

U . S . N U C L E A R R E G U L A T O R Y C O M M I S S I O N

PERFORMANCE AND ACCOUNTABILITY REPORT

Fiscal Year 2000



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Documents such as theses, dissertations, foreign reports and translations, and non-NRC conference proceedings are available for purchase from the organization sponsoring the publication cited.

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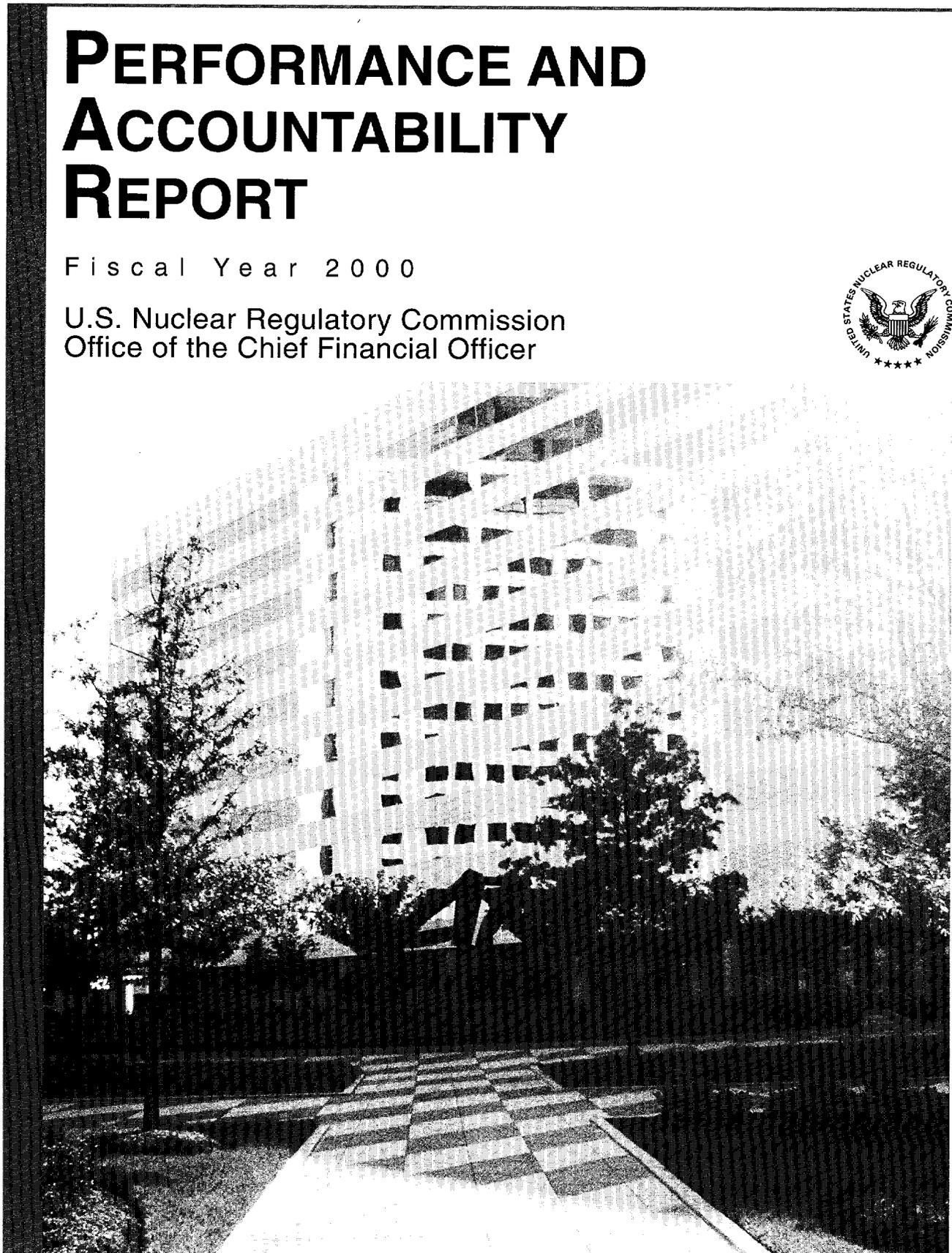
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U. S. N U C L E A R R E G U L A T O R Y C O M M I S S I O N

PERFORMANCE AND ACCOUNTABILITY REPORT

Fiscal Year 2000

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



Reflection of the One White Flint Building on the Two White Flint Building at NRC Headquarters Located in Rockville, Maryland

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.



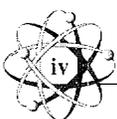
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Foreword

This report was prepared to meet the requirements of the Reports Consolidation Act of 2000 (RCA), Public Law 106-531. This legislation builds on the success of a pilot program authorized under the Government Management Reform Act of 1994 which demonstrated that consolidated and integrated reports yield better information in a more useful and understandable manner. The RCA provides permanent authority for agencies to integrate financial and performance information into a single consolidated report beginning with the Fiscal Year 2000 submission.

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

- The NRC's annual financial statements and auditor's report, required by the Chief Financial Officer's act of 1990 (CFO Act);
- The NRC's annual performance report, required by the Government Performance and Results Act of 1993 (GPRA);
- The Chairman's annual report to the President and the Congress on internal controls, required by the Federal Manager's Financial Integrity Act of 1992 (Integrity Act);
- The Chairman's statement on the compliance of the agency's financial management systems with applicable Federal requirements and accounting standards, required by the Federal Financial Management Improvement Act of 1996 (Improvement Act); and
- 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.

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: cfid@nrc.gov



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) Performance and Accountability Report for Fiscal Year 2000. This report reflects the NRC's continued commitment to employ sound management strategies in regulating the Nation's use of nuclear materials. NRC's Fiscal Year 2000 Performance Report has been integrated into this report and shows that the agency achieved its overall goals of protecting public health and safety.

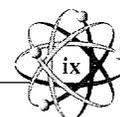
In September 2000, NRC published a revised Strategic Plan for Fiscal Years 2000 to 2005 that describes how we intend to accomplish our mission. In particular, it discusses our core principles and strategies and sets out both performance goals and measures to gauge performance. It has been exciting to observe the NRC's continuing efforts to create an environment in which the agency and its programs are managed to performance goals.

I am also pleased that the agency has earned its seventh consecutive unqualified audit opinion on its financial statements. This achievement reaffirms the NRC's continued commitment to ensure that sound financial management principles are consistently followed by all employees responsible for public assets. However, important work remains to be completed in order to comply fully with Federal accounting and reporting standards. The NRC evaluated its management control and financial management systems for Fiscal Year 2000 as required by the Federal Manager's Financial Integrity Act of 1982 (Integrity Act) and the Federal Financial Management Improvement Act of 1996 (Improvement Act). The results of the Integrity Act evaluation disclosed no material weaknesses. The Improvement Act 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 Standards Number 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government* and (2) the inability of the Treasury's Financial Management Service to test business continuity plans for the NRC's core accounting system. The agency's response to the audit report on the agency's financial statements, provided at the end of this report, contains a discussion of NRC's corrective actions.

Consistent with the requirements of the Reports Consolidation Act of 2000, this report includes a summary and an assessment by the agency's Inspector General of the most serious management challenges facing the agency and the agency's progress in addressing them. While some of these issues concern initiatives which are not central to our mission, others are critical in maintaining our future capability to protect the public health and safety. Each of these issues is important, and each will continue to receive senior management attention.

Of course, external factors beyond NRC's control will have a major influence on how the NRC carries out its mission. Such factors include deregulation in the electrical power industry,

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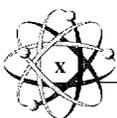


Message from the Chairman (continued)

a renewed interest in expanding the capacity to produce nuclear power, and the disposition of spent nuclear fuel. My colleagues and I look forward to meeting the challenges and are confident the American public will be the benefactors of our success.



Richard A. Meserve



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 the performance of its financial management responsibilities. The NRC first issued audited financial statements for FY 1992 and has received an unqualified audit opinion each fiscal year since FY 1994.

Our financial performance also reflects notable accomplishments in other areas. Efficiency and effectiveness were achieved by making almost all of our payments to employees and commercial vendors electronically. Delinquent debt owed to the NRC was held to less than 1 percent of the total amount that was billed and was reduced by 40 percent over the FY 1999 amount. We met the requirements of the

Omnibus Budget Reconciliation Act of 1990, by assessing and collecting fees to offset 100 percent of our new FY 2000 budget authority which was required to be offset.

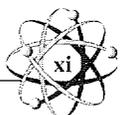
We continue to strive to be a leader in the Federal government for financial management. During FY 2000, progress was made in implementing the Statement of Federal Financial Accounting Standard Number 4 (SFFAS 4), *Managerial Cost Accounting Concepts and Standards for the Federal Government*. We are currently parallel testing an integrated payroll, human resources, and time and labor financial management system. This new system coupled with our cost accounting module will help us comply with SFFAS 4 and provide additional cost-based information to agency managers. We expect the system to be operational during 2001.

We also made progress, during FY 2000, in integrating program performance with resource and program management by fulfilling the requirements of the Government Performance and Results Act of 1993. We issued NRC's FY 2000-2005 Strategic Plan, our first triennial update of the strategic plan; a combined and integrated FY 2001 Budget Estimate and Performance Plan; and our first Performance Report to Congress. These efforts have helped to ensure that our programs and activities are aligned with our mission and goals, and that we can effectively measure our performance.

While we have had success, work remains as the NRC continues to strive for excellence in financial management. We look forward to another productive and successful year in FY 2001. Our strength lies in unified, coordinated action, and this report is an important indicator in the process of achieving this outcome. We will continue to maintain the high standards we have achieved and seek improved methods to carry out our fiscal responsibilities.

A handwritten signature in black ink, which appears to read "Jesse L. Funches". The signature is fluid and cursive.

Jesse L. Funches



Management's Discussion and Analysis

The Management's Discussion and Analysis is designed to provide a high-level overview of the agency. It consists of four sections: *About the NRC* which describes the agency's mission, organizational structure, and regulatory responsibility; *Program Performance* which discusses the agency's success in achieving its strategic goals; *Financial Performance* which provides highlights of the NRC's financial position; and *Systems, Controls, and Legal Compliance* which describes the agency's internal control environment and contains the Chairman's reasonable assurance statement.

About the NRC

The NRC was established as an independent regulatory agency of the Federal Government on January 19, 1975. It was created by the

U.S. Congress to regulate various commercial and institutional uses of nuclear energy. The agency succeeded the regulatory function of the Atomic Energy Commission, which had the responsibility to both develop and regulate nuclear activities. 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.

Mission

The NRC's mission is 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.

(continued on page 2)

*The Nuclear Regulatory
Commission Headquarters
in Rockville, Maryland*



Organization

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

The agency's mission is carried out with a staff of approximately 2,800 and a budget of approximately \$470 million, most of which is recovered through fees charged to NRC licensees. The agency's budget has been declining since FY 1993. The FY 2000 budget reflects an overall reduction of 13 percent in funding and 16 percent in staffing compared to FY 1993.

The NRC executes its mission at its headquarters offices in Rockville, Maryland, and four regional locations in King of Prussia, Pennsylvania; Atlanta, Georgia; Lisle, Illinois; and Arlington, Texas. The NRC also has resident inspector offices at each commercial nuclear power plant. The NRC organization chart is located at the end of this section.

Regulatory Responsibility

Under its responsibility to protect the public health and safety, the NRC has three principal regulatory functions: (1) establish standards and regulations, (2) issue licenses for nuclear facilities and users of nuclear materials, and (3) inspect facilities and users of nuclear materials to ensure compliance with the requirements. These regulatory functions relate to both nuclear power plants and to other uses of nuclear materials, such as nuclear medicine programs at hospitals, academic activities at educational institutions, research work, and industrial applications for gauges and testing equipment.

Program Performance Highlights

The Government Performance and Results Act requires Federal agencies to provide an annual performance plan to Congress that sets goals with measurable target levels of performance beginning with FY 1999. Within 6 months of the end of that fiscal year, agencies must submit actual program performance data to the Congress. The NRC established four strategic goals consistent with its mission. To assess the results in achieving the strategic goals, the NRC identified FY 2000 strategic goal measures and subsequently modified them in the Budget Estimates and Performance Plan - FY 2001 (NUREG-1100, February 2000).

STRATEGIC GOALS

- Prevent radiation-related deaths and illnesses in the use of civilian nuclear reactors.
- Prevent radiation-related deaths and illnesses in the use of source, byproduct, and special nuclear material.
- Prevent significant adverse impacts from radioactive waste.
- Support U.S. interests in the safe and secure use of nuclear materials and in nuclear nonproliferation.

The NRC has organized its strategic goals into four strategic arenas: Nuclear Reactor Safety, Nuclear Materials Safety, Nuclear Waste Safety, and International Nuclear Safety Support.

The NRC has also established performance goals to support the strategic goals for each of the four strategic arenas. These performance goals and their associated performance measures for FY 2000 will be reported in the NRC's FY 2000 Performance and Accountability Report.



Nuclear Reactor Safety

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

In FY 2000, the NRC met its nuclear reactor safety strategic goal measures and had:

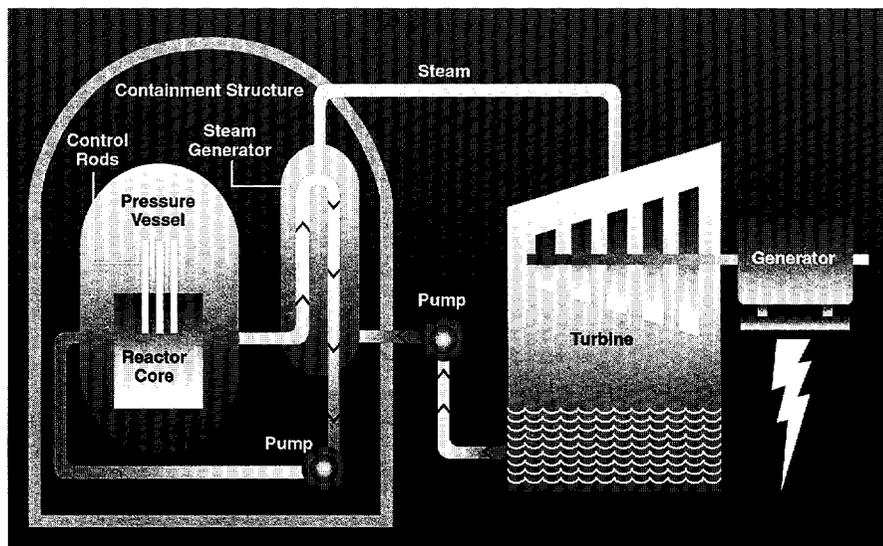
- No nuclear reactor accidents.
- No deaths resulting from acute radiation exposures from nuclear reactors.
- No events at nuclear reactors resulting in significant radiation exposures.
- No radiological sabotages at nuclear reactors.
- No releases of radioactive material from nuclear reactors causing an adverse impact on the environment.

Nuclear Materials Safety

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

In FY 2000, the NRC met its nuclear materials safety strategic goal measures and had:

- No deaths resulting from acute radiation exposures from civilian uses of source, byproduct, or special nuclear materials or deaths from other hazardous materials used or produced from license material.
- No events that result in significant radiation or hazardous material exposures from the loss or use of source, byproduct, and special nuclear materials.



Pressurized Water Reactor Diagram

- No events resulting in releases of radioactive material from the civilian use of source, byproduct, or special nuclear materials that cause an adverse impact on the environment.
- No losses, thefts, or diversion of formula quantities of strategic special nuclear material; radiological sabotages; or unauthorized enrichment of special nuclear material regulated by the NRC.
- No unauthorized disclosures or compromises of classified information causing damage to national security.

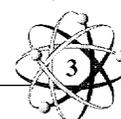
Nuclear Waste Safety

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

In FY 2000, the NRC met its nuclear waste safety strategic goal measures and had:

- No deaths resulting from acute radiation exposures from radioactive waste.
- No events resulting in significant radiation exposures.

(continued on page 4)



- No releases of radioactive waste causing an adverse impact on the environment.
- No losses, thefts, diversions, or radiological sabotages of special nuclear material or radioactive waste.

International Nuclear Safety Support

Strategic Goal: *Support U.S. interests in the safe and secure use of nuclear materials and in nuclear nonproliferation.*

In FY 2000, the NRC met its international nuclear safety support strategic goal measures and had:

- Fulfilled 100 percent of the significant obligations over which NRC has regulatory authority arising from statutes, treaties, conventions, and Agreements for Cooperation.
- No significant proliferation incidents attributable to some failure of the NRC.
- No significant safety or safeguards events that resulted from NRC's failure to implement its international commitments.

seventh consecutive year. Preparation of financial statements is an important step towards improved financial management and providing accurate and reliable information to be used in assessing performance and allocating resources.

For FY 2000, the auditors identified two material internal control weaknesses concerning implementation of Statement of Federal Financial Accounting Standards Number 4 (SFFAS 4), *Managerial Cost Accounting Concepts and Standards for the Federal Government*, and management control over license fee development. The auditors also identified two new



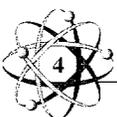
Chairman Richard A. Meserve, U.S. Nuclear Regulatory Commission, and Chairman Miroslav Lipar, Nuclear Regulatory Authority of the Slovak Republic signing the renewal of the bilateral nuclear safety arrangement.

FINANCIAL PERFORMANCE

Financial Statement Highlights

The NRC prepared its financial statements in accordance with the accounting standards codified in the Statements of Federal Financial Accounting Standards and Office of Management and Budget Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, as amended. The NRC has prepared audited financial statements since FY 1992 and has received an unqualified opinion on its principal statements for the

reportable conditions concerning debt collection. In addition, 11 reportable conditions were carried over from FY 1999. Seven of the reportable conditions from previous years remained open at the end of FY 2000. They included the implementation of managerial cost accounting, the agency's progress in developing financial systems to aggregate payroll transactions to the strategic arena level, ineffective management controls over fee development, business continuity plan for the core accounting system, the financial statement



preparation process, controls over the verification of small entity status for fee assessment, and development of the hourly rate under Title 10 Code of Federal Regulations (CFR) Part 170. The agency has taken corrective action on these audit findings and expects to fully implement corrective action during FY 2001.

Financial Condition of NRC

As of September 30, 2000, 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. NRC's total assets were \$225.9 million. Total liabilities as of September 30, 2000, were \$129.8 million, which included \$94.2 million of liabilities covered by budgetary resources and \$35.6 million not covered by budgetary resources. Liabilities not covered by budgetary resources are primarily from unfunded liabilities associated with accrued annual leave and future workers' compensation. Total exchange revenue for the year ended September 30, 2000, was \$463.0 million which was derived from licensing fees and fees for inspections and other services, assessed in accordance with 10 CFR Parts 170 and 171. The net cost of NRC operations totaled \$47.7 million for the year ended September 30, 2000. The majority of these costs were in the Nuclear Materials Safety and Nuclear Waste Safety arenas.

The net cost of operations is expected to increase in the future as a result of recent changes to the fee collection requirement, as contained in the Energy and Water Development Appropriations Act, 2001. The requirement to recover approximately 100 percent of the agency's new budget authority by assessing fees, less amounts appropriated for the Nuclear Waste Fund and the General Fund, will be reduced to 98 percent in FY 2001 and continue to decrease 2 percent per year until FY 2005, for a total reduction of 10 percent. This change is expected to result in an increase in NRC's net cost of about \$9 million for FY 2001.

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. The NRC's total new FY 2000 budget authority was \$469.9 million including \$464.9 million for the Salaries and Expenses appropriation and \$5.0 million for the Inspector General appropriation. Additionally, available to obligate in FY 2000 were \$31.1 million from prior-year appropriations, \$3.6 million from prior-year reimbursable work, \$5.7 million from current and prior-year transfer of funds from other Federal agencies, and \$5.6 million for new reimbursable work to be performed for others. The sum of all funds available to obligate for FY 2000 was \$515.9 million.

