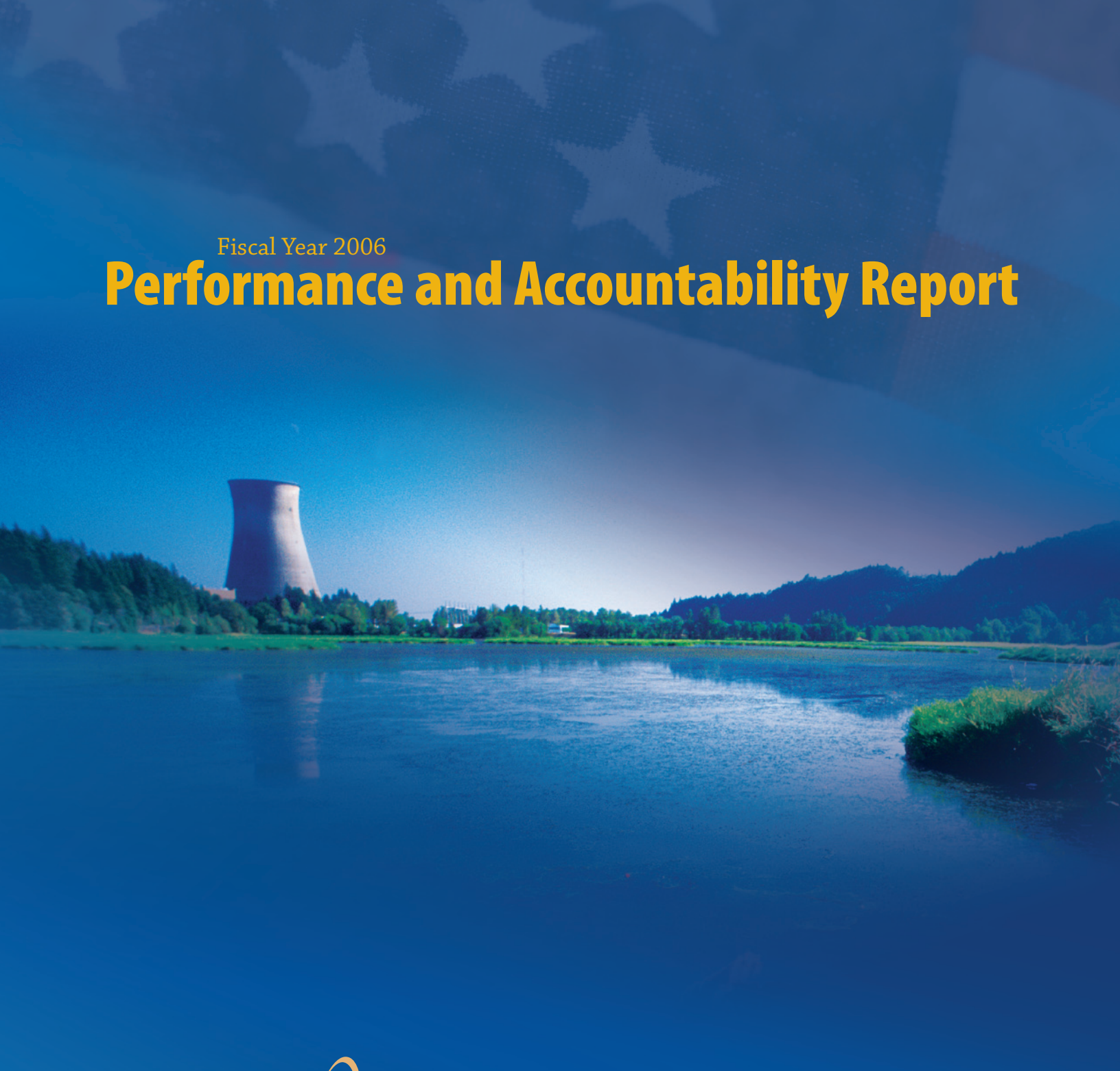
Fiscal Year 2006

Performance and Accountability Report



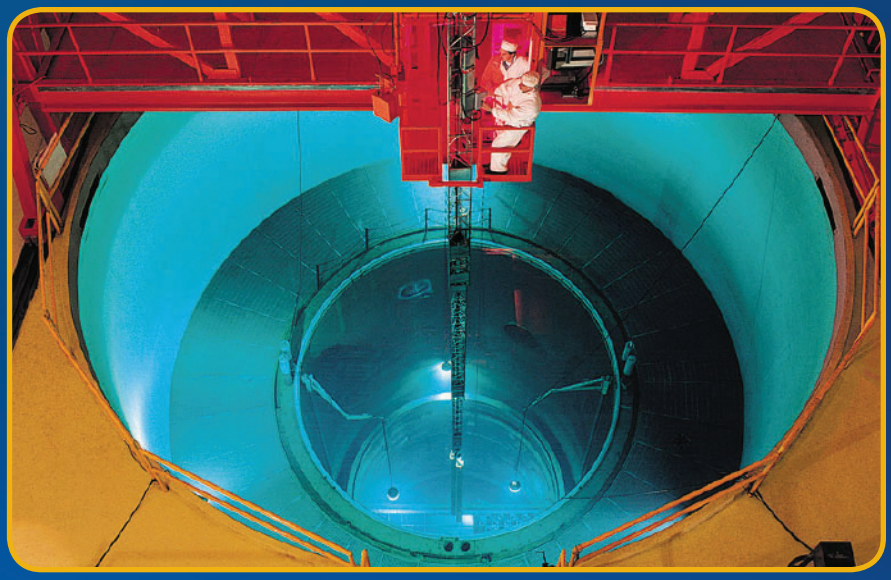
U.S.NRC

UNITED STATES NUCLEAR REGULATORY COMMISSION

Protecting People and the Environment

Mission

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



Refueling a Nuclear Reactor

Vision

Excellence in regulating the safe and secure use and management of radioactive materials for the public good.

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(From left to right) Commissioner Gregory B. Jaczko, Commissioner Edward McGaffigan, Jr., Chairman Dale E. Klein, Commissioner Jeffrey S. Merrifield, and Commissioner Peter B. Lyons

A MESSAGE FROM THE CHAIRMAN

I am pleased to present the Nuclear Regulatory Commission's *Performance and Accountability Report for FY 2006*. Ensuring the protection of public health and safety and the environment has always been and will continue to be the NRC's primary goal. I am proud to report that the NRC has again achieved its safety and security performance goals. While we did not meet some of our openness, effectiveness, and management performance measures, we have developed approaches to improve results in the coming year.

The Agency is continuing its successful regulatory oversight programs, including comprehensive safety inspections as well as force-on-force exercises to confirm licensees' capabilities to provide adequate security. The NRC will also continue its program to renew the licenses of existing nuclear reactors following the necessary safety reviews. Projected new reactor licensing and other activities present significant challenges for the NRC, including the need to obtain additional resources to meet the increased workload, to hire and train several hundred new staff, to update the Agency's regulatory review and construction inspection guidelines, and to expand the Agency's infrastructure, including obtaining the necessary work space and implementing more innovative use of information technology, to accommodate this growth. I believe the Agency is on the right course to meet these challenges.

This report provides information that demonstrates that NRC's financial and performance data are reliable and complete and that the funds entrusted to us by the American public are well managed. The auditors have rendered an unqualified opinion on the Agency's FY 2006 financial statements. The NRC has evaluated its internal controls, including those relating to financial reporting and its financial management systems as required by the Federal Managers Financial Integrity Act. There is reasonable assurance that the NRC is in compliance with the Act, with the exception of two material weaknesses related to implementation of the Federal Information Management Security Act: the lack of contingency plan testing for information systems and the lack of certification and accreditation of information systems. The Agency has also identified its Fee Billing System as being in substantial noncompliance with government wide financial system requirements and with the Federal Financial Management Improvement Act. The financial statement auditors identified a third material internal control weakness associated with quality assurance for the fee billing process. I have declared this to be a reportable condition based on the results of the Agency's internal control assessment. We have developed corrective action plans and will continue to work to eliminate the material internal control weaknesses and the Federal Financial Management Improvement Act substantial noncompliance (See Chapter 1, *Audit Results and Management Assurances*).

The NRC is committed to conducting its regulatory responsibilities to enable the use and management of radioactive materials and nuclear fuel for beneficial civilian purposes in a manner that protects public health and safety and the environment, promotes the security of our nation, and provides for regulatory actions that are open, effective, efficient, realistic and timely. The NRC looks forward to continuing its high-quality service to the American public in FY 2007 and beyond.

Dale E. Klein
November 15, 2006

Chapter 1

MANAGEMENT'S DISCUSSION AND ANALYSIS

NRC Headquarters in Rockville, MD

Tour at Davis Besse Nuclear Power Plant

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

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

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

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

ABOUT THE NRC

The NRC was established on January 19, 1975, as an independent Federal agency to regulate various commercial and institutional uses of nuclear materials. The Atomic Energy Act, as amended, and the Energy Reorganization Act, as amended, define the NRC's purpose. These acts provide the foundation for the NRC's mission to regulate the Nation's civilian use of byproduct, source, and special nuclear materials to ensure adequate protection of public health and safety, to promote the common defense and security, and to protect the environment.

To fulfill its responsibility to protect the public health and safety, the NRC performs three principal regulatory functions. The Agency (1) establishes standards and regulations, (2) issues licenses for nuclear facilities and users of nuclear materials, and (3) inspects facilities and users of nuclear materials to ensure compliance with regulatory requirements. These regulatory functions relate to civilian nuclear power plants, other nuclear facilities, and uses of nuclear materials, such as nuclear medicine programs at hospitals; academic activities at educational institutions; research work; industrial applications, such as gauges and testing equipment; and the transport, storage, and disposal of nuclear materials and wastes.

Organization

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

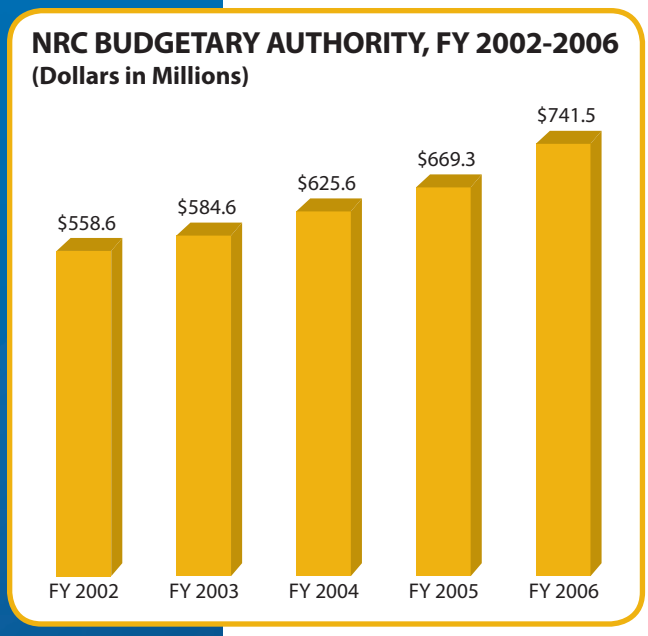


Figure 1

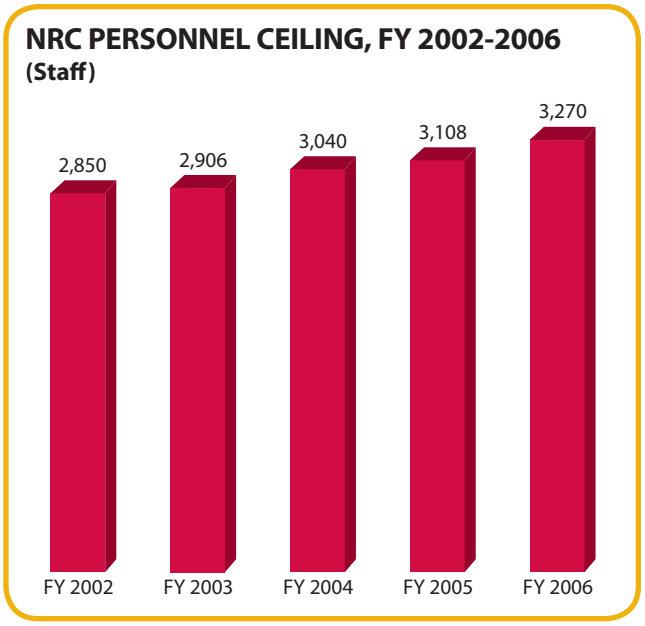


Figure 2

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

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

The Nuclear Industry

The NRC regulates all activities involved in the commercial use of radioactive materials. From nuclear fuel facilities, which produce the radioactive fuel used in the Nation's nuclear power plants and other users of nuclear materials, through the safe transportation and disposal of nuclear waste, the NRC's regulatory programs ensure that radioactive materials are used safely and securely throughout this nuclear material cycle.

Approximately 20 percent of the Nation's electricity is generated by the 104 NRC-licensed commercial nuclear reactors operating in 31 States (see Figure 3 on the next page). Since 1994, nuclear electric generation has increased by approximately 20 percent. The NRC expends over 368,500 hours annually inspecting operating reactors and licenses approximately 4,700 reactor operators.

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

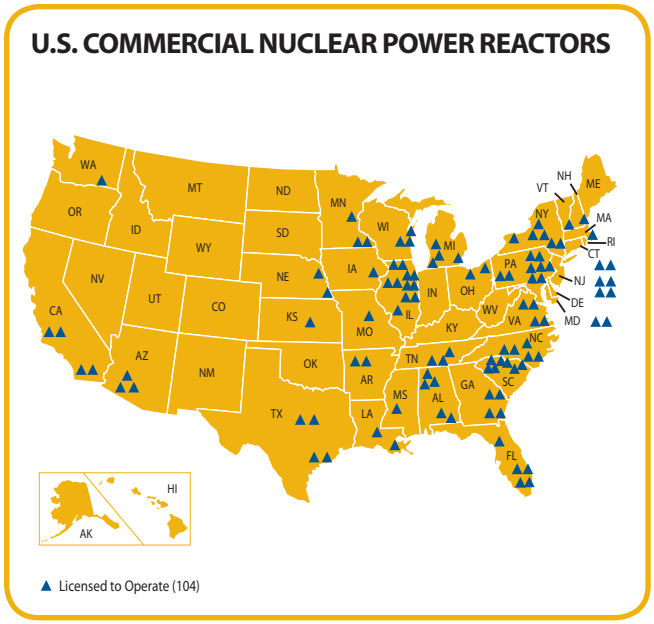


Figure 3

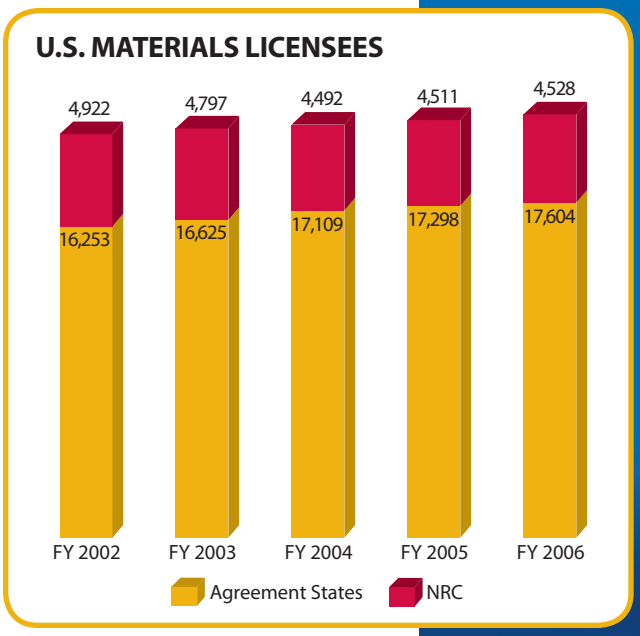


Figure 4

the 34 Agreement States oversee over 17,600 licenses. These Agreement States have assumed the majority of regulatory responsibilities for overseeing the activities of industrial, medical, and other small users of nuclear material within their borders. The NRC, Agreement States, and their licensees share a common responsibility to protect public health and safety.

Fuel Facilities

Nuclear fuel is derived from milled uranium ore extracted from the earth at uranium mines to produce uranium concentrate called "yellow cake." The yellow cake is converted into uranium hexafluoride gas at a special facility and loaded into cylinders. The cylinders are sent to a gaseous diffusion plant, where uranium is enriched for use as reactor fuel. The enriched uranium is then converted into oxide powder, fabricated into fuel pellets (each about the size of a fingertip), which are then loaded into metal fuel rods about 12 feet long and bundled into reactor fuel assemblies at a fuel fabrication facility. Assemblies are transported to nuclear power plants for use as fuel. The NRC licenses seven major fuel fabrication and production facilities and two uranium enrichment facilities licensed to operate in eight states. Because they handle hazardous material, these facilities take special precautions to prevent theft, diversion by terrorists, and dangerous exposures to workers and the public from the nuclear material they handle.

Reactors

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

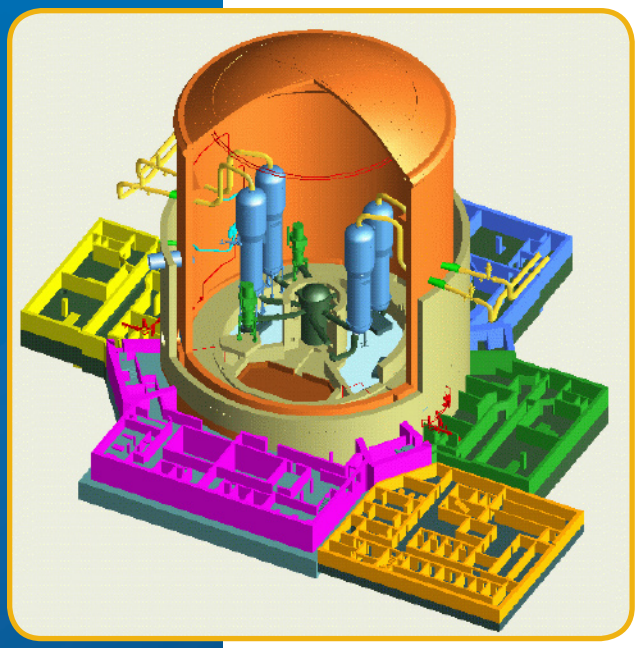


Figure 5 - Schematic of a nuclear power reactor

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

Materials Users

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

Many of today's industrial processes also use nuclear materials. High-tech methods that ensure the quality of manufactured products often rely on radioisotopes. To determine whether a well drilled deep into the ground has the potential for producing oil, geologists use nuclear well-logging, a technique that employs radiation from a radioisotope inside the well to detect the presence of different materials. Radioisotopes are also used to sterilize instruments, to find flaws in steel parts and welds that go into automobiles and modern buildings, to authenticate valuable works of art, and to solve crimes by spotting trace elements of poison. Radioisotopes can also eliminate dust from film and compact discs and static electricity from can labels.

Dry Storage of Spent Fuel

Waste Disposal

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

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

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

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

Yucca Mountain Tunnel Entrance

PROGRAM PERFORMANCE OVERVIEW

The NRC has five strategic goals—safety, security, openness, effectiveness, and management (see Figure 6). The Agency considers safety and security to be its highest priorities and the goals most closely aligned to the NRC's strategic objective. The NRC's ability to meet specific strategic outcomes defines the Agency's success in achieving each goal. To this end, the NRC is organized into two major programs, Nuclear Reactor Safety and Nuclear Materials and Waste Safety.

Figure 6

Nuclear Reactor Safety Program

The Nuclear Reactor Safety Program encompasses all NRC efforts to ensure that civilian nuclear power reactor facilities and research and test reactors are licensed and operated in a manner that adequately protects the public health and safety and the environment and protects against radiological sabotage and theft or diversion of special nuclear materials. The Nuclear Reactor Safety Program accounted for 72 percent of the Agency's costs in FY 2006.

Nuclear Materials and Waste Safety Program

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

high-level and low-level waste, the decommissioning of power plants, and the storage and transportation of spent nuclear fuel. The Nuclear Materials and Waste Safety Program accounted for the remaining 28 percent of the Agency's costs.

The Agency's Five Strategic Goals

(1) Safety: Ensure protection of public health and safety and the environment.

(2) Security: Ensure the secure use and management of radioactive materials.

(3) Openness: Ensure openness in our regulatory process.

(4) Effectiveness: Ensure that our actions are effective, efficient, realistic, and timely.

(5) Management: Ensure excellence in Agency management to carry out the NRC's strategic objective.

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

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

Strategic Outcomes:

- No nuclear reactor accidents.
- No inadvertent criticality events.
- No acute radiation exposures resulting in fatalities.
- No releases of radioactive materials that result in significant radiation exposures.
- No releases of radioactive materials that cause significant adverse environmental impacts.

FY 2006 Results

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

Another measure tracks the trends of several key indicators of nuclear power plant safety. This measure is the broadest measure of the safety of nuclear power plants, incorporating the performance results from all plants to determine industry average results. Results show no statistically significant adverse trends in any of the indicators in FY 2006.

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

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

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

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

Strategic Outcome:

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

FY 2006 Results

The NRC uses three performance measures, in addition to the strategic outcome, to determine whether the Agency has met its security goal. The Agency met all three performance measure targets in FY 2006. The first performance measure addresses unrecovered losses or thefts of risk-significant radioactive sources. The measure ensures that those radioactive sources that the Agency has determined to be risk-significant to the public health and safety are accounted for at all times. The ability to account for these sources is essential to securing the Nation's critical infrastructure from "dirty bomb" attacks or other means of radiation dispersal.

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

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

Goal 3: Ensure openness in our regulatory process.

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

Strategic Outcome

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

FY 2006 Results

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

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

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

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

Strategic Outcome:

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

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

FY 2006 Results

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

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

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

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

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

Strategic Outcomes

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

FY 2006 Results

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

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

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

Program Assessment Rating Tool Results

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

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

FUTURE CHALLENGES

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

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

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

PRESIDENT'S MANAGEMENT AGENDA

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

Strategic Management of Human Capital

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

Budget and Performance Integration

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

Competitive Sourcing

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

Expanded Electronic Government

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

Improved Financial Performance

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

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

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

FINANCIAL PERFORMANCE OVERVIEW

As of September 30, 2006, and 2005, the financial condition of the NRC was sound with respect to having sufficient funds to meet program needs and adequate control of these funds in place to ensure obligations did not exceed budget authority. The NRC prepared its financial statements in accordance with the accounting standards codified in the Statements of Federal Financial Accounting Standards (SFFAS) and Office of Management and Budget Circular A-136, Financial Reporting Requirements.

Sources of Funds

The NRC has two appropriations, Salaries and Expenses and Office of the Inspector General, and funds for both appropriations are available until expended. The NRC's total new FY 2006 budget authority was $741.5 million. Of this amount, $733.2 million was for the Salaries and Expenses appropriation and $8.3 million was for the Office of the Inspector General appropriation. This represents an increase in new budget authority of $72.2 million over FY 2005 ($71.4 million for the Salaries and Expenses appropriation and $0.8 million for the Office of the Inspector General appropriation). In addition, $58.3 million from prior-year appropriations, $4.9 million from prior-year reimbursable work, and $4.3 million for new reimbursable work to be performed for others was available to obligate in FY 2006. The sum of all funds available to obligate for FY 2006 was $809.0 million, which is a $86.1 million increase over the FY 2005 amount of $722.9 million.

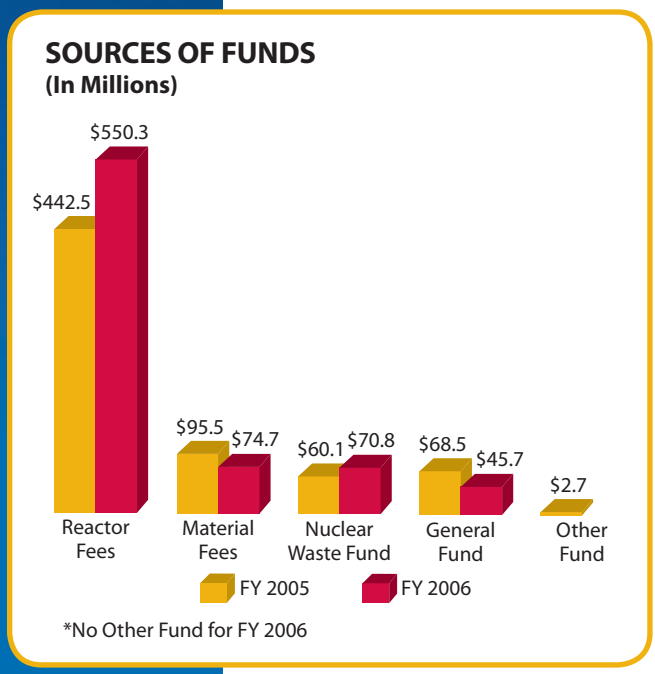


Figure 7

The Omnibus Budget Reconciliation Act of 1990 (OBRA-90), as amended, required the NRC to collect fees to offset approximately 90 percent of its new budget authority, less the amount appropriated to the NRC from the Nuclear Waste Fund and Waste Incidental to Reprocessing for FY 2006. The NRC collected $625.0 million in reactor and material fees in FY 2006 (see Figure 7). This is 100 percent of the fee recovery requirement. For FY 2005, OBRA-90 required NRC to collect approximately 90 percent of its new budget authority, excluding appropriations from the Nuclear Waste Fund.

Uses of Funds by Function

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

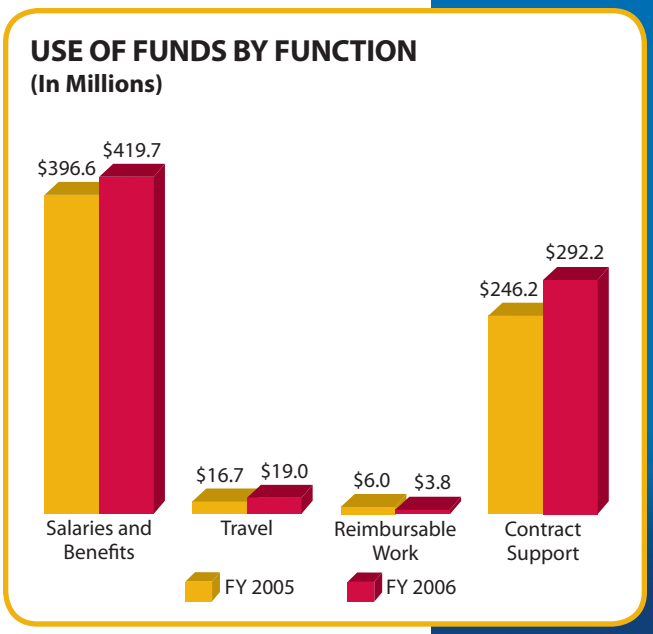


Figure 8

Audit Results

The NRC received an unqualified audit opinion on its FY 2006 financial statements. In FY 2006, the auditors identified a new material weakness in the Agency's information system-wide security controls related to an independent evaluation of the NRC's implementation of the Federal Information Security Management Act (FISMA). The FISMA report identified two significant deficiencies related to a lack of contingency plan testing for information security systems, and a lack of certification and accreditation for most of the Agency's major information systems. These deficiencies were also identified as material weaknesses in the Agency's Federal Managers' Financial Integrity Act (Integrity Act) assurance statement. The NRC plans to have contingency plan testing completed during FY 2007 and all systems certified and accredited by FY 2008. For FY 2005, the auditors identified the weakness in information system-wide security controls as a reportable condition.

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

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

Limitations of the Financial Statements

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

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

Financial Statement Highlights

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

Analysis of the Balance Sheet

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

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

ASSET SUMMARY (in millions)

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

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

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

LIABILITIES SUMMARY (in millions)

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

The difference between Total Assets and Total Liabilities, Net Position, was $212.6 million as of September 30, 2006. This is an increase of $55.1 million from the FY 2005 year-end balance. Net Position is comprised of two sections: Unexpended Appropriations and Cumulative Results of Operations. Unexpended Appropriations is the amount of authority granted by Congress that has not been expended. The increase of Unexpended Appropriations of $22.9 million is primarily due to the increase in Fund Balance with Treasury as a result of new reactor licensing activities and homeland security activities. The increase is also due to the change in the accounting treatment for the Nuclear Waste Fund (NWF) transfer in FY 2006 that is now classified to Cumulative Results of Operations. In FY 2005, the NWF transfer was reported as Unexpended Appropriations. Cumulative Results of Operations represent net results of operations since the NRC's inception. The increase of $32.2 million is mainly due to the change in the accounting treatment of the NWF transfer.

NET POSITION SUMMARY (in millions)

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

Analysis of the Statement of Net Cost

The Statement of Net Cost presents the net cost of NRC's two programs as identified in the NRC Annual Performance Plan. The purpose of this statement is to link program performance to program cost. The NRC's net cost of operations for the year ended September 30, 2006, was $80.6 million, which is a decrease of $52.4 million over the FY 2005 net cost of $133.0 million. Net cost by program is shown in the accompanying table. Gross costs increased primarily due to new reactor licensing and homeland security activities. Earned Revenue increased primarily due to the increase in appropriations for NRC activities, of which the NRC is required to collect 90 percent through fee billing.

NET COST OF OPERATIONS (in millions)

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

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

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

Analysis of Statement of Changes in Net Position

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

Analysis of the Statement of Budgetary Resources

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

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

Analysis of the Statement of Financing

The Statement of Financing is designed to provide the bridge between accrual-based (financial accounting) information in the Statement of Net Cost and obligation-based (budgetary accounting) information in the Statement of Budgetary Resources by reporting the differences and reconciling the two statements. This reconciliation ensures that the proprietary and budgetary accounts in the financial management system are in balance. The Statement of Financing takes Budgetary Obligations of $734.8 million and reconciles to the Net Cost of Operations of $80.6 million by deducting non-budgetary resources, costs not requiring resources, and financing sources yet to be provided.

SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

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

Management Assurances

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

Federal Managers' Financial Integrity Act

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

Management Control Review Program

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

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

INTEGRITY ACT STATEMENT FOR FY 2006

The U.S. Nuclear Regulatory Commission's (NRC) management is responsible for establishing and maintaining effective internal controls and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). The NRC is able to provide a qualified statement of assurance that the internal controls and financial management systems meet the objectives of FMFIA, with the exception of two material weaknesses and one non-conformance noted herein.

The NRC conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, Management's Responsibility for Internal Control. Based on the results of this evaluation, the NRC identified two material weaknesses and one non-conformance in its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2006. Other than these exceptions, the internal controls were operating effectively, and no other material weaknesses were found in the design or operation of the internal controls.

In addition, the NRC conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, the NRC can provide reasonable assurance that its internal control over financial reporting as of June 30, 2006, was operating effectively, and no material weaknesses were found in the design or operation of the internal control over financial reporting.

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

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

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

FY 2006 Integrity Act Results

The NRC evaluated its internal control systems for the fiscal year ending September 30, 2006. The NRC is able to provide a qualified statement of assurance that the internal controls and financial management systems meet the objectives of the Integrity Act, with the exception of two material weaknesses and one nonconformance.

Material Weaknesses

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

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

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

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

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

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

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

The NRC's Chief Financial Officer established a Senior Assessment Team (SAT), consisting of senior managers from the Office of the Chief Information Officer, the Office of Information Services, Human Resources, and the Office of Administration to ensure that the assessment of internal control over financial reporting was carried out in a thorough, effective, and timely manner. The scope of financial reports and materiality values were determined. Nine financial reporting processes were determined to be key contributors to the Agency's financial statement balances. A testing plan was developed, and all key controls were tested to establish a baseline for the year of implementation. The Senior Assessment Team analyzed the test results and found no material weaknesses. The team shared these results at their annual briefing. Based on the results of this evaluation, the NRC can provide reasonable assurance that its internal control over financial reporting was operating effectively as of June 30, 2006, and that no material weaknesses were found in the design or operation of the internal controls over financial reporting.

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

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

Nonconformance

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

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

Federal Financial Management Improvement Act

The Federal Financial Management Improvement Act (Improvement Act) requires each Agency to implement and maintain systems that comply substantially with (i) Federal fi-

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

FY 2006 Improvement Act Results

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

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

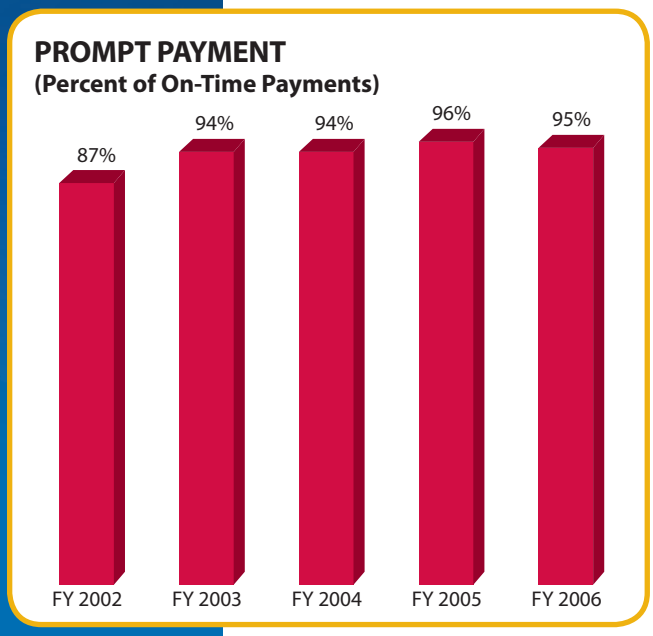


Figure 9

Prompt Payment Act

The Prompt Payment Act requires Federal agencies to make timely payments to vendors for supplies and services, to pay interest penalties when payments are made after the due date, and to take cash discounts when they are economically justified. From FY 2005 to FY 2006, the NRC paid 8,860 invoices that were subject to the Prompt Payment Act. The NRC percentage of on-time payments subject to the Prompt Payment Act for FY 2006 is 95 percent (see Figure 9). The amount of interest penalties incurred during FY 2006 was $4,874 which is a decrease from FY 2005's amount of $8,850

Improper Payments

Improper payments continue to be at low risk for the Agency. The NRC continues to evaluate its internal controls to guard against improper payments and monitors and reports on improper payments within its programs. At the present time, NRC's inventory of functional payment areas consists of commercial vendor, interagency, and travel payments. The DOI-NBC is responsible for monitoring and reporting on any improper payroll-related payments since they are the system of record for payroll disbursements. The NRC will continue to perform annual risk assessments for

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

Debt Collection Improvement Act

The Debt Collection Improvement Act enhances the ability of the Federal Government to service and collect debts. The Agency's goal is to maintain the delinquent debt owed to the NRC, at year end, to less than one percent of its annual billings. The NRC continues to meet this goal and at the end of FY 2006 delinquent debt was $0.5 million (see Figure 10). The NRC continues to pursue the collection of delinquent debt and refers all eligible delinquent debt over 180 days to the U.S. Treasury for collection.

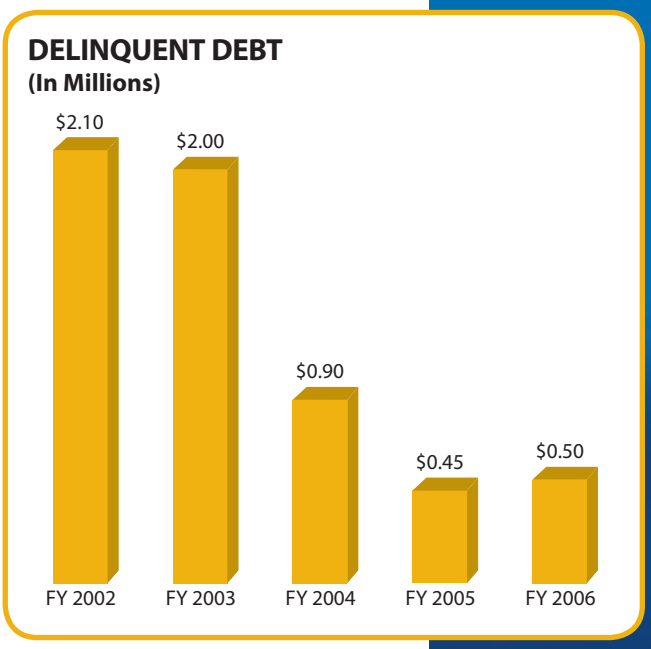


Figure 10

Biennial Review of User Fees

The Chief Financial Officers Act requires agencies to conduct a biennial review of fees, royalties, rents, and other charges imposed by agencies and make revisions to cover program and administrative costs incurred. Each year, the NRC revises the hourly rates for license and inspection fees and adjusts the annual fees to meet the fee collection requirements of the Omnibus Budget Reconciliation Act of 1990, as amended. The most recent changes to the license, inspection, and annual fees are described in the Federal Register (71 FR 30722, May 30, 2006).

The NRC also revised the fees and charges for the Materials Access Authorization Program and Information Access Authorization Program to more appropriately recognize actual costs. The Agency concluded that other types of fees did not warrant revisions at this time.

Inspector General Act

The Agency has established and continues to maintain an excellent record in resolving and implementing open audit recommendations presented in reports from the Office of the Inspector General. Section 5(b) of the Inspector General Act requires agencies to report on final actions taken on audit recommendations. Appendix B includes this information, as well as data concerning disallowed costs determined through contract audits conducted by the Defense Contract Audit Agency.

Chapter 2

PROGRAM PERFORMANCE

McGuire Nuclear Station

Fort Calhoun Nuclear Power Plant

MEASURING AND REPORTING PERFORMANCE

This chapter presents information on the NRC's performance in achieving its mission and goals during FY 2006. The Agency's mission is to ensure the safety and security of the American public, and the environment, in the use of byproduct, source, and special nuclear materials. To fulfill this mission, the NRC established five goals: Safety, Security, Openness, Effectiveness, and Management which are contained in the Agency's FY 2004-FY 2009 Strategic Plan. For each goal, strategic outcome(s) define success in attaining the goal. In addition, a set of performance measures is associated with each goal that not only indicates NRC effectiveness in achieving the goal, but also establishes the basis for NRC performance management.

This chapter also describes NRC achievements in accomplishing its goals. The safety goal key achievements are discussed within Nuclear Reactor Licensing, Nuclear Reactor Inspection, Fuel Facilities, Nuclear Material Users, High-Level Waste Repository, Decommissioning and Low-Level Waste, and Spent Fuel Storage and Transportation.

The Agency's success in achieving its Security, Openness, Effectiveness, and Management goals is also described. In addition, the Agency's progress in "getting to the green" for the five management initiatives identified in the President's Management Agenda is described. Moreover, this chapter presents information on data sources, data quality, and the completeness and reliability of performance data. This discussion focuses primarily on NRC methods for collecting and analyzing data, ensuring data security, and improving the Agency's performance measures and the quality of its data during the current reporting period. The performance measures reported in this chapter reflect measures in the NRC FY 2006 Performance Budget.

STRATEGIC GOALS AND PERFORMANCE MEASURES

Safety Goal: Ensure Protection of Public Health and Safety and the Environment

Strategic Outcomes

The NRC has five strategic outcomes associated with the Safety goal that determine whether the Agency has achieved its aim to ensure protection of public health and safety as well as the environment:

- No nuclear reactor accidents.[1]
- No inadvertent criticality events.
- No acute radiation exposures resulting in fatalities.
- No releases of radioactive materials that result in significant radiation exposures.[2]
- No releases of radioactive materials that cause significant adverse environmental impacts.[3]

[1]"Nuclear reactor accidents" are defined in the NRC Severe Accident Policy Statement as those events that result in substantial damage to the reactor fuel, 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 Criterion I.A.3.

