U.S. NUCLEAR REGULATORY COMMISSION

ACCOUNTABILITY AND PERFORMANCE REPORT

Fiscal Year 1999

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U.S. NUCLEAR REGULATORY COMMISSION

ACCOUNTABILITY AND PERFORMANCE REPORT

Fiscal Year 1999

U.S. Nuclear Regulatory Commission
Office of the Chief Financial Officer

NRC Principles of Good Financial Management

Those who handle public resources have a special responsibility to safeguard the resources entrusted to them and to use them properly. Poor financial management by NRC can undermine the confidence that we are effectively accomplishing our health and safety mission. NRC managers must ensure that public funds are used for authorized purposes only and that they are used economically, efficiently, and within established limits. Toward these ends, the NRC uses the following Principles of Good Financial Management.

PLANNING. Good financial management begins with good planning. NRC's strategic planning should be based on sound assumptions and accurate information and should provide the foundation for the entire fiscal process. Resource requests must be consistent with program goals, guidance, and planning assumptions, and must consider current financial status. Plans should be developed for commitment and obligation of funds based on program needs, procurement lead times, and the need for continuity of funding.

CONTROL. Good financial management requires good financial control. Appropriate effective cost controls throughout the financial management process ensure adequate accounting of funds expended, prevent over-obligation of funds and inappropriate expenditures, identify early instances where funds should be reallocated, and produce valuable information for the planning process.

COMMUNICATION. Good financial management requires good communication among those involved in the financial management process. Complete, accurate, and timely financial information must be readily available, and financial implications must be considered in decision making. Financial systems should be integrated and meet both agency and office data needs. New information and ideas must be shared throughout the organization.

COST EFFECTIVENESS. Good financial management balances expenditures and results. Managers at all levels must ensure that NRC gets what it pays for and that the results are what NRC needs to accomplish its mission. Ongoing projects should be evaluated to ensure results justify continued funding. Appropriate precautions ensure that waste is avoided. To ensure maximum utility of available resources, funds should be obligated as early as practicable during the fiscal year, and excess funds should be deobligated as soon as practical after project completion.

EVALUATION. Good financial management requires periodic evaluation of performance against meaningful financial and program performance measures. Such performance assessment should evaluate planned versus actual program results as well as the comparison of program costs with program accomplishments.

PERSONNEL. Good financial management is the product of competent and motivated people. Those who are given financial management responsibility must have integrity, dedication, and be well trained and qualified. They must have authority commensurate with their responsibility, and they must be recognized when they achieve superior performance.

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Foreword

This is the fifth year that the U.S. Nuclear Regulatory Commission (NRC) has participated in a pilot project, along with other Federal agencies, to streamline financial management reporting. The goal of this project is to consolidate performance-related reporting into a single accountability and performance report. The project, which is being carried out under the guidance of the Chief Financial Officers Council, was undertaken in accordance with the Government Management Reform Act of 1994 (GMRA). The GMRA permits the streamlining of financial management reports in consultation with the appropriate congressional committees through a liaison in the U.S. Office of Management and Budget.

This report consolidates the information previously reported in the following documents:

- The NRC's annual financial statement, required by the Chief Financial Officers Act of 1990 (CFO Act);
- The Chairman's annual report to the President and the Congress, required by the Federal Managers' Financial Integrity Act of 1982;
- The Chairman's semiannual report to the Congress on management decisions and final actions on Office of the Inspector General audit recommendations, required by the Inspector General Act of 1978, as amended; and
- The NRC's Annual Report that highlights significant accomplishments, as required by Section 307(c) of the Energy Reorganization Act of 1974.

This report also contains the agency's performance report required by the Government Performance and Results Act of 1993, and the Chairman's statement on the compliance of the agency's financial management systems with the Federal Financial Management Improvement Act of 1996.

Comments on the content and presentation of this report are welcome and may be sent to:

Office of the Chief Financial Officer
Mail Stop O-17 F3
U.S. Nuclear Regulatory Commission
Washington, DC 20555-0001

or

Internet Address: **cfd@nrc.gov**

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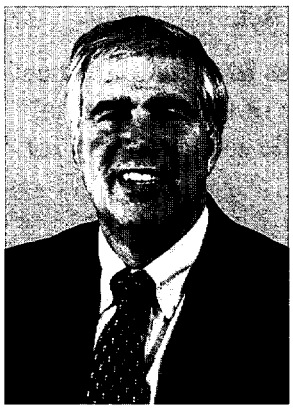
The NRC's Mission

The U.S. Nuclear Regulatory Commission regulates the Nation's civilian use of byproduct, source, and special nuclear materials to ensure adequate protection of the public health and safety, to promote the common defense and security, and to protect the environment.

Message From the Chairman



I am pleased to present the U.S. Nuclear Regulatory Commission's (NRC) Accountability and Performance Report for fiscal year (FY) 1999. This report reflects the NRC's continued commitment to employ sound management strategies for regulating the nation's use of nuclear materials.

An integrated planning, budgeting, and performance management process remains the NRC's primary tool for advancing the implementation of performance management in the agency and also for meeting the requirements of the Government Performance and Results Act. This process provides a discipline whereby managers determine program direction based on previously established goals and measures of performance. NRC's triennial update of its strategic plan, which will describe the context for our regulatory responsibilities, reflects this effort. The plan is near completion and will be submitted to Congress in September 2000.

Consistent with our efforts to streamline reporting, we have included the FY 1999 Performance Report in this Accountability Report. This is the first annual performance report required for Federal agencies by the Government Performance and Results Act. The Performance Report allows comparison of the NRC's FY 1999 actual performance with the FY 1999 performance goals. These performance goals were provided in the revised Performance Plan for FY 1999, which was published in the NRC's Budget Estimates and Performance Plan for Fiscal Year 2000. In FY 1999, we again achieved our performance goals for protecting public health and safety, and the environment.

I am also pleased to announce that the agency obtained its sixth consecutive unqualified financial statement audit opinion. This opinion was possible because of the hard work and cooperation among the auditors, financial staff, and agency personnel. However, much work still must be completed in order to comply fully with Federal accounting and reporting standards. The staff is working to meet these challenges.

The NRC also evaluated its management control and financial management systems for FY 1999 as required by the Federal Managers' Financial Integrity Act of 1982. The results of this evaluation provided reasonable assurance that the NRC achieved the objectives of this Act. No material non-conformances with government-wide requirements in the NRC's existing financial management systems were identified. The NRC also evaluated its financial management systems for compliance with applicable Federal requirements and accounting standards as required by the Federal Financial Management Improvement Act of 1996. This evaluation disclosed that the NRC's major financial management systems were in overall compliance with this Act except for (1) the failure to achieve full implementation of the Statement of Federal Financial Accounting Standard Number 4, *Managerial Cost Accounting Concepts and Standards for the Federal*

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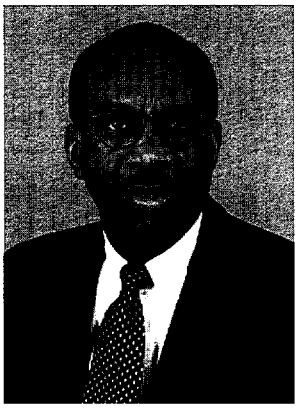
Government, (2) the inability of the agency's financial systems to aggregate payroll transactions to the strategic arena level, and (3) the inability of the Treasury's Financial Management Service (FMS) to test business continuity plans for the NRC core accounting system, which is provided to the NRC through a Memorandum of Understanding with the FMS. The current payroll system has been modified to address the second weakness for FY 2000. The audit report on the agency's financial statements and response, provided at the end of this report, contains a discussion of the other weaknesses and NRC's corrective action plans to gain full compliance with the Act.

Although some work remains, the NRC continues to demonstrate success in accomplishment of its mission through sound program and fiscal management. The issuance of this fifth annual Accountability and Performance Report confirms our commitment to provide accountability for agency programs and financial management.

Richard A. Meserve
Chairman
U.S. Nuclear Regulatory Commission

Message From the Chief Financial Officer



I am pleased to report that the U.S Nuclear Regulatory Commission (NRC) has completed another productive and successful year in performance of its financial management responsibilities. The NRC has made progress to improve its financial management systems and integrate program performance with resource management. The NRC issued its first audited financial statement in FY 1992 and has received an unqualified opinion for each fiscal year since FY 1994.

Last year I reported that we had made major progress developing the agency's strategic direction and performance expectations through the implementation of an integrated planning, budgeting, and performance management process. During FY 1999, we used this process to develop the goals, performance measures, and strategies for the agency's draft FY 2000-2005 Strategic Plan. As a result, NRC is evolving into an organization that manages more to outcomes.

Our financial performance also reflects notable accomplishments in other areas. NRC made 99 percent of its salary and award payments and 98 percent of its commercial payments electronically. In the travel area, almost 100 percent of all travel payments were made electronically. Delinquent debt was held to less than 1 percent of the total amount that was billed. We met the requirements of the Omnibus Budget Reconciliation Act of 1990, by collecting and offsetting approximately 99 percent of our new FY 1999 budget authority which was required to be offset, by assessing fees.

During FY 1999, significant progress was made in implementing an agencywide resource management system. The first four modules; payroll, human resources, time and labor, and cost accounting will be fully implemented and operational for FY 2001. Training and parallel testing is currently taking place for the payroll, human resources, and time and labor modules. At the beginning of FY 2000, the agency reached its first milestone towards a managerial cost accounting system by modifying its current payroll system to capture staff hours by strategic arena.

While we have had successes, much work lies ahead of us as the NRC continues to strive for excellence in financial management. In concert with meeting these challenges, we anticipate another productive year in FY 2000. Our strength lies in unified, coordinated action, and this report is an important indicator in the process of achieving this outcome. Our goals are to continue to maintain the standards we have achieved and to continually seek improved methods to carry out our financial responsibilities.

Jesse L. Funches
Chief Financial Officer
U.S. Nuclear Regulatory Commission

Management Summary

Program Performance

Beginning in Fiscal Year 1999, the Government Performance and Results Act (GPRA) requires each agency to provide an annual performance plan to Congress that sets goals with measurable target levels of performance. Within six months of the end of that fiscal year, each agency must submit data for its actual program performance to the Congress. In response to this requirement, the information in this report compares NRC performance against its FY 1999 performance goals. These performance goals were originally established in our FY 1999 Performance Plan and subsequently modified in our FY 2000 Budget Estimates and Performance Plan that was provided to Congress in February 1999.

Nuclear Reactor Safety

The strategic goal is to prevent radiation-related deaths and illnesses and protect the environment in the use of civilian nuclear reactors. In FY 1999, the NRC met the associated performance goals and had—

(1) No civilian nuclear reactor accidents;

(2) No events that could lead to a nuclear reactor accident;

(3) No deaths resulting from radiation or radioactivity releases from civilian nuclear reactors;

(4) No significant radiation exposures resulting from civilian nuclear reactors;

(5) No substantiated breakdown of physical protection that significantly weakens protection against radiological sabotage, or theft or diversion of special nuclear materials;

(6) No offsite releases of radioactive material from civilian nuclear reactors that have the potential to cause a serious adverse impact on the environment;

(7) No increase in the number of offsite releases of radioactive material from civilian nuclear reactors that exceed 10 CFR Part 20 limits; and

(8) No environmental impacts considered through the National Environmental Policy Act (NEPA) process before regulatory action was taken.

Nuclear Materials Safety

The strategic goal for the nuclear materials safety arena is to prevent radiation-related deaths and illnesses, protect the environment, and safeguard special nuclear material and facilities in the civilian use of source, byproduct, and special nuclear materials. In FY 1999, with one exception (goal 2), the NRC met the associated performance goals and had—

(1) No radiation-related deaths resulting from civilian use of source, byproduct, and special nuclear materials;

(continued on page xiv)

(2) A slight increase in the number of significant radiation exposures resulting from loss or use of source, byproduct, and special nuclear materials;

(3) No increase in the number of losses of licensed material as reported to Congress annually;

(4) No occurrences of accidental criticality involving licensed material;

(5) No increase in the number of misadministration events that cause significant radiation exposures;

(6) No offsite releases of radioactive material from operating facilities that have the potential to cause an adverse impact on the environment;

(7) No increase in the number of offsite releases of radioactive material from operating facilities that exceeds the limits specified in 10 CFR Part 20;

(8) No significant accidental releases of radioactive material from the storage or transportation of nuclear material or nuclear waste;

(9) No loss, theft, or diversion of formula quantities of strategic special nuclear materials or unauthorized enrichment of special nuclear material regulated by the NRC

(10) No substantiated case of actual or attempted theft or diversion of formula quantities of strategic special nuclear material;

(11) No substantiated breakdown of physical protection or material control and accounting systems (i.e., detection, assessment, access control, containment, or accounting systems) that significantly weakens protection against theft or diversion of formula quantities of strategic special nuclear material;

(12) No substantiated case of unauthorized enrichment of special nuclear material;

(13) No substantiated case of unauthorized disclosure or compromise of classified information concerning security measures for protection of special nuclear material or plant equipment vital to the safety of production or utilization facilities which causes damage to the national security; and

(14) No environmental impacts considered through the NEPA process before regulatory action was taken.

Nuclear Waste Safety

The strategic goal for the nuclear waste safety arena is to prevent adverse impacts to the current and future public health and safety and the environment as a result of uranium recovery, facilities decommissioning, cleanup of contaminated sites, and disposal of radioactive wastes. In FY 1999, the NRC met the associated performance goals and had—

(1) No radiation exposures or offsite releases that exceeded the regulatory requirements for operational activities;

(2) No post-operational offsite releases that exceeded regulatory requirements;

(3) No environmental impacts considered through the NEPA process before regulatory action was taken;

(4) Established regulatory framework for high-level waste disposal consistent with current national policy;

(5) Developed guidance to address key technical issues most important to the performance of a high-level waste repository during the pre-licensing period; and

(6) Participated in developing a high-level waste radiation safety standard and implemented the standard through a site-specific, performance-based regulation and Yucca Mountain review plan.

International Nuclear Safety Support

The strategic goal for the international nuclear safety support arena is to support U.S. national interests in the safe and secure use of nuclear materials and in nuclear nonproliferation. In FY 1999, the NRC met all the components of the associated performance goal with one exception (bilateral exchange agreements). The NRC (1) negotiated 4 out of 5 estimated bilateral exchange agreements between the NRC and appropriate foreign counterparts; (2) completed 103 staff reviews for import/export authorization; and (3) completed 23 staff reviews of Executive Branch proposals.

Management Accountability

Management Controls

The NRC conducted its annual evaluation of management controls and financial systems required by FMFIA and identified no material weaknesses in NRC programs or administrative activities and no material non-conformances with governmentwide requirements in the NRC's financial systems. However, through our evaluation we identified that additional work needs to be done to fully comply with Statement of Federal Financial Accounting Standards Number 4, *"Managerial Cost Accounting Concepts and Standards for the Federal Government"* (SFFAS 4), which includes, for FY 1999, the inability of the agency's payroll system to aggregate pay transactions at the strategic arena level. The implementation of a new integrated resource management system (STARFIRE) will include cost accounting and labor distribution modules, which will provide the necessary capability to report costs at the appropriate level and fully comply with SFFAS 4.

The NRC's evaluation of its financial management systems disclosed that, overall, NRC's major financial management systems were in compliance with applicable Federal requirements and accounting standards, except for full implementation of SFFAS 4, the aggregagation of payroll transactions, and business continuity plans that were found to be in substantial noncompliance.

Audits

At the end of FY 1999, the NRC had two audits with outstanding actions over one year old. The status of these actions are discussed on page 18 in the section titled "Management Decisions Not Implemented Within One Year."

FY 1999 Audited Financial Statements

For the sixth successive year, the NRC received an unqualified opinion on its principal statements. Seven reportable conditions were carried over from FY 1998. Three of the reportable conditions concerning alignment of budget, performance plan, and strategic plan; administrative control of funds over the Comprehensive Information System and Support contract; and accounts receivable classifications were closed by the auditors. In addition, part of another reportable condition on business continuity plans for license fee billing systems was also closed by the auditors. The four reportable conditions that remain open concern implementation of managerial cost accounting, revenue recognition for reimbursable work, 10 CFR Part 170 hourly

(continued on page xvi)

rates, and business continuity plans for the agency's core accounting system that is cross-serviced by the Department of the Treasury.

The auditors identified seven new reportable conditions that are described on page 15 under Management Accountability.

About the U.S. Nuclear Regulatory Commission

The U.S. Nuclear Regulatory Commission (NRC) is an independent regulatory agency of the Federal Government that was created by the U.S. Congress to regulate the Nation's civilian use of byproduct, source, and special nuclear materials to ensure adequate protection of the public health and safety, to promote the common defense and security, and to protect the environment. Its purposes are defined by the Energy Reorganization Act of 1974, as amended, along with the Atomic Energy Act of 1954, as amended, and these Acts provide the foundation for regulating the Nation's civilian uses of nuclear materials.

Organization

The NRC is headed by a Chairman and four Commissioners appointed by the President and confirmed by the Senate for 5-year terms. The Chairman serves as the principal executive officer and official spokesman for the Commission.

Regulatory Responsibility

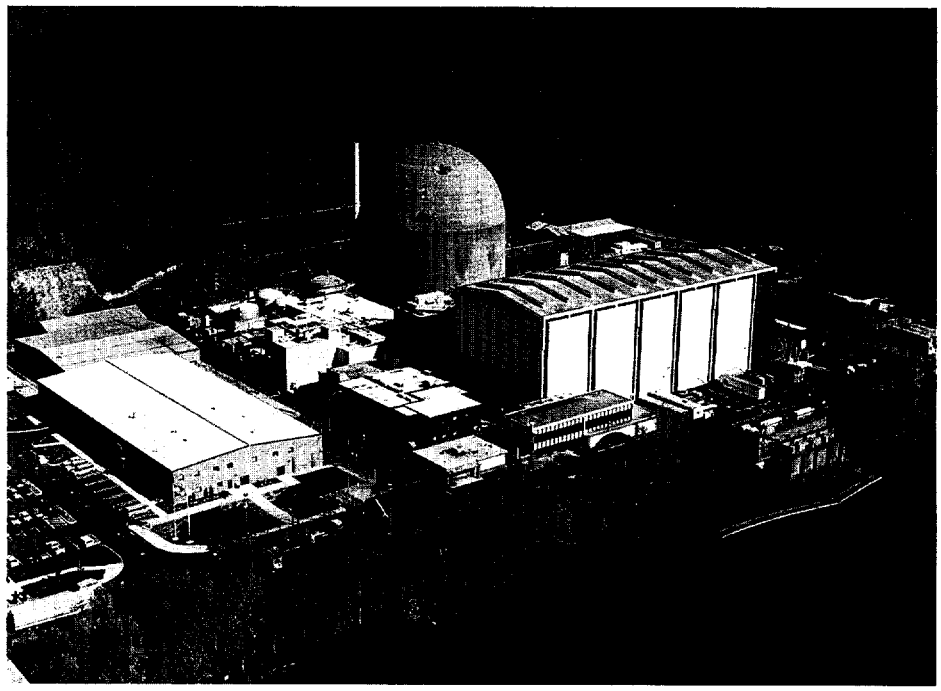
The NRC regulates civilian nuclear reactors; fuel cycle facilities; medical, academic, and industrial uses of nuclear materials; and the transport, storage, and disposal of nuclear materials and wastes. The NRC carries out its mission through a licensing and regulatory system comprising the following activities:

- licensing the design, construction, operation, and decommissioning of nuclear reactors and other nuclear facilities (such as nuclear fuel cycle facilities, uranium enrichment facilities, and test and research reactors)
- licensing the possession, use, processing, handling, and exporting of nuclear materials

(continued on page 2)

The Nuclear Regulatory Commission Headquarters in Rockville, Maryland

- licensing the siting, design, construction, operation, and closure of low-level radioactive waste disposal sites under NRC jurisdiction and the construction, operation, and closure of geologic repositories for high-level radioactive waste
- licensing the operators of civilian nuclear reactors
- inspecting licensed facilities and activities
- conducting the principal U.S. Government research program on light-water reactor safety



Haddam Neck Nuclear Power Plant

- conducting research to gain independent expertise and information for making timely regulatory judgments and for anticipating problems of potential safety significance
- developing and implementing rules and regulations that govern licensed nuclear activities
- investigating nuclear incidents and allegations concerning any matter regulated by the NRC
- enforcing NRC regulations and the conditions of NRC licenses
- conducting public hearings on matters of nuclear and radiological safety, environmental concern, common defense and security, and antitrust matters
- developing effective working relationships with the States regarding reactor operations and the regulation of nuclear material
- maintaining the NRC Incident Response Program, including the NRC Operations Center
- collecting, analyzing, and disseminating information about the operational safety of commercial nuclear power reactors and certain nonreactor activities

Sources of Funds

The NRC has two appropriations, and funds for both are available until expended. One appropriation is for agency salaries and expenses, and the other is for the Office of the Inspector General (OIG). The NRC's total new Fiscal Year (FY) 1999 budget authority was $468.8 million, including $464 million for the Salaries and Expenses appropriation and $4.8 million for the OIG appropriation. Additionally, available to obligate in FY 1999 were $33.7 million from prior-year appropriations, $4.1 million from prior-year reimbursable work, $9 million from current and prior-year transfer of funds from other Federal agencies, and new reimbursable work to be performed for others totaling $4.6 million. The sum of all funds available to obligate for FY 1999 was $520.2 million. (See Figure 1.)

(continued on page 4)

Figure 1
Sources of NRC Funds

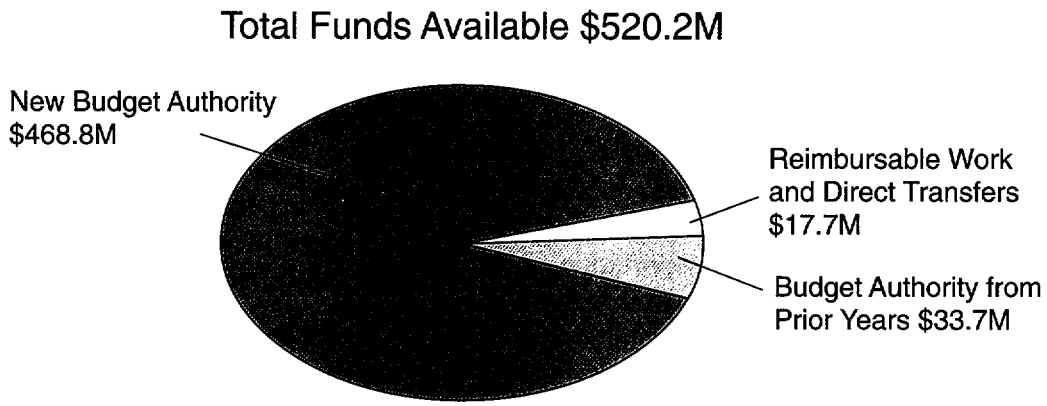
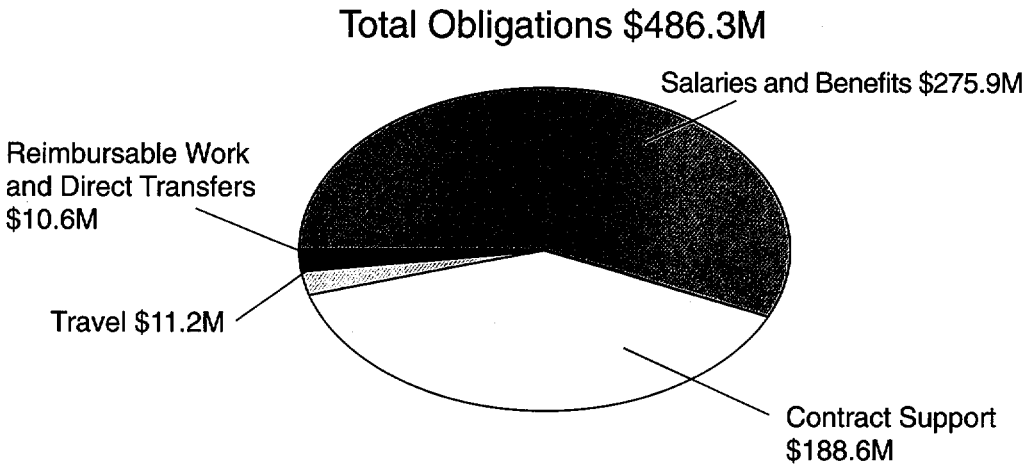


Figure 2
Uses of Funds by Function



Uses of Funds by Function

As previously stated, the total budgetary resources available for use by the NRC in FY 1999 was $520.2 million. Of that amount, the NRC incurred obligations of $486.3 million, using approximately 57 percent of this amount for salaries and benefits. The remaining 43 percent was used to obtain technical assistance for the NRC's principal regulatory programs, to conduct confirmatory safety research, to cover operating expenses, (e.g., building rentals, transportation, printing, security services, supplies, office automation, and training), staff travel, and reimbursable work. (See Figure 2.) Of the remaining $33.9 million in budget authority that was not obligated in FY 1999, $0.4 million of transferred funds expired at the end of the fiscal year leaving $33.5 million in budget authority available to fund critical needs in FY 2000. The remaining $33.5 million was further reduced in accordance with Public Law 106-60 that rescinded $4 million in FY 2000 that had been appropriated from the Nuclear Waste Fund.

Financial Condition of NRC

As of September 30, 1999, the financial condition of the NRC is sound with respect to having sufficient funds to meet program needs and sufficient control of these funds to ensure that NRC obligations do not exceed budget authority. The Balance Sheet shows a net position (assets minus liabilities) of $116.5 million. Consistent with the requirements of the Omnibus Budget Reconciliation Act of 1990, the NRC collected and offset approximately 99 percent of its new budget authority, excluding amounts derived from the Nuclear Waste Fund and for certain activities performed in support of the Department of Energy and other offsetting receipts.

Over the past few years, the NRC has made a concerted effort to increase the effectiveness and efficiency of program financing by eliminating unnecessary financial reserves pending contract closeout, recovering funds on dormant contracts, exercising closer scrutiny of the need for planned projects, and more closely monitoring obligation and expenditure rates. This prudent approach to financial management over the past several years has resulted in a 53-percent decrease in unobligated appropriated funds in FY 1999 compared to FY 1994. NRC will continue to closely monitor its financial condition and planning policies to ensure that its unobligated balance does not reach undesirable levels in future years.

Program Performance

The Government Performance and Results Act (GPRA) of 1993 requires agencies to develop and institutionalize processes to plan for and measure mission performance. Consequently, the NRC has made progress in becoming a more performance-based organization, beginning with the agency's strategic rebaselining and continuing with subsequent implementation of the GPRA. The agency established a framework for implementing the performance approach throughout the agency referred to as the Planning, Budgeting, and Performance Management (PBPM) process. This PBPM process consists of setting the strategic direction, budgeting resources, and monitoring and assessing performance.

The GPRA requires an agency to provide an annual report on its annual performance and progress in achieving the goals and objectives laid out in the agency's five-year strategic plan and annual performance plan. Actual performance is compared to the planned performance and an explanation is given for any deviation from the plan.