Consistent with the requirements of the Omnibus Budget Reconciliation Act of 1990, the NRC collected and offset approximately 100 percent of its new budget authority, excluding \$19.1 million derived from the Nuclear Waste Fund, \$3.8 million from the General Fund for regulatory review and other assistance provided to the Department of Energy and other Federal agencies, and other offsetting receipts. (See Figure 1.)

Uses of Funds by Function

As previously stated, the total budgetary resources available for use by the NRC in FY 2000 was \$515.9 million. Of that amount, the NRC incurred obligations of \$485.5 million, with approximately 58 percent used for salaries and benefits. The remaining 42 percent was used to obtain technical assistance for the NRC's principal regulatory programs, to conduct confirmatory safety research, to cover operating expenses, (e.g., building rentals, transportation, printing, security services, supplies, office automation, and training), staff travel, and reimbursable work. (See Figure 2.) Of the \$30.4 million in budget authority that was not obligated in FY 2000, \$0.6 million of transferred funds expired at the end of the

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Figure 1
Sources of Funds

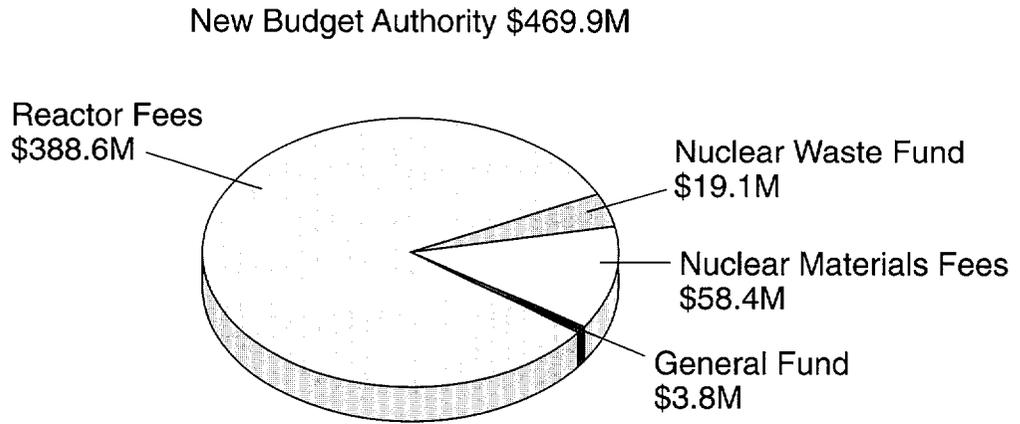
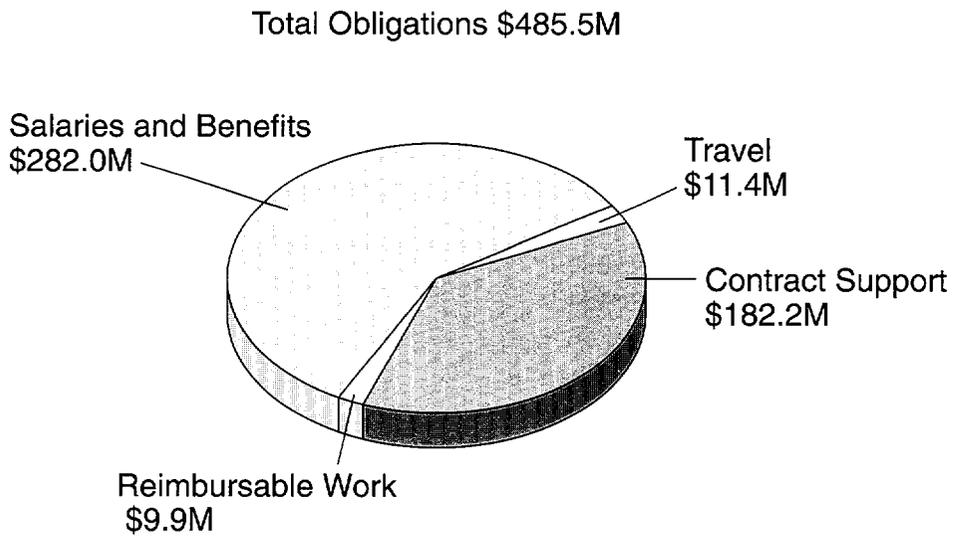


Figure 2
Uses of Funds by Function



fiscal year, \$4.3 million was for reimbursable work, and \$25.5 million in budget authority is available to fund critical needs in FY 2001.

Prompt Payment

The Prompt Payment Act requires Federal agencies to make timely payments to vendors for supplies and services, to pay interest penalties when payments are made after the due date, and to take cash discounts when they are economically justified. For FY 2000, the NRC made 96 percent of its 8,237 payments subject to the Prompt Payment Act on-time. This exceeds the goal established by the Office of Management and Budget for Federal agencies to make 95 percent of payments subject to the act on-time and reflects the third consecutive year NRC has achieved 96 percent. The amount of interest penalties incurred was just under \$6,400. In addition, the agency made over 99 percent of its vendor payments electronically. This exceeds the Governmentwide goal of 69 percent.

Debt Collection

The Debt Collection Improvement Act of 1996 was enacted to enhance the ability of the Federal Government to service and collect debts. The agency's goal is to maintain the delinquent debt owed to NRC at year-end to less than one percent of its billings for that year. The NRC continues to meet its goal and has kept delinquent debt at less than one percent for the past 5 years. Control over delinquent debt is accomplished through a concerted debt management strategy. The strategy includes license revocations and referral to the Department of the Treasury's Debt Management Services through a cross-servicing arrangement.

Delinquent debt at the end of FY 2000 was \$1.5 million which is 40 percent less than the amount at the end of FY 1999. This reduction was the result of implementing accounting policy changes pursuant to revised guidance issued by the Department of the Treasury and the reduction in the number of licensees due to the establishment of a new Agreement State.

SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

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

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

(continued on page 8)



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

January 24, 2001

CHAIRMAN

INTEGRITY ACT STATEMENT

The U.S. Nuclear Regulatory Commission evaluated its management controls and financial management systems for FY 2000, as required by the Federal Managers' Financial Integrity Act of 1982. On the basis of the NRC's comprehensive management control program, I am pleased to certify, with reasonable assurance, that the agency is in compliance with the provisions of this act.



Richard A. Meserve



level. The Chairman is required to determine whether the agency's financial management systems comply with the Improvement Act and to develop remediation plans for systems that do not comply.

NRC's Management Control Program

A committee of senior agency executives reviewed individual assurance statements prepared by NRC office directors and regional administrators that identified weaknesses that warranted the attention of the executive committee. This committee was comprised of senior executives from the following offices: Chief Financial Officer, Chief Information Officer, and Executive Director of Operations, with the General Counsel and the Inspector General as advisors. These statements were based on various sources including:

- Management knowledge gained from the daily operation of agency programs and reviews.
- Management reviews.
- Program evaluations.
- Audits of financial statements.
- Reviews of financial systems.
- Annual Performance plans.
- Inspector General and General Accounting Office reports.
- Reports and other information provided by the congressional committees of jurisdiction.

NRC's ongoing management control program requires, among other things, that management control deficiencies are integrated into offices' and regions' annual operating plans. The operating plan process has provisions for periodic updates and receives the attention of an executive committee made up of the agency's senior managers. The management control information in these plans, combined with the individual assur-

ance statements discussed previously, provide the framework for monitoring and improving the agency's management controls on an ongoing basis and for advising the Chairman on whether there are any management control deficiencies serious enough to report as material weaknesses or material noncompliances.

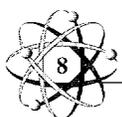
The NRC evaluated its management control systems for the fiscal year ending September 30, 2000. This evaluation provided reasonable assurance that the agency's management controls achieved their intended objectives. As a result, it was concluded that NRC did not have any material weaknesses in its programmatic or administrative activities.

However, the agency recognizes that incomplete implementation of managerial cost accounting (SFFAS 4) continues to be a significant weakness which merits the close attention of senior management. Progress has been made over the past year to implement managerial cost accounting. A cost accounting software package was selected, purchased, and installed and is being configured to reflect how the agency initially plans to report direct costs and allocate its indirect costs. Consistent with the remediation plan, the agency expects to implement managerial cost accounting and achieve compliance with SFFAS 4 during FY 2001.

Actions have also been taken to strengthen the management controls over fee development. The license fee rule development process has been documented, and an analysis of the fee model has been completed and improvements made. The agency completed these corrective actions in November 2000.

Financial Management Systems

The NRC evaluated its financial management systems to determine whether the agency's systems comply with Governmentwide standards, as required by the Integrity Act, and with applicable Federal requirements and accounting standards, as required by the Improvement Act. This evaluation



disclosed that NRC's major financial management systems are in compliance with the Integrity Act. The evaluation also disclosed that overall financial systems are in compliance with the Improvement Act. NRC's financial management systems comply substantially with Federal financial management systems requirements and the standard general ledger at the transaction level, but did not comply substantially with applicable Federal standards due to the lack of implementation of SFFAS 4, managerial cost accounting. As discussed previously, the agency is continuing to address the implementation of SFFAS 4.

The NRC has five financial systems: the Federal Financial System (FFS), Capitalized Property PC System, License Fee Bill Generator System, Allotment-Financial Plan System, and a Budget Formulation System. The NRC also has a mixed system, the Payroll/Personnel System.

The FFS is the core accounting 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. The FMS has yet to test its business continuity plan for FFS and this exception is considered a material nonconformance. FMS has delayed such testing because of higher priorities imposed on its data center.

The FMS has also notified the agency that they will terminate cross-servicing core accounting services at the end of FY 2002. During FY 2001, NRC will pursue acquiring core accounting services from another Federal agency.

Biennial Review of User Fees

The Chief Financial Officers Act of 1990 requires agencies to biennially conduct a review of fees, royalties, rents, and other charges imposed by agencies and make revisions, if necessary, to cover the program and administrative costs incurred. During FY 1999 to FY 2000, the NRC reviewed each type of fee subject to the biennial review of fees requirement. Each year, the hourly rates for licensing and inspection fees are revised and the annual fees are adjusted to meet the fee collection requirements of the Omnibus Budget Reconciliation Act of 1990. The most recent changes to the licensing, inspection, and annual fees are described in the *Federal Register* (65 FR 36946, June 12, 2000). The following fees and charges were also revised to more appropriately recognize actual costs: fees for public use of the auditorium, administrative charges imposed on delinquent debt (10 CFR 15.37(f)), fees for search and review time to respond to Freedom of Information Act and Privacy Act requests, and licensing and inspection fees based on average number of hours. 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 Office of the Inspector General (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 1 gives the dollar value of disallowed costs determined through contract audits conducted by the Defense Contract Audit Agency (DCAA). "Questioned Costs" are those costs that are questioned as to whether they are allowable.

(continued on page 10)



"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.

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, 2000, 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 NRC has implemented the Training Administration module of the PeopleSoft Human Resources Information System. The implementation was completed as part of Phase II of the Starfire project. The live date for Training Administration was November 14, 2000. The Training Administration module combined the information residing in three separate administrative systems: the Agency Training system (ATS), the Technical Training Center registration system, and the Professional Development Center registration

**Table 1
Management Report on Office of the Inspector General Audits with Disallowed Costs
For the Period October 1, 1999-September 30, 2000**

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.	0	\$0	\$0
B. Audit reports on which management decisions were made during this period.	4	\$113,797	\$0
C. Audit reports on which final action was taken during this report period.	4	\$113,797	\$0
(i) Disallowed costs that were recovered by management through collection, offset, property in lieu of cash, or otherwise.	4	\$113,797	\$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

As of September 30, 2000, no outstanding audits recommended that funds be put to better use.



system. The PeopleSoft Training Administration module is now the official training records system for the agency. Course registration is now accomplished through the Training Administration module. All NRC offices now have a designated training contact who has the ability to enter external training completion (Form 368 training) into individual training records. These office individuals can also report on individual training portfolios and monitor the enrollment of individual training sessions. In addition, each training contact has full access to all of the public reports and queries developed for the Training Administration module.

As a result of implementing this new system and providing full access to appropriate individuals in each office, the agency now has a training tracking system that meets management needs for producing reliable information for overseeing inspector training. As stated in a previous update on this subject, an upgrade to the enhanced features of the PeopleSoft Training Administration module along with additional PeopleSoft implementation will provide desktop access to all staff members, through an employee self-service function, enabling them to review their own training portfolios and check their course session enrollment status.

Make NRC Management Directives Available on the NRC Web Site

The OIG recommended that the Office of Chief Information Officer (OCIO) make agency management directives and corresponding hand-

books available on the NRC's web site to facilitate easy search and retrieval of pertinent guidance. In January 1999, the OCIO agreed to make all management directives and corresponding handbooks available. In November 2000, the entire set of management directives and the corresponding handbooks were placed on the web as web pages.

Independent Auditors' Report and Principal Statements for the Year Ended September 30, 1998

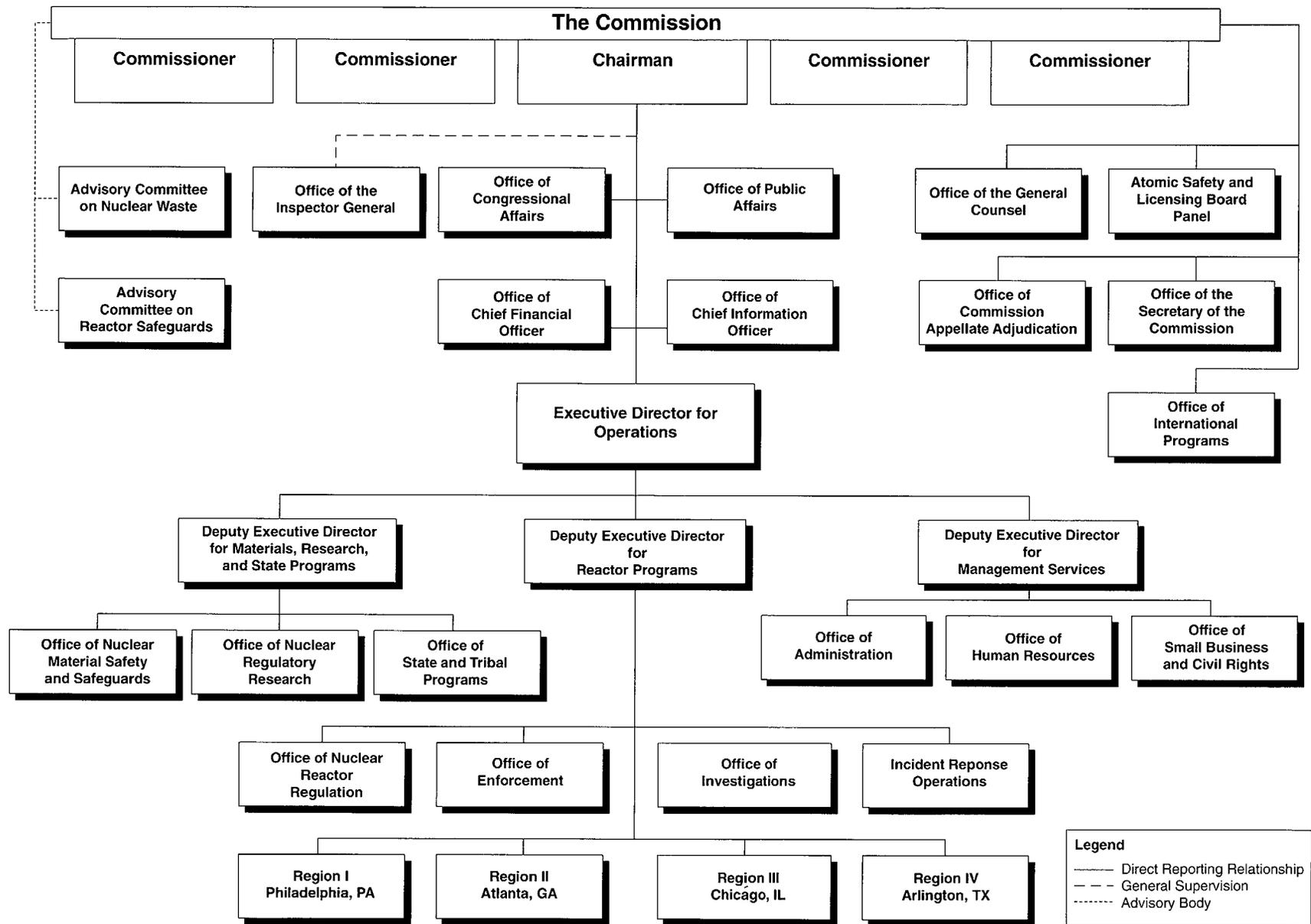
The OIG recommended the Chief Financial Officer assess the immediate needs of NRC managers to receive reliable and routine cost accounting information in light of performance and results mandates included in the Government Performance and Results Act. Additionally, the Chief Financial Officer, in preparing a remediation plan should develop a strategy, including milestones, to incorporate cost management standards and concepts throughout the agency.

Progress has been made over the past year to implement managerial cost accounting. A cost accounting software package was selected, purchased, and installed and is being configured to reflect how the agency initially plans to report direct costs and allocate its indirect costs. Consistent with the remediation plan, the agency expects to implement managerial cost accounting and achieve compliance with Governmentwide cost accounting requirements during FY 2001.





Figure 3
NRC Organization Chart as of September 30, 2000



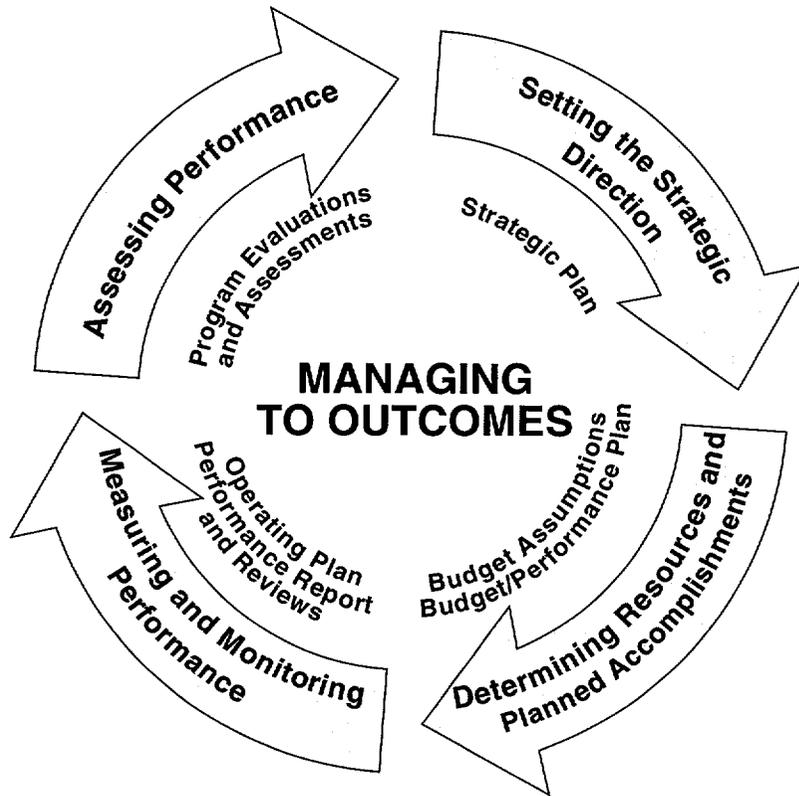
Performance Report

The Government Performance and Results Act (GPRA) of 1993 requires agencies to develop and institutionalize processes to plan for and measure mission performance. The NRC has made progress in becoming a more performance-based organization. This effort began as a result of the agency's strategic rebaselining and continued 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. Products that emanated from our PBPM process include submitting to Congress the triennial update to the FY 2000-2005 Strategic

Plan, the FY 1999 Accountability and Performance Report, and the FY 2001 Budget Estimates and Performance Plan.