[3]Releases that have the potential to cause "adverse impact" are those that exceed the limits for reporting abnormal occurrences as given by Abnormal Occurrence Criterion 1.B.1.

Results: In FY 2006, the NRC achieved all of its Safety goal strategic outcomes.

Performance Measures

The table below lists the performance measures and targets for the FY 2006 Safety goal, as stated in the FY 2006 Performance Budget. The NRC met all of its FY 2006 Safety goal performance measure targets.

FY 2006 Safety Goal Performance Measures

MEASURE	2001	2002	2003	2004	2005	2006
1. Number of new conditions evaluated as red by the Reactor Oversight Process is ≤3.		New Metric in FY 2005			0	0
2. Number of significant accident sequence precursors of a nuclear reactor accident is zero.	0	1	0	0	0	0
3. Number of operating reactors with integrated performance that entered the Manual Chapter 0350 process, or the multiple/repetitive degraded cornerstone column or the unacceptable performance column of the Reactor Oversight Program Action Matrix, with no performance exceeding Abnormal Occurrence Criterion I.D.4 is ≤4.		New Metric in FY 2005			0	0
4. Number of significant adverse trends in industry safety performance with no trend exceeding the Abnormal Occurrence Criterion I.D.4 is ≤1.	0	0	0	0	0	0
5. Number of events with radiation exposures to the public and occupational workers that exceed Abnormal Occurrence Criterion I.A is:						
Reactors: 0	0	0	0	0	0	0
Materials: ≤6	0	0	0	0	1	0
Waste: 0	0	0	0	0	0	0
6. Number of radiological releases to the environment that exceed applicable regulatory limits is:						
Reactor: ≤3	0	0	0	0	0	0
Materials: ≤5	0	4	0	1	0	0
Waste: 0	0	0	0	0	0	0

Analysis of Results

1. **Reactor Oversight Process red conditions:** The NRC reactor inspection program monitors nuclear power plant performance in three broad areas: reactor safety, radiation safety, and security. Plant performance is analyzed based on a large number of perfor-

mance indicators and inspection findings. These indicators and findings are categorized into one of four categories: green, white, yellow, or red with red being the category of highest significance. Red indicates a significant reduction in the safety of a nuclear power plant. In FY 2006, there were no red performance indicators or inspection findings.

2. **Reactor significant precursors:** The second measure tracks significant precursor events determined by the likelihood of an event adversely impacting safety. A significant precursor is an event that had a probability of 1 in 1,000 (or greater) of leading to substantial damage to the reactor fuel. No significant precursors occurred in FY 2006.
3. **Reactor performance:** The conditions in this measure indicate whether the NRC identifies significant issues in a plant during inspections conducted under the reactor oversight program. If any of the conditions in this measure are met, the NRC will take action to ensure that plant safety is improved. In FY 2006, no reactors meet the conditions in this measure.
4. **Reactor safety trends:** This measure tracks trends for several key indicators of the nuclear industry safety performance. These indicators provide insights into major areas of reactor performance, including reactor safety, radiation safety, and physical protection. Statistical analysis techniques are applied to each indicator to calculate its long-term trend. These trends represent industry averages rather than individual plant performance. In FY 2006, no statistically significant adverse trends have been documented in any of the indicators. This performance measure is the broadest indicator of nuclear power plant performance and shows that the nuclear industry, under the NRC oversight, continues to maintain overall safety of nuclear power plants.
5. **Nuclear material radiation exposures:** This measure tracks the number of radiation exposures to the public and occupational workers that exceed Abnormal Occurrence Criterion I.A, which is defined as those events that produce unintended permanent functional damage to an organ or a physiological system, as determined by a physician. This measure tracks both nuclear reactors and other nuclear material users, such as hospitals and industrial users. In FY 2006, no radiation exposures have exceeded Abnormal Occurrence Criterion I.A. Ensuring that nuclear materials cause no harm to human health constitutes an important measure of the success of both the NRC and the industry in the safe use of nuclear materials.
6. **Nuclear material releases to the environment:** This measure is an indicator of the effectiveness of the NRC's nuclear material environmental programs which is defined through compliance with the applicable regulatory limits in 10 CFR Part 20. The dose constraints and concentration limits in 10 CFR are protective of human health and the environment. In FY 2006, the industry has had no nuclear material releases to the environment that exceed regulatory limits.

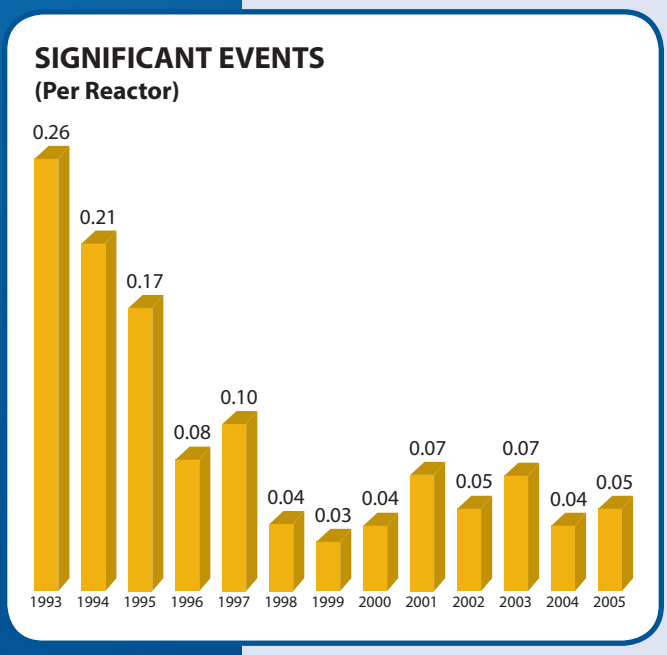
Nuclear Reactor Licensing Activity

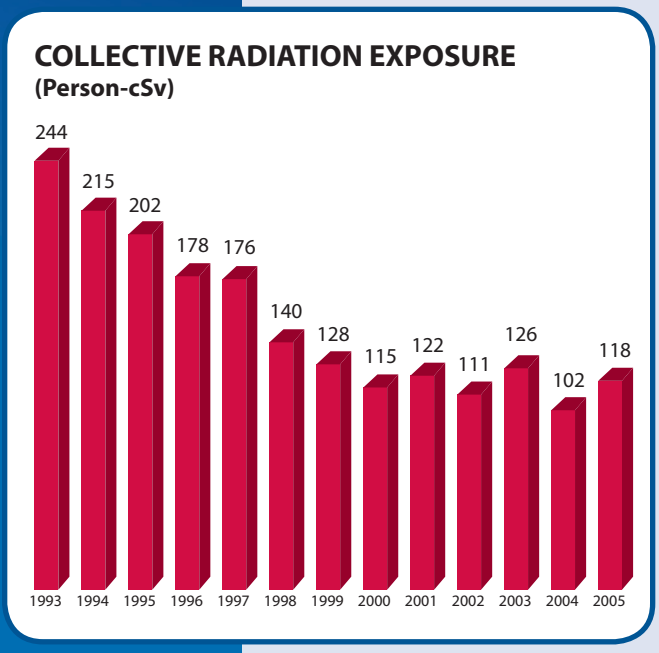
The Nuclear Reactor Safety Program ensures that civilian nuclear power reactors and test and research reactors are licensed and operated in a manner that adequately protects public health and safety and the environment while safeguarding special nuclear materials used in reactors. Safety at nuclear power plants has improved substantially over the past 20 years (see following pages for long-term trends in safety indicators). This improvement in the safety performance of nuclear power plants results from the combined efforts of the nuclear industry and the NRC.

(continued on page 32)

Long Term Trends

The NRC measures the long-term effectiveness of its Nuclear Reactor Safety program activities using several industry-level performance indicators, some of which are addressed in the following pages. These indicators show significant improvement in the long-term trends for safety performance of nuclear power plants since 1988, the baseline year for the statistical analyses. Plant operating experience data have yielded a steady stream of improvements in the reliability of plant systems and components, plant operating procedures, training of power plant operators, and regulatory oversight. For ease of viewing, all the charts in this section display data since 1993.





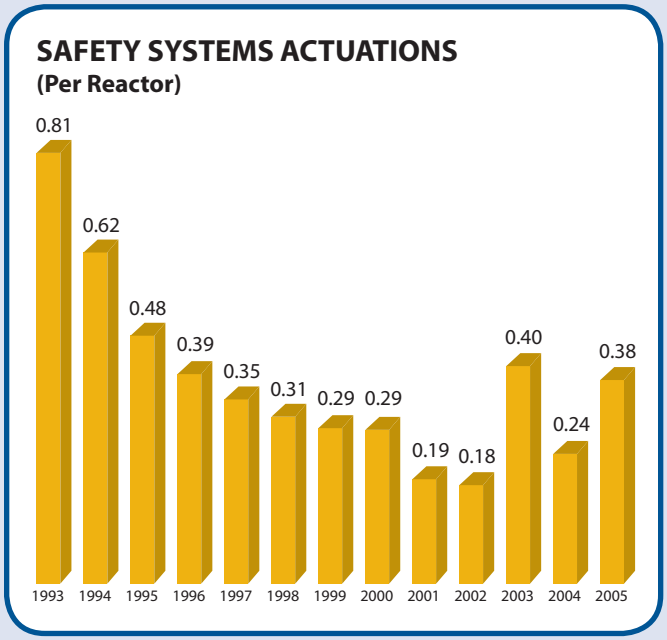
The industry safety indicators are derived through engineering and scientific analyses by the NRC's Office of Nuclear Reactor Regulation and Office of Nuclear Regulatory Research. The analyses of some events for FY 2005 and FY 2006 are still ongoing. The performance indicator results are subject to minor variations as licensees submit revisions to the source data and may differ slightly from data reported in previous years as a result of refinements in data quality. The results of these analyses are reported annually to both the Commission and to Congress.

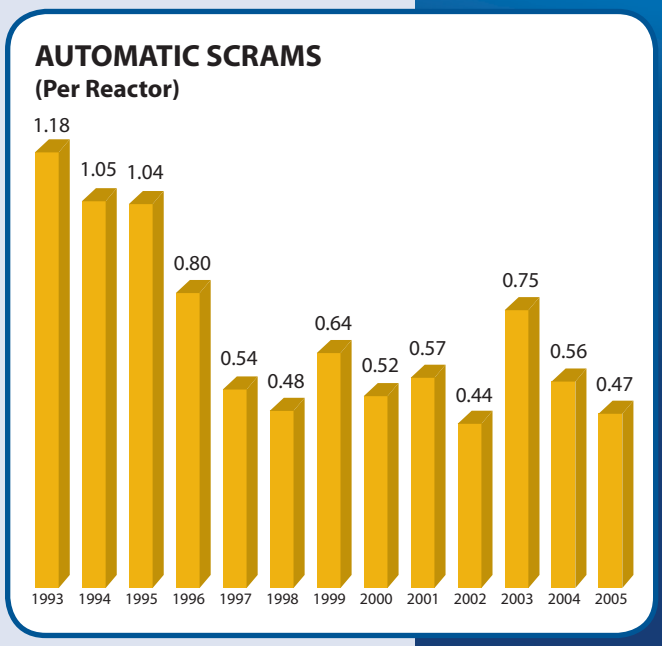
The Industry's Safety Performance Record

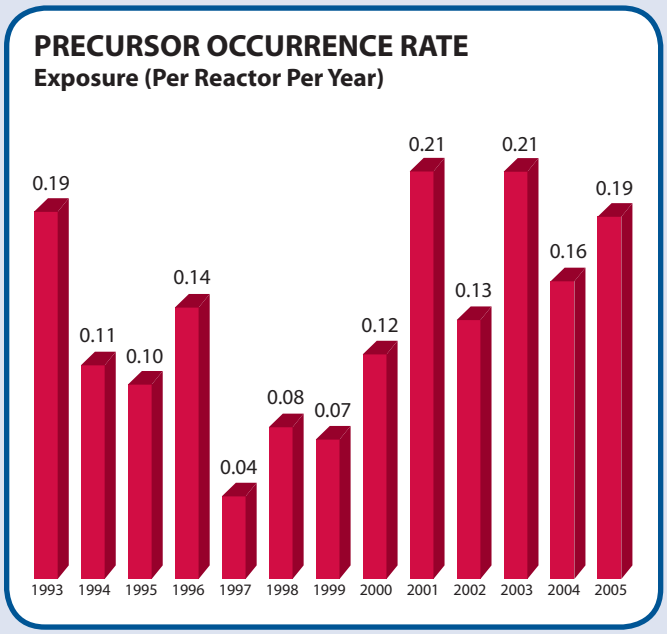
- Significant events meet specific criteria such as degradation of important safety equipment. The Agency reviews operating events and assesses their safety significance. The number of significant events has declined since 1993.
- The total (collective) radiation dose received by workers is an indication of the radiological challenges of maintaining and operating nuclear power plants. The trend shows a reduction in collective dose since 1988 and demonstrates the effectiveness of the controls on radiation exposure implemented to meet these challenges.
- Safety systems mitigate off-normal events such as the widespread power blackout in August 2003, by providing reactor core cooling and water addition. Actuations of safety systems that are monitored include certain emergency core cooling and emergency electrical power systems. Actuations can occur as a result of "false alarms" (such as testing errors) or in response to actual events.
- A scram is a basic reactor protection safety function that shuts down the reactor by inserting control rods into the reactor core. Scrams can result from events that range from relatively minor incidents to precursors of accidents. The massive power blackout

in August 2003 accounts for most of the increase in FY 2003, but has not affected the statistical trend for number of scrams, which has been declining steadily since 1988.

- A precursor event is an event that has a probability of greater than 1 in 1 million of leading to substantial damage to the reactor fuel. There is no statistically significant adverse trend in the occurrence rate of precursor events since 1993, the baseline year for the statistical analysis. Due to the complexities associated with evaluating precursor events, the data always lag behind other indicators. Precursor data through FY 2005 (which contains preliminary data) is shown.
- Safety system failures include any events or conditions that could prevent a safety system from fulfilling its safety function. The statistical trend for number of safety system failures across the industry has declined since 1988.







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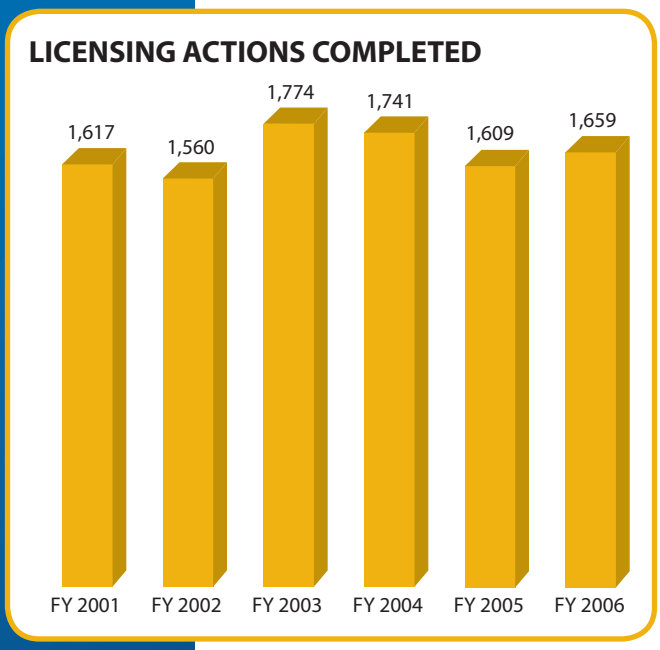


Figure 11

The NRC completed 1,659 reactor licensing actions during the year (see Figure 11), above the target of 1,500 licensing actions. At the end of FY 2006, 97.6 percent of the inventory was less than one year old and 99.9 percent of the actions were completed within two years. The targets were 96 percent and 100 percent respectively. The licensing action inventory age goal of 100 percent and less than two years old was not met because of the complexity of the staff's review of Columbia Generating Station's Alternate Source Term amendment request. Technical issues associated with the review, including continued efforts to resolve differing staff opinions, allowed this licensing action to exceed two years of age on September 30, 2006. The staff intends to devote resources to resolve these issues and complete the review by the end of October, 2006. (see Figure 12).

Evaluations of nuclear facility power uprate applications represent one of the more important types of licensing activities and are a means for facilities to increase the power output of their plants. The NRC reviews focus on the potential impacts of the proposed power uprate on overall plant safety. The review of a power uprate application ensures that risks associated with increasing a plant's power output are fully addressed and that plant operation at the increased power level is safe. Power uprates increased the Nation's electrical generating capacity by approximately 429 Megawatts electric (MWe) in FY 2006.

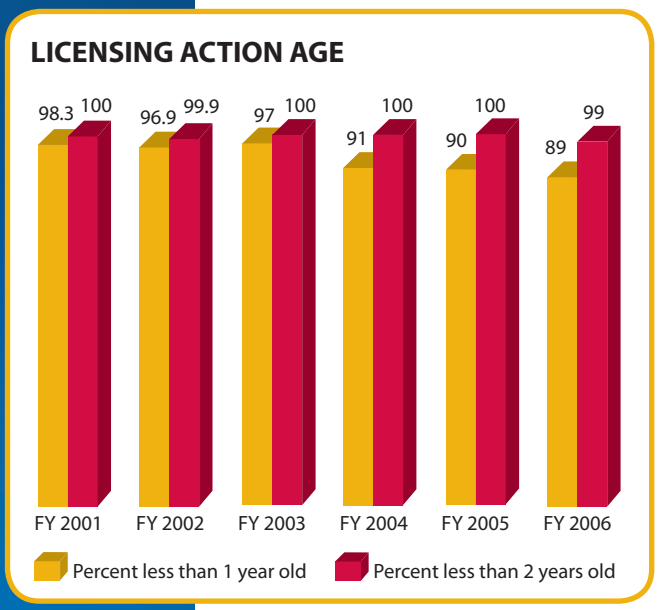


Figure 12

New Reactor Licensing

Another important area involves the preparations for conducting licensing reviews for a new generation of nuclear reactors. Licensing activities for new reactors ensure that these reactors will meet NRC safety requirements and that a stable and predictable regulatory process is in place so that the Agency can evaluate future license applications without imposing undue regulatory burden on nuclear power generating companies. The NRC is undertaking these preparatory activities in response to the nuclear industry's increased interest in constructing new reactors as a result of the Energy Policy Act of 2005 and ongoing U.S. Department of Energy efforts to share the costs of new reactor licensing projects. The first applications to construct and operate new nuclear power reactors are expected to be filed as soon as 2007, with several more in FY 2008 and FY 2009. The current number of expected Combined License applications for the period FY 2007 through FY 2009 has increased to a total of 20. The NRC proposed revisions to the regulation governing early site permits, design certifications, and combined licenses to improve the effectiveness and efficiency of the licensing processes for new reactor applications.

New Reactor Designs

The NRC has been actively reviewing new nuclear reactor designs. On December 30, 2005, the Commission voted unanimously to certify a fourth power plant design, the Westinghouse AP1000 standard plant design. In addition, General Electric has submitted an application for the Economic Simplified Boiling-Water Reactor design. In a letter dated December 1, 2005, the staff informed General Electric that their application is sufficiently complete and that it was formally accepted as a docketed application for design certification.

By certifying nuclear reactor designs, the NRC resolves safety issues in a design certification rulemaking. When an applicant submits an application for construction of a new nuclear power plant using one of these designs that has been certified by the Commission, the license application review can proceed more efficiently in a manner that ensures safety while minimizing unnecessary regulatory burden and delays.

In addition to working on domestic issues for new reactor construction, the NRC has been a leader in cooperating with other national nuclear regulatory authorities to address advanced reactor oversight. The NRC is leading a multinational effort called the Multinational Design Evaluation Program to more efficiently review new reactor designs. The goal of this effort is to make all new reactor reviews more safety-focused. NRC representatives are communicating closely with representatives from the Finnish and French regulatory authorities about the EPR designs that are being constructed in Finland and planned for licensing in France and the United States. A longer-term multinational effort is being undertaken under the auspices of the Office of Economic Cooperation and Development's Nuclear Energy Agency in attempt to harmonize regulatory approaches to facilitate more efficient reviews of Generation IV reactors.

Early Site Permits

The NRC is currently reviewing early site permit applications for the Clinton, North Anna, Grand Gulf, and Vogtle nuclear power plant sites. The Agency issued the Clinton environmental impact statement on July 28, 2006, and the Grand Gulf environmental impact statement on April 7, 2006. The staff issued the associated safety evaluation report for the Grand Gulf site on April 24, 2006, the Clinton site on May 1, 2006, and the North Anna site on August 15, 2006. Early site permits address site safety issues, environmental protection issues, and plans for coping with emergencies independent of the review of a specific nuclear plant design.

In addition to working on domestic issues for new reactor construction, the NRC has been a leader in cooperating with other national nuclear regulatory authorities to address advanced reactor oversight. The NRC has proposed an initiative, the multinational design approval program, that will allow several regulatory authorities to share expertise and resources in reviewing new and future reactor designs.

License Renewal

Reactor operating licenses for nuclear reactors are granted for 40 years and can be renewed for as long as an additional 20 years. The review process for renewal applications is designed to assess whether a reactor can continue to be operated safely during the extended period of operation.

To renew a license, the utility must demonstrate that the effects of aging will not adversely affect structures or components important to safety during the renewal period.

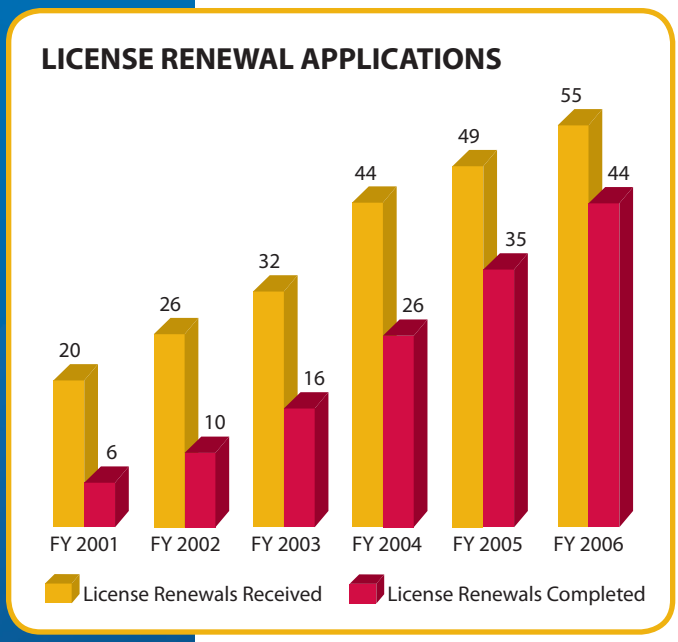


Figure 13

Such structures and components include the reactor vessel, piping, electrical cabling, containment structure, and steam generators. For some structures or components, additional action may be needed to ensure adequate margins of safety. Additionally, the potential impact on the environment due to the extended period of operation is assessed to verify that the impacts are not so great as to preclude license renewal.

The NRC has received applications to renew the licenses for 55 units at 32 sites and has renewed licenses for 44 units at 23 sites (see Figure 13). The NRC is currently reviewing applications to renew the licenses for eleven units at nine sites. The Agency expects that almost all of the licensees for currently licensed units will ultimately apply to renew their licenses.

Extensive implementation guidance was developed to standardize and improve the efficiency of the renewal process such that the time period for renewing a standard application is not unduly long. This guidance enables the Commission to minimize unnecessary regulatory burden for the applicant while ensuring that the plant can continue to operate safely. In the future, the NRC will update this guide as needed based on lessons learned and process improvements identified during renewal application reviews.

Nuclear Reactor Inspection

The NRC's Reactor Oversight Process verifies that nuclear plants are being operated safely and in accordance with the NRC's rules and regulations. The NRC has full authority to demand immediate licensee action for any conditions which result in excess risk to the public, including requiring a plant be shut down if necessary. Inspection findings and performance indicators are evaluated to assess the safety performance of each operating nuclear power plant. The NRC performs a rigorous program of inspections at each plant and may perform supplemental inspections and take additional actions to ensure that the plants address significant safety issues. The results of NRC inspection findings for each plant are available to the public on the NRC web site. The NRC also conducts public meetings with licensees to discuss the results of the NRC's assessments of its safety performance.

When necessary, the NRC initiates investigation and enforcement activities to identify and appropriately respond to instances of willful noncompliance with NRC regulations. If necessary, fines and sanctions are applied to punish willful noncompliance or malfeasance.

In FY 2006, the Nation's nuclear power plants were operated well within NRC safety requirements. The performance measures for the safety goal document that no plants were operating at unacceptable levels. In addition, the safety trend for nuclear plants as a whole showed no adverse trends. More than 99 percent of plant safety indicators were rated green in FY 2006.

The NRC continued to improve the Reactor Oversight Process in FY 2006. Agency assessments confirm that the Reactor Oversight Process has resulted in a more objective, risk-

informed, and predictable regulatory process that focuses NRC and licensee resources on aspects of plant performance that have the greatest impact on safe plant operations.

Reactor Investigations and Enforcement

Compliance with NRC requirements plays an important role in giving the Agency confidence that safety is being maintained. NRC policy endeavors to deter noncompliance and to encourage prompt identification and timely, comprehensive corrections. Licensees, contractors, and their employees who do not achieve the high standard of compliance expected by the NRC are subject to enforcement sanctions. Each enforcement action depends on the circumstances of the case. However, in no case will the NRC permit licensees to continue to conduct licensed activities if they cannot achieve and maintain adequate levels of safety.

Emergency Preparedness and Incident Response

The NRC emergency preparedness and incident response activities are aimed at ensuring that the Agency is capable of responding effectively to events at its licensees' sites and that adequate protective measures can and will be taken to mitigate plant damage and to minimize radiation doses to members of the public.

In FY 2006, the NRC conducted numerous outreach initiatives regarding the review of emergency preparedness regulations and guidance; improved the licensing infrastructure to support new reactor license applications; continued a comprehensive review of requirements led by the Department of Homeland Security (DHS); worked with the U.S. Department of Health and Human Services (HHS) to distribute potassium iodide to States that request it; continued upgrades to the Agency's incident response center; and developed and implemented key lessons learned from Hurricane Katrina, a pandemic workshop, and other emergency response exercises.

During the 2005 hurricane season, the NRC and DHS effectively responded to hurricanes Katrina, Rita, and Wilma which had no significant impact on commercial nuclear power plant safety. After the storms, the NRC and DHS coordinated their review of licensee, State, and local emergency preparedness and response capabilities to allow timely restart of nuclear power facilities to support restoration of infrastructure while maintaining the protection of public health and safety. The NRC conducted a lessons learned review of the 2005 hurricane season and developed thirteen recommendations grouped in the areas of coordination and communications, roles and responsibilities, and supporting NRC employee needs. Those items necessary to be completed before the 2006 hurricane season were completed on schedule.

The Agency uses different types of exercises to test and demonstrate its incident response and emergency preparedness capabilities. In FY 2006, 12 formal scheduled exercises were conducted at licensee sites, five of which included full NRC participation. In addition, the NRC participated in two governmentwide interagency exercises. The NRC also conducts other improvement techniques such as tabletop drills and internal procedural exercises. In FY 2006, the NRC conducted two of these drills. The exercises provide training, test the Agency's plans, procedures, and guidance documents, and test and evaluate the headquarters incident response facility and critical incident response communication capabilities. The NRC conducted an unannounced emergency response drill at NRC headquarters to validate response time and exercise command controls and communications during an event.

Following completion of each exercise, the NRC conducts a comprehensive review of the exercise and collects lessons learned information from participants. The lessons learned are used to correct deficiencies identified in the exercise and enhance the efficiency and/or effectiveness of the facility, guidance documentation, or interaction with exercise partners.

Fuel Facilities

The NRC licenses and inspects all commercial nuclear fuel facilities that process and fabricate uranium ore into reactor fuel, which powers the Nation's nuclear reactors. Licensing and inspection actions represent a key aspect of the Agency's nuclear fuel cycle safety and safeguards program. Inspection actions include detailed health, safety, safeguards, and environmental licensing reviews as well as inspections of licensee programs, procedures, operations, and facilities to ensure safe and secure operations.

The NRC conducted several significant fuel cycle licensing reviews in FY 2006. The Agency completed a license renewal for Westinghouse Electric Co., LLC. To ensure that the fuel facility was operating safely and securely, the Agency reviewed, among other issues, safety analyses for controlling hazardous materials and the engineered and human performance barriers relied on to control hazardous materials. The NRC also conducted comprehensive reviews of first-of-a-kind integrated safety analysis submitted by licensees in response to new requirements in 10 CFR Part 70 Domestic Licensing of Special Nuclear Material. An integrated safety analysis increases the use of risk information to identify hazards, the engineered and human performance barriers relied on to control hazards, and the management measures to ensure that controls are available and reliable. The NRC completed integrated safety analysis reviews for BWX Technologies, Inc.; Westinghouse Electric Co., LLC; and AREVA NP, Inc. (formerly Framatome, ANP).

The NRC also issued a license to Louisiana Energy Services to construct and operate the National Enrichment Facility. This is the first license issued by the NRC for a full-scale uranium enrichment plant. The National Enrichment Facility will use gas centrifuge technology to enrich uranium, the first commercial use of such technology in the United States.

The NRC is currently reviewing a license application submitted by USEC, Inc., for a commercial gas centrifuge uranium enrichment facility, the American Centrifuge Plant, to be located in Piketon, Ohio. The NRC conducted public meetings near the location of the proposed facility to provide information on the NRC licensing process and to seek input from the public for the environmental impact statement. The NRC issued the Final Environmental Impact Statement in May 2006, and the Final Safety Evaluation Report was issued September 2006. The NRC previously issued a license to USEC, Inc. for the Lead Cascade Facility, which is to be used to demonstrate the gas centrifuge technology and collect information on optimizing the uranium enrichment operations. Region II completed its operational readiness review, which authorizes USEC Inc. to introduce uranium hexafluoride in the Lead Cascade.

Nuclear Materials Users

The NRC licenses and inspects the commercial use of nuclear material for industrial, medical, and academic purposes. The NRC and 34 Agreement States regulate more than 20,000 specific materials licensees and 150,000 general materials licensees. The NRC currently regulates and inspects approximately 4,400 specific licensees for the use of nuclear byproduct and other radioactive materials.

These uses include medical diagnosis and therapy, medical and biological research, academic training and research, industrial gauging and nondestructive testing, production of radiopharmaceuticals, and fabrication of commercial products (such as smoke detectors) and other radioactive sealed sources and devices. Detailed health and safety reviews as well as inspections of licensee procedures and facilities provide reasonable assurance of safe operations and the development of safe products. The NRC and the Agreement States routinely inspect nuclear materials licensees to ensure that they are using nuclear materials safely, maintaining accountability of those materials, and protecting public health and safety. The Agency also analyzes operational experience from NRC and Agreement State licensees. In particular, the NRC regularly evaluates the safety significance of events reported by licensees and Agreement States.

In FY 2006, the NRC completed reviews of 3,032 materials licensing actions and 1,152 material program inspections. From 1999 through 2006, the NRC has improved the timeliness of its reviews of nuclear material license renewals and sealed source and device designs (see Figure 14). In FY 2006, the NRC completed 94 percent (309) of the 329 requests for license renewal and sealed source and device design reviews within 180 days, and 98 percent (2,661) of 2,703 new applications and license amendments within 90 days.

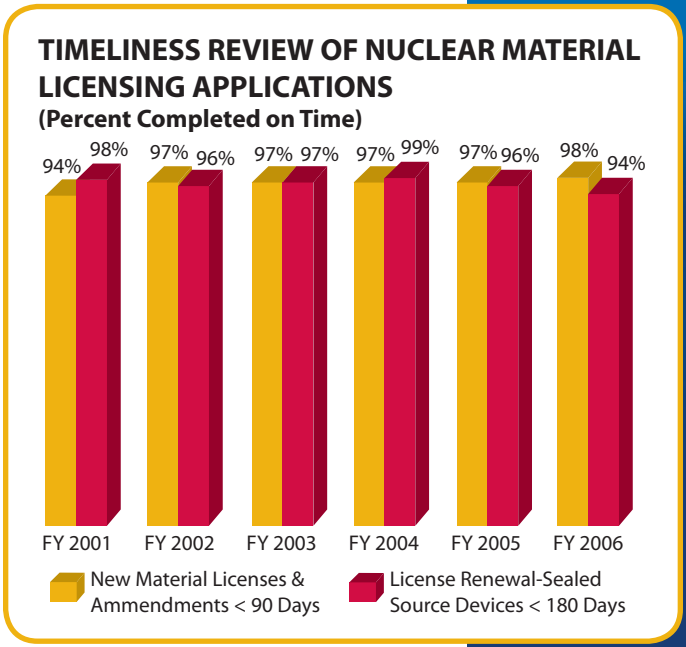


Figure 14

The NRC worked with the Department of Energy to recover unwanted or orphaned radioactive sources that were initially identified for accelerated recovery. From the inception of this program in 1997 through 2006, more than 11,700 radioactive sources have been recovered from more than 450 sites.

The NRC is assisting U.S. Customs and Border Protection in fulfilling its Congressional mandate to verify the legitimacy of radioactive material shipments coming into the United States through established ports of entry. The NRC regularly provides Customs and Border Protection with information on the licensing of radioactive materials, including import and export licensing information, and has established processes to provide around-the-clock technical support.

The NRC completed the interim inventory of high-risk sources, defined as International Atomic Energy Agency Category 1 and Category 2 sources. Although reporting is voluntary, reporting process enhancements produced a response rate of 99.7 percent from licensees in NRC and Agreement States. This inventory was useful in supporting government efforts to respond to national emergencies (such as Hurricanes Katrina and Rita) and nationally significant events. The NRC also used the inventory in further enhancing the safety, security, and control of radioactive sources, including issuance of increased control orders.

The NRC issued more than 1,000 increased control orders, imposing additional safety and security measures on licensees that possess Category 1 and 2 quantities as specified in the International Atomic Energy Agencies "Code of Conduct for the Safety and Security of Radioactive Sources." The NRC worked with the Agreement States to impose the same requirements with their licensees through legally binding agreements. The NRC issued security orders to irradiator facilities, manufacturer and distributor facilities, and licensees shipping IAEA Category 1 quantities. The NRC continued to develop a process that would

screen new license applications for the need for enhanced security measures and to identify suspicious uses of nuclear materials.

Nuclear Material Users Investigation and Enforcement

During inspections at a material user licensee's facility in FY 2006, the NRC identified several violations of Agency requirements, including (1) overexposure to the right hand of a radiographer, (2) failure to have two qualified people present during field radiographic operations, (3) failure to secure licensed material to prevent unauthorized access or removal and failure to immediately notify the NRC of missing licensed material, and (4) failure to survey the perimeter of a temporary job site during radiographic operations. The NRC issued a penalty of $19,500 for these violations.

State and Tribal Programs

During 2006, NRC entered into an Agreement under Section 274b of the Atomic Energy Act with the State of Minnesota making Minnesota the 34th Agreement State.

NRC, with the assistance of the Agreement States, completed 11 Integrated Materials Performance Evaluation Program reviews to determine the adequacy and compatibility of those Agreement State programs and one review for the fuel cycle inspection program in Region II.

Three States (Illinois, Massachusetts, and Ohio) signed an addendum which modified their respective Agreements under Section 274i of the Atomic Energy Act to perform security inspections, for and on behalf of the U.S. Nuclear Regulatory Commission, of materials licensees authorized to possess and transport items containing radioactive material in quantities of concern.

High-Level Waste Repository

The high-level waste repository activity focuses on permanent storage and disposal of high-level nuclear waste. The NRC conducts its high-level waste program in accordance with the Nuclear Waste Policy Act (as amended) and the Energy Policy Act of 1992. This legislation also prescribes the roles of the NRC, Department of Energy, and the Environmental Protection Agency in the high-level waste program.

The Department of Energy is responsible for disposing of the Nation's high-level waste, including site characterization and repository design as well as the development, operation, and ultimate closure of a deep geologic repository. The Department also is responsible for characterizing the potential site at Yucca Mountain in the State of Nevada. The Environmental Protection Agency is in charge of developing environmental standards for the Yucca Mountain repository that are consistent with the recommendations of the National Academy of Sciences.

The NRC continued to interact with the Department of Energy on its new spent fuel management program, which uses standardized transportation, aging, and disposal canisters. The Department of Energy is scheduled to issue performance specifications for the disposal container by the end of 2006, and these specifications will inform the designs for transport package and storage cask systems.

To prepare for a potential high-level waste repository license application, the NRC enhanced its electronic information exchange capability to enable the electronic receipt of high-level waste documentary material. The Agency used the electronic hearing docket in the proceeding for the Pre-License Application Presiding Officer. The NRC obtained security ap-

proval to deploy the protective order file to support the proceeding. The NRC tested its preparedness by conducting end-to-end exercises to determine how organizations' processes, procedures, functions, and systems receive, process, and respond to documents and filings. The Agency's management group completed the operational readiness review for the release and concluded that the release met the service-level requirements and functionality for the prelicense application phase.

Decommissioning and Low-Level Waste

The NRC addresses licensing and inspection activities at 15 decommissioning power reactors and 38 complex material and fuel facility sites. Decommissioning removes radioactive contamination from buildings, equipment, groundwater, and soil, achieving levels that permit the release of the property, with or without restrictions on its future use by the public. The NRC terminates the licenses for decommissioned facilities after the licensees demonstrate that the residual on-site radioactivity falls within regulatory limits and is sufficiently low to protect the health and safety of the public and the environment. The NRC also conducts a number of regulatory activities to help ensure the safe management and disposal of the low-level radioactive waste generated by radioactive material users, nuclear power plants, and other NRC licensees.

NRC's significant FY 2006 environmental completions included publishing the Final Environmental Impact Statement (NUREG-1834) for USEC's commercial gas centrifuge uranium enrichment facility license application, and completing extensive cooperating Agency comments on the West Valley Demonstration Project preliminary Draft Environmental Impact Statement. Furthermore, staff prepared three draft complex Environmental Assessments (Humboldt Bay; Honeywell License Renewal, and Smith Ranch); and an Environmental Assessment for the Energy Policy Act Rulemaking.

The NRC has overseen decommissioning activities at numerous complex sites and power reactor sites. During 2006, the NRC completed decommissioning activities at seven sites. Completion of decommissioning activities enables sites to be returned to productive use while ensuring that residual radioactivity does not pose an unacceptable risk to the public.

Beginning in Fiscal Year 2005, the NRC assumed new responsibilities in accordance with the National Defense Authorization Act of 2005 for reviewing Department of Energy waste incidental to reprocessing determinations for the Savannah River Site and the Idaho National Laboratory. Waste incidental to reprocessing is residual waste contained in tanks at Department of Energy sites that may, in some instances, be safely disposed of in locations other than in a geologic repository for high-level waste. The NRC is to monitor the Department of Energy disposal actions to assess compliance with certain NRC requirements and report to Congress, the State, and the Department of Energy if the NRC finds the Department of Energy is not in compliance. In FY 2006, the NRC completed its first review under the Act, which was for salt waste that will be removed from tanks at the Savannah River Site and disposed in an on-site disposal area. The NRC found that the Department of Energy disposal plan is protective of the public health and safety and the environment. NRC has initiated two additional reviews of tank closures at the Savannah River Site and at the Idaho National Laboratory.