The performance indicators reported within the FY 1999 performance report are based on NRC's FY 1997 - FY 2000 Strategic Plan that sets the framework for the development of the performance indicators. These outcome-based performance indicators provided the first critical link to the NRC's long-term strategic objectives. In addition,

(continued on page 6)

Figure 3

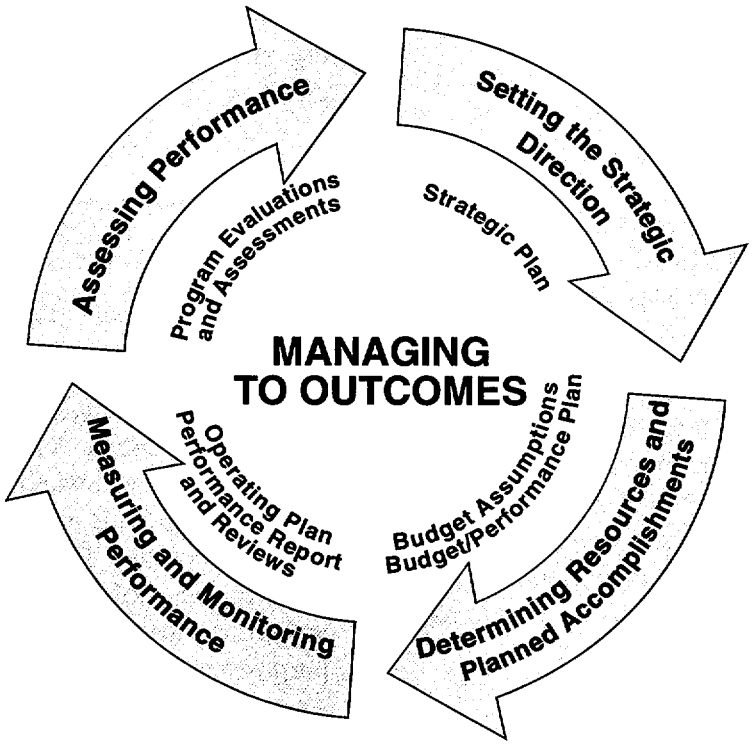
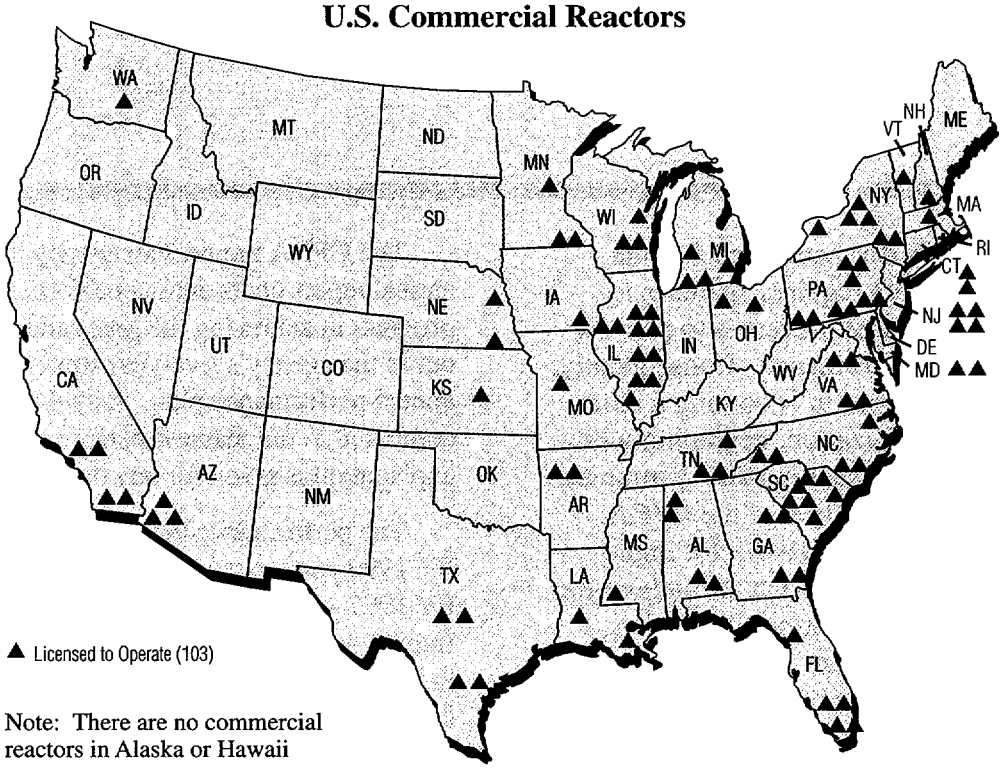


Figure 4
U.S. Commercial Reactors



Note: There are no commercial reactors in Alaska or Hawaii

these outcome performance indicators were published in the FY 2000 Budget Estimates and Performance Plan, which provided revisions to the original FY 1999 Performance Plan.

The FY 1999 Accountability and Performance Report contains actual performance data for FY 1997 - FY 1999, where available. Some FY 1999 data were not available at the time of this publication and will be reported in the FY 2000 Accountability and Performance Report. In addition, some FY 1997 data are not available because reporting mechanisms were not in place until FY 1998.

The agency has been working on the triennial update of the strategic plan, therefore the performance goals presented in this report may change in future years. The NRC is continuing to progress from a primarily output-based environment to a more outcome-based environment in which the agency and its programs and operations are managed to performance goals, thereby focusing NRC resources on the most significant safety issues while providing flexibility in how licensees meet NRC requirements.

Strategic Arenas

The NRC's Strategic and Performance Plans are organized into strategic arenas. This section is organized into the same four strategic arenas:

- Nuclear Reactor Safety
- Nuclear Materials Safety
- Nuclear Waste Safety
- International Nuclear Safety Support

For each strategic arena, we state the strategic goal from the Strategic Plan, provide a brief introduction to the arena, delineate the performance goals, compare estimated metrics to actual performance, and provide an explanation for any metrics that were not met. In reviewing the following performance goals, one must be aware that the safe and secure use of nuclear materials for civilian purposes is the responsibility of NRC licensees and Agreement State licensees and that the regulatory oversight of licensees is the responsibility of the

NRC and the Agreement States. Thus, achieving these goals requires the collective efforts of the NRC, the Agreement States, and their licensees.

Management Controls

The NRC identified no programmatic management control weaknesses in any of its strategic arenas. (See page 15 for a discussion of NRC's Management Control Program.)

Nuclear Reactor Safety

STRATEGIC GOAL: Prevent radiation-related deaths and illnesses and protect the environment in the use of civilian nuclear reactors.

A major part of the NRC's mission is to ensure that its licensees[1] safely design, construct, and operate civilian nuclear reactor facilities. The NRC currently regulates 103 civilian nuclear power reactors that are licensed to operate and another 19 that are undergoing decommissioning. (See Figure 4.) The Atomic Energy Act of 1954, as amended, and the Energy Reorganization Act of 1974, as amended, are the foundation for regulating the Nation's civilian nuclear power industry.

The Nuclear Reactor Safety strategic arena encompasses all NRC activities to ensure that civilian nuclear power reactor facilities, as well as non-power reactors, are operated in a manner that adequately protects public health and safety and the environment, and protects against radiological sabotage and theft or diversion of special nuclear materials. These activities include reactor licensing; reactor license renewal; operator licensing; financial assurance; inspection; performance assessment; identification and resolution of safety issues; reactor regulatory research; regulation development; operating experience evaluation; incident investigation; threat assessment; emergency response; investigation of alleged wrongdoing by licensees, applicants, contractors, or vendors; imposition of enforcement sanctions for violations of NRC requirements; and reactor technical and regulatory training. See Table 1 for nuclear reactor safety performance goals and related FY 1997 - 1999 performance data.

Nuclear Materials Safety

STRATEGIC GOAL: Prevent radiation-related deaths and illnesses, protect the environment, and safeguard special nuclear material and facilities in the civilian use of source, byproduct, and special nuclear materials.

The Nuclear Materials Safety strategic arena encompasses NRC activities to ensure that nuclear materials and nuclear fuel cycle facilities are handled in a manner that adequately protects

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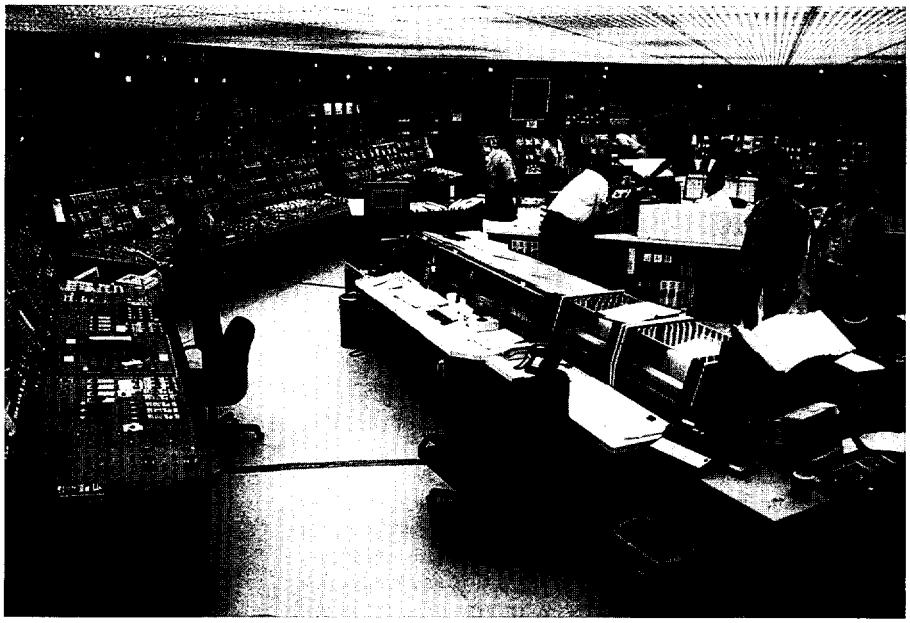


Control Room at a Nuclear Reactor

[1] "Licensees" as used in this report, include persons required to be licensed (as defined in Section 11(s) of the Atomic Energy Act) as well as, where appropriate, applicants for licenses; certificate holders and applicants for certificates; contractors (including suppliers and consultants), subcontractors, and vendors of licensees or certificate holders; and all other persons subject to the NRC's jurisdiction.

Table 1: Nuclear Reactor Safety Performance Goals and Metrics

GOAL	METRICS	PERFORMANCE
Zero civilian nuclear reactor accidents.	Zero accidents.	FY 1999: Zero FY 1998: Zero FY 1997: Zero
Maintain a low frequency of events that could lead to a nuclear reactor accident.	No more than one event per year.	FY 1999: Zero[2] FY 1998: Zero FY 1997: Zero
Zero deaths resulting from radiation or radioactivity releases from civilian nuclear reactors.	Zero deaths.	FY 1999: Zero[2] FY 1998: Zero FY 1997: Zero
Zero significant radiation exposures resulting from civilian nuclear reactors.	Zero significant radiation exposures.	FY 1999: Zero[2] FY 1998: Zero FY 1997: Zero
No substantiated breakdown of physical protection that significantly weakens protection against radiological sabotage, or theft or diversion of special nuclear materials	Zero substantiated breakdowns.	FY 1999: Zero FY 1998: Zero FY 1997: Zero
Zero offsite releases of radioactive material from civilian nuclear reactors that have the potential to cause a serious adverse impact on the environment.	Zero offsite releases with a potential to cause serious adverse impact on the environment.	FY 1999: Zero[2] FY 1998: Zero FY 1997: Zero
No increase in the number of offsite releases of radioactive material from civilian nuclear reactors that exceed the limits specified in 10 CFR Part 20.2203.	The five-year average is less than three per year.	FY 1999: Five year average per year of 0.8 (FY 1995-1999) FY 1998: Five year average per year of 0.8 (FY 1994-1998) FY 1997: Five year average per year of 0.6 (FY 1993-1997)
Environmental impacts are considered through the National Environmental Policy Act (NEPA) process before regulatory action is taken.	Zero environmental impacts identified and substantiated each year by external sources which were not identified as part of the NRC's NEPA process.	FY 1999: Zero FY 1998: Zero FY 1997: Data not available

public health and safety. The Nuclear Materials Safety arena encompasses more than 20,000 specific and 100,000 general licensees that are regulated by the NRC and its 31 Agreement States[3]. This diverse regulated community includes: uranium conversion; uranium enrichment; nuclear fuel fabrication; fuel research and pilot facilities; and large and small users of nuclear material for industrial, medical, or academic purposes. The latter group includes: radiographers, hospitals, private physicians, nuclear gauge users, large and small universities, and others. This arena also includes all regulatory activities carried out by the NRC and the Agreement States to ensure that nuclear materials and facilities are used in a manner that protects public health and safety and the environment, and protects against radiological sabotage and theft or diversion of special nuclear materials. The Atomic

[2] Preliminary data.

[3] Under Section 274 of the Atomic Energy Act of 1954, as amended, a State may assume, and the NRC discontinue, regulatory jurisdiction for certain uses of byproduct, source, and limited quantities of special nuclear materials within the State. The assumption in authority is accomplished through an agreement with the State upon an NRC finding that the State's program is adequate to protect public health and safety, and is compatible with the NRC regulatory program.

Energy Act of 1954, as amended, and the Energy Reorganization Act of 1974, as amended, provide the foundation for regulating the Nation's civilian uses of nuclear materials.

The scope of regulatory activities carried out for this arena includes regulation and guidance development; nuclear materials research; licensing and certification, inspection, and enforcement; identification and resolution of safety and safeguards issues; evaluation of operating experience; incident investigation; threat assessment; emergency response; technical training; and investigation of alleged wrongdoing by licensees, applicants, certificate holders, and contractors. See Table 2 for nuclear materials safety performance goals and related FY 1997 - 1999 performance data.

Independent Spent Fuel Storage Casks

Medical Procedure Using Radioactive Material

Nuclear Waste Safety

STRATEGIC GOAL: Prevent adverse impacts to the current and future public health and safety and the environment, as a result of uranium recovery[5], facilities decommissioning, cleanup of contaminated sites, and disposal of radioactive wastes.

The Nuclear Waste Safety strategic arena encompasses the NRC's regulatory activities associated with uranium recovery, decommissioning, storage of spent nuclear fuel, transportation of radioactive materials, and disposal of radioactive wastes. Nuclear waste is a byproduct of the use of radioactive materials. Such waste is produced by nuclear reactors that generate electric power, as well as fuel processing plants, uranium recovery operations, and institutions such as hospitals and research facilities. The waste also results from decommissioning nuclear facilities

(continued on page 10)

[5] "Uranium recovery" means the removal of uranium from ore and the stabilization of tailings from this process.

Table 2: Nuclear Materials Safety Performance Goals and Metrics

GOAL	METRICS	PERFORMANCE
Zero radiation-related deaths resulting from civilian use of source, byproduct, and special nuclear materials.	Zero radiation-related deaths.	FY 1999: Zero FY 1998: Zero FY 1997: Zero
No increase in the number of significant radiation exposures resulting from loss or use of source, byproduct, and special nuclear materials.	The combined five-year average for the NRC and Agreement States will not exceed two per year.	FY 1999: Five year average was 2.2 per year (FY 1995-1999)[4] FY 1998: Five year average was 1.6 per year (FY 1994-1998) FY 1997: Five year average was 1.8 per year (FY 1993-1997)
No increase in the number of losses of licensed material as reported to Congress annually.	The combined five-year average for the NRC and Agreement States will not exceed two per year.	FY 1999: Five year average was 0.4 per year (FY 1995-1999) FY 1998: Five year average was 0.6 per year (FY 1994-1998) FY 1997: Five year average was 1.2 per year (FY 1993-1997)
No accidental criticality (an inadvertent self-sustaining nuclear chain reaction) involving	Zero occurrences of accidental criticality.	FY 1999: Zero FY 1998: Zero FY 1997: Zero
No increase in the number of mis-administration events which cause significant radiation exposures.	The combined five-year average for the NRC and Agreement States will not exceed six per year.	FY 1999: Five year average was 3.6 per year (FY 1995-1999) FY 1998: Five year average was 3.4 per year (FY 1994-1998) FY 1997: Five year average was 3.8 per year (FY 1993-1997)
Zero offsite releases of radioactive material from operating facilities that have the potential to cause an adverse impact on the environment.	Zero offsite releases annually.	FY 1999: Zero FY 1998: Zero FY 1997: Zero
No increase in the number of offsite releases of radioactive material from operating facilities that exceeds the limits specified in 10 CFR 20.2203.	The combined five-year average for the NRC and Agreement States will not exceed one per year.	FY 1999: Five year average was 0.4 per year (FY 1995-1999) FY 1998: Five year average was 0.6 per year (FY 1994-1998) FY 1997: Five year average was 0.6 per year (FY 1993-1997)
No significant accidental releases of radioactive material from the storage or transportation of nuclear material or nuclear waste.	Zero accidental releases. Zero accidental releases.	FY 1999: Zero FY 1998: Zero FY 1997: Zero
Zero loss, theft, or diversion of formula quantities of strategic special nuclear material, or unauthorized enrichment of special nuclear material regulated by the NRC.	Zero loss, theft, or diversion of formula quantities of strategic special nuclear material.	FY 1999: Zero FY 1998: Zero FY 1997: Zero
No substantiated case of actual or attempted theft or diversion of formula quantities of strategic special nuclear material.	Zero substantiated cases.	FY 1999: Zero FY 1998: Zero FY 1997: Zero

[4] The performance goal established an approximate metric, and the deviation from that level is slight. There was no effect on overall program or activity performance.

Table 2: Nuclear Materials Safety Performance Goals and Metrics *(continued)*

GOAL	METRICS	PERFORMANCE
No substantiated breakdown of physical protection or material control and accounting systems (i.e., detection, assessment, access control, containment, or accounting systems) that significantly weakens protection against theft or diversion of formula quantities of strategic special nuclear material.	Zero substantiated breakdowns.	FY 1999: Zero FY 1998: Zero FY 1997: Zero
No substantiated case of unauthorized enrichment of special nuclear material.	Zero substantiated cases.	FY 1999: Zero FY 1998: Data not available FY 1997: Data not available
No substantiated case of unauthorized disclosure or compromise of classified information concerning security measures for protection of special nuclear material or plant equipment vital to the safety of production or utilization facilities which causes damage to the national security.	Zero substantiated cases.	FY 1999: Zero FY 1998: Zero FY 1997: Zero
Environmental impacts are considered through the National Environmental Policy Act (NEPA) process before regulatory action is taken.	Zero environmental impacts identified and substantiated each year by external sources which were not identified as part of the NRC's NEPA process.	FY 1999: Zero FY 1998: Zero FY 1997: Data not available

that are permanently shut down. High-level radioactive waste results primarily from the fuel used by reactors to produce energy. Low-level radioactive waste results from reactor operations, and from medical, academic, industrial, and other commercial uses. It generally contains relatively limited concentrations of radioactivity. Wastes resulting from the extraction of uranium from ore are also addressed in this strategic arena.

The NRC has regulatory oversight for the transportation and long-term storage and disposal of high-level waste including certifying spent fuel storage casks and transportation packages. Our high-level waste regulatory activities are mandated by the Atomic Energy Act of 1954, as amended, and by the Energy Reorganization Act of 1974, as amended, and are further set out in the Nuclear Waste Policy Act of 1982, as amended, and the Energy Policy Act of 1992.

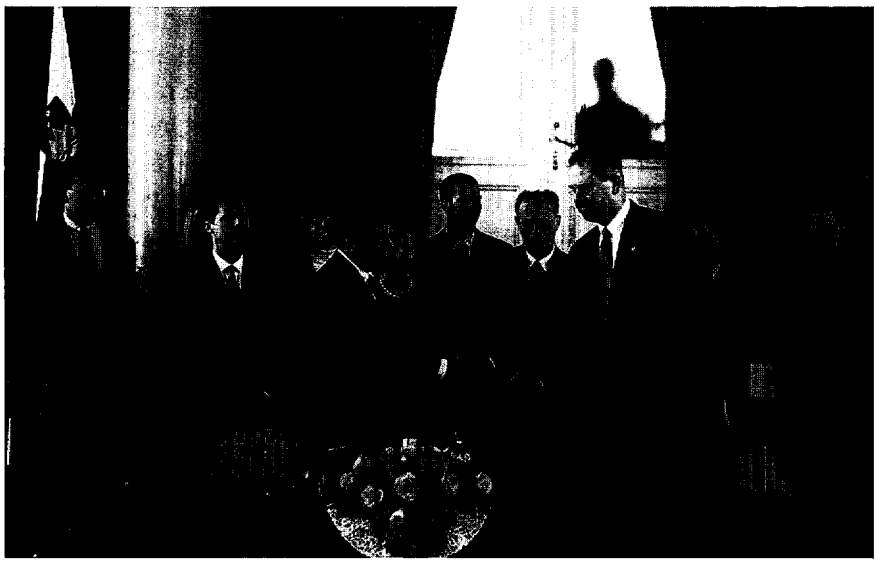
NRC regulatory and oversight activities also address decommissioning, which involves safely removing a facility from service and reducing residual radioactivity to a level that permits the property to be released. A licensee must decommission its facility before the NRC will terminate its license. In addition, this strategic arena includes NRC's regulation of uranium recovery and low-level waste management. The Uranium Mill Tailings Radiation Control Act of 1978, as amended, directs the NRC to amend its regulations to conform to the Environmental Protection Agency standards for uranium mill tailings reclamation and groundwater cleanup, and to regulate the reclamation of tailings and groundwater cleanup from licensed uranium mills. See Table 3 for nuclear waste safety performance goals and related FY 1997 - 1999 performance data.

(continued on page 11)

Table 3: Nuclear Waste Safety Performance Goals and Metrics

GOAL	METRICS	PERFORMANCE
Minimize the number of radiation exposures or offsite releases that exceed the regulatory requirements for operational activities.	The combined five-year average for the NRC and Agreement States will not exceed two per year.	FY 1999: Zero (FY 1995-1999) FY 1998: Data not available FY 1997: Data not available
Estimated post-operational offsite releases will not exceed regulatory requirements.	Zero post-operational offsite releases.	FY 1999: Zero FY 1998: Zero FY 1997: Data not available
Potential environmental impacts will be considered in accordance with the National Environmental Policy Act (NEPA) before regulatory action is taken.	Zero environmental impacts identified and substantiated each year by external sources which were not identified as part of the NRC's NEPA process.	FY 1999: Zero FY 1998: Zero FY 1997: Data not available
The regulatory framework for high-level waste disposal will be established consistent with current national policy.	Publish a proposed site-specific, performance-based, regulation applicable to the proposed repository at Yucca Mountain.	FY 1999: The proposed regulation published on 2/22/99. FY 1998: Not applicable FY 1997: Not applicable
Develop guidance to address key technical issues most important to the performance of a high-level waste repository during the pre-licensing period.	Resolution of five subissues that make up key technical issues.	FY 1999: Staff resolved 5 subissues. FY 1998: Not applicable FY 1997: Not applicable
Participate in developing a high-level waste radiation safety standard and implement the standard through a site-specific, performance-based regulation and Yucca Mountain review plan.	Develop an initial Yucca Mountain Review Plan format and content.	FY 1999: The initial Yucca Mountain Review Plan format and content guidance was completed on 5/26/99. FY 1998: Not applicable FY 1997: Not applicable

INTERNATIONAL NUCLEAR SAFETY SUPPORT



Chairman Miroslav Gregoric and Commissioner Merrifield signing renewal arrangement in Slovenia, April 1999. Slovenian Nuclear Safety Administration.

STRATEGIC GOAL: Support U.S. interests in the safe and secure use of nuclear materials and in nuclear nonproliferation.

The NRC maintains a program of international cooperation to help ensure the safe, secure, and environmentally acceptable uses of nuclear energy. As the regulator of the world's largest civilian nuclear program, the NRC has extensive regulatory experience to contribute to international programs in areas such as nuclear reactor safety, radiation protection, nuclear materials safety

Table 4: International Nuclear Safety Support Performance Goals and Metrics

GOAL	METRICS	PERFORMANCE
Strengthen international nuclear safety and safeguards through leadership and participation in international nuclear policy formulation and exchange activities by providing assistance through international agreements. Support U.S. nuclear nonproliferation interests through export/import licensing and other activities.	Complete significant program outputs related to international nuclear safety and safeguards, international agreements, export/import licensing, and other activities.	FY 1999: – Negotiated/reviewed 4 out of 5[7] estimated bilateral exchange agreements between the NRC and appropriate foreign counterparts. – Completed 103 staff reviews for import/ export authorization – Completed 23 staff reviews of Executive Branch proposals. FY 1998: – Negotiated/reviewed 7 bilateral exchange agreements between the NRC and appropriate foreign counterparts. – Completed 90 staff reviews for import/ export authorization. – Completed 34 staff reviews of Executive Branch proposals. FY 1997: – Negotiated/reviewed 3 bilateral exchange agreements between the NRC and appropriate foreign counterparts. – Completed 94 staff reviews for import/ export authorization. – Data not available on staff reviews of Executive Branch proposals.

and safeguards,[6] waste management, and decommissioning of nuclear facilities.

The International Nuclear Safety Support strategic arena encompasses international nuclear policy formulation, export-import licensing for nuclear materials and equipment, treaty implementation, international information exchange, international safety and safeguards assistance, and deterring nuclear proliferation. NRC international activities support broad U.S. national interests, as well as the NRC's domestic mission. The primary foundation for these activities is the Atomic Energy Act of 1954, as amended, the Energy Reorganization Act of 1974, as amended, the Nuclear Non-Proliferation

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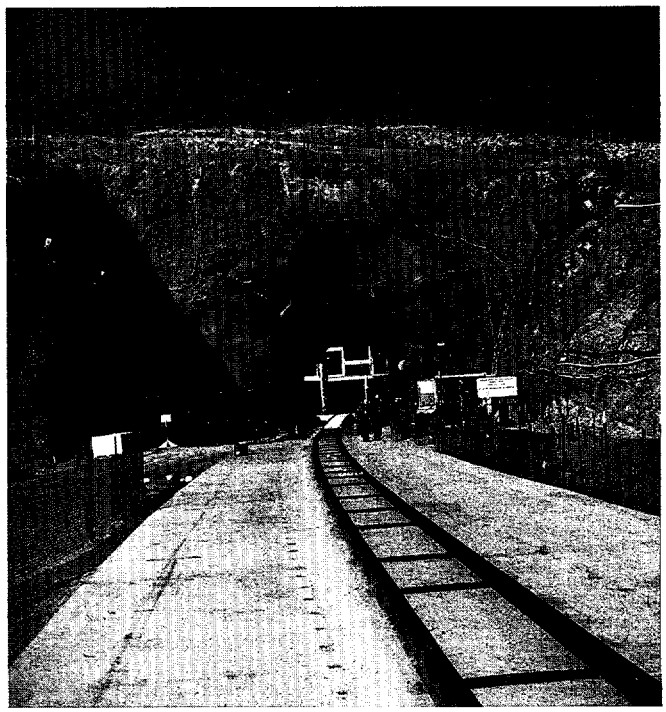

Proposed High-Level Waste Disposal Site at Yucca Mountain, Nevada

[6] The performance goal established an approximate metric, and the deviation from that level is slight. There was no effect on overall program or activity performance.