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 estimated performance. The safety performance indicators reported within this report are based on NRC's FY 2000-2005 Strategic Plan that sets the framework for the development of the performance indicators. These outcome-based safety performance indicators

(continued on page 14)



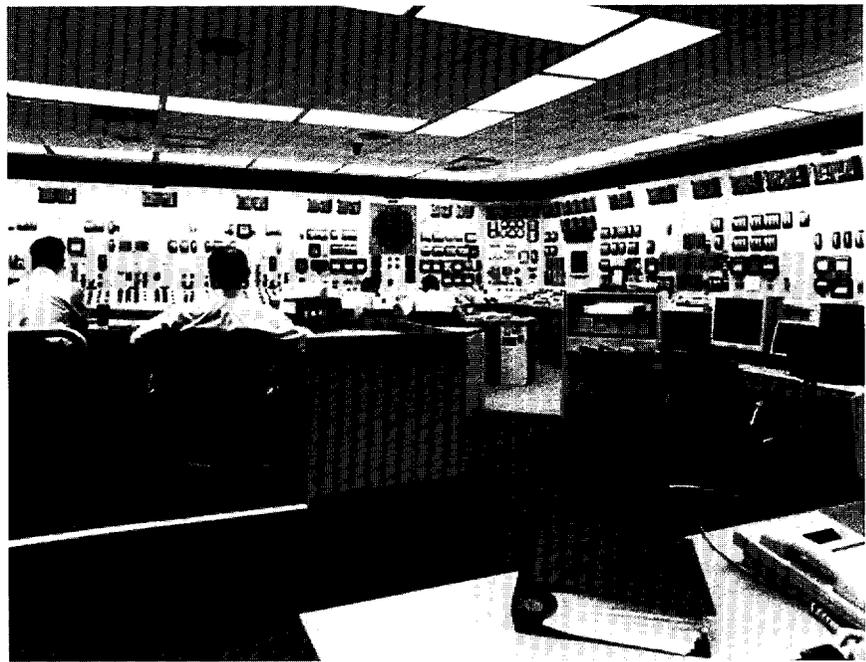
provided the first critical link to the NRC's long term strategic objectives. These safety strategic goal measures were originally established in our FY 2000 Final Performance Plan (February 1999) and subsequently modified in our FY 2000 Revised Final Performance Plan (as reflected in the FY 2001 Performance Plan, dated February 2000). *Note that the non safety performance goals which are identified in the updated FY 2000-2005 Strategic Plan (increase public confidence, make NRC decisions more effective, efficient, and realistic, and reduce unnecessary regulatory burden on stakeholders) which have associated FY 2001 milestones will be reported in the FY 2001 Performance and Accountability Report.* The FY 2000 Performance and Accountability

Report contains new and revised safety performance measures as identified in the FY 2001 Performance Plan. Unlike many of the previous safety performance measures in the FY 1999 Accountability and Performance Report that used a "combined five-year average" method of calculating value, the FY 2000 Performance and Accountability Report measures were changed to an annual value. The FY 2000 Performance and Accountability Report contains actual performance data for FY 1999-2000. The actual data reported for some of our strategic goal and the maintain safety performance goal measures are subject to change as a result of NRC analysis of reported information as well as the receipt of newly reported information. Changes to this data will be reported and explained in future performance report submissions.

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



Control Room at a Nuclear Power Plant

- Nuclear Waste Safety
- International Nuclear Safety Support

For each strategic arena, we state the strategic goal from the FY 2000-2005 Strategic Plan, provide a brief introduction to the arena, delineate the strategic and performance goals and measures, and identify performance. 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 the regulatory oversight of licensees is the responsibility of NRC and the Agreement States. Thus, achieving these goals requires the collective efforts of the NRC, the Agreement States, and their licensees.

Nuclear Reactor Safety

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

The Nuclear Reactor Safety strategic arena encompasses all NRC efforts to ensure that civilian nuclear power reactor facilities, as well as

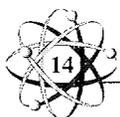
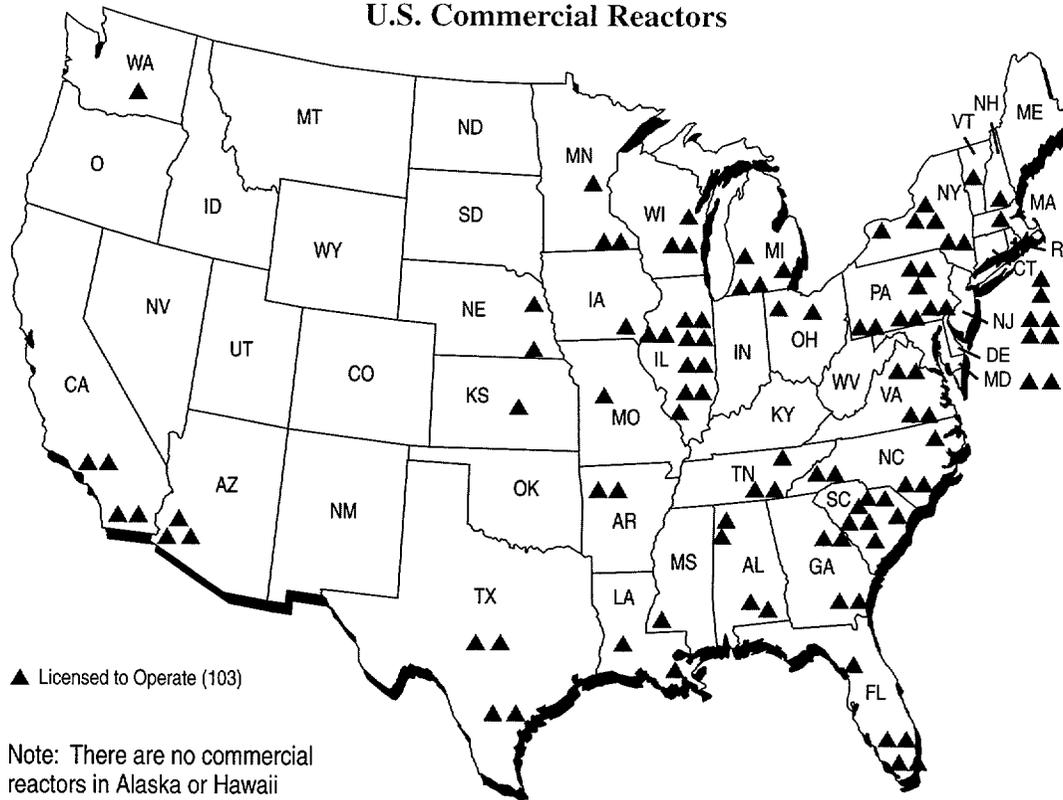


Figure 4
U.S. Commercial Reactors



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. 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. These efforts 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. Table 2 identifies nuclear reactor safety performance goals and related FY 1999 - 2000 performance data.

Nuclear Reactor Safety Accomplishments for FY 2000

In FY 2000, the NRC continued to make major changes and improvements in its nuclear reactor safety program. Discussed below is a brief description of noteworthy program achievements.

Revised Reactor Oversight Process

Began implementation of major process improvements to the reactor oversight process. The revised process includes a risk-informed baseline inspection program, use of licensee-reported performance indicator information, and revised assessment and enforcement activities. Process improvements were developed in response to staff assessments, Commission direction, and external stakeholder comments to provide for greater objectivity, predictability, and consistency, and to provide the public with greater access to plant performance information.

(continued on page 17)

**Table 2
Nuclear Reactor Safety Performance**

STRATEGIC GOAL: Prevent radiation-related deaths and illnesses, promote the common defense and security, and protect the environment in the use of civilian nuclear reactors	PERFORMANCE	
MEASURES	Target	Actual
No nuclear reactor accidents. ¹	FY 2000: 0 FY 1999: 0	FY 2000: 0 FY 1999: 0
No deaths resulting from acute radiation exposures from nuclear reactors.	FY 2000: 0 FY 1999: 0	FY 2000: 0 FY 1999: 0
No events at nuclear reactors resulting in significant radiation exposures. ²	FY 2000: 0 FY 1999: 0	FY 2000: 0 FY 1999: 0
No radiological sabotages at nuclear reactors.	FY 2000: 0 FY 1999: 0	FY 2000: 0 FY 1999: 0
No releases of radioactive material from nuclear reactors causing an adverse impact ³ on the environment.	FY 2000: 0 FY 1999: 0	FY 2000: 0 FY 1999: 0
PERFORMANCE GOAL: Maintain safety, protection of the environment, and the common defense and security.	PERFORMANCE	
MEASURES	Target	Actual
No more than one event per year identified as significant precursors of nuclear accidents. ⁴	FY 2000: 1 or less FY 1999: 1 or less	FY 2000: 0 FY 1999: 0
No statistically significant adverse industry trends in performance. ⁵	FY 2000: 0 FY 1999: 0	FY 2000: 0 FY 1999: 0
No events resulting in radiation overexposures ⁶ from nuclear reactors that exceed applicable regulatory limits.	FY 2000: 0 FY 1999: 0	FY 2000: 0 FY 1999: 0
No more than three releases per year to the environment of radioactive material from nuclear reactors that exceed the regulatory limits. ⁷	FY 2000: 3 or less FY 1999: 3 or less	FY 2000: 0 FY 1999: 0
No breakdowns of physical security that significantly weaken the protection against radiological sabotage, theft or diversion of special nuclear materials in accordance with abnormal occurrence criteria.	FY 2000: 0 FY 1999: 0	FY 2000: 0 FY 1999: 0

¹ "Nuclear reactor accidents" is defined in the NRC Severe Accident Policy Statement (50 Federal Register 32138, August 8, 1985) as those accidents which result in substantial damage to the reactor core, whether or not serious offsite consequences occur.

² "Significant radiation exposures" are defined as those that result in unintended permanent functional damage to an organ or a physiological system as determined by a physician in accordance with Abnormal Occurrence Criteria I.A.3.

³ Releases that have the potential to cause "adverse impact" are currently undefined. As a surrogate, we will use those that exceed the limits for reporting abnormal occurrences as given by AO criteria 1.B.1 (normally 5,000 times Table 2 (air and water) of Appendix B, Part 20).

⁴ Such events have a 1/1000 (10⁻³) or greater probability of leading to a reactor accident.

⁵ The agency provides oversight of plant safety performance on a plant-specific basis as well as on an industry-wide basis. As a refinement to the existing process, new parameters and criteria for measuring statistically significant adverse trends in industry wide safety performance will be developed. In the interim, the NRC continues to use the same parameters as in past years. Future parameters to be monitored could include NRC-approved performance indicators, inspection findings, accident sequence precursor results, and other risk-related indications or measures of industry safety performance that will be developed and qualified for use in phases.

⁶ Overexposures are those that exceed limits as provided by 10 CFR 20.2203(a)(2), excluding instances of overexposures involving a shallow dose equivalent from a discrete radioactive particle in contact with the skin.

⁷ Releases for which a 30 day reporting requirement under 10 CFR 20.2203(a)(3) is required.



The revised reactor oversight process will maintain safety by focusing staff and industry attention on risk-significant activities while reducing unnecessary regulatory burden, thus achieving gains in staff effectiveness. A six-month pilot program to test the new regulatory oversight process at nine nuclear power plant sites was completed in November 1999. Staff activities included the conduct of a number of public workshops to solicit feedback on process changes; establishment of internal and external web sites to provide plant performance information to industry and members of the public; and extensive work on inspection procedure development and inspector staff training. The NRC ensured a high level of stakeholder participation in the development of the revised process, including public workshops in each of the regions to inform licensees and the public about the new process, roundtable public meetings in the vicinity of the nine pilot program plant sites, and the conduct of a Lessons Learned Public Workshop on the pilot program. The NRC began industry wide implementation of the revised reactor oversight process, with the exception of DC Cook, in April 2000.

License Renewal

Continued to meet or exceed all established schedules for license renewal activities. The agency issued the first renewed license on March 23, 2000, for the Calvert Cliffs Nuclear Power Plant, followed by the second renewed license on May 23, 2000, for the Oconee Nuclear Station. License renewal applications were received for Arkansas Nuclear One, Unit 1, on February 1, 2000; for Hatch Nuclear Plant on March 1, 2000; and for Turkey Point on

September 11, 2000. These applications, which reflect an increasing interest by licensees in license renewal, are under review by the staff. The agency also issued for public comment on August 31, 2000, draft improved license renewal guidance consisting of a Generic Aging Lessons Learned report, Standard Review Plan for License Renewal, and a Regulatory Guide for License Renewal that proposes to endorse an industry implementation guideline.



Chairman Richard A. Meserve meets with Mr. Christian H. Poindexter, Chairman of the Board and Chief Executive Officer, Constellation Energy Group (formerly Baltimore Gas and Electric) on the occasion of the renewal of the Calvert Cliffs Nuclear Power Plant license (March 24, 2000)

Year 2000 Programs

Implemented in the first quarter of FY 2000 a plan for responding to potential Year 2000 (Y2K) problems affecting the commercial nuclear industry. This effort required extensive communication and coordination with other Federal agencies, the White House, the public, and the nuclear industry. Due to the extensive collaborative effort between the industry and NRC in preparing for and addressing Y2K issues, NRC and its licensees made the transition to Y2K without incident. NRC's Y2K contingency plan was extensively tested

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through exercises involving other Federal agencies, the White House, State and local officials, and the industry. One of NRC's goals in developing a Y2K contingency plan was to maximize the extent to which the Y2K preparations could be leveraged for future benefit to the agency. For example, upgrades and testing of telecommunication and emergency power systems in Region IV (the backup to NRC Headquarters during the Y2K transition) were completed during FY 2000. These upgrades also support the NRC's continuity of operations plan required by Presidential Decision Directive 67. Similarly, steps were taken to enhance the reliability of communications with licensee and State decision makers, so that emergency communications will be assured in the event of public telephone network congestion or unavailability. NRC also developed a secure Internet-based Year 2000 early warning system (YEWS) to facilitate international information-sharing during the Y2K transition. NRC has provided this computer code to the International Atomic Energy Agency for future use.

Reactor Licensing

Continued to meet or exceed established performance measures for completing nuclear power plant related actions. The NRC staff completed 1,574 licensing actions, and maintained 98 percent of all licensing actions in its working inventory to an age of one year or less and 100 percent at two years or less. Included in the licensing actions completed are responses to licensee requests to change or amend their licenses in areas such as license transfers, power uprates, initiatives involving risk informed regulation, and voluntary conversions of plant technical specifications to an improved standard format.

Risk-Informed Regulation

Continued to incorporate risk information into the regulatory process through a systematic, risk-informed examination of current technical requirements in 10 CFR Part 50. Results of this examination included the recommendation to change NRC's regulation on combustible gas control during reactor accidents, potentially to

eliminate requirements which have minimal safety benefit and impose unnecessary burden, and to add requirements where necessary to ensure safety.

License Transfers

With a number of States taking steps toward deregulation of the power market, the unbundling of services, and general industry consolidation, there was significant activity in the financial review program for nuclear power reactors. During the performance period, the NRC provided regulatory guidance in the form of Regulatory Issue Summaries, Regulatory Guides, and Standard Review Plans to enhance stakeholder understanding of practices involving license transfer applications. These included guidance on foreign ownership, antitrust issues, non-owner operators, and an overarching guide that summarizes NRC practices. The NRC completed over 25 licensing actions under this program during the period with cases ranging from the sale of a passive owner's minority share, to the creation of an intermediary holding company, to the merger of two major license holders to form Exelon. The latter case was the most complex transaction seen to date and involved over 20 nuclear power reactors. The NRC has established an ambitious six-month target for completing license transfer licensing actions and has met that target in virtually all cases.

Public Outreach Efforts

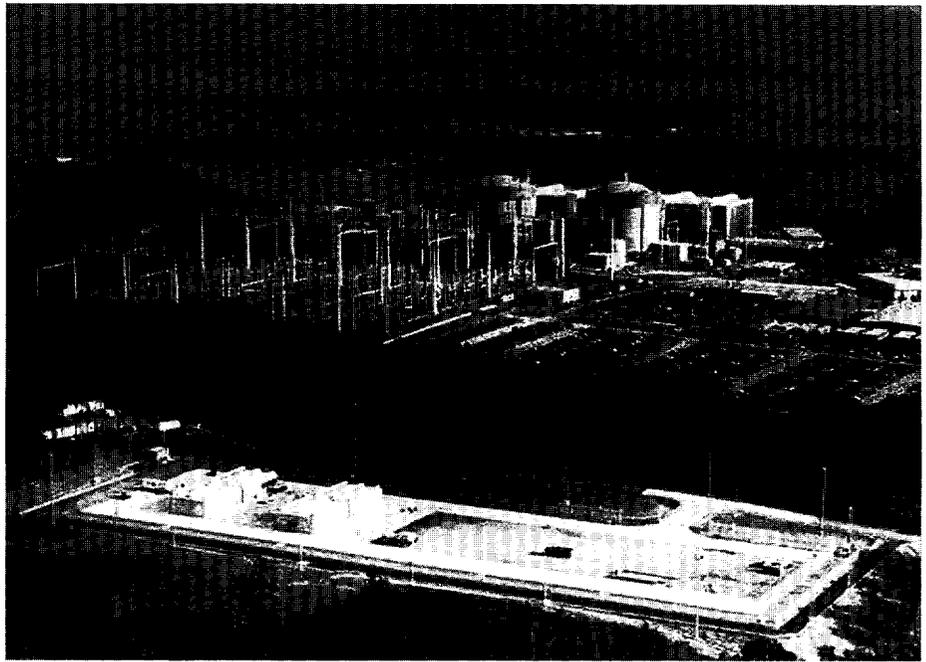
The agency increased its focus on initiatives to improve the effectiveness of communications. Various actions were used to methodically improve the consistency of staff communication activities, improve the management of communication activities, and improve communication skills. For the more visible programs, the staff developed and implemented communication plans (CPs). Additionally, a large effort was undertaken to evaluate and redesign the NRC web site to increase its effectiveness. The significant implementation activities included: 1) Developed CPs for significant and generic topics; 2) Identified



communication interfaces (organizations/groups); 3) Solicited feedback from stakeholders at public meetings; 4) Developed guidance and provided training on CP development and implementation; and 5) Established a Web Redesign Work Group

Other Accomplishments

- Amended its regulations in January 2000 to allow holders of operating licenses for nuclear power plants to voluntarily replace the traditional source term used in design basis accident analyses with alternative source terms (ASTs). This action allows interested licensees to pursue cost-beneficial licensing actions to reduce unnecessary regulatory burden without compromising the margin of safety of the reactor facility. In July 2000, the NRC issued a new guide in its Regulatory Guide series to provide guidance to licensees in implementing an AST at their facility. By the end of FY 2000, the NRC reviewed and approved two AST implementations and had four AST implementations under review. Seven additional nuclear power plant sites have expressed interest with submittals expected in FY 2001. Additional submittals are also expected in FY 2002.
- Conducted several significant rulemakings in FY 2000, including revisions to 10 CFR 50.59, 50.72, and 50.73. In the beginning of FY 2000, NRC published a revision to 10 CFR 50.59 which, when effective in mid-March 2001, will provide clarity and flexibility in regulations that allow licensees to make certain changes to their facilities and procedures, or to conduct tests and experiments. In July 2000, the Commission approved a revision to the reporting requirements of 10 CFR 50.72 and 50.73. These



Spent Fuel Storage Pad at Calvert Cliffs.

revisions reduce the reporting burden associated with events of little or no safety significance, clarify the reporting requirements where needed, and extend reporting time limits consistent with the need for prompt NRC action.