Spent Fuel Storage and Transportation

The NRC ensures that reactor spent fuel is safely stored to support continued reactor operations and safely transported when necessary. The NRC conducts licensing and certifica-

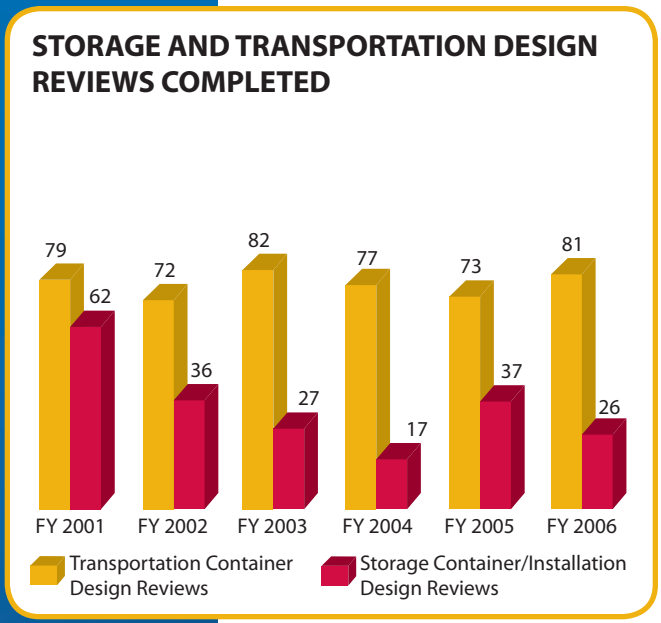


Figure 15

tion reviews to ensure that storage designs comply with NRC regulations for the storage of nuclear reactor spent fuel and for the domestic and international transport of nuclear reactor spent fuel and other risk-significant radioactive materials.

Shipments of radioactive materials are safely and securely transported each year within the United States. Several Federal agencies share responsibility for regulating the safety and security of those shipments. The NRC closely coordinates its transportation-related activities with those of the Department of Transportation and, as appropriate, the Department of Energy. To help ensure the safety and security of both spent fuel storage and radioactive material transportation, the NRC inspects transport container package designs, spent fuel storage cask designs, and interim storage of spent fuel at both reactor sites and sites away from the reactors. This approach helps to ensure that licensees provide safe interim storage of spent reactor fuel and that they transport nuclear materials in packages that furnish a high degree of safety.

In 2006, the NRC completed 81 transport container design reviews and 26 storage container and installation design reviews (see Figure 15). The NRC's timely and effective review of transportation and interim storage licensing requests protects public health and safety by ensuring that shipments are contained in NRC-approved packages that meet rigorous performance requirements and by verifying that spent fuel is safely stored, thereby enabling continued reactor operations. The NRC also conducted 16 inspections of independent spent fuel storage installations and of radioactive material package certificate holders, to conduct "dry run" loadings with licensee personnel and to ensure that casks are being fabricated according to approved safety requirements in FY 2006.

The NRC issued a license to Private Fuel Storage, LLC, to authorize construction and operation of an away-from-reactor independent spent fuel storage installations on the reservation of the Skull Valley Band of Goshute Indians, a Federally recognized Indian tribe. Should it be constructed, the proposed above ground facility will provide temporary storage of spent fuel from U.S. nuclear power plants. The safe storage of spent nuclear fuel is important to maintaining public and environmental safety.

Other Activities

Safety Research

The NRC's reactor safety research program evaluates and resolves safety issues related to nuclear power plants, provides the basis for regulatory changes and improvements, coordinates NRC activities related to consensus and voluntary standards for Agency use, and assesses operational events to identify accident precursors. The Agency conducts its research program to also supply independent expertise, information, and technical judgments to support timely and realistic regulatory decisions; reduce uncertainties in risk assessments; and develop technical regulations and standards. When possible, the NRC engages in cooperative research with other Federal agencies (for example, DOE, and the National Aeronautics and Space Administration), the nuclear industry, universities, and international partners.

During the past year, the NRC research program has addressed key areas that support the Agency's safety mission. Some of these activities are related to verification and validation of fire safety models for nuclear power plant applications, development of a licensing strategy for the next-generation nuclear plants, a proactive program for the assessment of reactor system and pressure boundary components and their susceptibility to known and potential material degradation mechanisms, and development of the Mitigating Systems Performance Index to produce a more risk-informed and performance-based indicator.

The NRC is working with the National Academy of Sciences to conduct a study of industrial, research, and commercial uses of radioactive sources. The NRC's research activities also continue to support analytical tools for the development of radiation protection standards and guidance on the use of byproduct materials. Further, research will support the development of probabilistic risk assessment guidance to risk-inform the regulatory framework for materials licensees.

Fire Safety

The NRC's fire safety research program supports regulatory activities related to fire protection and fire risk analysis. During FY 2006, this research program focused on activities to support the implementation of a new risk-informed, performance-based fire protection rule, 10 CFR 50.48(c), which endorses National Fire Protection Association Standard 805. This program also focuses on applications, such as exemptions or deviations to current regulations. The draft of NUREG-1824, "Verification and Validation of Selected Fire Models for Nuclear Power Plant Applications," issued January 2006, documents the verification and validation of five fire modeling tools commonly used in nuclear power plant applications. Technical reviews of fire models are necessary to ensure that analysts can judge the adequacy of the scientific and technical basis for the models, select models appropriate for a specific use, and understand the levels of confidence that can be placed in the results predicted by the models. Future improvements in fire dynamics calculation methods and models and the introduction of additional fire test data may affect the results of these reports.

To support the development of guidance documents for risk-informed, performance-based fire protection programs, the NRC has continued an international cooperative effort with the National Institute of Standards and Technology to benchmark, verify, and validate fire models. Other fire safety research activities included full-scale endurance testing of selected electrical raceway fire barrier systems, which are designed to protect certain plant equipment needed to achieve a safe shutdown during a nuclear plant fire.

Licensing of Next Generation Nuclear Plant

The Energy Policy Act of 2005 specifies that the Secretary of Energy shall establish the next-generation nuclear plant project. This project consists of research, development, design, construction, licensing, and operation of a prototype nuclear plant, including a very-high-temperature reactor, which can be used to generate electricity, hydrogen, or both. In addition, the Act provides that the NRC shall have licensing and regulatory authority for any reactor authorized under the Act. The Secretary of Energy and the NRC Chairman must jointly develop and submit a licensing strategy for the prototype reactor by August 2008. The NRC has initiated work to develop the licensing strategy discussed in the Act.

Materials Degradation

The NRC is conducting research on material degradation. The Agency performed a proactive material degradation assessment to identify susceptible materials and components

that can reasonably be expected to degrade in light-water reactors in the future. Other ongoing activities include (1) evaluating the effectiveness of inservice inspection techniques and programs to detect degradation in components with a high likelihood for degradation, (2) estimating probabilities of failure and associated uncertainties for these components, and (3) performing risk assessments of components that are likely to degrade to evaluate their impact on safety. The NRC is also currently cooperatively developing and implementing an international research program for the components and degradation mechanisms of interest. This cooperative work should develop the knowledge and technology necessary to implement effective material degradation management programs to address potential future degradation by taking mitigating actions, performing effective and timely inspections, and monitoring and repairing affected components.

The NRC is evaluating approximately 4,500 light water reactor components to develop new insights into material degradation. Additional assessments included a semiquantitative evaluation of the potential for future degradation and provided insights into time-dependent phenomena that could lead to new degradation. The NRC also identified degradation issues related to plant operations, such as the potential for cracking caused by aggressive environments that may develop at the end of fuel cycles as well as the removal of fibrous insulation from pipes to address sump clogging that could render the pipes susceptible to stress-corrosion cracking from the outside surface, if new insulation is not applied.

Assessing Safety System Performance

The NRC uses objective measures of nuclear power plant performance in its reactor oversight program. These measures are part of the oversight process to determine the safety performance of each nuclear power plant and to identify those plants that require additional attention to ensure that they are operating in accordance with NRC safety requirements. A new measure, the Mitigating Systems Performance Index, has been developed to assess safety system performance by addressing both unavailability and unreliability and assigning the greatest weight to the most risk-significant equipment in each of six systems at a plant.

The NRC initiated a pilot program that obtained monthly plant performance data from 20 pilot plants and then used risk assessment models and plant equipment performance data to independently assess the efficiency of the index. On the basis of this research, the staff concluded that the performance indicator can differentiate risk-significant changes in performance. The index also addresses problems associated with current performance indicators for safety system unavailability. The NRC implemented the index during the second quarter of FY 2006.

Evaluation of Environmental Contaminants

Research on decommissioning and waste disposal has focused on providing more realistic models to address complex contamination problems at decommissioning sites. During this past year, the tools and expertise developed in this program provided support to the Regions and to the Office of Nuclear Reactor Regulation associated with site-specific tritium contamination problems raised at several nuclear power plants. Modeling and monitoring training courses were attended by Agency staff. New milestones were developed with the release of FRAMES2 (a platform for building multimedia environmental models for complex sites) and RESRAD-OFFSITE, and the publication of an integrated methodology on site characterization, modeling, and monitoring. Other activities contributing to enhanced modeling capability included work on thermodynamic sorption models (applied to financial assurance requirements for in situ leach uranium mines), and updated parameters for food chain pathway models.

Security Goal: Ensure the Secure Use and Management of Radioactive Materials

Strategic Outcome

The NRC has one strategic outcome associated with this goal that determines whether the Agency has achieved its goal to ensure the secure use and management of radioactive materials:

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

Results: In FY 2006, the NRC achieved the Security goal strategic outcome.

Performance Measures

The table below lists the performance measures and targets for the FY 2006 Security goal, as stated in the FY 2006 Performance Budget. The NRC met all of the FY 2006 Security goal performance measure targets.

FY 2006 Security Goal Performance Measures

MEASURE	2001	2002	2003	2004	2005	2006
1. Unrecovered losses or thefts of risk-significant radioactive sources is zero	0	0	0	0	0	0
2. Number of security events and incidents that exceed Abnormal Occurrence Criteria I.C.2–4 is ≤4.	New Measure in FY 2005				0	0
3. Number of significant unauthorized disclosures of classified and/or safeguards information is zero.	0	0	0	0	0	0

Analysis of Results

1. **Unrecovered losses or thefts:** This measure covers any loss or theft of radioactive nuclear material that the NRC has determined to be risk significant. The measure tracks the NRC's performance in ensuring that those radioactive sources that the Agency has determined to be risk significant for the public health and safety are accounted for at all times. The Agency used a thorough, detailed scientific methodology and the public rulemaking process to determine which sources are important. The ability to account for these sources is vital to securing the Nation's critical infrastructure from "dirty bomb" attacks, or other means of radiation dispersal. Despite the disruptions caused by hurricanes Rita and Katrina, there were no losses of nuclear material in the affected areas. There were no losses or thefts of risk-significant radioactive material during FY 2006.
2. **Security events:** This measure shows whether NRC-licensed facilities maintain adequate protective forces to prevent theft or diversion of nuclear material or sabotage that could result in harm to the public health and safety. This measure also shows whether special nuclear material (as defined in 10 CFR Part 70.4) is accounted for at all times and whether losses of this material occur that could lead to the creation of an improvised nuclear device or other type of nuclear device. Furthermore, the measure tracks whether the systems in place at NRC-licensed facilities maintain accurate inventories of special nuclear material that the facilities process, use, or store. No events met the conditions for this measure in FY 2006.

3. **Significant disclosures:** This measure includes significant unauthorized disclosures of classified and/or safeguards information that cause damage to national security or public safety. This measure tracks whether information that can harm national security (classified information) or cause damage to the public health and safety (safeguards information) has been stored and used in such a way as to prevent its disclosure to the public, terrorist organizations, other nations, or personnel without a need to know. No documented disclosures occurred during FY 2006.

Security Activities

Security Assessments

The NRC continued its efforts to ensure the security of NRC-licensed nuclear power facilities by completing two plant-specific assessments at each facility during FY 2006. These assessments identified measures that should be taken to mitigate the effects of a broad range of terrorist threats. First, the NRC completed an independent assessment of spent fuel pools for all nuclear power reactors. Second, the NRC identified additional mitigation strategies for challenges to the reactor core and containment at each nuclear power reactor. In addition, the NRC performed detailed spent fuel pool analyses for two nuclear power reactors to evaluate the robustness of the pools' design.

Security Inspection

In the past year, the NRC has broadened its efforts to ensure the secure use and management of radioactive materials. The Agency completed security assessments of potentially risk-significant licensed facilities and activities to determine the need for mitigative strategies and best practices that would provide enhanced protection against a range of threats. A roll-out is now underway for communicating these results to Federal and state agencies, licensees, and others.

The NRC also remained vigilant of security within the nuclear industry through its oversight activities. During 2006, the NRC continued to refine the security cornerstone of the Reactor Oversight Process and initiated, in collaboration with industry, a comparison of the effectiveness and efficiency of the Agency's revised significance determination process and an industry-developed alternative. The upgraded security inspections required in the reactor inspection program were completed at all reactor sites throughout 2006. In addition, the NRC continued its efforts to complete the Phase III Material Control and Accounting inspections at power reactor spent fuel pools. The purpose of these inspections is to determine if licensees have adequately accounted for and controlled the spent fuel in their spent fuel pools.

Force-on-Force Exercises

The NRC regularly carries out force-on-force exercises at commercial operating nuclear power plants and Category II fuel cycle facilities as part of its comprehensive security program. These exercises are used to evaluate and improve the effectiveness of plant security programs to prevent radiological sabotage. The Agency's force-on–force exercise program is conducted at least once every three years at each commercial nuclear power plant and fuel facility.

Force-on-force exercises assess a nuclear plant's physical protection to defend against the design basis threat, which characterizes the adversary against which plant owners must design physical protection systems and response strategies. A full force-on-force exercise,

spanning several days, includes both table-top drills and simulated combat between a mock commando-type adversary force and the nuclear plant security force. During the mock attack, the adversary force attempts to reach and damage key safety systems and components that protect the reactor's core (containing radioactive fuel) or the spent nuclear fuel pool, potentially causing a radioactive release to the environment. The nuclear power plant's security force, in turn, seeks to stop the adversaries from reaching the plant's equipment and causing such a release. These exercises include a wide array of Federal, state, and local law enforcement and emergency planning officials in addition to plant operators and NRC personnel. In FY 2006 the Agency completed 21 force-on-force exercises and submitted its first annual Report to Congress on the results of the NRC security inspection program.

Security Rulemaking

During 2006, the NRC undertook security rulemaking activities that will promote greater stability of the security requirements placed upon its licensees. For example, the Agency has proposed a comprehensive revision to the requirements for physical protection at nuclear reactors. The Agency also published a proposed rule to amend its regulations that govern the requirements pertaining to the design basis threat.

Control of Radioactive Sources

In FY 2006, the NRC maintained and broadened its efforts to identify and mitigate the risk of terrorist threats through enhanced security and controls for the use, storage, and transportation of byproduct material and spent nuclear fuel. In collaboration with the Department of Homeland Security, Department of Energy, and other Federal, State, and local agencies, the NRC continued to assess the potential use of risk-significant sources in radiological dispersal devices and to coordinate efforts to consistently enhance radioactive source protection and security.

The NRC worked with the Agreement States to issue new requirements to licensees that enhance the security and control for risk-significant radioactive material. This included development of an inspection program to verify the implementation of these measures. The NRC also completed activities for a final rule that establishes the regulatory foundation for the National Source Tracking System, a database for tracking radioactive sources of concern. The rule would require the NRC and Agreement State licensees to report transactions involving the manufacture, transfer, receipt, disassembly and disposal of nationally tracked sources (Category 1 and 2 sources from the International Atomic Energy Agency Code of Conduct for the Safety and Security of Radioactive Sources). A source registry has been implemented and an interim database developed as a first stage for a National Source Tracking System. The NRC and Agreement States have implemented a process to screen new license applications or applicants to determine, with reasonable assurance, that the requested materials will be used as intended. The NRC also decided to include category 3 sources in the National Source Tracking System to deal with threat posed from potential aggregation of sources.

The NRC continued its efforts to implement portions of the International Atomic Energy Agency Code of Conduct. The NRC continued its participation in the International Atomic Energy Agency to develop guidance documents for the security of radioactive sources in use, storage, and transportation. The NRC's involvement in these committees enhances security and public safety, and contributes to international and domestic regulatory stability. New export and import regulations that became effective in FY 2006 impose more stringent controls over the Category 1 and 2 materials defined by the International Atomic

Energy Agency Code of Conduct. These new regulations implement a key element of the Code of Conduct and its guidance documents by increasing licensing requirements, as well as notice and consent requirements.

In FY 2006, the Agency also implemented provisions of the Energy Policy Act of 2005, related to security and controls for risk-significant radioactive sources. The NRC also initiated an National Academy of Sciences study on radiation source use and replacement. Under the leadership of the NRC, the interagency Radiation Source Protection and Security Task Force issued its initial report in August 2006. The Task Force report provided recommendations to the President and Congress relating to the security of radiation sources in the United States from terrorist threats, including acts of sabotage, theft, or use of a radiation source in an Radiological Dispersal Device.

Spent Fuel

The NRC continued work related to spent nuclear fuel security. In FY 2006, the Agency completed three security plan reviews for Independent Spent Fuel Storage Installations and issued two security orders to new Independent Spent Fuel Storage Installation licensees. The NRC also reviewed and approved six spent fuel transportation routes. In addition, the NRC jointly sponsored a study by the National Academy of Science Board of Radioactive Waste Management on the risks of transporting high-level waste, including spent fuel. The board issued its final report in 2006 and concluded that there were no fundamental technical barriers to the safe transport of radioactive materials, that the radiological risk from spent fuel shipments was low and well understood, and that existing regulations are adequate to protect the public during radioactive shipments. Finally, the NRC has been involved with evaluation of the security measures being developed by Private Fuel Storage, an Independent Spent Fuel Storage Installation in Skull Valley, Utah. The Agency's Safety Evaluation Report concluded that the proposed security measures identified for Private Fuel Storage will provide adequate protection of public health and safety. The NRC issued a license for Private Fuel Storage in February 2006. The NRC staff has been in contact with Private Fuel Storage management regarding the submission of the Private Fuel Storage Concept of Operations plan and projected construction milestones.

Openness Goal: Ensure Openness in Our Regulatory Process

Strategic Outcome

The NRC has one strategic outcome associated with this goal that determines whether the Agency has achieved its goal to ensure openness in its regulatory processes.

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

Performance Measures

Results: Data for Performance measure one was not undertaken due to cost considerations. Performance measure two was missed, with 67% of the selected openness output measures achieved.

Listed below are the FY 2006 Openness goal performance measures and targets stated in the FY 2006 Performance Budget.

FY 2006 Openness Goal Performance Measures

MEASURE	2001	2002	2003	2004	2005	2006
1. Percentage of surveyed stakeholders that perceive the NRC to be open in its processes		New Measure in FY 2006				Not Under-taken
2. Seventy percent of selected openness output measures achieve performance targets		New Measure in FY 2005			50%	67%

Analysis of Results

1. **Percentage of surveyed stakeholders that perceive the NRC to be open in its process.** This measure was based on a survey of residents that live near nuclear facilities. The NRC's overall score in FY 2004 was 68 out of 100, which is relatively high for a regulatory Agency. The NRC staff was found to be professional, competent and helpful. The Agency received high scores for the information provided to stakeholders. The Agency found that it needs to review information for ease of understanding, however, and ensure that information is written in plain English so that it is understandable to non-technical stakeholders. The scores on participation were lowest. The respondents did not seem to be satisfied with the opportunities the Agency offers them to participate in the regulatory process.

   The staff did not undertake a survey in FY 2006 due to cost considerations and decided that a series of Openness/Stakeholder Satisfaction Focus Groups could give the Agency an added pathway to evaluate and measure how the public perceives NRC messages and statements. The results of the focus group effort, combined with the results of the prior openness survey, will provide better awareness of specific elements of public outreach that need enhancement and may be used to formulate a different measurement tool for next year's report. The focus group effort could help address local official and community outreach issues by ensuring NRC information is written in plain English and that opportunities to participate in NRC's regulatory process are clear.

2. **Seventy percent of selected openness output measures achieve performance targets.** This measure is based on the following nine output measures. Seven of the measures must be achieved in order to met the measure target of seventy percent.

   A. *Ninety percent of stakeholder formal requests for information receive an NRC response within 60 days of receipt.* The purpose of this measure is to ensure stakeholders that NRC will reply to their formal request within a reasonable amount of time. The NRC met 100 percent of this target by responding to 26 formal letters within 60 days of receipt.

   B. *The NRC achieves a user satisfaction score for the Agency's public web site greater than or equal to the Federal Agency Mean score based on results of the yearly American Customer Satisfaction Index for Federal Web sites.* The purpose of the measure is to determine whether the NRC public site's score is equal to or greater than the mean score for Federal Web sites, which is based on the American Customer Satisfaction Index. In 1999, the Federal Government selected the American Customer Satisfaction Index to be a standard metric for measuring citizen satisfaction. Over 55 Federal Government agencies have used the American Customer Satisfaction Index to measure citizen satisfaction of more than 110 services and programs. The Index is produced by

the University of Michigan in partnership with the American Society for Quality and CFI Group, an international consulting firm. Although the Agency met the Federal Agency Mean Score during the 3rd and 4th quarters, the Agency did not meet the annual score of 70.5 percent for FY 2006. NRC's actual score was 69.75 percent.

Action to address missed measure: Based on the survey results, the annual satisfaction score was below the Federal Agency Mean Score due to the current search engine. It is anticipated that a Web Content Management System will be implemented by the 4th quarter of FY 2007 in order to satisfy customer concerns.

C. *Complete 50 percent of the Freedom of Information Act Requests in 20 days (median).* This measure tracks the NRC's responsiveness to an important type of public request for information in a timely fashion. The Freedom of Information Act requires federal agencies to make their records promptly available to any person who makes a proper request. In making a determination, the Agency is required to address all records subject to a FOIA request (including those already public, to be released, withheld in part, and withheld in entirety, if applicable). FOIA defines "promptly" as making records available within 20 working days. The 20 working day performance measure period begins once a request is "perfected." A FOIA request is perfected "when it describes the records sought well enough to allow a reasonable search to be made, all questions about the payment of applicable fees have been resolved with the requester, and the request has actually been received by the FOIA/PA Officer." The NRC met this target by responding to 61 percent of the requests within 20 days.

D. *Issue ninety percent of Director's Decisions under 2.206 within 120 days:* This measure tracks the NRC's responsiveness to a special type of public request for information, Director's Decisions. 10 CFR 2.206 gives individuals an opportunity to file a petition to institute a proceeding to modify, suspend, or revoke a license or for any other action that may be proper. The NRC met the target by issuing Director's Decisions within 120 days.

E. *Make ninety percent of Final Significance Determination Process Determinations within 90 days for all potentially greater than green findings:* This measure tracks the timeliness of Significance Determination Process determinations. The NRC reactor inspection program monitors nuclear power plant performance in three broad areas: reactor safety, radiation safety, and security. Plant performance is analyzed based on a large number of performance indicators, including inspection findings. Each plant is then categorized in one of four categories: green, white, yellow, or red. Red findings indicate a significant reduction in the safety of a nuclear power plant. The NRC met this target with 92 percent completed within 90 days.

F. *90 percent of stakeholders believe they were given sufficient opportunity to ask questions or express their views.* This measure uses feedback forms at public meetings during FY 2006 to determine whether stakeholders believe that they were given sufficient opportunity to ask questions or express their views at these meetings. The NRC met this target with 92 percent of stakeholders stating that they were given sufficient opportunity to ask questions or express their views at the meetings.

G. *At least ninety percent of Category 2 and 3 meetings on regulatory issues for which public notices are issued at least 10 days in advance of the meeting:* This measure tracks the timeliness with which the NRC notifies the public of meetings. Category 2 and 3 meetings are open to the public and public participation to ask questions and provide comments either throughout the meeting or at designated points in the agenda of the meeting. The NRC met this target with 92 percent of public notices were issued at least 10 days in advance of the meeting.

H. *Ninety percent of non-sensitive, unclassified regulatory documents generated by the NRC and sent to the Agency's Document Processing Center that are released to the public by the 6th working day after the date of the document.* This measure tracks the Agency's timeliness of releasing NRC-generated documents to the public. The Agency missed this measure, with only 63 percent of the documents released within the required time frame during FY 2006.

Action to address missed measure: There was a misunderstanding within the Agency regarding a common method of calculating release dates for documents. In the 4th quarter FY 2006, an Agency announcement was issued reiterating and clarifying the Agency policy. Greater emphasis on following Agency policy will be stressed throughout the Agency and should result in an improvement in the percentage of documents that are released within the required time frame.

I. *Ninety percent of non-sensitive, unclassified regulatory documents received by the NRC are released to the public by the 6th working day after the document is added to the ADAMS main library.* This measure tracks the Agency's timeliness in releasing externally generated documents received by the NRC for public review. The Agency missed this measure, with 77 percent of the documents released within the required time frame during FY 2006.

Action to address missed measure: NRC has determined that multiple factors were responsible for not meeting the target. These factors include, but are not limited to, the amount of time required for NRC staff to review certain documents for potential security and other sensitive information before they are released to the public, and the incorrect calculation of release dates. The Agency has taken steps to make sure there is a clear understanding by all staff in calculating release dates. Greater emphasis on following Agency policy will be stressed throughout the Agency and should result in an improvement in the percentage of documents that are released within the required time frame.

Openness Activities

The NRC views nuclear regulation as the public's business and, as such, it should be transacted openly and candidly in order to maintain the public's confidence. The goal to ensure openness explicitly recognizes that the public must be informed about, and have a reasonable opportunity to participate meaningfully in, the NRC's regulatory process.

The NRC affords the public and other stakeholders numerous opportunities to keep abreast of NRC's operating reactor program and activities through a variety of open meetings including Commission meetings, hearings, and staff meetings (mostly technical meetings with licensees, trade organizations and public interest groups) that are open to the public. The NRC issues communications about licensee operating events at power plants and their significance using easily understood risk comparisons, plant features, and regulatory controls to put situations into their proper context.

License Renewal

One important area of interest for the public is in the renewal of reactor licenses. As a result, the license renewal program has a consistent approach to its public outreach activities. For each license renewal application, the NRC conducts a public meeting in the vicinity of the plant shortly after receipt of the application to provide information on the license renewal process and the opportunities for public involvement. Additional meetings in the vicinity of the plants are conducted as part of the environmental review process.

As part of the public outreach and environmental review process, the NRC conducted 18 public meetings to solicit comments and to answer questions regarding the NRC's review of license renewal applications. Example of meetings held included Oyster Creek, Pilgrim, and Vermont Yankee license renewals, which drew significant interest from State and local officials, public interest groups, and members of the public. The NRC participated in small group meetings with interested stakeholders in advance of the public meetings.

Nuclear Waste

Another area of ongoing interest from the public and industry activities related to nuclear waste. The NRC responded to several requests for briefings on high-level waste activities from officials in Inyo County, California. The NRC briefed the Inyo County Board of Supervisors, met with the superintendent and staff of Death Valley National Park, and conducted a public meeting with residents of Inyo county in Tecopa, California. At each meeting, NRC staff members provided an overview of the Agency's role in the potential licensing of the geologic repository at Yucca Mountain, Nevada, and in the safe transportation of spent fuel to the potential repository.

The NRC also continued an active stakeholder outreach program on spent fuel storage and transport. For example, in FY 2006, the NRC participated in meetings of the Northeast Governors Task Force, the Midwest States Task Force, and the Western Governors Association, the Western Interstate Energy Board, and the Southern States Energy Board to discuss the NRC's safety regulations.

The NRC held public meetings with stakeholders in the national low-level radioactive waste program to solicit their views on improvements to the NRC's regulatory framework. The Agency published a notice in the Federal Register requesting comments from the public. Stakeholder views will inform a strategic assessment of the low-level radioactive waste program that is currently underway.

Decommissioning

In the area of decommissioning, the NRC routinely meets with licensees and industry groups such as the Nuclear Energy Institute and the Fuel Cycle Facility Forum to obtain stakeholder feedback and exchange ideas on enhancing program and licensee performance. The Agency periodically conducts stakeholder workshops to obtain input on improving program performance and for developing regulatory guidance to resolve decommissioning issues. The NRC has upgraded the decommissioning Webpage to make it more user friendly and to provide additional information on sites undergoing decommissioning and the NRC's decommissioning program and requirements.

Other Organizations

The NRC also meets with other organizations. For example, the NRC is an annual participant in meetings of the Organization of Agreement States and the Conference of Radiation Control Program Directors. These meetings provide an opportunity for NRC staff to exchange ideas and information with their regulatory counterparts in the States.

Effectiveness Goal: Ensure that NRC Actions Are Effective, Efficient, Realistic, and Timely

Strategic Outcome

The NRC has one strategic outcome associated with this goal that determines whether the Agency has achieved its goal to ensure that NRC actions are effective, efficient, realistic, and timely:

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

Performance Measure Results: The first performance measure was untested in FY 2006 because the scheduled decommissioning and low level waste PART review was postponed until FY 2007. The second performance measure was missed, as the Agency was able to demonstrate efficiency improvements during FY 2006 for only one of the five processes that were selected. The third measure, of no more than one regulatory activity that unnecessarily impedes the safe and beneficial uses of radioactive materials, was achieved.

Listed below are the FY 2006 Effectiveness goal performance measures and targets stated in the FY 2006 Performance Budget.

FY 2006 Effectiveness Goal Performance Measures

MEASURE	2001	2002	2003	2004	2005	2006
1. Programs assessed during the fiscal year using PART receive a minimum score of 85 from OMB (This measure will be discontinued in FY 2007).		New Measure in FY 2005				
- Reactor Licensing (FY 2005)					74%	
- Spent Fuel Storage and Transportation Licensing and Inspection (FY 2005)					89%	
- Decommissioning and Low Level Waste (FY 2006)						Post-poned
2. 70 percent of selected processes deliver efficiency improvements.		New Measure in FY 2006				Not Met
3. No more than one instance per program where licensing or regulatory activities unnecessarily impede the safe and beneficial uses of radioactive materials.		New Measure in FY 2006				Met

Analysis of Results

1. **Programs assessed during the fiscal year using PART receive a minimum score of 85 from OMB.** The decommissioning and low level waste PART review was postponed until FY 2007.
2. **The percentage of selected processes that deliver desired efficiency improvement is greater then 70 percent.** This measure is based on five associated output measures of which four have to be achieved in order to met the seventy percent target.

The measure was not achieved since one measure showed efficiency gains, one had no results, and three output measures were not met.

A. *Reduce the average time spent conducting reactor license amendment reviews by at least five percent compared to the historical average while maintaining cost and quality at or above FY 2005 level.* The NRC utilizes a number of metrics to measure the performance and effectiveness of the Agency's reactor licensing activities. Measuring the average time to review licensing amendments against the historical average is a means to measure the effectiveness of one specific subset of Reactor Licensing activities. License amendments are typically the single largest contributor to the total number of licensing actions undertaken in a given fiscal year. Measuring performance against the historical average was chosen because the complexity of a license amendment review, much like all licensing actions reviews, varies significantly between amendments. The Agency was unable to reduce the review time this year.

   Action to address missed measure: The staff is currently evaluating the measurement techniques and results to determine the possible causes for missing the measure. This is a new measure, and the Agency set an aggressive annual target that reflects its commitment to continuous improvement.

B. *Ten percent reduction in the average enforcement processing time for Handling Discrimination Allegations.* To date, no enforcement for discrimination allegations have been issued in FY 2006.

C. *For the next cycle of license renewals for Category III fuel cycle facilities, reduce time spent conducting these renewals by 25 percent as compared to the historical averages with the ultimate goal to eliminate renewals for these licenses.* The Commission has approved a proposal to extend the license term up to 40 years for fuel cycle facilities subject to 10 CFR Part 70, Subpart H. The applicable regulatory infrastructure to support this change is under development. When completed, the next cycle of Category III fuel cycle licensees would receive a 40-year license, based on approval of the licensees' Integrated Safety Analysis. Realistically, a savings would not be realized until FY 2009 or later, and therefore, no efficiency result was realized for FY 2006.

D. *Improve the timeliness of the review process for nuclear power reactor License Termination Plans by at least 30 percent over 3 years as compared to the historical average.* This efficiency measure began in 2006 for a three-year period, after which time the improvement in efficiency will be assessed. Therefore, no efficiency result was realized for FY 2006.

E. *Reduce resources expended in support of each interAgency exercise by five percent while still accomplishing Agency goals for each exercise.* The NRC's emergency preparedness and incident response activities ensure that the Agency is capable of responding effectively to events at license facilities and that adequate protective measures can and will be taken to mitigate plant damage and minimize dose to members of the public. The Agency uses a variety of techniques to meet these goals, including (1) maintaining a fully staffed incident response center and organization, (2) participating as a key Federal partner with the Department of Homeland Security, other State and Federal agencies, and local law enforcement and tribal organizations in policy making activities such as the national response plan,(3) conducting and participates in exercises with its licensees and other external stakeholders, and (4) conducting licensing reviews and inspections over its licensees emergency preparedness plans and activities. In FY 2006, the Agency met its efficiency goal of improving the efficiency of its participation in external exercises by five percent while meeting all of the Agency's requirements in the exercise.

3. No more than one instance per program where licensing or regulatory activities unnecessarily impede the safe and beneficial uses of radioactive materials.

This performance measure is designed to capture instances where NRC programs may have unnecessarily impeded the use of radioactive materials, but where the instance did not meet the requirements of the strategic outcome for a "significant" impediment. Examples include missing a key timeliness measure, or not adjusting the regulatory framework to support new technologies or otherwise respond to significant changes in the regulatory environment. The NRC met this performance measure in FY 2006.

Effectiveness Activities

The NRC recognizes that it must find ways to become more effective and efficient with the resources at its disposal. Recognizing the need to increase the Agency's efficiency and effectiveness, the NRC continually evaluates its regulatory processes to find ways to enhance efficiency in its processes while maintaining safety and security.

Risk-Informing Regulations

The Agency instituted a risk-informed, performance-based alternative (NFPA 805 Rule) to the deterministic fire protection requirements in FY 2006. This new alternative will allow licensees to use newer state-of-the-art methods and risk insights to improve compliance with NRC safety regulations. As of June 21, 2006, 40 nuclear units have volunteered to adopt this risk-informed regulatory process. This new alternative will improve safety compliance while reducing the regulatory burden on the industry and make NRC actions more efficient and effective.

The NRC began a multi-year effort to risk-inform the spent fuel storage and radioactive material transportation standard review plans to focus NRC reviews on more important aspects of design, analysis, material, fabrication, inspection and testing of licensing information in the areas of confinement, structural, shielding, criticality and thermal safety. This risk-informed focus will make the reviews more effective in achieving the objectives of the regulations, including safety and environmental protection, security, and openness.

Reducing Regulatory Burden

The NRC published a proposed rule to reduce administrative and information collection burdens associated with certain areas of regulated activity found to be of low risk significance. The proposed rule would limit routine reporting to workers of annual doses that do not exceed the threshold for requiring instructions to workers.

Improved Licensing Processes

All pressurized water reactor licensees have submitted license amendment applications to change their technical specifications in accordance with TSTF-449. The staff has approved and issued amendments for nine PWRs. The new requirements also promote efficiency for the NRC and the industry. NRC efficiency will be improved, reducing the need for negotiating ad hoc measures with affected utilities when new or unanticipated problems in the field are encountered. Industry efficiency will improve because the new requirements allow licensees the flexibility to employ the most cost effective measures necessary for ensuring tube integrity.

During FY 2006, the NRC continued to improve its oversight of decommissioning of nuclear facilities through implementation of the Integrated Decommissioning Improvement

Plan. The Integrated Decommissioning Improvement Plan employs realistic risk-informed approaches for site decommissioning. It incorporates a structured process of continuous improvement for increasing the efficiency and effectiveness of the program by adopting lessons learned from experience and updating the plan to include all regulatory and program management improvements.

Management Goal: Ensure Excellence in Agency Management to Carry Out the NRC's Strategic Objective

Strategic Outcomes

The NRC has two strategic outcomes associated with this goal that determine whether the Agency has achieved its aim to ensure excellence in Agency Management.

- Continuous improvement in NRC's leadership and management effectiveness in delivering the mission.
- Maintenance of a diverse, skilled workforce and an infrastructure that fully supports the Agency's mission and goals.

Performance Measures

Results: The table below lists the performance measures and targets for the FY 2006 Management goal, as stated in the FY 2006 Performance Budget. The Agency accomplished the first performance measure target but missed the second performance measure target. Actions to address the missed target are discussed in the analysis of results section below.

FY 2006 Management Goal Performance Measures

MEASURE	2001	2002	2003	2004	2005	2006
1. 70 percent of selected NRC management programs deliver intended outcomes	New Measure in FY 2005				60%	80%
2. 70 percent of selected support processes deliver efficiency improvements	New Measure in FY 2006					50%

Analysis of Results

1. **Seventy percent of selected NRC management programs deliver intended outcomes.** This measure is based on the following five associated programs of which four have to be achieved in order to meet the target of seventy percent.

   A. *Infrastructure Management Program:* Infrastructure activities maintain a healthy, safe, secure, and accessible work environment as well as provide equipment, facilities, and administrative services needed by employees. Five activities support this program: the occupancy rate, satisfaction with building services physical security, survey of staff satisfaction with administrative services, contract action timeliness, and information technology service availability. The infrastructure management output measures met all of their targets.

   B. *Financial Management & Budget and Performance Integration Program:* Financial management activities provide accurate, timely, and useful financial information to managers for decision-making and ensures that the NRC's financial assets are ad-

equately protected consistent with risk. Budget and performance integration activities improve the linkage of individual and organizational performance standards to the NRC's Performance Budget. Six activities support this program. Four of the activities: timely submission of the budget, timely submission of the Performance and Accountability Report, timely payment of salaries, timely payment of non-salary payments were met. However, two activities were not met: (1) NRC receive an unqualified opinion on the financial statement audit with no material weaknesses and, (2) NRC meets Governmentwide requirements (substantial compliance) for Agency financial systems. While the Agency did receive an unqualified opinion on its financial statements, one material weakness was identified with NRC's fee billing process and one was identified with Agency system-wide security controls. The NRC was determined to be in substantial noncompliance with the Federal Financial Management Improvement Act for one reason: the Fee Billing System did not meet government financial system requirements. As a result of not meeting these two activities, only 67 percent of the measures were met, causing the target to be missed for this management program.

Action to address missed measures: As a short-term solution to the material weakness issue, the NRC has identified and is in the process of implementing additional controls to strengthen the fee billing process. For the substantial noncompliance with Federal Financial Management Improvement Act, the NRC review has determined that the expenditure of resources and time necessary to bring the antiquated Fee Billing System into compliance is not justifiable. The Agency has determined that replacing the Fee Billing System is the only viable solution for complying with Federal Financial Management Improvement Act. Also, Agencywide plans have been developed and progress has been made to address the system-wide security control matters that caused the noncompliance with Federal Financial Management Improvement Act.

C. *Expanded Electronic Government Program:* Expanded electronic government activities meet government requirements to conduct business electronically, manage information effectively, and to ensure Agency information security. The NRC has four activities and met its target by achieving three, which included the OMB e-gov scorecard, preliminary testing and validation for IT Project Management Methodology through pilot testing, and review major IT investments in its Portfolio Management System. The fourth activity that did not meet its target was the rate of compliance with the Federal Information Security Management Act across all of the NRC's major applications and general support systems. While information at the NRC is secure, changing requirements under the Act resulted in a compliance rate under NRC's target. To meet the NRC Federal Financial Management Improvement Act activity measure, the Office of Information Services has refocused the NRC's certification and accreditation program to perform certification and accreditation activities for those IT systems that are considered a high priority based on mission criticality and/or potential security risk. In addition, the refocused program will include more fully documented certification and accreditation procedures, development of detailed documentation templates, and technical support to project managers and technical staff. The Agency expects to reach 100 percent certification and accreditation in FY 2008. As a result, the NRC met its target for expanded electronic government by achieving three out of four or 75 percent of its activity measure targets.

