16 potential error conditions that would cause a payment to be “improper.” Test procedures were developed for each error condition. The NRC selected a sample based on a population of the commercial payments as of May 31, 2011, that were reconciled to the general ledger. A statistician extracted a statistically valid sample of 265 commercial payments totaling \$45.4 million. This sample of 265 payments covered 3.4 percent of commercial payments and 32.7 percent of the total dollar value of commercial payments.

The results of testing identified four instances in which discounts offered by the contractor were not taken, resulting in improper payments of \$3,200. Extrapolating the errors to the population resulted in \$26,810 in improper payments and an improper payment rate of 0.02 percent for commercial payments in FY 2011. This rate falls well below OMB’s significant improper payment threshold of 2.5 percent of program outlays and \$10 million of all program or activity payments made during the fiscal year. Therefore, no corrective action plans were required. As considered necessary, the NRC may review their processes in place for taking discounts.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT

The *Federal Financial Management Improvement Act of 1996* (FFMIA) 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. FFMIA requires the Chairman to determine whether the agency's financial management systems comply with FFMIA and to develop remediation plans for systems that do not comply.

FY 2011 FFMIA RESULTS

As of September 30, 2011, the NRC evaluated its financial systems and found that they comply with applicable Federal requirements and accounting standards required by FFMIA. In making this determination, the agency considered all available information, including the report from the ECIC on the effectiveness of internal controls, Office of the Inspector General audit reports, and the results of the agency's financial management system reviews.

FINANCIAL MANAGEMENT SYSTEMS STRATEGIES

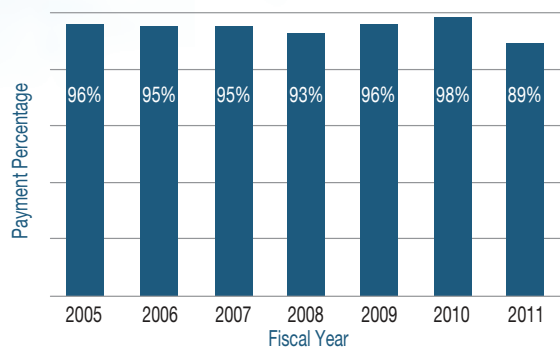
The NRC has started a business transformation initiative to develop an enterprise-wide financial system. The NRC plans to complete the business transformation in four distinct phases (or implementations). The four phases will cover the agency's core financial, acquisition, time and labor, and budget formulation functions respectively. The objective is to consolidate and automate data and processes within a single

integrated business solution to make the NRC a more transparent, efficient, and effective organization. During FY 2010, the first phase of the agency's transformation was completed, and five stand-alone legacy core financial systems were consolidated with nine subsystems into a new commercial-off-the-shelf core financial system. In the first quarter of FY 2012, the NRC upgraded its commercial-off-the-shelf Human Resources Management System (HRMS) for time and labor. The new HRMS strengthened data security and introduced electronic workflow, eliminating paper and therefore reducing yearly costs. In FY 2014, the agency's acquisition function will be integrated with the core financial system. After FY 2014, the NRC plans to complete our objective for an integrated and consolidated enterprise financial and acquisitions management system by consolidating the agency's time and labor and budget formulation functions with the core financial and acquisitions functions.

PROMPT PAYMENT

The *Prompt Payment Act of 1982*, as amended, 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 2011, the NRC paid 88.9 percent of the 11,036 invoices subject to the Prompt Payment Act on time. The NRC did not meet its goal of 98 percent due to the deployment of a new accounting system and process changes. The NRC incurred \$18,692 in interest penalties during FY 2011 (see Figure 8).

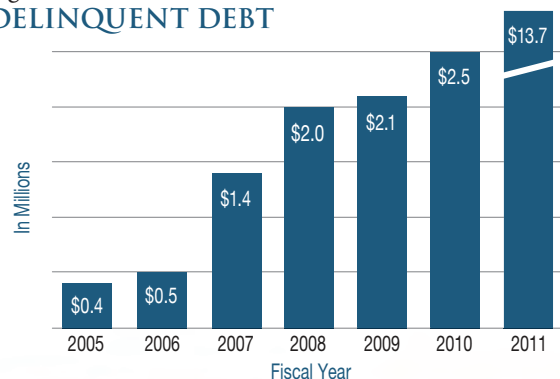
Figure 8
PROMPT PAYMENT



DEBT COLLECTION

The *Debt Collection Improvement Act of 1996* 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 did not meet this goal, and at the end of FY 2011 delinquent debt was \$13.7 million (see Figure 9). The NRC also failed to refer 100 percent of all eligible debt over 180 days delinquent to Treasury for collection. These deficiencies are due to the deployment of a new accounting system and process changes. The NRC is taking steps to correct these deficiencies.

Figure 9
DELINQUENT DEBT



BIENNIAL REVIEW OF USER FEES

The *Chief Financial Officers Act of 1990* requires agencies to conduct a biennial review of fees, royalties, rents, and other charges imposed by agencies, and 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* (76 FR 36780, June 22, 2011).

