

CERTIFICATE OF EXCELLENCE IN ACCOUNTABILITY REPORTING
RECOMMENDATIONS

Nuclear Regulatory Commission
Fiscal Year ended September 30, 2007

PRESENTATION OF INFORMATION

1. The Program Performance Overview states that the Nuclear Reactor Safety program accounted for 74 percent of NRC's costs in FY 2007 (page 7). This is consistent with the Gross Costs reported in the Statement of Net Cost (page 65), but not the negative cost reported for Nuclear Reactor Safety in the Financial Performance Overview (page 20). Clarifying the Overview, i. e., explaining the role of earned revenues in offsetting gross costs, would avoid reader confusion.

In a similar vein, the pie chart in the Program Performance section reports that the Safety and Security programs are \$728.7 million and \$59.5 million for a total of \$788.2 million (page 56). The gross costs presented in the Statement of Net Cost are \$786.7 million. This difference should be addressed.

NRC Response: NRC updated our "Cost to Goals" pie chart on page 51 to tie in totals to the Statement of Net Cost - Total Gross Costs on page 59.

2. The Management's Discussion and Analysis includes a section titled Program Assessment Rating Tool Rating Results (page 13). Program Performance includes a section titled Program Assessment Rating Tool (PART) (page 56) which is virtually identical to the section in the Management's Discussion and Analysis. Consideration should be given to combining these two presentations of NRC's experience with the Program Assessment Rating Tool into a single succinct presentation, to be placed in Program Performance where most readers would expect to see that discussion, or referring readers to expectmore.gov for additional information about NRC's program performance.

NRC Response: The NRC considered this recommendation. We felt that the discussion of PART should remain in MD&A for those accessing an overview of PAR and also in its Performance Section to provide a context in relation to other program evaluations in Chapter 2.

3. The Management's Discussion and Analysis includes a section titled President's Management Agenda (page 15). Program Performance includes a section titled Addressing the President's Management Agenda (page 51) which is, in part, a word-for-word repeat of the text in the Management's Discussion and Analysis. Since the President's Management Agenda is concerned with management of resources, in contrast to program performance, consideration should be given to combining these two presentations of NRC's accomplishments and plans for the President's Management

Agenda initiatives into a single succinct presentation, to be placed in the Management's Discussion and Analysis. Readers could be referred to the Internet for additional information about NRC's plans and accomplishments. This change would shorten the report and enable NRC to address the President's Management Agenda in the place where readers of Performance and Accountability Reports expect to find information about an agency's performance on the President's Management Agenda. **(A similar recommendation was made last year.)**

NRC Response: The NRC combined the President's Management Agenda sections in Chapter 1 and Chapter 2. The information is now only detailed in Chapter 1 – Management Discussion and Analysis.

4. NRC is to be commended for its efforts at aligning its costs with its desired outcomes, as demonstrated with the pie chart presented in Program Performance (page 56). Also presenting this information in the Management's Discussion and Analysis would increase the understanding of NRC's costs by readers who do not go beyond the Management's Discussion and Analysis. Consideration should be given to presenting a footnote to the financial statements that discloses how the costs of NRC's programs are allocated to NRC's goals. This would assure readers that the latter are drawn from an audited data base and thus can be relied upon.

NRC Response: Once the NRC completes the upgrade of its financial systems a footnote in the financial statements about the allocation of programs to goals will be incorporated. With that information, NRC will also be able to provide more detail in the Chapter 1 - MD&A section about these net costs.

5. The Certificate of Excellence in Accountability Reporting has been moved from the second page of the Message from the Chief Financial Officer to the title page for the Financial Section (page 61). This still implies that the Certificate is for financial management excellence. Since the Certificate is awarded for demonstrating excellence in integrating performance and accountability reporting, moving the Certificate to a part of the report concerned with both program performance and financial performance, e. g., following the Chairman's Message or before the Management's Discussion and Analysis, would underscore NRC's achievements.

NRC Response: The Certificate of Excellence in Accountability Reporting is now located after the Chairman's Message.

6. The report includes the Inspector General's summary of NRC's major management and performance challenges, as required by the Reports Consolidation Act and OMB Circular A-136 (page 97). The Inspector General's summary includes lengthy assessments of NRC's progress addressing the challenges, which is also required by the Reports Consolidation Act and OMB Circular A-136. Management presents a response to the challenges (page 108) that is more pages than are used to identify the challenges in the Inspector General's summary. Many items in the response are already included in the Inspector General's assessment (e. g., publication of a final

rulemaking on the National Source Tracking System-pages 101 and 109; improvements in the Risk-Informed and Performance-Based Plan-pages 103 and 110; preparation of a business case recommending replacement of the five aging financial management systems-pages 106 and 114).