[7] Safeguards include physical protection as well as material control and accounting.

Act of 1978, executive orders, and treaties and conventions. See Table 4 for the international safety support performance goal and related FY 1997 - 1999 performance data.

Verification and Validation of Data

Most of the data used to measure performance goals come from the NRC's abnormal occurrence data, and from reports submitted by licensees. The decision to classify an event or incident as an abnormal occurrence is based on review and analysis from several internal processes. Such processes include inspections, daily events reviews, and event data contained in several information systems. The systems that support this process include the Sequence Coding and Search System, the Accident Sequence Precursor Database, the Nuclear Materials Events Database, and the Radiation Exposure Information Report System. The abnormal occurrence criteria were developed by NRC to comply with Section 208 of the Energy Reorganization Act of 1974, as amended. The Act requires the NRC to inform Congress of unscheduled incidents or events that the Commission determines to be significant from the standpoint of public health and safety. Events that meet the abnormal occurrence criteria are included in an annual "Report to Congress on Abnormal Occurrences" (NUREG-0090). The Abnormal Occurrence reporting criteria can be found in Appendix A to NUREG-0090, Vol. 22, which can be viewed on NRC's home page at http://www.nrc.gov/NRC/COMMISSION/SECYS/secy2000-0003/2000-0003scy.html. In addition, in 1997, the Commission determined that events occurring at Agreement State licensed facilities that meet the abnormal occurrence criteria should be reported in the annual abnormal occurrence report to Congress. Therefore, the abnormal occurrence criteria developed by the NRC are applied uniformly to events that occur at facilities licensed or otherwise regulated by the NRC and the Agreement States.

Data for the abnormal occurrences originate from external sources, such as Agreement States and NRC licensees. The NRC has a high degree of confidence about the reliability of these data because (1) the information needed from external sources is required to be reported to the NRC by regulations, (2) the NRC maintains an aggressive inspection program that, among other activities, audits licensees and evaluates Agreement State programs to determine that information is being reported as required by the regulations, and (3) there are Agency procedures for reviewing and evaluating licensees.

Additional information concerning program evaluations/self-assessments and crosscutting issues can be found in Appendices C and D respectively.

Management Accountability

The NRC's Management Control Program

A committee of senior agency executives reviewed individual assurance statements from each NRC office director and regional administrator that served as a primary basis for the Chairman's FY 1999 statement of assurance on management controls. These individual statements were based on the managers' knowledge of day-to-day operations and existing controls, management reviews of these controls, program reviews and other management evaluations, OIG reports, and reviews of financial management systems.

For FY 1999, the NRC streamlined its approach for determining the status of its management controls. Management control plans that were previously submitted to the Chief Financial Officer as standalone documents were eliminated. Instead, offices and regions identified management control deficiencies in their operating plans. The NRC's operating plan is periodically updated and reviewed by an executive committee made up of the agency's senior managers. The management control information in these plans, combined with the individual assurance statements discussed in the previous paragraph, provide the framework for monitoring and improving the agency's management controls on an ongoing basis.

Status of Management Controls and Report on Material Weaknesses and Non-Conformances

Federal Managers' Financial Integrity Act

The NRC evaluated its management control and financial management systems for the fiscal year ending September 30, 1999. This evaluation provided reasonable assurance that the objectives of the Federal Managers' Financial Integrity Act (FMFIA) were achieved in FY 1999. The NRC identified no material weaknesses in its programs or administrative activities as defined in the FMFIA. For FY 1999, the auditors identified the incomplete implementation of managerial cost accounting and inadequate management controls over fee development as material weaknesses in their annual FMFIA report and audit of the FY 1999 financial statements.

The agency continues to have a significant weakness with respect to incomplete implementation of Statement of Federal Financial Accounting Standards Number 4 (SFFAS 4), *Managerial Cost Accounting Concepts and Standards for the Federal Government,* which includes for FY 1999 the inability of the agency's payroll system to aggregate payroll transactions at the agency's strategic arena level.

SFFAS 4 requires Federal agencies to accumulate and report the cost of its activities on a regular basis for management decision purposes. Since NRC cannot meet this requirement, this represents an instance of substantial noncompliance with the Federal Financial Management Improvement Act of 1996 (FFMIA). The current payroll system has been modified to address the payroll system deficiency for FY 2000. Work continues to implement a new integrated resource management system, which will include cost accounting and labor-cost distribution modules. This system will provide added capability to report costs at the appropriate level and fully comply with SFFAS 4. In the interim, we will assess what informational needs can be met by

(continued on page 16)

existing systems and, if possible, begin to provide cost information. A remediation plan was developed during FY 1999 and amended in FY 2000, to implement a managerial cost accounting system at the NRC by FY 2001.

The NRC has also initiated actions to strengthen management controls over fee development. We plan to document the license fee rule development process and establish general procedures for calculating fees and conducting quality control. To strengthen these controls, the NRC is also (1) performing an analysis of the fee model and developing improvements to that process, and (2) streamlining the data entry process to the fee model to reduce the potential for error and eliminate duplicate data entry.

FY 1999 Financial Statement Audit

For the audit of the FY 1999 financial statements, the auditors identified seven new reportable conditions. The incomplete implementation of managerial cost accounting, inability to aggregate labor costs by program, and ineffective management controls over fee development were reported as material internal control weaknesses. Additional reportable conditions noted in the auditor's report included weaknesses with the financial statement preparation process, controls over the verification of small entity status for fee assessment, controls over segregation of duties and controls over authorized users for the agency's Payroll/Personnel system, and controls over payments. The agency has already begun to take corrective action on the audit findings. Except for managerial cost accounting, the agency expects to implement corrective action during FY 2000. (See the OIG audit of the FY 1999 Financial Statement on page 23.)

Financial Management Systems

The NRC evaluated its financial management systems for compliance with applicable Federal requirements and accounting standards as required by FFMIA. This evaluation disclosed that, overall, the NRC's major financial systems are in compliance with this Act, except for full implementation of SFFAS 4, which includes for FY 1999, the inability of the agency's payroll system to aggregate pay transactions at the strategic arena level, and a business continuity plan for the core accounting system that were found to be in substantial noncompliance. The NRC has six financial systems: the Federal Financial System (FFS), Payroll/Personnel System, Personal Property PC System, License Fee Bill Generator System, Allotment Financial Plan System, and Budget Formulation System.

The FFS is a system that the NRC uses through an interagency agreement with the Department of the Treasury (Treasury). This system is reviewed annually by Treasury's Financial Management Service (FMS) for its client agencies that utilize the system. FMS performed a vulnerability assessment that disclosed no material or nonmaterial weaknesses. Their limited review of FFS provided reasonable assurance that FFS, as operated by FMS for NRC, is efficient and effective; contains necessary controls; and conforms with the principles, standards, and related requirements prescribed by the Comptroller General with one exception. FMS has not demonstrated FFS' ability to perform data recovery and backup in the event of a disaster, and this inability is considered a material non-conformance. The necessary disk storage capacity was acquired to perform a simulated disaster recovery data test, but testing has been delayed because of higher priorities imposed on the data center by FMS. FMS currently plans to test the FFS application during FY 2001.

Biennial Review of User Fees

During FY 1998 to FY 1999, the NRC reviewed each type of fee subject to the biennial review of fees requirement of the CFO Act of 1990. Licensing, inspection, and annual fees charged to applicants and licensees are revised annually; the hourly rate for licensing and inspection fees are revised and the annual fees are adjusted to recover the agency's current fiscal year budget authority less the amount to be

Table 5: Management Report on Office of the Inspector General Audits with Disallowed Costs For the Period October 1, 1998-September 30, 1999

Category	Number of Audit Reports	Questioned Costs ($)	Unsupported Costs ($)
A. Audit reports with management decisions on which final action had not been taken at the beginning of this reporting period.	1	$3,500*	$0
B. Audit reports on which management decisions were made during this period.	4	$485,853	$0
C. Audit reports on which final action was taken during this report period.	5	$489,353	$0
(i) Disallowed costs that were recovered by management through collection, offset, property in lieu of cash, or otherwise.	5	$489,353	$0
(ii) Disallowed costs that were written off by management.	0	$0	$0
D. Reports for which no final action had been taken by the end of the reporting period.	0	$0	$0

*Additional costs of $118,420 were disallowed after receipt of clarification from DCAA and the contractor.

collected through licensing and inspection fees. The most recent changes to the licensing, inspection, and annual fees are described in NRC regulations in the *Federal Register* (64 FR 31448, June 10, 1999). The following were revised to more appropriately recognize actual costs: fees under the Material Access Authorization Program (10 CFR Part 11), the Information Access Authorization Program for Licensee Personnel (10 CFR Part 25), administrative charges imposed on delinquent debt (10 CFR Part 15.37(f)), and fees for search and review time to respond to Freedom of Information Act and Privacy Act requests. Reviews of other types of fees concluded that fee revisions were not warranted at this time.

Management Decisions and Final Actions on OIG Audit Recommendations

The agency has established and continues to maintain an excellent record in resolving and implementing open audit recommendations presented in OIG reports. Section 5(b) of the Inspector General Act of 1978, as amended, requires the Chairman to report on management decisions and final actions taken on OIG audit recommendations. Table 5 gives the dollar value of disallowed costs determined through contract audits conducted by the Defense Contract Audit Agency (DCAA). "Questioned Costs" are those

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Table 6: Management Report on Office of the Inspector General Audits with Recommendations That Funds Be Put to Better Use For the Period October 1, 1998-September 30, 1999

Category	Number of Audit Reports	Recommendations that funds be put to better use by management agreed to in a management decision ($)
A. Audit reports for which final action has not been taken by the commencement of the reporting period.	0	$0
B. Audit reports on which management decisions were made during this reporting period.	1	$0
C. Audit reports for which final action was taken during this reporting period.	1	$0
(i) Recommendations that were actually completed.	1	$0
(ii) Recommendations that management had subsequently concluded should not or could not be implemented or completed.	0	$0
D. Audit reports for which no final action has been taken by the end of the period.	0	$0

costs that are questioned as to whether they are allowable. "Unsupported Costs" represent costs challenged because of a lack of adequate supporting data. Because of the sensitivity of contractual negotiations, details of these contract audits are not furnished as part of this report.

Table 6 gives the dollar value of funds that audits showed could be put to better use. As of September 30, 1999, no outstanding audits recommended that funds be put to better use.

Two reports containing two recommendations are more than a year old and are described in the next section titled "Management Decisions Not Implemented Within One Year."

Management Decisions Not Implemented Within One Year

Management decisions were made before September 1999 for the OIG audit reports discussed in the following paragraphs, but as of September 30, 1999, NRC had not taken final action on some of the issues in the reports. The OIG did not recommend that funds be put to better use for any of these reports.

Review of NRC's Implementation of Inspection Manual Chapter 1245, "Training Requirements," November 4, 1994

The Office of the Inspector General (OIG) recommended that the Executive Director for Operations (EDO) ensure that the agency's new

training tracking system meets management needs for producing reliable information for overseeing and tracking inspector training. The NRC has determined that its current system does not meet the needs of the agency and that the system needs to be totally redesigned. The NRC is in the process of implementing the PeopleSoft Human Resources Information System (HRIS). PeopleSoft is an enterprise system that is designed so that each module of the system fully integrates with the core HRIS. The Training Administration Module associated with the PeopleSoft HRIS is being implemented in several phases. The Training Administration Module implementation started in Phase II of the overall PeopleSoft HRIS project. This phase will combine the training administration functions of the Agency Training System, Professional Development Center, and the Technical Training Center to provide a single system that will be the official training registration and training record system of the agency. The next implementation phase, phase III, will provide desktop access to all staff members enabling them to review their individual training records. Because of limited resources and competing agency priorities, the new system will not be operational until FY 2002. In the meantime, training requirements are tracked manually by relying on the direct involvement of individuals and their supervisors.

Opportunities for Savings Available in Information Management Activities, January 29, 1998

The OIG recommended that the Office of the Chief Information Officer (OCIO) take immediate steps to reduce operating costs of its Public Document Room (PDR) while continuing to provide efficient and effective public accessibility to NRC information.

By moving the PDR to the White Flint headquarters complex an analysis showed that a significant savings in averted building lease costs could be realized. The Commission approved the move of the PDR to our White Flint headquarters in the FY 2000 Budget.

We informed the public of our intent to move the PDR to headquarters during the first quarter of calendar year 2000, and the move is scheduled to take place before the end of FY 2000. An administrative rule change will be made in NRC regulations to note the change of address for the PDR at the time of its move to our White Flint headquarters complex.

Debt Collection

The agency's objective is to maintain its delinquent debt at year-end to less than one percent of its billings for that year. The NRC has met its goal and kept delinquent debt at less than one percent for the past 4 years. (See Figure 5). Control over delinquent debt is accomplished through a concerted debt management strategy. The strategy includes activities such as license revocations, referral to the Department of the Treasury's Debt Management Services through a cross-servicing arrangement, credit reporting, and referral to the Department of Justice for enforced collection.

Prompt Payment

The percentage of on-time payments subject to the Prompt Payment Act remained at 96 percent for FY 1999 as shown in Figure 6. The amount of interest penalties incurred decreased from $17,000 in FY 1995 to under $4,100 in FY 1999. In addition, the agency made 98 percent of its vendor payments electronically.

Civil Penalties

The NRC imposes enforcement sanctions to encourage prompt identification and comprehensive correction of violations to deter violations, and to emphasize the importance of compliance with requirements. One enforcement sanction is the imposition of a civil penalty. Table 7 shows the amount of the civil penalties assessed and the amount collected in FYs 1995-1999, distributed according to the year in which the civil penalty was collected. The amount of each civil penalty assessed reflects the amount that the NRC ultimately decides is appropriate in each case through its enforcement or hearing process.

(continued on page 20)

Figure 5
Delinquent Debt

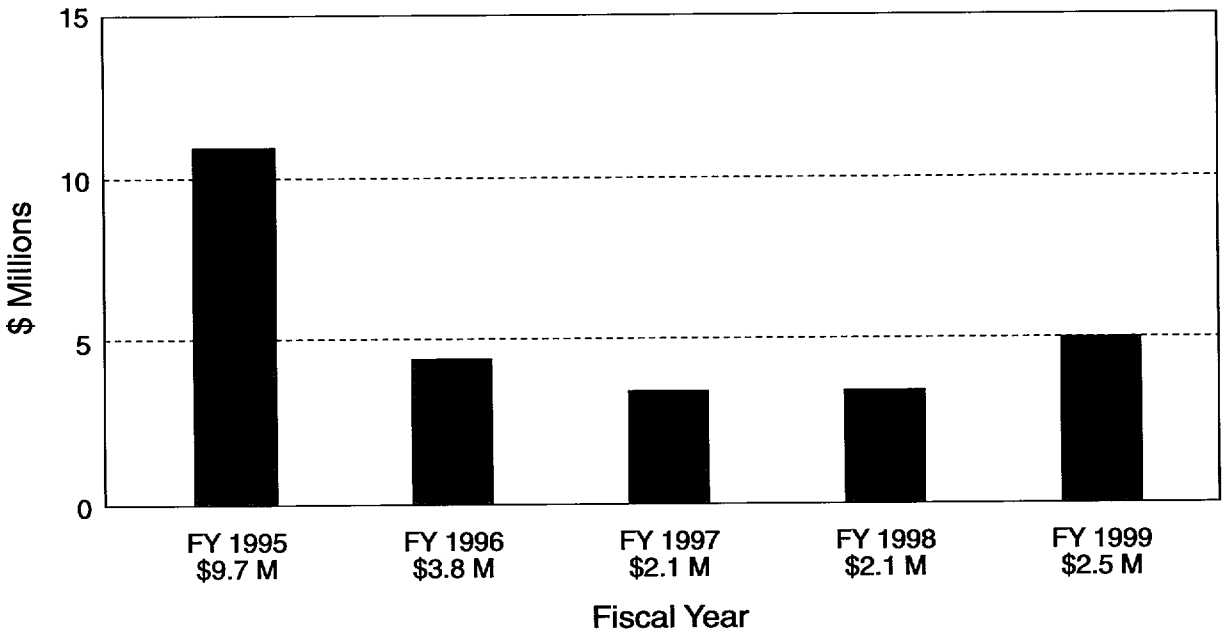

Figure 6
Prompt Payment

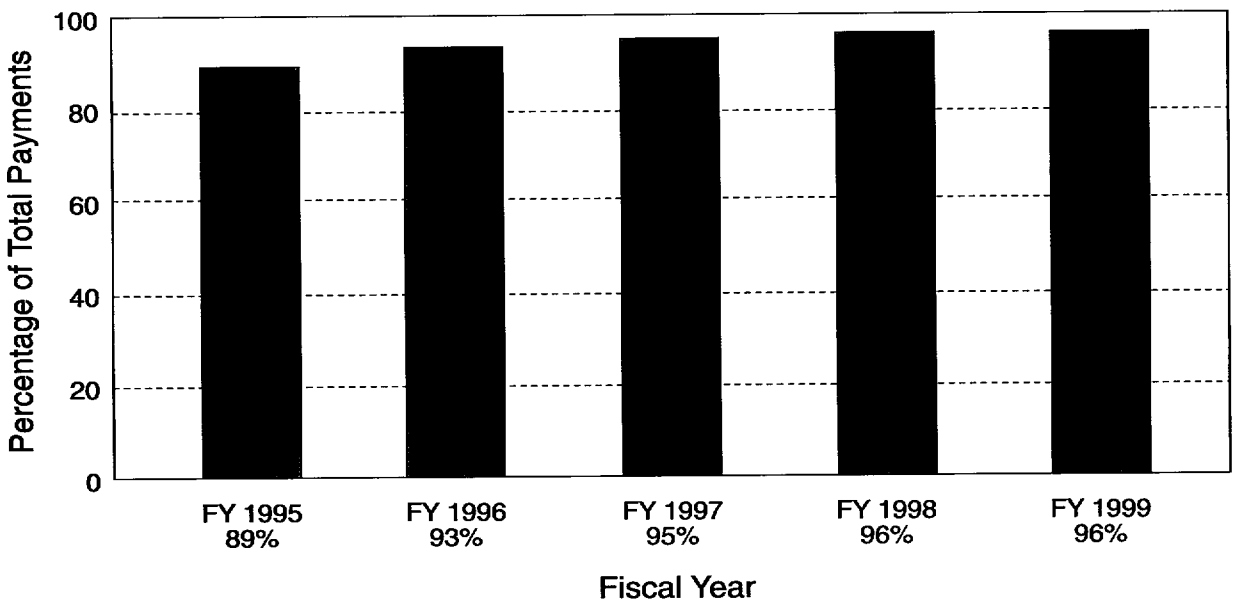

Table 7: Fiscal Year Civil Penalties Collected Versus Fiscal Year Penalty Dollars Assessed[1]

Fiscal Year	Assessed	Collected
1995	$2,289,285	$2,289,285
1996	$3,106,000	$3,014,000 [2]
1997	$6,343,550	$5,957,736
1998	$5,206,600 [3]	$6,493,573
1999	$1,062,600	$1,075,917

[1] No direct correlation exists between the amounts assessed and collected in a particular fiscal year because civil penalties may be assessed in one fiscal year and collected in another for a variety of reasons, such as an assessment made in the last month of the fiscal year that is not due for 30 days, or until the next fiscal year.

[2] This amount reflects payments in two cases for which installment payments were made.

[3] This amount reflects $145,000 in penalties that were withdrawn.

FY 1999 Audited Financial Statements

Limitations of Principal Statements

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

The NRC's FY 1999 financial statements were audited by R. Navarro and Associates under contract to the Office of the Inspector General. This section contains the results of the audit, the financial statements, related footnotes, required supplementary information, and management's comments on the auditor's report.

INDEPENDENT AUDITORS REPORT AND PRINCIPAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 1999

OIG/99A-12 February 28, 2000

OFFICE OF THE INSPECTOR GENERAL

U.S. NUCLEAR REGULATORY COMMISSION

INDEPENDENT AUDITOR'S REPORT AND PRINCIPAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 1999

OIG/99A-12 FEBRUARY 28, 2000

AUDIT REPORT

UNITED STATES
NUCLEAR REGULATORY COMMISSION
WASHINGTON, DC 20555-0001

February 28, 2000

MEMORANDUM TO: Chairman Meserve

FROM: for Hubert T. Bell
Inspector General

SUBJECT: RESULTS OF THE AUDIT OF U.S. NUCLEAR REGULATORY COMMISSION'S FISCAL YEAR 1999 FINANCIAL STATEMENTS

Attached is the independent auditors' report on the U.S. Nuclear Regulatory Commission's (NRC) Fiscal Year 1999 financial statements. The Chief Financial Officers Act requires the Office of the Inspector General (OIG) to annually audit NRC's Principal Financial Statements. The report contains: (1) the principal statements and the auditors' opinion on those statements; (2) the auditors' opinion on management's assertion about the effectiveness of internal controls; and (3) a report on NRC's compliance with laws and regulations. Written comments were obtained from the Chief Financial Officer (CFO) and are included as an appendix to the independent auditors' report.

Audit Results

The independent auditors issued an unqualified opinion on the balance sheet, the statements of changes in net position, net cost, budgetary resources, and financing.

In the opinion on management's assertion about the effectiveness of internal controls, the auditors concluded that management's assertion is not fairly stated. The auditors reached this conclusion because management did not identify the lack of the following: (1) managerial cost accounting; (2) a program cost accounting system; and (3) management controls for license fee development as material weaknesses.[11]

The auditors identified seven new reportable conditions and closed one prior-year reportable condition. The new conditions concern: (1) the lack of program cost accounting; (2) the lack of management controls over fee development; (3) an inadequate financial statement preparation

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[11] OIG's annual assessment of NRC's implementation of the Federal Managers Financial Integrity Act will also report the same issues as material weaknesses.

process; (4) inadequate segregation of duties for NRC's integrated payroll and personnel system (PAY/PERS); (5) inadequate controls over PAY/PERS authorized users; (6) inadequate controls over small entity certifications; and (7) inadequate controls over General Services Administration credits.

The report on NRC's compliance with laws and regulations disclosed three noncompliances. The first is that NRC's 10 CFR Part 170 license fee rates are not based on full cost. The second is that managerial cost accounting was not implemented, as required, and the third is that program cost accounting was not supported by the general ledger. Issues one and two are carryovers from FY 1998. Issues two and three are considered substantial noncompliances with the Federal Financial Management Improvement Act of 1996 (FFMIA).

The prior year's reportable condition relating to business continuity plans for the general ledger system remains in substantial noncompliance with FFMIA. However, NRC is dependent on the Department of the Treasury to resolve this condition. Tests of compliance with selected provisions of other laws and regulations disclosed no other instances of noncompliance.

Performance Reporting

Office of Management and Budget Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements*, requires OIG to "obtain an understanding of the components of internal control relating to the existence and completeness of assertions relevant to the performance measures included in the Overview of the Reporting Entity." The Bulletin states that the objective of this work is to report deficiencies in the design of internal control, rather than plan the financial statement audit. With this requirement and objective in mind, OIG examined the control process for several performance measures. Our examination concluded that there were no deficiencies to report.

Comments of the Chief Financial Officer

The CFO generally agreed with the auditors' recommendations and stated that corrective action has been taken or is underway. The CFO had concerns with the recommendation concerning small entity certifications, but agreed to study the issue further. We will follow-up on the CFO's corrective action during the FY 2000 financial statement audit.

We appreciate NRC staff's cooperation and continued interest in improving financial management within NRC.

Attachment: As stated

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R. Navarro & Associates, Inc.

Chairman Richard A. Meserve
U.S. NUCLEAR REGULATORY COMMISSION
Washington, DC

INDEPENDENT AUDITORS' REPORT ON THE PRINCIPAL STATEMENTS

We have audited the U.S. Nuclear Regulatory Commission's (NRC) balance sheet, statements of net cost, changes in net position, budgetary resources, and financing as of and for the year ended September 30, 1999, herein referred to as the principal statements. The principal statements are the responsibility of NRC's management. Our responsibility is to express an opinion on the principal statements based on our audit.

SCOPE

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards,* issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements.* Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

MATTERS FOR EMPHASIS

Classification of Costs

OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, provides guidance to federal agencies for presenting program costs classified by intragovernmental and public components. The basis for classification relies on the concept of who received the benefit of the costs incurred (e.g. private sector licensees versus federal licensees) rather than who was paid. However, following the advice of OMB, NRC classified the costs on the Statement of Net Cost using an underlying concept of who was paid. This presentation does not entirely incorporate the guidance in the Bulletin, however, it enables the Agency to transition to the required presentation.

U.S. Department of Energy Expenses

NRC's principal statements include reimbursable expenses of the U.S. Department of Energy (DOE) National Laboratories. The NRC's Statement of Net Cost includes approximately $54.5 million of reimbursed expenses, which represent approximately 11% of total expenses. Our audit included testing these expenses for compliance with laws and regulations within NRC. The

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work placed with DOE is under the auspices of a Memorandum of Understanding between NRC and DOE. The examination of DOE National Laboratories for compliance with laws and regulations is DOE's responsibility. This responsibility was further clarified by a memorandum of the General Accounting Office's (GAO) Assistant General Counsel, dated March 6, 1995, where he opined that "...DOE's inability to assure that its contractors' costs [National Laboratories] are legal and proper...does not compel a conclusion that NRC has failed to comply with laws and regulations." DOE also has the cognizant responsibility to assure audit resolution and should provide the results of its audits to NRC.

Opinion

In our opinion, the principal statements identified on the previous page present fairly, in all material respects, the financial position of the NRC as of September 30, 1999, and its net cost of programs, changes in net position, budgetary resources, and financing for the year then ended in conformity with generally accepted accounting principles.

Supplementary Information

The Schedule of Intergovernmental Balances included in Section III of this report is not a required part of the principal statements of the U. S. Nuclear Regulatory Commission, but is required supplementary information by the *Technical Amendments to OMB Bulletin 97-01, Form and Content of Agency Financial Statements.* We have applied certain limited procedures, which consist of management inquiries regarding the methods for measurement and presentation of the supplementary information. However, we did not audit the information and we express no opinion on it.

INDEPENDENT AUDITORS' REPORT ON MANAGEMENT'S ASSERTION ABOUT THE EFFECTIVENESS OF INTERNAL CONTROL

We have examined management's assertion that the U.S. Nuclear Regulatory Commission's (NRC) systems of accounting and internal control in place as of September 30, 1999 are in compliance with the internal control objectives in Office of Management and Budget (OMB) Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements*. The Bulletin requires that transactions be properly recorded, processed, and summarized to enable the preparation of the principal statements in accordance with Federal accounting standards, and safeguarding of assets against loss from unauthorized acquisition, use or disposal.

Our examination was made in accordance with the standards established by the American Institute of Certified Public Accountants; standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and, OMB Bulletin No. 98-08. Accordingly, we considered NRC's internal control over financial reporting by obtaining an understanding of the Agency's internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls and other procedures as we considered necessary in the circumstances. We believe that

our examination provides a reasonable basis for our opinion. Our examination was of the internal control in place as of September 30, 1999.