D. *Recruitment and Staffing Program* - Recruitment and staffing activities relate to using innovative recruitment, development and retention strategies to achieve a high-qual-

ity, diverse workforce with the skills needed to achieve the Agency's mission. The effectiveness of the Agency in meeting its recruitment and staffing goal is measured by five activity measures: staffing within authorized ceiling, retention of new hires, strategies to close skill gaps, score for Federal Human Capital survey, and professional hires at entry level. All of the activity measure targets were met.

E. *Internal Communications Program* - The Agency's internal communications activities are intended to foster and support a culture of openness and innovation. The Agency's Office of the Inspector General conducted a safety culture and climate survey of the staff in 2005. The survey measured management and staff satisfaction regarding their work environment in a variety of categories such as communication, management leadership, empowerment and organizational change. The most significant gains were in the areas of communication, which was a high-priority area for the NRC since the last survey in FY 2002. In FY 2006, offices and regions have begun collaborating with their staff and taking actions to address areas for improvement revealed by the survey. The Agency met its internal communications activity measure target.

2. **Seventy percent of selected support processes deliver desired efficiency improvements.** This measure is based on the following four associated output measures of which three have to be achieved in order to meet the seventy percent target.

A. *Drug testing procedures: Ten percent reduction in time it takes to add or remove employees from the drug testing pool.* The NRC met this measure, reducing the time to add or remove employees from the drug testing pool from 20 days to 18 days.

B. *Budget Formulation Process: Five percent reduction in Agency staff used to develop and submit the FY 2008 and FY 2009 performance budget.* The purpose of this measure is to reduce the level of effort spent to develop the Agency's performance budget. The NRC did not meet this measure in FY 2006 because of a delay in the implementation of the new budget formulation system to ensure FISMA compliance, which has taken longer than originally planned.

Action to address missed measure: The Agency is actively working to achieve FISMA compliance for the new budget formulation system in time for the system to be used in FY 2007 for formulation of the FY 2009 budget. The Agency anticipates that the implementation of the new system and resource savings from other process improvements will allow the target to be achieved in FY 2007.

C. *Infrastructure operations: Ten percent reduction in contract vehicles for wireless services.* The target was met through an 88 percent reduction in contract vehicles for wireless services.

D. *Hiring Process: Issue offer letter 80 percent of the time within 45 work days or less of the closing date of the announcement.* The purpose of this measure is to expedite the hiring process and bring potential candidates on board as soon as possible. To date, the NRC did not meet this measure, as the Agency only issued offer letters to 67 percent of its applicants within 45 working days after the closing date of the announcement.

Action to address missed measures: The Agency is streamlining its internal vacancy processes to improve its performance. The Office of Human Resources will work closely with the hiring officials in the various offices to make sure that they receive the appropriate resources to make more timely hiring decisions.

ADDRESSING THE PRESIDENT'S MANAGEMENT AGENDA

Overview

The President's Management Agenda prescribes Governmentwide initiatives to reform the U.S. Government to be more citizen-centered, results-oriented, and market-based, and to actively promote competition rather than stifle innovation. To achieve this goal, the Administration has identified five initiatives to improve Government performance in the areas of (1) strategic management of human capital, (2) budget and performance integration, (3) competitive sourcing, (4) expanded electronic government, and (5) improved financial performance. The following describes the NRC's response to these Governmentwide initiatives, and discusses Agency accomplishments during FY 2006 in each of the five areas.

Initiative 1: Strategic Management of Human Capital

Workforce Planning and Deployment

With a renewed emphasis on hiring to meet the expected increase in new reactor work, several NRC offices proposed realignments to position themselves better to handle the increase in work. Among these were the NRC's two biggest offices, the Office of Nuclear Reactor Regulation and the Office of Nuclear Material Safety and Safeguards. The Office of Nuclear Reactor Regulation realigned to emphasize the area of new reactors, and the Office of Nuclear Material Safety and Safeguards realigned to enhance cooperation with States and implement a holistic approach to fuel issues including transportation, storage, and disposal.

The changes in these two offices were made easier with the use of the NRC's strategic workforce planning tool. This tool is used to determine critical skill/knowledge gaps which enabled the offices to develop a plan to close identified gaps. The use of the strategic workforce planning tool allowed for a smoother planning process to improve workforce deployment, maintain technical capacity, and make informed decisions on human capital strategies for recruitment, development, and retention.

The strategic workforce planning process itself has evolved over the last couple of years from a tool that was at first more focused on high-level management needs to a tool that now allows first-line supervisors to obtain critical information on their employees and use it in their planning processes. The Office of Personnel Management continues to cite the NRC's strategic workforce planning process and related web-based application as an exemplary model for other Federal agencies.

Talent

The NRC uses multiple human capital management strategies to build and maintain the technical excellence of the NRC workforce, prepare for emerging work, and address identified critical skill gaps. The Agency has streamlined recruitment, relocation, and retention incentives to allow offices to extend job and incentive offers to outside applicants and positioning the Agency to handle anticipated workload growth, especially in reactor licensing reviews.

Other innovations, such as student loan repayments, waivers of dual compensation limitations, partnerships with colleges and universities, and the Cooperative Education Program, have had an equally positive impact on the Agency's efforts to recruit and retain staff with critical skills.

Leadership and Knowledge Management

The NRC uses succession planning, training and development, and knowledge management strategies to close identified critical skill gaps to ensure that NRC management and staff acquire and maintain the critical competencies needed to implement the Strategic Plan. The NRC continues to offer and expand its leadership competency development programs, such as executive leadership seminars, the Senior Executive Service Candidate Development Program, leadership training for new supervisors and team leaders, and the Leadership Potential Program.

Knowledge management is a part of the strategic management of human capital, along with strategic workforce planning, recruitment, and training and development. As part of this effort, the NRC is in the process of coordinating its efforts to implement knowledge management strategies, including the development of a knowledge management Web site. The Web site will share information on knowledge management and innovative methods being used within and outside of the NRC to capture and transfer key knowledge between employees and stakeholders.

In addition, the NRC is developing an Agencywide knowledge management plan that will serve as a framework to integrate new and existing approaches that generate, capture, and transfer knowledge and information relevant to the NRC's mission. The following are some of the near-term and long-term strategies for this plan:

- capture relevant critical knowledge of departing personnel
- recapture departed knowledge where possible
- communicate leadership's expectation for a knowledge-sharing culture
- formalize knowledge management values and principles
- incorporate knowledge management within process work flows

Accountability

The NRC continues to evaluate the Agency's success in achieving its human capital goals and desired outcomes in the areas of recruitment, staffing, retention, and training and development. In addition, the NRC staff briefs the Commission annually on the Agency's human capital efforts.

Twice each year, the NRC analyzes and reports to the Commission on the status of workforce statistics by demographic groups. The analysis includes workforce size and composition, hires, attrition, rotational assignments, performance appraisals, and awards. These statistics are shared throughout the Agency.

Initiative 2: Budget and Performance Integration

The NRC continues to make progress in achieving budget and performance integration in accordance with the President's Management Agenda. This progress includes adopting new outcome-based performance measures aligned with the Agency's Strategic Plan, accurately monitoring program performance, and integrating performance information with associated costs. To address these initiatives, the NRC has pursued and completed a number of important actions in FY 2006.

Integrating Planning and Budgeting

The NRC's planning, budgeting, and performance management process links the NRC's various budget accounts to the Agency's safety and security goals and clearly identifies the budgetary resources devoted to them. The Agency's FY 2006 budget request identifies the alignment of resources to the NRC's safety and security goals. The associated output measures are also clearly linked to the safety, security, and management and support goals and performance measures.

Budget Formulation Application

The NRC continued the development of the Budget Formulation Application in FY 2006. Once the configuration and the security requirements are completed in FY 2007, the Agency will replace the current outdated single user, desktop database. The Web browser, multi-user budget formulation application will increase efficiency by providing Agency wide access to the budget information, allowing multiple users access to the system, providing real-time aggregation of entered budget data, and providing for more robust reporting capabilities.

Full Cost Budget

NRC program managers currently receive cost reports that show the full cost of major programs. These reports allow managers to plan and manage their programs better throughout the budget year. The NRC's Performance Budget presents the full cost budget to achieve the Agency's goals. The NRC will continue to refine the integration of outputs, goals, and assignment of full cost across programs as outlined in guidance from the Office of Management and Budget.

Initiative 3: Competitive Sourcing

One of the NRC's corporate management strategies is to acquire goods and services in an efficient manner. To achieve that, the NRC established output measures associated with the implementation of the competitive sourcing initiative under the President's Management Agenda, adopted a performance-based approach to contracting, and posted procurement synopses on the Agency's Web site.

The NRC submitted its Year 2006 Federal Activities Inventory Reform Act inventory to the Office of Management and Budget on June 30, 2006. The NRC conducted three business case analyses covering six full-time equivalents during FY 2006 to determine whether the selected commercial activities were appropriate for public-private competition based on the factors outlined in the NRC's Competitive Sourcing Plan. Based upon the Source Selection Authority's review of the three business case analyses, the NRC determined that it was not cost effective and, therefore, not appropriate to initiate public-private competitions for these activities.

The NRC continues to implement performance-based contracting for facility management services, data entry, information technology, and other support services. To give vendors a better understanding of contract requirements, the NRC includes such criteria as measurable performance requirements, quality standards, quality surveillance plans, and provisions for reducing the fee or price when the vendor fails to perform services as required. The NRC continues to exceed its target for expending eligible service contacting dollars through performance-based contracting.

The NRC continues to post on its external Web site all required synopses and solicitations for acquisitions valued at more than $25,000.

Initiative 4: Expanded Electronic Government

The NRC continued to integrate and align its information technology investments with the Federal Government's Electronic Government program. The NRC uses Electronic Government services for payroll, security clearance, acquisition support, Governmentwide customer service, and recruitment, and is currently implementing support for travel and training. In addition, the NRC established procedures to avoid information technology investments that would duplicate other Federal Electronic Government programs and to take advantage of the SMARTBUY program. The NRC is participating in the Financial Management and Human Capital Lines of Business, and the Agency is well positioned to take advantage of these programs because the NRC currently receives payroll and human resource services from Department of the Interior. The NRC is also participating in the Information Technology Security Lines of Business. The Agency continues analysis of its Electronic Government implementation and alignment efforts as requested by the Office of Management and Budget and maintains key milestone dates.

The NRC emphasizes enterprise architecture in its systems development life cycle methodology and has a Project Management Methodology in place. The Project Management Methodology provides full life cycle guidance for the Agency, providing guidance for enterprise architecture, capital planning and investment control, infrastructure development, and life cycle management processes. An Information Technology Senior Advisory Council, comprising senior business managers, plays an integral role in ensuring technology investments align to the Agency's mission and goals and in establishing priorities. The NRC's National Source Tracking System has been singled out by the Office of Management and Budget, and included in its annual Electronic Government report to Congress, as an example of a highly effective cross-Agency initiative.

Federal Information Security Management Act

The NRC's compliance in FY 2005 with the requirements of the Federal Information Security Management Act issued by the House Committee on Government Reform's Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census resulted in a grade of "D." In FY 2006, the NRC has increased efforts to conduct more rigorous independent review, testing, and evaluation of major system security plans. These increased efforts revealed previously undiscovered and unidentified security risks. In response, the NRC extended some system certification schedules to ensure full and complete system certification.

The NRC has an effective information technology security awareness training program. All employees are required to complete an online information technology security awareness course, and NRC information systems security officers and other employees and support contractors with significant security responsibilities are required to complete a more advanced online technical security awareness course. The NRC maintains an information technology security Web site and provides information to Agency employees for the timely awareness of information technology security issues. The NRC has a robust incident reporting program in place and files monthly reports to the Federal Computer Incident Response Center.

E-Authentication Guidance

The Office of Management and Budget issued "E-Authentication Guidance for Federal Agencies," which updated earlier guidance under the Government Paperwork Elimination Act to ensure that on-line Government services are secure and protect privacy. This updated guidance directed agencies to conduct electronic authentication risk assessments and categorize all existing transactions and systems that require user authentication into four "identity assurance levels" by September 15, 2005. The NRC awarded a contract to complete these assessments for all electronic transactions in accordance with National Institute of Standards and Technology guidance. The NRC received an extension from OMB and completed this effort for all major information technology systems by December 2005.

NRC has identified two systems that meet the E-Gov system criteria for forward facing E-Gov systems. These systems are Electronic Information Exchange and the National Source Tracking System. Electronic Information Exchange will become fully accredited in FY 2007. The NRC will work with the Office of Management and Budget to ensure these systems meet all E-Gov requirements.

Information Systems Security

The NRC established an Information Systems Security program in FY 2006 to ensure that the Agency has a comprehensive process covering certification and accreditation of its information technology systems as required by the Federal Information Security Management Act of 2002. Towards this end, the NRC awarded a multi-year, multi-million dollar Agencywide consolidated support contract to acquire expert services needed to perform all aspects of the certification and accreditation process. In addition, the NRC awarded a contract to perform self assessments of 30 major and general support systems as required by National Institute of Standards and Technology Special Publication 800-37 "Guide for the Security Certification and Accreditation of Federal Information Systems." As part of the program, the NRC has also instituted a security awareness effort that includes placing computer security awareness posters in common areas throughout the NRC. In FY 2006, NRC began developing and integrating its Information Systems Security certification and accreditation processes and procedures into the Rational Tool suite. The Rational Tool suite is an automated tool where all of the security documentation and systems inventory will reside.

Electronic Information Exchange—Minimizing the Burden on Business

The NRC maintains an electronic information exchange program, which provides for the transmission of digitally signed electronic documents to the NRC over the Internet. Information received in this manner can then be electronically disseminated directly into the Agency's information systems. The NRC's electronic information exchange program plays a major role in enabling the Agency to meet the Government Paperwork Elimination Act requirement to allow the public the option of transacting business electronically with the Agency. The electronic information exchange is the NRC's process for meeting OMB's E-Gov E-Authentication requirements.

The electronic information exchange handled approximately 87,000 electronic transactions in FY 2006. The majority of those transactions involved receiving and routing digital fingerprints from nuclear power plants through NRC security personnel to the Federal Bureau of Investigation for criminal background checks. This procedure reduces the time required for processing from 1-2 weeks to two days. The electronic information exchange is used to transmit licensing and adjudicatory documents to the NRC resulting in shorter processing times and reduced cost.

Information Technology/Information Management Meta-System

The NRC has integrated several major Agency applications Agencywide Documents Access and Management System, Electronic Information Exchange, Electronic Hearing Docket, Digital Data Management System, and Licensing Support Network and business processes to support licensing of the Department of Energy's nuclear waste disposal repository at Yucca Mountain, Nevada. In order to meet the challenges of new nuclear power reactor licensing and licensing Yucca Mountain, the NRC is performing a requirements analysis that targets implementation of new information systems and leverages much of the existing information technology and information management architecture by enhancing computer applications, upgrading computing infrastructure, and improving business processes to provide a more robust, secure, and integrated environment. This collection of business processes, computer applications, and information technology infrastructure components (formerly known as the High-Level Waste Meta-System) is now referred to as the Information Technology/Management Meta-System.

The NRC will validate Information Technology/Management Meta-System's capability to support both the high-level waste business process and the new reactor licensing business process by performing iterative exercises of the entire business process for both programs. On April 20, 2006, the NRC conducted an Operational Readiness Review that resulted in the acceptance of Release 2 of the Information Technology/Management Meta-System to support the High-Level Waste activities and adjudicatory proceedings. The Agency has scheduled a functional operational assessment of the Information Technology/Management Meta-System to support both the New Reactor Licensing program and the High-Level Waste program for November 2006.

Initiative 5: Improved Financial Performance

Financial Management Systems

The NRC's financial management systems strategy is to improve business processes, systems performance, and information access, and to reduce life-cycle costs by relying on commercial software hosted by shared service providers. A Federal shared service provider currently hosts and operates the NRC's core accounting, payroll, and human resource systems. The NRC's other financial management systems are maintained internally and interfaced with the core accounting and payroll systems. The core accounting system provides electronic access to daily financial transaction data and periodic reports. Budget, cost, and performance data from multiple financial systems are consolidated into monthly budget execution reports for distribution to senior managers.

The existing core accounting system is at the end of its life-cycle and will be replaced by a contemporary commercial software package hosted by a shared service provider. The Agency's vision is to integrate the functional requirements of core accounting, fee billing, and cost accounting into one financial management system. A new integrated financial management system will improve the efficiency and effectiveness of the NRC's business processes, provide real-time data to Agency managers, and reduce life cycle costs by eliminating the existing systems that are managed within the NRC. The NRC also began work on upgrading its time and labor system, with the long-term goal of having the system hosted and operated by a shared service provider.

Assessment of Internal Control over Financial Reporting

In FY 2006, the NRC completed the first year of implementation of the new OMB requirements for the assessment of its policies and procedures related to internal control over financial reporting. A team of NRC senior managers directed all aspects of the assessment. The Agency documented all procedures and related controls for the key processes that affected its financial statements. Testing was performed to determine if the controls in place were functioning as intended. The deficiencies noted during testing were classified as either an internal control deficiency or reportable condition. There were no material weaknesses. Corrective actions were then implemented to remediate those deficiencies. The Agency included the results of the assessment in the Federal Managers' Financial Itegrity Act statement of assurance signed by the Chairman.

COST OF ACHIEVING THE AGENCY'S GOALS

The cost of achieving the Agency's Safety goal is $650.9 million, and the cost of achieving the Agency's Security goal is $69.7 million (see Figure 16).

The NRC does not determine individual costs associated with the Openness and Effectiveness goals. Instead, each program uses these goals to guide their activities to ensure that all NRC activities are undertaken in an open, effective, and efficient manner.

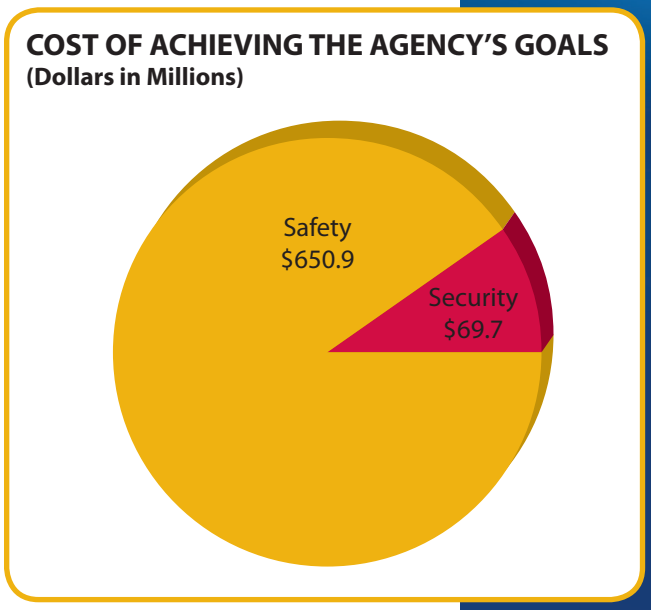


Figure 16

PROGRAM ASSESSMENT RATING TOOL

Over the past several years, the Office of Management and Budget has conducted reviews utilizing the Program Assessment Rating Tool for five of the Agency's major activities. All of the programs have been scored by the Office of Management and Budget, as either moderately effective or effective. The one area that the Office of Management and Budget recommended improvement by all programs was in developing better linkages between the Agency's goals and performance measures.

Fuel Facilities Licensing and Inspection

The Office of Management and Budget rated this activity as effective with an overall score of 89 in FY 2003, earning high scores for Program Purpose and Design and for Program Management. OMB noted that the purpose of the activity was clear, well-designed, and results-oriented. Also noted was that this activity has met all of its performance measures since the Government Performance and Results Act program reporting began in 1997. The Office of Management and Budget recommended that the program better demonstrate contributions of program activities and resources to outcomes and outputs. NRC has been reviewing its programs'operating plan format and content to improve their effectiveness as management tools. The longer-term efforts to improve the efficiency of operating plans are currently being addressed by an Agencywide working group with completion scheduled during FY 2007.

Nuclear Materials Users Licensing and Inspection

This Program Assessment Rating Tool review was conducted in FY 2004. The Office of Management and Budget rated this activity as effective with an overall score of 93. As recommended, the NRC's Office of the Inspector General conducted a review of the Nuclear Materials Users program area in FY 2006. The Office of the Inspector General issued three reports in second quarter of FY 2006 covering the National Source Tracking System, the materials licensing program, and the Agreement State program. NRC is in the process of implementing the recommendations. The Office of Management and Budget also recommended that the program better demonstrate contributions of program activities and resources to outcomes and outputs. NRC has been reviewing its programs'operating plan format and content to improve their effectiveness as management tools. The longer-term efforts to improve the efficiency of operating plans are currently being addressed by an Agencywide working group with completion scheduled during FY 2007.

Reactor Licensing

In FY 2005, the Office of Management and Budget rated the reactor licensing activity as "moderately effective," which is the second highest rating category, and gave the activity an overall score of 74, earning high scores for having ambitious goals and being well managed. One of the improvement plan items is that the program needs to determine which reactor licensing actions will be measured as well as appropriate baselines and targets; these outputs will support the overall efficiency measure for the program. In FY 2007, the program will implement process enhancements to permit improvement of rulemaking petition timeliness by five percent and achieve an average five percent reduction in license renewal resources for applications completed. Another recommendation is for the program to have regularly scheduled independent evaluations. NRC is in the process of formulating an Agencywide approach to addressing this recommendation. A final recommendation for the program to re-calibrate its targets during the FY 2007 budget process to be more ambitious and demonstrate continuous improvement.

Spent Fuel Storage and Transportation Licensing and Inspection

The Office of Management and Budget rated the activity as "effective," which is the highest rating, with an overall score of 89 in FY 2005, earning high scores for Program Purpose and Design, and for Program Management. The Office of Management and Budget noted that the purpose was clear and the program used operating plan information to manage and improve program performance. However, it was noted that the program needs to have regularly scheduled independent evaluations. NRC is in the process of formulating an Agencywide approach to addressing the recommendation.

Decommissioning and Low-Level Waste Program

The Decommissioning and Low-Level Waste Program Assessment Rating Tool review was postponed until FY 2007.

Better Linkage of Activities and Goals

For all of the programs, the Office of Management and Budget recommended including better linkage of budget requests to NRC's annual and long-term goals and the linkage of performance measures in the organization's operating plan to support the safety performance measures in the Strategic Plan.

PROGRAM PERFORMANCE

The NRC has responded to the recommendation by defining outcomes and outputs that align with performance measures. The NRC now directly links Operating Plan performance measures to strategies in its Strategic Plan to facilitate the achievement of the Agency objectives and goals. The FY 2006 Performance Budget includes new measures that more closely tie the outcomes of the Reactor Inspection and Performance Assessment program to the Agency's Safety Goal. NRC staff will continue to evaluate performance measures in the office operating plans and the Reactor Oversight Process periodic self-assessment and revise them as necessary to support the new safety performance measures.

Costing to Goals

Additionally, the NRC is working to improve its cost management capabilities to better align its costs with outcomes. In this year's Performance and Accountability Report, the full cost of achieving the safety and security goals are presented for the Agency's two programs of Nuclear Reactor Safety and Nuclear Materials Safety. The NRC does not determine the specific costs associated with achieving the openness and effectiveness goals, as these goals are related to how the Agency does business rather than specific outcomes that it must achieve. Instead, each program uses these goals to guide their activities to ensure that all NRC activities are undertaken in an open, effective, and efficient manner.

PROGRAM EVALUATIONS

The NRC conducted a number of important self-assessments of its regulatory operations in FY 2006. The license renewal, uranium recovery, and Integrated Materials Performance Evaluation Program activities are noteworthy evaluations conducted during FY 2006. All of these assessments are designed to increase the efficiency and effectiveness of Agency operations and minimize any regulatory burden on the industry or the American public.

License Renewal

A task team completed an assessment of the NRC's implementation of the license renewal application improved safety review process. The improved process was piloted on license renewal applications for Farley, Units 1 and 2; Arkansas Nuclear One - Unit 2; and D. C. Cook, Units 1 and 2. The primary objective of the task team was to assess the effectiveness of the changes made to the process used by the staff to perform the aging management reviews and aging management program evaluations. The goal of the improved process is to maximize the potential efficiencies available with use of the current license renewal implementation guidance documents by using multi-discipline on-site review teams. Lessons learned from the pilot application of the improved process were documented and discussed in public meetings with stakeholders. As the improved process was being used on subsequent applications, many of the recommendations for improvement were already being implemented before the task team documented them in its report. The Agency is currently completing implementation of the remaining recommendations.

Uranium Recovery Program Evaluation

The uranium recovery program evaluation scheduled to be completed in FY 2006 has been delayed due to the limited availability of resources and competing higher priority activities. It is anticipated that the evaluation will be completed in early FY 2007.

Integrated Materials Performance Evaluation Program

The NRC conducted an Integrated Materials Performance Evaluation Program review of the Region II fuel cycle inspection program in FY 2006. The integrated materials performance evaluation program is an ongoing oversight program designed to evaluate the quality, adequacy, and consistency of the NRC and Agreement State materials programs using a set of common performance indicators. The team found that the Region II operations are fully satisfactory with respect to the technical quality of inspections, the status of the inspection program, responses to incidents and allegations, and technical staffing and training. A Management Review Board will meet later in the year to review the team's findings and provide recommendations.

DATA SOURCES AND QUALITY

The NRC's data collection and analysis methods are driven largely by the regulatory mandate that Congress entrusted to the Agency. Specifically, 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, protect the environment, and promote the common defense and security. In undertaking this mission, the NRC oversees nuclear power plants, nonpower reactors, nuclear fuel facilities, interim spent fuel storage, radioactive material transportation, disposal of nuclear waste, and the industrial and medical uses of nuclear materials. Section 208 of the Energy Reorganization Act of 1974, as amended, requires the NRC to inform Congress of incidents or events that the Commission determines to be significant from the standpoint of public health and safety. The NRC developed the abnormal occurrence criteria to comply with the legislative intent of the Act to determine which events should be considered "significant." Based on those criteria, the NRC prepares an annual "Report to Congress on Abnormal Occurrences" (NUREG-0090, Vol. 26), which is available on the Agency's public Web site at www.nrc.gov/reading-rm/doc-collections/nuregs/staff/sr0090.

One important characteristic of this report is that the data presented normally originate from external sources such as Agreement States and NRC licensees. The NRC believes that these data are credible because (1) Agency regulations require Agreement States, licensees, and other external sources to report the necessary information; (2) the NRC maintains an aggressive inspection program that, among other activities, includes auditing licensee programs and evaluating Agreement State programs to ensure that they are reporting the necessary information as required by the Agency's regulations; and (3) the Agency has established procedures for inspecting and evaluating licensees. The NRC employs multiple database systems to support this process, including the Licensee Event Report Search System, the Accident Sequence Precursor Database, the Nuclear Materials Events Database, and the Radiation Exposure Information Report System. In addition, nonsensitive reports submitted by Agreement States and NRC licensees are available to the public through the NRC's Agencywide Documents Access and Management System, which is accessible through the Agency's public Web site www.nrc.gov.

The NRC has established procedures for the systematic review and evaluation of events reported by NRC and Agreement State licensees. NRC's objective is to identify events that are significant from the standpoint of public health and safety based on criteria that include specific thresholds. The NRC verifies the reliability and technical accuracy of event information reported to the Agency. The NRC periodically inspects licensees and reviews Agreement State programs. In addition, NRC headquarters, the Regional offices, and Agreement States hold periodic conference calls to discuss event information. Events identified as

meeting the abnormal occurrence criteria are validated and verified by all applicable NRC headquarters program offices, Regional offices, and Agency management before being reported to Congress.

Data Security

Data security is ensured by the Agency's automated information security program, which provides administrative, technical, and physical security measures to protect the Agency's information, automated information systems, and information technology infrastructure. Specifically, these measures include the policies, processes, and technical mechanisms used to protect classified information, unclassified safeguards information, and sensitive unclassified information that are processed, stored, or produced on the Agency's automated information systems. Data security for information maintained outside the NRC's infrastructure is provided by the hosting contractor or organization.

For major systems, the NRC ensures compliance with Agency standards through independent reviews conducted under the Federal Information Security Management Act. The NRC's Office of the Inspector General conducted an independent assessment of the Agency's implementation of the Act and the results are available on the Agency's public website www.nrc.gov.

Performance Data Completeness and Reliability

In order to manage for results, it is essential for the NRC to assess the completeness and reliability of the Agency's performance data. Comparisons of actual performance with the projected levels are possible only if the data used to measure performance are complete and reliable. Consequently, the Reports Consolidation Act of 2000 requires the Chairman of the NRC to assess the completeness and reliability of the performance data used in this report. In addition, the Office of Management and Budget Circular A-11 specifically describes how Federal agencies should assess the completeness and reliability of their performance data.

Data Completeness

The Office of Management and Budget considers data to be complete if an Agency reports actual performance data 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 Agency sends its report to the President and Congress. The data presented in this report meet these requirements for data completeness, in that the Agency has reported actual or preliminary data for every strategic and performance goal measure.

Data Reliability

The Office of Management and Budget considers data to be reliable when Agency managers and decisionmakers do not demonstrate either a refusal or a marked reluctance to use the data in carrying out their responsibilities. The data presented in this report meet this requirement for data reliability in that the NRC's managers and decisionmakers regularly use the reported data on an ongoing basis in the course of their duties.

Improvements in Performance Data

The NRC analyzed the data verification procedures for the Agency's performance measures during FY 2006. This analysis consisted of an evaluation of all data collection, analysis, and reporting procedures for completeness, accuracy, consistency, and timeliness. The

analysis also included an evaluation of NRC management controls, which ensures that the reported data are valid and reliable. As a result, the NRC believes that its performance data are both valid and reliable.

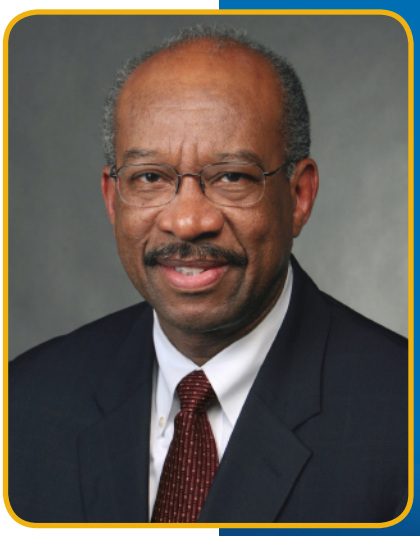
A more complete discussion concerning the validation and verification of the NRC's performance measures is provided in the Agency's FY 2006 Performance Budget (NUREG-1100, Vol. 21), which the Commission submitted to Congress in February 2005. The Performance Budget is available on the NRC's public Web site at www.nrc.gov/reading-rm/doc-collections/nuregs/staff/sr1100. Appendix IV to the NRC's Performance Budget provides an extensive explanation of the NRC's data verification and validation procedures for each performance measure.

The NRC makes performance data accessible to citizens through the public Web site. For example, a citizen who wanted to verify or know more about licensee event reports, which provide the raw data for most of the Agency's performance measures, could simply retrieve any or all of those reports through the NRC's Agencywide Documents Access and Management System (ADAMS), accessible through the NRC's public Web site at www.nrc.gov/reading-rm/adams.html by searching for "licensee event report."

Chapter 3

AUDITORS' REPORT AND FINANCIAL STATEMENTS

A MESSAGE FROM THE CHIEF FINANCIAL OFFICER



I am pleased to present the U.S. Nuclear Regulatory Commission's (NRC) financial statements for FY 2006 as an integral part of the Agency's FY 2006 Performance and Accountability Report. Our independent auditors have rendered an unqualified opinion on our financial statements, attesting to the fact that NRC's financial statements are fairly presented and demonstrate discipline and accountability in the execution of our responsibilities as stewards of the American taxpayers' dollars.

As of September 30, 2006, the financial condition of the NRC is sound with respect to having sufficient funds to meet its mission and having adequate control of these funds to ensure our budget authority is not exceeded. We successfully completed the assessment of the Agency's key financial controls as required by Circular A-123, Appendix A: Internal Control Over Financial Reporting, identifying no material internal control weaknesses. Additionally, we successfully collected 100 percent of the Agency's budget that is subject to fee recovery from NRC licensees and maintained delinquent debt to less than one-half of one percent of collections. Ninety-five percent of payments subject to the Prompt Payment Act were made on-time, with less than one-half of one percent made erroneously. We have also received excellent ratings for our timely and accurate reporting to Treasury and the Office of Management and Budget.

In FY 2006, we continued our efforts to eliminate the auditor-identified material weakness related to the Fee Billing System. We made significant improvements to the quality assurance procedures to address this weakness and plan to further strengthen our internal controls. Further, the auditors identified a material weakness related to the Agency's information system-wide security controls, which have not undergone contingency tests and do not have certifications and accreditations to operate. The Agency plans to complete contingency plan testing in FY 2007 and have all major information systems certified and accredited by FY 2008.

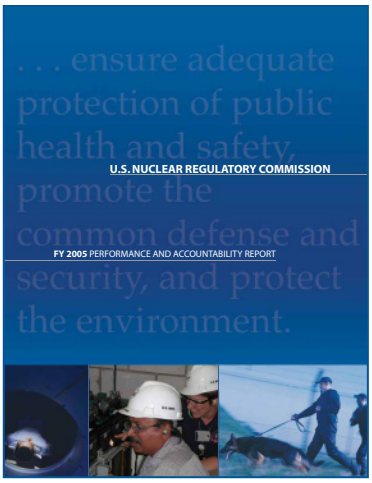
We have resolved two reportable conditions and are working to address the remaining one. We have also worked with our shared service provider to resolve two substantial noncompliances with Federal financial management system requirements. The Agency's Fee Billing System remains in substantial noncompliance with Federal financial management system requirements. Our remediation plan involves replacement of the Fee Billing System by FY 2009.

We are in the process of replacing the Agency core accounting system. We plan to incorporate the functional requirements for core accounting, cost accounting, capitalized property, and fee billing to achieve a more integrated financial management system. This will improve the efficiency and effectiveness of the NRC's business processes.

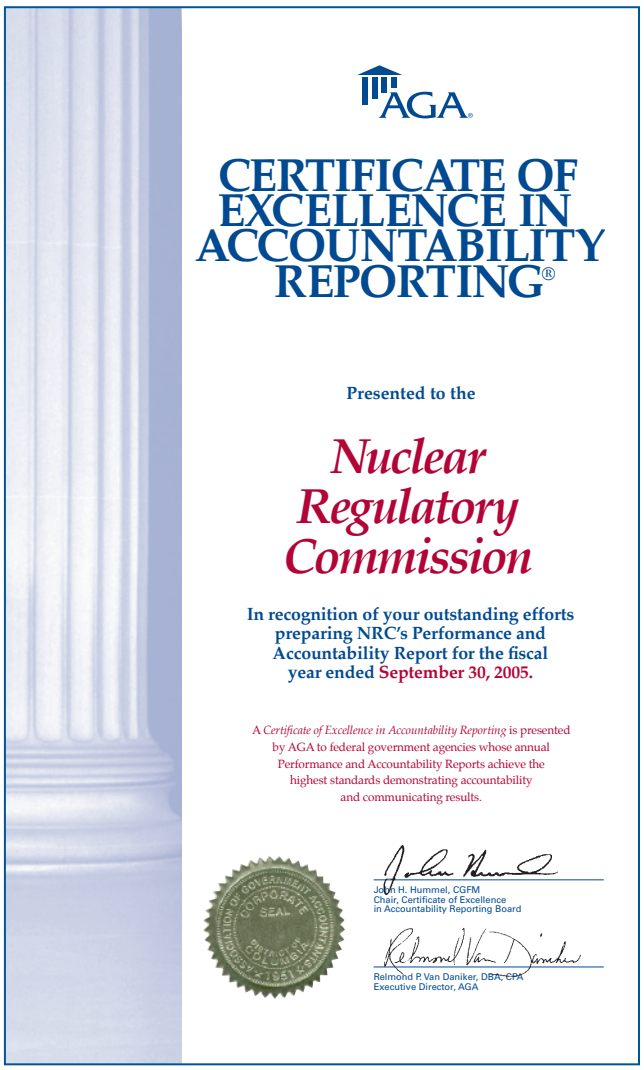
The NRC is committed to effective and efficient management of its resources. Our goals and strategies for improving financial management are centered on maintaining unqualified audit opinions, eliminating internal control weaknesses, upgrading financial systems

to conform to Federal requirements, and meeting financial reporting requirements. I work collaboratively and continuously interact with my program counterparts to ensure the Agency's financial data is accurate and provided timely. I look forward to and anticipate another productive year in FY 2007 to continue the same high level of financial services that resulted in our past successes.

Jesse L. Funches
November 15, 2006



Certificate of Excellence in Accountability Reporting Award Ceremony



AGA

CERTIFICATE OF EXCELLENCE IN ACCOUNTABILITY REPORTING®

Presented to the

Nuclear Regulatory Commission

In recognition of your outstanding efforts preparing NRC's Performance and Accountability Report for the fiscal year ended September 30, 2005.

A *Certificate of Excellence in Accountability Reporting* is presented by AGA to federal government agencies whose annual Performance and Accountability Reports achieve the highest standards demonstrating accountability and communicating results.

John H. Hummel, CGFM
Chair, Certificate of Excellence in Accountability Reporting Board

Relmond P. Van Daniker, DBA, CPA
Executive Director, AGA

AUDITORS' REPORT

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

OFFICE OF THE
INSPECTOR GENERAL

November 9, 2006

MEMORANDUM TO: Chairman Klein

FROM: Hubert T. Bell
Inspector General

SUBJECT: RESULTS OF THE AUDIT OF THE UNITED STATES NUCLEAR REGULATORY COMMISSION'S FINANCIAL STATEMENTS FOR FISCAL YEARS 2006 AND 2005 (OIG-07-A-02)

The Chief Financial Officers Act of 1990, as amended, (CFO Act) requires the Inspector General (IG) or an independent external auditor, as determined by the IG, to annually audit the United States Nuclear Regulatory Commission's (NRC) financial statements in accordance with applicable standards. In compliance with this requirement, this memorandum transmits the following R. Navarro & Associates, Inc. Auditors' Reports:

- Independent Auditors' Report on the FYs 2006 and 2005 Financial Statements,
- Report on the Effectiveness of Internal Control over Financial Reporting, and
- Report on Compliance with Laws and Regulations.

Objective of a Financial Statement Audit

The objective of a financial statement audit is to determine whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation.

R. Navarro & Associates' examination was made in accordance with generally accepted auditing standards, *Government Auditing Standards* issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*. The audit included obtaining an understanding of the internal controls over financial reporting and testing and evaluating the design and operating effectiveness of the internal controls. Because of inherent limitations in any internal control, there is a risk that errors or fraud may occur and not be detected. Also, projections of an evaluation of internal control over financial reporting to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Results of Audit

The results are as follows:

Financial Statements

- FYs 2006 and 2005 - Unqualified opinion

FY 2006 Internal Controls

- Qualified opinion
- Reportable Conditions:
  - Fee Billing System (Continuing Material Weakness)
  - Information System-wide Security Controls (New Material Weakness)

FY 2006 Compliance with Laws and Regulations

- Noncompliances:
  - Part 170 Hourly Rates (Continuing Noncompliance)
  - Fee Billing System (Continuing Substantial Noncompliance)

OIG Oversight of R. Navarro & Associates, Inc. Performance

To fulfill our responsibilities under the CFO Act and related legislation for ensuring the quality of the audit work performed, we monitored R. Navarro & Associates' audit of NRC's FYs 2006 and 2005 financial statements by:

- Reviewing their approach and planning of the audit,
- Evaluating the qualifications and independence of its auditors,
- Monitoring the progress of the audit at key points,
- Examining the working papers related to planning and performing the audit and assessing NRC's internal control,
- Reviewing R. Navarro & Associates' audit reports to ensure compliance with Government Auditing Standards and OMB Bulletin No. 06-03,
- Coordinating the issuance of the audit reports, and
- Performing other procedures that we deemed necessary.