- Certified in January 2000, the Westinghouse advanced passive pressurized water reactor (AP600) standard plant design after a comprehensive review. The AP600 was the third standard plant design to achieve certification, joining the General Electric Advanced Boiling Water Reactor and the ASEA Brown Boveri Combustion Engineering System 80+ standard plant designs that were certified in 1997.
- Supported the license renewal effort through resolution of Generic Safety Issue 190, "Fatigue Evaluation of Metal Components for 60-Year Life," and through evaluation of technical issues such as thermal aging embrittlement of cast stainless steels. Outcomes of these efforts have contributed to both maintaining safety and the reduction

(continued on page 20)

of unnecessary burden through development of technically defensible positions that justified not imposing generic requirements in these areas for license renewal.

- Approved for use ABB Combustion Engineering's (CE) 800 steam generator tube repair technique at Baltimore Gas & Electric's (BG&E) Calvert Cliffs plant. BG&E is expected to become the first U.S. plant to apply this repair method, which uses differential thermal expansion to repair steam generator tubes. According to ABB CE, the sleeve's non-welded design allows quick installation and easier in-service inspection.
- Issued the safety evaluation report (SER) for the ABB "Crossflow" measuring system topical report. The increased accuracy of the Crossflow measuring system can be used to support a reduction in the power level margin used in the plant emergency core cooling system (ECCS) evaluations. In turn, licensees can submit a license amendment to operate the power plant at higher power levels. With issuance of the ABB Crossflow SER, licensees seeking such license amendments now have a choice between two vendor designs.
- Submitted for Commission approval a final rule that amends 10 CFR Part 50, Appendix K, "ECCS Evaluation Models." The amendment will facilitate small but cost-beneficial power uprates for commercial nuclear power plants seeking to utilize the improved feedwater flow measurement systems discussed above. While all plants could conceivably benefit from this risk-informed rulemaking, if only 50 plant licensees pursue a marginal power uprate, they would share an annual benefit ranging from \$50 million to \$135 million.
- Approved a rulemaking plan to revise 10 CFR 73.55, "Requirements for Physical Protection of Licensed Activities in Nuclear

Power Reactors Against Radiological Sabotage." The staff's proposal includes a requirement for periodic drills and exercises for evaluating power reactor licensees' capability to respond to safeguards contingency events. The proposed rule is scheduled to be submitted to the Commission in May 2001. The staff and industry continue to work on a voluntary industry initiative called the Safeguards Performance Assessment that is intended to test the concepts being considered in the new rule and maintain assurance of licensee readiness to respond to safeguards contingency events.

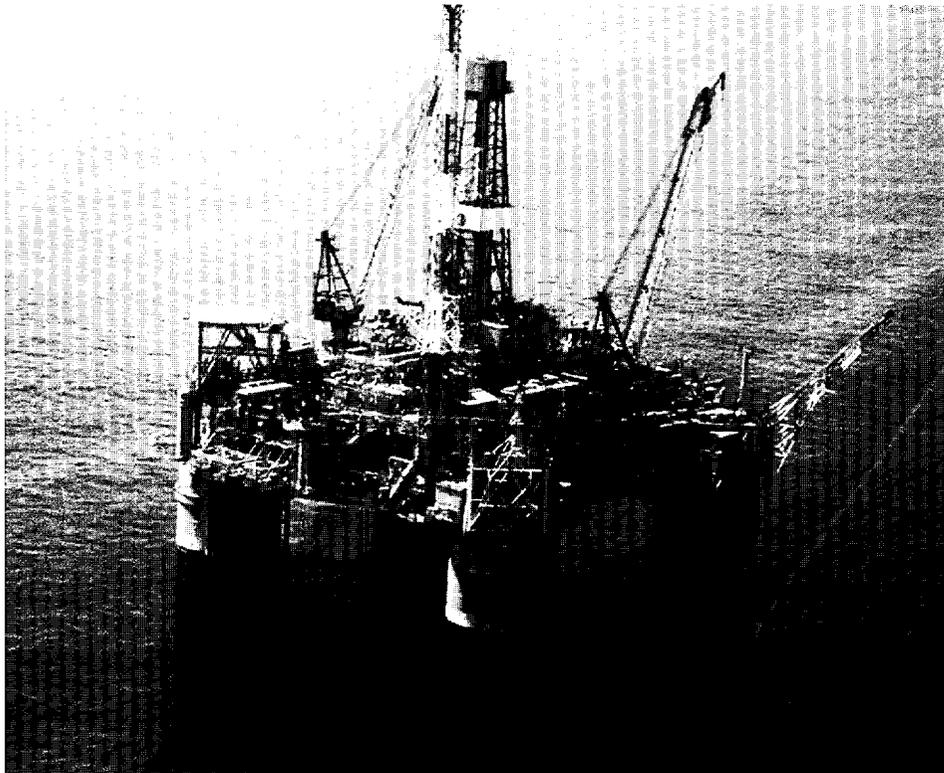
- Held meetings regarding the licensees' interest in amendment requests for a 15 percent power uprate. Five plants representing 9 units are expected to submit their licensing amendment requests in the coming year. A 15 percent uprate for these 9 units represents about 3,400 Mwt (1,100 Mwe) of additional generating capacity. Until late 1998, power uprates have been limited to 5 percent nominal. A total of 42 power uprate amendments were issued between 1977 and mid-1998, all within 5 percent. Any uprate beyond the 5 percent threshold would require significant balance-of-plant equipment upgrades.

Nuclear Materials Safety

STRATEGIC GOAL: Prevent radiation-related deaths and illnesses, promote the common defense and security, and protect the environment in the use of source, byproduct, and special nuclear materials.⁸

The Nuclear Materials Safety strategic arena encompasses NRC efforts to ensure that NRC-regulated aspects of nuclear fuel cycle facilities and nuclear materials activities are handled in a manner that adequately protects public health and safety and promotes common defense and security. This arena encompasses more than 20,000 specific and 150,000 general licensees that are regulated by the NRC and 32 Agreement





An off-shore platform in the Gulf of Mexico where NRC conducts unannounced inspections of well-logging activities.

The scope of regulatory activities carried out under this arena includes regulation and guidance development; nuclear materials research; licensing/certification, inspection, and enforcement activities; identification and resolution of safety and safeguards issues; regulation of uranium recovery activities; operating experience evaluation; incident investigation; threat assessment; emergency response; technical training; and investigation of alleged wrongdoing by licensees, applicants, certificate holders, and contractors. Table 3 identifies nuclear materials safety performance goals and related FY 1999-2000 performance data.

States. This diverse regulated community includes: uranium extraction; 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 last group—the large and small users of nuclear materials—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 Energy Act (AEA) of 1954, as amended, the Energy Reorganization Act of 1974, as amended, and the Uranium Mill Tailings Radiation Control Act of 1978, as amended, (UMTRCA), provide the foundation for regulating the Nation's civilian uses of nuclear materials.

Nuclear Materials Safety Accomplishments for FY 2000

In FY 2000, 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 basis for nuclear materials regulations, regulatory guides, and staff review guidance. Discussed below is a brief description of noteworthy program achievements.

Licensing Process and Application

Improved the efficiency and timeliness of the nuclear materials licensing process that will result in improved service to stakeholders. Completed a major portion of the materials licensing guidance consolidation project by issuing 20 NUREG documents in draft of final form. This will assist

(continued on page 22)

licensees by providing an up-to-date electronic reference for preparing licensing submissions. This will also make it easier for NRC and Agreement State license reviewers to complete their reviews in a more timely, efficient, and uniform fashion. Initiated efforts to streamline the materials inspection process (i.e., a pilot temporary inspection procedure for some medical licensees). Completed 1,600 materials inspections with the program focused on those licensees engaged in activities with the highest risk, and those licensees with previous performance problems.

Issued a final Standard Review Plan in anticipation of a license application for a mixed oxide (MOX) fuel fabrication facility. The NRC held public meetings to describe our role and to obtain comments and questions regarding the proposed MOX facility and plans for the use of MOX fuel in commercial power reactors.

Regulatory Framework

Completed a number of changes to NRC's rules and regulations that will improve the regulatory framework of the Nuclear Materials Safety

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**Table 3
Nuclear Materials Safety Performance**

STRATEGIC GOAL: Prevent radiation-related deaths and illnesses, promote the common defense and security, and protect the environment in the use of source, byproduct, and special nuclear materials.	PERFORMANCE	
	Target	Actual
MEASURES		
No deaths resulting from acute radiation exposures from civilian uses of source, byproduct, or special nuclear materials, or deaths from other hazardous materials used or produced from license material.	FY 2000: 0 FY 1999: 0	FY 2000: 0 FY 1999: 0
No more than six events per year that result in significant radiation or hazardous material exposures ⁹ from the loss or use of source, byproduct, and special nuclear materials.	FY 2000: 6 or less FY 1999: 6 or less	FY 2000: 0 FY 1999: 4
No events resulting in releases of radioactive material from civilian use of source, byproduct, or special nuclear materials that cause an adverse impact on the environment. ¹⁰	FY 2000: 0 FY 1999: 0	FY 2000: 0 FY 1999: 0
No losses, thefts, or diversion of formula quantities of strategic special nuclear material; radiological sabotages; or unauthorized enrichment of special nuclear material regulated by the NRC. ¹¹	FY 2000: 0 FY 1999: 0	FY 2000: 0 FY 1999: 0
No unauthorized disclosures or compromises of classified information causing damage to national security. ¹²	FY 2000: 0 FY 1999: 0	FY 2000: 0 FY 1999: 0

⁸ For fuel cycle activities, this extends to other hazardous materials used with, or produced from, licensed material, consistent with proposed amendments to 10 CFR Part 70. It also includes exposures from uranium recovery activities under the Uranium Mill Tailing Radiation Control Act.

⁹ Significant exposures are defined as those that result in unintended permanent functional damage to an organ or a physiological system as determined by a physician. Hazardous material exposures only apply to fuel cycle and uranium recovery activities in the Materials Arena.

¹⁰ Releases that have the potential to cause "adverse impact" are currently undefined. As a surrogate, we will use those that exceed the limits for reporting abnormal occurrences as given by abnormal occurrence criteria 1.B.1 (normally 5,000 times Table 2 (air and water) of Appendix B, Part 20). This information is available in the Abnormal Occurrence Report to Congress, NUREG-0090, which can be located at <http://www.nrc.gov/NRC/NUREGS/SR0090/V22/sr0090V22.pdf>.

¹¹ In accordance with Appendix G to 10 CFR part 73 and 10 CFR 74.11(a).

¹² In accordance with the requirements of 10 CFR 95.57.



Table 3 (continued)
Nuclear Materials Safety Performance

PERFORMANCE GOAL: Maintain safety, protection of the environment, and the common defense and security.	Performance	
	Target	Actual
MEASURES		
No more than 356 losses of licensed material. ¹³	FY 2000: 350 or less FY 1999: 350 or less	FY 2000: 201 FY 1999: 227 ¹⁴
No occurrences of accidental criticality.	FY 2000: 0 FY 1999: 0	FY 2000: 0 FY 1999: 0
No more than 19 events per year resulting in radiation over exposures ¹⁵ from radioactive material that exceed applicable regulatory limits.	FY 2000: 19 or less FY 1999: 19 or less	FY 2000: 11 FY 1999: 26 ^{14, 16}
No more than 45 medical events per year. ¹⁷	FY 2000: 45 or less FY 1999: 45 or less	FY 2000: 28 FY 1999: 35 ¹⁴
No more than 39 releases per year to the environment of radioactive material from operating facilities that exceed the regulatory limits. ¹⁸	FY 2000: 39 or less FY 1999: 39 or less	FY 2000: 1 FY 1999: 3 ¹⁴
No events that occur during the NRC-regulated operations that cause impacts on the environment that can not be mitigated within applicable regulatory limits, using methods that are within available licensee resources and are not cost prohibitive. ¹⁹	FY 2000: 0 FY 1999: 0	FY 2000: 0 FY 1999: 0
No more than five substantiated cases per year of attempted malevolent use of source, byproduct, or special nuclear.	FY 2000: 5 or less FY 1999: 5 or less	FY 2000: 2 FY 1999: 2
No breakdowns of physical protection or material control and accounting systems that result in a vulnerability to radiological sabotage, theft, diversion, or unauthorized enrichment of special nuclear material ²⁰ .	FY 2000: 0 FY 1999: 0	FY 2000: 0 FY 1999: 0

- ¹³ Material entering the public domain in an uncontrolled manner. The Nuclear Materials Event Data base contains the list of these events as reported by the NRC licensees and, through the Agreement States, their licensees.
- ¹⁴ Actual FY 1999 data has been revised as reported in the FY 2001 Budget Estimates and Performance Plan based on more reliable historical data.
- ¹⁵ Overexposures are those maximum annual exposures that exceed limits as provided by 10 CFR 20.2203(a)(2). For fuel cycle activities, this extends to other hazardous materials used with, or produced from, licensed material, consistent with proposed amendments to 10 CFR 70. Reportable chemical exposures are those that exceed license commitments. It would also include chemical exposures involving uranium recovery activities under the Uranium Mills Tailings Radiation Control Act.
- ¹⁶ The metric was not in place in FY 1999. The metric was developed for FY 2000. The performance plan numbers for FY 1999 as shown in the FY 2001 Budget Estimates and Performance Plan, NUREG-1100, Volume 16, were based on the best information available as of October/November 1999 as reported in the Nuclear Materials Events Database. Data were collected for FY 1999 on a retrospective basis based upon data available at that time, to provide a context for future comparisons. Metrics fluctuate over time based on additional reports from Agreement States and subsequent analyses of the events by consultants, licensees, States, and/or NRC, based on definitions in this footnote. Revised FY 1999 figure is based on data as of 1/01.
- ¹⁷ Misadministrations as reported under 10 CFR 35.
- ¹⁸ Releases for which a 30 day reporting requirement under 10 CFR 20.2203(a)(3) is required. This measure also includes chemical releases from regulated activity under the Uranium Mill Tailings Radiation Control Act.
- ¹⁹ This involves chemical releases from the NRC regulated activities under the Uranium Mill Tailings Radiation Control Act. In the FY 2001 Budget Estimates and Performance Plan, this was a Nuclear Waste Safety measure. This measure was moved to the Nuclear Materials Safety Arena due to an internal reorganization in the Office of Nuclear Materials Safety and Safeguards.
- ²⁰ We recognize that no explicit reporting requirements exist for substantiated breakdowns of programs. The NRC relies on its safeguards inspection findings and licensee notifications.



arena, including 10 CFR Part 39 (well-logging), Part 70 (special nuclear material), and Part 72 (spent fuel storage). The revision to Part 70 will make the regulations for fuel cycle facilities more risk-informed and performance-based and will ensure that the regulatory burden imposed by the regulation is commensurate with the health and safety benefit.

Public Outreach Efforts

Conducted three public workshops, one open meeting with the steel industry, and held two open Commission briefings to provide an opportunity for public input on the Commission's approach to the issues surrounding the control of solid materials at licensed facilities.

Issued, for public comment, a report on potential radiation doses associated with source and byproduct material that are currently exempt from NRC regulations and some potential candidates for exemption from licensing requirements. The results of this study provide an assessment tool that NRC will use to examine the radiological impact of current regulations and to determine if regulatory changes are needed.

Other Accomplishments

- Completed approximately 4,000 licensing actions and 1,700 inspections for fuel facility and materials licensees.
- Worked effectively with the nuclear materials community to ensure that nuclear safety and safeguards were not adversely affected by potential Year 2000 (Y2K) problems.
- Analyzed the nuclear criticality accident at Tokai-mura, Japan, and determined that no changes to NRC's regulatory program for fuel cycle facilities were needed. NRC disseminated lessons learned to stakeholders and provided a report to the Congress and other stakeholders.
- Developed a comprehensive rule (10 CFR Parts 31 and 32) to improve NRC's control of generally-licensed (GL) devices and a new computer database General Licensed Device

Tracking System (GLDTS) to track GL information and facilitate registration of certain GL devices.

- Conducted integrated safety and safeguards exercises with the Federal Bureau of Investigation, Department of Energy, Federal Emergency Management Agency, States, licensees, and local government and emergency responders.
- Oklahoma became the 32nd Agreement State when NRC staff completed the review of an application from Oklahoma for an Agreement. The Agreement became effective on September 29, 2000, in accordance with the State's requested schedule.
- Issued a revised policy statement on the medical uses of NRC-regulated radioactive material to put greater emphasis on higher risk procedures, and correspondingly less emphasis on procedures posing lower risk to the patient, workers and the public. The policy statement affirms the Commission's determination to continue its role in regulating the use of certain radioactive material in medicine with the goal of providing adequate radiation protection for workers, the public, and patients. The policy statement focuses the Commission's direction on radiation safety issues and furthers the objective of utilizing industry and professional standards that define acceptable levels of radiation safety.

Nuclear Waste Safety

STRATEGIC GOAL: Prevent adverse impacts from radioactive waste to the current and future public health and safety and the environment and promote the common defense and security.

The NRC has regulatory oversight for the transportation of radioactive materials and the interim storage of spent nuclear fuel both at and away from reactor sites to maintain operational safety of spent fuel in storage and full-core off-load capability at operating reactors sites, and to prepare for dry storage at decommissioned reac-

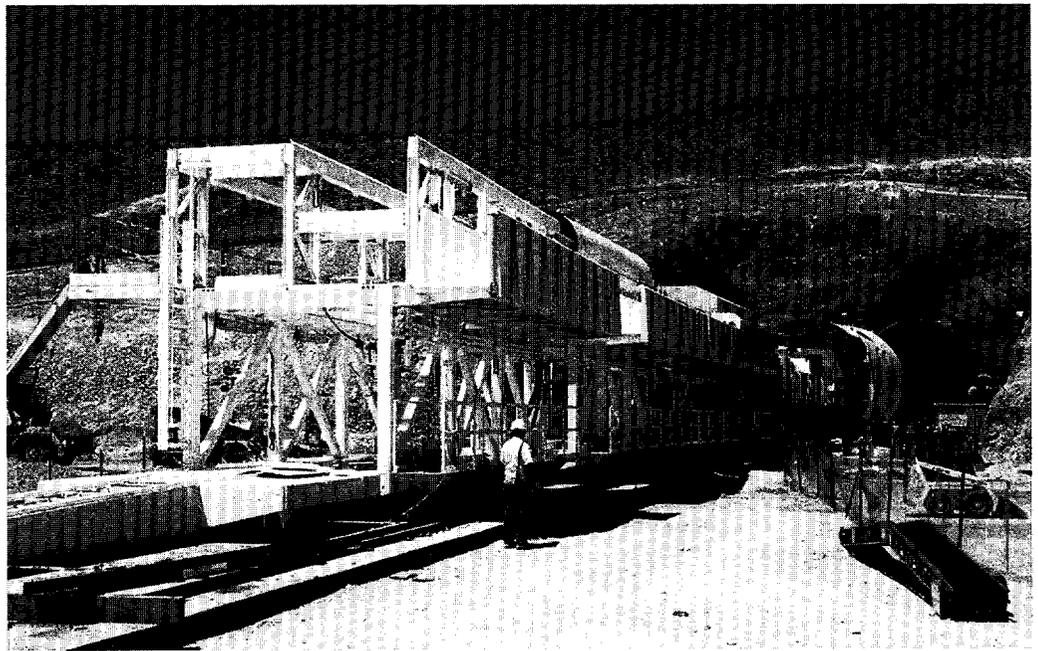


tors. NRC also has regulatory oversight for the long-term storage and disposal of high-level waste (HLW). Our HLW regulatory activities are mandated by the Atomic Energy Act of 1954, as amended, and by the Energy Reorganization Act of 1974, and are further set out in the Nuclear Waste Policy Act of 1982, as amended (NWPA), and the Energy Policy Act of 1992. The NWPA specifies a detailed approach for the long-range undertaking of HLW disposal, with the

U.S. Environmental Protection Agency responsible for developing standards (which the NRC is required to implement) and DOE responsible for characterizing the site and developing the repository, subject to NRC regulatory oversight. In 1987, the NWPA was amended, directing the DOE to characterize only one site at Yucca Mountain in the State of Nevada. Likewise, the NRC's activities under the NWPA now focus on a potential Yucca Mountain repository. NRC efforts also address decommissioning, waste safety research, and spent fuel storage and transportation licensing. The NRC's low-level radioactive waste activities associated with the disposal of waste are conducted in accordance with the Low-Level Radioactive Waste Policy Act of 1980, amended in 1985. Table 4 identifies nuclear waste safety performance goals and related FY 1999 - 2000 performance data.