Because of inherent limitations in internal control, errors or fraud may occur and not be detected. Also, projections of any evaluation of the internal control over financial reporting to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

In our opinion, management's assertion that NRC's systems of accounting and the internal control in place as of September 30, 1999 is in compliance with the internal control objectives in OMB Bulletin No. 98-08 requiring that transactions be properly recorded, processed, and summarized to enable the preparation of the principal statements in accordance with Federal accounting standards, and safeguarding of assets against loss from unauthorized acquisition, use or disposal, is not fairly stated, because management did not identify the lack of managerial cost accounting, the lack of a program cost accounting system, and the lack of management controls for fee development as material weaknesses.

Our consideration of management's assertion on internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more

of the internal control components do not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted certain matters, discussed in the following paragraphs, involving the internal control and its operation that we consider to be reportable conditions. Comments A - *Managerial Cost Accounting;* B - *Program Cost Accounting;* and C - *Management Controls Over Fee Development* are considered material weaknesses. Comments A and B are considered substantial noncompliances with the Federal Financial Management Improvement Act (FFMIA), as well.

Current Year Comments

A. Managerial Cost Accounting

As reported for fiscal year (FY) 1998 (Report No. OIG/98A-09) and continuing in FY1999, the NRC has not implemented Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Concepts and Standards,* to

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assure that, "Managerial cost accounting ... be a fundamental part of the financial management system and, to the extent practicable, ... [to] be integrated with other parts of the system. [Implementation of the standards would provide]... the costs of ... activities on a regular basis for management information purposes."

Agency management responded to the FY1998 condition by preparing a remediation plan and outlining the milestones for an integrated resource management system. Recently, management also created a Cost Management Steering Committee "...to provide visible leadership...for cost management and cost accounting." However, management did not make progress in developing interim techniques or processes to provide routine and reliable cost information for managers during FY1999. Although the Federal financial management community has been addressing implementation of managerial cost accounting concepts and standards since FY1997 (initial implementation date for FY1997 was subsequently delayed to FY1998), the NRC projects implementation of cost management by FY2001.

The strategy adopted by management places significant emphasis on changing the culture and practices of the Agency. This strategy overlooks the immediate benefits of providing managerial cost accounting information to Agency managers in order to support their responsibilities for planning, controlling costs, decision making and evaluating performance. Implementation of cost accounting techniques and practices is essential to the Agency managers' ability in supporting compliance with the Government Performance and Results Act (GPRA).

The Joint Financial Management Improvement Program (JFMIP), *Managerial Cost Accounting System Requirements* (FFMSR-8), states, "Some agencies may find they have existing software, such as the core financial systems software and reporting and data analysis tools, that can support many of their needs for cost accounting capabilities, especially when cost accounting is first being introduced. Not until an agency has some experience with cost accounting and has determined that they truly have a need for more sophisticated capabilities and what those specific capabilities are, should an agency pursue additional software. Since agencies may use cost finding techniques and cost studies as long as they comply with cost accounting standards ... implementation of a cost accounting 'system' is not necessarily a prerequisite with SFFAS Number 4."

This condition continues to be reported as a material weakness and a FFMIA substantial noncompliance.

Recommendation

The Chief Financial Officer (CFO) should develop interim cost management information to support Agency managers' evaluation of the cost of outputs and outcomes realized by the Agency. Development of interim cost management techniques may also enhance the success of the system being contemplated by identifying the needs of managers.

The CFO should continue to be supportive of the Agency's Cost Management Steering Committee.

CFO's Comments

"We agree there are potential benefits of developing interim cost management information for managers prior to the agency's plan to fully implement managerial cost accounting. We will work with the Cost Management Steering Committee and offices to assess what informational needs can be met with existing systems and, if possible, begin to provide interim cost management information. We will initiate this effort during March 2000.

We will continue to support the agency's Cost Management Steering Committee. We view this [as] an important element in the agency's implementation of information cost accounting. Part of the charter of the Cost Management Steering Committee is to coordinate the identification of management's cost information needs with the CFO and CIO and support the cost accounting system implementation effort. We believe that the Committee's involvement will help make the cost accounting system a success."

Auditors' Position

The CFO statement, "... there are potential benefits of developing interim cost management information..." appears to indicate some doubt whether cost information can and will be provided as we recommend. It seems appropriate and timely for Agency managers to receive basic cost management information in order to begin the change process to manage the cost of NRC activities. We recognize that developing fully refined and reliable cost management data is an iterative process that will occur over time, however, managers should be afforded the opportunity to move toward using cost as a tool for decision making.

For example, interim cost management information could provide greater stewardship of federal resources. Thus enabling Agency managers to use cost information to support decision making and their assessment, evaluation, and measurement of the cost effectiveness of regulatory, inspection, support, research, and rulemaking activities. Additionally, cost management information could further support managers' efforts to analyze the activities being managed through the Agency's planned accomplishment and strategic arena structure. We continue to recommend that the CFO evaluate what can be done presently to lay the foundation for cost management within the Agency.

During a subsequent audit, we will assess progress made in providing interim cost management information. Additionally, we will continue to assess the progress made by the CFO in implementing the milestones outlined in the remediation plan.

B. Program Cost Accounting

OMB Bulletin 97-01, *Form and Content Bulletin of Agency Financial Statements*, requires the preparation of a Statement of Net Cost as part of the principal statements.

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R. Navarro & Associates, Inc.

This statement is designed to provide an accounting for the net cost of programs as defined by the Agency in its budget, strategic, and annual plans.

In the current year, the NRC did not have a general ledger process that supported the preparation of the Statement of Net Cost. The Agency's financial management processes are in transition from a budgetary to a strategic arena basis. The Agency's programs are referred to as strategic arenas. The transaction level coding structure that ordinarily would be included in a JFMIP compliant general ledger system to identify cost by strategic arena, was not in place for labor costs. Approximately, $290 million (58%) of the Agency costs included in the Statement of Net Cost represents salaries and benefits which were not coded at the transaction level by strategic arena.

To prepare the Statement of Net Cost, a process was developed at year-end to infer the costs to be included. The process included a variety of techniques including data iterations, special ad hoc report design, and cost finding techniques. This used an intense concentration of resources. The information was developed and alternative audit procedures were employed to verify the information gathered. (The lack of data quality at the transaction level also indicates a substantial noncompliance with FFMIA. Refer to *Program Cost Accounting Not Supported By the General Ledger* for an additional discussion of this condition.)

OMB Circular A-127, Section 5, *Definitions,* states, "...'financial system' means an information system, comprised of one or more applications, ...used for any of the following:

- collecting, processing, maintaining, transmitting, and reporting data about financial events;
- supporting financial planning or budgeting activities;
- accumulating and reporting cost information; or
- supporting the preparation of financial statements."

JFMIP SR-99-4, *Core Financial System Requirements*, states, "The financial management systems in the Federal government must be designed to support the vision articulated by the government's financial management community....This includes the ability to...

- facilitate the preparation of financial statements, and other financial reports in accordance with Federal accounting and reporting standards; ...[and]
- provide a complete audit trail to facilitate audits."

During FY2000, the NRC implemented a labor cost distribution application that is designed to identify costs by strategic arena.

Recommendation

The CFO should review and assess whether labor cost distribution systems being implemented in FY2000 fully comply with accounting and reporting standards.

Those systems should be designed to improve the timeliness and reliability of financial reporting in future years.

CFO's Comments

"We have already initiated actions to assess PAY/PERS Labor System to ensure compliance with accounting and reporting standards and to validate the data for use in preparing the FY 2000 financial statements. In addition, we will examine the internal controls for the PAY/PERS Labor system including an assessment of the offices' compliance with the applicable policy and procedures. We plan to complete these assessments by July 1, 2000.

We will also ensure that the new Peoplesoft Payroll and Time and Labor Systems, being implemented in FY 2001, will also comply with accounting and reporting standards.

Beginning in March 2000, we will begin providing offices with labor-cost distribution reports for management purposes. We believe the system we have implemented for FY 2000 will improve the timeliness and reliability of financial reporting.

As required by the Federal Financial Management Improvement Act, a remediation plan will be prepared by May 1, 2000."

Auditors' Position

We commend the CFO for taking steps in FY2000 to provide a process for the accumulation of personnel related costs. During a subsequent audit we will assess the internal controls, verify the reliability of the information produced by the system, and verify the adequacy of the system documentation. Furthermore, we will look to the remediation plan to provide the framework and related resources and milestones for the solution described by the CFO.

C. Management Controls Over Fee Development

During FY1999, an audit was conducted by the Office of the Inspector General (OIG) that identified issues that management should address relating to the development of fees. The audit was performed as an expanded review of issues raised during the FY1998 financial statement audit. The issues described below continued to exist during FY1999.

Management controls, in the broadest sense, include the organization, methods, and procedures adopted by management to ensure that its goals are met. OIG found that weak management controls resulted in fee calculation errors, inconsistent processes, and an absence of adequate information.

OMB Circular A-123, *Management Accountability and Control*, states, "...management controls are the organization, policies, and procedures used by agencies to reasonably ensure that: (i) programs achieve their intended results; (ii) resources are used consistent with Agency mission; (iii) programs and resources are protected from

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waste, fraud, and mismanagement; (iv) laws and regulations are followed; and (v) reliable and timely information is obtained, maintained, reported, and used for decision making."

The OIG identified several management control weaknesses, including: (1) lack of formal procedures and (2) the lack of quality control over the fee calculations.

The report states that there are no formally documented procedures for calculating fees and preparing the fee rule. A few informal procedures, accumulated over the years in a piecemeal fashion, do exist. However, most of the methodologies for fee calculation were passed verbally from individual to individual.

The report also identified the lack of a quality control process or procedures for the fee calculations. NRC does not perform an objective review of the calculations to detect errors and ensure they were prepared correctly.

As further evidence that management controls over fee development are inadequate, the CFO recently included a reference to a *completed* internal study on generic costs in the FY2000 proposed fee rule. OIG received the report after the FY2000 proposed fee rule was issued for Agency comment and it was labeled "DRAFT GENERIC STUDY." The CFO subsequently issued an errata sheet to the proposed fee rule indicating that the *study had not been issued in final* and that the *preliminary results* of the subject study did not identify any costs classified as 'generic' that should be included in the computation of the Part 170 hourly rates.

The lack of management controls is considered a material weakness.

Recommendation

The CFO should address the immediate need for documented policy and a quality control process over fee development. It is essential to the integrity of the fee development process that greater discipline and structure be implemented.

CFO's Comments

"We agree with the need for adding more structure to the fee development process. We plan to document the license fee rule development process, and establish general procedures for calculating fees and conducting quality control. The CFO has selected a contractor, familiar with the fee rule development process, to document that process by October 2000. We are also taking actions to strengthen management controls: 1) we have a contractor on board to look at the fee model and recommend improvements to that process; 2) we are streamlining the data-entry process to the fee model to reduce the potential for error and eliminate some of the duplicate entry; and 3) we are hiring a fee policy analyst to assist in development of the fee rule which will enhance quality control."

Auditors' Position

The steps described by the CFO move toward improving the management control and quality assurance process over fee development. The CFO indicates that the model will be assessed, data input will be streamlined, and personnel will be hired. How-

ever, no mention is made of the management control elements that will be put in place by the contractor. In the development and implementation of management controls and the related management directive, we encourage the CFO to include a clear and concise discussion of the following:

- control environment,
- risk assessment processes,
- control activities,
- information system(s) and communications processes, and
- monitoring and quality assurance techniques.

These five elements represent the internal control standards prescribed by the GAO for federal agencies.

During a subsequent audit, we will evaluate the progress made on this condition. Currently, the CFO plans corrective action by October 2000.

D. Financial Statement Preparation

The FY1998 management letter included an observation on the Financial Statement Preparation Process. The observation stated, in part, "Instead of NRC initiating actions to assess financial reporting requirements and develop solutions, the Agency relied on the audit process to identify the problem and outline the solution." The comment further states, "... the financial reporting process would benefit by (1) improving communication between policy review and implementation functions, (2) preparing and documenting the analysis of policy decisions, (3) producing interim financial statements ... to identify reporting issues early, and (4) ensuring the accuracy of data that supports the financial statement by improving the internal review and assessment of systems, reports and data that support the principal statements."

In the current year, the Agency did not have adequate financial statement compilation practices. The practices in place did not provide for the following:

- an assessment of the internal controls over the non-financial (Regulatory Information Tracking System - RITS) data for the Statement of Net Cost;
- a communication process to Agency staff that a non-financial system would be used to support financial statement preparation, therefore making it essential to comply with Agency guidance on the accumulation of information for the system;
- an interim assessment of the nature or reliability of the information that was being collected from the non-financial system; and
- an assessment of what information would be used, how it would be used, and the operational relevance the non-financial information had to the operations of the Agency.

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Management's practices continue to overlook the benefit of planning and evaluating the year-end compilation process in order to provide timely, complete and reliable financial statements for audit.

The General Accounting Office in its Performance and Accountability and High-Risk Series entitled, *Major Management Challenges and Risks*, dated February 1999 stated, "Audited financial statements are essential to providing an annual public scorecard on accountability. However, an unqualified opinion, while certainly important, is not an end in itself. For some agencies, the preparation of financial statements requires considerable reliance on ad hoc programming and analysis of data produced by inadequate systems that are not integrated or reconciled, and often require significant audit adjustments. Efforts to obtain reliable year-end data that are not backed up by fundamental improvements in underlying financial management systems and operations to support ongoing program management and accountability will not achieve the intended results of the CFO Act over the long term."

Recommendation

The CFO should assess current financial statement compilation practices for responding to the requirements of the CFO Act principal statements. The Agency should develop and implement a financial statement preparation process that provides timely preparation of statements, supporting reports, and analysis during the fiscal year and at year's end.

CFO's Comments

"During the past few years, the agency has been in transition in developing and integrating its strategic plan, performance report, and performance plan and budget. This evolutionary development phase has impacted financial reporting as the agency has moved to develop the underlying financial systems needed to support the new reporting requirements. This condition was further compounded by significant revisions the Office of Management and Budget made to the form and content of financial statements effective for FY 1998.

As part of our annual assessment, we will examine the process used to produce the financial statements to determine where improvements can be made. In particular, we have recognized our lack of systems and a well disciplined compilation process for presenting labor-cost data by strategic arena and the effect on preparing financial statements in a timely and comprehensive manner over the past 2 years. As a result, we implemented corrective action for FY 2000 to capture labor-cost data by strategic arena and will be able to make more use of electronic means to assemble, summarize, and analyze data. We expect these actions will improve and streamline the financial statement preparation process."

Auditors' Position

The CFO should consider addressing other areas of the compilation process. For example, the implementation of routine interim statements and footnote preparation could identify:

- accounting and reporting issues that should be addressed prior to year end,
- the need for a documented compilation process,
- techniques for expediting the preparation of the financial statements and footnotes, and
- processes to analyze the information compiled in order to refine accruals at year end.

The CFO should adopt an efficient and effective compilation process to replace the ad hoc process presently used.

E. Segregation of Duties - PAY/PERS

The *Standards for Internal Controls in the Federal Government* issued by the Comptroller General state "...key duties and responsibilities in authorizing, processing, recording, and reviewing transactions should be separated among individuals."

NRC uses a system referred to as PAY/PERS to maintain personnel information and to process payroll. The Division of Accounting and Finance (DAF), is responsible for maintaining the payroll functions of PAY/PERS and controlling system access. The system relies on hierarchical access profiles consisting of three levels as follows:

- Level 1 - Payroll Inquiry,
- Level 2 - Payroll Processing, and
- Level 3 - Systems Administrator.

The Level 3 profile allows unrestricted access to the system including the security tables. Thus, holders of the Level 3 access profile can assign user IDs and enable new users. Holders of Level 3 profiles are not only granted complete access to the system, but also have the ability to create fictitious user IDs.

Our review of user access identified three DAF employees, including the team leader in charge of payroll operations, who held a Level 3 profile. Thus, the payroll operations team leader had incompatible functions. The team leader's functions were not properly segregated because the individual could both commit errors and irregularities and conceal them in the course of discharging the normal duties of the position.

Recommendation

The CFO should ensure that effective segregation of duties is maintained prior to assigning access profiles to PAY/PERS personnel. The CFO should also ensure that consideration is given to segregation of duties during the design and evaluation phase of newly designed systems.

Additionally, periodic review and assessment should be made of systems during the implementation and operations stages to assure that conditions or circumstances have not changed causing incompatible functions.

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CFO's Comments

"The OCFO changed the Payroll Operations Team Leader's profile to access level II data as soon as this was identified during the audit of the financial statement. The PAY/PERS system administrator will ensure adequate segregation of duties.

The Peoplesoft payroll implementation team leader/system administrator will ensure that proper segregation of duties is incorporated into the new payroll system through the system's security profiles and will administrator [sic] annual reviews to ensure that there are adequate segregation of duties."

Auditors' Position

During a subsequent audit we will review the practice described by the CFO.

F. Controls Over Authorized Users - PAY/PERS

OMB Circular A-123, *Management Accountability and Control*, Part II states "Specific management control standards are: ... access to resources and records should be limited to authorized individuals, and accountability for the custody and use of resources should be assigned and maintained."

NRC uses PAY/PERS to maintain personnel information and to process payroll. The system operates on a host computer maintained by the National Institutes of Health (NIH).

As discussed previously, system access is granted based on three profiles. The system, because of its integrated payroll and personnel functions, has two designated lead system administrators: a DAF system administrator who is responsible for maintaining and controlling access to the payroll functions; and an Office of Human Resources individual who is responsible for maintaining and controlling access to the personnel functions.

Although there were 70 authorized users of personnel functions and 9 authorized users of payroll functions, there was no systematic process implemented for system administrators to perform periodic reviews for authorized user access. Thus, there was no assurance that any unauthorized users would be identified on a timely basis.

The NIH provides a monthly Detail Utilization Report that identifies user access sessions in PAY/PERS. The report is considered part of the payment approval process and was not used as a means to review or identify unusual activity or unauthorized users.

Recommendation

The CFO should direct the DAF system administrator to begin using the Detail Utilization Report to perform periodic reviews of authorized users. The review should include techniques to identify user sessions for investigating unusual utilization sessions or usage patterns.

CFO's Comments

"The OCFO will develop a management report, based on the Detail Utilization Report, that will be used to identify unusual activity and unauthorized user access. This report will be reviewed biweekly by the system administrator who will report any unusual findings to management. Corrective action will be initiated in March 2000."

Auditors' Position

During a subsequent audit, we will review the report and the review process described by the CFO.

G. Management Controls Over Small Entity Certifications

Under 10 CFR 171.16, materials licensees can qualify as small entities and pay reduced annual fees of either $400 or $1,800, depending on their size. Businesses, nonprofit agencies, educational institutions or local governments may qualify as small entities depending on either average annual gross receipts, number of employees, or population jurisdiction. Size standards are based on guidelines prescribed by the Small Business Administration. Licensees qualify for reduced fees by completing and submitting a *Certification of Small Entity Status For The Purposes of Annual Fees Imposed Under 10 CFR Part 171* (NRC Form 526) with the applicable fee.

Licensees self-certify as small entities and corroborating evidence is not required. The CFO performs a cursory review of NRC Forms 526 received, primarily for completeness. A few certifications are denied each year, based on information available to license fee analysts. During FY1999, the Agency granted 1,180 fee reductions totaling $6.4 million or 83%, from the originally billed materials fees of $7.7 million.

In FY1998, the OIG reviewed the small entity certifications filed by 244 licensees. The review consisted of verifying the size standard claimed with information contained in a business database. This process identified 15 licensees with reported revenues exceeding the size standards. As an additional validation, the review included contacting licensees and obtaining additional information such as income tax returns or audited financial statements. OIG determined that six licensees had filed false small entity certifications.

OMB Circular A-123, Management Accountability and Control "...provides guidance to Federal managers on ... establishing, assessing, correcting and reporting on management controls. Management controls are the organization, policies and procedures used to reasonably ensure that (i) programs achieve their intended results; (ii) resources are used consistent with Agency mission; (iii) programs and resources are protected from waste, fraud, and mismanagement; (iv) laws and regulations are followed; and (v) reliable and timely information is obtained, maintained, reported and used for decision making."

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The Agency indicated that existing procedures for cursory review of the small entity certifications are sufficient and they do not perceive the need for verifying the claims made by licensees. Also, the CFO believes resources are not available for verifying certifications.

The results of the OIG review, however, indicate that the existing controls over small entity certification are not adequate. Existing procedures for reviewing small entity certifications do not provide sufficient assurance that fee reductions are being granted only to those intended by the regulations and the Commission.

Certain licensees may not be entitled to the small entity fee reductions, thereby increasing fees charged to other licensees.

Recommendation

The CFO should, at least quarterly, select a statistically valid sample of small entity certifications filed and request evidence, such as income tax returns or financial statements, to support the size standards claimed by the licensees.

CFO's Comments

"We share your concern of licensees filing false small entity certifications. We have reservations with implementing the corrective actions you have recommended. Under the Paperwork Reduction Act, requesting income tax returns or financial statements from licensees would require approval from the Office of Management and Budget. We also have concerns regarding the costs of validating the small entity status of a sample of licensees each quarter.

The OCFO plans to explore your recommendation along with other corrective actions. We will advise you of the results by June 1, 2000."

Auditors' Position

We commend the CFO for considering other options to address the condition. The primary concern is that the CFO design and implement a process that provides the assurance that licensees who benefit from the small entity program are in fact qualified to do so. We look forward to the results of the CFO's efforts by June 1, 2000.

H. Management Controls Over General Services Administration (GSA) Credits

The CFO controls the payments made through drawdown on the On-Line Payment and Collection System (OPAC). NRC has a process for the approval of invoices which is identified in the Agency's desk procedures. The process provides for project managers to receive *Approval Form For Interagency Billing - Non-DOE* (Form 441) listing OPAC charges for review and approval. When the project manager does not approve the charges, or partially approves the charges, a chargeback is requested from the vendor.

DAF's Desk Procedures, *Financial Reports and Analysis Section*, Chapter 7, for OPAC transactions provides guidance that when an invoice amount is not approved,

and while the other agency is initiating the credit, a note should be placed in a pending file awaiting the subsequent month's OPAC listing with the related credit.

Our testing disclosed instances where GSA rental charge credits were requested by the project manager and not received by the Agency. The normal practice for transactions of this nature was not followed for GSA rental credits. GSA precludes the Agency from initiating a chargeback. Adjustments to GSA rental charges come to the Agency in the form of credits. The Financial Operations Branch (FOB), DAF does not verify or track that credits are received. Accounting personnel indicated that the GSA rental payments were the only disbursements handled this way. Other chargebacks were reviewed and the credits were verified through to the general ledger.

Recommendation

The CFO should direct:

- The FOB to track and verify that GSA credits are received by holding a copy of the Form 441 and invoice in a pending file until the credit is received.
- FOB to follow up with the project manager routinely to discuss any credits that have not been received in a timely manner.

CFO's Comments

"The DAF Financial Operations Branch has established a process to track and monitor GSA credits effective with the February 2000 billings. The procedure includes routine follow-ups with the project manager regarding untimely credits. Written procedures will be completed in March 2000."

Auditors' Position

During a subsequent audit, we will review the practice described by the CFO and the adequacy of the written procedures.

Status of Prior Years' Comments

A. Managerial Cost Accounting

The CFO developed a remediation plan dated July 19, 1999 outlining the strategy to implement the requirements in SFFAS No. 4. The Agency anticipates implementing an integrated resource management system over a three year period and to implement cost management practices through the guidance of a newly established Cost Management Steering Committee.

As indicated in the current year findings section of this report (Refer to Comment A), this condition remains open and unresolved during FY1999. The remediation plan actions are pending implementation. (See the recommendation offered for Comment A - *Managerial Cost Accounting*, in the current year.)

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B. Financial Reporting

During FY1998, NRC did not have fully aligned strategic, budget and performance plans. OMB Bulletin No. 97-01, states on page 26, *Instructions for the Preparation of the Statement of Net Cost*, "Preparers...should decide the exact classification of ...major programs based on the missions and outputs described in its GPRA strategic and annual plans, the entity's budget structure...."

NRC management understood that the requirement for having the three plans fully aligned would come into effect for FY1999, in accordance with the GPRA. The current Statement of Net Cost properly reflects the alignment envisioned by the OMB. This comment is resolved and closed.

C. CISSCO Obligations

NRC did not follow, during FY1998, established fund control policy and issued obligations to GSA without recording them in the NRC's general ledger system. Additionally, fund controls which were in place were set at the job code level, thereby precluding effective management control at the lowest functional level.

The actions recommended during FY1998 were taken by the CFO, therefore, this condition is resolved and closed.

D. Revenue from Reimbursable Agreements

In the prior year, the revenue from reimbursable agreements was not consistently recorded using accrual based revenue recognition principles. In some cases, revenue was recorded as contract support expenses were paid, on the cash basis. In other cases, such as agreements with Department of Energy (DOE), revenue was recorded as NRC employees performed services on the related projects, which is appropriate.

Additionally, revenue from foreign cooperative research programs was recorded as research expenses were paid. Generally, revenue was recognized at the time when the related expenses were paid, on the cash basis of accounting.

During the current year, the CFO implemented procedures to ensure that revenue from reimbursable agreements was properly reflected on the principal statements. The Agency also is in the process of drafting policy guidance on this issue.

While the CFO took corrective action, this condition will remain open until the policy guidance is issued in final form.

CFO's Comments

"The final accounting policy guidance concerning the recording of revenue from reimbursable agreements will be issued by April 1, 2000."

Auditors' Position

During a subsequent audit, we will review the propriety and issuance of the policy being drafted.

Assurance on Performance Measures

With respect to internal controls related to performance measures, the Office of the Inspector General performed those procedures and will report on them separately. Our procedures were not designed to provide assurance over reported performance measures, and, accordingly, we do not provide an opinion on such information.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements*.

The U.S. Nuclear Regulatory Commission (NRC) management is responsible for complying with laws and regulations applicable to the Agency. As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations. Noncompliance with these provisions could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 98-08, and the Federal Financial Management Improvement Act (FFMIA) of 1996. Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph *exclusive* of FFMIA, disclosed an instance of noncompliance with the following laws and regulations that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 98-08, that is described below.

Status of Prior Year Comment - Non-FFMIA

Part 170 Hourly Rates

As previously reported in FY1998, the Omnibus Budget Reconciliation Act (OBRA) of 1990 requires the NRC to recover approximately 100% of its budget authority by assessing fees. Accordingly, NRC assesses two types of fees to its licensees and applicants. One type, specified in 10 CFR Part 171, consists of annual fees assessed to power reactors, materials and other licensees. The other type, specified in 10 CFR Part 170 and authorized by the Independent Offices Appropriation Act (IOAA) of 1952, is assessed to specific licensing actions, inspections and other services provided to licensees and applicants.

Each year, the Office of the Chief Financial Officer (OCFO) computes the hourly rates used to charge for the time incurred by NRC personnel in providing Part 170 services. The rates are based on budgetary data and are used to price individually identifiable Part 170 services.

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The FY1998 rates were not developed in accordance with applicable laws and regulations because they were not based on the full cost of providing Part 170 services. For example, the calculations did not include certain contract support costs of approximately $70 million, net of contract support costs directly billable to licensees and applicants. The excluded contract support costs, $70 million, primarily consisted of research projects. The $70 million represents approximately 15% of the FY1998 NRC appropriation of $472.8 million.