R. Navarro & Associates, Inc. is responsible for the attached auditors' reports, dated November 7, 2006, and the conclusions expressed therein. The Office of the Inspector General (OIG) is responsible for technical and administrative oversight regarding the firm's performance under the terms of the contract. Our review, as differentiated from an audit in conformance with *Government Auditing Standards*, was not intended to enable us to express, and accordingly we do not express, an opinion on:

- NRC's financial statements,
- The effectiveness of NRC's internal control over financial reporting, or
- NRC's compliance with laws and regulations.

However, our monitoring review, as described above, disclosed no instances where R. Navarro & Associates, Inc. did not comply with applicable auditing standards.

Performance Reporting

As required by OMB Bulletin No. 06-03, with respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis, we:

- Obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, and
- Determined whether they have been placed in operation.

Our procedures were not designed to provide assurance on internal control over performance measures and, accordingly, we do not provide an opinion thereon.

Meeting with the Chief Financial Officer

At the exit conference on November 7, 2006, representatives of the Office of the Chief Financial Officer, OIG, and R. Navarro & Associates, Inc. discussed the issues in the report related to the results of the audit.

Comments of the Chief Financial Officer

In his response, the CFO agreed with the auditors' recommendations. We will follow-up on the CFO's implementation of planned corrective actions during FY 2007. The full text of the CFO's response follows this report.

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

R. NAVARRO
& ASSOCIATES, INC.
CERTIFIED PUBLIC ACCOUNTANTS

2831 Camino Del Rio South, Suite 306
San Diego, California 92108
(619) 298-8193

Chairman Dale E. Klein
U.S. Nuclear Regulatory Commission
Washington, DC

In our audits of the U.S. Nuclear Regulatory Commission (NRC), we found:

- The balance sheets of NRC as of September 30, 2006, and 2005, and the related statements of net cost, statements of changes in net position, statements of budgetary resources, and statements of financing for the fiscal years then ended are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America;
- Except for the effect of the material weaknesses related to the Fee Billing System and Information System-wide Security Controls, the effectiveness of internal control over financial reporting was fairly stated as of September 30, 2006, in compliance with the internal control objectives in the Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*; and
- NRC continues to be non-compliant with the provisions of OMB Circular A-25, *User Charges*, for Part 170 fees. Additionally, NRC continues to have a substantial non-compliance related to the Fee Billing System.

The following sections outline each of these conclusions in more detail.

INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying balance sheets of NRC as of September 30, 2006, and 2005, and the related statements of net cost, statements of changes in net position, statements of budgetary resources, and statements of financing for the fiscal years then ended. These financial statements are the responsibility of NRC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Bulletin No. 06-03. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Matters of Emphasis

Classification of Costs

OMB Circular A-136, *Financial Reporting Requirements*, 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 (i.e., private sector licensees versus Federal licensees) rather than who was paid. However, following the advice of OMB, NRC classified the costs on the Statements of Net Cost using an underlying concept of who was paid. Furthermore, OMB Circular A-136 requires that the Statement of Net Cost be presented using full program costs by output. The agency presents its costs aggregated by strategic plan programs.

U.S. Department of Energy Expenses

NRC's principal statements include reimbursable expenses of the U.S. Department of Energy (DOE) National Laboratories. For the years ended September 30, 2006, and 2005, NRC's Statements of Net Cost include approximately $67.8 and $68.7 million, respectively, of reimbursed expenses. Our audits included testing these expenses for compliance with laws and regulations applicable to NRC. The work placed with DOE is under the auspices of a Memorandum of Understanding between NRC and DOE. The examination of DOE National Laboratories for compliance with laws and regulations is DOE's responsibility. This responsibility was further clarified by a memorandum of the Government Accountability Office's (GAO) Assistant General Counsel, dated March 6, 1995, where he opined that "...DOE's inability to assure that its contractors' costs [National Laboratories] are legal and proper...does not compel a conclusion that NRC has failed to comply with laws and regulations." DOE also has the cognizant responsibility to assure audit resolution and should provide the results of its audits to NRC.

In our opinion, the financial statements referred to above and included in NRC's Performance and Accountability Report present fairly, in all material respects, the financial position as of September 30, 2006, and 2005, and its net cost, changes in net position, budgetary resources, and reconciliations of net cost to budgetary resources for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 15 and 16 to the financial statements, in FY 2006 the NRC changed its method for recording transactions of the Nuclear Waste Fund and the process for recording transfers of license fee collections.

Report on the Effectiveness of Internal Control Over Financial Reporting

We have examined the effectiveness of NRC's internal control over financial reporting, as of September 30, 2006, based on the criteria in OMB Bulletin No. 06-03. The Bulletin requires management to establish internal accounting and administrative controls to provide reasonable assurance that transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America and that assets be safeguarded against loss from unauthorized acquisition, use or disposal. NRC's management is responsible for maintaining effective internal control over financial reporting. Our responsibility is to express an opinion on the effectiveness of internal control based on our examination.

Our examination was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants (AICPA); the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 06-03. Accordingly, we obtained an understanding of the internal control over financial reporting, tested and evaluated the design and operating effectiveness of internal control, and performed such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

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

We identified continuing significant deficiencies in the Fee Billing System and in the Information System-wide Security Controls. The fee billing system in place does not meet the requirements of sound internal control over financial reporting as provided in OMB Bulletin No. 06-03, nor is the system's design compliant with the requirements of the Joint Financial Management Improvement Program (effective December 2004, the JFMIP principals created the Financial Systems Integration Office within the General Services Administration). Additionally, the information system-wide security controls have not undergone contingency tests nor do the Agency's systems have certifications and accreditations to operate. We believe these conditions represent material weaknesses. The Agency did not identify the condition related to the Fee Billing System as a material weakness over financial reporting in their assessment under OMB Circular A-123, Appendix A nor in their report on the Federal Managers' Financial Integrity Act (FMFIA).

In our opinion, except for the effect of the material weaknesses described in the preceding paragraph, NRC has maintained, in all material respects, effective internal control over financial reporting as of September 30, 2006, based on the internal control objectives listed in OMB Bulletin No. 06-03.

We noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the AICPA and OMB Bulletin No. 06-03. A reportable condition is a matter coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Agency's ability to meet the internal control objectives described above. We identified two reportable conditions: NRC needs to (1) improve the Fee Billing System, and (2) strengthen information system-wide security controls. Both conditions are considered material weaknesses.

A material weakness, as defined by OMB Bulletin No. 06-03, is a reportable condition in which the design or operation of the internal control does not reduce to a relatively low level the risk that errors, fraud or noncompliance in amounts that would be material in relation to the principal statements being audited, or material to the performance measure or aggregation of related performance measures, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe that the reportable conditions that follow are material weaknesses as defined by the AICPA and OMB Bulletin No. 06-03.

Fee Billing System

We reported in FYs 2004 and 2005 a significant deficiency in the NRC's Fee Billing System; this condition continues to exist as described below. The Agency has put forth a significant effort to address the issues reported in the previous years; however, continued emphasis and demonstrated sustainable business process improvements must be designed and implemented to fully remediate the material weakness.

In the current year, the agency has been diligent in gaining a better understanding of the Fee Billing System's data interfaces, processes and needed management controls. In a small category of license fee revenue (less than 10 percent of total revenue) the Agency performed a detailed review of annual materials license fees and identified and quantified underbillings for inclusion in the current year financial statements. This category was chosen because it was a known risk area where underbillings had been identified in a prior year conversion effort. The Agency recorded $1.3 million of underbillings as a result of this project. The underbillings date back to FY 2000. Efforts of this nature are commendable and will build a foundation to gain greater assurance over the fee billing process in future years.

The Omnibus Budget Reconciliation Act (OBRA-1990), Public Law 101-508, as amended, requires that NRC recover, through fee billing, a percentage of its budget authority in each fiscal year, less amounts appropriated from the Nuclear Waste Fund. In FYs 2006 and 2005, the recovery percentage was 90 percent. In order to meet this requirement, the NRC assesses two types of fees to recover its budget authority. Annual license fees are assessed under 10 CFR Part 171 for nuclear facilities and materials licensees, commonly known as Part 171 fees. Other fee types include licensing actions, inspections and other services, established in 10 CFR Part 170 under the authority of the Independent Offices Appropriation Act of 1952 (IOAA). The Part 170 fees are assessed to recover NRC's costs of providing individually identifiable services to specific applicants and licensees.

The conditions reported in the prior year, which continue to impact the reliability of the fee billing process include: (1) intensive manual processes, (2) the lack of comprehensive quality assurance procedures over the billing process, and (3) the fee billing feeder processes. In the current year, the Agency's assessment efforts identified new underbilling problems, indicating a continued vulnerability and the need to continue to identify, design, implement and assess internal controls for each operating aspect of the system.

The GAO's *Standards for Internal Control in the Federal Government* state, "Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the Agency's supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties."

The following examples provide insight into the Agency's progress and current condition in addressing (1) intensive manual processes, (2) comprehensive quality assurance procedures, and (3) fee billing feeder processes.

Intensive Manual Processes

As reported previously, due to the age and design of the Fee Billing System, NRC has evolved over the years into an operating style characterized by over-reliance on a small team to prepare, review, and issue billings on a monthly and quarterly basis. The License Fee Team (LFT) employs various manual processes to compensate for the lack of flexibility in the legacy fee billing system. The system does not have the ability to give

the agency drill down capacity to review billing questions. In particular, the system does not provide automated audit trails from the initial source of the transaction (i.e., billable hours) to the development of an invoice. In the current year the Agency implemented a variety of quality assurance processes that are directionally sound and can be used as a foundation for the development of compensating controls.

As reported in the prior year, the Agency performed an assessment of the Fee Billing System and concluded, "...that the existing nine systems that collectively comprise the Fee Systems will not fully support fee billing and will not promote consistency across the Agency. Streamlining, automating, and improving its fee systems and processes with modern and integrated technology and processes will be critical to the Agency, its staff, and its customers going forward." The Agency continues to stay focused on the remediation plan's actions designed to replace the existing system. Deployment of the replacement solution is planned for FY 2009.

The lack of system functionality coupled with the age of the system and its reliance on manual intervention continues to result in a Federal Financial Management Improvement Act (FFMIA) substantial non-compliance.

Comprehensive Quality Assurance Procedures

During the current year, the Agency continued to enhance quality assurance procedures to reconcile the completeness of Part 170 (hourly) invoices to the license fee reports produced by the Fee Billing System. The reports provide the amounts available for billing. However, the Agency did not address several other reconciliation points that are essential to the internal control over fee billings.

For example, the quality assurance procedures do not address the completeness of Technical Assignment Controls (TAC) as compared with TACs available to be billed or simply those that were billable in the previous billing cycle. The procedures also do not provide for a review of the reliability and completeness of data inputs from sources outside the Office of the Chief Financial Officer's (OCFO) business domain, which are integral to the reliability of invoices. Regional and technical offices such as Nuclear Reactor Regulation (NRR) are the feeder source for license fee activities. This data is fundamental to gaining control of the total available billable time. We commend the Agency for its continued emphasis in developing quality assurance procedures; however, more needs to be done to mitigate known design and system risks of the legacy system and to assert to the completeness and reliability of the fee billing process.

Fee Billing Feeder Processes

In the current year, the Agency identified instances of underbilling, which impacted the Part 170 (hourly) billings. The Agency established a project that was operated out of the Office of the Executive Director for Operations for the short-term purpose of performing security assessments of reactor facilities. The project was referred to as the Nuclear Security Special Project. As the project grew in size and complexity it was moved to NRR. During the third quarter billing cycle, the hours incurred on this project were inadvertently overlooked for billing purposes. It is our understanding that an application used by NRR, erroneously changed the billing classification of over 200 TACs representing approximately 4,000 billable hours. These hours represent approximately $750 thousand in underbilling. As a result, those hours were not billed during the third quarter. Although the Agency executed its quality assurance procedures, this underbilling error was not detected during the normal third quarter billing review

process. Subsequent to the issuance of the invoices, an Agency billing gatekeeper identified the exception. This example demonstrates the need for the Agency to continue to identify feeder processes, enhance quality assurance during preparation of billings, and develop independent checks in order to validate the completeness of feeder data from offices. The hours are presently being billed by the agency.

The unbilled amounts illustrate the need to mitigate risks and to seek to improve quality assurance procedures over the billing preparation process.

Recommendations

1. The Chief Financial Officer (CFO) should continue the assessment of all aspects of the Fee Billing System to ensure that the remediation plan is updated as necessary and implemented in a timely manner to enhance the controls over fee billing processes.
2. The CFO should continue to define, design, and implement compensating controls over the Fee Billing System, while the system is being considered for redesign.
3. As the CFO identifies needed improvement of internal controls that are outside OCFO's business domain, there should be further coordination and collaboration with the Executive Director for Operations as to how the internal controls should be strengthened in operational program feeder systems relied upon by OCFO for billing preparation purposes.

Information System-wide Security Controls

An FY 2005 report issued by the Office of Inspector General (OIG) (Report No. OIG-05-A-21) identified risks in the Agency's information security environment. The report identified various conditions placing the Agency in an "at risk" position. The following is a partial list of the issues reported:

- A majority of the information systems (19 of 27) are under an interim authorization to operate and therefore are not considered certified;
- Agency information system security self-assessments were not performed timely;
- Annual contingency planning is not being performed; and
- Oversight of other contractor systems is lacking.

In the current year, the OIG issued a report (OIG-06-A-26), which describes two significant deficiencies regarding the status of the Agency's information systems. The OIG's report states:

- "Only 1 of 30 operational NRC information systems has a current certification and accreditation, and only 4 of 12 systems used or operated by a contractor or other organization on behalf of the Agency have a current certification and accreditation. The certification and accreditation for the one Agency system that was current during the evaluation expires in October 2006.
- Annual contingency planning is not being performed."

Based on the Agency's self-evaluation of management controls over systems, the Agency concluded that the two significant deficiencies identified in the OIG report would be reported as material weaknesses in the FMFIA report.

Again, we reiterate that NRC's general support systems have not had a complete certification and accreditation performed in the past 4 years. Therefore, the Agency does not

know whether the security controls for these general support systems are adequate, thereby creating unknown potential risk. As a result, all NRC information systems that depend on the security controls provided by these general support systems inherit that unknown potential risk.

The primary Agency financial reporting systems include cost accounting, Human Resources Management System, fees and two systems outsourced with Department of Interior's National Business Center (DOI-NBC). The two outsourced systems are Federal Financial System - FFS (the general ledger application) and Federal Personnel and Payroll System - FPPS (the payroll application). These systems operate or have access protocols on the NRC's general support system, which has been identified as vulnerable, since the general support system had a lapsed authorization to operate. However, DOI-NBC has properly reported that the certification and accreditations and contingency testing for these two systems have been performed. Notwithstanding this condition, the applications would be at risk since they rely on the top tier controls of the NRC general support system.

Recommendation

4. The CFO should continue to coordinate with the Office of Information Services and the Executive Director for Operations to ensure that vulnerabilities to the general support systems are addressed and resolved timely.

Status of Prior Year Comments

In the prior year we included conditions related to Monitoring of Accounting for Internal Use Software and Financial Controls Over Disbursements. Corrective actions were implemented during the year to close these two conditions. However, conditions related to the Fee Billing System and Information System-wide Security Controls continued in the current fiscal year.

Report on Compliance with Laws and Regulations

We conducted our audit for the year ended September 30, 2006, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and OMB Bulletin No. 06-03.

NRC management is responsible for complying with laws and regulations applicable to the Agency. As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of applicable 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. 06-03, including the requirements in the FFMIA. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to NRC. The results of our tests of compliance disclosed noncompliances with laws and regulations that are required to be reported under *Government Auditing Standards*, OMB Bulletin No. 06-03 or under FFMIA.

U.S. Department of Energy Expenses

NRC's principal statements include reimbursable expenses of the U.S. Department of Energy (DOE) National Laboratories. For the years ended September 30, 2006, and

2005, NRC's Statements of Net Cost include approximately $67.8 and $68.7 million, respectively, of reimbursed expenses. Our audits included testing these expenses for compliance with laws and regulations applicable to NRC. The work placed with DOE is under the auspices of a Memorandum of Understanding between NRC and DOE. The examination of DOE National Laboratories for compliance with laws and regulations is DOE's responsibility. This responsibility was further clarified by a memorandum of the GAO's Assistant General Counsel, dated March 6, 1995, where he opined that "...DOE's inability to assure that its contractors' costs [National Laboratories] are legal and proper...does not compel a conclusion that NRC has failed to comply with laws and regulations." DOE also has the cognizant responsibility to assure audit resolution and should provide the results of its audits to NRC.

The objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions of laws and regulations and, accordingly, we do not express such an opinion.

In the current year we identified two continuing noncompliances. The first, which was initially reported in 1998, relates to the Part 170 Hourly Rates. The other is related to the Fee Billing System, which is considered a substantial noncompliance with FFMIA. The following discussion addresses the noncompliances:

Part 170 Hourly Rates

As previously reported from FYs 1998 through 2005, OBRA-1990 requires the NRC to recover approximately 100 percent of its budget authority by assessing fees. (In recent years, the recovery percentage has been reduced by two percent each year. During FY 2006, the recovery percentage was 90 percent.) 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 IOAA, is assessed for specific licensing actions, inspections and other services provided to NRC's licensees and applicants.

Each year, the OCFO computes the hourly rates used to charge for Part 170 services. Consistent with OBRA-1990, the rates are based on budgetary data and are used to price individually identifiable Part 170 services. NRC developed the FY 1998 and subsequent years' rates using the budgetary basis without validating the fee amounts to the full cost of providing Part 170 services. OMB Circular A-25, *User Charges*, states that user charges must be sufficient to recover the full costs of providing benefits.

During FYs 2004 through 2006, the Agency formulated a strategy to address this noncompliance. The Agency developed a methodology that uses the prior year's financial information from the general ledger and the cost accounting system to identify full program costs. Those costs are then compared with budget based rates calculated for the fee rule in order to identify variances. The variances undergo analysis in order to identify the adjustment or impact on the upcoming year's fee rule. Based on progress made to date, adjustments if any, will be reflected in the FY 2007 fee rule, which has a projected release date of June 2007. Upon completion of the OCFO's work on the validation model, we will undertake an assessment of the Agency's compliance with OMB Circular A-25. The review will include the assessment of the model and the underlying documented assumptions and data sources used in order to verify the reliability and completeness of the results. The audit assessment will also evaluate the adequacy of fee rule changes, if any. We commend the OCFO for their continuing commitment to close this comment.

Recommendation

5. The CFO should implement the results of their assessment strategy. After the changes have been reflected in the FY 2007 fee rule, we will assess, in coordination with the Office of Inspector General, actions implemented to address this condition.

Fee Billing System

In our *Report on the Effectiveness of Internal Control Over Financial Reporting*, we continue to identify the Fee Billing System as both a material weakness and an FFMIA substantial noncompliance. Refer to that report for a detailed discussion of the condition.

Status of Prior Year Comments

In the prior year, the condition related to Information System-wide Security Controls included an FFMIA substantial non-compliance with the DOI-NBC service bureau environment impacting both FFS and FPPS. Corrective actions have been implemented by NRC and DOI-NBC to remediate that condition. The conditions related to Part 170 fees and the FFMIA substantial noncompliance of the Fee Billing System continued in the current fiscal year.

Internal Control Related to Performance Measures

With respect to internal controls related to performance measures described in Chapter 2 of the performance and accountability report, the OIG performed those procedures and will address 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.

Consistency of Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of NRC taken as a whole. The required supplementary information referred to as the Management Discussion and Analysis, Chapter 1 of this Performance and Accountability Report, is not a required part of the financial statements but is supplementary information required by OMB Circular A-136. 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 the information and express no opinion on it.

The other accompanying information included in Chapter 2 and the appendices to the performance and accountability report, is required by OMB Circular A-136 and is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of NRC taken as a whole. The required supplementary information, Schedule of Budgetary Resources, included on page 105 of this Performance and Accountability Report, is not a required part of the financial statements but is supplementary information required by OMB Circular A-136. This information is also presented for purposes of additional analysis. This information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

We noted certain matters that we reported to NRC management in a separate letter dated November 7, 2006.

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

R. Navarro & Associates, Inc.

November 7, 2006

MANAGEMENT'S RESPONSE TO THE INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

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

November 9, 2006

MEMORANDUM TO: Stephen D. Dingbaum
Assistant Inspector General for Audits

FROM: Jesse L. Funches
Chief Financial Officer

SUBJECT: AUDIT OF THE FY 2006 FINANCIAL STATEMENTS

I have reviewed the independent auditors' report of the Agency's FY 2006 financial statements. Our responses to the recommendations follow:

Recommendation 1

The Chief Financial Officer (CFO) should continue the assessment of all aspects of the Fee Billing system to ensure that the remediation plan is updated as necessary and implemented in a timely manner to enhance the controls over fee billing processes.

Response

Agree. During FY 2007, the Office of the Chief Financial Officer (OCFO) will continue to assess the operating aspects of the Fee Billing System that are essential to the internal control over fee billings, including the processes related to data obtained from feeder systems, to identify cost-effective controls that will further strengthen the completeness and reliability of the fee billing processes. The remediation plan will be updated as necessary based upon the results of the continuing assessment.

Recommendation 2

The CFO should continue to define, design, and implement compensating controls over the Fee Billing System, while the system is being considered for redesign.

Response

Agree. During FY 2007, the OCFO will use the results of the continuing assessment performed in response to Recommendation 1, and the experience gained implementing improved controls and quality assurance procedures, to establish additional cost-effective compensating controls in the existing fee billing processes, as appropriate.

Recommendation 3

As the OCFO identifies needed improvement of internal controls that are outside OCFO's business domain, there should be further coordination and collaboration with the Executive Director for Operations as to how the internal controls should be strengthened in operational program feeder systems relied upon by OCFO for billing preparation purposes.

Response

Agree.

Recommendation 4

The CFO should continue to coordinate with the Office of Information Services and the Executive Director for Operations to ensure that vulnerabilities to the general support systems are addressed and resolved timely.

Response

Agree.

Recommendation 5

The CFO should implement the results of their assessment strategy. After the changes have been reflected in the FY 2007 fee rule, we will assess, in coordination with the Office of the Inspector General (OIG), actions implemented to address this condition.

Response

Agree. The OCFO will provide the OIG with a copy of the FY 2007 proposed and final fee rules, once they are issued. The hourly rate in the FY 2007 rule will be based on FY 2007 budget data, which has been informed by cost data, as demonstrated in the documentation provided to the OIG in July 2006.

PRINCIPAL STATEMENTS

BALANCE SHEET

(In Thousands)

As of September 30,		2006		2005
Assets				
Intragovernmental				
Fund balances with Treasury (Note 2)	$	**281,715**	$	220,695
Accounts receivable (Note 3)		**3,904**		3,227
Other - Advances and prepayments		**2,247**		1,961
Total intragovernmental		**287,866**		225,883
Accounts receivable, net (Note 3)		**71,287**		60,757
Property and equipment, net (Note 4)		**26,915**		26,983
Other		**19**		66
Total Assets	$	**386,087**	$	313,689
Liabilities				
Intragovernmental				
Accounts payable	$	**8,225**	$	7,730
Other (Note 5)		**81,023**		69,495
Total intragovernmental		**89,248**		77,225
Accounts payable		**22,940**		21,296
Federal employee benefits (Note 6)		**7,434**		8,417
Other liabilities (Note 5)		**53,872**		49,268
Total Liabilities		**173,494**		156,206
Net Position				
Unexpended appropriations		**193,694**		170,836
Cumulative results of operations (Note 8)		**18,899**		(13,353)
Total Net Position		**212,593**		157,483
Total Liabilities and Net Position	$	**386,087**	$	313,689

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

STATEMENT OF NET COST

(In Thousands)

For the years ended September 30,	**2006**	2005
Nuclear Reactor Safety		
Gross costs	**$ 515,374**	$ 476,481
Less: Earned revenue	**(565,782)**	(476,020)
***Total Net Cost of Nuclear Reactor Safety* (Note 9)**	**(50,408)**	461
Nuclear Materials and Waste Safety		
Gross costs	**205,221**	206,518
Less: Earned revenue	**(74,259)**	(73,972)
***Total Net Cost of Nuclear Materials and Waste Safety* (Note 9)**	**130,962**	132,546
Net Cost of Operations	**$ 80,554**	$ 133,007

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

STATEMENT OF CHANGES IN NET POSITION

(In Thousands)

For the years ended September 30,	2006	2005
Cumulative Results of Operations		
Beginning Balance	**$ (13,353)**	$ (12,425)
Budgetary Financing Sources		
Appropriations used	**50,542**	116,100
Non-exchange revenue	**590**	7,344
Transfers-in/out without reimbursement	**45,067**	(7,344)
Other Financing Sources		
Imputed financing from costs absorbed by others	**28,022**	25,904
Other	**(11,415)**	(9,925)
Total Financing Sources	**112,806**	132,079
Net Cost of Operations	**(80,554)**	(133,007)
Net Change	**32,252**	(928)
Cumulative Results of Operations	**$ 18,899**	$ (13,353)
Unexpended Appropriations		
Beginning Balance	**$ 170,836**	$ 149,901
Budgetary Financing Sources		
Appropriations received	**72,532**	601,245
Appropriations transferred-in/out	**1,587**	(463,729)
Other adjustments	**(719)**	(481)
Appropriations used	**(50,542)**	(116,100)
Total Budgetary Financing Sources	**22,858**	20,935
Total Unexpended Appropriations	**193,694**	170,836
Net Position	**$ 212,593**	$ 157,483

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

STATEMENT OF BUDGETARY RESOURCES

(In Thousands)

For the years ended September 30,	2006	2005
Budgetary Resources		
Unobligated balance, beginning of period (Note 16)	**$ 57,349**	$ 36,328
Recoveries of prior year unpaid obligations	**6,642**	11,019
Budget authority		
Appropriation	**742,687**	601,245
Spending authority from offsetting collections		
Reimbursements earned - Collected	**6,757**	5,789
Reimbursements earned - Change in receivables	**(277)**	47
Change in unfilled customer orders - Advance received	**(2,615)**	427
Change in unfilled customer orders - Without advance	**(358)**	4
Subtotal-spending authority from offsetting collections	**3,507**	6,267
Nonexpenditure transfers, net, actual	**-**	68,498
Temporarily not available pursuant to Public Law	**(461)**	-
Permanently not available	**(719)**	(481)
Total Budgetary Resources	**$ 809,005**	$ 722,876
Status of Budgetary Resources		
Obligations incurred (Note 12)		
Direct	**$ 730,902**	$ 659,530
Reimbursable	**3,848**	6,002
Subtotal	**734,750**	665,532
Unobligated balance		
Apportioned	**48,558**	33,620
Exempt from apportionment	**25,697**	23,724
Subtotal	**74,255**	57,344
Total Status of Budgetary Resources	**$ 809,005**	$ 722,876
Change in Obligated Balance		
Obligated balance, net		
Unpaid obligations beginning of period	**$ 160,291**	$ 157,218
Obligations Incurred, net	**734,750**	665,532
Less: Gross outlays	**(686,588)**	(651,389)
Less: Recoveries of prior year unpaid obligations, actual	**(6,642)**	(11,019)
Change in uncollected customer payments, from Federal sources	**635**	(51)
Obligated balance, net, end of period		
Unpaid obligations	**206,019**	164,498
Less: Uncollected customer payments, from Federal sources	**(3,573)**	(4,207)
Total unpaid obligated balance, net, end of period	**$ 202,446**	$ 160,291
Net outlays		
Gross outlays	**$ 686,588**	$ 651,389
Less: Offsetting collections	**(4,143)**	(6,216)
Less: Distributed offsetting receipts	**(624,042)**	(534,119)
Net Outlays	**$ 58,403**	$ 111,054

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

STATEMENT OF FINANCING

(In Thousands)

For the years ended September 30,	2006	2005
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations incurred (Note 12)	**$ 734,750**	$ 665,532
Less: Spending authority from offsetting collections and recoveries	**(10,149)**	(17,286)
Obligations net of offsetting collections and recoveries	**724,601**	648,246
Less: Distributed offsetting receipts	**(624,042)**	(534,119)
Net Obligations	**100,559**	114,127
Other Resources		
Imputed financing from costs absorbed by others	**28,022**	25,904
Allocation transfer	**1,444**	2,124
Other	**(11,415)**	(9,925)
Net Other Resources Used to Finance Activities	**18,051**	18,103
Total Resources Used to Finance Activities	**$ 118,610**	$ 132,230
Resources Used to Finance Items not Part of the Net Cost of Operations		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	**$ (40,910)**	$ (151)
Resources that finance the acquisition of assets	**(6,685)**	(7,393)
Other resources to net obligated resources that do not affect net cost of operations	**786**	(46)
Total Resources Used to Finance Items not Part of the Net Cost of Operations	**(46,809)**	(7,590)
Total Resources Used to Finance the Net Cost of Operations	**$ 71,801**	$ 124,640
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period		
Components Requiring or Generating Resources in the Future Periods		
Increase in annual leave liability	**$ 3,028**	$ 755
Increase (Decrease) Actuarial Workers' Compensation	**(983)**	303
Increase (Decrease) in Unfunded Workers' Compensation	**(47)**	228
Increase in Unfunded Unemployment	**4**	(12)
Total Components of Net Cost of Operations that will require or generate resources in future periods	**2,002**	1,274
Components not Requiring or Generating Resources:		
Depreciation and amortization	**6,751**	7,093
Total Components not requiring or generating resources	**6,751**	7,093
Total Components of Net Cost of Operations that will not require or generate resources in the current period	**8,753**	8,367
Net Costs Of Operations	**$ 80,554**	$ 133,007

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

NOTES TO THE PRINCIPAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (All Tables are Presented in Thousands)

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 operates through the execution of its congressionally approved appropriations for salaries and expenses and the Inspector General, including funds derived from the Nuclear Waste Fund. In addition, transfer appropriations are 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.

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) Circular A-136, *Financial Reporting Requirements*, and NRC accounting policies. These statements are, therefore, different from the financial reports, also prepared by the NRC pursuant to OMB directives, which are used to monitor and control NRC's use of budgetary resources.

NRC has not presented a Statement of Custodial Activity because the amounts involved are immaterial and incidental to its operations and mission.

C. *Budgets and Budgetary Accounting*

Budgetary accounting measures appropriation and consumption of budget spending authority or other budgetary resources and facilitates compliance with legal constraints and controls over the use of Federal funds. Under budgetary reporting principles, budgetary resources are consumed at the time of purchase. Assets and liabilities, which do not consume current budgetary resources, are not reported, and only those liabilities for which valid obligations have been established are considered to consume budgetary resources.

For the past 32 years, Congress has enacted no-year appropriations, which are available for obligation by NRC until expended. For FY 2006 the Energy and Water Development Appropriations Act, 2005, requires the NRC to recover approximately 90 percent of its new budget authority of $742.7 million less a recision of funding in the amount of $1.18 million, which is permanently unavailable, by assessing fees less amounts derived from the Nuclear Waste Fund of $46.1 million and for costs related to waste incidental to reprocessing of $2.5 million from P.L. 109-103. The $742.7 million does not include any amounts transferred from the U.S. Agency for International Development.

For FY 2005, NRC recovered approximately 90 percent of its new budget authority of $669.3 million less amounts derived from the Nuclear Waste Fund of $68.5 million.

D. *Basis of Accounting*

These financial statements reflect both accrual and budgetary accounting transactions. 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 is also used to record the obligation of funds prior to the accrual-based transaction. 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 from the assessment of fees. The NRC assesses two types of fees to recover its budget authority: (1) fees assessed under 10 Code of Federal Regulations (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 No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*.

For accounting purposes, appropriations are recognized as financing sources (appropriations used) at the time expenses are accrued. At the end of the fiscal year, appropriations recognized are reduced by the amount of assessed fees collected during the fiscal year to the extent of new budget authority for the year. Collections which exceed the new budget authority are held to offset subsequent years' appropriations. Appropriations expended for property and equipment are recognized as expenses when the asset is consumed in operations (depreciation and amortization).

F. *Fund Balances with Treasury*

The NRC's cash receipts and disbursements are processed by the U.S. Treasury. The fund balances with the U.S. Treasury 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.

G. *Accounts Receivable*

Accounts receivable consist of amounts owed to the NRC by other Federal agencies and the public. Amounts due from the public are presented net of an allowance for uncollectible accounts. The allowance is based on an analysis of the outstanding balances. Receivables from Federal agencies are expected to be collected; therefore, there is no allowance for uncollectible accounts.

H. *Non-Entity Assets*

Accounts receivable include nonentity assets of $5 thousand at September 30, 2006 and 2005, and consist of miscellaneous penalties and interest due from the public, which, when collected, must be transferred to the U.S. Treasury.

I. *Property and Equipment*

Property and equipment consist primarily of typical office furnishings, nuclear reactor simulators, and computer hardware and software. The costs of internal use software include the full cost of salaries and benefits from agency personnel involved in software development. The Agency has no real property. The land and buildings in which NRC operates are provided by the General Services Administration (GSA), which charges NRC rent that approximates the commercial rental rates for similar properties.

Property with a cost of $50 thousand 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.

J. *Accounts Payable*

Accounts payable represent vendor invoices for services received by NRC that will be paid at a later date.

K. *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 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.

Intragovernmental

The U.S. Department of Labor (DOL) paid Federal Employees Compensation Act (FECA) benefits on behalf of NRC which had not been billed or paid by NRC as of September 30, 2006, and 2005, respectively.

Federal Employee Benefits

Federal employee benefits represent the actuarial liability for estimated future FECA disability benefits. The future workers' compensation estimate was generated by DOL from an application of actuarial procedures developed to estimate the liability for FECA, which includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability was calculated using historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. These projected annual benefit payments were discounted to present value. The interest rate assumptions utilized for discounting benefits were 5.17 percent for FY 2006 and 4.53 percent for FY 2005.

Other

Accrued annual leave represents the amount of annual leave earned by NRC employees but not yet taken.

L. *Contingencies*

Contingent liabilities are those where the existence or amount of the liability cannot be determined with certainty pending the outcome of future events. 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. In FY

2005, the NRC was a party to one case where an adverse outcome was reasonably possible. In FY 2006, there are no contingent liabilities.

M. *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. To the extent that current or prior year funding is not available to cover annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of nonvested leave are expensed as taken.

N. *Retirement Plans*

NRC employees belong to either the Federal Employees Retirement System (FERS) or the Civil Service Retirement System (CSRS). For FY 2006 and FY 2005, employees belonging to FERS, the NRC withheld 0.8 percent of base pay earnings, in addition to Federal Insurance Contribution Act (FICA) withholdings, and matched the withholdings with a 11.2 percent contribution in FY 2006 and a 10.7 percent contribution in FY 2005. The sum is transferred to the Federal Employees Retirement Fund. For employees covered by CSRS, NRC withholds seven percent of base pay earnings. The NRC matched this withholding with a seven percent contribution in FY 2006 and FY 2005.

The Thrift Savings Plan (TSP) is a retirement savings and investment plan for employees belonging to either FERS or CSRS. For employees belonging to FERS, NRC automatically contributes one percent of base pay to their account and matches contributions up to an additional four percent. The maximum percentage of base pay that an employee participating in FERS may contribute is unlimited in calendar year 2006, and 15 percent in 2005. Employees belonging to CSRS may contribute an unlimited percent of their salary in calendar year 2006, and 10 percent in 2005, but there is no NRC matching of the contribution. The maximum amount that either FERS or CSRS employees may contribute to the plan is $15 thousand in 2006 and $14 thousand in 2005. The sum of the employees' and NRC's contributions are transferred to the Federal Retirement Thrift Investment Board.

The NRC does not report on its financial statements FERS and CSRS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of the U.S. Office of Personnel Management. The portion of the current and estimated future outlays for CSRS not paid by NRC is, in accordance with Statement of Federal Financial Accounting Standards No. 5, *Accounting for Liabilities of the Federal Government*, included in NRC's financial statements as an imputed financing source.

O. *Leases*

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 at NRC headquarters. For FY 2006, there are seven capital leases with terms of 5 years, consisting of: five capital leases that were added in FY 2006 with interest rates of 4.25 percent and 4.15 percent, and two capital leases for FY 2005 with an interest rate of 4.38 percent for both leases. The reproduction equipment is depreciated over 5 years using the straight-line method with no salvage value.

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

P. *U.S. Department of Energy Charges*

Financial transactions between the U.S. Department of Energy (DOE) and NRC are fully automated through the U.S. Treasury's Intragovernmental Payment and Collection (IPAC) System. The IPAC 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 process. The vouchers are returned to the Office of the Chief Financial Officer documenting that the charges have been accepted.

Q. *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.

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.

R. *Net Position*

The NRC's net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent appropriated spending authority that is unobligated and has not been withdrawn by the U.S. Treasury, and obligations that have not been paid. Cumulative results of operations represent the excess of financing sources over expenses since inception.

S. *Use of Management Estimates*

The preparation of the accompanying financial statements in accordance with generally accepted accounting principles requires management to make certain estimates and assumptions that directly affect the results of reported assets, liabilities, revenues, and expenses. Actual results could differ from these estimates.

Note 2. Fund Balances with Treasury

	2006	2005
Fund Balances		
Appropriated funds	**$ 237,956**	$ 217,637
Allocation transfers	**3,025**	3,047
Nuclear waste fund	**38,747**	-
Other fund types	**1,987**	11
Total	**$ 281,715**	$ 220,695
Status of Fund Balance with Treasury		
Unobligated Balance		
Available		
Appropriated funds	**$ 74,256**	$ 57,344
Allocation transfers	**1,766**	1,638
Unavailable	**2,146**	155
Obligated balance not yet disbursed	**203,547**	161,558
Total	**$ 281,715**	$ 220,695

The Fund Balance with Treasury consists of Unobligated and Obligated Balances budgetary accounts. It includes Nuclear Waste Fund activity. The Nuclear Waste Fund Unobligated Balance is $25.7 million and $23.7 million as of September 30, 2006, and 2005, respectively.

Note 3. Accounts Receivable

	2006	2005
Intragovernmental		
Receivables and reimbursements	**$ 3,904**	$ 3,227
Receivables with the Public		
Materials and facilities fees - billed	**$ 2,094**	$ 2,124
Materials and facilities fees - unbilled	**72,131**	61,482
Other	**109**	38
Total Accounts Receivable	**74,334**	63,644
Less: Allowance for uncollectible accounts	**(3,047)**	(2,887)
Accounts Receivable, Net	**$ 71,287**	$ 60,757

Note 4. Property and Equipment, Net

Fixed Assets Class	Service Years	Acquisition Value	Accumulated Depreciation and Amortization	2006 Net Book Value	2005 Net Book Value
Equipment	5-8	$ 12,085	$ (11,260)	**$ 825**	$ 1,094
Leased equipment	5-8	1,224	(755)	**469**	272
IT software	5	47,766	(40,078)	**7,688**	5,818
IT software under development	-	5,953	-	**5,953**	8,303
Leasehold improvements	20	25,019	(13,861)	**11,158**	9,418
Leasehold improvements in progress	-	822	-	**822**	2,078
Total		$ 92,869	$ (65,954)	**$ 26,915**	$ 26,983

Note 5. Other Liabilities

	2006	2005
Intragovernmental		
Liability to offset net accounts receivable for fees assessed	**$ 75,047**	$ 63,627
Liability from fees collected which will offset current year's appropriations	**495**	6
Liability to offset miscellaneous accounts receivable	**5**	3
Liability for advances from other agencies	**74**	2,090
Accrued workers' compensation	**1,836**	1,883
Accrued unemployment compensation	**15**	12
Employee benefit contributions	**2,060**	1,874
Liability for clearing account	**1,491**	-
Total Intragovernmental Other Liabilities	**$ 81,023**	$ 69,495

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.