Nuclear Waste Safety Accomplishments for FY 2000

In FY 2000, the NRC continued efforts to improve the effectiveness of its nuclear waste safety program. Discussed below is a brief description of noteworthy program achievements



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

High-Level Waste Program

Provided comments to DOE on its proposed revision to the guidelines for the siting of DOE's proposed Yucca Mountain High-Level Waste (HLW) repository. In addition, NRC provided comments to DOE on its draft Environmental Impact Statement for the proposed HLW repository. Also, during FY 2000, technical exchanges with DOE resulted in the resolution of several subissues associated with key technical issues most important to licensing the potential HLW repository.

Spent Nuclear Fuel Storage-Part 72 Rulemaking

Completed three rulemakings to improve the efficiency of the spent nuclear fuel storage and transportation cask certification process. For example, two of the rules have increased the flexibility for certificate holders. 10 CFR 72.48 was expanded to include certificate holders and thus has reduced the need for the certificate holder to submit an amendment application, when the Certificate of Compliance holder desires to change the cask design. In addition, the scope of

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Table 4
Nuclear Waste Safety Performance

STRATEGIC GOAL: Prevent adverse impacts from radioactive waste to the current and future public health and safety and the environment and promote the common defense and security.	PERFORMANCE	
MEASURES	Target	Actual
No deaths resulting from acute radiation exposures from radioactive waste.	FY 2000: 0 FY 1999: 0	FY 2000: 0 FY 1999: 0
No events resulting in significant radiation exposures. ²¹	FY 2000: 0 FY 1999: 0	FY 2000: 0 FY 1999: 0
No releases of radioactive waste causing an adverse impact on the environment. ²²	FY 2000: 0 FY 1999: 0	FY 2000: 0 FY 1999: 0
No losses, thefts, diversions, or radiological sabotages ²³ of special nuclear material or radioactive waste.	FY 2000: 0 FY 1999: 0	FY 2000: 0 FY 1999: 0
PERFORMANCE GOAL: Maintain safety, protection of the environment, and the common defense and security.	PERFORMANCE	
MEASURES	Target	Actual
No events resulting in radiation over exposures ²⁴ from radioactive waste that exceed applicable regulatory limits.	FY 2000: 0 FY 1999: 0	FY 2000: 0 FY 1999: 0
No breakdowns of physical protection that result in a vulnerability to radiological sabotage, theft, diversion, or loss of special nuclear materials or radioactive waste. ²⁵	FY 2000: 0 FY 1999: 0	FY 2000: 0 FY 1999: 0
No releases ²⁶ to the environment from operational activities that exceed the regulatory limits.	FY 2000: 0 FY 1999: 0	FY 2000: 0 FY 1999: 0
No instances where radioactive waste and materials under NRC's regulatory jurisdiction cannot be handled, transported, stored, or disposed of safely.	FY 2000: 0 FY 1999: 0	FY 2000: 0 FY 1999: 0

²¹ Significant radiation exposures are defined as those that result in unintended permanent functional damage to an organ or a physiological system as determined by a physician.

²² Releases that have the potential to cause "adverse impact" are currently undefined. As a surrogate, we will use those that exceed the limits for reporting abnormal occurrences as given by AO criteria 1.B.1 (normally 5,000 times Table 2 (air and water) of Appendix B, Part 20).

²³ In accordance with Appendix G to 10 CFR part 73 and 10 CFR 74.11(a).

²⁴ Overexposures are those that exceed limits as provided by 10 CFR 20.2203(a)(2).

²⁵ We recognize that no explicit reporting requirements exist for substantiated breakdown determination. The NRC relies on its safeguards inspection findings and licensee notifications.

²⁶ Releases for which a 30 day reporting requirement under 10 CFR 20.2203(a)(3) is required. This measure includes only radiological releases.



specific license hearings was reduced when the applicant uses a cask design that was approved by the NRC or is under review. Furthermore, guidance was provided on which sections of Part 72 apply to specific licensees, general licensees, and certificate holders. This has reduced the need for applicants to raise questions on the applicability of a particular regulation to their activities.

Public Outreach Efforts

A strategic goal of the NRC is to increase public confidence. Activities in support of this goal included holding seven workshops to receive stakeholder input related to the development of decommissioning guidance, including a standard review plan, to support the License Termination Rule. Staff issued the Standard Review Plan to provide clear guidance on complying with provisions in the License Termination Rule.

Issued a site-specific safety evaluation report, published the Draft Environmental Impact Statement, and held several public meetings on the application for the Private Fuel Storage facility to be located on the reservation of the Skull Valley Band of Goshute Indians.

Held a series of public meetings and workshops with stakeholders describing the Package Performance Study and Spent Fuel Risk Study, and the proposed rulemaking conforming U.S. regulations for transportation of radioactive materials (10 CFR Part 71) with international standards (International Atomic Energy Act (IAEA) Standard ST-1).

Four public meetings as well as four public workshops were held in FY 2000 to gather public recommendations and comments on which issues they would like addressed in the Package Performance and Spent Fuel Risk Studies. Various members of the involved public complimented the NRC on the high level of involvement as well as the public's ability to provide recommendations before the studies were conducted.

Other Accomplishments

- Completed development of probabilistic versions of Residual Radiation and Re-

sidual Radiation Build codes developed by Argonne National Laboratory for evaluation of contaminated DOE sites. The new codes provide the capability to estimate uncertainty of key parameters and provide the staff with enhanced capability to carry out site specific dose assessments at decommissioning sites. These new tools will enhance the staff's ability to conduct realistic dose assessments of decommissioning plans in a timely manner.

- Completed characterization phase of research on radioactive slags. This work provided the licensing office with an identification of the key mineral components of slags, specified those which contained radioactive species, and established degradation rates for these mineral phases by looking at current and archeological slags. This effort supports the goal of obtaining more realistic assessments of radiation exposure.
- Approved removal of three Site Decommissioning Management Plan (SDMP) sites from the current list, reducing the number of sites from 26 to 23. The SDMP list contains sites that are complicated by technical, financial, and/or other challenges that must be addressed before decommissioning can be completed.
- Completed review of 15 environmental assessments for SDMP sites, fuel cycle facilities, and uranium recovery facilities.
- Developed an assessment for Commission review on the viability of entombment as a decommissioning option for nuclear power reactors by reviewing and evaluating regulatory issues, and holding a public workshop to discuss the issues associated with the entombment option.
- Published a *Federal Register* notice (64 FR 68005) reaffirming the results of the Commission's first review of its Waste Confidence Decision, originally issued on

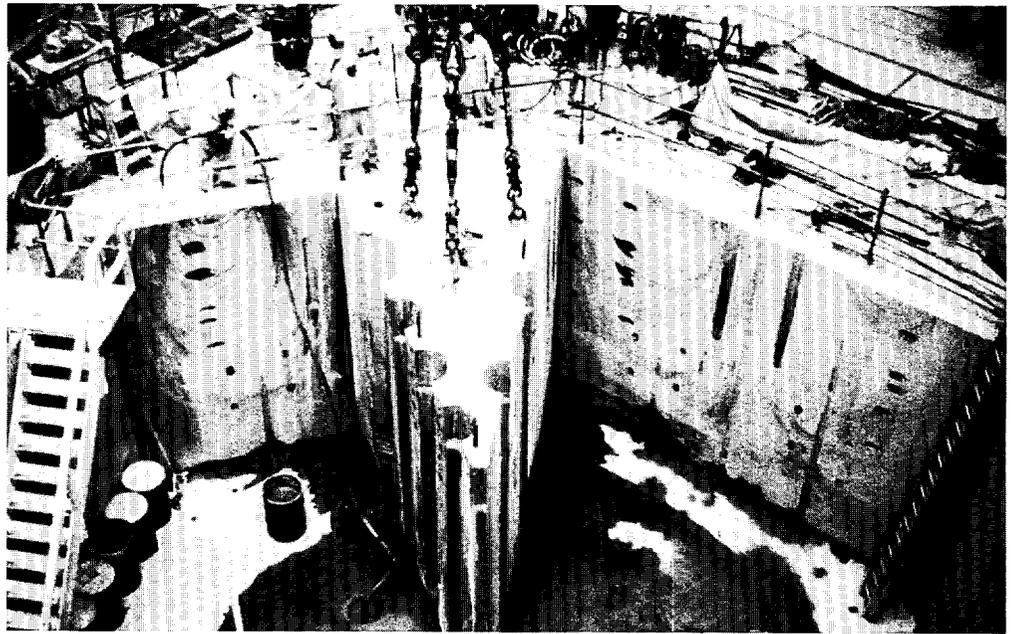
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August 31, 1984 (49 FR 34658). A 1990 review of the initial decision determined that spent fuel could be safely stored and managed under existing processes through the first quarter of the 21st century and 30 years beyond the licensed life for power reactor operation. In its 1990 review, the Commission stated that its next review of the waste confidence issues would occur in ten years.

As the ten year period for review approaches, the Commission is of the view that experience and developments since 1990 confirm the Commission's 1990 Waste confidence findings. Thus, the Commission has decided that a comprehensive evaluation of the Waste Confidence Decision at this time is not necessary. The Commission would consider undertaking a comprehensive evaluation when the impending repository development and regulatory activities have run their course or if significant and pertinent unexpected events occur, raising substantial doubt about the continuing validity of the 1990 Waste Confidence findings.

- Received a letter from Virginia Electric and Power Company (Virginia Power) formally notifying the Commission of Virginia Power's intent to submit a license renewal application for its Surry independent spent fuel storage installation (ISFSI). This will be the first ISFSI license renewal. Virginia Power plans to submit its application for ISFSI license renewal in April 2002. The Surry ISFSI's current 20 year license expires in 2006.



Decommissioning of the Ft. St. Vrain Reactor in Colorado

International Nuclear Safety Support

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

The International Nuclear Safety Support strategic arena encompasses international nuclear safety and regulatory policy formulation, import-export licensing for nuclear materials and equipment, treaty implementation, international information exchange, international safety and safeguards assistance, and deterring nuclear proliferation. The agency's international activities support broad U. S. national interests, as well as the NRC's domestic mission. The legal basis for these activities is the Atomic Energy Act of 1954, as amended, the Energy Reorganization Act of 1974, as amended, the Nuclear Non-Proliferation Act of 1978, other statutes, executive orders, treaties and conventions, other international agreements, and Commission directives. Table 5 identifies the International nuclear safety support strategic goal and related FY 1999 - 2000 performance data.

International Nuclear Safety Accomplishments for FY 2000

The NRC international activities support of the agency's domestic mission, as well as broad U.S. domestic and international interests. In FY 2000, the NRC continued to make major changes in its international program. Below is a brief description of noteworthy program achievements.

Early Warning System

Deployed the Year 2000 Early Warning System (YEWS) in cooperation with the international community as a means for nuclear facility operators to report any observed date-changed effects at their nuclear facilities. U.S. nuclear power plant staff monitored YEWS for potential problems overseas, and it was acknowledged internationally as one of the most useful real-time reporting mechanisms during the rollover period.

Operational Safety Review Team

In the area of cooperation with multilateral organizations, the agency arranged for an International Atomic Energy Agency-led Operational Safety Review Team (OSART) mission to the North Anna Nuclear Power Plant in Virginia. The focus of the OSART, the first in the U.S. in over four years, was to review the safety and reliability of plant operation.

Other Accomplishments

- Completed action on a proposed export of highly enriched uranium to the Netherlands. This case was subject to restrictions imposed by the Energy Policy Act of 1992 and to commitments recently made by the U. S. Government and the European Commission.

(continued on page 30)

Table 5
International Nuclear Safety Support

STRATEGIC GOAL: Support U.S. interests in the safe and secure use of nuclear materials and in nuclear nonproliferation.	PERFORMANCE	
MEASURE	Target	Actual
Fulfills at least 100 percent of the significant obligations over which NRC has regulatory authority arising from statutes, treaties, conventions, and Agreements for Cooperation. ²⁷	FY 2000: 100% FY 1999: 100%	FY 2000: 100% FY 1999: 100%
No significant proliferation incidents attributable to some failure of the NRC.	FY 2000: 0 FY 1999: N/A	FY 2000: 0 FY 1999: N/A
No significant safety or safeguards events that result from NRC's failure to implement its international commitments.	FY 2000: 0 FY 1999: N/A	FY 2000: 0 FY 1999: N/A
Outcomes in international forums are consistent with U.S. Government objectives identified as pertinent to and actively supported by the NRC at least (60) percent of the time.	FY 2000: Measure discontinued ²⁸ FY 1999: N/A	FY 2000: Measure discontinued FY 1999: N/A

²⁷ Agreements for Cooperation in the Civil/Peaceful Use of Nuclear Energy are required under section 123 of the Atomic Energy Act of 1954, as amended, to establish the legal framework for technical cooperation in the production and use of special nuclear material as well as for the supply of such material or fuel cycle equipment, or related sensitive information to another country or international organization. These Agreements for Cooperation (or Section 123 Agreements, as they are also known) include such nonproliferation conditions and controls as safeguards commitments; a guarantee of no explosive or military use; a guarantee of adequate physical protection; and U.S. rights to approve retransfers, enrichment, reprocessing, other alternations in form or content, and storage of U.S.-supplied or derived material. They must be in effect before an NRC export license can be issued.

²⁸ Although the FY 2000-2005 Strategic Plan identified a target of at least 60 percent for FY 2000, clear objectives have not been established. Therefore, this measure has been deleted.



- Completed staff reviews for and issued 156 import/export authorizations (NRC licenses or amendments) including significant license actions such as approving the export of highly enriched uranium to Canada for use in isotope production. Staff reviews were completed within 60 days.
- Conducted bilateral assistance activities in nuclear safety and safeguards with Russia, Ukraine, Armenia, Kazakhstan, and countries of central and eastern Europe.
- Developed and implemented NRC assistance activities to the Kazakhstani Atomic Energy Committee on issues associated with the safe shutdown and decommissioning of the BN-350 sodium-cooled fast breeder reactor near Aktau, Kazakhstan.
- Negotiated 8 bilateral exchange arrangements between NRC and appropriate foreign counterparts to ensure that an effective framework for NRC's international exchanges is in place.
- Led the U. S. delegation in March, 2000 in successfully advocating sunseting of the G-24 Nuclear Safety Assistance Coordination (NUSAC) mechanism.
- Facilitated over 100 foreign visits to NRC from 28 countries, plus Taiwan, including 5 international organizations. Five assignees from 4 countries were placed with the NRC technical staff for on-the-job training during FY 2000.

Management and Support Accomplishments for FY 2000

Management and support is comprised of offices such as Management Services (Administration, Human Resources, and Small Business and Civil Rights), Chief Information Officer, (Information Management and Technology) Chief Financial Officer, and Policy Support. Below is a brief description of noteworthy program achievements.

- Launched in December, 1999, a major procurement reform initiative entitled,

“Focused Source Selection,” under NRC’s Procurement Reinvention Laboratory. The procedure involves easy posting of the scope of work during a pre-solicitation phase and an early assessment of bidder capabilities. The solicitation itself would be sent to the top three ranked pre-solicitation bidders. Focused Source Selection is the first of its kind in the Federal government and provides a web-based, streamlined, interactive, and more focused approach to procurement of management support products and services.

- 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, ADAMS, and the agency Financial and Human Resources Management System, and (2) 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.
- Met the requirements of the Omnibus Budget Reconciliation Act of 1990, by collecting fees to offset approximately 100.7 percent of NRC’s new budget authority that was required to be offset by fees.
- Supported the government wide electronic commerce initiative by making approximately 100 percent of NRC’s payments electronically.
- Met the goal to maintain delinquent debt at year-end to less than 1 percent of NRC’s billings for FY 2000.
- Began a major redesign of NRC’s public Web site to enhance the public’s ability to find the information needed to participate in the regulatory process, improve information quality and timeliness, and comply with requirements of the Americans with Disabilities Act.
- Initiated a pilot test using “media streaming” technology to broadcast selected



public Commission meetings live over the Internet. 16 public Commission meetings were broadcast over the Internet as a means of improving communications with the public. All “streamed” meetings will be archived and available to Internet users worldwide at www.nrc.gov/live.html.

- Reduce the number of managers and supervisors from slightly over 700 in 1993 to approximately 330 as of 2001. Achieved the agency target ratio of 8:1 in FY 1999 and has maintained an 8.5 to 1 ratio since then.

Verification and Validation of Data

Data Completeness and Reliability

Assessing the reliability and completeness of performance data is critical to managing for results. Comparing actual performance with the projected levels of performance can only be accomplished if the data used to measure performance are complete and reliable. The Reports Consolidation Act of 2000 requires that agency heads assess the completeness and reliability of the performance data used in this report. A draft revision to Part 2 of OMB Circular A-11 part 232.10 describes specifically how an agency should assess the completeness and reliability of the performance data. The following discussion on data completeness and reliability is based on the guidance provided in the draft revision to OMB Circular A-11.

Data Completeness

OMB’s draft A-11 guidance indicates that data are considered complete if actual performance data is reported for every performance goal and indicator in the annual plan. Actual performance data may include preliminary data if those are the only data available when the report is sent to the President and Congress. The agency must identify those goals for which actual data are not available at the time the annual report is transmitted and note that the data will be included in a subsequent annual report. The data used by the

NRC meet this test for completeness. Actual or preliminary data have been reported for every strategic and performance measure.

Data Reliability

OMB’s draft A-11 guidance indicates that data are considered reliable when there is neither a refusal nor a marked reluctance by agency managers or decision makers to use the data in carrying out their responsibilities. Data need not be perfect to be reliable and the cost and effort to secure the best performance data possible may exceed the data’s value. The agency managers and decision makers use the data contained in this report on an ongoing basis in the normal course of their duties. There is neither a refusal nor a marked reluctance by agency managers or decision makers to use the data in carrying out their responsibilities. The data used by the NRC meet the test for reliability.

Data quality

The NRC’s data collection and analysis methods are largely driven by the regulatory mandate entrusted to it by Congress. The NRC’s mission is to regulate the Nation’s civilian use of byproduct, source, and special nuclear materials to ensure adequate protection of public health and safety, to promote the common defense and security, and to protect the environment. Section 208 of the Energy Reorganization Act of 1974, as amended, 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. The abnormal occurrence (AO) criteria were developed by NRC in order to comply with the legislative intent of the Act to determine which events should be considered significant. Events that meet the AO criteria are included in an annual “Report to Congress on Abnormal Occurrences” (NUREG -0090).

Most of the data used to measure the strategic goals and the performance goals focused on maintaining safety are attained or derived from the NRC’s AO data and reports submitted by

(continued on page 32)

licensees. In 1997, the Commission determined that events occurring at Agreement State licensed facilities that meet the AO criteria should be reported in the annual AO report to Congress. Therefore, the AO 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.

One important characteristic of the data used in this report, then, is that the data originate from these external sources, such as Agreement States and NRC licensees. The NRC believes this data are credible 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. The NRC database systems that support this process include the Sequence Coding and Search System (SCSS), the Accident Sequence Precursor (ASP) Database, the Nuclear Materials Events Database (NMED), and the Radiation Exposure Information Report System (REIRS).