The contract support costs were excluded because, based on the OBRA conference agreement, the Chief Financial Officer (CFO) classified these costs as "generic activities" that benefit licensees generally. Thus, NRC recovered these costs through the Part 171 annual fees.

In response to the condition reported in the prior year, the Office of the Inspector General (OIG) performed an audit and issued report (OIG/99A-01) *NRC's License Fee Development Process Needs Improvement.* "... [T]he scope of audit [was limited] to the fee development process, including the calculations used to prepare the rates and fees under the Code of Federal Regulations, Title 10 Parts 170 and 171 for fiscal years ... 1995 through 1999."

The audit found that the conditions reported in the prior year continue to exist. The current year follow-up procedures disclosed that, although the CFO assembled a multi-office team to study generic costs within the Agency, at the end of field work no final report was available for our review. Thus, the condition remains unresolved.

CFO's Comments

"The final report of generic costs study will be issued by April 1, 2000."

Auditors' Position

During a subsequent audit, we will consider the final report mentioned by the CFO in order to assess whether an objective study was performed, and the report properly describes the study's scope and methodology in order to support the conclusion(s) reached by the multi-office team.

Current Year Comments - FFMIA

Under FFMIA, we are required to report whether the Agency's financial management systems substantially comply with the Federal financial management systems requirements, Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance using the implementation guidance for FFMIA included in Appendix D of OMB Bulletin No. 98-08. The results of our tests disclosed instances, described below, where the Agency's financial management systems did not substantially comply with the three requirements discussed above.

Program Cost Accounting Not Supported By the General Ledger

The GAO identifies FFMIA compliant federal financial management systems as having six elements as follows:

- The scope of functions supported -- processes in program execution
- How data quality will be assured -- data stewardship
- The information to be processed -- management information
- How systems fit together to support the functions -- system architecture
- Safeguards needed to ensure integrity of operations and data -- internal control
- Implementing the model for financial management systems -- implementation and system maintenance

During the current year we assessed the financial management system of the Agency to assure that the system provided the framework to meet FFMIA requirements. We found that the financial management system supporting the recording, accumulation and reporting of labor costs by program was not in place due to the lack of transaction level data stewardship and management information.

The Agency relies on a Budget and Reporting (B&R) code to identify costs to the budget fiscal year, allowance, fund type, strategic arena, program and planned accomplishment for all costs except labor. The labor costs of the Agency represent approximately 58% of the expenses included in the Statement of Net Cost. While the Agency recognized the need to transition from budget based accounting to program accounting, they did not provide in their financial management system or in an interim application, the tools necessary to maintain a reliable audit trail for labor cost by program. Instead, a process was developed at year-end to infer the costs included on the Statement of Net Cost. The process included a variety of techniques including data iterations, special ad hoc report design, and cost finding techniques. This used an intense concentration of resources. The information was developed and alternative audit procedures were employed to verify the information gathered.

The lack of data quality at the transaction level indicates a substantial noncompliance with FFMIA. *(Refer to the Report on Management's Assertion About the Effectiveness of Internal Control, Comment B - Program Cost Accounting, for an additional discussion of this condition as a material weakness. Also included in Comment B are the CFO's Comments and Auditors' Position.)*

Status of Prior Year Comments - FFMIA

A. Managerial Cost Accounting

Refer to the Report on Management's Assertion About the Effectiveness of Internal Control, Comment A - Managerial Cost Accounting, for a detailed discussion of the condition and recommendation. For FY1999 this condition continues to be considered a material weakness and a FFMIA substantial noncompliance.

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B. Accounts Receivable Classifications

We reported in the prior year, that CFO personnel performed an assessment of transaction level classifications and found a technical error in the interface's "file transfer protocols." Apparently when data interfaced with the general ledger, the program protocol which triggers the system to set the correct classification from the data files was inoperable. The amounts on the balance sheet, however, had been adjusted to reflect the proper financial line item classifications.

The review of the classifications in the current year disclosed the technical enhancement made by the Agency in March 1999 corrected the condition previously described. This condition is resolved and closed.

C. Business Continuity

In prior years, we reported conditions resulting from our assessment of NRC's management control program relating to the Agency's business continuity practices for major financial management systems. The major systems identified included (1) the core general ledger - Federal Financial System (FFS) operated by Treasury's Financial Management Service (FMS) and (2) fee systems.

The remediation plan, dated June 1, 1998, prepared by the CFO described the strategy to design a solution and provided a timetable for resolving the substantial noncompliance with FFMIA. The plan was reviewed and accepted by the Office of the Inspector General and has been acted upon by NRC management as follows:

1. General Ledger - FFS: NRC contacted FMS expressing concern about the lack of a plan that is fully tested and restated that the responsibility for maintaining and testing the plan rests with FMS and not NRC. FMS replied that action was being taken, however, the reasonable assurance letter issued to NRC by FMS as of September 30, 1999, indicated that little to no progress has been made on this issue. The substantial noncompliance remains unresolved. NRC is dependent on FMS to resolve this condition.

   CFO's Comments

   "As you know, NRC is dependent on Treasury's Financial Management Service to resolve this condition. In its FY 1999 Annual Statement of Assurance, the Financial Management Service indicated that they will not resolve the lack of a tested back-up recovery capability until May 31, 2001. In my February 8, 2000 letter to the Commissioner, Financial Management Service, I requested his assistance in resolving this issue during FY 2000. We will continue to follow-up with the Financial Management Service on this issue until it is resolved."

   Auditors' Position

   We commend the CFO's continuing efforts to resolve this condition in coordination with FMS.

2. Fee Systems: The strategy developed in the remediation plan for this system has been implemented. In December 1998, NRC accepted a technical proposal from a contractor to develop and test a continuity plan for the fee systems. On January 29, 1999, the contractor delivered a work plan that described the work to be performed, the milestones and the deliverables. As of the end of field work, the Agency's contractor has satisfactorily addressed this condition. This condition is resolved and closed.

Consistency of Other Information

NRC's overview of program performance goals and results, and other supplemental financial and management information contain a wide range of data, some of which is not directly related to the principal statements. We do not express an opinion on this information. We have, however, compared this information for consistency with the principal statements and discussed the measurement and presentation methods with NRC management. Based on this limited effort, we found no material inconsistencies with the principal statements or noncompliance with OMB guidance.

Objectives, Scope and Methodology

NRC management is responsible for (1) preparing the principal statements in conformity with the basis of accounting described in Note 1 to the Notes to Principal Statements, (2) establishing, maintaining, and assessing internal controls to provide reasonable assurance that FMFIA's broad control objectives are met, and (3) complying with applicable laws and regulations including the requirements referred to in FFMIA.

We are responsible for expressing an opinion on whether (1) the principal statements are free of material misstatement and presented fairly, in all material respects, in conformity with the basis of accounting described in Note 1 to the principal statements, and (2) for obtaining reasonable assurance about whether management's assertion about the effectiveness of internal control is fairly stated, in all material respects, based upon criteria established by FMFIA and OMB Circular A-123, *Management Accountability and Control.* As of the date of our report, NRC management had completed its evaluation of financial controls.

We are also responsible for testing compliance with selected provisions of laws and regulations, and for performing limited procedures with respect to certain other information in the principal statements. In order to fulfill these responsibilities, we:

- examined, on a test basis, evidence supporting the amounts and disclosures made in the principal statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the principal statements;
- obtained an understanding of internal controls related to safeguarding of assets, compliance with laws and regulations including execution of transactions in accordance with budget authority and financial reporting in the principal statements;

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- assessed control risk and tested relevant internal controls over safeguarding of assets, compliance, and financial reporting, and evaluated management's assertion about the effectiveness of internal control;
- tested compliance with selected provisions of the following laws and regulations: Anti-Deficiency Act (Title 31 U.S.C.), National Defense Appropriation Act (PL 101-510), Omnibus Budget Reconciliation Act of 1990 (PL 101-508), Debt Collection Act of 1982 (PL 97-365), Prompt Payment Act (PL 97-177), Civil Service Retirement Act of 1930, Civil Service Reform Act (PL 97-454), Federal Managers' Financial Integrity Act (PL 97-255), Chief Financial Officers' Act (PL 101-576), Budget and Accounting Procedures Act, Federal Financial Management Improvement Act (PL 104-208); and
- reviewed compliance and reported in accordance with FFMIA whether the Agency's financial management systems substantially comply with the Federal financial management system requirements, applicable accounting standards, and the U.S. Standard General Ledger at the transaction level.

We did not evaluate all internal controls relevant to operating objectives as broadly as defined in FMFIA, such as those controls for preparing statistical reports and those for ensuring efficient and effective operations. We limited our internal control tests to those controls necessary to achieve the objectives described in our opinion on management's assertion about the effectiveness of internal controls. We performed our work in accordance with generally accepted auditing standards, *Government Auditing Standards* and OMB Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements.*

Agency Comments

On February 15, 2000, the CFO responded to the Inspector General on our draft report and addressed the recommendations noted in the report. However, the CFO did not provide specific remedial actions for the FFMIA exception Comment B, *Program Cost Accounting,* noted in the current year. The CFO indicated that a remediation plan will be prepared by May 1, 2000. Based on our review of the CFO's comments, we are satisfied that the actions described meet the intent of our recommendations and FFMIA guidelines. The CFO's comments are appended to this report in their entirety.

Under separate cover, comments will be provided to NRC management outlining opportunities for strengthening internal control and operating efficiency. We appreciate NRC staff cooperation and continued interest in improving financial management within the agency.

This report is intended for the management of the U.S. Nuclear Regulatory Commission, OMB, Congress and the NRC Office of the Inspector General. This restriction is not intended to limit the distribution of this report, which upon acceptance by the OIG, is a matter of public record.

R. Navarro & Associates, Inc

February 3, 2000

PRINCIPAL STATEMENTS
FOR FISCAL YEAR 1999
U. S. NUCLEAR REGULATORY COMMISSION

BALANCE SHEET
As of September 30, 1999
(in dollars)

Assets:	
Intragovernmental assets:	
Fund balances with Treasury (Note 2)	$151,809,570
Accounts receivable (Note 3)	1,680,208
Other	1,207,283
Total intragovernmental assets	154,697,061
Cash and other monetary assets	50,000
Accounts receivable, net (Notes 3 and 4)	34,554,794
Property and equipment, net (Note 5)	40,471,198
Other	48,038
Total Assets	$229,821,091
Liabilities:	
Intragovernmental liabilities:	
Accounts payable	$ 8,764,798
Other (Notes 6 and 7)	39,389,538
Total intragovernmental liabilities	48,154,336
Accounts payable	18,837,930
Federal employees benefits	3,885,000
Other (Notes 6 and 7)	42,390,533
Total Liabilities	113,267,799
Net Position:	
Unexpended appropriations (Note 9)	103,250,102
Cumulative results of operations (Note 10)	13,303,190
Total Net Position	116,553,292
Total Liabilities and Net Position	$229,821,091

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The accompanying notes to the principal statements
are an integral part of this statement.

STATEMENT OF NET COST
For the year ended September 30, 1999
(in dollars)

Nuclear Reactor Safety		
Intragovernmental	$120,529,643	
With the public	215,778,952	
Total	336,308,595	
Less earned revenue (Note 11)	378,373,141	
Net cost of Nuclear Reactor Safety		$(42,064,546)
Nuclear Materials Safety		
Intragovernmental	$ 26,687,043	
With the public	61,160,656	
Total	87,847,699	
Less earned revenue (Note 11)	51,819,780	
Net cost of Nuclear Materials Safety		36,027,919
Nuclear Waste Safety		
Intragovernmental	$ 15,093,015	
With the public	47,967,399	
Total	63,060,414	
Less earned revenue (Note 11)	11,645,979	
Net cost of Nuclear Waste Safety		51,414,435
International Nuclear Safety Support		
Intragovernmental	$ 6,105,603	
With the public	10,017,068	
Total	16,122,671	
Less earned revenue (Note 11)	3,187,425	
Net cost of International Nuclear Safety Support		12,935,246
Net Cost of Operations		$ 58,313,054

The accompanying notes to the principal statements are an integral part of this statement.

STATEMENT OF CHANGES IN NET POSITION
For the year ended September 30, 1999
(in dollars)

Net Cost of Operations		$ (58,313,054)
Financing sources (other than exchange revenue):		
Appropriations used (Note 12)	45,093,029	
Non-exchange revenue (Note 12)	1,315,694	
Imputed financing (Note 12)	16,781,147	
Transfer-in (Note 12)	442,254,845	
Transfers-out (Note 12)	(443,570,539)	
Total financing sources		61,874,176
Net results of operations		3,561,122
Decrease in unexpended appropriations		(12,772,851)
Change in Net Position		(9,211,729)
Net Position - Beginning of Period		125,765,021
Net Position - End of Period		$116,553,292

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The accompanying notes to the principal statements
are an integral part of this statement.

STATEMENT OF BUDGETARY RESOURCES
For the year ended September 30, 1999
(in dollars)

Budgetary Resources (Note 13):	
Budget authority	$472,776,847
Unobligated balances - beginning of period	35,180,599
Spending authority from offsetting collections	4,405,095
Adjustments	7,839,918
Total Budgetary Resources	$520,202,459
Status of Budgetary Resources:	
Obligations incurred	$486,308,618
Unobligated balances - available	33,508,969
Unobligated balances - not available	384,872
Total Status of Budgetary Resources	$520,202,459
Outlays:	
Obligations incurred	
$486,308,618	
Less: Spending authority from offsetting collections and adjustments	(12,245,013)
Subtotal	474,063,605
Obligated balances, net - beginning of period	124,763,659
Less: obligated balance, net - end of period	(116,582,904)
Total Outlays	$482,244,360

The accompanying notes to the principal statements
are an integral part of this statement.

STATEMENT OF FINANCING
For the year ended September 30, 1999
(in dollars)

Obligations and Nonbudgetary Resources	
Obligations incurred	$486,308,618
Less: Spending authority for offsetting collections and adjustments	(12,245,013)
Imputed financing (Note 12)	16,781,147
Transfer-in (Note 12)	442,254,845
Transfer-out (Note 12)	(442,254,845)
Exchange revenues not in the budget (Note 11)	(440,456,670)
Total Obligations and Nonbudgetary Resources	$ 50,388,082
Resources Not Funding Net Cost of Operations	
Change in undelivered orders	11,486,094
Capitalized costs	(7,437,988)
Financing sources that fund costs of prior periods	(2,241,464)
Other	(4,578)
Total Resources Not Funding Net Cost of Operations	1,802,064
Costs Not Requiring Resources	
Depreciation and amortization	6,122,908
Total Costs Not Requiring Resources	6,122,908
Net Cost of Operations	$ 58,313,054

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The accompanying notes to the principal statements are an integral part of this statement.

NOTES TO PRINCIPAL STATEMENTS
September 30, 1998

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The U. S. Nuclear Regulatory Commission (NRC) is an independent regulatory agency of the Federal Government that was created by the U. S. Congress to regulate the Nation's civilian use of byproduct, source, and special nuclear materials to ensure adequate protection of the public health and safety, to promote the common defense and security, and to protect the environment. Its purposes are defined by the Energy Reorganization Act of 1974, as amended, along with the Atomic Energy Act of 1954, as amended, which provide the foundation for regulating the Nation's civilian uses of nuclear materials.

The NRC appropriations for salaries and expenses and the Inspector General include approximately $17 million of funds derived from the Nuclear Waste Fund and $3.2 million from the General Fund for assistance provided to the U. S. Department of Energy (DOE). In addition, $4 million was available for obligation from appropriations provided by the U. S. Agency for International Development for the development of nuclear safety and regulatory authorities in Russia, Armenia, Kazakhstan, and the Ukraine for the independent oversight of nuclear reactors in these countries.

The accompanying financial statements of NRC include the accounts of all funds under NRC control. The NRC is under budget functional classification 276 - Energy information, Policy, and Regulation and departmental code 31. The transfer appropriations from 1) the Agency for International Development are under budget functional classification 150 - International Affairs and departmental code 72 and 2) the General Services Administration is under budget functional classification 800 - General Government and departmental code 47.

B. Basis of Presentation

These principal statements were prepared to report the financial position and results of operations of the NRC as required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. These financial statements were prepared from the books and records of the NRC in conformity with generally accepted accounting principles, the requirements of Office of Management and Budget (OMB) Bulletin No. 97-01, *Form and Content of Agency Financial Statements,* technical amendments, and NRC accounting policies. These statements are, therefore, different from the financial reports, also prepared by the NRC pursuant to OMB directives, which are used to monitor and control NRC's use of budgetary resources.

In accordance with technical amendments to OMB Bulletin No. 97-01, NRC made several changes to its principal financial statements and footnotes. On the balance sheet, entity and non-entity assets as well as liabilities covered and not covered by budgetary resources have been combined. The NRC has not prepared a Statement of

Custodial Activity because the amounts involved are immaterial and are incidental to its operations and mission.

The strategic arenas as presented on the Statement of Net Cost are based on the strategic plan and the FY 1999 budget structure. The budget line items for Management and Support and the Office of the Inspector General were allocated to strategic arenas using cost-finding techniques consistent with Statement of Federal Financial Accounting Standards Number 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government.* The NRC's four programmatic strategic arenas are described as follows:

Nuclear Reactor Safety encompasses all NRC efforts to ensure that civilian nuclear power reactor facilities, as well as nonpower reactors, are operated in a manner that adequately protects public health and safety and the environment, and protects against radiological sabotage and theft or diversion of special nuclear materials.

Nuclear Materials Safety encompasses NRC efforts to ensure that NRC-regulation aspects of nuclear fuel cycle facilities and nuclear materials activities are handled in a manner that provides adequate protection of public health and safety. This arena encompasses more than 20,000 specific and 100,000 general licensees that are regulated by the NRC and 30 Agreement States.

Nuclear Waste Safety encompasses NRC's high-level waste regulatory activities associated with high-level waste storage and high-level waste disposal at Yucca Mountain, low-level radioactive waste activities associated with the disposal of waste, decommissioning activities which involve safely removing a facility from service and reducing residual radioactivity to a level that permits the property to be released, and regulation of uranium recovery.

International Nuclear Safety Support encompasses international nuclear policy formulation, export-import licensing for nuclear materials and equipment, treaty implementation, international information exchange, international safety and safeguards assistance, and deterring nuclear proliferation. NRC's international activities support broad U.S. national interests, as well as the NRC's domestic mission.

C. *Budgets and Budgetary Accounting*

For the past 25 years, Congress has enacted no-year appropriations which are available for obligation by NRC until expended. The Omnibus Budget Reconciliation Act (OBRA) of 1990, as amended, requires the NRC to recover approximately 100 percent of its new budget authority of $469.8 million by assessing fees less the amounts derived from the Nuclear Waste Fund of $17 million and $3.2 million from the General Fund for assistance provided to DOE which is excluded from license fee revenues. At the end of the fiscal year, NRC's appropriations were reduced by $ 976,000 through a recission of funding in accordance with Public Law 106-51.

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NOTES TO PRINCIPAL STATEMENTS
September 30, 1998

D. Basis of Accounting

Transactions are recorded on both an accrual accounting basis and on a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and control over the use of Federal funds. Interest on borrowings of the U. S. Treasury is not included as a cost to NRC's programs and is not included in the accompanying financial statements

E. Revenues and Other Financing Sources

The NRC is required to offset its appropriations by the amount of revenues received during the fiscal year by assessing fees. The NRC assesses two types of fees to recover its budget authority: (1) fees assessed under 10 CFR Part 170 for licensing, inspection, and other services under the authority of the Independent Offices Appropriation Act of 1952 to recover the NRC's costs of providing individually identifiable services to specific applicants and licensees; and (2) annual fees assessed for nuclear facilities and materials licensees under 10 CFR Part 171. All fees, with the exception of civil penalties, are exchange revenues in accordance with Statement of Federal Financial Accounting Standards Number 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*.

Licensing fees and fees for inspections and other services, assessed in accordance with 10 CFR Parts 170 and 171, are recognized as revenue when earned. In accordance with Federal Government accounting guidance, the NRC classifies revenues as either exchange revenue or non-exchange revenue. Exchange revenues are those that are derived from transactions in which both the Government and the public receive value. These revenues are presented on the Statement of Net Cost and serve to reduce the reported cost of NRC's programs.

Non-exchange revenues are derived from the Government's sovereign right to demand payment, including fines for violation of laws or regulations. These financing sources do not reduce the cost of NRC's programs and are reported on the Statement of Changes in Net Position. Miscellaneous receipts collected by NRC, including interest on delinquent debt, late payment penalties, Freedom of Information Act fees, and indemnity fees, are not available to NRC for obligation or expenditure. These receipts must be transferred to the U. S. Treasury when collected.

For accounting purposes, appropriations are recognized as financing sources (appropriations used) at the time expenses are accrued. At the end of the fiscal year, appropriations recognized are reduced by the amount of assessed fees collected during the fiscal year to the extent of new budget authority for the year. Collections which exceed the new budget authority are held to offset subsequent years' appropriations.

Appropriations expended for property and equipment are recognized as expenses when the asset is consumed in operations (depreciation and amortization). Appropriations used do not include (a) expenses incurred but not yet funded by Congress, such as workers' compensation benefits and annual leave expenses; and (b) expenses which are paid by other Federal agencies, such as retirement benefits.

F. Fund Balances with Treasury and Cash and Other Monetary Assets

The NRC's cash receipts and disbursements are processed by the U.S. Treasury. The fund balances with the Treasury and cash are primarily appropriated funds that are available to pay current liabilities and to finance authorized purchase commitments. Funds with Treasury represent NRC's right to draw on the U. S. Treasury for allowable expenditures. All amounts are available to NRC for current use. Cash balances held outside the U.S. Treasury are not material.

G. Accounts Receivable

The amounts due for receivables, except those due from Federal agencies, are stated net of an allowance for uncollectible accounts. Since receivables from Federal agencies are expected to be collected, there is no allowance for uncollectible accounts. The estimate of the allowance is based on an analysis of the outstanding balances and the application of estimated uncollectible percentages to categories of aged receivable balances.

H. Property and Equipment

Property and equipment consists primarily of typical office furnishings, nuclear reactor simulators, and computer hardware and software. The agency has no real property. The land and buildings in which NRC operates are provided by the U.S. General Services Administration (GSA), which charges NRC rent that approximates the commercial rental rates for similar properties.

Property with a cost of $50,000 or more per unit and a useful life of 2 years or more is capitalized at cost and depreciated. Other property items are expensed when purchased. Normal repairs and maintenance are charged to expense as incurred.

I. Accounts Payable

Accounts payable represent vendor invoices for services received by NRC that will be paid (liquidated) in the next fiscal year. Also included in these amounts are contract holdbacks on contracts which have not been fully closed and advances which represent collections received in advance of performing services under a variety of reimbursable agreements. The services will be provided and the revenue earned in a subsequent fiscal year.

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NOTES TO PRINCIPAL STATEMENTS
September 30, 1998

J. Liabilities Not Covered by Budgetary Resources

Liabilities represent the amount of monies or other resources that are likely to be paid by NRC as the result of a transaction or event that has already occurred. No liability can be paid by NRC absent an appropriation. Liabilities for which an appropriation has not been enacted and for which there is no certainty that an appropriation will be enacted are classified as Liabilities Not Covered by Budgetary Resources. Also, NRC liabilities arising from sources other than contracts can be abrogated by the Government acting in its sovereign capacity.

K. Contingencies

The NRC is a party to various administrative proceedings, legal actions, environmental suits, and claims brought by or against it. Based on the advice of legal counsel concerning contingencies, it is the opinion of management that the ultimate resolution of these proceedings, actions, suits, and claims will not materially affect the agency's financial position or results of operations.

L. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave liability account is adjusted to reflect current pay rates. Sick leave and other types of nonvested leave are expensed as taken.

M. Retirement Plans

Approximately 48 percent of NRC employees belong to the Civil Service Retirement System (CSRS) and 52 percent belong to the Federal Employees' Retirement System (FERS). In FY 1999, for employees in FERS, the NRC withheld 1.05 percent of base pay earnings in addition to Federal Insurance Contribution Act (FICA) withholdings and matched the withholding with a 10.7 percent contribution. The sum was transferred to the Federal Employees Retirement Fund. For employees covered by CSRS, NRC withheld 7.25 percent of base pay earnings. This withholding was matched by NRC with an 8.51 percent contribution, and the sum of the withholding and the match was transferred to the CSRS.

The Thrift Savings Plan (TSP) is a retirement savings and investment plan for employees covered by either FERS or CSRS. For employees covered by FERS, NRC automatically contributes one percent of base pay to their account and matches contributions up to an additional four percent. The maximum percentage that an employee participating in FERS may contribute is 10 percent of base pay. Employees covered by CSRS may contribute up to five percent of their base pay, but there is no NRC matching of the contribution. The maximum amount that either FERS or CSRS employees may contribute to the plan in a calendar year is $10,000. The sum of the employees' and NRC's contributions is transferred to the Federal Retirement Thrift Investment Board.

The NRC does not report on its financial statements FERS and CSRS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of the U. S. Office of Personnel Management. The portion of the current and estimated future outlays for CSRS not paid by NRC is, in accordance with Statement of Federal Financial Accounting Standards Number 5, *Accounting for Liabilities of the Federal Government*, included in NRC's financial statements as an imputed financing source.

N. U. S. Department of Energy Charges

Financial transactions between the DOE and NRC are fully automated through the U. S. Treasury's On-Line Payment and Collection (OPAC) System. The OPAC System allows DOE to collect amounts due from NRC directly from NRC's account at the U. S. Treasury for goods and/or services rendered. Project manager verification of goods and/or services received is subsequently accomplished through a system-generated voucher approval system. The vouchers are returned to the Office of the Chief Financial Officer documenting that the charges have been accepted. For the year ended September 30, 1999, NRC had expenses of approximately $54.5 million for research conducted by the DOE National Laboratories.

O. Pricing Policy

The NRC provides goods and services to the public and other Government entities. In accordance with OMB Circular No. A-25, *User Charges*, and the Independent Offices Appropriation Act of 1952, NRC assesses fees under 10 CFR Part 170 for licensing and inspection activities to recover the full cost of providing individually identifiable services. In accordance with the Omnibus Budget Reconciliation Act of 1990, fees are assessed annually to licensees under 10 CFR Part 171 to recover approximately 100 percent of new budget authority, less amounts excluded from fee recovery and those recovered under 10 CFR Part 170.

The NRC's policy is to recover the full cost of goods and services provided to other Government entities where (1) the services performed are not part of its statutory mission and (2) NRC has not received appropriations for those services. Fees for reimbursable work are assessed at the 10 CFR Part 170 rate with minor exceptions for programs that are nominal activities of the NRC.

P. Use of Management Estimates

The preparation of the accompanying financial statements requires management to make certain estimates and assumptions that directly affect the results of reported assets, liabilities, revenue, and expenses. Actual results may differ from these estimates.

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NOTES TO PRINCIPAL STATEMENTS
September 30, 1998

NOTE 2. FUND BALANCES WITH TREASURY

Fund balances with Treasury consist of the following amounts as of September 30, 1999:

Appropriated funds:	
Obligated	$128,447,558
Unobligated	19,948,726
	148,396,284
Other fund types	3,413,286
	$151,809,570

The obligated and unobligated balances exclude amounts related to unfilled customer orders.