	2006	2005
Accrued annual leave	**$ 35,989**	$ 32,960
Accrued salaries	**13,815**	12,986
Contract holdbacks, advances, and other	**4,068**	3,322
Total Other Liabilities	**$ 53,872**	$ 49,268

Other liabilities, except accrued annual leave, contract holdbacks, and advances from others, are current.

Note 6. Liabilities Not Covered by Budgetary Resources

	2006	2005
Intragovernmental		
FECA paid by DOL	**$ 1,836**	$ 1,883
Accrued unemployment compensation	**15**	12
Federal Employee Benefits		
Future FECA	**7,434**	8,417
Other		
Accrued annual leave	**35,989**	32,960
Total Liabilities not Covered by Budgetary Resources	**$ 45,274**	$ 43,272

Balance Sheet amounts represent ending balances of worker's compensation and annual leave. The Statement of Financing amount represents the change in activity in the worker's compensation and annual leave balances.

Note 7. Leases

Future Lease Payments Due:

Fiscal Year	Capital	Operating	2006	2005
2006	-	-	**-**	25,066
2007	214	23,462	**23,676**	23,653
2008	90	16,575	**16,665**	16,575
2009	94	14,279	**14,373**	14,279
2010	79	14,342	**14,421**	14,342
2011 and thereafter	2	38,624	**38,626**	38,624
Total	479	107,282	**107,761**	132,539
Add: Imputed Interest	32	-	**32**	12
Total Future Lease Payments	$ 511	$ 107,282	**$ 107,793**	$ 132,551

Note 8. Cumulative Results of Operations

	2006	2005
Future funding requirements	**$ (45,274)**	$ (43,272)
Investment in property and equipment, net	**26,915**	26,983
Contributions from foreign cooperative research agreements	**2,110**	2,867
Change in Nuclear Waste Fund	**35,107**	-
Other	**41**	69
Cumulative Results of Operations	**$ 18,899**	$ (13,353)

Future funding requirements represent the amount of future funding needed to pay the accrued unfunded expenses as of September 30, 2006, and 2005. 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 9. Statement of Net Cost

The programs as presented on the Statement of Net Cost are based on the strategic plans and are described as follows:

Nuclear Reactor Safety encompasses all NRC efforts to ensure that civilian nuclear power reactor facilities and research and test reactors are licensed and operated in a manner that adequately protects the public health and safety, the environment and protects against radiological sabotage and theft or diversion of special nuclear materials. The Nuclear Reactor Safety program contains two activities – Nuclear Reactor Licensing and Nuclear Reactor Inspection

Nuclear Materials and Waste Safety encompasses all NRC efforts to protect the public health and safety and the environment and ensures the secure use and management of radioactive materials. The Nuclear Materials and Waste Safety program contains five activities – Fuel Facilities Licensing and Inspection, Nuclear Materials Users Licensing and Inspection, High-Level Waste Repository, Decommissioning and Low-Level Waste, and Spent Fuel Storage and Transportation Licensing and Inspection.

For the years ended September 30,	**2006**	2005
Nuclear Reactor Safety		
Intragovernmental gross costs	**$ 147,028**	$ 143,035
Less: Intragovernmental earned revenue	**(33,121)**	(29,299)
Intragovernmental net costs	**113,907**	113,736
Gross costs with the public	**368,346**	333,446
Less: Earned revenues from the public	**(532,661)**	(446,721)
Net costs with the public	**(164,315)**	(113,275)
Total Net Cost of Nuclear Reactor Safety	**$ (50,408)**	$ 461
Nuclear Materials and Waste Safety		
Intragovernmental gross costs	**$ 48,414**	$ 48,551
Less: Intragovernmental earned revenue	**(6,569)**	(5,113)
Intragovernmental net costs	**41,845**	43,438
Gross costs with the public	**156,807**	157,967
Less: Earned revenues from the public	**(67,690)**	(68,859)
Net costs with the public	**89,117**	89,108
Total Net Cost of Nuclear Materials and Waste Safety	**$ 130,962**	$ 132,546

For "Intragovernmental gross costs," the buyers and sellers are both Federal entities. For "Earned revenues from the public," the buyers of the goods or services are non-Federal entities.

Note 10. Exchange Revenues

	2006	2005
Fees for licensing, inspection, and other services	**$ 635,457**	$ 544,044
Revenue from reimbursable work	**4,584**	5,948
Total Exchange Revenues	**$ 640,041**	$ 549,992

Note 11. Financing Sources Other Than Exchange Revenue

Appropriated Funds Used

Collections were used to reduce the fiscal year's appropriations recognized:

	2006	2005
Funds consumed	$ 685,134	$ 650,219
Less: collection from fees assessed	(624,042)	(534,119)
Less: Nuclear Waste Funding Used	(10,550)	-
Appropriated funds used	$ 50,542	$ 116,100

Funds consumed includes $59.6 million and $38.3 million through September 30, 2006, and 2005, respectively, of available funds from prior years.

Non-Exchange Revenue

	2006	2005
Civil penalties	$ 461	$ 5,807
Miscellaneous receipts	129	1,537
Total Non-Exchange Revenue	$ 590	$ 7,344

Imputed Financing

	2006	2005
Civil Service Retirement System	$ 11,256	$ 11,993
Federal Employee Health Benefit	14,912	13,735
Federal Employee Group Life Insurance	66	62
Judgements Awards	1,788	114
Total Imputed Financing	$ 28,022	$ 25,904

Transfers In/Out

	2006	2005
Transfers out to Treasury		
License Fees	$ 624,042	$ 534,119
Non-exchange revenue	590	7,344
Total Transfers-Out to Treasury	$ 624,632	$ 541,463

Note 12. Total Obligations Incurred

	2006	2005
Direct Obligations		
Category A	**$ 687,201**	$ 613,502
Exempt from Apportionment	**43,701**	46,028
Total Direct Obligations	**730,902**	659,530
Reimbursable Obligations	**3,848**	6,002
Total Obligations Incurred	**$ 734,750**	$ 665,532

Obligations exempt from apportionment are the result of funds derived from the Nuclear Waste Fund. Category A Obligations consist of NRC appropriations only. Undelivered orders for the Nuclear Waste Fund are $9.4 million and $5.7 million, Salaries and Expenses $148.1 million and $119.4 million, and the Office of the Inspector General $979 thousand and $1.2 million through September 30, 2006, and 2005, respectively.

Note 13. Nuclear Waste Fund

Included in NRC's budget for FY 2006 and 2005 are $46.118 million and $68.498 million, respectively, provided from the Nuclear Waste Fund. In accordance with Statement of Federal Financial Accounting Standards No. 27, *Identifying and Reporting Earmarked Funds*, NRC has determined that funding from the Nuclear Waste Fund does not fully meet the definition as an earmarked fund. However, in order to provide additional information to the users of these financial statements, enhanced disclosure of the fund is presented below.

The Nuclear Waste Fund was authorized by the Nuclear Waste Policy Act of 1982 (PL 97-425). The funding provided to NRC in FY 2006 and 2005 for the purpose of performing activities associated with the U.S. Department of Energy's (DOE) application for a high level waste repository at Yucca Mountain, Nevada. These activities included assistance to DOE with the application, review of the application, the conduct of thorough safety and security evaluations, preparation of the safety evaluation report, initiation of the inspection program, ensuring that the regulation process was made available to stakeholders and the general public, and to provide legal advice and representation for staff reviews and Commission actions.

The Nuclear Waste Fund amounts received, expended, obligated, and unobligated balances as of September 30, 2006, and 2005 are shown in the following:

	2006	2005
Appropriations Received	**$ 46,118**	$ 68,498
Expended Appropriations	**$ 47,554**	$ 41,976
Obligations Incurred	**$ 43,701**	$ 46,028
Unobligated Balances	**$ 25,697**	$ 23,724

Note 14. Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the U.S. Government

Statement of Federal Financial Standards (SFFAS) No. 7, *Accounting for Revenue and Other Financing Sources*, requires the NRC to reconcile the budgetary resources reported on the Statement of Budgetary Resources to the prior fiscal year actual budgetary resources presented in the Budget of the U.S. Government and explain any material differences. NRC does not have any material differences between the Statement of Budgetary Resources and the Budget of the U.S. Government. The President's Budget with actual results for NRC has not been published for FY 2006. It is expected to be published on February 5, 2007. The estimates will be available on the NRC webpage, and the actuals can be found on the OMB webpage.

Note 15. Comparability of Financial Statements

In FY 2006, NRC made a change in the accounting methodology used to record the transfer to NRC from DOE's Nuclear Waste Trust Fund. The change was made pursuant to guidance from OMB to be more compatible with DOE's accounting treatment of the transfer and to eliminate a significant intra-governmental difference in trading partner activity between NRC and DOE.

The change in accounting treatment, as reflected in the Statement of Changes in Net Position, impacts the comparability of the current and prior year amounts as illustrated in the following table (dollars in thousands):

Cumulative Results of Operations	**2006**	**2005**
Transfers in/out without reimbursement (Gross)	$ 46,118	$ -
Unexpended Appropriations		
Appropriations transferred in/out	$ -	$ 68,498

The change is also reflected in the Statement of Budgetary Resources, as shown below (in thousands of dollars).

Budgetary Resources	**2006**	**2005**
Nonexpenditure transfers, net actual	$ -	$ 68,498

Note 16. Statement of Changes in Net Position and Statement of Budgetary Resources Reclassifications

In the current year the Statement of Changes in Net Position (CNP) reflects a change in the treatment of the fees collected as an offset to appropriations received. In prior years, it was recorded as an appropriations transfer.

In accordance with OMB Circular A-136, the Statement of Budgetary Resources (SBR) has been revised to better align with the SF 133, *Report on Budget Execution and Budgetary Resources*. This revision was necessitated by revisions to the SF-133 format, as described in OMB Circular A-11. As a result, the amounts in FY 2005 have been reclassified to conform with FY 2006 guidelines.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF BUDGETARY RESOURCES

(*In Thousands*)

For the year ended September 30, 2006

	X0200	X0300	X5280	Total
Budgetary Resources				
Unobligated balances, beginning of period (Note 16)	$ 56,263	$ 1,081	$ 5	$ 57,349
Recoveries of prior year obligations	6,540	102	-	6,642
Budget authority				
Appropriations	117,811	839	624,037	742,687
Spending authority from offsetting collections				
Reimbursements earned - Collected	6,757	-	-	6,757
Reimbursements earned - Change in receivables	(277)	-	-	(277)
Change in unfilled customer orders - Advance received	(2,615)	-	-	(2,615)
Change in unfilled customer orders - Without advance	(358)	-	-	(358)
Subtotal spending authority from offsetting collections	3,507	-	-	3,507
Nonexpenditure transfers, net, actual	616,565	7,477	(624,042)	-
Temporarily not available pursuant to Public Law	(461)	-	-	(461)
Permanently not available	(711)	(8)	-	(719)
Total Budgetary Resources	$ 799,514	$ 9,491	$ -	$ 809,005
Status of Budgetary Resources				
Obligations incurred (Note 13)				
Direct	$ 722,347	$ 8,555	$ -	$ 730,902
Reimbursable	3,848	-	-	3,848
Subtotal	726,195	8,555	-	734,750
Unobligated balance				
Apportioned	47,622	936	-	48,558
Exempt from apportionment	25,697	-	-	25,697
Subtotal	73,319	936	-	74,255
Total Status of Budgetary Resources	$ 799,514	$ 9,491	$ -	$ 809,005
Change in Obligated Balance				
Obligated balance, net				
Unpaid obligations beginning of period	$ 158,816	$ 1,475	$ -	$ 160,291
Obligations Incurred, net	726,195	8,555	-	734,750
Less: Gross outlays	(678,144)	(8,444)	-	(686,588)
Less: Recoveries of prior year obligations, actual	(6,540)	(102)	-	(6,642)
Change in uncollected customer payments, from Federal sources	635	-	-	635
Obligated balance, net, end of period				
Unpaid obligations	204,535	1,484	-	206,019
Less: Uncollected customer payments, from Federal sources	(3,573)	-	-	(3,573)
Total unpaid obligated balance, net , end of period	$ 200,962	$ 1,484	$ -	$ 202,446
Net outlays				
Gross outlays	$ 678,144	$ 8,444	-	$ 686,588
Less: Offsetting collections	(4,143)	-	-	(4,143)
Less: Distributed offsetting receipts	-	-	(624,042)	(624,042)
Net Outlays	$ 674,001	$ 8,444	$ (624,042)	$ 58,403

APPENDICES

Oconee Nuclear Station

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

October 6, 2006

MEMORANDUM TO: Chairman Klein

FROM: Hubert T. Bell
Inspector General

SUBJECT: INSPECTOR GENERAL'S ASSESSMENT OF THE MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES FACING THE NUCLEAR REGULATORY COMMISSION (OIG-07-A-01)

EXECUTIVE SUMMARY

Background

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

Purpose

In accordance with the Act, the IG at the Nuclear Regulatory Commission (NRC) updated what he considers to be the most serious management and performance challenges facing NRC. As part of the evaluation, the Office of the Inspector General staff sought input from NRC's Chairman, Commissioners, and NRC management to obtain their views on what challenges the Agency is facing and what efforts the Agency has taken to address previously identified management challenges.

Results in Brief

The IG identified nine challenges that he considers are the most serious management and performance challenges facing NRC. The challenges identified represent critical areas or difficult tasks that warrant high-level management attention. Additionally, the IG identified one of the 2005 management challenges, *Intra-agency communication (up, down, and across organizational lines)*, to be removed. The chart that follows provides an overview of the nine most serious management and performance challenges as of September 30, 2006.

Most Serious Management and Performance Challenges Facing the Nuclear Regulatory Commission as of September 30, 2006 *(As Identified by the Inspector General)*	
Challenge 1 Protection of nuclear material used for civilian purposes.	**Challenge 6** Administration of all aspects of financial management.
Challenge 2 Protection of information.	**Challenge 7** Communication with external stakeholders throughout NRC regulatory activities.
Challenge 3 Development and implementation of a risk-informed and performance-based regulatory approach.	**Challenge 8** Managing human capital.
Challenge 4 Ability to modify regulatory processes to meet a changing environment.	**Challenge 9** Ability to meet the demand for licensing new reactors.
Challenge 5 Implementation of information resources.	*The most serious management and performance challenges are not ranked in any order of importance.

Conclusion

Although the nine challenges identified in this report are distinct, they are also interdependent. The overarching challenge of managing human capital is the cornerstone to effectively addressing all other management and performance challenges. The Agency took considerable action to address one of the 2005 management challenges to justify its removal and has taken action regarding the management and performance challenges identified in this report.

However, continuing management attention and emphasis on the management and performance challenges is essential to achieving significant progress for each challenge.

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I. BACKGROUND

On January 24, 2000, Congress enacted the Reports Consolidation Act of 2000 (the Act), requiring Federal agencies to provide financial and performance management information in a more meaningful and useful format for Congress, the President, and the public. The Act requires the Inspector General (IG) of each Federal agency to annually summarize what he or she considers to be the most serious management and performance challenges facing the Agency and to assess the Agency's progress in addressing those challenges.

II. PURPOSE

In accordance with the Act, the IG at the Nuclear Regulatory Commission (NRC) updated what he considers to be the most serious management and performance challenges facing NRC. The IG evaluated the overall work of the Office of the Inspector General (OIG), the OIG staff's general knowledge of Agency operations, and other relevant information to develop his list of management and performance challenges.

As part of the evaluation, OIG sought input from NRC's Chairman, Commissioners, and NRC management to obtain their views on what challenges the Agency is facing and what efforts the Agency has taken to address previously identified management challenges. Also, this report includes a listing of OIG audit and investigative reports issued during FY 2006 that address the challenges identified.

III. EVALUATION RESULTS

The NRC's mission is to "License and regulate the Nation's civilian use of byproduct, source, and special nuclear materials to ensure adequate protection of public health and safety, promote the common defense and security, and protect the environment." Like other Federal agencies, NRC faces management and performance challenges in carrying out its mission.

Determination of Management and Performance Challenges

Congress left the determination and threshold of what constitutes a most serious management and performance challenge to the discretion of the Inspectors General. As a result, the IG applied the following definition in identifying challenges:

Serious management and performance challenges are mission critical areas or programs that have the potential for a perennial weakness or vulnerability that, without substantial management attention, would seriously impact Agency operations or strategic goals.

Based on the aforementioned definition and criteria, the IG revised his list of the most serious management and performance challenges facing NRC. The challenges identified represent critical areas or difficult tasks that warrant high-level management attention. The chart that follows provides an overview of the nine management challenges. The sections that follow provide more detailed descriptions of the challenges, descriptive examples related to the challenges, and examples of efforts the Agency has taken or are underway to address the challenges. The most serious management and performance challenges that follow are not ranked in any order of importance. Eight of the nine challenges are essentially the same as last year. However, this year the IG identified a new management and performance challenge titled: *Ability to meet the demand for licensing new reactors*. Additionally, the IG identified one 2005 management challenge, *Intra-agency communication (up, down, and across organizational lines)*, to be removed.

Most Serious Management and Performance Challenges Facing the Nuclear Regulatory Commission as of September 30, 2006 *(As Identified by the Inspector General)*	
Challenge 1 Protection of nuclear material used for civilian purposes.	**Challenge 6** Administration of all aspects of financial management.
Challenge 2 Protection of information.	**Challenge 7** Communication with external stakeholders throughout NRC regulatory activities.
Challenge 3 Development and implementation of a risk-informed and performance-based regulatory approach.	**Challenge 8** Managing human capital.
Challenge 4 Ability to modify regulatory processes to meet a changing environment.	**Challenge 9** Ability to meet the demand for licensing new reactors.
Challenge 5 Implementation of information resources.	*The most serious management and performance challenges are not ranked in any order of importance.

Removal of 2005 Management Challenge 8: Intra-agency Communication

As a result of various actions taken by NRC to improve internal communications, last year's management challenge number 8, Intra-agency communication (up, down, and across organizational lines), was removed. The results of a 2005 survey of NRC employees, as reported in the NRC Safety Culture and Climate Survey Executive Summary 2005, illustrate that the Agency's commitment to internal communications has paid dividends. The Executive Summary noted that the staff's response to questions in the category of communication[1] showed the highest improvement of all categories over the 2002 survey results.

NRC's Strategic Plan stresses the importance of the role of internal communications in achieving the Agency's mission and goals. Accordingly, the Agency's Communications Council is actively involved in planning, coordinating, implementing, and improving NRC internal communications strategies. The main impetus of the Council is to address internal communication issues. The Council engages staff from around the Agency to assist with projects requiring multiple office input, coordination, and agreement.

During FY 2006, NRC continued to improve and maintain several mechanisms to enhance its internal communications. For example:

- the Executive Director for Operations (EDO) issues periodic electronic "EDO Updates" to NRC staff highlighting current events around the Agency.
- the NRC Reporter, an internal use only publication, is designed to communicate a quick overview of what's happening all over the Agency.

[1] Communication: The survey evaluated the availability of information about matters affecting the Agency, and information employees need to do their job. It also assessed the degree of openness that employees have with speaking up in the NRC; measured employees' understanding of the goals and objectives of their work unit, division, office/region, and NRC as a whole and the NRC Strategic Plan. In addition, employees' awareness of NRC's plans, performance, and mission were evaluated. This category also measured the effectiveness of various internal communication vehicles.

- NRC issues Announcements (formerly Network Announcements) to communicate information of major significance or interest to Agency employees, as well as urgent or time-sensitive information.
- NRC also issues Yellow Announcements to communicate new policies, practices, or procedures; to introduce changes in policy, senior staff assignments, or organization; or to address major agencywide events.

Also, NRC's Internal website provides employees with information on (1) different ways to address intra-agency concerns such as the Differing Professional Opinions Program, Discrimination Complaints, Employee Concerns Overview, and clarification of ethics in the workplace.

Finally, NRC continues to hold an annual "All Employees" meeting as a mechanism for direct two-way communication between the Commission and Agency staff. The Office of the Executive Director for Operations' internal webpage provides guidance to the staff, including guidance on communicating with the Commission.

While the Agency has taken considerable action that would justify the removal of the 2005 Management Challenge number 8, Intra-agency communication, assuring effective intra-agency communication remains critical to successfully carrying out the Agency's mission. Apart from the positive results of the 2005 Safety Culture Climate Study, the IG continues to see instances where the Agency has experienced difficulty in communicating across programs.

Continued focus on across-the-agency communications is needed to address this area. Therefore, although the IG removed this as one of the most serious management and performance challenges, OIG will continue to monitor this issue.

CHALLENGE 1

Protection of nuclear material used for civilian purposes.

NRC's Strategic Plan provides for "Excellence in regulating the safe and secure use and management of radioactive materials for the public good." NRC is authorized to grant licenses for the possession and use of radioactive materials (e.g., byproduct material[2], source material[3], and special nuclear material[4]) and establish regulations to govern the possession and use of those materials. NRC's regulations require that certain materials licensees have ex-

[2] Byproduct material – (1) Any radioactive material (except special nuclear material) yielded in or made radioactive by exposure to the radiation incident to the process of producing or using special nuclear material and (2) the tailings or wastes produced by the extraction or concentration of uranium or thorium from any ore processed primarily for its source material content. [Source: Atomic Energy Act of 1954, Section 11 (e)]

The Energy Policy Act of 2005 expanded the definition of byproduct material, as defined in Section 11(e) of the Atomic Energy Act, to include certain discrete sources of radium, certain accelerator-produced radioactive material, and certain discrete sources of naturally occurring radioactive material, placing these materials under NRC jurisdiction.

[3] Source material – Uranium or thorium or any combination thereof, in any physical or chemical form; or ores that contain by weight 0.05 percent or more of (1) uranium, (2) thorium, or (3) any combination thereof. Source material includes depleted uranium and natural uranium, but not "special nuclear material." [Source: Title 10 Code of Federal Regulations (CFR) Part 40.4]

[4] Special nuclear material – Plutonium, uranium-233, uranium enriched in the isotopes uranium-233 or uranium-235, and any other material which the Commission, pursuant to the provisions of Section 51 of the Atomic Energy Act of 1954, as amended, determines to be special nuclear material, but does not include source material; or any material artificially enriched by any of the foregoing, but does not include source material. [Source: Title 10 CFR Part 74.4]

tensive material control and accounting programs as a condition of their license. All other license applicants (including those requesting authorization to possess small quantities of special nuclear materials) must develop and implement plans that demonstrate a commitment to accurately control and account for radioactive materials.

One of NRC's and the nuclear industry's highest priorities must be ensuring adequate protection of public health and safety. Heightened sensitivity to the control of special nuclear materials warrants NRC's serious attention to its licensees' material control and accounting activities. Similarly, the control and accounting of licensed byproduct material also warrants attention. The challenges currently facing NRC in the area of protecting nuclear materials are to:

- Ensure adequate inspections to verify licensees' commitments to their material control and accounting programs;
- Ensure reliable accounting of special nuclear materials in the NRC and Department of Energy's jointly managed Nuclear Materials Management and Safeguards System (NMMSS); and
- Establish an effective system to ensure the accurate tracking for byproduct material, especially those with the greatest potential to impact public health and safety.

Special Nuclear Material

The Agency has made progress in improving the reliability of licensee-reported special nuclear material inventory balances recorded in the NMMSS, and has increased efforts to hold licensees accountable for the control and accounting of special nuclear material. NRC increased its oversight of the jointly managed system and required interim inspections to validate the accuracy of licensee-reported inventory data to NMMSS. However, the staff awaits final Commission endorsement on a proposed revised rule to address regulatory improvements to the NMMSS.

Byproduct Material

The NRC is developing a National Source Tracking System to improve accountability and tracking of byproduct material. The system is proposed as a cradle to grave tracking system of high risk sealed sources. It is intended to:

- improve accountability and control for nationally tracked sources;
- improve the understanding of the location of nationally tracked sources;
- improve regulatory efficiency;
- enhance NRC's ability to promote and maintain the public health and safety and common defense and security; and
- increase public confidence.

However, because the Agency did not consider all viable options in its analysis of the system, the National Source Tracking System may be inadequate. Specifically, the proposed tracking system may not account for all byproduct material that represents a risk to the common defense and security and public health and safety.

NRC implemented measures to improve the nation's security of radioactive material. For example, NRC issued advisories to byproduct material licensees that emphasized the importance of the security and control of licensed material. NRC also issued security-related

orders to the largest material licensees. These orders addressed potential vulnerabilities in the storage, transportation, and access of byproduct material among the licensees. In addition, NRC worked with the Department of Energy to facilitate recovery of selected orphaned sources.[5]

Related Office of the Inspector General Work

Audits

- Audit of NRC's Office of Nuclear Security and Incident Response
- Audit of the Development of the National Source Tracking System
- Audit of the NRC Byproduct Materials License Application and Review Process
- Audit of the Baseline Security and Safeguards Inspection Program
- Audit of NRC's Oversight of Agreement States' Licensing Actions

Investigations

- NRC's Oversight of Force-On-Force Program
- NRC's Handling of Preemption Matters
- NRC's Regulation of a Materials Licensee
- NRC Oversight of Licensee's Site Access Authorization Programs
- NRC Oversight of Research Test Reactors
- NRC's Oversight of Releases of Radioactive Material at the St. Lucie Nuclear Power Plant
- NRC's Regulatory Oversight of Gaseous Fire Extinguishing Systems
- Counterfeit NRC Licensing Documents
- NRC's Handling of Security Issues at Shearon Harris Plant

CHALLENGE 2

Protection of information.

NRC employees create and work on a significant amount of sensitive information that needs to be protected. Such information can be sensitive unclassified information or classified national security information contained in written documents and various electronic databases.

As a result of continuing terrorist activity worldwide, NRC continually reexamines its document control policies. NRC is faced with the challenge of attempting to balance the need to protect sensitive information from inappropriate disclosure against its goal of openness in its regulatory processes. Over the past year, NRC has made various efforts to protect sensitive information, including personal information, from inappropriate disclosure.

[5] Orphaned sources are those radioactive sources that become lost or abandoned and may wind up in non-nuclear facilities, such as scrap yards, steel mills, and municipal waste facilities.

Sensitive Unclassified Non-Safeguards Information

The Agency is revising a policy to ensure that sensitive unclassified non-safeguards information (SUNSI) is properly handled and marked, and adequately protected from unauthorized disclosure. SUNSI refers to any information that, if lost, modified inappropriately, or accessed by unauthorized individuals, could reasonably be foreseen to harm the:

- Public interest;
- Commercial or financial interests of the entity or individual to whom the information pertains;
- Conduct of NRC and Federal programs; and
- Personal privacy of individuals.

An initial SUNSI policy, that became effective in October 2005, required staff to determine which of seven categories best applied to documents generated within NRC and apply specific protective measures commensurate with the categorization.

In June 2006, however, the Commission disapproved the SUNSI policy. It imposed a simplified policy, including a two-tiered categorization that incorporates the existing seven SUNSI categories. The simplified two-tiered approach is intended only to be an interim process. A final policy will need to incorporate a December 16, 2005, Presidential Memorandum requiring the standardization of acquisition, access, retention, production, use, management, and sharing of sensitive but unclassified information across the Federal Government. In an e-mail to the OIG, one Commissioner acknowledged that the SUNSI policy needs to be reevaluated, and requested that it be included as an audit in the fiscal year 2007 OIG audit plan. OIG included this suggestion in the FY 2007 Annual Plan.

Security Inspection Report Information

Another challenge for NRC is the necessary restriction of public access to information from the security oversight program for nuclear power plants, fuel cycle facilities, and other licensed activities. Restricting public access to licensees' security performance information is necessary to protect the Nation from harm that could result if this information was misused by those with malevolent intentions. However, the staff has had difficulty achieving NRC's goal of openness with regard to sharing licensees' security performance information with the public due to this restriction.

The Commission took action to address this challenge in April 2006 when it made security inspection report cover letters publicly available. By reviewing these cover letters, members of the public can learn that an NRC inspection was conducted at a particular facility and whether any deficiencies were found.

Other Security-related Information

NRC will continue to face challenges regarding the protection of sensitive information in a post-9/11 environment. Agency initiatives undertaken to address this issue have resulted in some improvements. For example, the Agency used to develop and distribute security advisories outside of the Agency's established framework. Recognizing that these security advisories are a form of generic communications, the Agency now processes them through the Agency's formal Generic Communications Program. However, more needs to be done to ensure consistent understanding and implementation by staff tasked with the protection of information.

Computer Security

Computer security is the necessary protection afforded to an information system to preserve the integrity, availability, and confidentiality of the information system resources. These resources include hardware, software, firmware, information/data, and telecommunications.

The Veterans Administration found that a laptop containing social security numbers was stolen from an employee's home. As a result, heightened concern over protecting personal information emerged across the Federal Government. Other agencies have also revealed thefts of laptops. For example, in August 2006, the Department of Transportation disclosed that a laptop containing personally identifiable information on more than 130,000 people in the Miami region was stolen from an employee. Like other Federal agencies, NRC also faces the challenge of protecting personal information.

OIG examined NRC's practices regarding personal privacy information after it found such information, including social security numbers and dates of birth, on NRC network drives. NRC employees could have been at risk for identity fraud and the Agency may not have been in compliance with the Privacy Act.

In response to the OIG report, on July 26, 2006, NRC's Chairman requested that staff review Agency network drives to identify and remove any additional unnecessary personal privacy information required to be withheld. He also directed the staff to:

- Review the extent to which social security numbers and other personal privacy information are used for identification purposes or are required for Agency business;
- Determine the vulnerabilities that such use creates; and
- Identify actions to mitigate the vulnerabilities, to minimize the use of this information and to eliminate any unnecessary use.

In an August 25, 2006, EDO Update to the staff, the Executive Director for Operations reported on the following specific actions planned and underway to protect personally identifiable information (PII):

- Mandatory information systems security training for all staff starting in the fall of 2006;
- Prohibition on removing paper documents that contain PII from NRC premises, unless the PII has been redacted or an exception has been granted;
- Formation of an interoffice task force to evaluate NRC's business processes that use PII;
- Update of guidance documents and modification of computer systems and peripheral devices will be modified to better protect PII, and
- Installation of encryption capabilities on certain computers.

Completion of these activities is integral to addressing this management and performance challenge to protect information.

Related Office of the Inspector General Work

Audits

- Evaluation of NRC's Efforts to Protect Sensitive Information
- Audit of NRC's Integrated Personnel Security System

- Audit of NRC's Office of Nuclear Security and Incident Response
- Office of the Inspector General Computer Security Audit of the Technical Training Center, Chattanooga, TN
- Office of the Inspector General Computer Security Audit of Region I – King of Prussia, PA
- Office of the Inspector General Computer Security Audit of Region II – Atlanta, GA
- Office of the Inspector General Computer Security Audit of Region III – Lisle, IL
- Office of the Inspector General Computer Security Audit of Region IV – Arlington, TX
- Evaluation of NRC's Implementation of the Federal Information Security Management Act (FISMA) for Fiscal Year 2006
- Evaluation of Personal Privacy Information Found on NRC Network Drives
- Audit of NRC's Implementation of Homeland Security Presidential Directive – 12 (HSPD-12)
- Audit of NRC's Process for Releasing Commission Decision Documents

Investigations

- Computer Security Inadequacies in the Office of Nuclear Regulatory Research
- Possible Compromise of NRC Privacy Act Data by NRC Contractor
- Identity Theft by NRC Employee
- Possible Unauthorized Release of Pre-decisional Information
- Possible Inappropriate Release of Safeguards Information

CHALLENGE 3

Development and implementation of a risk-informed and performance-based regulatory approach.

NRC's intent is to increase its safety focus on licensing and oversight activities through the application of a balanced combination of experience, deterministic models, and probabilistic analysis. This approach is known as risk-informed and performance-based regulation. Incorporating risk analysis into regulatory decisions is intended to improve the regulatory process by focusing both NRC and licensee attention and activities on the areas of highest risk.

In interviews, former Chairman Diaz, a staunch proponent of risk-informed regulation, stated that NRC has "done well" in adopting a risk-informed approach. However, he believed that risk-informed and performance-based regulation should have progressed faster than it has. He also stated that "it seems like things slow down" due to "communication and implementation, rather than the principles."

Probabilistic Risk Assessment

One particular challenge NRC faces is the integration of probabilistic risk assessment (PRA) into regulatory decision-making. PRA has been used by industry and NRC since the 1970s. PRA represents a methodology that can be used to determine (1) what can happen, (2) what

is the likelihood, and (3) what are the consequences. NRC uses PRA in the regulatory process including licensing, rulemaking, the Reactor Oversight Process, and enforcement. The Commission has encouraged the use of PRA and its applications in all nuclear regulatory matters to the extent possible. This challenge reflects NRC's commitment to increase the use of PRA technology in all regulatory matters (1) to the extent supported by the state-of-the-art in PRA methods and data and (2) in a manner that complements the Agency's approach and philosophy. Implementation of this practice is expected to improve NRC's regulation of licensees.

In FY 2006, NRC initiated an effort to address the quality of PRAs and develop standard regulatory risk-informed activities. However, full implementation of PRA quality standards will take a number of years. In addition, application of PRA to NRC's non-reactor regulatory activities (e.g., nuclear materials regulation) lags behind application of PRA in regulating commercial nuclear power reactors.

Commercial Nuclear Power Reactors

NRC has made progress in implementing a risk-informed and performance-based approach at the Nation's 104 operating commercial nuclear power reactors. For example, the NRC Reactor Inspection Program and Reactor Performance Assessment Program are combined to implement the revised Reactor Oversight Process (ROP). An integral part of the ROP is the baseline inspection program that was developed using a risk-informed approach to determine a list of areas to inspect within seven established cornerstones of safety. The baseline inspection program is the minimum inspection oversight that should be conducted at each nuclear power plant.

Application of the risk-informed, performance-based approach in the baseline inspection program requires continual refinement. As a living program, the Agency dedicates resources to continually reassess and modify this program as necessary based on operating experience and industry performance. A recent ROP self-assessment recognized that regional inspection resources warrant a sizeable increase in full-time equivalents for FY 2007 and FY 2008. Potential short-falls in inspection resources pose a challenge to the Agency to ensure that the risk-informed, performance-based approach applied in the baseline inspection program is up-to-date and reflects lessons learned.

Nuclear Materials Strategic Arena

NRC is still working to develop and implement a risk-informed and performance-based approach to its nuclear materials strategic arena. For example in May 2003, the OIG noted that the Agency did not have a documented basis for the risk-informed approach to its oversight of licensees' material, control and accounting program. The OIG recommended that NRC document that basis. To address this recommendation, the Agency is developing a new rule related to the oversight of special nuclear materials. As part of its rulemaking plan, NRC staff committed to completing documentation of the basis of its risk-informed approach. The rulemaking process is continuing.

Additionally, NRC amended 10 CFR Part 70, *Domestic Licensing of Special Nuclear Material*, to achieve its objectives of applying a risk-informed and performance-based regulatory approach for certain fuel cycle facilities. While NRC has made progress on implementing 10 CFR Part 70 revisions, it still has not completed the work.

Related Office of the Inspector General Work

Audits

- Follow-up Audit of the Nuclear Regulatory Commission's Decommissioning Fund Program
- Evaluation of NRC's Use of Probabilistic Risk Assessment (PRA) in Regulating the Commercial Nuclear Power Industry
- Perspective on NRC's PRA Policy Statement
- Audit of NMSS' Procedures for Processing Inspection Guidance
- Audit of NRC's Oversight of Agreement States' Licensing Actions

CHALLENGE 4

Ability to modify regulatory processes to meet a changing environment.

NRC faces the challenge of maintaining its core regulatory programs while adapting to emerging changes in its regulatory environment. These changes are listed in NRC's Strategic Plan. One particular change in the environment is of such significance that the IG has isolated it as a separate challenge (see Challenge 9). That is, NRC must address a growing interest in licensing and constructing new nuclear power plants to meet the Nation's demand for energy production. The anticipated workload associated with gearing up to receive license applications for new reactors will strain NRC's current resources. Preparing for the anticipated strain on resources intensifies the challenges posed by other changes in NRC's regulatory environment. While responding to the emerging demands associated with regulating new reactors, NRC must also sustain the technical quality in carrying out its current regulatory responsibilities. In particular, NRC must be able to adapt to:

- Uncertainty in the expected number of applications for license renewals submitted to NRC by industry in response to the Nation's demand for energy production;
- A heightened public focus on license renewals resulting in contentious hearings;
- Uncertainty in the expected number of licensee requests to increase power levels;
- Increasing quantities of radioactive waste requiring interim or permanent disposal sites; and
- Delays and uncertainties related to NRC's receipt and review of a Department of Energy license application to construct a high-level waste repository at Yucca Mountain.

Reactor License Renewals

NRC's license renewal program is one of the major elements of its regulatory work. In accordance with the Atomic Energy Act, NRC approves and issues licenses for commercial nuclear power plants to operate for up to 40 years. 10 CFR Part 54, *Requirements for Renewal of Operating Licenses for Nuclear Power Plants*, allows these plants to be renewed upon expiration of their existing licenses. Issuance of a renewed license allows a license to be renewed for up to 20 years. NRC could receive approximately 25 to 30 additional applications to renew operating licenses over the next several years. Because the decision whether to seek a renewal is the responsibility of the nuclear power plant owner(s), anticipating the number of applications is a challenge to NRC. Recent Agency experience reflects industry's strong interest in license renewal.

Additionally, NRC will encounter challenges related to a heightened public interest in license renewals that may lead to more contentious hearings. Until 2006, it was unlikely for NRC to grant hearings on license renewals. In 2006, however, NRC granted the first two such hearings and the license renewal staff anticipates more.

Licensee Requests to Increase Power Levels

Licensees have been using power uprates since the 1970s as a way to increase the power output of their nuclear power plants. Many licensees have formally requested NRC approval to operate their plants at a higher power level than the level authorized in the original license. As of August 2006, the NRC approved 112 power uprate increases, and six are pending review. Over the next five years, NRC expects 23 additional requests, which may affect the ability of NRC staff to maintain established review schedules.

To address the increase in power uprate requests, NRC is continuing to develop process improvements based on lessons learned from completed reviews. The process improvements include more detailed analysis of specific technical issues and related efficiencies. Some of the technical issues include power uprate testing programs and reactor systems methods. Also, NRC has implemented more rigorous acceptance reviews for power uprate applications to improve the efficiency of the process.

High-Level Waste Disposal

According to the Nuclear Waste Policy Act, the Department of Energy has the responsibility to locate, design, build, and operate a repository for high-level nuclear waste. NRC has the responsibility to license and regulate this facility. Over the past several years, NRC has been preparing its review plan in anticipation of the Department of Energy tendering its license application for the construction of a permanent repository at Yucca Mountain in Nevada.