The NRC has established procedures for the systematic review and evaluation of events reported by NRC licensees and Agreement State licensees. The objective of the review is to identify events that are significant from the standpoint of public health and safety based on criteria that include specific thresholds. The NRC uses a number of sources to determine the reliability and the technical accuracy of events information reported to NRC. Such sources include: (1) the NRC licensee reports themselves, which are carefully analyzed, (2) NRC inspection reports, (3) Agreement State reports, (4) NRC consultant/contractor reports, and (5) U.S. Department of Energy Operating Experience Weekly Summaries. In addition, daily interaction and exchange of events information occurs between headquarters and regional offices, and periodic conference calls are placed between headquarters, the region, and Agreement States to discuss event

information. Events identified that meet the abnormal occurrence criteria are validated and verified by all applicable NRC headquarters program offices, regional offices, and agency management prior to submission to Congress.

Data security is ensured by the agency's computer security program. This program provides administrative, technical, and physical security measures for the protection of the agency's information, automated information systems, and information technology infrastructure. This includes special safeguards to protect classified information, unclassified safeguards information, and sensitive unclassified information that is processed, stored, or produced on all types of automated information systems.

The Commission is currently focusing on improving the performance data for 10 of the measures in the Nuclear Materials Safety arena that rely on data from Agreement States. With over 15,000 Agreement State regulated licensees and over 5,000 licensees regulated by the NRC, the materials arena presents a significant challenge to reporting and collecting performance data. The Commission has recently analyzed present and past years' data to verify the accuracy of the data ("Nuclear Materials Safety Arena Performance Data",

SECY-00-0217). This analysis identified several concerns about the collection and analysis of the materials events data. One concern was with the absence of uniformity in the data and data reporting, especially with respect to the timeliness of reporting. Another concern is that data entered by licensees are subject to modification based on later analysis of the events or due to inspections in which inspectors identify reportable events that have not been previously reported.

As a result of this analysis, the NRC has adopted a number of measures to improve the data it reports. For example, NRC staff members have traveled throughout the country providing training to Agreement State, NRC regional, and



headquarters personnel on the database and data collection procedures. In addition, an NRC/ Agreement State Working Group has been formed to make recommendations for making the materials event program more effective, efficient, and realistic. As part of its efforts, the Working Group will identify event information that is needed to support implementation of the Strategic Plan and compare that information to the current reporting requirements. This project is ongoing and is expected to result in improved data collection, analysis, and reporting.

A more complete discussion of data validation and verification is included in the FY 2002 Budget Estimates and Performance Plan.²⁹ A complete explanation of data verification and validation issues for each safety or performance goal are provided there. This allows our stakeholders to see specifically what data are being collected for each measure and assess whether those data are appropriate for the measure.

Program Evaluations

While NRC has initiated a number of program evaluations, none were completed during this reporting cycle. Additional information concerning program evaluations and scheduled completion dates are identified in the Appendix to NRC's FY 2000-2005 Strategic Plan.²⁹

Management Challenges

Consistent with the requirements of the Reports Consolidation Act of 2000, this report includes a summary of what the Inspector General considers to be the most serious management challenges facing the agency and the agency's progress in addressing them. While some of these issues concern initiatives which are not central to NRC's mission, others are critical in maintaining the agency's future capability to protect the public health and safety. Specific actions and milestones for these challenges are included in NRC's FY 2002 Budget Estimates and Performance Plan²⁹, along with linkages to NRC's strategic and performance goals and corporate management strategies.

Crosscutting Functions with other Government Agencies

Several Government agencies have missions that are related to the NRC. The NRC has identified major cross-cutting functions with other agencies and their relationship to NRC programs followed by descriptions of the specific NRC areas of mutual interest in the FY 2002 Budget Estimates and Performance Plan²⁹. The NRC identified no inconsistent or duplicative areas among other federal agencies.

²⁹ NRC's Strategic Plan and Appendix for FY 2000-2005, can be found at <http://www.nrc.gov/NRC/planning.html>. The FY 2002 Budget Estimates and Performance Plan will be available at this website in April 2001.



FY 2000 Audited Financial Statements

Limitations of the Financial Statements

The principal statements have been prepared to report the financial position and results of operations of the NRC, pursuant to the requirements of the Chief Financial Officers Act of 1990 as amended by the Government Management Reform Act of 1994. These statements have been prepared from the books and records of the NRC in accordance with the formats prescribed by the Office of Management and Budget. However, these statements differ from the financial reports used to monitor and control budgetary resources that are prepared from the same books and records. The principal statements should be read with the realization that they are for a sovereign entity, liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and 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 2000 financial statements were audited by R. Navarro and Associates under contract to the NRC's Office of the Inspector General.



**OFFICE OF
THE INSPECTOR GENERAL**

**U.S. NUCLEAR
REGULATORY COMMISSION**

INDEPENDENT AUDITOR'S REPORT AND
PRINCIPAL STATEMENTS FOR THE
YEAR ENDED SEPTEMBER 30, 2000

OIG-01-A-06 MARCH 1, 2001

AUDIT REPORT



All publicly available OIG reports (including this report) are
accessible through NRC's website at:

<http://www.nrc.gov/NRC/OIG/index.html>





UNITED STATES
NUCLEAR REGULATORY COMMISSION
WASHINGTON, DC 20555-0001

March 1, 2001

MEMORANDUM TO: Chairman Meserve

FROM:

Hubert T. Bell
Inspector General

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

SUBJECT:

RESULTS OF THE AUDIT OF U.S. NUCLEAR
REGULATORY COMMISSION'S FISCAL YEAR 2000
FINANCIAL STATEMENTS (OIG-01-A-06)

Attached is the independent auditors' report on the U.S. Nuclear Regulatory Commission's (NRC) Fiscal Year 2000 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 as material weaknesses:¹ (1) managerial cost accounting; and (2) management controls for license fee development.

The auditors identified one new reportable condition and closed four prior-year reportable conditions. The new condition concerns inadequate documentation of debt collection activities.

The report on NRC's compliance with laws and regulations disclosed three noncompliances. The first is that NRC did not comply with the Debt Collection Improvement Act of 1996. The

(continued on page 40)

¹ OIG's annual assessment of NRC's implementation of the Federal Manager's Financial Integrity Act will also report the same issues as material weaknesses. OIG Report OIG-01-A-07, *Review of NRC's Implementation of the Federal Manager's Financial Integrity Act for Fiscal Year 2000*, February 23, 2001.



second is that NRC's 10 CFR Part 170 license fee rates are not based on full cost, and the third is that managerial cost accounting was not implemented, as required. Issue three is considered a substantial noncompliance 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 was dependent on the Department of the Treasury to resolve this condition. During FY 2001, NRC plans to transfer its accounting system to a new provider. 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. 01-02, *Audit Requirements for Federal Financial Statements*, requires OIG to "obtain an understanding of the components of internal control relating to the existence and completeness assertions relevant to the performance measures included in the MD&A [Management's Discussion and Analysis]." 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. OIG recently issued a separate report on the validity and reliability of NRC's performance information.² Although the report focused on FY 1999 performance measures and results, it noted that many efforts to improve the reliability (e.g. completeness, timeliness) of performance data will not be in place until after FY 2000.

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. We will follow-up on the CFO's corrective action during FY 2001.

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

Attachment: As stated

² OIG Report OIG-01-A-03, *Government Performance and Results Act: Review of the Fiscal Year 1999 Performance Report*, February 23, 2001.



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R. Navarro & Associates, Inc.

Chairman Richard A. Meserve
U.S. NUCLEAR REGULATORY COMMISSION
Rockville, Maryland

INDEPENDENT AUDITORS' REPORT ON THE PRINCIPAL STATEMENTS

We have audited the accompanying balance sheet of the U. S. Nuclear Regulatory Commission (NRC) as of September 30, 2000, and the related statements of net cost, changes in net position, budgetary resources, and financing for the year then ended, collectively referred to as the financial statements. These financial statements are the responsibility of the management of NRC. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audits of 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 accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

Matters for Emphasis

Classification of Costs

OMB Bulletin 97-01, *Form and Content of Agency Financial Statements*, as amended, 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 benefits of the costs incurred (e.g. private sector licensees versus federal licensees) rather than who was paid. Following the advice of OMB, NRC classified the costs on the Statement of Net Cost using an underlying concept of who was paid.

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 \$57.7 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

(continued on page 44)



R. Navarro & Associates, Inc.

work place 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 Mach 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 financial statements referred to in the first paragraph, present fairly, in all material respects, the financial position of NRC as of September 30, 2000, and its net cost, changes in net position, budgetary resources, and reconciliation of budgetary obligations to net cost for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The required supplementary information consisting of the Management's Discussion and Analysis and the Schedule of Intragovernmental Balances is not a required part of the financial statements but is information required by OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, and by Statement of Federal Financial Accounting Standards No. 15, *Management's Discussion and Analysis*. This supplementary information is the responsibility of the NRC's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and OMB Bulletin No. 01-02, *Audit Requirements for Federal Statements*, we have also issued our report dated February 8, 2001, on our consideration of NRC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

R. Navarro & Associates, Inc.

February 8, 2001



**PRINCIPAL FINANCIAL STATEMENTS
FOR FISCAL YEAR 2000**



BALANCE SHEET
As of September 30, 2000
(in dollars)

Assets

Intragovernmental assets:

Fund balances with Treasury (Note 2)	\$138,740,086
Accounts receivable (Note 3)	1,874,393
Other	<u>1,224,560</u>
Total intragovernmental assets	141,839,039

Cash and other monetary assets	20,000
Accounts receivable, net (Note 3)	42,162,594
Property and equipment, net (Note 5)	41,853,364
Other	<u>51,433</u>

Total Assets \$225,926,430

Liabilities

Intragovernmental liabilities

Accounts payable	\$ 10,590,557
Other (Notes 6 and 7)	<u>50,157,465</u>
Total intragovernmental liabilities	60,748,022

Accounts payable	15,859,810
Federal employees benefits (Note 7)	8,230,000
Other (Notes 6 and 7)	<u>44,937,322</u>

Total Liabilities 129,775,154

Net Position

Unexpended appropriations (Note 9)	87,073,470
Cumulative results of operations (Note 10)	<u>9,077,806</u>

Total Net Position 96,151,276

Total Liabilities and Net Position \$225,926,430

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



STATEMENT OF NET COST
For the year ended September 30, 2000
(in dollars)

Nuclear Reactor Safety		
Intragovernmental	\$103,796,213	
With the public	<u>226,621,251</u>	
Total	330,417,464	
Less earned revenue	<u>390,400,624</u>	
Net cost of Nuclear Reactor Safety		\$(59,983,160)
Nuclear Materials Safety		
Intragovernmental	27,707,063	
With the public	<u>73,502,935</u>	
Total	101,209,998	
Less earned revenue	<u>55,011,902</u>	
Net cost of Nuclear Materials Safety		46,198,096
Nuclear Waste Safety		
Intragovernmental	14,856,560	
With the public	<u>48,319,530</u>	
Total	63,176,090	
Less earned revenue	<u>14,547,764</u>	
Net cost of Nuclear Waste Safety		48,628,326
International Nuclear Safety Support		
Intragovernmental	7,892,108	
With the public	<u>8,033,704</u>	
Total	15,925,812	
Less earned revenue	<u>3,077,698</u>	
Net cost of International Nuclear Safety Support		<u>12,848,114</u>
Net Cost of Operations (Note 12)		<u>\$ 47,691,376</u>

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, 2000
(in dollars)

Net Cost of Operations		\$(47,691,376)
Financing sources other than exchange revenue (Note 13)		
Appropriations used	\$ 26,120,547	
Non-exchange revenue	875,347	
Imputed financing	16,032,598	
Transfer-in	447,000,000	
Transfers-out	<u>(447,875,347)</u>	
Total financing sources		<u>42,153,145</u>
Net results of operations		(5,538,231)
Decrease in unexpended appropriations		<u>(16,176,632)</u>
Change in Net Position		(21,714,863)
Net Position - Beginning of Period	\$116,553,292	
Prior-period adjustment (Note 14)	<u>1,312,847</u>	
Net Position - Restated Beginning of Period		<u>117,866,139</u>
Net Position - End of Period		<u>\$ 96,151,276</u>

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



STATEMENT OF BUDGETARY RESOURCES

For the year ended September 30, 2000
(in dollars)

Budgetary Resources (Note 15)

Budget authority	\$471,975,231
Unobligated balances - beginning of period	29,893,840
Spending authority from offsetting collections	5,516,691
Adjustments	<u>8,524,924</u>
Total Budgetary Resources	<u>\$515,910,686</u>

Status of Budgetary Resources

Obligations incurred	\$485,533,580
Unobligated balances - available	29,786,831
Unobligated balances - not available	<u>590,275</u>
Total Status of Budgetary Resources	<u>\$515,910,686</u>

Outlays

Obligations incurred	\$485,533,580
Less: Spending authority from offsetting collections and adjustments	<u>(14,128,615)</u>
Subtotal	471,404,965
Obligated balances, net - beginning of period	116,582,904
Less: obligated balance, net - end of period	<u>(104,044,499)</u>
Total Outlays	<u>\$483,943,370</u>

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



STATEMENT OF FINANCING
For the year ended September 30, 2000
(in dollars)

Obligations and Nonbudgetary Resources

Obligations incurred	\$485,533,580
Less: Spending authority for offsetting collections and adjustments	(14,128,615)
Imputed financing (Note 13)	16,032,598
Transfer-in (Note 13)	447,000,000
Transfer-out (Note 13)	(447,000,000)
Exchange revenues not in the budget (Note 11)	<u>(457,944,314)</u>
Total Obligations and Nonbudgetary Resources	<u>29,493,249</u>

Resources Not Funding Net Cost of Operations

Change in undelivered orders	12,659,897
Capitalized costs	(6,683,272)
Financing sources that fund costs of prior periods	-
Other	<u>520,704</u>
Total Resources Not Funding Net Cost of Operations	<u>6,497,329</u>

Costs Not Requiring Resources

Depreciation and amortization	<u>6,536,224</u>
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Total Costs Not Requiring Resources	<u>6,536,224</u>
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Financing Sources Yet to be Provided	<u>5,164,574</u>
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Net Cost of Operations	<u>\$ 47,691,376</u>
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The accompanying notes to the principal statements
are an integral part of this statement.



NOTES TO PRINCIPAL STATEMENTS
September 30, 2000

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 use of nuclear materials.

The NRC FY 2000 appropriations for salaries and expenses and the Inspector General include approximately \$19.2 million of funds derived from the Nuclear Waste Fund and \$3.8 million from the General Fund for assistance provided to the U. S. Department of Energy (DOE) and other Federal agencies. In addition, \$2 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, Ukraine, Kazakhstan, and Armenia for the independent oversight of nuclear reactors in these countries. At the beginning of FY 2000, \$4 million authorized by Public Law (P.L.) 105-62 for FY 1998 for the licensing of a multi-purpose canister design was rescinded by P.L. 106-60 and funding was transferred back to the DOE. In addition, NRC's appropriation was reduced by \$87,000 through a rescission of funding in accordance with P.L. 106-113.

The accompanying financial statements of NRC include the accounts of all funds under NRC control. The NRC appropriations are under budget functional classification 276, *Energy Information, Policy, and Regulation*, and departmental code 31. The transfer appropriations from: (1) the U.S. Agency for International Development are under budget functional classification 150, *International Affairs*, and departmental code 72 and (2) the General Services Administration (GSA) 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 accounting principles generally accepted in the United States of America, 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



NOTES TO PRINCIPAL STATEMENTS
September 30, 2000

of budgetary resources. 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 plans and the FY 2000 budget structure. The budget line items for Management and Support and the Office of the Inspector General were allocated to strategic arenas using direct costing and 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. The NRC regulates 103 civilian nuclear power reactors that are licensed to operate and 17 that are undergoing decommissioning.

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 31 Agreement States.

Nuclear Waste Safety encompasses NRC's regulatory activities associated with uranium recovery, decommissioning, storage of spent nuclear fuel, transportation of radioactive materials, and disposal of radioactive wastes.

International Nuclear Safety Support encompasses NRC's efforts of international cooperation to help ensure the safe, secure, and environmentally acceptable uses of nuclear energy. This arena includes 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 26 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 \$469.9 million by assessing fees less the amounts derived from the Nuclear Waste Fund of \$19.2 million and \$3.8 million from the General Fund for

(continued on page 54)



NOTES TO PRINCIPAL STATEMENTS
September 30, 2000

regulatory review and other assistance provided to DOE and other Federal agencies which is excluded from license fee revenues.

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. 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.



NOTES TO PRINCIPAL STATEMENTS
September 30, 2000

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: (1) expenses incurred but not yet funded by Congress, such as workers' compensation benefits and annual leave expenses; and (2) 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 U.S. 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. Receivables from Federal agencies are expected to be collected; therefore, 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 consist 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 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 using the straight-line method over the useful life. 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.

(continued on page 56)



NOTES TO PRINCIPAL STATEMENTS
September 30, 2000

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 statements.

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

At the end of FY 2000 approximately 42 percent of NRC employees belong to the Civil Service Retirement System (CSRS) and 58 percent belong to the Federal Employees' Retirement System (FERS). In FY 2000, for employees in FERS, the NRC withheld 1.2 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. During FY 2000, for employees covered by CSRS, NRC withheld 7.4 percent of base pay earnings. This withholding was matched by NRC with a 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 2000 was \$10,500. The sum of the employees' and NRC's contributions is transferred to the Federal Retirement Thrift Investment Board.



NOTES TO PRINCIPAL STATEMENTS
September 30, 2000

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 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, 2000, NRC had expenses of approximately \$ 57.7 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 could differ from these estimates.

(continued on page 58)



NOTES TO PRINCIPAL STATEMENTS
September 30, 2000

NOTE 2. FUND BALANCES WITH TREASURY

Fund balances with the Treasury consist of the following amounts as of September 30, 2000:

Appropriated funds:	
Obligated	\$118,576,942
Unobligated	<u>15,824,682</u>
	134,401,624
Other fund types	<u>4,338,462</u>
	<u>\$138,740,086</u>

The obligated and unobligated balances exclude amounts related to unfilled customer orders. Other fund types include miscellaneous receipt accounts and budget clearing accounts.

NOTE 3. ACCOUNTS RECEIVABLE

Accounts receivable is composed of the following:

Intragovernmental accounts receivable consists primarily of receivables and reimbursements due from other Federal agencies which were \$1,874,393 at September 30, 2000.

The non-Federal accounts receivable, net, is comprised of the following amounts as of September 30, 2000:

Materials and facilities fees - billed	\$ 5,418,605
Materials and facilities fees - unbilled	39,864,362
Other	<u>359,056</u>
Total accounts receivable	45,642,023
Less: Allowance for uncollectible accounts	<u>(3,479,429)</u>
Accounts receivable, net	<u>\$42,162,594</u>

Other accounts receivable of \$359,056 represent miscellaneous amounts due from NRC employees and penalties and interest due from the public.

NOTE 4. NON-ENTITY ASSETS

Included in the accounts receivable balance is \$214,176 consisting of miscellaneous penalties and interest due from the public, which, when collected, must be transferred to the U.S. Treasury.