NOTE 3. ACCOUNTS RECEIVABLE

Accounts receivable is composed of the following as of September 30, 1999:

Intragovernmental accounts receivable consists primarily of receivables and reimbursements due from other Federal agencies which were $1,680,208 at September 30, 1999.

The non-Federal accounts receivable, net, is comprised of the following amounts as of September 30, 1999:

Materials and facilities fees - billed	$ 4,122,072
Materials and facilities fees - unbilled	34,020,962
Other	222,790
Total accounts receivable	38,365,824
Less: Allowance for uncollectible accounts	(3,811,030)
Accounts receivable, net	$34,554,794

Other accounts receivable represent amounts due for fees assessed for licensing and inspections of nuclear facilities, the handling of nuclear materials, and other services. In the year collected, the amounts will be used to offset NRC's appropriations.

NOTE 4. NON-ENTITY ASSETS

Included in the accounts receivable balance is $43,762 consisting of miscellaneous penalties and interest due from the public, which, when collected, must be transferred to the U.S. Treasury.

NOTE 5. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consists of the following as of September 30, 1999:

Fixed Assets Class	Service Years	Acquisition Value	Accumulated Depreciation and Amortization	Net Book Value
Equipment	5-8	$ 19,326,119	$(16,833,677)	$ 2,492,442
ADP software	5	47,460,179	(37,114,177)	10,346,002
ADP software under development	-	13,871,530	-	13,871,530
Leasehold improvements	20	19,612,274	(5,952,912)	13,659,362
Leasehold improvements in progress		101,862	-	101,862
		$100,371,964	$(59,900,766)	$40,471,198

NOTE 6. OTHER LIABILITIES

Other intragovernmental liabilities as of September 30, 1999, include:

Liability to offset net accounts receivable for fees assessed	$35,521 ,035
Liability to offset miscellaneous accounts receivable	40,878
Accrued worker's compensation	1,398,694
Accrued benefits	2,428,931
	$39,389,538

The liability to offset the net accounts receivable for fees assessed represents amounts which, when collected, will be transferred to the U. S. Treasury to offset NRC's appropriations in the year collected. The liability to offset miscellaneous accounts receivable represents amounts which will be reverted to the U. S. Treasury when collected. The liability for deposit funds consists primarily of liabilities arising from payroll deductions and tax withholdings.

Other liabilities as of September 30, 1999, include:

Accrued annual leave	$24,929,291
Accrued salaries	13,258,360
Contract holdbacks, advances, and other	4,202,882
	$42,390,533

All other liabilities, except accrued annual leave, contract holdbacks, and advances from others, are current. Current liabilities represent amounts which are expected to be paid within the fiscal year following the reporting date. Accrued annual leave, contract holdbacks, and advances from others may not be liquidated in the fiscal year following the reporting date.

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NOTES TO PRINCIPAL STATEMENTS
September 30, 1998

NOTE 7. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities not covered by budgetary resources are not funded by current or prior years' appropriations and assessments. Funding will be provided from future years' appropriations. As of September 30, 1999, liabilities not covered by budgetary resources included:

Intragovernmental

Included in the $39,389,538 of other intragovernmental liabilities is $1,398,694 related to Federal Employees Compensation Act (FECA) benefits paid by the U.S. Department of Labor (DOL) on NRC's behalf which had not been billed or paid by NRC as of September 30, 1999.

Federal Employees Benefits

Federal employees benefits of $3,885,000 represent the actuarial liability for estimated future FECA disability benefits. The future workers' compensation estimate was generated by DOL from an application of actuarial procedures developed to estimate the liability for FECA, which includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability was calculated using historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. These projected annual benefit payments were discounted to present value.

Other

Included in the $42,390,533 of other liabilities is $24,929,291 of accrued annual leave and $241,312 for capital lease liability. Accrued annual leave represents the amount of annual leave earned by NRC employees but not yet taken.

NOTE 8. LEASES

A description of lease agreements as of September 30, 1999, follows:

Capital Leases

Future payments due:

	Fiscal Year	Lease Payments
	2000	$ 70,378
	2001	70,378
	2002	70,378
	2003	52,784
	2004 and thereafter	-
Total future lease payments		263,918
Less: imputed interest		(22,606)
Net capital lease liability		$241,312

The total capital lease liability is funded on an annual basis and included in NRC's annual budget. The NRC's capital leases are for personal property consisting of reproduction equip-

ment, which is installed in various NRC facilities. The leases are for 5 years and the interest rate paid was 4.75 percent. The reproduction equipment is depreciated over 5 years using the straight-line method with no salvage value.

Operating Leases

Future payments due:

Fiscal Year	Lease Payments
2000	$ 20,033,846
2001	20,093,333
2002	19,406,694
2003	19,364,621
2004	19,402,297
2005 and thereafter	158,245,241
Total future lease payments	$256,546,032

Operating leases consist of real property leases with GSA. The leases are for NRC's headquarters offices, regional offices, and the Washington, DC, reading room. The GSA charges NRC lease rates which approximate commercial rates for comparable space.

NOTE 9. UNEXPENDED APPROPRIATIONS

The unexpended appropriations consist of the following as of September 30, 1999:

Unexpended appropriations:	
Unobligated	$ 22,478,213
Undelivered orders	80,771,889
	$103,250,102

Unexpended appropriations include (a) unobligated appropriation balances and (b) undelivered orders, which are amounts which have been obligated but not yet expended. The unobligated appropriations balance does not include $3,575,711 in unfilled customer orders - unobligated as of September 30, 1999. The undelivered orders balance does not include $2,529,486 in unfilled customer orders - obligated as of September 30, 1999.

NOTE 10. CUMULATIVE RESULTS OF OPERATIONS

The cumulative results of operations as of September 30, 1999, consist of the following:

Future funding requirements	$(30,212,985)
Investment in property and equipment, net	40,471,197
Contributions from foreign cooperative research agreements	2,979,384
Other	65,594
	$ 13,303,190

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NOTES TO PRINCIPAL STATEMENTS
September 30, 1998

Future funding requirements represent the amount of future funding needed to pay the accrued unfunded expenses as of September 30, 1999. These accruals are not funded from current or prior-year appropriations and assessments, but rather should be funded from future appropriations and assessments. Accordingly, future funding requirements have been recognized for the expenses that will be paid from future appropriations.

NOTE 11. EXCHANGE REVENUES

Exchange revenues for the year ended September 30, 1999, were:

Fees for licensing, inspection, and other services	$440,456,670
Revenue from reimbursable work	4,569,655
	$445,026,325

NOTE 12. FINANCING SOURCES OTHER THAN EXCHANGE REVENUE

Appropriations Used

Appropriations used, a financing source, is recognized to the extent that appropriated funds have been consumed less the amount collected from fees assessed for licensing, inspections, and other services. During the year ended September 30, 1999, $438,071,824 was collected from fees assessed for licensing, inspections, and other services. At the end of the fiscal year, appropriations recognized are reduced by the amount of assessed fees collected during the fiscal year to the extent of new budget authority for the year. Collections which exceed the new budget authority are held to offset subsequent years' appropriations.

For the year ended September 30, 1999, $438,071,824 of FY 1999 collections and $4,183,021 of FY 1998 collections were used to reduce the fiscal year's appropriations recognized:

Appropriated funds consumed	$485,549,699
Less: Collection from fees assessed	(442,254,845)
	43,294,854
Prior-year collections used to offset current year's appropriations	1,798,175
	$ 45,093,029

Appropriations used includes $35,180,599 of available funds from prior years.

Non-Exchange Revenue

Non-exchange revenue of $1,315,694 consisted of $1,048,250 received from civil penalties and $267,444 of miscellaneous receipts, which included interest on delinquent debt, late penalties, Freedom of Information Act fees, and indemnity fees.

Imputed Financing

The imputed financing source of $16,781,147 represents the service costs related to NRC employees' post-employment benefits which are paid by the U. S. Office of Personnel Management, as follows:

Civil Service Retirement System	$ 9,746,846
Federal Employee Health Benefit	6,990,677
Federal Employee Group Life Insurance	43,624
	$16,781,147

Transfers

For FY1999 NRC transferred-out to the U.S. Treasury $443,570,539 consisting of license fee collections of $442,254,845 and non-exchange revenue of $1,315,694 and received back as a transfer-in $442,254,845.

NOTE 13. SUMMARY OF BUDGETARY RESOURCES

The budgetary resources by major fund follows:

Budgetary Resources:	X0200	X0300	All Other	Total
Budget authority	$464,024,000	$4,800,000	$3,952,847	$472,776,847
Unobligated balances - beginning of period	28,619,351	1,201,884	5,359,364	35,180,599
Spending authority from offsetting collections	4,404,469	126	500	4,405,095
Adjustments	7,694,970	102,579	42,369	7,839,918
Total Budgetary Resources	$504,742,790	$6,104,589	$9,355,080	$520,202,459
Status of Budgetary Resources:				
Obligations incurred	$475,517,812	$4,913,512	$5,877,294	$486,308,618
Unobligated balances - available	29,224,978	1,191,077	3,092,914	33,508,969
Unobligated balances - not available			384,872	384,872
Total Status of Budgetary Resources	$504,742,790	$6,104,589	$9,355,080	$520,202,459

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NOTES TO PRINCIPAL STATEMENTS
September 30, 1998

NOTE 13. SUMMARY OF BUDGETARY RESOURCES *(Continued)*

Budgetary Resources:	X0200	X0300	All Other	Total
Outlays:				
Obligations incurred	$475,517,812	$4,913,512	$5,877,294	$486,308,618
Less: Spending authority from offsetting collections and adjustments	(12,099,439)	(102,704)	(42,870)	(12,245,013)
Obligated balance, net beginning of period	121,578,684	1,385,321	1,799,654	124,763,659
Obligated balance transferred, net	-	-	-	-
Less: Obligated balance, net end of period	(111,072,928)	(1,190,652)	(4,319,324)	(116,582,904)
Total Outlays	$473,924,129	$5,005,477	$3,314,754	$482,244,360

The adjustments of $7,839,918 to budgetary resources above consist of recoveries to prior-year obligations.

SUPPLEMENTARY INFORMATION
FOR FISCAL YEAR 1999
U. S. NUCLEAR REGULATORY COMMISSION

Required Supplementary Information: Schedule of Intragovernmental Balances

INTRAGOVERNMENTAL ASSETS

Trading Partner	Fund Balances with Treasury	Accounts Receivable	Other
Department of the Treasury	$151,809,570		
Department of Commerce			$ 351,648
Department of the Interior			92,003
Department of Labor			257,811
Department of the Navy			348,764
Department of the Army		$ 110,290	
Department of Veteran Affairs		162,350	
General Services Administration			98,287
Tennessee Valley Authority		747,987	
Agency for International Development		394,027	
Department of Energy		117,506	
Other		148,048	58,770
Total	$151,809,570	$1,680,208	$1,207,283

INTRAGOVERNMENTAL LIABILITIES

Trading Partner	Accounts Payable	Other
Department of Agriculture		$ 270,333
Department of Labor		1,398,694
Department of the Treasury		35,561,913
Office of Personnel Management		1,631,742
Social Security Administration		526,856
General Services Administration	$2,761,788	
Department of Energy	5,559,839	
Other	443,171	
Total	$8,764,798	$39,389,538

APPENDIX
COMMENTS OF
THE CHIEF FINANCIAL OFFICER

UNITED STATES
NUCLEAR REGULATORY COMMISSION
WASHINGTON, DC 20555-0001

February 15, 2000

MEMORANDUM TO: Thomas J. Barchi
Assistant Inspector General for Audits

FROM: Jesse L. Funches
Chief Financial Officer

SUBJECT: DRAFT AUDIT REPORT - AUDIT OF THE NUCLEAR REGULATORY COMMISSION'S FISCAL YEAR 1999 FINANCIAL STATEMENTS

We have reviewed the draft audit report of the Nuclear Regulatory Commission's FY 1999 financial statements dated February 10, 2000. Our comments on the recommendations contained in the draft audit report are as follows:

MANAGERIAL COST ACCOUNTING

Recommendation: The Chief Financial Officer (CFO) should develop interim cost management information to enhance agency managers' ability to evaluate the cost of outputs and outcomes realized by the agency. Development of interim cost management techniques may also enhance the success of the system being contemplated by identifying the needs of managers.

The CFO should continue to be supportive of the agency's Cost Management Steering Committee.

Response: We agree there are potential benefits of developing interim cost management information for managers prior to the agency's plan to fully implement managerial cost accounting. We will work with the Cost Management Steering Committee and offices to assess what informational needs can be met with existing systems and, if possible, begin to provide interim cost management information. We will initiate this effort during March 2000.

We will continue to support the agency's Cost Management Steering Committee. We view this an important element in the agency's implementation of managerial cost accounting. Part of the charter of the Cost Management Steering Committee is to coordinate the identification of management's cost information needs with the CFO and CIO and support the cost accounting system implementation effort. We believe that the Committee's involvement will help make the cost accounting system a success.

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CONTACT: Barbara K. Gusack, OCFO/DAF/GAB
415-6054

PROGRAM COST ACCOUNTING

Recommendation: The CFO should review and assess whether labor cost distribution systems being implemented in FY2000 fully comply with accounting and reporting standards. Those systems should be designed to improve the timeliness and reliability of financial reporting in future years.

Response: We have already initiated actions to assess PAY/PERS Labor System to ensure compliance with accounting and reporting standards and to validate the data for use in preparing the FY 2000 financial statements. In addition, we will examine the internal controls for the PAY/PERS Labor system including an assessment of the offices' compliance with the applicable policy and procedures. We plan to complete these assessments by July 1, 2000.

We will also ensure that the new Peoplesoft Payroll and Time and Labor Systems, being implemented in FY 2001, will also comply with accounting and reporting standards.

Beginning in March 2000, we will begin providing offices with labor-cost distribution reports for management purposes. We believe the system we have implemented for FY 2000 will improve the timeliness and reliability of financial reporting.

As required by the Federal Financial Management Improvement Act, a remediation plan will be prepared by May 1, 2000.

MANAGEMENT CONTROLS OVER FEE DEVELOPMENT[12]

Recommendation: The CFO should address the immediate need for documented policy and a quality control process over fee development. It is essential to the integrity of the fee development process that greater discipline and structure be implemented.

Response: We agree with the need for adding more structure to the fee development process. We plan to document the license fee rule development process, and establish general procedures for calculating fees and conducting quality control. The CFO has selected a contractor, familiar with the fee rule development process, to document that process by October 2000. We are also taking actions to strengthen management controls: 1) we have a contractor on board to look at the fee model and recommend improvements to that process; 2) we are streamlining the data-entry process to the fee model to reduce the potential for error and eliminate some of the duplicate entry; and 3) we are hiring a fee policy analyst to assist in development of the fee rule which will enhance quality control.

[12] On page 5, fifth paragraph, the draft report states that, "As further evidence that management controls over fee development are inadequate, the CFO recently included a reference to a *completed* internal study on generic costs in the FY 2000 proposed fee rule, which would have become a public document." While I do not agree that this error is further evidence of inadequate management controls, I would note that the document referenced in your draft report (i.e., SECY-00-0012) is the FY 2000 proposed fee rule Commission paper and is limited to the NRC unless the Commission determines otherwise and may not become a public document.

FINANCIAL STATEMENT PREPARATION

Recommendation: The CFO should assess current financial statement compilation practices for responding to the requirements of the CFO Act principal statements. The agency should develop and implement a financial statement preparation process that provides timely preparation of statements, supporting reports, and analysis during the fiscal year and at year's end.

Response: During the past few years, the agency has been in transition in developing and integrating its strategic plan, performance report, and performance plan and budget. This evolutionary development phase has impacted financial reporting as the agency has moved to develop the underlying financial systems needed to support the new reporting requirements. This condition was further compounded by significant revisions the Office of Management and Budget made to the form and content of financial statements effective for FY 1998.

As part of our annual assessment, we will examine the process used to produce the financial statements to determine where improvements can be made. In particular, we have recognized our lack of systems and a well disciplined compilation process for presenting labor-cost data by strategic arena and the effect on preparing financial statements in a timely and comprehensive manner over the past 2 years. As a result, we implemented corrective action for FY 2000 to capture labor-cost data by strategic arena and will be able to make more use of electronic means to assemble, summarize, and analyze data. We expect these actions will improve and streamline the financial statement preparation process.

SEGREGATION OF DUTIES - PAY/PERS

Recommendation: The CFO should ensure that effective segregation of duties is maintained prior to assigning access profiles to PAY/PERS personnel. The CFO should also assure that consideration is given to segregation of duties during the design and evaluation phase of newly designed systems.

Additionally, periodic review and assessment should be made of systems during the implementation and operations stages to assure that conditions or circumstances have not changed causing incompatible functions.

Response: The OCFO changed the Payroll Operations Team Leader's profile to access level II data as soon as this was identified during the audit of the financial statement. The PAY/PERS system administrator will ensure adequate segregation of duties.

The Peoplesoft payroll implementation team leader/system administrator will ensure that proper segregation of duties is incorporated into the new payroll system through the system's security profiles and will administrator annual reviews to ensure that there are adequate segregation of duties.

CONTROLS OVER AUTHORIZED USERS - PAY/PERS

Recommendation: The CFO should direct the DAF system administrator to begin using the Detail Utilization Report to perform periodic reviews of authorized users. The review should include techniques to identify user sessions for investigating unusual utilization sessions or usage patterns.

Response: The OCFO will develop a management report, based on the Detail Utilization Report, that will be used to identify unusual activity and unauthorized user access. This report

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will be reviewed biweekly by the system administrator who will report any unusual findings to management. Corrective action will be initiated in March 2000.

MANAGEMENT CONTROLS OVER SMALL ENTITY CERTIFICATIONS

Recommendation: The CFO should, at least quarterly, select a statistically valid sample of small entity certifications filed and request evidence, such as income tax returns or financial statements, to support the size standards claimed by the licensees.

Response: We share your concern of licensees filing false small entity certifications. We have reservations with implementing the corrective actions you have recommended. Under the Paperwork Reduction Act, requesting income tax returns or financial statements from licensees would require approval from the Office of Management and Budget. We also have concerns regarding the costs of validating the small entity status of a sample of licensees each quarter.

The OCFO plans to explore your recommendation along with other corrective actions. We will advise you of the results by June 1, 2000.

MANAGEMENT CONTROLS OVER GENERAL SERVICES ADMINISTRATION (GSA) CREDITS

Recommendation: The CFO should direct:

- The FOB to track and verify that GSA credits are received by holding a copy of the Form 441 and invoice in a pending file until the credit is received.
- FOB to follow up with the project manager routinely to discuss any credits that have not been received in a timely manner.

Response: The DAF Financial Operations Branch has established a process to track and monitor GSA credits effective with the February 2000 billings. The procedure includes routine follow-ups with the project manager regarding untimely credits. Written procedures will be completed in March 2000.

STATUS OF PRIOR-YEAR RECOMMENDATIONS

Revenue from Reimbursable Agreements: The final accounting policy guidance concerning the recording of revenue from reimbursable agreements will be issued by April 1, 2000.

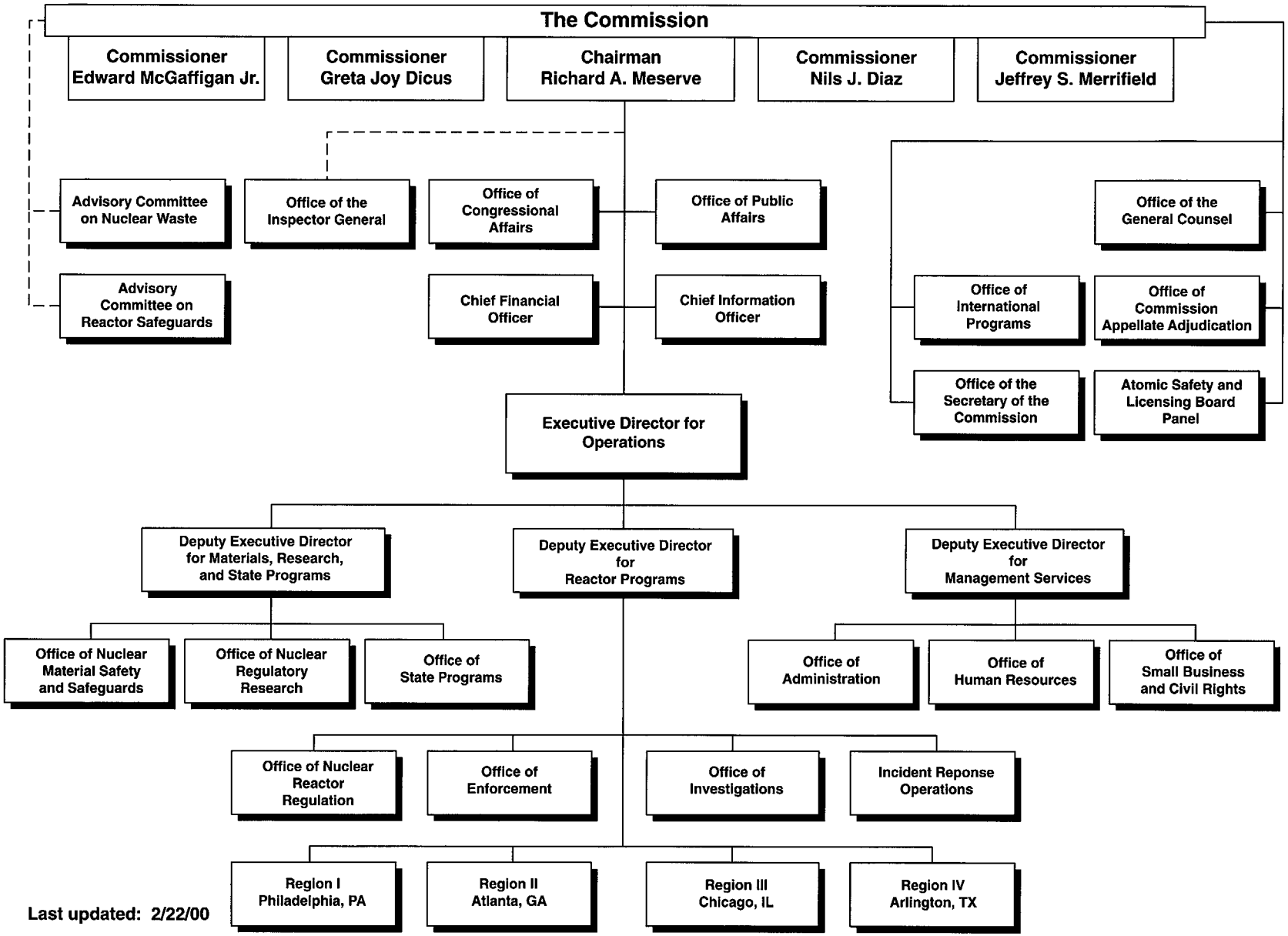
Part 170 Hourly Rates: The final report of generic costs study will be issued by April 1, 2000.

Business Continuity - FFS: As you know, NRC is dependent on Treasury's Financial Management Service to resolve this condition. In its FY 1999 Annual Statement of Assurance, the Financial Management Service indicated that they will not resolve the lack of a tested back-up recovery capability until May 31, 2001. In my February 8, 2000 letter to the Commissioner, Financial Management Service, I requested his assistance in resolving this issue during FY 2000. We will continue to follow-up with the Financial Management Service on this issue until it is resolved.

We appreciate the opportunity to respond to the draft audit report and are available to discuss our comments. We will work closely with your staff and keep them apprised of the status of corrective actions.

Appendix A

U.S. Nuclear Regulatory Commission Organization Chart



Last updated: 2/22/00

Appendix B

FISCAL YEAR 1999 ANNUAL REPORT (NUREG–1145, Vol. 16)

This 25th annual report of the U.S. Nuclear Regulatory Commission (NRC) for Fiscal Year (FY) 1999—October 1, 1998, through September 30, 1999—presents significant activities and accomplishments supporting NRC's strategic and performance goals.[1] It also illustrates the agency's progress toward moving to a more risk-informed regulation of nuclear reactor and materials licensees.

In addition to our paramount regulatory responsibility of ensuring public health and safety, in FY 1999 we also concentrated on increasing public confidence in the NRC as a regulator of nuclear safety, becoming a more effective and efficient regulator, and reducing unnecessary regulatory burden.

In seeking to become a more effective regulator, we continued our efforts to assess our activities for their contribution to our performance goals associated with the four strategic arenas: (1) Nuclear Reactor Safety, (2) Nuclear Materials Safety, (3) Nuclear Waste Safety, and (4) International Nuclear Safety Support. In each of these strategic arenas, a brief description of noteworthy program achievements is discussed followed by a listing of significant accomplishments and activities that contributed to the NRC's goals for FY 1999. Additional information about our performance is published in NRC's "Accountability and Performance Report" (NUREG–1542) to which this annual report is appended.

[1] This report is based on the format and content of the NRC's monthly report to Congress on the status of its licensing and regulatory duties, as directed in the Fiscal Year 1999 Energy and Water Development Appropriations Act, Senate Report 105-206.

NUCLEAR REACTOR SAFETY

The NRC regulates the operation of the 103 nuclear power plants by establishing regulatory requirements for design, construction, and operation of plants; conducting a thorough process in licensing plants to operate; licensing plant operators; and providing oversight of plant activities to verify that they are being operated in accordance with the regulations. In FY 1999, the NRC continued to make major changes in its nuclear reactor safety program, as discussed below.

Revised Reactor Oversight Process

In FY 1999, the NRC revamped its reactor oversight process to make it more objective, predictable, understandable, and focused on areas of greatest safety significance. The revised reactor oversight process takes into account improvements in the performance of the nuclear industry over the past 25 years and improved approaches of inspecting and evaluating the safety performance of NRC licensed plants. The revised reactor oversight process is consistent with the agency's objectives of maintaining safety, enhancing public confidence, improving the effectiveness and efficiency of our processes, and reducing unnecessary regulatory burden. While we are changing the oversight process, the regulatory structure that provides the foundation upon which safe operation is based remains unchanged.

The Commission considers the new oversight process to be a major improvement over the previous oversight process, including the systematic assessment of licensee performance program (SALP). The impetus behind this came both from the NRC's own fundamental reviews of its regulatory program as part of the "reinventing government" process and from concerns expressed by

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the nuclear industry, Congressional committees, and public interest groups.

Pilot implementation of the revised reactor oversight process was conducted at nine reactor sites across all four regions from May 30 through November 27, 1999. The participating pilot plants included FitzPatrick, Salem, and Hope Creek from Region I; Harris and Sequoyah from Region II; Prairie Island and Quad Cities from Region III; and Cooper and Fort Calhoun from Region IV. The pilot program was designed to test how effectively the revised reactor oversight process worked and to identify possible problems.

After incorporating lessons learned from the pilot program and pending Commission approval, the NRC plans to implement the revised reactor oversight process for all plants in April 2000. Once implemented industry-wide, all operating reactor performance indicator (PI) data, the associated graphs, and any comments submitted by the licensees will be publicly available through the plant performance summary page for each plant on NRC's Web site.