The fees and charges for the Materials Access Authorization Program and Information Access Authority Program were also revised to more appropriately recognize actual costs. No other reviews were completed this year.

INSPECTOR GENERAL ACT OF 1978

The NRC has established and continues to maintain an excellent record in resolving and implementing Office of the Inspector General open audit recommendations. This information, as well as data concerning disallowed costs determined through contract audits conducted by the Defense Contract Audit Agency, are included in the NRC's FY 2011 Performance and Accountability Report, beginning on page 147. That report is available on the NRC Website <http://www.nrc.gov>.

INSPECTOR GENERAL'S TRANSMITTAL LETTER



OFFICE OF THE
INSPECTOR GENERAL

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

February 1, 2012

MEMORANDUM TO: Chairman Jaczko

A handwritten signature in cursive script that reads "Hubert T. Bell".

FROM: Hubert T. Bell /RA/
Inspector General

SUBJECT: TRANSMITTAL OF THE INDEPENDENT AUDITOR'S REPORT
ON THE CONDENSED FINANCIAL STATEMENTS
(OIG-12-A-08)

Office of Management and Budget Circular No. A-136, *Financial Reporting Requirements*, Revised, October 27, 2011, requires all entities covered under *The Chief Financial Officer's Act of 1990* to prepare a Summary of Performance and Financial Information which summarizes performance and accountability results for the fiscal year. The Summary Report should include the most important performance and financial information contained in the Performance and Accountability Report in a brief, user-friendly format that is easily understood by a reader with little technical background in these areas. The purpose of this memorandum is to transmit Clifton Gunderson LLP (CG) Auditor's Report on the Condensed Financial Statements included in the Summary Report.

CG is responsible for the attached unqualified auditor's opinion, dated November 7, 2011. The Office of the Inspector General (OIG) is responsible for technical and administrative oversight regarding the firm's performance under the terms of the contract. Our oversight of CG's work, as differentiated from an audit in conformance with *Government Auditing Standards*, was not intended to enable us to express, and accordingly we do not express, an opinion on the condensed financial statements included in the Summary Report. However, OIG's oversight of CG's work disclosed no instances where CG did not comply with applicable auditing standards.

We appreciate the cooperation provided by NRC staff.

Attachment: As stated

cc: Commissioner Svinicki
Commissioner Apostolakis
Commissioner Magwood
Commissioner Ostendorff
N. Mamish, OEDO
K. Brock, OEDO
J. Arildsen, OEDO
C. Jaegers, OEDO

INDEPENDENT AUDITOR'S REPORT ON THE CONDENSED FINANCIAL STATEMENTS



INDEPENDENT AUDITOR'S REPORT ON THE CONDENSED FINANCIAL STATEMENTS

Hubert T. Bell
Inspector General
United States Nuclear Regulatory Commission

The Honorable Gregory B. Jaczko
Chairman
United States Nuclear Regulatory Commission

We have audited the balance sheet of the United States Nuclear Regulatory Commission (NRC) as of September 30, 2011, and the related statements of net cost, changes in net position, and budgetary resources (Principal Statements) for the fiscal year then ended. Our audit was performed in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. In our report dated November 7, 2011, we expressed an unqualified opinion on those Principal Statements.

The financial statements of NRC as of September 30, 2010, were audited by Urbach Kahn & Werlin LLP, which practice was acquired by Clifton Gunderson LLP by merger on March 22, 2010. Urbach Kahn & Werlin LLP's report dated November 7, 2010, expressed an unqualified opinion on those financial statements.

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

In accordance with *Government Auditing Standards*, our report on the Principal Statements referred to above includes an opinion on the effectiveness of internal control over financial reporting and a report on compliance with laws and regulations for the fiscal year ended September 30, 2011. Those reports are integral parts of a financial statement audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Clifton Gunderson LLP

Arlington, Virginia
November 7, 2011

4250 N. Fairfax Drive, Suite 1020
Arlington, Virginia 22203
tel: 571.227.9500
fax: 571.227.9552

www.cliftoncpa.com



Offices in 17 states and Washington DC

CONDENSED FINANCIAL STATEMENTS

CONDENSED BALANCE SHEET* (In Thousands)

As of September 30,	2011	2010
Assets		
Fund balance with Treasury	\$ 394,580	\$ 420,080
Accounts receivable, net	100,296	130,916
Property and equipment, net	46,542	36,231
Other	3,722	3,098
Total Assets	\$ 545,140	\$ 590,325
Liabilities		
Accounts payable	\$ 43,202	\$ 40,542
Federal employee benefits	7,245	7,575
Other	79,168	112,027
Total Liabilities	129,615	160,144
Net Position		
Unexpended appropriations	310,332	311,869
Cumulative results of operations	105,193	118,312
Total Net Position	415,525	430,181
Total Liabilities and Net Position	\$ 545,140	\$ 590,325