NOTES TO PRINCIPAL STATEMENTS
September 30, 2000

NOTE 5. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consists of the following as of September 30, 2000:

<u>Fixed Assets Class</u>	<u>Service Years</u>	<u>Acquisition Value</u>	<u>Accumulated Depreciation and Amortization</u>	<u>Net Book Value</u>
Equipment	5-8	\$18,997,699	\$(15,682,494)	\$ 3,315,205
ADP software	5	53,102,079	(34,990,208)	18,111,871
ADP software under development	-	7,738,081	-	7,738,081
Leasehold improvements	20	19,665,214	(7,072,329)	12,592,885
Leasehold improvements in progress		<u>95,322</u>	<u>-</u>	<u>95,322</u>
		<u>\$99,598,395</u>	<u>\$(57,745,031)</u>	<u>\$41,853,364</u>

NOTE 6. OTHER LIABILITIES

Other intragovernmental liabilities as of September 30, 2000, include:

Liability to offset net accounts receivable for fees assessed	\$43,388,134
Liability related to fees collected which will offset subsequent year's appropriations	3,172,811
Liability to offset miscellaneous accounts receivable	214,376
Liability for advances from other Federal agencies	22,393
Accrued worker's compensation	1,520,707
Liability for employee benefits contributions	<u>1,839,044</u>
	<u>\$50,157,465</u>

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.

Other liabilities as of September 30, 2000, include:

Accrued annual leave	\$25,626,852
Accrued salaries	14,303,335
Contract holdbacks, advances, and other	<u>5,007,135</u>
	<u>\$44,937,322</u>

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, 2000

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, 2000, liabilities not covered by budgetary resources included:

Intragovernmental

Included in the \$50,157,465 of other intragovernmental liabilities is \$1,520,707 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, 2000.

Federal Employees Benefits

Federal employees benefits of \$8,230,000 for FY 2000 represents 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. The interest rate assumptions utilized for discounting were 6.275 percent in year 1 and 6.300 percent in year 2 and thereafter.

Other

Included in the \$44,937,322 of other liabilities is \$25,626,852 of accrued annual leave and \$181,097 for the 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, 2000 follows:

Capital Leases

Future payments due:

	Fiscal Year	Lease Payments
	2001	\$ 70,378
	2002	70,378
	2003	52,784
	2004 and thereafter	<u> -</u>
Total future lease payments		193,540
Less: imputed interest		<u>(12,443)</u>
Net capital lease liability		<u>\$181,097</u>



NOTES TO PRINCIPAL STATEMENTS
September 30, 2000

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 equipment, 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
	2001	\$ 20,099,771
	2002	19,406,694
	2003	19,364,621
	2004	19,457,404
	2005 and thereafter	<u>158,190,133</u>
Total future lease payments		<u>\$236,518,623</u>

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, 2000:

Unexpended appropriations:	
Unobligated	\$18,711,100
Undelivered orders	<u>68,362,370</u>
	<u>\$87,073,470</u>

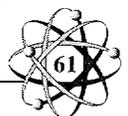
Unexpended appropriations include: (1) unobligated appropriation balances and (2) undelivered orders, which are amounts which have been obligated but not yet expended. The unobligated appropriations balance does not include \$3,054,083 in unfilled customer orders - unobligated as of September 30, 2000. The undelivered orders balance does not include \$2,886,418 in unfilled customer orders - obligated as of September 30, 2000.

NOTE 10. CUMULATIVE RESULTS OF OPERATIONS

The cumulative results of operations as of September 30, 2000, consists of the following:

Future funding requirements	\$(35,377,560)
Investment in property and equipment, net	41,853,364
Contributions from foreign cooperative research agreements	2,505,896
Other	<u>96,106</u>
	<u>\$ 9,077,806</u>

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NOTES TO PRINCIPAL STATEMENTS
September 30, 2000

Future funding requirements represent the amount of future funding needed to pay the accrued unfunded expenses as of September 30, 2000. 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, 2000:

Fees for licensing, inspection, and other services	\$457,944,314
Revenue from reimbursable work	<u>5,093,674</u>
Totals	<u>\$463,037,988</u>

NOTE 12. BUDGET FUNCTIONAL CLASSIFICATION

The gross cost and earned revenue by budget functional classification for NRC are as follows:

<u>Functional Classifications</u>	<u>Gross Cost</u>	<u>Earned Revenues</u>	<u>Net Cost</u>
276 - Energy Information, Policy & Regulation	\$506,936,643	\$(462,494,646)	\$44,441,997
150 - AID International Affairs	3,791,761	(543,342)	3,248,419
800 - GSA General Government	<u>960</u>	<u>-</u>	<u>960</u>
Totals	<u>\$510,729,364</u>	<u>\$(463,037,988)</u>	<u>\$47,691,376</u>

The transactions with intragovernmental entities were as follows:

<u>Functional Classifications</u>	<u>Gross Cost</u>	<u>Earned Revenues</u>	<u>Net Cost</u>
276 - Energy Information, Policy & Regulation	\$152,080,387	\$(31,079,476)	\$121,000,911
150 - AID International Affairs	<u>2,171,557</u>	<u>-</u>	<u>2,171,557</u>
Totals	<u>\$154,251,944</u>	<u>\$(31,079,476)</u>	<u>\$123,172,468</u>

NOTE 13. 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, 2000, \$450,077,215 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



NOTES TO PRINCIPAL STATEMENTS
September 30, 2000

the extent of new budget authority for the year. Collections which exceed the new budget authority are held to offset subsequent years' appropriations. Included in the \$450,077,215 of fees collected is \$3,077,215 available to offset subsequent years' appropriations.

For the year ended September 30, 2000, \$447,000,000 of FY 2000 collections were used to reduce the fiscal year's appropriations recognized:

Appropriated funds consumed	\$ 484,064,861
Less: Collection from fees assessed	<u>(447,000,000)</u>
	37,064,861
Amounts to offset subsequent years' appropriations	<u>(10,944,314)</u>
	<u>\$ 26,120,547</u>

Appropriations used includes \$29,893,840 of available funds from prior years.

Non-exchange Revenue

Non-exchange revenue of \$875,347, consisted of \$632,038 received from civil penalties and \$243,309 of miscellaneous receipts. Miscellaneous receipts included interest on delinquent debt, late penalties, Freedom of Information Act fees, and indemnity fees.

Imputed Financing

The imputed financing source of \$16,032,598 represents the service costs related to NRC employees' post-employment benefits which are paid by the Office of Personnel Management and payments from the U.S. Treasury Judgement Fund, as follows:

Civil Service Retirement System	\$ 9,173,094
Federal Employee Health Benefit	6,807,220
Federal Employee Group Life Insurance	44,784
U. S. Treasury Judgement Fund	<u>7,500</u>
	<u>\$16,032,598</u>

Transfers In/Out

NRC transferred-out to the U.S. Treasury \$447,875,347 consisting of license fee collections of \$447,000,000 and non-exchange revenue of \$875,347 and received back as a transfer-in \$447,000,000.

NOTE 14. PRIOR-PERIOD ADJUSTMENT

The prior-period adjustment of \$1,312,847 consists of the net value of computer hardware components received in FY 1999 by NRC but not capitalized as other assets, equipment not in use. The assets were placed into operation during FY 2000. The impact of this adjustment is to increase property and equipment, net, and cumulative results of operations as of September 30, 1999, by \$1,312,847.

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NOTES TO PRINCIPAL STATEMENTS
September 30, 2000

NOTE 15. SUMMARY OF BUDGETARY RESOURCES

The budgetary resources by major fund follows:

Budgetary Resources:	<u>X0200</u>	<u>X0300</u>	<u>All Other</u>	<u>Total</u>
Budget authority	\$464,975,231	\$5,000,000	\$2,000,000	\$471,975,231
Unobligated balances - beginning of period	25,224,977	1,191,076	3,477,787	29,893,840
Spending authority from offsetting collections	5,516,691	-	-	5,516,691
Adjustments	<u>8,094,616</u>	<u>283,920</u>	<u>146,388</u>	<u>8,524,924</u>
Total Budgetary Resources	<u>\$503,811,515</u>	<u>\$6,474,996</u>	<u>\$5,624,175</u>	<u>\$515,910,686</u>
 Status of Budgetary Resources:				
Obligations incurred	\$476,129,523	\$5,577,236	\$3,826,821	\$485,533,580
Unobligated balances - available	27,681,992	897,760	1,207,079	29,786,831
Unobligated balances - not available	<u>0</u>	<u>0</u>	<u>590,275</u>	<u>590,275</u>
Total Status of Budgetary Resources	<u>\$503,811,515</u>	<u>\$6,474,996</u>	<u>\$5,624,175</u>	<u>\$515,910,686</u>
 Outlays:				
Obligations incurred	\$476,129,523	\$5,577,236	\$3,826,821	\$485,533,580
Less: Spending authority from offsetting collections and adjustments	(13,698,307)	(283,920)	(146,388)	(14,128,615)
Obligated balance, net beginning of period	111,072,928	1,190,652	4,319,324	116,582,904
Obligated balance transferred, net	-	-	-	-
Less: Obligated balance, net end of period	<u>(98,927,140)</u>	<u>(1,063,981)</u>	<u>(4,053,378)</u>	<u>(104,044,499)</u>
Total Outlays	<u>\$474,577,004</u>	<u>\$5,419,987</u>	<u>\$3,946,379</u>	<u>\$483,943,370</u>

The adjustments of \$8,524,924 to budgetary resources above consist of recoveries to prior-year obligations less \$87,000 that was rescinded.



Required Supplementary Information: Schedule of Intragovernmental Balances

INTRAGOVERNMENTAL ASSETS

Trading Partner	Fund Balances with Treasury	Accounts Receivable	Other
Department of the Treasury	\$ 138,740,086		
Commerce Department			\$136,830
Interior Department			170,555
Navy Department			209,016
Department of Labor			267,480
General Services Administration			325,687
Tennessee Valley Authority		\$1,025,345	
Department of Veterans Affairs		279,800	
Department of Energy		224,993	
Other		344,255	114,992
Total	\$138,740,086	\$1,874,393	\$1,224,560

INTRAGOVERNMENTAL LIABILITIES

Trading Partner	Accounts Payable	Other
Department of Labor		\$ 1,520,707
Department of the Treasury		46,775,321
Office of Personnel Management		1,839,043
General Services Administration	\$ 5,180,850	
Department of Energy	4,747,330	
Other	662,377	22,394
Total	\$10,590,557	\$50,157,465



R. Navarro & Associates, Inc.

Chairman Richard A. Meserve
U.S. NUCLEAR REGULATORY COMMISSION
Rockville, Maryland

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

We have examined management's assertion that U.S. Nuclear Regulatory Commission's (NRC) systems of accounting and internal control in place as of September 30, 2000 is in compliance with the internal control objectives defined in Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. The Bulletin states that transactions are 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. 01-02. 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 controls in place as of September 30, 2000.

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 due to 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 accounting systems and the internal controls in place as of September 30, 2000 is in compliance with the internal control objectives defined in OMB Bulletin No. 01-02 is not fairly stated. Management did not identify the lack of managerial cost accounting, 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 controls that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions made 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 does not reduce to a relatively low level the risk that misstatements in amounts that

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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. *Managerial Cost Accounting and Management*

Controls Over Fee Development are considered material weaknesses. *Managerial Cost Accounting* is also considered a substantial non-compliance with Federal Financial Management Improvement Act (FFMIA).

Current Year Comments

A. Managerial Cost Accounting

As originally reported for fiscal year (FY) 1998 (Report No. OIG/98A-09) and continuing through FY 2000, the NRC has not implemented Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Concepts and Standards*, to 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 FY 1998 condition by preparing a remediation plan and outlining the milestones for an integrated resource management system. The remediation plan has undergone revision to reflect the tasks planned and accomplished. An updated plan was issued December 27, 2000. However, management has made minimal progress in developing interim techniques or processes to provide routine and reliable cost information for managers as of the end of FY 2000. Although managerial cost accounting has been a requirement since FY 1998, NRC projects implementation of cost management during FY 2001.

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 to support compliance with the Government Performance and Results Act.

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 capabilities are, should agency pursue additional software. Since agencies may use cost finding techniques and cost studies as long as they comply with cost accounting



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standards ... implementation of a cost accounting system is not necessarily a prerequisite with SFAS Number 4.”

This condition continues to be reported as a material weakness and an FFMIA substantial non-compliance.

Recommendation

The Chief Financial Officer (CFO) should strive to meet the revised milestones in the remediation plan to provide cost accounting information to agency managers. Cost accounting information should enhance the agency’s ability to evaluate the cost of outputs and outcomes realized. Because the remediation milestones have seen some delays due to the staging of complementary software solutions, the CFO should develop interim cost management techniques based on the needs of agency managers.

CFO’s Comments:

“We agree with the importance of striving to meet the revised milestones contained in the remediation plan, dated December 27, 2000. However, due to issues associated with implementing the PeopleSoft payroll, time and labor, and human resources modules, we will not be able to meet the milestones contained in that plan.

We are currently evaluating these issues and plan to issue a revised remediation plan in April 2001. In addition, we will review the potential of creating more meaningful cost reports to better meet the needs of managers on an interim basis. We expect to complete this review by March 2001....”

Auditors’ Position:

We commend the CFO for continually monitoring and the accuracy of the remediation plan to address this issue. The implementation strategy that is in place is complex due to the solutions being pursued, however, gradually introducing cost management tools to agency managers will expedite and enhance the implementation of this plan . During the next audit we will evaluate the agency’s actions described in the plan.

B. Program Cost Accounting

OMB Bulletin 97-01, *Form and Content of Agency Financial Statements*, as amended, requires the preparation of a Statement of Net Cost as part of the principal statements. This statement is designed to provide the accounting for the net cost of programs as defined by the agency in its budget, strategic, and annual plans. In FY 2000, approximately \$282 million (55%) of the agency costs included in the Statement of Net Cost represents salaries and benefits.

In the prior year, we reported (Report No. OIG/99A-12) that NRC did not have a general ledger process supporting the preparation of the Statement of Net Cost. This condition continues to exist. However, during the current year, the OCFO implemented an interim data collection method, a time allocation tool, improving the collection of labor data. Because the

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agency's financial management processes are in transition while the agency develops a fully integrated accounting system, interim processes are being implemented to support the accumulation of labor costs by program.

Our assessment of the implementation of the time allocation tool used to collect labor data identified conditions requiring attention in order to increase the reliability of the information provided. These conditions include:

- For most employees, time allocations were pre-set to default to a specific strategic arena instead of actively requiring an allocation of time;
- Routine reporting of time allocation data was not provided to accountable managers;
- Policies for reviewing time allocation reports were not implemented;
- Continuous monitoring of the information gathered by the system was not conducted;
- One-time payments, bonus, leave, etc., were allocated based on payment date, rather than to the period where the benefit was earned; and
- Inaccurate data base files supporting the hours and salaries reflected on the Statement of Net Cost were initially provided.

These conditions, although essential to the improvement of the reliability of information supporting the Statement of Net Cost, are indicative of first year implementation issues.

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..."

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.

Although OCFO initiatives addressed this condition, classified as a substantial non-compliance with FFMIA in the prior year, additional emphasis is necessary.



Recommendation

The Chief Financial Officer should continue to refine the methodology implemented and should provide for continuous monitoring of the agency’s use of the system. While the agency implements an integrated financial management solution, routine reporting, policy guidance, and continued on-site assessments should aid in fully implementing this interim time allocation tool.

CFO’s Comments:

“We agree the Pay/Pers time and labor reporting process implemented during FY 2000 requires refinement. By March 15, 2001, we will provide managers with reports that compare RITS and Pay/Pers data and that provides time allocation data as of the first quarter FY 2001. This information will be provided on a monthly basis thereafter, beginning in April 2001. We will also monitor agency reporting by strategic arena and reconcile time and labor hours to hours paid in the payroll system as part of our current monthly reconciliation of payroll data.”

Auditors’ Position:

The proposed information described by the CFO will begin to formalize the internal control review process for time distribution. During a subsequent audit we will evaluate the timeliness and reliability of the process described.

C. Documentation of Debt Collection Activities

The License Fee and Accounts Receivable Branch (LFARB) is responsible for collecting NRC receivables generated in the billing of NRC services to the regulated community. Policies provide for the collection actions at specified time periods. The collection actions are normally suspended during the period LFARB reviews billings that are disputed by licensees.

The OCFO Accounting Policy Manual, Chapter IV, *Accounts Receivable and Debt Collection*, paragraph G.2.(a)(2), states, “The NRC Debt Collection Strategy given in the appendix to this chapter provides an organized plan of action for collection of debt and gives the actions that shall ordinarily be taken following the issuance of the first demand letter [considered to be an invoice]. The specific [collection] actions and the times at which they occur are required unless the collection of the debt is in jeopardy or another course of action is strongly indicated by the information available...”

Collection Actions	Chapter IV Appendix Benchmarks
Second Demand Letter	At 31 days
Third Demand Letter	At 61 days
Telephone Call or Personal Interview	Within 61 – 90 days
License Suspension or Revocation	Within 6 months

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LFARB creates a separate collection file for each billing that is outstanding for over 90 days. These files are assigned to specific license fee analysts for processing. Documents relating to uncollected billings are to be retained in the collection files. We noted that the collection files were generally in poor condition and were incomplete. The results of tests indicated that required collection actions were either not performed, or were not documented for a large portion of the billings.

The sampled items showed no documented evidence that:

- Second demand letters were sent to 6 of 33 (18%) licensees with billings outstanding for more than 31 days;
- LFARB analysts contacted 14 of 38 (37%) licensees with billings outstanding for more than 61 days; or that,
- Orders were issued to suspend or revoke the licenses of 5 of the 8 (63%) licensees with billings outstanding for more than six months.

Recommendation

The Chief Financial Officer should direct the License Fee and Accounts Receivable Branch to create complete collection files for tracking all billings not collected within 61 days. Collection files should include a method for tracking the required collection actions and listing relevant collection documentation. The CFO should reiterate to LFARB the need to follow existing policies and procedures.

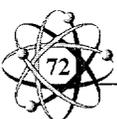
CFO's Comments:

"While we agree with the recommendation, we do not believe this condition rises to the level of a reportable condition. The evidence presented in the report indicates debt collection files were not complete. However, in the absence of trend data that suggests deterioration in this area or interviews that suggest staff are not knowledgeable or adequately trained to perform this function, we believe it would be more appropriate to include this in a management letter.

To remedy this condition, revised desk procedures for processing delinquent debt were developed in November 2000. The procedures, among other things, require a file checklist be placed in every collection file folder. The branch chief held meetings with all staff responsible for processing delinquent debt and training was given in the use of the check list for recording milestones in the debt collection process follow-up. Management will monitor this process for efficiencies and improvement and will ensure that complete and accurate records of delinquent debt files are maintained. We believe corrective actions have been completed."

Auditors' Position:

The actions described by the CFO appear to address the points that are at issue in the observation. The comment, however, continues to be identified as a reportable condition since the agency overlooked the design of a well defined and documented internal control process to



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insure that debt management activities were carried out in accordance with management's intent. The remedy described by the CFO herein more closely complies with the standards prescribed by the GAO's *Internal Controls for Federal Agencies*. During a subsequent audit we will evaluate the actions implemented.

Status of Prior Years' Comments

A. Management Controls over Fee Development

During FY 1999, an audit was conducted by the Office of the Inspector General (OIG) that identified management control issues relating to the development of fees (Report No. OIG/99A-01).

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 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 stated that there were no formally documented procedures for calculating fees and preparing the fee rule.

In October 1999, the agency engaged a contractor to conduct an analysis of the fee development methodology. In their report dated, March 27, 2000, the contractor concluded that although NRC's current hourly rate calculation is not as precise as it could be, it is acceptable under SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards*. The report also provided suggestions that would improve the future feasibility of the current process. Quality controls were not addressed specifically in the report.

In October 2000, NRC issued new license fee policies and procedures. The corrective actions will not be completed until FY 2001. This condition is considered resolved. Closure will be dependent on the assessment of quality control procedures over fee development in a subsequent audit.

B. Financial Statement Preparation

The FY 1998 management letter included an observation on the Financial Statement Preparation Process, and in FY 1999 this issue was elevated to a reportable condition. 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 stated, "...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."