Recently, the Department of Energy announced plans to submit a license application to NRC by June 30, 2008, and to initiate repository operations in 2017. However, the date that the Department of Energy will submit its license application continues to change. As a result, NRC is faced with the challenge of being prepared to receive and review the application whenever it comes in.

Once NRC receives the application, the Agency has a congressionally mandated time frame of 3 years, with an optional year, to review the application and make its determination on the license.

NRC continues to prepare for receipt of the license application and is now focusing its efforts on pre-licensing activities. The Agency's ability to modify regulatory processes to meet a changing environment will continue to be a prominent challenge for NRC in FY 2007, as it relates to NRC's high-level waste program.

Related Office of the Inspector General Work

Audits

- Audit of NRC's Office of Nuclear Security and Incident Response
- Audit of the Development of the National Source Tracking System
- Audit of the NRC Byproduct Materials License Application and Review Process
- Audit of the NMSS' Procedures for Processing Inspection Guidance

CHALLENGE 5

Implementation of information resources.

Federal agencies' acquisition and implementation of information resources is crucial to (1) support critical mission-related operations and (2) provide more effective and cost-efficient Government services to the public. The necessary link of information technology to NRC's mission performance makes it important to have decision-making processes which ensure that funds are invested and managed to achieve high value outcomes at acceptable costs. NRC relies on a wide variety of information systems to help it fulfill its responsibilities and support its business flow. NRC continues to work towards obtaining a good return on these investments. In recent years, NRC has created large databases of publicly available information, including the High-Level Waste Meta System, the Licensing Support Network, the NRC website, and the Agencywide Documents Access and Management System (ADAMS) public reading room.

The following sections highlight NRC's efforts to strengthen and support the Agency's business needs using information technology strategies.

Information Security and Federal Information Security Management Act (FISMA) Compliance

NRC received a "D-" on its Federal computer security grade for 2005. The low grade primarily reflected that very few NRC system certifications and accreditations were current at the time the systems were reviewed for compliance with FISMA. The security certification and accreditation of information systems is integral to an agency's information security program and supports the risk management process required by FISMA. To ensure the Agency's systems have adequate security controls to protect information resources, NRC engaged a contractor to enhance Agencywide information systems security. The approximate $41 million contract was awarded on July 28, 2006, and will be in place for five years. In its 2006 FISMA evaluation report, OIG identified two significant deficiencies in NRC's information system security program. While progress is being made on strengthening the program, more actions are needed to correct identified weaknesses.

Homeland Security Presidential Directive 12 (HSPD-12)

On August 27, 2004, the President signed HSPD-12 requiring implementation of a mandatory governmentwide standard for secure and reliable forms of identification for Federal employees and contractors. It directed Government departments and agencies to require Federal employees and contractors to use identification that meets the standard to gain physical and logical access to Federal facilities and information systems. Subsequent Federal guidance split requirements into two parts. The first part required agencies to verify the identity of individuals applying for official Agency badges. The second part provided detailed specifications to support using a common identification standard for Federal employees and contractors.

On October 27, 2005, NRC implemented part one requirements in compliance with the Office of Management and Budget's (OMB) deadline. Implementation of the first part of the process did not require major adjustments to NRC's existing personnel security program. In

August 2006, OIG reviewed the Agency's efforts to date and found that while NRC implemented the first part in compliance with OMB's deadline, several improvements were needed.

The second part of the process involves issuing standard badges and acquiring the technology to integrate usage of the cards into Agency security practices. OMB established October 27, 2006, as the date that Federal agencies are to begin issuing badges compliant with the new standard. NRC recognizes that it will be a challenge to implement the requirements on a timely basis. It is considering approaches as to how to best implement these requirements and intends to meet the October 2006 deadline.

Microsoft Office Deployment

NRC is developing a plan to deploy Microsoft Office Professional software suite, including Word, Excel, Powerpoint, and Access to all Agency desktop computers. Microsoft Office products will become the Agency's standard within the coming year. During the implementation, Corel WordPerfect will remain the Agency's standard word processing format. Once MS Word has been installed agency wide and declared the new Agency standard, Corel WordPerfect will be available on desktop computers for up to one year. The EDO explained the Agency's position on this matter in an EDO Update, dated August 25, 2006. The change will need to involve training the staff to facilitate the transition to the use of the new software.

Agencywide Documents Access and Management System (ADAMS)

ADAMS is an information system that allows access to image and text documents that NRC has made public since November 1, 1999, as well as bibliographic records that NRC made public before November 1999. ADAMS permits full-text searching and enables users to view document images, download files, and print documents locally. The Office of Information Services is planning to update ADAMS and then replace it in 2010. This strategy consists of the following major activities necessitating end user involvement:

- Conducting an analysis of the features and capabilities of document management systems currently on the market with respect to Agency requirements;
- Improving the present system to the extent possible;
- Updating the existing system in a carefully planned manner to achieve a smooth transition; and
- Acquiring and implementing a replacement document management system by securing a suitable product at a reasonable cost.

This change will present a major challenge to NRC. ADAMS initial cost exceeded Agency estimates, took longer to become operational than anticipated, and initially failed to produce significant improvements in document management. The challenge will be to incorporate ADAMS previous lessons learned for an effective transition to a new system.

Related Office of the Inspector General Work

Audits

- Audit of NRC's Integrated Personnel Security System
- Audit of NRC's Implementation of Homeland Security Presidential Directive – 12 (HSPD-12)

CHALLENGE 6

Administration of all aspects of financial management.

Financial management challenges include—

- Preparation of financial statements in accordance with applicable requirements;
- Financial systems replacement;
- Sound budget formulation planning; and
- Efficient and effective procurement operations.

A brief discussion of these challenges follows.

Preparation of Financial Statements

For the fifth consecutive year, the NRC received the Certificate of Excellence in Accountability Reporting (CEAR Award) for the FY 2005 Performance and Accountability Report. The CEAR Program, sponsored by the Association of Government Accountants, was established in conjunction with the Chief Financial Officers Council and the OMB. Its goal is to improve financial and program accountability by streamlining reporting and improving the effectiveness of such reports.

NRC received an unqualified audit opinion on its FY 2005 financial statements. However, the Agency's independent auditors continued to characterize NRC's legacy Fee Billing System as a material weakness and as a Federal Financial Management Improvement Act substantial non-compliance. The lack of system functionality for the Agency's Fee Billing System, coupled with the age of the system, and a reliance on manual processes, is the underlying cause of the material weakness.

In FY 2005, the NRC implemented a number of internal control measures to mitigate the effects of the system deficiencies. Those measures include performing a license fee reconciliation, modifying the Fee Billing System to improve the functionality of the interfaces, expanding acceptance testing for software modifications, conducting an independent verification and validation of the software modifications, and separating the billing and reconciliation functions.

In FY 2006, the NRC conducted a comprehensive internal control assessment and identified additional internal control improvements. These include performing automated interface validation procedures, implementing an exception reporting process, expanding manual validation procedures to include a contract cost reconciliation, and performing statistical sampling to validate the billing of small material invoices.

While the Agency has made progress in developing a variety of quality control procedures, the challenge remains to mitigate known design and system risks of the legacy system and to assert to the completeness and reliability of the fee billing process.

Financial Systems Replacement Project

The financial systems replacement project, as currently planned, involves the replacement of the NRC's core accounting system (the Federal Financial System), the License Fee Billing System, and the Human Resources Management System.

NRC implemented the Federal Financial System as their core accounting system in October 1992. The National Business Center (NBC), Department of the Interior, hosts this system for the Agency. NBC notified all customer agencies in a March 30, 2006, letter, that the corporate owner of the system advised that the Federal Financial System is no longer compliant with Federal standards for financial management systems. Accordingly, any upgrades or enhancements to this system have been discontinued. Therefore, NBC will no longer provide services on the Federal Financial System effective October 1, 2010.

The License Fee Billing System is actually a combination of nine separate systems used to accomplish license fee billing. The systems that comprise the License Fee Billing System were developed piecemeal over many years to accomplish fee billing. The system software is outdated, requires too much manual intervention, and was not designed to include the internal control and data auditing features expected in contemporary financial applications.

The Agency is facing the challenge of replacing the Federal Financial System and the License Fee Billing System by creating a new organizational unit, the Financial Systems Development Staff. NRC determined that it would be more efficient to place replacement efforts under one modernization group that would focus exclusively on these important projects.

Budget Formulation

To accomplish the Agency's mission, NRC must maintain a long-range planning and budgeting process. The process must provide for adequate consideration of contingencies and changing priorities so that resources are assigned commensurate with program requirements. Overall, NRC faces the following challenges in planning the FY 2008 budget:

- **Planning for license applications for new reactors** - The projected number of license applications can, and has, changed. The assumption used in the FY 2008 budget is 13 license applications expected to be submitted during FY 2007 and FY 2008. However, uncertainties exist regarding whether some utilities may decide to accelerate or decelerate their applications.
- **Planning for receiving a license application for the high-level waste repository at Yucca Mountain** - In the Nuclear Materials and Waste Safety arena, uncertainties in timing and approach associated with the Department of Energy's plan for submitting a license application for the high-level waste repository at Yucca Mountain present a challenge for budget formulation. The assumption used in the FY 2008 budget is that the Department will submit the license application in June 2008 with NRC having 6 months to docket. However, the date that the Department will submit its license application continues to change, posing the challenge for NRC to be prepared to receive and review the application whenever it comes in.
- **Implementation of a new budget system** - NRC procured a vendor to integrate a new budget system and planned to test it with FY 2008 budget data in parallel with the existing process. However, because the new budget system requires "certification and accreditation," and has not been granted authorization to operate, NRC could not test it as planned. Consequently, the Agency must wait until the FY 2009 budget cycle to test the new system.

Procurement

NRC's procurement of goods and services must be made in accordance with Federal regulations and with an aim to achieve the best value for the Agency's dollars in a timely manner. Agency policy provides that the NRC's procurement of goods and services support the

Agency's mission and be planned, awarded, and administered efficiently and effectively. During FY 2005, the Division of Contracts (with 32 full-time employees) completed 1,849 procurement actions totaling $109.2 million. There are numerous challenges facing the Agency in the procurement area. Some of these challenges, as well as certain actions the Agency is taking to address them, are mentioned below:

- **Hiring and training new contract personnel** - In the past 15 months, the Division of Contracts hired 17 new employees, with 3 additional staff expected to start in the upcoming fiscal year. The new staff will require training on NRC regulations and procedures to become productive team members. Accordingly, the Division of Contracts has developed a list of training topics for presentation to new employees.
- **Keeping current with changes to the Federal Acquisition Regulation (FAR)** - Employees new to the Division of Contracts will receive training on FAR as part of the training presentations described above. However, existing employees may not have had FAR training recently and may not be aware of changes. A Division of Contracts staff member has been identified to monitor the revisions to the FAR by the Civilian Acquisition Council and to keep the other Division of Contracts staff informed of those changes.
- **Obtaining contract audit services** - The Division of Contracts continues to coordinate with OIG to obtain needed contract audits. This includes audits of contracts that are complete and in closeout status, active contracts with significant dollars expended, as well as pre-award audits on proposed contracts.
- **Closing expired contracts and deobligating excess funds** – The FAR promulgates time standards by which contracts should be closed out and money deobligated. The Agency has made progress in closing out its old expired contracts, thereby deobligating excess funds and making those funds available for other Agency priorities. During FY 2006, the Agency closed 87 old expired contracts and deobligated the excess funds to make those funds available for other Agency priorities.

Related Office of the Inspector General Work

Audits

- Results of the Audit of the United States Nuclear Regulatory Commission's Financial Statements for Fiscal Years 2005 and 2004
- Independent Auditors' Report on the U.S. Nuclear Regulatory Commission's Special-Purpose Financial Statements as of September 30, 2005, and 2004, for Years then Ended
- Independent Accountant's Report on the Application of Agreed-Upon Procedures on the Closing Package Intragovernmental Activity and Balances as of September 30, 2005
- Review of NRC's Implementation of the Federal Managers' Financial Integrity Act for Fiscal Year 2005

Investigations

- Failure to Report Contractor Payment Error to OIG Auditors
- Review of Court Reporting Services Contract Organizational Conflict of Interest by NRC Contractor
- Review of NRC's Oversight of the Management of the Parking Garage Contract
- False Claim by NRC Licensee of Small Business Status

- Review of NRC's Workers' Compensation Program
- Possible Improper Worker's Compensation Claim
- Adequacy of Controls by Office of Nuclear Regulatory Research Managers of Research Expenditures
- Review of NRC's Management of the Small Disadvantaged Business Program

CHALLENGE 7

Communication with external stakeholders throughout NRC regulatory activities.

The NRC has stated that nuclear regulation is the public's business and, therefore, it should be transacted in an open and candid manner in order to maintain the public's confidence. The continuing challenge for management is to ensure that there are effective ways of communicating with and obtaining information from external stakeholders (e.g., public meetings, workshops). Effective communication is vital and can have a significant impact on the Agency achieving its goals.

NRC established a strategic goal to ensure openness. That goal expressly recognizes that the public must be informed about, and have a reasonable opportunity to participate in, the regulatory processes. NRC states that public involvement in, and information about, its activities is the cornerstone of strong, fair regulation of the nuclear industry. The Agency has long acknowledged the public's interest in the regulation of nuclear activities, and therefore, provides opportunities for citizens to be heard.

Due to the nature of its business, the Agency needs to interact with a diverse group of external stakeholders (e.g., the Congress, general public, other Federal agencies, and various industry and citizen groups) with clear, accurate, and timely information about NRC's regulatory activities.

The Agency enhanced its outreach to better involve external stakeholders in NRC's business in several ways. The Agency responded to an extraordinary high number of stakeholder requests for more information and to numerous Congressional inquiries. The Agency also conducted extensive interviews with the media and meetings with residents of local communities and state and local government officials to discuss new initiatives, reported events, and other significant regulatory activities. For instance:

- NRC encourages public participation and comments applicable to new reactor licensing activities through open meetings, commission meetings, advisory committee meetings, and other opportunities open to the public.
- Public meetings between NRC's technical staff and applicants or licensees are open for interested members of the public to attend. In this case, members of the public attend in accordance with the "Commission Policy Statement on Staff Meetings Open to the Public."

Compliance with the Freedom of Information Act

In this post-9/11 environment, NRC continues to face challenges with determining an appropriate balance between its strategic goal of openness and the need to protect sensitive

information. The Agency has traditionally committed to the principles of openness, fairness and due process. In addition, the Freedom of Information Act requires Federal agencies to make information available to the general public by request or through automatic disclosure of certain types of information. Although the Agency has a process for handling Freedom of Information Act requests from external stakeholders, OIG found weaknesses in the Agency's internal controls needed to ensure compliance with requirements to automatically disclose information to the public. The Agency faces the challenge to reconcile its position regarding public release of information.

Related Office of the Inspector General Work

Audits

- Audit of NRC's Controls Over Video News Release
- Audit of NRC's Process for Releasing Commission Decision Documents

Investigations

- NRC's Handling of Preemption Matters

CHALLENGE 8

Managing human capital.

NRC's ability to successfully execute activities in support of its mission depends on a highly skilled and experienced workforce. NRC continues to be challenged by growth in new work at a time when senior experts are increasingly eligible to retire. Over the next 5 years, NRC expects a substantial increase in work related to:

- New reactor licensing applications;
- The Department of Energy's license application for the Yucca Mountain high-level waste repository;
- Industry applications to increase the number of fuel cycle production facilities; and
- Potential NRC involvement in the Global Nuclear Energy Partnership.

To mitigate the impact of these challenges, the Agency:

- Established a Human Capital Council to find, attract, and retain staff who possess critical skills;
- Continued implementation of a space optimization plan;
- Implemented human capital provisions of the Energy Policy Act of 2005;
- Identified staffing/training and development needs;
- Moved forward with knowledge management strategies; and
- Monitored the attrition rate.

Human Capital Council

In July 2006, the EDO established the Human Capital Council. The Council's goal is to provide an agency-level forum for the formulation of strategies to address human capital

challenges, share best practices, and develop an integrated approach to address human capital issues.

Space Planning and Management

The Agency is working to address the challenge of ensuring that enough workstations are available to keep pace with continued growth in headquarters hiring. NRC continues to implement its space optimization initiative to create additional workstations throughout the White Flint Complex, including temporary construction of workstations in conference rooms and restricting additional onsite contractors. The plan includes moving the Professional Development Center offsite to Bethesda, Maryland, which will allow for the construction of additional workstations. NRC's Document Processing Center contractor will be relocated within Headquarters which will also create space for additional workstations for staff use.

In order to meet NRC's growth needs, additional office space has been selected. The site has undergone a complete renovation during which the building infrastructure was replaced. Some NRC staff is projected to move into the new building during January 2007. Finally, the Agency is working with the General Services Administration to pursue the acquisition of additional headquarters office space to meet NRC's near-term and long-term requirements. For the foreseeable future, ensuring that adequate office space is available for all new employees will be a significant challenge for the Agency.

Energy Policy Act of 2005

The Energy Policy Act of 2005 includes human capital provisions that will assist the Agency in increasing its workforce and assuring that its workforce has the knowledge and skills necessary to prepare for anticipated new reactor license applications. The Agency is implementing a provision that authorizes it to pay Federal retirees, who are hired as consultants, their full salary without pension offset. This provision applies to positions for which there is exceptional difficulty in recruiting or retaining qualified employees. It is currently being used to accomplish different agency tasks and to recover critical skills and transfer critical knowledge.

Staffing/Training and Development

NRC needs a results-oriented workforce with the requisite talents, multidisciplinary knowledge, and current skills to ensure that it is equipped to accomplish its mission and achieve its goals. Acquiring and retaining a workforce with the appropriate knowledge and skills demands that NRC improve its recruiting, training, development, and retention approaches so that the Agency can compete for and retain talented people.

Also, NRC faces a challenge to continually identify emerging critical skill needs, sustain hiring momentum into the future, and retain personnel as the industry staffs up for new plant construction. The Agency expects to hire approximately 1,300 new employees between FYs 2006 and 2009. During the same time period, NRC anticipates providing technical training for approximately 11,523 students. NRC's ability to effectively review and license the new generation of commercial nuclear reactors will depend significantly on how well employees are trained and developed into effective reviewers and regulators at the staff and senior management level. Ongoing agency programs such as the Nuclear Safety Professional Development Program and Graduate Fellowship Program help to train staff to carry-out the Agency's mission and functions.

Knowledge Management

Knowledge management involves capturing critical information and making the right information available to the right people at the right time. It is a part of the strategic management of human capital. Knowledge management is a critical strategy for assuring that knowledge and experience of the current staff is passed onto the next generation of NRC staff. The issue of knowledge leaving the Agency as a result of departing and retiring personnel and within-agency promotions represents a significant challenge. NRC's Office of Human Resources continues to work with NRC offices and regions to identify and add useful information to its recently developed knowledge management website. Continuing attention is needed to explore innovative methods to capture and transfer key knowledge held by Agency employees.

Monitoring of Attrition Rate

NRC monitors its voluntary attrition rate, including retirements, which has historically been below six percent. Close monitoring is critical because it is possible that NRC's attrition rate could increase as nuclear industry competition for skilled employees increases and as older staff members retire. As of August 30, 2006, there were approximately 3,200 NRC staff at the Agency, the highest total since 1993. In spite of the accelerated hiring efforts, NRC faces the difficult challenge of replacing key senior staffers who retire or leave the Agency. For example, during the first seven months of 2006, of the 19 Office of Nuclear Reactor Regulation staff who either retired or left the Agency, seven were considered senior staffers. The Agency's continued monitoring of the attrition rate is necessary to identify any unusual upward trends and to take prompt action to build and maintain a strong retention culture.

Related Office of the Inspector General Work

Audits

- 2005 NRC's Safety Culture and Climate Survey

CHALLENGE 9

Ability to meet the demand for licensing new reactors.

There is a growing list of United States utilities (licensees) that are considering new nuclear power plant construction in the Nation. These licensees intend to submit various applications including those for early site permits, combined licenses, and design certifications. NRC's licensing process is outlined in 10 CFR Part 52, Early Site Permits; Standard Design Certifications; and Combined Licenses for Nuclear Power Plants (Part 52). The Combined Operating Licenses (COLs) for nuclear power facilities involve the issuance of a combined construction permit and a conditional operating license for a nuclear power facility. NRC is involved in several significant activities to ensure that it is prepared to review the first of these COL applications which is expected in 2007-2008. Some of these activities include:

- Reviewing industry's guidelines for a COL application;
- Determining what actions are necessary to prepare for receipt of a COL application;

- Assessing rulemaking activities for the licensing process;
- Reviewing Early Site Permits applications; and
- Developing a Multi-National Design Approval program with international regulators that will take advantage of worldwide nuclear safety, licensing and operating experience.

The NRC has already certified some new reactor designs under the new Part 52 licensing process. Under this approach, NRC pre-approves or certifies new reactor designs and allows licensees' to apply for an Early Site Permit and/or a COL using one of the pre-approved designs. Also, NRC intends to apply a Design-Centered-Approach to facilitate effective, efficient, and timely review of multiple COL applications. This approach streamlines and shortens the NRC review process.

Although the Part 52 application process has advantages for both NRC and the nuclear industry, it nevertheless represents a significant challenge through the increased workload and pressure on the Agency to create the infrastructure necessary to support review of new plant licensing applications.

As NRC enters a new era of reactor regulation, it faces many challenges. In addition to ongoing license renewal activities, the Agency will face the first round of new reactor applications since 1978. NRC estimates that it may receive 20 or more applications in the coming years, and believes that upward of 450 new staff positions will be needed to meet this need.

Coinciding with the dramatic increase in regulatory responsibilities will be the retirement of many senior staff that has experience licensing reactors from the 1960s, 1970s, and 1980s. The Agency's ability to effectively review and license the new generation of commercial nuclear reactors will depend significantly on how well employees, new to the process, are trained and developed into effective reviewers and regulators at the staff and senior management level. Furthermore, construction oversight of future plants would be equally or more challenging.

The review of new applications involving new reactor technologies, a new licensing process, and new untested staff in this realm necessitates a strong control process to ensure the Agency meets its review and licensing objectives. Specific challenges include:

- **Project Management** – Effective technical and communications skills are essential to being the focal point (project manager) of NRC and licensee interactions.
- **Construction Inspection Oversight** – NRC must reinstitute this program after being dormant for many years.
- **Technical Review Process** – NRC must have a defined process for ensuring that all requisite technical reviews are conducted, documented and approved.
- **Standard Review Plan** – As with the previous generation of reactors, NRC must have a comprehensive Standard Review Plan for examining a license application. Additionally, consistent implementation is vital.
- **Safety Evaluation Reports** – The Agency needs a solid process for compiling its regulatory examination into a Safety Evaluation Report. This report reflects the Agency's conclusion about a plant's ability to operate safety. It is vital that such conclusions be documented and approved.

Finally, in a September 28, 2006, letter, Congress raised concern that, in preparing for additional COLs, NRC is presented with organizational, management and resource challenges.

CONCLUSION

Although the nine challenges identified in this report are distinct, they are also interdependent. The overarching challenge of managing human capital is the cornerstone to effectively addressing all other management and performance challenges.

One of the OIG's strategic goals is to improve the economy, efficiency, and effectiveness of NRC corporate management. The Inspector General's identification of the most serious management and performance challenges facing the Agency and the OIG's commitment to ensuring the integrity of NRC programs and operations help achieve this goal. The Agency continues to take action in response to the management and performance challenges identified. In particular, the Agency sufficiently addressed one of the 2005 management challenges to result in its removal. However, continuing management attention and emphasis on the management and performance challenges is essential to achieving significant progress for each challenge.

Attachment A

SCOPE AND METHODOLOGY

The scope of this evaluation involved the Inspector General's annual assessment of the most serious management and performance challenges facing the Nuclear Regulatory Commission. The challenges represent critical areas or difficult tasks that warrant high-level management attention. To accomplish this work, the Office of the Inspector General (OIG) focused on determining (1) the current challenges, (2) the Agency's efforts to address the challenges, and (3) what remains to be done.

The OIG reviewed and analyzed pertinent laws and authoritative guidance. In addition, OIG conducted interviews with Agency officials to identify current performance and management challenges and the steps taken by the Agency to address these challenges through planning and in daily operations. Since challenges affect mission critical areas or programs that have the potential to impact Agency operations or strategic goals, NRC Commission members, the EDO and CFO were afforded the opportunity to share any information on this subject.

OIG conducted this evaluation from July through September 2006. The major contributors to this report were Steven Zane, Team Leader, Beth Serepca, Team Leader, Anthony Lipuma, Team Leader, Debra Lipkey, Audit Manager, and Michael Steinberg, Senior Auditor.

MANAGEMENT DECISIONS AND FINAL ACTIONS ON OIG AUDIT RECOMMENDATIONS

The agency has established and continues to maintain an excellent record in resolving and implementing audit recommendations presented in OIG reports. Section 5(b) of the Inspector General Act of 1978, as amended, requires agencies to report on final actions taken on OIG audit recommendations. The following table gives the dollar value of disallowed costs determined through contract audits conducted by the Defense Contract Audit Agency and NRC's Office of the Inspector General. Because of the sensitivity of contractual negotiations, details of these contract audits are not furnished as part of this report. As of September 30, 2006, there were no outstanding audits recommending that funds be put to better use.

MANAGEMENT REPORT ON OFFICE OF THE INSPECTOR GENERAL AUDITS WITH DISALLOWED COSTS

For the period October 1, 2005-September 30, 2006

Category	Number of Audit Reports	Questioned Costs	Unsupported Costs
1. Audit reports with management decisions on which final action had not been taken at the beginning of this reporting period.	1	$5,114	0
2. Audit reports on which management decisions were made during this period.	1	$5,114	0
3. Audit reports on which final action was taken during this report period.			
(i) Disallowed costs that were recovered by management through collection, offset, property in lieu of cash, or otherwise.	1	$5,114	0
(ii) Disallowed costs that were written off by management.	0	0	0
4. Reports for which no final action had been taken by the end of the reporting period.	0	0	0

Management Decisions Not Implemented within One Year

Management decisions were made before October 1, 2005 for the OIG audit reports listed in the following tables. As of September 30, 2006, NRC did not take final action on some issues. Completion of the activities listed as "Actions Pending" will complete agency action on the listed OIG audit and evaluation recommendations.

NRC's License Fee Development Process Needs Improvement (OIG/99A-01) December 14, 1999

This audit was conducted to determine if the overall fee development process complied with pertinent laws and regulations, and if the management controls over this function were adequate. The audit found weaknesses in the methodologies NRC uses to develop annual and user fees for licensees.

Open Recommendations*	Actions Pending
2. Reevaluate the hourly rate calculation methodology so that the rates NRC develops include the full-cost concept as embodied in Office of Management and Budget Circular A-25, *User Charges*, and Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Standards*. The reassessment should: a. define and identify generic costs and explain how to treat such costs; c. use actual billing and cost data to develop and refine future rate calculations.	The staff developed procedures to calculate hourly rates using actual cost data from the cost accounting system and compared the results to hourly rates developed using budget data from the same fiscal year, for purposes of incorporating any lessons learned into the budget formulation process. Because the hourly rates established under 10 CFR Part 170 are based on budget data, any changes in the budget resulting from this analysis will be reflected in future Part 170 rates. The staff utilized the procedures to calculate hourly rates using FY 2005 cost data and compared the results to hourly rates developed using FY 2005 budget data, and also developed documentation on how the comparison of costs to the budget has, and will be, used to inform the budget. This documentation has been provided to the OIG. The recommendation remains in a resolved status and closure is pending a favorable finding during OIG's audit of NRC's FY 2007 financial statements.

Special Evaluation of the Role and Structure of NRC's Executive Council (OIG-00-E-09) August 31, 2000

This evaluation was conducted to determine whether the NRC's Executive Council (EC)–a body composed of three equal NRC individuals reporting directly to the Chairman, i.e., the Executive Director for Operations (EDO), the Chief Financial Officer (CFO), and the Chief Information Officer (CIO)–was operating in accordance with applicable laws and could effectively and efficiently facilitate NRC's mission given its role and structure. The review concluded that while the reporting lines for the EDO, CIO, and CFO were consistent with applicable laws, the EC was not operating in accordance with internal guidance or meeting expectations, and that its structure impaired its ability to facilitate the agency's mission. The OIG recommended that the Chairman/ Commission consider alternative management strategies regarding the EC's structure and the alignment of the EDO, CIO, and CFO, which ultimately resulted in the Commission's decision to eliminate the EC.

Open Recommendations*	Actions Pending
1. Update NRC's management directives to reflect the responsibilities and alignment of the EDO, CIO and CFO.	After the Commission's decision to eliminate the EC, the OIG recommended that NRC's management directives (MDs) and communication mechanisms be updated to reflect the responsibilities and alignment of the EDO, CFO, and CIO. All management directives that required revision to reflect the elimination of the EC have been issued or superceded. Information on completion of this recommendation will be forwarded to the OIG for review in early FY 2007 for a determination on closure.
2. Establish a mechanism to ensure that the necessary communication between the CIO and CFO, as required by OMB guidance, can occur if the EC is eliminated. Furthermore, current EC responsibilities related to the capital planning and investment control (CPIC) process would need redefinition.	Following the elimination of the EC, the CIO was aligned to report to the EDO, although the CFO still reports to the Chairman. Many means are used to ensure the necessary communications between the CIO and CFO. Information on completion of this recommendation will be forwarded to the OIG for review in early FY 2007 for a determination on closure.

*Open recommendations are numbered according to the respective OIG audit.

Government Performance and Results Act: Review of the FY 1999 Performance Report (OIG-01-A-03) **February 23, 2001**

This audit was conducted at the request of the Chairman of the Senate Committee on Governmental Affairs to determine if NRC's FY 1999 performance data was valid and reliable and if the FY 2000 performance data would be more valid and reliable. The audit found that while NRC was improving and strengthening its performance reporting process, management control procedures required to produce valid and reliable data needed to be put in place as interim policy guidance and then institutionalized in an NRC management directive.

Open Recommendations*	Actions Pending
1. Develop an NRC management directive (MD) to provide the management controls needed to ensure that NRC produces credible Government Performance and Results Act (GPRA) documents. 3. Include guidance on reporting unmet goals in both the management directive and the interim policy guidance on implementing GPRA initiatives.	Interim guidance for performance management and reporting performance information was issued in July 2001. In July 2002, a new MD and Handbook 4.8, *Performance Measurements*, was issued for intra-agency review and comment. It was subsequently decided that performance measurement should be addressed in the broader context of budget and performance integration. Therefore, new MD 4.8 is being incorporated into a revision of MD and Handbook 4.7, which will be entitled *Planning, Budgeting, and Performance Management*. Revised MD 4.7 will clarify the roles and responsibilities in setting the Agency's strategic direction, determining planned activities and resources, measuring and monitoring performance, and assessing performance. The revised management directive and handbook is expected to be finalized and issued by May 2007.

Review of the Agencywide Documents Access and Management System (OIG-02-A-12) **June 12, 2002**

This audit was conducted to determine how effectively NRC carried out the Chairman's request for an assessment of the effectiveness and efficiency of the Agencywide Documents Access and Management System (ADAMS), the electronic system that maintains official NRC records, and to assess what additional NRC actions are required to make ADAMS successful. The audit found that NRC needed to improve ADAMS management controls.

Open Recommendations*	Actions Pending
1. Finalize and issue Management Directive (MD) 2.5, *Application Systems Life-Cycle Management* and Handbook 2.5, *System Development and Life-Cycle Management Methodology*.	Draft MD 2.8, *Project Management Methodology*– superceding MD 2.1, *Information Technology Architecture*, MD 2.2, *Capital Planning and Investment Control*, and previously issued draft MD 2.5–is in Agency concurrence and will be issued during FY 2007 after the Chairman's approval. In the interim, the Executive Director for Operations issued draft MD 2.8 as interim staff guidance. OIG's review of NRC actions taken and closure was pending at the time of the FY 2006 Performance and Accountability Report's issuance.

*Open recommendations are numbered according to the respective OIG audit.

Review of NRC's Handling and Marking of Sensitive Unclassified Information (OIG-03-A-01) **October 25, 2002**

This audit was conducted to assess NRC's program for the handling, marking, and protection of Official Use Only (OUO) information, a category of sensitive unclassified information. The audit found that NRC's program and guidance for the handling and marking of sensitive unclassified information may not adequately protect OUO information from inadvertent public disclosure and that training on handling and protecting sensitive unclassified information is not provided to all NRC employees and contractors on a regular basis.

Open Recommendations*	Actions Pending
1. Update the guidance for OUO documents to require clear identification of sensitive unclassified information to prevent its inadvertent disclosure. 2. Mandate consistent use of defined markings on documents containing OUO information and clarify the markings that should be used on sensitive unclassified information.	Agency corrective actions require issuance of a revised management directive (MD) covering sensitive unclassified, non-safeguards information (SUNSI) and a new MD covering safeguards information (SGI). It is expected that the new MD on SGI will be issued by the end of 2006. With respect to SUNSI, the staff is developing a proposed policy, which is scheduled to be provided to the Commission for review and approval by the end of June 2007. Following receipt of the Commission's guidance on the proposed policy, the staff will develop the revised MD on SUNSI, which is expected to be issued by the end of 2008.

Use of Electronic Mail at NRC (OIG-03-A-11) **March 21, 2003**

This audit was conducted to determine whether NRC has an adequate process for ensuring that appropriate items of electronic mail (e-mail) correspondence become official agency records, adequate policies and procedures covering the use of its e-mail system, and employee and contractor use of the e-mail system is consistent with agency policy. The audit found that adequate controls for ensuring that appropriate e-mail records become official Agency records have not been implemented, and while NRC employees generally use the e-mail system for official business or limited personal use in accordance with Agency policy, contractors do not follow the more stringent e-mail usage policy applicable to them.

Open Recommendations*	Actions Pending
1. Revise Management Directive and Handbook 3.53, *NRC Records Management Program*, to include current information about capturing e-mail records in the Agencywide Documents Access and Management System (ADAMS).	The revised management directive and handbook is in process for final Agency approval and is expected to be finalized and issued in early 2007.

*Open recommendations are numbered according to the respective OIG audit.

Audit of NRC's Regulatory Oversight of Special Nuclear Materials (OIG-03-A-15) June 3, 2003

This audit was conducted to determine whether NRC adequately ensures its licensees control and account for special nuclear material (SNM). The audit found that NRC's current levels of oversight of licensees' material control and accounting (MC&A) activities do not provide adequate assurance that all licensees properly control and account for SNM in that NRC performs only limited inspections of licensees' MC&A activities and cannot assure the reliability of data in the Nuclear Materials Management and Safeguards System, which is a computer database managed by the U.S. Department of Energy and jointly used with NRC as the national system for tracking certain private- and Government-owned nuclear materials.

Open Recommendations*	Actions Pending
1. Conduct periodic inspections to verify that material licensees comply with MC&A requirements, including but not limited to visual inspections of licensees' SNM inventories and validation of report information. 3. Document the basis of the approach used to risk-inform NRC's oversight of MC&A activities for all types of materials licensees.	NRC expects to issue a proposed rule in 2008, with issuance of the final rule in 2009, to make enhancements to MC&A regulations, inspections, and licensing process. The work on this rulemaking will include documentation of the technical basis for risk-informing the MC&A program and how it will be applied to the program. By December 2009, NRC expects to have determined inspection resources and frequencies for MC&A inspections for SNM.
4. Revise NRC regulations to require licensees authorized to possess SNM, and not currently required to do so, to conduct annual inventories and submit an annual Material Status Report or Physical Inventory Summary Report to NRC.	NRC expects to issue a proposed rule in early 2007, with issuance of the final rule in early 2008, to require all licensees possessing 1 gram or more of SNM to submit a completed Material Status Report and Physical Inventory Listing to NRC annually.

Audit of NRC's Fiscal Year 2003 Financial Statements (OIG-04-A-03) December 17, 2003

This audit was conducted as required by the Chief Financial Officers Act of 1990. The audit resulted in an unqualified opinion on the FY 2003 financial statement, a conclusion that NRC management's assertion about the effectiveness of internal controls was fairly stated, and identification of three new reportable conditions. The audit identified one prior-year reportable condition that remains resolved, and one prior-year noncompliance.

Open Recommendations*	Actions Pending
2. Monitoring of accounting for internal use software: reassess the accounting activities being undertaken by agency personnel to ensure the completeness and propriety of accounting transactions. Be more proactive in monitoring and training project managers to install discipline which provides reliability of financial information. *Note: OIG is tracking closure action under resolved Recommendation 4 in the FY 2005 financial statement audit, OIG-06-A-01.*	In January 2006, the Office of the Chief Financial Officer developed a comprehensive plan of actions to further promote and strengthen internal use software practices. Since then, numerous actions have been completed. The Agency received a favorable finding in the FY 2006 financial statement audit and closure is pending the OIG's official letter.

*Open recommendations are numbered according to the respective OIG audit.

Review of NRC's Personnel Security Program (OIG-04-A-11) **March 25, 2004**

This audit was conducted to determine whether NRC is in compliance with external and internal personnel security requirements and whether NRC's personnel security program is efficiently managed. The audit found that although enhancements were made in recent years to the personnel security program, further action was needed to bring the program into compliance with agency requirements and ensure that the Agency is responding appropriately to heightened security concerns following the terrorist attacks of September 11, 2001.

Open Recommendations*	Actions Pending
12. In accordance with U.S. Office of Personnel Management (OPM) policy, inform OPM when an intern terminates employment prior to completion of the OPM background investigation.	A procedure for Security Branch staff regarding how to determine when an intern has not been identified to return to NRC, the need to notify OPM in such situations, and how to make the notifications to OPM, is being developed and will be implemented by mid-December 2006.

Review of NRC's Reactor Operating Experience Task Force Report (OIG-04-A-13) **March 30, 2004**

The audit of the commercial nuclear power plant baseline inspection program (discussed further in the table on OIG-05-A-06) included a review of NRC's Reactor Operating Experience Task F orce (ROETF) report. The audit concluded that the ROETF report's conclusions and recommendations were adequate to address program weaknesses identified by the task force, but that some areas of the report's recommendations needed to be strengthened.

Open Recommendations*	Actions Pending
1. Revise the Reactor Operating Experience Program objectives to include measurable performance aspects.	The reactor operating program objectives have been revised to include measurable performance aspects and have been included in Management Directive (MD) 8.7, *Reactor Operating Experience Program*, which was issued on September 28, 2006. Information on completion of this recommendation will be forwarded to the OIG for review in early FY 2007 for a determination on closure.
3. Establish an independent operating experience function and locate that function at the appropriate organizational level.	Roles and responsibilities for the operating experience function are defined in MD 8.7, which was issued on September 28, 2006. Information on completion of this recommendation will be forwarded to the OIG for review in early FY 2007 for a determination on closure.

*Open recommendations are numbered according to the respective OIG audit.

Review of NRC's Drug-Free Workplace Plan (OIG-04-A-15) **May 24, 2004**

The audit of NRC's Drug Testing Program (discussed further in the table on OIG-05-A-05) found that the NRC's Drug-Free Workplace Plan was not in compliance with Federal guidance that requires the plan to receive U.S. Department of Health and Human Services' (HHS's) approval and that it was missing a required clause.