License Renewal

In FY 1999, the NRC staff continued to meet the established schedules for reviewing the Calvert Cliffs and Oconee license renewal applications. The NRC drew extensively on staff expertise and past research results to meet the aggressive review schedule. The decision for Calvert Cliffs is expected in April 2000, and the decision for Oconee is expected in July 2000.

Risk-Informed Regulation

In FY 1999, we continued to improve our understanding of the underlying phenomena governing reactor safety, the analytical tools to evaluate those phenomena, and the regulatory framework to implement risk-informed regulation. To broaden our understanding, we worked with national standards organizations to develop consensus standards on probabilistic risk assessment quality and performed the following activities, to mention a few.

Power Reactor Security Regulations

In FY 1999, the NRC staff initiated work on a rulemaking plan to amend physical security requirements for evaluating power reactor licensees' capabilities to respond to safeguards contingency events. The rulemaking plan was submitted to the Commission on October 5, 1999, and proposes to modify 10 CFR 73.55, "Requirements for Physical Protection of Licensed Activities in Nuclear Power Reactors Against Radiological Sabotage" and associated power reactor security regulations to be more risk-informed.

A final rule is scheduled for completion within 3 years. Initial emphasis will be on resolving issues associated with exercises, including the definition of radiological sabotage.

Reactor Enforcement

The staff began, in July 1998, to revise its policy pertaining to violations of lesser significance with the objectives of maintaining safety and reducing unnecessary regulatory burden. This guidance immediately resulted in fewer violations requiring formal responses from licensees and increased the utilization of non-cited violations. This change was made after having confirmed through meetings with stakeholders that licensee corrective action programs can be relied upon for disposition and correction of violations of lesser significance.

A major revision to the enforcement policy was written in FY 1999 and published on November 11, 1999. This revision removed the concept of "regulatory significance" and clarified that severity level of violations and corresponding sanctions would be based on (1) actual consequences, (2) potential consequences, (3) impact of the regulatory process, and (4) any willful aspects of the violation.

As a result of these policy and guidance changes, the number of escalated enforcement actions in the reactor program dropped from 87, 112, and 81 in Fiscal Years 1996, 1997, 1998, respectively, to 33 in FY 1999.

As the agency readies itself for full deployment of the new reactor oversight program in April 2000, the enforcement policy will again be modified to better align it with the revised reactor oversight process.

Research Contributions

Specific examples of research, continued in FY 1999, that have allowed NRC to revise regulatory requirements to maintain safety but reduce unnecessary regulatory burden include (1) work associated with allowing new repair methods for degraded steam generator tubes, (2) revised pressure-temperature limits for reactor pressure vessels during plant startup and shutdown, (3) development of the technical basis for allowing an increase in the number of fuel assemblies that can be safely stored in spent fuel and transportation casks, and (4) improved knowledge of severe accident source terms to allow license amendments that reduce unnecessary requirements.

Nuclear Reactor Safety Arena FY 1999 Significant Accomplishments and Activities

- Issued a proposed rule to amend 10 CFR Part 50, Appendix K, to facilitate small, but cost-beneficial, power uprates without compromising the margin of safety at the facility. The decision on the final rule is expected in April 2000. While all plants could conceivably benefit from this risk-informed rulemaking, if only 50 plant licensees pursue this marginal power uprate, they could share in an annual benefit ranging from $50 million to $135 million.
- Issued, in October 1999, the final rule for Sections 50.59 and 72.48 of *Title 10* of the *Code of Federal Regulations* (CFR), "Changes, Tests, and Experiments," which, when implemented, will allow 10 CFR Part 50 licensees and Part 72 licensees and Certificate of Compliance holders to make changes to their facilities that have minimal impact on the facility licensing basis without prior NRC approval.
- Issued a regulatory guide endorsing an industry initiative on updating of Final Safety Analysis Reports (FSARs) that clarifies the level of detail required in an FSAR and allows licensees to remove obsolete, redundant, or unnecessarily detailed information.
- Completed evaluation and approval of a first-of-a-kind sales and concomitant license transfer for the Three Mile Island, Unit 1, and the Pilgrim nuclear plants.
- Approved approximately 20 other requests for license transfers involving (1) corporate restructuring; (2) formation of holding companies; and (3) other activities to accommodate the deregulation and realignment of the electric power industry, including consideration of foreign ownership issues.
- Completed 11 conversions to improved Standard Technical Specifications, which will maintain safety and increase effectiveness and efficiency.
- Worked effectively with the nuclear power industry and other NRC licensees to ensure that their safety and physical security would not be adversely affected by potential Year 2000 (Y2K) problems, including development of a comprehensive Y2K contingency plan.
- Issued, in September 1999, the final rule amendment to 10 CFR 50.55a, "Code and Standards," in which the NRC (1) incorporated by reference the 1995 Edition up to and including the 1996 Addenda of the ASME Boiler and Pressure Vessel Code, Sections III and XI, and the ASME Code for Operation and Maintenance of Nuclear Power Plants and (2) imposed an expedited implementation of performance demonstration methods for ultrasonic examination systems.
- Developed and initiated a plan to make the requirements in 10 CFR Part 50 risk-informed, which, when complete, will provide

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opportunities for both increased safety and reduced licensee burden.

- Developed a comprehensive revision to the generic communications program and issued guidance on the revisions to increase the program's effectiveness.
- Issued a final rule, in April 1999, to allow nuclear power reactor licensees with NRC oversight to prepare the written examinations and operating tests that the NRC uses to evaluate the competence of operator license applicants at those facilities. This rule change will maintain nuclear reactor safety, while allowing for an increase in staff effectiveness and efficiency.
- Revised requirements for monitoring the effectiveness of maintenance at nuclear power plants to require that before performing maintenance, the power plant licensees assess and manage the increases in risk that may result from the maintenance activities.
- Included a risk-informed fire protection baseline inspection element in the new reactor inspection and oversight program.
- Using improved knowledge of accident source term, completed a new rule (10 CFR 50.67) that allows operating reactor licensees the option of using an alternative source term for the analyses of design basis accidents that can reduce the licensee burden while maintaining safe margins.
- Significantly improved the timeliness of processing licensing actions while simultaneously reducing the inventory backlog of licensing actions.
- Approved a licensing action for the Callaway nuclear plant that allowed the licensee to utilize a new and innovative electro-sleeving technology to repair degraded steam generator tubes.

NUCLEAR MATERIALS SAFETY

In FY 1999, materials licensees and fuel cycle facilities continued to operate in a safe fashion. We began revising portions of nuclear materials regulations to make them risk-informed, as appropriate. We have formed a new group focused on risk assessment and risk management to ensure a more consistent decision-making process and a consistent underlying risk bases for nuclear materials regulations, regulatory guides, and staff review guidance, and we completed, among others, the following specific activities.

Agreement States. The NRC expanded its efforts to address the future of the materials program on a national basis by establishing an NRC/Agreement State Working Group. This Group will, among other things, delineate the respective roles of NRC and the Agreement States, the Organization of Agreement States, and the Conference of Radiation Control Program Directors in order to ensure the most consistent, effective, and efficient regulation of nuclear materials nationally. This group will be increasingly significant as additional States take authority for materials program regulation. In that regard, the NRC effectively transferred authority for 600 materials licenses to the State of Ohio, the newest Agreement State.

Fuel Cycle Facilities. In FY 1999, the staff conducted several public workshops to obtain stakeholder agreement on a more risk-informed, performance-based safety and safeguards oversight process for fuel cycle facilities. Licensee performance and risks will be factored into the revised process. In upcoming years, the staff will continue to work with stakeholders to formulate the final process and conduct a pilot program, using the process.

Nuclear Materials Safety Arena FY 1999 Significant Accomplishments and Activities

- Worked effectively with the nuclear materials community to ensure that their safety and physical security would not be adversely affected by potential Y2K problems, includ-

ing development of a comprehensive Y2K contingency plan.

- Initiated a process that will eventually result in the registration of generally licensed devices.
- Published issues paper on control of solid materials and held the first of four facilitated public meetings to solicit public comment.
- Reduced the inventory of materials licensing cases to the lowest levels in over a decade.
- Published proposed revisions to our fuel cycle regulations in 10 CFR Part 70 and to our medical regulations in 10 CFR Part 35 to make these regulations more risk-informed and performance-based and to ensure that the regulatory burden of these regulations is commensurate with their health and safety benefits.
- Provided regulatory and technical assistance to the Department of Energy (DOE) on their Waste Remediation System Privatization Program for the Hanford Tank in the State of Washington.

NUCLEAR WASTE SAFETY

In FY 1999, the NRC received more than 500 public comments on its proposed regulation (10 CFR Part 63) related to its development of a risk-informed, performance-based regulatory structure for the high-level waste program. In FY 2000, the staff will continue to consider the comments and plans to issue a final regulation. The staff conducted public meetings in Nevada on the proposal to ensure that the public had the opportunity to ask questions and express concerns on the high-level waste repository. This also allowed the staff an opportunity to explain the regulatory processes, the agencies involved in the processes, and specific safety features for the repository. In FY 1999, the staff increased use of risk-informed approaches in prelicensing interactions with DOE to focus efforts on resolving key technical issues most relevant to performance of a potential repository. The staff successfully used these risk-informed approaches in commenting on the DOE's Viability Assessment. Additionally, the staff attended meetings held by the DOE on the draft environmental impact statement for Yucca Mountain.

The NRC began to review the application for the Private Fuel Storage facility to be located on the reservation of the Skull Valley Band of Goshute Indians.

Spent Nuclear Fuel Casks. The staff initiated several rulemakings to improve the efficiency of the spent nuclear fuel storage and transportation cask certification process. The staff also revised its internal procedures, issued standard review plans, and made review process and rulemaking improvements resulting in efficiencies in NRC's licensing, certification, and amendment processes. During FY 1999, the staff reviewed applications for dual- and single- purpose casks, independent spent fuel storage installations for commercial power reactors and the Department of Energy, and transportation certificates.

Decommissioning. The staff conducted a decommissioning pilot program for materials licensees to evaluate a performance-oriented approach to decommissioning that would allow licensees to safely decontaminate sites without waiting for intermediate approvals from the NRC. Associated was guidance the NRC published on the "Radiological Criteria for License Termination," 10 CFR Part 20, Subpart E, to enable the staff (1) to evaluate information the licensees submit for decommissioning in a timely, efficient, and consistent manner and (2) to determine if the decommissioning can be conducted in such a way that the public health and safety is protected. Compliance with this guidance and Subpart E would permit NRC to release the facility in accordance with NRC's requirements.

With respect to decommissioning nuclear reactors, we initiated the development of an integrated, risk-informed rulemaking that ad-

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dresses emergency planning, insurance, safeguards, operator staffing and training, and other potential areas.

Nuclear Waste Safety Arena FY 1999 Significant Accomplishments and Activities

- Provided comments to DOE on their Viability Assessment for the high-level waste repository.
- Published for public comment draft regulatory guides implementing the License Termination Rule and conducted public workshops to solicit input prior to finalizing the guides in FY 2000.
- Issued for reactor decommissioning the Final Standard Format and Content Regulatory Guide for License Termination Plans.
- Achieved established milestones for reviews of several spent fuel storage and transportation cases, which included issuing (1) a final Safety Evaluation Report and a final Certificate of Compliance for one dual-purpose (storage and transportation) cask design, (2) draft Safety Evaluation Reports and draft Certificates of Compliance for two other dual-purpose cask designs, (3) draft Safety Evaluation Reports and draft Certificates of Compliance for two spent fuel storage cask designs, and (4) three licenses for interim spent fuel storage installations.
- Completed a rulemaking for 10 CFR Part 51 on the environmental impacts of the transportation of high-level waste for license renewal.
- Published a proposed site-specific, performance-based regulation for a high-level waste repository in 10 CFR Part 63. Held public meetings in Nevada to solicit public comments on this proposed regulation.
- Published final rule on Radiological Criteria for Uranium Recovery License Termination.

INTERNATIONAL NUCLEAR SAFETY SUPPORT

In terms of international support, the NRC's nuclear materials staff is continuing its review of the Japan Tokai nuclear criticality accident. They have not identified any similar problems at U.S. facilities regulated by NRC.

NRC completed its seventh year of bilateral assistance in nuclear safety and safeguards to Russia and Ukraine, and its fourth year of providing similar assistance to Armenia and Kazakhstan. These efforts are focused on helping regulatory agencies develop their basic nuclear legislation, enhancing emergency response and emergency preparedness capabilities, and developing inspection procedures.

NRC developed the Y2K Early Warning System (YEWS) in cooperation with the international nuclear community as a means for nuclear facility operators to report on a voluntary and prompt basis any observed date-changed effects at their nuclear facilities. In the United States, nuclear power plant staff monitored YEWS for potential problems overseas.

Senior NRC staff served on advisory bodies and technical committees of the International Atomic Energy Agency (IAEA) and the (OECDNEA) to help coordinate and steer multilateral safety and security programs to serve the mutual interests and needs of the United States and its cooperation partners. In October 1998, the NRC Chairman addressed the OECD/NEA Steering Committee to outline areas of common policy interest between the OECD/NEA and the International Nuclear Regulators Association.

International Nuclear Safety Arena Support FY 1999 Significant Accomplishments and Activities

- Conducted a public meeting in June 1999 on an application for a five-year NRC export license to supply U.S. highly enriched uranium targets for medical isotope production in the new MAPLE reactors and processing facility at Chalk River, Ontario, Canada. The

Commission approved the requested license with special conditions, including annual reviews to determine progress being made to develop, test, and use alternative low enriched uranium targets.

- Following Senate ratification of the Convention on Nuclear Safety (CNS), submitted the first U.S. National Report under the Convention and participated in the first Review Meeting of Parties. The Convention provides a means for the United States and the international community to help ensure that all countries producing nuclear power are striving to meet high standards of operational safety.

CORPORATE MANAGEMENT

- Received three Hammer Awards from the National Partnership for Reinventing Government for our procurement reform initiatives and development of guidance on site surveys.
- Achieved Year 2000 compliance for NRC's internal systems on time and within budget; the first Federal agency to do so.
- Conducted (1) staff training to provide the required knowledge and skills necessary to support implementation of new NRC regulatory and business processes, including the Revised Reactor Oversight Process, the Agency-wide Documents Access and Management System, and the agency Financial and Human Resources Management System and (2) conducted change management training to help our managers and staff adapt to the dynamic environment resulting from the simultaneous implementation of these new regulatory and business processes.
- Completed, a year ahead of schedule and within planned budget, the Resident Inspector Site Expansion program that significantly upgraded the computing capabilities of our inspectors co-located at nuclear facilities so that inspectors now have reliable high speed access to NRC computing facilities similar to those available at headquarters and regional offices.
- Continued to move toward managing outcomes by using NRC's integrated planning, budgeting, and performance management process to facilitate the triennial update of the strategic plan. This plan, which will describe the context of our regulatory responsibilities, is near completion and will be submitted to Congress in September 2000.
- Received, for the sixth successive year, an unqualified opinion on the Chief Financial Officer's financial statements.
- Met the requirements of the Omnibus Budget Reconciliation Act of 1990, by collecting fees to offset approximately 99 percent of NRC's new budget authority that was required to be offset by fees.
- Supported the government-wide electronic commerce initiative by making 99 percent of NRC's salary and award payments and 98 percent of commercial payments electronically.
- Met the goal to maintain delinquent debt at year-end to less than 1 percent of NRC's billings for FY 1999.

OTHER AVAILABLE INFORMATION

In addition to this annual report, the NRC publishes annually a "Report to Congress on Abnormal Occurrences" (NUREG-0090), "A Prioritization of Generic Safety Issues" (NUREG-0933 and its supplements), and the "Information Digest" (NUREG-1350). In October 1998, the first month of FY 1999, the NRC published "The Price-Anderson Act: Crossing the Bridge to the Next Century: A Report to Congress" (NUREG/CR-6617). Finally, NRC published its "Budget Estimates and Performance Plan for FY 2001," in February 1999, and released the draft FY 2000-2005 NRC Strategic Plan for stakeholder/public comment on March 3, 2000. You may access

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some of the publications mentioned in this report on NRC's Web site at <http://www.nrc.gov/NRC/NUREGS/indexnum.html>.

In FY 1999, the NRC initiated a redesign of its external Web site to better serve NRC Stakeholders and plans to involve NRC Stakeholders in its plan for redesign. This Web redesign is one of many ways the NRC is working toward providing its Stakeholders—the general public, Congress, NRC licensees, other Federal agencies, States, Indian Tribes, local governments, industry, industry workers, and the international community—with clear and accurate information about our regulatory program and facilitating a means for them to have a meaningful role in NRC's regulatory process.

Appendix C

Program Evaluations/ Self-Assessments

Office of Nuclear Reactor Regulation

Top-Down Assessment

In FY 1999, the Office of Nuclear Reactor Regulation (NRR) completed a top-down assessment of its programs and activities. NRR conducted this assessment to assist them in identifying the programs and activities it needs to support the NRC's Strategic Plan. By identifying outcome goals and success criteria for achieving those goals, the assessment provided the basis for determining which of its programs and activities to continue, modify, or sunset; which major business processes to redesign; and what new initiatives to undertake. The top-down assessment can be found in the February 1999 Arthur Andersen Report: "Assessment Methodology - A Case Study and Results to Date for NRR" and its Appendices. You can access this report on the Planning and Financial Management section of the NRC website at http://www.nrc.gov/OPA/reports/nrrfinal.pdf.

The NRR assessment was designed to focus separately on two components - effectiveness and efficiency.

The effectiveness assessment (doing the right work) began in July 1998. The results were used to develop NRR's FY 2001 Performance Plan and Budget Estimates. NRR's new outcome-based approach is intended to serve as a key component of NRR's continuing effort to move toward performance-based operations. In addition, tools that were developed during the assessment are also serving as templates for use by other NRC offices in conducting similar effectiveness assessments.

The efficiency assessment (doing the work right), which also began in July 1998, encompassed reviews of two NRR business areas - licensing actions and workload management practices. The methodology included five specific considerations for each review: process, tools, skills, expectations and accountabilities, and organizational culture. Draft recommendations for improving the efficiency of licensing actions were presented to NRR's Executive Team in September 1998 and can be found in Appendix E to the February 1999 Arthur Andersen Report. The results of the study on licensing actions indicated a need to focus on current practices for prioritizing workload, distribution of workload, and workload tracking and completion, (i.e., workload management). Draft recommendations for improving the focus on current practices were presented to NRR's Executive Team in January 1999 and can be found in Appendix F (Vision Criteria) to the February 1999 Arthur Andersen Report.

Reactor Oversight Pilot Program

During FY 1999, the NRC staff worked on improving the NRC's reactor oversight processes, including inspection, assessment, and enforcement. The NRC is developing changes to these processes to improve their objectivity, make them more understandable and predictable, and provide increased focus on aspects of performance that have the greatest impact on safe plant operation. These improvements will lead to increased public confidence and improved staff effectiveness and efficiency.

Beginning in June 1999 and continuing over the next six months, the NRC conducted a pilot program of the revised reactor oversight process at nine reactor sites. The pilot program was

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evaluated by the Pilot Program Evaluation Panel (PPEP), which functioned as a management-level oversight group and consisted of NRC, the Nuclear Energy Institute, the industry, the public, and State representatives. The PPEP met periodically during the pilot program to review the implementation of the revised oversight process and the results generated by performance indicator reporting, baseline inspections, assessment, and enforcement activities. At the end of the pilot program in December 1999, the PPEP evaluated the pilot program results, using quantifiable performance measures and expert judgment. Their report, titled "Final Report of the Pilot Program Evaluation Panel," is available on the NRC website at http://www.nrc.gov/NRR/OVERSIGHT/ppepfinalreport.pdf.

Office of Nuclear Materials Safety and Safeguards

Integrated Materials Performance Evaluation Program Review

Using common performance indicators, the Integrated Materials Performance Evaluation Program (IMPEP) was designed to evaluate the NRC regional materials programs and Agreement State radiation control programs in an integrated manner to ensure that the public health and safety is being adequately protected.

IMPEP reviews follow a methodology described in NRC Management Directive 5.6, "Integrated Materials Performance Evaluation Program." The reviews use qualified team members from other parts of NRC and the Agreement States to evaluate the adequacy of program performance versus a set of common and non-common performance indicators. The team presents its findings in a draft report for comment to the region or to an Agreement State. A proposed final report is sent to a Management Review Board (MRB), which is comprised of senior NRC officials, and a manager from an Agreement State. The MRB meets to decide on revisions to the final report.

- **IMPEP Review of Region III**

  The NRC contacted the onsite portion of the Region III (RIII) IMPEP review from March 15-19, 1999. The MRB met on May 24, 1999, and issued the final report on June 9, 1999. The IMPEP review covered program activities of the RIII's Division of Nuclear Materials Safety. This included: nuclear materials licensing and inspection, response to incidents and allegations, technical staffing and training, performance against the region's commitments, its resource utilization, fuel cycle inspection program, and its Site Decommissioning Management Program.

  The RIII materials program was found to be adequate to protect health and safety, and the review team found that the RIII program showed consistently sound, steady and strong performance in all areas reviewed. The review team did identify some areas for improvement in the RIII program, including the need for modifying some aspects of handling and filing of allegation materials, improving staff training related to documentation of allegations, and ensuring complete and full documentation of license termination reviews, and NRC's Management Review Board approved the team's recommendations. The June 9, 1999 final report, "Final 1999 Region III Integrated Materials Performance Evaluation Program Report," is available in the Public Document Room.

- **IMPEP Review of Region IV**

  The NRC conducted the onsite portion of the Region IV (RIV) IMPEP review from April 5-9, 1999. The MRB met on June 8, 1999 and issued the final report on June 30, 1999. The IMPEP review covered program activities of RIV's Division of Nuclear Materials Safety and included nuclear materials licensing and inspection, response to incidents and allegations, technical staffing and training, performance against the region's commitments, its resource utilization, fuel cycle

inspection program, its Site Decommissioning Management Program, and its uranium recovery program.

Overall, the Region IV nuclear materials program was found to be adequate for protecting public health and safety. The review team did not make any recommendations for improvement for Region IV. The review team did have several recommendations, that were approved by the Management Review Board, for improvement in the guidance provided by the Office of Nuclear Materials Safety and Safeguards (NMSS) to the regional offices, including changes in procedures for licensing medical facilities, review of the need for both field notes and inspection reports for decommissioning sites, guidance on financial assurance, and the use of Licensee Event Reports and Nuclear Material Events Database when reporting materials events. The June 30, 1999 final report, "Final 1999 Region IV Integrated Materials Performance Evaluation Program Report," is available in the Public Document Room.

- **IMPEP Review of the Sealed Source and Device Program**

The NRC conducted the onsite portion of the Sealed Source and Device Program (SS&D) IMPEP review from April 26-30, 1999. The MRB met on July 22, 1999 and issued the final report on August 11, 1999. The IMPEP review covered the safety evaluation of devices and sealed sources that contain radioactive material. This program is conducted by NMSS through the Materials Safety Branch of the Division of Industrial and Medical Nuclear Safety.

The SS&D program was found adequate to protect public health and safety. The August 11, 1999 final report, "Final Integrated Materials Performance Evaluation Program Review of NRC Sealed Source and Device Evaluation Program" is available in the Public Document Room.

Streamlining Licensing Reviews for the High-Level Waste, Decommissioning, and Uranium Recovery Programs

From November 1998 to January 1999, the NRC conducted a program evaluation to prepare plans for streamlining the licensing review process for the High-Level Waste, Decommissioning, and Uranium Recovery Programs. The general methodology used was to (1) assemble a team with members from each program area; (2) follow the NMSS goals for streamlining (safety, efficiency, dependability, control of questions, defined rules of engagement, and early meetings with applicants); and (3) solicit input from all staff involved with these programs. Once the information was collected, a streamlining plan for the uranium recovery program was prepared as a strawman and was eventually used as a template for the other two programs.

Scope of Streamlining Plans

The scope of the licensing review streamlining plans provides information on (1) the subject program; (2) insight into the NRC's regulatory philosophy and its application in streamlining; (3) the approach to streamlining reviews; (4) a format and content guide for documents; and (5) a generic licensing schedule. The streamlining plans will help ensure that NRC conducts all reviews in an efficient and effective manner. For example, reviewers are empowered to control the conduct of the reviews, resolve technical issues, and make decisions without undue delay. In addition, staff should be able to perform more focused reviews consistent with agency policy and needs. Furthermore, reviewers should focus any needs for additional information and limit the request for additional information to one round. Meetings will be conducted early in the process so that licensees and applicants understand NRC's position and can resolve any issues. Although the staff currently has no licensing work in the high-level waste program, the fundamentals outlined in the streamlining guidance document are equally applicable during this prelicensing consultation phase of the program. The final January 15, 1999

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report, "Streamlining Plans for Division of Waste Management Programs," is available in the Public Document Room.

Office of Nuclear Regulatory Research

Generic Issue Program Self-Assessment

The Office of Nuclear Regulatory Research (RES) conducted an initial self-assessment of the Generic Issue Program (GIP) from June through August 1998. Several recommendations came from this initial review that indicated the need for an agency-wide controlling document, better tracking and closure of issues, and expansion to include burden reduction issues. These initial recommendations, along with others, were used to develop restructuring goals such as improving focus, clarity, and timeliness; reflecting changes in NRC office responsibilities; and improving coordination among offices. Work to restructure the GIP continued throughout the first two quarters of FY 1999.

Implementation

On April 9, 1999, RES issued for peer review a partially completed Draft Management Directive (MD) 6.4 and Handbook, "Generic Issue Program." Office comments were used to fully develop the MD, and on July 21, 1999, the Draft MD 6.4 was sent to other NRC offices and the public for pilot use that began in August 1999, after which lessons learned will be assessed, implemented, and a final MD will be issued.

NRC will use the processes described in the GIP (1) to determine whether a candidate generic issue represents adequate protection, substantial safety enhancement, or a burden reduction issue; (2) to identify a cost-effective solution to generic issues that need to be addressed; and then (3) to implement and verify the solution or set of solutions for that generic issue, as appropriate. Administration of the GIP will be accomplished using an eight-stage process:

1. Identification,
2. Initial Screening,
3. Technical Screening,
4. Technical Assessment,
5. Regulations and Guidance Development,
6. Regulation and Guidance Issuance,
7. Implementation, and
8. Verification

The October 21, 1999 draft Management Directive, Subject: Revision 1 to Draft Management Directive 6.4, "Generic Issue Program," is available on the NRC website at http://www.nrc.gov/NRC/REFERENCE/STANDARDS/index.html.

Operational Safety Data Review Processes Self Assessment

The agency conducted an interoffice self-assessment from April 1998 to January 1999 and reported the results in a commission paper (SECY-99-005): "A Self-Assessment of the Operational Safety Data Review Processes," dated January 6, 1999.

The self-assessment involved detailed modeling of the operational safety assessment process to identify contributions and resources of the various program offices. Four factors were considered in a critical examination: (1) the relative contribution of each product, service, or process to meeting NRC strategic goals; (2) if the product, service, or process was useful to industry; (3) whether the effectiveness of the product, service or process could be improved; and (4) whether the efficiency of the product, service, or process could be improved.