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In the current year, the NRC improved its financial management compilation practices as evidenced by delivering the compiled statements by the agreed-upon milestone. However, essential documentation such as the cost allocation worksheets to support the Statement of Net Costs could not be provided in a timely manner. Additionally, the quality assurance process that would ensure the completeness and accuracy of supporting data base information was not fully in place. Although we consider this condition resolved, closure will depend on the agency's continued improvement.

C. Management Controls Over Small Entity Certifications

As reported in the prior year, NRC did not have a process to adequately determine the eligibility of entities submitting for fee adjustments as small entities. Under 10 CFR 171.16, materials licensees can qualify as small entities and pay reduced annual fees 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 licensee fee analysts. During FY 1999, the agency granted 1,180 fee reductions totaling \$6.4 million or 83%, from the originally billed materials fees of \$7.7 million. In FY 2000, the agency granted fee reductions of approximately \$5.8 million.

The CFO responded in the prior year that they planned to explore the recommendation provided and that they would advise us of their results by June 1, 2000. An initial corrective plan was provided to the Office of Inspector General on August 2, 2000, however, it was later withdrawn pending some additional refinements. As of the end of our field work, a corrective action plan had not adopted. Therefore, this condition remains unresolved.

D. Segregation of Duties - PAY/PERS

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

NRC uses PAY/PERS to maintain personnel information and to process payroll. Our FY 1999 review of user access identified three Division of Accounting and Finance (DAF) employees, including the team leader in charge of payroll operations, who held a Level 3 profile. Level 3 allows for unrestricted access to the system, including the security tables. The payroll operations team leader had incompatible functions. The team leader's functions were not properly segregated because the individual could commit both errors and irregularities and conceal them in the course of discharging the normal duties of the position.

In the current year, review of access profiles showed that the OCFO changed the payroll operations team leader's profile to Level 2, eliminating the incompatibility. This condition is closed.



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E. Controls Over Authorized Users - PAY/PERS

Part II of OMB Circular A-123, *Management Accountability and Control*, 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. As reported in the prior year, 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.

Because OCFO has developed and uses a management report identifying user access sessions in PAY/PERS, this condition is closed.

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

The OCFO controls the payments made through drawdowns 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. In FY 1999, the standard practice for transactions of this nature were not followed by the Financial Operations Branch (FOB), DAF, for GSA rental charge credits.

As of February 2000, DAF established an effective process to track and monitor GSA credits. An amendment was also made to the accounting manual to reflect the revised agency policy. This comment is closed.

G. Revenue from Reimbursable Agreements

During FY 1998, the NRC did not record revenue from reimbursable agreements on a consistent basis. Partial corrective action was taken in FY 1999, however, the agency was awaiting issuance of the revised policy to close this condition. During the current year, the policy was issued. Therefore this condition is closed.

Assurance on Performance Measures

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

This report is intended solely for the information and use of the management of the U.S. Nuclear Regulatory Commission, OMB, Congress, and the NRC Office of the Inspector General and is not intended to be and should not be used by anyone other than these specified parties.

R. Navarro & Associates, Inc.

February 8, 2001



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Chairman Richard A. Meserve
U.S. NUCLEAR REGULATORY COMMISSION
Rockville, Maryland

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
LAWS AND REGULATIONS**

We have audited the principal statements of the U. S. Nuclear Regulatory Commission (NRC) as of and for the year ended September 30, 2000, and have issued our report thereon dated February 8, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The management of the U. S. Nuclear Regulatory Commission 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 which 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. 01-02, including the requirements of the Federal Financial Management Improvement Act (FFMIA) of 1996. Our objective was not to issue an opinion on compliance with laws and regulations 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. 01-02, which is described below.

Current Year Comment

Compliance with Debt Collection Improvement Act

The Debt Collection Improvement Act of 1996 states at 31 USC 3711 (g)(1) that "If a nontax debt or claim owed to the United States has been delinquent for a period of 180 days – (A) the head of the executive, judicial, or legislative agency that administers the program that gave rise to the debt or claim shall transfer the debt or claim to the Secretary of the Treasury;..."

The License Fee Accounts Receivable Branch (LFARB) is responsible for collecting NRC receivables. LFARB tracks the aging of the receivables using the monthly Aged Billings Report (NC110). Uncollected receivables that are over 180 days delinquent are required to be transferred to the U.S. Treasury.

The results of our tests of accounts receivable, which were outstanding for more than 30 days, identified 28 of 45 (62%) instances where accounts receivables were delinquent for more than 180 days. An analysis of the instances determined that 10 were eligible for transfer to the

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U.S. Treasury as required by the Act. Five of these receivables were transferred late, ranging from 35 to 196 days and averaging 90 days late. Additionally, one account receivable was not referred to the U.S. Treasury but was collected 91 days after the date of its eligibility for referral.

NRC policy provides for some exceptions to the Act. For example, accounts receivables that are being disputed by licensees or that are owed by licensees filing for bankruptcy are not transferred to the U.S. Treasury because these debts are not legally enforceable. Additionally, accounts receivables owed by licensees with installment payment plans are not transferred unless they default on their payment plans.

LFARB did not use a tracking system to monitor compliance with the Act. Additionally, LFARB personnel did not always employ uniform practices for determining if debts should be transferred to the U.S. Treasury.

Recommendation

The Chief Financial Officer should ensure that all non-federal licensee debt over 180 days delinquent is referred timely to the U.S. Treasury. The exceptions to that practice would be for billings that are disputed by the licensees or owed by licensees that have filed for bankruptcy or been referred to the Department of Justice.

CFO's Comments:

"A monthly process was implemented in November 2000 for the team leader to review delinquent debt from aged accounts receivable reports and ensure eligible debt over 180 days is referred to the Treasury. We believe corrective actions have been completed."

Auditors' Position:

The process described in the CFO's response adequately addresses the recommendation. During a subsequent audit we will evaluate the implementation, reliability and effectiveness of the process.

Status of Prior Year Comment

Part 170 Hourly Rates

As previously reported in fiscal years (FY) 1998 and 1999, 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 for specific licensing actions, inspections and other services provided to NRC's 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.

The FY 1998 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



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calculations did not include certain contract support costs of approximately \$70 million, net of contract support costs directly billable to licensees and applicants. During the review in FY 1998, the OCFO excluded contract support costs, \$70 million, primarily consisted of research projects. The \$70 million represented approximately 15% of the fiscal year 1998 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). Subsequent to the issuance of the FY 1999 financial statement report (Report No. OIG/99A-12) the agency provided a report intended to address the issues identified in this observation. However, the review and assessment of that report, indicates that the underlying methodology, objective, and conclusion reached did not sufficiently address this condition. Furthermore, the report did not provide for a solution to be implemented in the current year. We do, however, understand that the agency is looking to the future implementation of cost accounting to assist them fully address this condition. Planned actions to be taken by the agency have resolved this condition. Closure is dependent on subsequent audit follow-up.

FFMIA - Status of Prior Year Comments

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. 01-02. The results of our tests provided us the basis to update the status of prior year instances.

A. Managerial Cost Accounting

Refer to the Report on Management’s Assertion About the Effectiveness of Internal Control, Current Year Comment A - Managerial Cost Accounting for a detailed discussion of the condition and recommendation. This condition continues to be considered for FY 2000 a material weakness and a Federal Financial Management Improvement Act substantial non-compliance.

B. Program Cost Accounting

We reported in the prior year the agency’s lack of a general ledger data at the transaction level for program cost accounting supporting the Statement of Net Costs. Although the solution implemented by the agency is not an integral component of the general ledger system, the new process improves the discipline of the information collection to support the Statement of Net Cost. This condition is no longer classified as a FFMIA issue for the current year.

Refer to the Report on Management’s Assertion About the Effectiveness of Internal Control, Current Year Comment B - Program Cost Accounting for a detailed discussion of the condition and recommendation.

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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. At the end of FY 1999, the issues identified with the core general ledger - Federal Financial System (FFS) operated by Treasury's Financial Management Service (FMS) remained an unresolved condition.

In the current year, FMS announced that it would no longer support the FFS system used by the agency. Therefore NRC is in the process of identifying an alternative provider of such services. The initial actions planned by the agency indicate that it will transfer to a new provider. We consider this condition resolved and closure will be dependent on the agency migrating from FMS.

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 generally accepted accounting principles, 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 management 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;



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- 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;
- 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 Pay 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 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 auditing standards generally accepted in the United States of America, *Government Auditing Standards* and OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

Agency Comments

The CFO responded to the Inspector General on our draft report and addressed the recommendations noted in the report. Based on our review of the CFO's comments, we are satisfied that the actions described meet the intent of our recommendations. The CFO's comments are appended to this report in their entirety.

This report is intended solely for the information and use of the management of the U.S. Nuclear Regulatory Commission, OMB, Congress and the NRC Office of the Inspector General and is not intended to be and should not be used by anyone other than these specified parties.

R. Navarro & Associates, Inc.

February 8, 2001





UNITED STATES
NUCLEAR REGULATORY COMMISSION
WASHINGTON, DC 20555-0001

February 16, 2001

MEMORANDUM TO: Stephen D. Dingbaum
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 2000
FINANCIAL STATEMENTS

I have reviewed the draft audit report of the Nuclear Regulatory Commission's FY 2000 Financial Statements, dated February 5, 2001. Overall, I agree with the report's recommendations. Our response to the recommendations is as follows.

Recommendation 1: The Chief Financial Officer (CFO) should strive to meet the revised milestones in the remediation plan to provide cost accounting information to agency managers. Cost accounting information should enhance the agency's ability to evaluate the cost of outputs and outcomes realized. Because the remediation milestones have seen some delays due to the staging of complementary software solutions, the CFO should develop interim cost management techniques based on the needs of managers.

Response: We agree with the importance of striving to meet the revised milestones contained in the remediation plan, dated December 27, 2000. However, due to issues associated with implementing the PeopleSoft payroll, time and labor, and human resources modules, we will not be able to meet the milestones contained in that plan. We are currently evaluating these issues and plan to issue a revised remediation plan in April 2001. In addition, we will review the potential of creating more meaningful cost reports to better meet the needs of managers on an interim basis. We expect to complete this review by March 2001. Also, we suggest you insert the words "continue to" after the word "should" in the last sentence of the recommendation.

Recommendation 2: The CFO should continue to refine the methodology implemented and should provide for continuous monitoring of the agency's use of the system. While the agency implements an integrated financial management solution, routine reporting, policy guidance, and continued on-site assessments should aid in fully implementing this interim time allocation tool.

Response: We agree the Pay/Pers time and labor reporting process implemented during FY 2000 requires refinement. By March 15, 2001, we will provide managers with reports that compare RITS and Pay/Pers data and that provides time allocation data as of the first quarter

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FY 2001. This information will be provided on a monthly basis thereafter, beginning in April 2001. We will also monitor agency reporting by strategic arena and reconcile time and labor hours to hours paid in the payroll system as part of our current monthly reconciliation of payroll data.

Recommendation 3: The CFO should direct the License Fee and Accounts Receivable Branch (LFARB) to create complete collection files for tracking all billings not collected within 61 days. Collection files should include a method for tracking the required collection actions and listing relevant collection documentation. The CFO should reiterate to LFARB the need to follow existing policies and procedures.

Response: While we agree with the recommendation, we do not believe this condition rises to the level of a reportable condition. The evidence presented in the report indicates debt collection files were not complete. However, in the absence of trend data that suggests deterioration in this area or interviews that suggest staff are not knowledgeable or adequately trained to perform this function, we believe it would be more appropriate to include this in a management letter.

To remedy this condition, revised desk procedures for processing delinquent debt were developed in November 2000. The procedures, among other things, require a file checklist be placed in every collection file folder. The branch chief held meetings with all staff responsible for processing delinquent debt and training was given in the use of the check list for recording milestones in the debt collection process follow-up. Management will monitor this process for efficiencies and improvement and will ensure that complete and accurate records of delinquent debt files are maintained. We believe corrective actions have been completed.

Recommendation 4: The CFO should ensure that all non-Federal licensee debt over 180 days delinquent is referred timely to the U.S. Treasury. The exceptions to that practice would be for billings that are disputed by the licensees or owed by licensees that have filed for bankruptcy.

Response: A monthly process was implemented in November 2000 for the team leader to review delinquent debt from aged accounts receivable reports and ensure eligible debt over 180 days is referred to the Treasury. We believe corrective actions have been completed.

We suggest this recommendation be modified to include two additional exceptions for referring delinquent debt over 180 days to the U.S. Treasury: (1) debt referred to the Department of Justice, and (2) debt under litigation.

The following comments address a prior-year recommendation and a report finding.

Management Controls Over Small Entity Certifications - Our current process for reviewing small entity certifications uses information provided by Dun & Bradstreet to make our initial comparison of the information provided by the licensee. For certifications submitted by hospitals and non-profit educational institutions, we use the American Hospital Association Guide and the Directory of Postsecondary Institutions, respectively, to identify irregularities with their certification forms. We also perform searches for company information on the internet. When we identify information which does not agree with the information the licensee has provided on their small entity certification, we initiate contact and request they provide sufficient corroborating evidence to support their claim. If the licensee cannot provide this information, we deny their small entity status.



In response to the recommendation, we plan to develop an information collection package to seek Office of Management and Budget (OMB) approval, under the Paperwork Reduction Act of 1955 (44 U.S.C. Chapter 35), to request financial information from licensees. We expect to have this package ready for submission to OMB by November 30, 2001. Once we obtain OMB clearance, we will develop and implement a sampling technique to identify those small entity reviews that we will conduct. We will establish the statistical sampling technique within 90 days of receipt of final OMB clearance for the new information collection. The new information we collect will consist of income tax returns, audited financial statements, and quarterly employer's tax returns (Form 941).

Managerial Cost Accounting - Page 3, paragraph 1, of the draft report states that "...management *has not made progress* in developing interim techniques" We believe progress was made during FY 2000 in developing interim techniques for assembling cost information. During FY 2000, an interim time and labor reporting system was implemented to capture labor cost by strategic arena and reports were provided to offices for their review. We believe the report should be modified to reflect this progress.



APPENDIX
INSPECTOR GENERAL'S
ASSESSMENT OF MANAGEMENT CHALLENGES





UNITED STATES
NUCLEAR REGULATORY COMMISSION
WASHINGTON, DC 20555-0001

February 20, 2001

MEMORANDUM TO: Chairman Meserve

FROM: Hubert T. Bell *Hubert T. Bell*
Inspector General

SUBJECT: INSPECTOR GENERAL'S ASSESSMENT OF THE MOST
SERIOUS MANAGEMENT CHALLENGES

SUMMARY

The Reports Consolidation Act of 2000 requires the Inspectors General (IG) of the CFO agencies to include in the agency's Accountability Report to Congress an assessment of the NRC's most serious management challenges and the actions being taken to address them.

NRC senior management has a planned approach through the strategic planning process to address each of the seven management challenges identified by the OIG. NRC included a crosswalk in an appendix to its new strategic plan that shows the connection of the management challenges with steps the agency is taking to address them. While the agency has many initiatives planned or underway, managers must continue to focus their attention to determine if the agency is adequately meeting the challenges.

DISCUSSION

CHALLENGE 1

Development and implementation of an appropriate risk-informed and performance-based regulatory oversight approach

NRC is making its regulatory framework more risk-informed so that areas of highest risk receive the greatest focus. The overall goal of this risk-informed regulatory approach is to enhance safety decision making, improve efficiency, and reduce resources devoted to issues with low safety significance. For example, NRC has some inherent difficulties to overcome in applying a risk-informed regulatory approach for its nuclear materials licensees. The complexity of developing a risk-informed approach that adequately covers all types of licensees is exacerbated by

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the almost 21,000 licensees and the diversity of activities that they conduct. The agency formed a Risk Task Group to help address these issues. Likewise, in April 2000, the agency implemented its revised Reactor Oversight Process for commercial nuclear power plants. Although the agency is aware of what it needs to do, the adjustment in regulatory approach will continue to be a critical area that warrants high-level management attention.

CHALLENGE 2

Identification, acquisition, and implementation of information technologies

Federal agencies' investments in information technology (IT) are critical in providing more effective and cost-efficient government services to the public. However, NRC, like other Federal agencies, continues to struggle in its efforts to obtain a good return on these investments. In addition to the high costs and risk generally associated with IT investments, another global challenge is the protection of information from unauthorized access, tampering, and destruction. Therefore, the information security area poses an array of potential challenges for the international, Federal, and private sectors, including NRC. While the agency has made improvements in how it budgets for new systems development efforts, it still needs to improve in the areas of planning and managing projects.

CHALLENGE 3

Administration of all aspects of financial management

NRC must be a prudent steward of its fiscal resources through sound financial management, including the implementation of the Government Performance and Results Act of 1993. This includes developing the agency's strategic plan; implementing the NRC Planning, Budgeting, and Performance Management process; and acquisitions management. The financial reporting process, an important aspect of financial management, is an agency method for tracking and reporting on its resources. For the past six consecutive years (1994 through 1999), NRC received an unqualified opinion on its financial statements. The agency has taken actions to implement a system to capture labor-cost data by strategic arenas. NRC also developed a remediation plan for achieving compliance and projects implementation of cost management by mid-fiscal year 2001.

CHALLENGE 4

Clear and balanced communication with external stakeholders

To maintain public trust and confidence, NRC must be viewed as an independent, open, efficient, clear, and reliable regulator. The agency states that it will accomplish this by providing its diverse group of external stakeholders (e.g., the Congress, general public, other Federal agencies, industry, citizen groups) with clear and accurate information about, and a meaningful role



in, its regulatory process. This is a difficult task because of the highly technical nature of NRC's operations and the balance the agency must maintain to remain independent. NRC is implementing a plan to improve the quality, clarity, and credibility of its communications with all stakeholders.

CHALLENGE 5

Intra-agency communication (up, down, and across agency organizational lines)

Internal communication is a fundamental and necessary aspect of conducting agency business. NRC needs effective internal communication channels and methods to support its critical health and safety mission. Information is the key resource that links managers to the staff, the organization, and other stakeholders--enabling them to do their jobs. NRC has organized its strategic goals, performance goals, and strategies for achieving its mission into the following four strategic arenas: Nuclear Reactor Safety, Nuclear Materials Safety, Nuclear Waste Safety, and International Nuclear Safety Support. Through its strategic plan, the agency has identified increased efforts in each of these arenas to improve the coordination and communication between its program offices.

CHALLENGE 6

Regulatory processes that are integrated and continue to meet NRC's safety mission in a changing external environment

As Chairman of the NRC, you stated that the agency is currently in a period of transition in several dimensions and that the change is more rapid than in any other period in the history of civilian nuclear power, certainly since the event at Three Mile Island. Several of the factors driving this period of transition are economic deregulation of electric utilities, license transfers, and license renewals. NRC's organizational structure can also affect the way its regulatory processes are integrated. All of these conditions pose a challenge for the agency. NRC recently abolished the Executive Council and gave greater responsibility for the daily management of the agency to the Executive Director for Operations.

CHALLENGE 7

Maintenance of a highly competent staff to carry out NRC's public health and safety mission (i.e., human capital management)

NRC needs a dynamic, results-oriented, diverse workforce with the appropriate knowledge, skills, abilities, and competencies to achieve its public health and safety mission. Although the agency's expertise appears to be sufficient today, it is likely that the future expertise and technical capability of NRC will decline without appropriate preventive measures. Declining univer-

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sity enrollment in nuclear studies, dilution of university courses in nuclear studies, and the high number of staff eligible to retire further exacerbate NRC's ability to maintain a technically qualified staff.

NRC is addressing human capital management issues in the context of its Planning, Budgeting, and Performance Management process. For example, the agency is working to develop and maintain a pool of high-potential management candidates through its SES Candidate Development Program. Recently, staff was directed to perform an assessment of the scientific, engineering, and technical core competencies that NRC needs and propose specific strategies for ensuring that they are maintained.



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