Open Recommendations*	Actions Pending
1. Revise the *NRC Drug-Free Workplace Plan* to include the deferral-of-testing clause from the HHS's *Model Plan for a Comprehensive Drug-Free Workplace Program*. 2. Include in the *NRC Drug-Free Workplace Plan* instruction that revisions must receive approval from the HHS prior to implementation. 3. Obtain HHS's approval of the 2004 *NRC Drug-Free Workplace Plan* prior to implementation.	The plan was revised to include the deferral-of-testing clause and an instruction that plan revisions must receive approval from HHS prior to implementation. Submission of the revised plan to HHS for review and approval was delayed until receipt of the Commission's recent decision to revise the drug testing pool criteria to include all NRC employees. Additional changes were included in the plan to reflect the Commission's decision, and the revised plan was submitted to HHS on September 29, 2006. A meeting with HHS to discuss the revised plan is scheduled for November 2006. Depending upon HHS's comments and the effort required to resolve issues, NRC expects to be able to submit a revision addressing HHS's comments by late November 2006. Full implementation and dissemination of the revised plan are pending receipt of HHS's approval of NRC's plan, which is expected in January 2007.

Audit of NRC's Incident Response Program (OIG-04-A-20) **September 23, 2004**

This audit was conducted to determine whether NRC's incident response program is performed in a timely and effective manner, provides adequate support to licensees, and maintains readiness and qualifications of staff. The audit found that while NRC has improved its program since the Three Mile Island 2 accident on March 29, 1979, more needed to be done to ensure that the program is performed consistently, is more fully understood by licensees, and maintains a well-defined process for demonstrating staff are qualified and ready to respond.

Open Recommendations*	Actions Pending
1. Establish a defined agencywide incident response plan that includes standards for performance, delineation of the conduct of exercises and drills, and a well-defined objective mechanism for evaluating incident response during exercises.	Implementing procedures and other supporting documents linked to the NRC Incident Response Plan (NUREG-0728) are to be incorporated into the incident response manual (IRM) chapter, and are expected to be completed by the end of FY 2008.
3. Update NUREG-0845, *Agency Protocols for the NRC Incident Response Plan*, or incorporate relevant portions into other Agency procedures.	NUREG-0728, Revision 4, issued for interim use effective April 14, 2005, superseded NUREG-0845. The relevant portions of NUREG-0845 have been incorporated into NUREG-0728 and its implementing procedures. Revised implementing procedures and manual chapters are expected to be completed by the end of FY 2008.

(continued)

*Open recommendations are numbered according to the respective OIG audit.

Audit of NRC's Incident Response Program (OIG-04-A-20) ***(continued)***

Open Recommendations*	Actions Pending
6. Exercise the deployment of headquarters and regional response staff as part of the Agency's incident response program.	NRC revised IRM Chapter 0410, "Incident Response Guidance for Minimum Exercise Participation," to require each region to annually test its logistical procedures for the deployment of a site team. The guidance does not dictate an actual deployment but requires the regional emergency response coordinators to aggressively pursue all aspects of the deployment process. OIG's review of NRC actions taken and closure was pending at the time of the FY 2006 Performance and Accountability Report's issuance.
7. Develop team- and position-specific strategies and procedures for handling events at multiple sites.	NRC completed IRM Chapter 0920, "Incident Response-Multiple Incidents," which provides a standard methodology for NRC response to multiple, simultaneous incidents based on the significance of each incident. It also specifies the responsibilities and authorities for NRC response personnel during the response. The guidance provides for flexibility in the use of NRC resources so that they may be applied effectively. OIG's review of NRC actions taken and closure was pending at the time of the FY 2006 Performance and Accountability Report's issuance.
8. Periodically conduct incident response exercises involving multiple sites.	In order to test the key elements of IRM Chapter 0920, in March 2006, NRC conducted a multiple-event tabletop exercise that included participation by all of the regional offices. A multiple-site standard exercise is to be conducted in FY 2007.
11. Revise the *NRC Incident Response Plan* to better define the incident response to emergencies involving regulated fuel cycle facilities and nuclear materials.	In lieu of revising the *NRC Incident Response Plan* (NUREG-0728) to include improved guidance for incident response to emergencies involving fuel facilities, NRC will provide this improved guidance in the IRM. The manual chapters containing this guidance are expected to be completed by the end of FY 2008.
13. Update response technical manual (RTM) supplements for gaseous diffusion plants.	Updates to the RTM supplements for gaseous diffusion plants are expected to be completed by November 2007.
14. Improve and expand outreach for licensees to enhance licensees' understanding of NRC's incident response program.	NRC issued and implemented guidance on conducting incident response outreach with licensees and has increased licensee outreach at different venues both at NRC Headquarters and in the regions. This includes increased outreach with licensees before exercises, tours and briefings with licensee officials at the Headquarters Operations Center, and NRC Incident Response Program presentations at stakeholder workshops and conferences. NRC is developing a digital video disk (DVD) for licensees and other stakeholders on the NRC's Incident Response Program, and is continuing to develop standardized outreach presentations that will be given on a routine basis to licensees and other stakeholders. These additional outreach initiatives are expected to be completed by the end of FY 2007.

(continued)

*Open recommendations are numbered according to the respective OIG audit.

Audit of NRC's Incident Response Program (OIG-04-A-20) ***(continued)***

Open Recommendations*	Actions Pending
16. Develop and implement a well-defined Agencywide training program to meet incident response commitments.	NRC identified program goals and development milestones and drafted an IRM chapter that describes the new training program and its requirements, which is expected to be issued in mid-FY 2007. Full implementation of the formal training and qualification program remains and is expected to be completed by the end of FY 2008.
17. Establish a centralized system for tracking successful completion of training activities by individual and position.	Until tracking of incident response training is integrated into the Agencywide Learning Management System (LMS), NRC will continue to use existing records for qualifying staff for exercise participation and for responding to actual events, but will collect and load baseline information on responder qualifications into the LMS. Integration of tracking for incident response training into the LMS is expected to be completed by November 2007.

System Evaluation of the Agencywide Documents Access and Management System (OIG-04-A-21) **October 21, 2004**

This evaluation was conducted as part of the OIG's review of NRC's implementation of the Federal Information Security Management Act (FISMA) for FY 2004, with the objectives of reviewing and evaluating the management, operational, and technical controls for NRC's Agencywide Documents Access and Management System (ADAMS). The review found that ADAMS security documentation was not always consistent with National Institute of Standards and Technology (NIST) guidelines, security protection requirements were not consistent within the security documentation, and findings and recommendations resulting from testing were not consistently tracked.

Open Recommendations*	Actions Pending
1. Update the ADAMS Risk Assessment Report to be consistent with NIST Special Publication 800-30, *Risk Management Guide*.	The ADAMS Risk Assessment Report is being updated as part of the ADAMS security certification and accreditation, and will be consistent with the applicable NIST and NRC guidance. In accordance with the ADAMS certification and accreditation schedule, the final ADAMS Risk Assessment Report is expected to be completed by the end of April 2007.
2. Update the ADAMS Security Plan to describe all controls currently in place. In-place controls are those marked at least at Level 3 in the self-assessment and that were documented as passed in the last Security Test and Evaluation Report or in any test and evaluation on controls added since publication of that report.	The ADAMS Security Plan is being updated as part of the ADAMS security accreditation, and will describe all controls in place. Completion of the ADAMS Security Plan is dependent on a completed ADAMS Risk Assessment Report, approved by the NRC's Senior Information Technology Security Officer (SITSO). The ADAMS Security Plan is expected to be completed by the end of July 2007.
5. Update the ADAMS Security Plan and/or ADAMS self-assessment to consistently define the protection requirements (confidentiality, integrity, availability).	The ADAMS Security Plan is being updated as part of the ADAMS security accreditation, and will consistently define protection requirements. Completion of the ADAMS Security Plan is dependent on a completed ADAMS Risk Assessment Report, approved by the NRC's SITSO. The revised ADAMS Security Plan is expected to be completed by the end of July 2007.
6. Track all action items resulting from testing of the ADAMS security controls and contingency plan in either the agency's internal tracking system or the Agency's plan of action and milestones (POA&M).	The ADAMS system-level action items are tracked in the NRC's FISMA POA&M. The Information Technology Systems Security Tracking System database will be updated to track all action items as results become available, until the final report is completed, which is expected to be completed by the end of March 2008.

*Open recommendations are numbered according to the respective OIG audit.

Independent Evaluation of NRC's Implementation of the Federal Information Security Management Act for FY 2004 (OIG-04-A-22) **September 30, 2004**

This was an independent evaluation of NRC's implementation of the Federal Information Security Management Act for FY 2004. The review found that while NRC had made improvements to its automated information security program, additional improvements were needed.

Open Recommendations*	Actions Pending
Five of the original 16 recommendations remain open.	Due to the sensitive nature of the OIG's review and recommendations in this area, specific details are not furnished as part of this report. As of September 30, 2006, completion of Agency actions on this OIG audit report requires certification and accreditation or re-certification and re-accreditation of some systems and updating of a business continuity plan. These activities are expected to be completed between March 2007 and December 2008. These Agency actions will be carried over to and tracked to completion via NRC's FY 2007 Plan of Action and Milestones required by the Federal Information Security Management Act.

Systems Evaluation of the Fee Systems (OIG-04-A-23) **October 21, 2004**

This evaluation was conducted as part of the OIG's review of NRC's implementation of the Federal Information Security Management Act for FY 2004, with the objectives of reviewing and evaluating the management, operational, and technical controls for the Fee Systems, the primary function of which is to generate invoices to licensees for fees. The review found that Fee Systems' security documentation did not always follow required guidelines and that NRC was not tracking all action items resulting from testing the security controls.

Open Recommendations*	Actions Pending
1. Update the Fee Systems Security Plan to describe all controls currently in place.	The Fee Systems Security Plan is being updated as part of the re-certification and re-accreditation effort. The security plan is expected to be completed in FY 2007.
4. Update the Fee Systems Business Continuity Plan (BCP) to include listed changes.	The Fee Systems Business Continuity Plan will be updated as a follow-on to the re-certification and re-accreditation. The BCP is expected to be completed in FY 2007.

*Open recommendations are numbered according to the respective OIG audit.

System Evaluation of the General License Tracking System (OIG-04-A-24) October 21, 2004

This evaluation was conducted as part of the OIG's review of NRC's implementation of the Federal Information Security Management Act for FY 2004, with the objectives of reviewing and evaluating the management, operational, and technical controls for the General License Tracking System (GLTS), the primary function of which is to facilitate the tracking and accountability of NRC general licensees and generally licensed devices. The review found that the GLTS's security documentation did not always follow required guidelines, security protection requirements were not consistent within the security documentation, and NRC was not tracking all action items resulting from testing the system's security controls.

Open Recommendations*	Actions Pending
1. Update the GLTS Security Plan to describe all controls currently in place. In-place controls are those marked at least at Level 3 in the self-assessment and that were documented as passed in the last Security Test and Evaluation Report, or in any test and evaluation on controls added since publication of that report.	The GLTS Security Plan is scheduled to be completed by the first quarter of FY 2008.
3. Update the GLTS Business Continuity Plan.	The revised GLTS Business Continuity Plan is scheduled to be completed by the fourth quarter of FY 2008.
4. Update the GLTS Security Plan and/or GLTS self-assessment to consistently define the protection requirements (confidentiality, integrity, availability).	The GLTS Security Plan, which will define protection requirements in a consistent manner, is scheduled to be completed by the first quarter of FY 2008.

(Appendix B continued on page 146)

*Open recommendations are numbered according to the respective OIG audit.

Audit of the NRC's Financial Statements for Fiscal Years 2004 and 2003 (OIG-05-A-02) **November 12, 2004**

This audit was conducted as required by the Chief Financial Officers Act of 1990 to determine whether the Agency's financial statements were free of material misstatements, to assess the accounting principles used and significant estimates made by management, and to evaluate overall financial statement presentation. The audit resulted in an unqualified opinion on the FY 2004 financial statement and revision from an unqualified opinion to a qualified opinion on the FY 2003 statement, and identification of a material weakness and several reportable conditions relative to NRC's FY 2004 internal controls and compliance with applicable laws and regulations.

Open Recommendations*	Actions Pending
2. Develop and implement a remediation plan to enhance the reliability of the current billing system. Additionally, as system redesign is considered, identify steps to address systemic issues with the current fee billing system. *Note: OIG is tracking closure actions under resolved Recommendation 1 in the FY 2005 financial statement audit, OIG-06-A-01.* 3. Ensure that documented, complete, and reliable quality assurance procedures are prepared for the billing process. At a minimum, those procedures should provide for a documented, global reconciliation at each billing cycle of hours and fees reflected in the Fee Systems to the invoices generated by the personal-computer-based fee billing systems. *Note: OIG is tracking closure actions under resolved Recommendations 1 and 2 in the FY 2005 financial statement audit, OIG-06-A-01.*	During FY 2006, the Office of the Chief Financial Officer (OCFO) took several actions to improve quality assurance over fee billing, including performing a comprehensive assessment to identify processes that would benefit from strengthened internal control. As a result, a corrective action plan was developed and the following internal control improvements were implemented: system interface controls, such as systems balancing, to ensure that data is captured and processed; reports to ensure that the universe of license fee billing data is processed; controls to increase the accuracy of assigning fee categories; reconciliation procedures to ensure that contract costs are processed accurately; and procedures to strengthen the certification process used by NRC program and regional offices. OCFO will continue to implement corrective actions in FY 2007 and the OIG will reassess their progress in the FY 2007 financial statement audit.
4. Continue to reassess the internal use software procedures and related accounting activities being undertaken by agency personnel to ensure their completeness and propriety. In addition to proactive monitoring, design and provide training to project managers and their supervisors in order to provide awareness and instill discipline to project managers in their role of providing reliable information to the OCFO. *Note: OIG is tracking closure actions under resolved Recommendation 4 in the FY 2005 financial statement audit, OIG-06-A-01.*	In early 2006, the OCFO developed a comprehensive plan of actions to further promote and strengthen internal use software practices. Since then, numerous actions have been completed. The Agency received a favorable finding in the FY 2006 financial statement audit and closure is pending the OIG's official letter.

(continued)

*Open recommendations are numbered according to the respective OIG audit.

Audit of the NRC's Financial Statements for Fiscal Years 2004 and 2003 (OIG-05-A-02) ***(continued)***

Open Recommendations*	Actions Pending
6. Continue to pursue the assessment strategy that is under way and ensure that a communication process is developed to assist OCFO management and to inform OIG of the progress and actions planned to resolve the issue of revising the hourly rate calculation methodology so that the rates NRC develops include the full-cost concept. *Note: OIG is tracking closure actions under resolved Recommendation 11 in the FY 2005 financial statement audit, OIG-06-A-01.*	For purposes of incorporating any lessons learned into the budget formulation process, OCFO developed procedures to calculate hourly rates using actual cost data from the cost accounting system and compared the results to hourly rates developed using budget data from the same fiscal year. Because the hourly rates established under 10 CFR Part 170 are based on budget data, any changes in the budget resulting from this analysis will be reflected in future Part 170 rates. OCFO utilized the procedures to calculate hourly rates using FY 2005 cost data and compared the results to hourly rates developed using FY 2005 budget data. The recommendation remains in a resolved status and closure is pending a favorable finding during OIG's audit of NRC's FY 2007 financial statements.

Audit of NRC's Drug Testing Program (OIG-05-A-05) **December 30, 2004**

This audit was conducted to assess the NRC's implementation of its drug testing program, and identified that improvements were needed in the program's random testing process and management oversight.

Open Recommendations*	Actions Pending
4. Revise the categories of testing-designated positions to include computer system administrators and individuals engaged in law enforcement activities who are authorized to carry weapons.	On September 29, 2006, the Commission decided to revise the drug testing pool to include all NRC employees. Appropriate changes were incorporated in the NRC Drug-Free Workplace Plan to reflect this decision and the plan was submitted to the U.S. Department of Health and Human Services (HHS) for review and approval on September 29, 2006. A meeting with HHS to discuss the revised plan is scheduled for November 2006. Depending upon HHS's comments and the effort required to resolve issues, NRC expects to be able to submit a revision addressing HHS's comments by late November 2006. Full implementation and dissemination of the revised plan are pending receipt of HHS's approval of NRC's plan, which is expected in January 2007.
5. Re-evaluate categories of testing-designated positions and continue to do so biennially.	Upon approval of NRC's plan by HHS, as discussed in the actions pending relative to Recommendation 4, the testing-designated position criteria will be reviewed and revised as appropriate on a biennial basis.
12. Update the Management Directive System to include the drug testing policy and procedures that employees are expected to follow.	NRC is developing a new management directive (MD) to describe the Agency's drug testing policy and provide an overview of the procedures that employees are expected to follow. This new MD directive is expected to be completed by the end of July 2007.

*Open recommendations are numbered according to the respective OIG audit.

Audit of NRC's Baseline Inspection Program (OIG-05-A-06) December 30, 2004

This audit was conducted to determine whether NRC's baseline inspection program is based on a sound methodology, carried out by sufficient, qualified staff, and completed at all operating commercial nuclear power plants. The audit found that the program is generally sound but needed improvement.

Open Recommendations*	Actions Pending
2. Develop guidance on how to identify human performance trends and how that information should be integrated into the reactor oversight process (ROP).	NRC completed all actions to enhance the ROP treatment of cross-cutting issues in order to more fully address safety culture through revision of numerous Inspection Manual Chapters and Inspection Procedures, and has begun to implement the enhancements. OIG's review of NRC actions taken and closure was pending at the time of the FY 2006 Performance and Accountability Report's issuance.

System Evaluation of the Integrated Personnel Security System (OIG-05-A-08) January 26, 2005

This evaluation was conducted as part of the OIG's review of NRC's implementation of the Federal Information Security Management Act for FY 2004, with the objectives of reviewing and evaluating the management, operational, and technical controls for the Integrated Personnel Security System (IPSS), which replaced NRC employee security information contained in paper files and in a less-capable automated data system. The review found that the IPSS's security test and evaluation were not comprehensive and independent, security documentation was not always consistent with National Institute of Standards and Technology (NIST) guidelines, and security protection requirements were not consistent within the security documentation.

Open Recommendations*	Actions Pending
1. Re-certify and re-accredit IPSS based on an independent, comprehensive, and fully documented assessment of all management, operational, and technical controls.	Certification and accreditation for IPSS will be performed as part of the NRC's Information Systems Security Program, and is expected to be completed by the end of 2007.
2. Update the IPSS Risk Assessment Report to include listed changes.	The IPSS Risk Assessment Report is scheduled to be updated to include the specified items by June 2007.
3. Update the IPSS System Security Plan to include listed changes.	The IPSS Security Plan is scheduled to be updated to include the specified items by June 2007.
4. Update the IPSS System Security Plan to include a section on planning for security in the life cycle and a section on incident response capability.	The IPSS Security Plan is scheduled to be updated by June 2007 and will include sections on planning for security in the life cycle and incident response capability.
5. Update the IPSS System Security Plan to describe all controls currently in place. In-place controls are those marked at least at Level 3 in the self-assessment and that were documented as passed in the last Security Test and Evaluation Report, or in any test and evaluation on controls added since publication of that report.	The IPSS Security Plan is scheduled to be updated by June 2007 and will describe all controls currently in place.
7. Update the IPSS Contingency Plan to include listed changes.	The IPSS Contingency Plan is scheduled to be updated by June 2007 and will include the specified items.
8. Update the IPSS System Security Plan and/or IPSS self-assessment to consistently define the protection requirements (confidentiality, integrity, availability).	The security plan and IPSS self-assessment will be updated by June 2007 to consistently define protection requirements.

*Open recommendations are numbered according to the respective OIG audit.

Audit of NRC's Budget Formulation Process (OIG-05-A-09) **February 9, 2005**

This audit was conducted to determine whether the budget formulation portion of the NRC's Planning, Budgeting, and Performance Management process is effectively used to develop and collect data to align resources with strategic goals and efficiently and effectively coordinated with program and support offices. The audit identified that NRC effectively develops and collects data to align resources with strategic goals, prepares the budget in alignment with the Strategic Plan, and successfully conducts Office of Management and Budget-required Program Assessment Rating Tool evaluations, but needed additional internal coordination and communication efforts.

Open Recommendations*	Actions Pending
1. Clarify the roles and responsibilities of the Chief Financial Officer and the Executive Director for Operations in the budget formulation process. 2. Document the decision-making process and roles and responsibilities of the Program Review Committee. 3. Document the budget formulation process to ensure a logical, comprehensive sequencing of events that provides for obtaining early Commission direction and approval.	Revised Management Directive 4.7, *Planning, Budgeting, and Performance Management*, will clarify roles and responsibilities and document the budget formulation process, including decision-making, and will provide for a logical, comprehensive sequencing of events for obtaining early Commission direction and approval. The revised management directive and handbook is expected to be finalized and issued by May 2007.

Audit of NRC's Telecommunications Program (OIG-05-A-13) **June 7, 2005**

This audit was conducted to evaluate controls over the use of NRC telecommunications services and the physical security of NRC telecommunications systems, and found that improvements were needed to strengthen controls over the use of telecommunications services and the physical security of NRC telecommunications systems.

Open Recommendations*	Actions Pending
1. Purchase and implement billing review software to assist in implementing a cost-effective, comprehensive telecommunications billing review process.	NRC performed a market analysis of 10 vendors and recently completed a business case analysis. The preliminary results of the business case indicate the purchase and implementation of billing review software is not cost-effective. As such, NRC is proceeding to identify and document the processes needed to implement a manual telecommunications billing review process that is cost-effective and comprehensive, and incorporates the intent of the OIG's recommendation. Documentation for sound telecommunications billing review practices is expected to be completed and implementation begun in January 2007.
2. Establish benchmarks for determining if telecommunications charges are accurate and appropriate.	Current processes are being documented in order to establish standard operating procedures (SOP) and benchmarks to determine billing accuracy. These processes will be incorporated into a standard operating procedure (SOP) for the Telecommunications Team Project Officers and implementation will be part of their duties. The procedures are expected to be completed and implemented in January 2007.

(continued)

*Open recommendations are numbered according to the respective OIG audit.

Audit of NRC's Telecommunications Program (OIG-05-A-13) ***(continued)***

Open Recommendations*	Actions Pending
3. Revise Management Directive and Handbook 2.3 to include effective management controls over NRC Headquarters staff use of Agency telecommunications services.	The revised management directive and handbook is expected to be circulated for intra-agency review and comment in December 2006, and finalized and issued in May 2007.
4. Establish requirements for routinely conducting inventories of telephone lines and circuits for which the Agency pays monthly recurring charges, assessing usage of these telephone lines and circuits, and making adjustments to account for unneeded telephone lines and circuits.	Completion of the procedures for the Telecommunications Team and the inventory are dependent upon completion of the procedures and processes developed as part of benchmarking telecommunications charges for fairness and reasonableness, as well as the processes to implement a non-automated billing review. This work is expected to be completed in January 2007.
5. Define and enforce appropriate use of Agency toll-free numbers.	Interim guidance on the use of the NRC's toll-free numbers has been posted on the NRC intranet. This guidance will be incorporated into Management Directive and Handbook 2.3, which is expected to be finalized and issued in May 2007.

System Evaluation of Listed Systems that Process Safeguards and/or Classified Information (OIG-05-A-14) **August 11, 2005**

This evaluation was conducted as part of the OIG's review of NRC's implementation of the Federal Information Security Management Act for FY 2005, with the objectives of testing the effectiveness of NRC security policies, procedures, practices, and controls for listed systems processing safeguards and/or classified information. The review found that the inventory of listed systems was inaccurate and information was inconsistent, some listed systems lacked required security plans, and some security controls were not implemented as required.

Open Recommendations*	Actions Pending
1. Correct the inaccuracies in the inventory of listed systems.	Resolution of the inaccuracies in the inventory is expected to be completed by the end of 2006.
2. Validate the inventory of listed systems annually.	Resolution of the inaccuracies in the inventory and validation of the inventory is expected to be completed by the end of 2006.
5. Develop procedures for ensuring all listed systems have an up-to-date, approved security plan prior to being put into operation.	NRC offices have been notified of the requirement for an approved system security plan prior to placing listed systems that process safeguards or classified information into production. Formal procedures for ensuring all listed systems have an up-to-date, approved security plan are expected to be completed by the end of March 2007.
6. Develop procedures for ensuring system owners/sponsors respond to Office of Information Services requests for security plan updates in a timely manner.	NRC offices have been notified of the requirement for an annual update of the system security plans for listed systems that process safeguards or classified information. Formal procedures for ensuring system owners provide security plan updates in a timely manner are expected to be completed by the end of March 2007.
7. Develop procedures for verifying all required security controls are implemented on listed systems.	Formal procedures for verifying the security controls on listed systems are expected to be completed by the end of 2007.

*Open recommendations are numbered according to the respective OIG audit.

Audit of NRC's Decommissioning Program (OIG-05-A-17) **September 30, 2005**

This audit was conducted to determine whether NRC's decommissioning program achieves desired performance results as stated in the Strategic Plan and reported in the Performance and Accountability Report. The audit identified that while NRC's decommissioning program has processes in place to monitor, evaluate, and report on performance, some performance results could not be verified. In addition, the audit found that although most of the recommendations from an FY 2003 self-evaluation of the program were implemented, progress to implement a few was minimal.

Open Recommendations*	Actions Pending
1. Clarify and disseminate expectations for generating and maintaining supporting documentation for performance data to staff responsible for preparing and collecting performance data.	Revised Management Directive 4.7, *Planning, Budgeting, and Performance Management*, will include clarifications of expectations for generating and maintaining supporting documentation for performance data. The revised management directive and handbook is expected to be finalized and issued by May 2007.

System Evaluation of Security Controls for Standalone Personal Computers and Laptops (OIG-05-A-18) **September 30, 2005**

This evaluation was conducted as part of the OIG's review of NRC's implementation of the Federal Information Security Management Act for FY 2005, with the objectives of evaluating the effectiveness of NRC security policies, procedures, practices, and controls for standalone personal computers (PCs) and laptop computers. The review found that security controls for standalone PCs and laptops were not adequate, that the devices were not monitored for compliance with Federal regulations, and agency information technology coordinators' understanding of disposal practices for these devices were not consistent.

Open Recommendations*	Actions Pending
1. Provide users guidance for implementing security controls on standalone PCs and laptops.	By September 2007, guidance for implementing security controls on standalone PCs and laptops will be developed and posted on the computer security web page, and offices will be notified that the guidance is available.
2. Develop and require users to sign a rules-of-behavior agreement accepting responsibility for implementing security controls on standalone PCs and laptops.	By September 2007, standard rules of behavior implementing security controls on standalone PCs and laptops will be developed, the standard agreement will be posted on the computer security web page, and offices will be notified of the requirement for all users of such devises to sign the agreement as a condition of using the devices.
3. Develop and implement procedures for verifying all required security controls are implemented on standalone PCs and laptops.	By September 2007, procedures for verifying all required security controls are implemented on standalone PCs and laptops will be developed and implemented.
4. Provide users guidance on compliance with Executive Order (EO) 13103, Computer Software Piracy, for standalone PCs and laptops.	By September 2007, clear guidance on compliance with EO 13103, for standalone PCs and laptops will be developed and posted on the computer security web page, and offices will be notified that the guidance is available.

(continued)

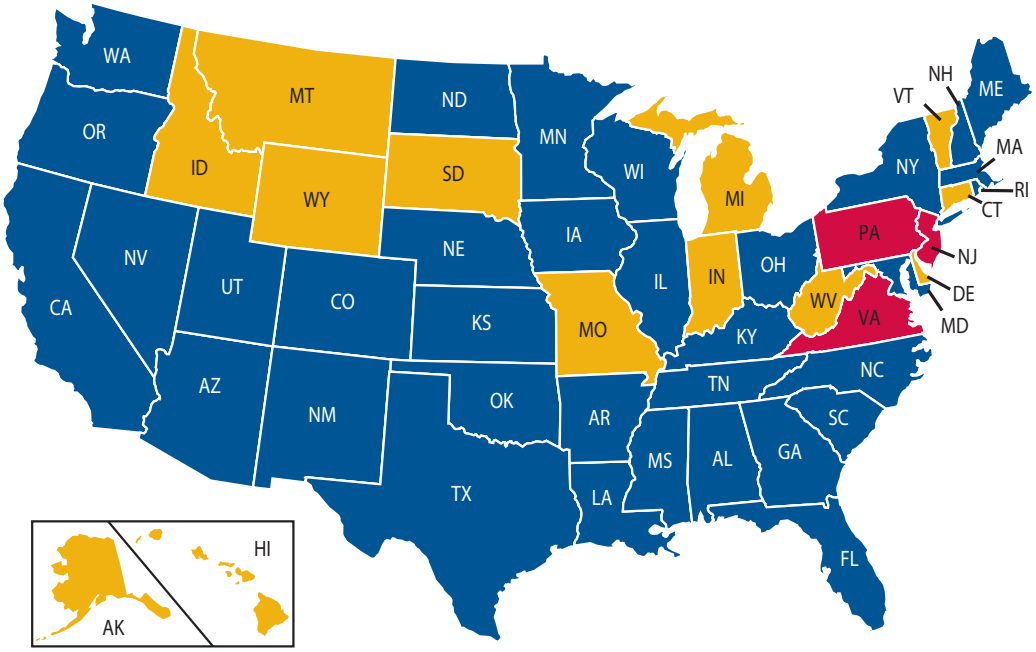
*Open recommendations are numbered according to the respective OIG audit.

System Evaluation of Security Controls for Standalone Personal Computers and Laptops (OIG-05-A-18) ***(continued)***

Open Recommendations*	Actions Pending
5. Develop and require users to sign a rules-of-behavior agreement acknowledging their compliance with EO 13103, Computer Software Piracy, for standalone PCs and laptops.	By September 2007, a standard rules-of-behavior agreement for users to acknowledge their compliance with EO 13103 for standalone PCs and laptops will be developed and posted on the computer security web page, and offices will be notified of the requirement for all users of such devices to sign the agreement as a condition of using the devices.
6. Develop and implement procedures for monitoring compliance with EO 13103, Computer Software Piracy, for standalone PCs and laptops.	By September 2007, procedures for monitoring compliance with EO 13103 for standalone PCs and laptops will be developed and issued.
7. Develop detailed procedures in the appropriate NRC management directives (MDs) for the disposal of equipment used to process safeguards and/or classified information. These procedures should then be referenced in the appropriate chapters of the Volume 12 series of management directives.	NRC's process for disposing of media/equipment used to process safeguards and/or classified information at Headquarters and regional offices will be documented by the end of January 2007, and NRC MDs dealing with facility and information security will be revised to include language consistent with guidance currently provided in the MD on NRC's automated information security program.
8. Include the procedures for the disposal of equipment containing safeguards and/or classified information in the security plan templates.	By the end of March 2007, the security plan templates for standalone systems that process safeguards or classified information will be modified to reference the procedures for the disposal of equipment containing such information.

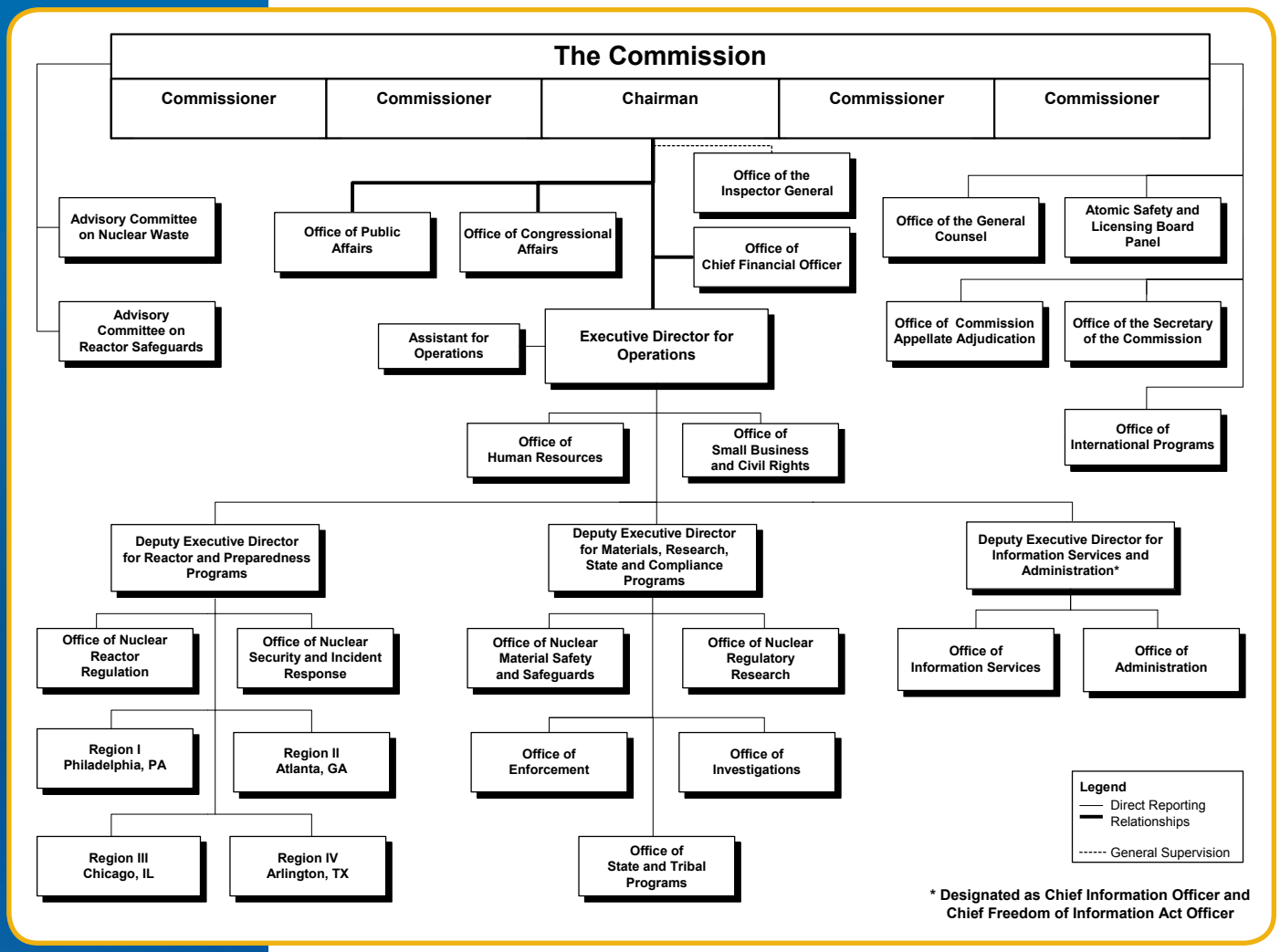
*Open recommendations are numbered according to the respective OIG audit.

AGREEMENT STATES



- Agreement States (34)
- NRC States (13)
- NRC States that have expressed intent to sign Agreement (3)

NRC ORGANIZATION CHART AS OF SEPTEMBER 30, 2006



GLOSSARY OF ACRONYMS

ACRS	Advisory Committee on Reactor Safeguards
ADAMS	Agencywide Documents Access and Management System
AICPA	American Institute of Certified Public Accountants
AID	Agency for International Development
AO	abnormal occurrence
ASP	accident sequence precursor
BCP	Business Continuity Plan
CCR	Central Contractor Registration
CE	Combustion Engineering Owner's Group
CEAR	Certificate of Excellence in Accountability Reporting
CFO	Chief Financial Officer
CFO Act	Chief Financial Officer Act of 1990
CFR	United States Code of Federal Regulations
CIO	Chief Information Officer
CIOC	CIO Council
COLs	Combined Operating Licenses
CPIC	Capital Planning Investment Control
CSRS	Civil Service Retirement System
CY	calendar year
DHS	Department of Homeland Security
DOE	Department of Energy
DOI	Department of Interior
DOL	Department of Labor
EC	Executive Council
ECIC	Executive Committee on Internal Control
EDO	Executive Director for Operations
EFT	electronic funds transfer
E-Gov	electronic Government
EO	Executive Order
EPA	Environmental Protection Agency
E-QIP	Electronic Questionnaires for Investigations Processing
ESP	Early Site Permits
FACTS I	Federal Agencies' Centralized Trial Balance System
FAR	Federal Acquisition Regulation

FECA	Federal Employees Compensation Act
FEMA	Federal Emergency Management Agency
FERS	Federal Employees Retirement System
FFMIA	Federal Financial Management Improvement Act
FFS	Federal Financial System
FICA	Federal Insurance Contribution Act
FISMA	Federal Information Security Management Act
FOIA	freedom of information requests
FPPS	Federal Personnel and Payroll System
FSIO	Financial System Integration Office
FTE	Full-Time Equivalent
FY	fiscal year
GAO	Government Accountability Office
GFE	Generic Fundamentals Examination
GFRS	Governmentwide Financial Reporting System
GLTS	General License Tracking System
GPEA	Government Paperwork Elimination Act
GPRA	Government Performance and Results Act
GSA	General Services Administration
GSI	General Safety Issue
HHS	Health and Human Services
HLW	High-Level Waste
HSPD	Homeland Security Presidential Directive
HSPD-12	Homeland Security Presidential Directive 12
IAEA	International Atomic Energy Agency
IG	Inspector General
IMPEP	Integrated Materials Performance Evaluation Program
Improvement Act	Federal Financial Management Improvement Act of 1996
Integrity Act	Federal Manager's Financial Integrity Act of 1982
IOAA	Independent Offices Appropriation Act
IPAC	Intragovernment Payment and Collection
IPSS	Integrated Personnel Security System
IRM	incident response manual
ISA	integrated safety analysis
IT	information technology
JFMIP	Joint Financial Management Information Program

LMS	Learning Management System
LSN	Licensing Support Network
MC&A	material control and accounting
MD	Management Directive
MOX	mixed-oxide fuel
MWe	Megawatts electric
NARA	National Archive and Records Administration
NBC	National Business Center
NFPA	National Fire Protection Association
NIST	National Institute of Standards and Technology
NMED	Nuclear Materials Event Database
NMMSS	Nuclear Materials Management and Safeguards System
NMSS	Office of Nuclear Materials Safety and Safeguards
NRC	Nuclear Regulatory Commission
NRR	Office of Nuclear Reactor Regulation
NSIR	Office of Nuclear Security and Incident and Response
NUREG	Nuclear Regulatory Commission Regulation
NWF	Nuclear Waste Fund
OBRA-90	Omnibus Budget Reconciliation Act of 1990
OCFO	Office of the Chief Financial Officer
OEDO	Office of the Executive Director for Operations
OIG	Office of the Inspector General
OIS	Office of Information Services
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OSART	Operational Safety Review Team
OUO	Official Use Only
PAR	Performance and Accountability Report
PART	Program Assessment Rating Tool
PBPM	planning, budgeting, and performance management
PC	Personal Computers
PII	personal identifiable information
PL	Public Law
PMM	Project Management Methodology
POA&M	plan of action and milestones
PRA	Probabilistic Risk Assessment

PRB	Petition Review Board
PWR	Pressurized Water Reactor
RASP	Risk Assessment Standardization Project
RES	Office of Nuclear Regulatory Research
RIRIP	Risk-Informed Regulation Implementation Plan
RLO	records liaison officer
RMG	records management guideline
ROETF	Reactor Operating Experience Task Force
ROP	Reactor Oversight Process
RTM	response technical manual
SAT	Senior Assessment Team
SBR	Statement of Budgetary Resources
SDLCM	System Development Life-Cycle Management
SDLCMM	System Development Life-Cycle Management Methodology
SDP	Significance Determination Process
SECY	Office of the Secretary of the Commission
SFFAS	Statements of Federal Financial Accounting Standards
SGI	Safeguards Information
SITSO	Senior Information Technology Security Officer
SNM	special nuclear material
SUNSI	Sensitive Unclassified Non-Safeguards Information
TAC	Technical Assignment Control
TI	temporary instruction
TSP	Thrift Savings Plan
TSTF	Technical Specification Task Force

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