STATEMENT OF NET COST* (In Thousands)

For the years ended September 30,	2011	2010
Nuclear Reactor Safety and Security		
Gross costs	\$ 857,569	\$ 882,591
Less: Earned revenue	(786,741)	(836,303)
Total Net Cost of Nuclear Reactor Safety and Security	70,828	46,288
Nuclear Materials and Waste Safety and Security		
Gross costs	239,350	257,862
Less: Earned revenue	(101,919)	(87,178)
Total Net Cost of Nuclear Materials and Waste Safety and Security	137,431	170,684
Net Cost of Operations	\$ 208,259	\$ 216,972

CONDENSED FINANCIAL STATEMENTS

CONDENSED STATEMENT OF CHANGES IN NET POSITION* (In Thousands)

For the years ended September 30,	2011	2010
Cumulative Results of Operations		
Beginning Balance	\$ 118,312	\$ 128,359
Budgetary Financing Sources	144,606	166,113
Other Financing Sources	50,534	40,812
Net Cost of Operations	(208,259)	(216,972)
Net Change	(13,119)	(10,047)
Cumulative Results of Operations		
	\$ 105,193	\$ 118,312
Unexpended Appropriations		
Beginning Balance	\$ 311,869	\$ 338,637
Budgetary Financing Sources	(1,537)	(26,768)
Total Unexpended Appropriations	310,332	311,869
Net Position	\$ 415,525	\$ 430,181

* For the complete set of financial statements and notes, see Chapter 3, "Financial Statements and Auditor's Report," beginning on page 73 of the FY 2011 Performance and Accountability Report. This report can be accessed on the NRC Website <http://www.nrc.gov>.

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES**

SUMMARY OF FINANCIAL STATEMENT AUDIT		
Audit Opinion—Unqualified	Restatement—No	Material Weaknesses—No
SUMMARY OF MANAGEMENT ASSURANCES		
Effectiveness of Internal Control over Financial Reporting and Operations (FMFIA § 2)		
Statement of Assurance—Unqualified	Material Weaknesses—No	
Conformance with Financial Management System Requirements (FMFIA § 4)		
Statement of Assurance—Systems Conform to Requirements	Nonconformance—No	
Compliance with Federal Financial Management Improvement Act (FFMIA)		
Overall Substantial Compliance	Agency – Yes	Auditor – Yes

** For the complete Summary of Financial Statement Audit and Management Assurances see page 176 of the FY 2011 Performance and Accountability Report. This report can be accessed on the NRC Website <http://www.nrc.gov>.

BIBLIOGRAPHIC DATA SHEET

NRC FORM 335 (9-2004) NRCMD 3.7		U.S. NUCLEAR REGULATORY COMMISSION		1. REPORT NUMBER (Assigned by NRC, Add Vol., Supp., Rev., and Addendum Numbers, if any.) NUREG-1542, Vol. 17, Supp. 1					
BIBLIOGRAPHIC DATA SHEET									
2. TITLE AND SUBTITLE U.S. Nuclear Regulatory Commission Fiscal Year 2011 Summary of Performance and Financial Information		3. DATE REPORT PUBLISHED <table border="1"> <tr> <td>MONTH</td> <td>YEAR</td> </tr> <tr> <td>February</td> <td>2012</td> </tr> </table>		MONTH	YEAR	February	2012	4. FIN OR GRANT NUMBER n/a	
MONTH	YEAR								
February	2012								
5. AUTHOR(S) David Holley, et. al		6. TYPE OF REPORT Annual		7. PERIOD COVERED (Inclusive Dates) FY 2011					
8. PERFORMING ORGANIZATION - NAME AND ADDRESS (If NRC, provide Division, Office or Region, U.S. Nuclear Regulatory Commission, and mailing address; if contractor, provide name and mailing address.) Division of Planning and Budget Office of the Chief Financial Officer U.S. Nuclear Regulatory Commission Washington, DC 20555-0001									
9. SPONSORING ORGANIZATION - NAME AND ADDRESS (If NRC, type "Same as above"; if contractor, provide NRC Division, Office or Region, U.S. Nuclear Regulatory Commission, and mailing address.) Same as above									
10. SUPPLEMENTARY NOTES									
11. ABSTRACT (200 words or less) The Fiscal Year 2011 NRC Summary of Performance and Financial Information provides performance results and condensed audited financial statements that enable the Congress, the President, and the public to assess the performance of the agency in achieving its mission and stewardship of its resources.									
12. KEY WORDS/DESCRIPTORS (List words or phrases that will assist researchers in locating the report.) Performance and Accountability Report FY 2011 PAR				13. AVAILABILITY STATEMENT unlimited					
				14. SECURITY CLASSIFICATION (This Page) unclassified					
				(This Report) unclassified					
				15. NUMBER OF PAGES					
				16. PRICE					

NRC FORM 335 (9-2004)

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NUR-1520, Vol. 17, SUPP. 2
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