Based on this assessment, the RES staff recommended eliminating duplication and redundancy, and deleting certain activities. Their report recommended eliminating the Office for Analysis and Evaluation of Operational Data (AEOD) Senior Management Meeting analyses, systematic review of all licensee event reports, and related AEOD functions. The report also recommended eliminating duplication of effort in generic communications preparation, regional morning re-

ports, review of foreign reactor events and the Institute of Nuclear Power Operations operational safety data, and events screening. All the recommendations were implemented in FY 1999. The October 21, 1999 draft Management Directive, Subject: Revision 1 to Draft Management Directive 6.4, "Generic Issue Program," is available on the NRC website at http://www.nrc.gov/NRC/REFERENCE/STANDARDS/index.html.

RES Assessment

In FY 1999, RES completed a self-assessment that established goals and strategies to guide RES program development and budget formulation. This assessment increased the contribution by RES to the agency mission by defining desired outcomes; systematically examining new and existing activities to achieve outcomes; maintaining work with the highest outcome leverage; and eliminating work with the lowest outcome leverage. The process promoted integration of activities through an organization-wide focus on issue resolution strategies. The results of the assessment were used to develop and implement: (1) a new outcome-based prioritization scheme for informing the budget; and (2) an outcome based FY 2001 budget. The Research Programs for FY 2000 are available on the Research Program section of the NRC website at http:/www.nrc.gov/RES/nrc.html.

Codes and Standards

In FY 1999, NRC took several actions to promote the NRC process for implementing Public Law 104-113 and OMB Circular A-119, "Federal Participation in the Development and Use of Voluntary Consensus Standards and in Conformity Assessment Activities." The NRC staff used information gained from a stakeholder meeting it held in Chicago in September 1998 to prepare a recommendation[8] to the Commission to develop guidance for staff in the development and use of consensus standards. The Commission supported the staff recommendation.[9] In May and December of 1999, the NRC held follow-up meetings to the Chicago 1998 meeting to focus on communications with standards developing organizations (SDOs). These meetings demonstrated the value of getting together to understand the current needs, priorities, and constraints of each organization. Because of the success of the 1998-1999 meetings, the NRC expects to hold future meetings periodically.

During FY 1999, the NRC staff prepared a MD[10] to provide internal direction for staff functions to support the NRC standards strategy. The MD has enhanced the RES program by providing a structured process for ensuring the effective and efficient use of staff resources to implement the NRC strategy for participating in the development and use of consensus standards. The MD defines NRC organizational responsibilities for standards activities and provides direction for staff participation in the development and use of consensus standards. Specifically, the MD provides direction for identifying and prioritizing new and revised technical standards that are needed, selecting and nominating staff as authorized agency representatives on SDO committees, and coordinating standards activities with SDOs and other stakeholders. It provides direction for identifying and prioritizing standards for timely endorsement, annual reporting, exceptions to using a consensus standard, and monitoring and assessing the NRC standards program. The MD requires periodic training of staff involved with standards activities to provide updates on Federal requirements for standards development and to discuss lessons learned. The October 21, 1999 draft Management Directive, Subject: Revision 1 to Draft

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[8] SECY-99-029, "NRC Participation in the Development and Use of Consensus Standards," January 28, 1999 is available on the NRC website at http://www.nrc.gov/NRC/REFERENCE/STANDARDS/index.html.

[9] Staff Requirements, SECY-99-029, February 17, 1999 is available on the NRC website at http://www.nrc.gov/NRC/REFERENCE/STANDARDS/index.html.

[10] Management Directive 6.5, "NRC Participation in the Development and Use of Consensus Standards," issued November 1999 is available on the NRC website at http://www.nrc.gov/NRC/REFERENCE/STANDARDS/index.html.

Management Directive 6.4, "Generic Issue Program," is available on the NRC website at http://www.nrc.gov/NRC/REFERENCE/STANDARDS/index.html.

Incident Response Operations

The Incident Response Function Self-Assessment

The Incident Response Operations office (IRO) conducted a recent self-assessment. The self-assessment team was established in May 1998, and the report was completed on March 29, 1999. The primary focus of the Incident Response Function Self-Assessment Report was to identify initiatives to improve the efficiency and effectiveness of the Incident Response Program. Specifically, the team assessed the incident response functions and the incident response readiness activities and how they were implemented to:

- identify activities that do not critically contribute to the success of the incident response function or incident response readiness activities;
- recognize excess capacity or duplication of efforts that is not required to achieve measurable outcomes or program outputs; and
- seek approaches that can deliver services more economically and re-engineer work processes to improve overall efficiency and effectiveness.

The team was also chartered to identify other initiatives that would significantly improve the effectiveness and efficiency of the NRC's processes for responding to incidents and emergencies involving facilities licensed by the NRC or an Agreement State. These included power reactors, fuel cycle facilities, transportation, spent fuel storage, research reactors and industrial, medical and research uses of byproduct material. Initiatives to improve the interactions with the NRC's response partners, such as State and Federal agencies, were also included in the scope of its charter. Within the broad-based scope, the team included initiatives identified by the former Chairman, as well as applicable "related strategic issues" from the NRC's Strategic Assessment and Rebaselining initiative.

Implementation

Before completing the self-assessment, the IRO staff expeditiously implemented several of the risk significant recommendations such as:

- conducting the required response training for NRC managers, technical staff and commissioner assistants regarding NRC's responsibilities under the Federal Radiological Emergency Response Plan;
- clearly delineating NRC's role as an observer for event reports for nuclear materials not licenced by the NRC or agreement states;
- reestablishing a nuclear materials fuel cycle facility (FCF) incidence response coordinator in IRO; and,
- ensuring the implementation of IRO's plans to have the headquarters operations officers take additional training on FCF and materials devices and incorporating NRC training materials into Federal Emergency Management Agency's standard radiological response training package.

Summary

To date, the IRO staff has reviewed all recommendations, and has implemented or is in the process of implementing the additional specific effectiveness and efficiency improvements, as appropriate. In the future the IRO staff intends to periodically revisit the Incident Response Function Self-Assessment Report for insights gained in order to assess how well IRO is meeting the established goals and to critically and honestly assess the effectiveness and efficiency of IRO's existing programs. An executive summary of the final report on the IRO self-assessment, "The Incident Response Function Self-Assessment" is available in the Public Document Room.

Appendix D

Crosscutting Functions with Other Government Agencies

Several Government agencies have missions that are related to the NRC. The NRC identified no inconsistent or duplicative areas in its respective strategic plans, but the agency continues to be alert to potential inconsistencies or duplication in its cooperative activities. These interaction and coordination efforts are important in accomplishing the agency's mission. In most instances, the NRC has, or is developing, memoranda of understanding (MOU) or other agreements with these agencies to ensure that areas of mutual interest and cooperation are treated in a consistent, coordinated, and complementary way that avoids unnecessary duplication or conflict.

To develop programs in those areas that are critical to the NRC's mission, senior agency management meet with their counterparts in other agencies to establish plans and strategies in the areas of common programs and goals. Interagency committees are established, as necessary, to facilitate consensus on programs and promote consistent approaches for their implementation. One such example is the Interagency Steering Committee on Radiation Standards. The Commission also holds briefings on the status of programs such as the periodic briefings by the Department of Energy (DOE) on the high-level waste program, and agency staff coordinates other areas of mutual interest as appropriate.

The review of crosscutting programs, the coordination of those programs, and the identification of any issues are also an integral part of the NRC's internal technical program review process. The NRC has no substantive crosscutting or overlap between intra-agency cross-cutting program activities and functions within the agency. See Table 5 for the major crosscutting functions with other agencies and their relationship to NRC programs, followed by descriptions of the specific NRC areas of mutual interest with other agencies.

DOE—The NRC and DOE share responsibility for high-level radioactive waste (HLW) disposal. As specified in the Nuclear Waste Policy Act of 1982, as amended (NWPA), DOE is responsible for characterizing the site and for the design and construction of the repository, and NRC is responsible for regulatory oversight, including licensing the construction and operation of the facility. Our strategy is to provide regulatory guidance to DOE and to prepare to license a HLW repository at a pace consistent with the national program. The NRC has an agreement with DOE that outlines the procedures for staff consultation and exchange of information. This procedural agreement was updated in 1999 to incorporate all changes to the HLW program since 1993.

The NRC also interacts with DOE on a number of activities associated with the transportation and storage of spent nuclear fuel and HLW. The NRC and DOE have a procedural agreement regarding spent fuel and HLW transportation packaging. Further, DOE is required by law to use NRC-certified packaging for certain waste and spent fuel shipments. NRC and DOE have signed a cost-reimbursable interagency agreement whereby NRC provides DOE with oversight of physical security arrangements for certain foreign research reactor spent fuel shipments. NRC and DOE have signed a second cost-reimbursable interagency agreement whereby NRC provides DOE with review of a cask design for shipment of

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Table 8: Crosscutting Functions With Other Agencies

Agency	Areas of Mutual Interest	NRC Program/(Strategic Arena)
Department of Energy (DOE)	High-Level Waste Disposal	High-Level Waste/(Nuclear Waste Safety)
	Transportation and Storage of Spent Fuel and Waste	Spent Fuel Storage and Transportation Licensing and Inspection (Nuclear Waste Safety)
	Uranium Mill Tailings Radiation Control Act	Uranium Recovery Licensing and Inspection (Nuclear Waste Safety)
	Low-Level Waste	Regulation of Low-Level Waste (Nuclear Waste Safety)
	Excess Plutonium Disposition Mixed Oxide Fuel Fabrication DOE Tank Waste Remediation System (TWRS) Regulatory Oversight at Gaseous Diffusion Plants	Fuel Facilities Licensing and Inspection (Nuclear Materials Safety)
	Mitigation of Threat from Certain Discrete Radioactive Material	Regulation of Low-Level Waste (Nuclear Waste Safety)
	Security of Classified National Security Information and Restricted Data	Fuel Facilities Licensing and Inspection (Nuclear Materials Safety)
DOE Federal Bureau of Investigation (FBI) U.S. Customs Service (Customs) Defense Intelligence Agency (DIA) Central Intelligence Agency (CIA) Department of State (State)	Threat Assessment	Reactor Incident Response (Nuclear Reactor Safety) Fuel Facilities Licensing and Inspection (Nuclear Materials Safety)
Environmental Protection Agency (EPA)	Protection of Public Health and Safety and the Environment	(Nuclear Materials Safety) (Nuclear Waste Safety)High-level Waste
	High-level Waste Site-specific Standards	High-Level Waste Regulation (Nuclear Waste Safety)
FBI	Response to Suspected Terrorist or Criminal Initiated Threat or Incident Involving Licensed Reactor, Material or Fuel Facilities	Reactor Incident Response (Nuclear Reactor Safety) (Nuclear Materials Safety)
Federal Emergency Management Agency	Offsite Nuclear Power Plant Emergency Planning	Reactor Licensing Reactor Incident Response (Nuclear Reactor Safety)
	Offsite Fuel Cycle Facility Emergency Planning	Fuel Facilities Licensing and Inspection (Nuclear Materials Safety)
	National Dam Safety Program Potassium Iodide (DI) Supplement Program	Uranium Recovery Licensing & Inspection (Nuclear Waste Safety)

Table 8: Crosscutting Functions With Other Agencies *(continued)*

Agency	Areas of Mutual Interest	NRC Program/(Strategic Arena)
Federal Energy Regulatory Commission (FERC)	Utility Economic Deregulation, Antitrust and Market Power Issues	Reactor Licensing (Nuclear Reactor Safety)
Department of Transportation (DOT)	Transportation of Radioactive and Fissile Materials	Spent Fuel Storage and Transportation Licensing and Inspection (Nuclear Waste Safety)
Food & Drug Administration (FDA)	Approval of Medical Devices Incorporating Byproduct Materials, Radiopharmacuticals, and Radioactively Labeled Biologic Materials	Nuclear Materials Users Licensing and Inspection (Nuclear Materials Safety)
Occupational Safety & Health Administration (OSHA)	Worker Health and Safety	Fuel Facilities Licensing & Inspection (Nuclear Materials Safety)
Department of Health and Human Services, Public Health Service, Agency for Toxic Substances and Disease Registry (HHS/PHS/ATSDR)	Public Health and Safety in the Release and Transportation of Ionizing Radiation	Reactor Inspection Reactor Incident Response (Nuclear Reactor Safety) Fuel Facilities Licensing and Inspection Materials Incident Response State Programs (Nuclear Materials Safety) High-Level Waste Regulation (Nuclear Waste Safety)
Department of Interior (DOI)	Protection of the Environment	Reactor Licensing (Nuclear Reactor Safety) Uranium Recovery Licensing and Inspection (Nuclear Waste Safety)
Department of Labor (DOL) Department of Justice (DOJ)	Enforcement	Reactor Enforcement Actions (Nuclear Reactor Safety) Materials Enforcement Actions (Nuclear Materials Safety)
	Investigations	Reactor Investigations (Nuclear Reactor Safety) Materials Investigations (Nuclear Materials Safety)
State Department of Defense (DoD) Agency for International Development (AID) DOE	Nuclear Safety Assistance to Other Countries	Participation in International Activities (International Nuclear Safety Support)
State DoD DOE Department of Commerce (DOC)	Export of Nuclear and Nuclear Related Materials, Equipment, and Technology	Participation in International Activities
National Security Council (NSC) State DOE	Nuclear Safeguards Assistance to Other Countries	Participation in International Activities (International Nuclear Safety Support)

spent fuel from the West Valley Demonstration Project to the Idaho National Engineering and Environmental Laboratory. Finally, NRC and DOE-Naval Reactors (NR) have signed a cost-reimbursable interagency agreement whereby NRC provides DOE-NR with review of a spent fuel dry storage facility for navy fuel.

The NRC and DOE have joint responsibility for carrying out the Uranium Mill Tailings Radiation Control Act (UMTRCA) Title I Program and for the long-term care of reclaimed uranium mill tailings sites. Although DOE has the responsibility for carrying out remedial action, the NRC must concur in DOE's selection and completion of the remedial action and must license the sites for long-term care. The NRC and DOE have an MOU to minimize or eliminate unnecessary duplication of effort between the two agencies.

NRC and DOE are assigned responsibility for managing of low-level radioactive waste (LLW) under the Low-Level Radioactive Waste Policy Act of 1980 and its 1985 amendments. These responsibilities are different but complementary; thus, an MOU or other type of agreement has not been necessary. NRC and DOE interact on LLW policy, regulatory, and technical issues.

DOE and NRC have established a reimbursable agreement for NRC to provide technical assistance and coordinate with DOE on regulatory issues associated with DOE's disposition of excess plutonium through measures other than mixed-oxide (MOX) fabrication/irradiation. Under the agreement, NRC advises DOE on regulatory issues associated with activities such as pit disassembly, conversion and immobilization.

The FY 1999 Defense Authorization Act (P.L. 105-261) gave NRC statutory licensing authority over any MOX fuel fabrication facility constructed by DOE or its contractors to convert excess weapons plutonium into MOX reactor fuel. The facility will be located at DOE's Savannah River Site. This program depends on a number of factors outside of NRC control, including national policy, DOE funding, and Russian progress on the disposition of excess plutonium.

The NRC will continue to assist DOE in regulating the Tank Waste Remediation System (TWRS) at Richland, Washington. DOE initiated regulation of this system in 1996 to demonstrate technologies for solidifying highly radioactive tank waste at the Hanford site through the design of a pilot-scale facility. NRC and DOE developed an MOU in 1997 and are updating it to reflect the current status and required objectives for the TWRS program.

The NRC and DOE have regulatory oversight of different portions of the Portsmouth and Paducah Gaseous Diffusion Plants. The NRC regulates those portions that are leased by the United States Enrichment Corporation (USEC) while DOE has the regulatory oversight for the remainder of the sites. Regulatory issues occasionally arise that concern both DOE and NRC. An MOU establishes the protocol between the NRC and DOE to address those issues.

The NRC and DOE currently have an agreement that outlines the procedures for NRC requests for DOE assistance to mitigate threats to the public from certain discrete radioactive material, including material that exceeds Class C waste classification. This agreement is being formalized in an MOU.

The NRC and DOE share responsibility for the security of classified National Security information and Restricted Data at certain licensees (principally Naval Nuclear Fuel Facilities) and at the USEC. Although DOE has principal responsibility at Naval Nuclear Fuel Facilities under the auspices of its classified contracts with those firms, NRC has responsibility for the personnel security program for access to or control over strategic nuclear material and for information related to the physical protection plans for the protection of the strategic nuclear material. At USEC, NRC has primary responsibility for the protection of classified information and DOE for the personnel security program. The NRC and DOE have several MOUs in place to minimize or eliminate duplication of effort between the two agencies.

DOE, FBI, CIA, Customs, DIA, State— The NRC, as part of its mission to protect public health and safety and ensuring the common defense and security, maintains close working relationships with other agencies to ensure that the design basis threat for radiological sabotage and theft or diversion are current and accurate. For this reason, NRC has established MOU and Letters of Agreement for the exchange of relevant threat information. These arrangements also facilitate the timely receipt by NRC of any potential threats to NRC licensed materials or facilities.

EPA—The NRC and EPA share responsibility for protection of public health and safety and the environment. The NRC and EPA have numerous MOUs and interrelated activities. Many of these interrelated activities have been successful:

- the development of the Multi-Agency Radiation Site Survey and Investigation Manual and the Multi-Agency Radiation Laboratory Protocols Manual;
- support for the National Research Council Committee on the Biological Effects of Ionizing Radiation;
- development of the Joint NRC/EPA Guidance for Testing Requirements for Mixed Radioactive and Hazardous Waste;
- development of a Technical Position for Disposition of Cesium-137 Contaminated Emission Control Dust;
- development of a nationwide survey to analyze for radioactive contamination of sewer sludge and ash at publicly-owned treatment works; and
- development of modeling scenarios in support of potential rulemakings for recycle and reuse of radioactively contaminated materials. The NRC is currently working with EPA to define roles, responsibilities, and jurisdictions regarding orphan source issues and to develop regulations to facilitate the disposal of mixed wastes.

As specified in the Energy Policy Act of 1992 (EnPA), EPA is tasked to develop site-specific HLW standards consistent with the recommendations of the National Academy of Sciences report on the Technical Bases for Yucca Mountain Standards. NRC has one year to develop an implementing rule after EPA issues final standards. EPA proposed a HLW standard in August 1999 for public comment. Both Houses of Congress have legislation pending that would, among other things, prescribe an overall performance standard for Yucca mountain, and, depending on which bill is enacted, could impact NRC and EPA responsibilities. The NRC maintains a formal liaison with the EPA staff and has implemented a strategy for the conforming requirements to ensure that the NRC completes the implementing rule within a year of issuance of the final EPA standards. Differences continue between the EPA and the NRC on groundwater protection requirements and other matters; and may impact the requirements, complexity, and costs of licensing the repository.

The NRC and EPA have been unsuccessful is in setting standards to establish radiological criteria for decommissioning and cleanup of contaminated sites, and HLW disposal. EPA is responsible for developing general radiation standards, which are then reflected in NRC regulations and other requirements. The NRC continues to seek legislation as reflected in House Report 2531, "The Nuclear Regulatory Commission Authorization Act for Fiscal Year 2000, Title II", that would make it clear that, with very limited exception, the standard issued by NRC and Agreement States governs cleanup of Atomic Energy Act material at facilities licensed by them. EPA expressed concerns with certain provisions of NRC's license termination rule and included in their guidance, "Establishment of Clean-up Levels for Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) Sites with Radioactive Contamination," a statement that the dose limits established in the NRC license termination rule would not

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provide a protective basis for establishing preliminary remediation goals for cleanup at CERCLA sites and that the NRC sites could require further remediation. Top-level NRC and EPA management will continue to address these issues to resolve the question of finality for sites that have complied with the NRC cleanup standards for license termination based on the House Report 2684, "Hazardous Substance Superfund (Including Transfers of Funds)." It is NRC's current position is that changes to legislation are needed to resolve these issues, however NRC will continue to engage EPA in resolution of this matter as directed by the House Report 2684. The NRC has also supported provisions in HLW legislation in both Houses of Congress that would effectively remove EPA from the standard-setting role for the Yucca Mountain repository and establish a Congressional standard for which NRC would issue implementing regulations. While the bills differ on specifics, either would be preferable to the current statutory provisions on standard setting.

FBI—The NRC and the FBI share responsibility (along with FEMA) for response to a suspected terrorist or criminal initiated threat or incident involving NRC licensed facilities or material. The FBI has lead responsibility for crisis management during a threat or an incident and the NRC retains the responsibility for radiological matters. The NRC and FBI have an MOU to minimize or eliminate unnecessary duplication of effort between the two agencies.

FEMA—FEMA has lead responsibility for offsite nuclear power plant emergency planning and for nuclear materials emergency planning. FEMA also has the lead in assessing offsite emergency plans and preparedness for adequacy. NRC is responsible for onsite radiological emergency preparedness and for review of FEMA findings and determinations as to whether offsite plans are adequate and can be implemented. NRC also has the responsibility to make radiological health and safety decisions with regard to the overall state of emergency preparedness, such as assurance for continued operation and shutdown of operating reactors. Should an actual peacetime radiological emergency require more than one agency to respond, the Federal Radiological Emergency Response Plan (FRERP) provides for coordination of all Federal response activities. The FRERP is maintained by the Federal Radiological Preparedness Coordinating Committee (FRPCC); NRC is actively involved as a member of several FRPCC subcommittees that develop Federal procedures and guidance. In the event of an emergency involving an NRC-regulated entity, NRC is the lead Federal agency and works closely with six agencies: FEMA, DOE, EPA, Department of Agriculture (USDA), HHS, and National Oceanic and Atmospheric Administration (NOAA). Representatives of these agencies train with, and are integrated into, the NRC response team. Response coordination on a broader scale is provided by the Federal Response Plan (FRP) for emergencies of all kinds, including responses under the National Contingency Plan (NCP) for emergencies involving chemical and radiological hazards together. NRC is a member of the teams that coordinate actions under the NCP. The NRC and FEMA share responsibility (along with FBI) for a response to a suspected terrorist or criminal initiated threat or incident involving NRC licensed facilities or material. FEMA has lead responsibility for consequence management during a threat or incident and the NRC retains the responsibility for radiological matters. The NRC and FEMA have a memorandum of understanding (MOU) to minimize or eliminate unnecessary duplication of effort between the two agencies.

FEMA and the NRC share involvement in the National Dam Safety Program. The primary purpose of this program is to bring together the expertise and resources of the Federal and non-Federal communities to achieve national dam safety hazard reduction. The NRC has regulatory authority over only uranium mill tailings dams and those dams integral to the operation of licensed facilities, or the possession and use of licensed material, that pose a radiologically safety-related hazard if these dams should fail.

FERC—The NRC and the FERC have ongoing interaction regarding issues of mutual concern, such as (1) FERC actions with respect to economic deregulation of the electric utility industry and the potential impact of FERC's deregulation activities on the NRC's mandate to protect public health and safety; and (2) the respective roles of the NRC and FERC in evaluating antitrust and market power issues arising from NRC power reactor license applicants or licensees. NRC supports those aspects of the President's electric sector restructuring legislation that pertain to it, in particular, the elimination of NRC's duplicative role in antitrust reviews.

DOT—In accordance with their MOU, the NRC and the DOT share responsibility for developing, establishing, implementing, and enforcing consistent and comprehensive regulations and requirements for the safe transportation of radioactive and fissile materials, often through interagency committees. Generally, the NRC works with DOT to develop regulations for transporting materials, and the NRC adopts DOT requirements into its regulations.

FDA—The NRC and the FDA have an MOU that outlines procedures for sharing information of mutual interest relating to the approval of medical devices, radioactive drugs, and radioactive biologies when these products contain NRC-regulated material. The NRC routinely relies on prior FDA approval of medical devices as an essential component of the NRC's sealed source and device safety evaluations. The MOU also establishes procedures for notification, sharing of information, and coordination of joint inspections of events related to design and manufacturing defects and failures of these devices or of radioactive drugs or radioactive biologies.

OSHA—By an October 1988 OSHA/NRC MOU, NRC and OSHA share responsibility for worker health and safety at NRC-regulated facilities. NRC regulates worker safety concerning radiation and chemical risks resulting from processing radioactive material and OSHA regulates worker safety concerning non-radiological and other industrial hazards.

ATSDR—The NRC coordinates with ATSDR on issues relevant to the agency's mission to prevent exposure and human health effects and diminished quality of life associated with exposure to hazardous substances from waste sites, unplanned releases, and other sources of pollution present in the environment. This coordination involves ATSDR's hazardous substances role in public health, including the impact of radioactive releases from power plants on adjacent communities' and Indian reservations' air, water, and food chain and impacts resulting from transportation of nuclear waste.

DOI, Fish and Wildlife Service—Under the Endangered Species Act, the NRC has responsibility to ensure that its actions are protective of endangered species. NRC consults with the Fish and Wildlife Service (FWS) in evaluating effects on endangered species of proposed NRC actions. If a proposed NRC action has the potential of affecting endangered species, NRC prepares a biological assessment of the effects, and the FWS then renders a biological opinion. This consultation process can be extensive, as in the Atlas uranium mill tailings remediation case.

DOL/DOJ—The NRC monitors discrimination actions filed with the DOL under Section 211 of the Energy Reorganization Act and develops enforcement actions if either NRC's Office of Investigations or DOL adjudications reveal properly supported findings of discrimination. Suspected criminal activities concerning NRC licensees, and others within NRC's regulatory jurisdiction, are referred to the DOJ. Coordination with DOJ occurs before NRC initiates any civil enforcement action for matters DOJ is considering for criminal prosecution.

State, DoD, AID, DOE, Commerce—The NRC shares responsibility with State, DOE, DoD and AID in providing nuclear safety and safeguards assistance to other countries. State provides foreign policy guidance for U.S.

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government agencies in carrying out such assistance, while NRC contributes actively to the formulation of this guidance and clears its assistance programs with State to ensure they are within U.S. Government policy. The NRC also shares responsibility with DOE for providing nuclear safety and safeguards assistance internationally. The NRC and DOE coordinate their efforts with each other and with other countries that provide assistance to ensure they are complementary and to avoid duplication and conflict. The National Security Council and the Office of the Vice President provide high-level policy guidance on key issues in the international assistance area and resolve questions that arise in providing such assistance.

The NRC, DOE, State, DoD, and Commerce have interrelated roles in controlling exports of nuclear and nuclear-related materials, equipment, and technology. The NRC's primary role involves issuing export licenses for nuclear materials and equipment, including reactors. The following agencies issue licenses or authorizations in related areas:

- DOE for nuclear technology exports and for retransfers or changes in form or content of previously exported nuclear materials and equipment;
- State for munitions made with depleted uranium; and
- Commerce for nuclear reactor balance-of-plant equipment and "dual use" commodities.

Each agency is obliged to consult with the others (including, if warranted, DoD) for significant cases.

DOE and NRC are in the process of establishing a reimbursable agreement for NRC to provide Material Protection, Control, and Accounting Support to the regulatory agencies of Russia, Ukraine, and Kazakhstan through the development of regulations and the development of the licensing, inspection, and enforcement programs.

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