Consideration should be given to following the approach specified in the Reports Consolidation Act and OMB Circular A-136, namely having the Inspector General assess and report NRC's progress addressing the challenges, and management adding additional comments only to the extent it believes the Inspector General's assessment omitted a significant indicator of progress. This approach would :

- avoid having to present a management response to the challenges that is longer than the list of challenges, which makes management appear defensive;
- avoid necessitating that readers rely on management's descriptions of NRC's actions to address the challenges, rather than the Inspectors General's assessments of progress, which could reduce readers' confidence in the objectivity of the descriptions;
- avoid forcing readers to flip back and forth between two parts of the report to obtain a full understanding of how management's actions relate to the challenges; and
- provide an opportunity to eliminate duplication and thereby reduce the report's length.

NRC Response: The IG addressed NRC management's responses to the IG's Assessment of the Most Serious Management and Performance Challenges in their report and, therefore, an additional NRC response and appendix section was not necessary.

7. Appendix E is intended to present the procedures NRC uses to verify and validate the performance data for the Safety and Security strategic goals (page 144). Explaining why the procedures are not presented for certain performance measures (e. g., Number of new conditions evaluated as red by the Reactor Oversight Process, Number of significant accident precursors of a nuclear reactor accident...-page 9) would increase readers' understanding of the manner in which NRC assures the reliability of its performance data.

NRC Response: The NRC FY 2008 PAR contains verification and validation for every performance measure.

REPORTING OR DISCLOSURE DEFICIENCIES

1. The Management's Discussion and Analysis discussion of the Operation Goal "Openness" states that NRC missed three output measures (page 12). The table lists four as not achieved (pages 9-10). This difference should be addressed. Also the explanation states that the agency will continue its work, processes, and training efforts to meet the target. Presenting the reasons why the targets were not achieved would increase readers' understanding of NRC's performance.

NRC Response: We have addressed the reasons for missing output measures in the FY 2008 PAR. In addition, openness is no longer a strategic goal for the NRC. It is now considered an Organizational Excellence Objective. The table and the text both reference the correct number of missed output measures in detail.

2. Effectiveness Goal measure 1b, "Eliminate the requirement for license renewal; and approve a living license...." is reported as not achieved (pages 10 and 50), and the only explanation is "The agency has not approved a living license for these facilities yet" (page 13). A plan to meet the goal is provided for Management goal 1c "Issue offer letter 80% of the time within 45 days of the closing date of the announcement," but the reason why the goal was not met is not explained (page 51). Presenting the reasons why unmet targets were not achieved and plans and timelines for accomplishing the unmet targets would enhance NRC's efforts to be accountable, plus increase reader's confidence that the information is used to manage the NRC's operations.

NRC Response: During FY 2008 NRC eliminated several measures, including Effectiveness Goal measure 1b, referenced above. The remaining unmet measures in FY 2008 are discussed in the PAR, outlining why the targets were not met.

3. NRC achieves most of its goals at the 100% level. As important as perfect performance is for NRC's programs, that level of performance entails a cost. Presenting efficiency or cost-effectiveness measures, i. e., measures that relate financial or other inputs to NRC's outputs or outcomes, would improve readers understanding of the costs for NRC to achieve perfect performance.

NRC Response: The agency does show some efficiency measures, see Organizational Excellence Objective 2. As NRC continues to upgrade the agency cost accounting system, we plan to enhance our cost effectiveness reporting.

4. Although Program Performance states the criteria OMB has defined for considering data complete and reliable and asserts NRC's data meet those criteria (page 60), the report does not present in the Management's Discussion and Analysis any information regarding the procedures NRC uses to provide reasonable assurance that the reported information is complete, reliable, and relevant, as required by OMB Circular A-136. Presenting this information, or referring the reader to the appendix where the

information is presented, would increase readers' confidence in the reliability of the reported results.

NRC Response: The statement that the data in the report is "complete, reliable, and relevant" is on page 12, in Chapter 1: Management's Discussion and Analysis in the FY 2008 PAR. In addition, the reader is referred to Appendix D for data verification and validation procedures.

5. The Message from the Chief Financial Officer describes how the material weakness concerning fee billing has been removed, but neglects to state that a remaining material weakness, i. e., system-wide information security controls, remains (page 63). Nor does the Message describe the planned time frames for correcting the weakness, major impediments to correcting the weakness, if any, and the progress made addressing this weakness in prior years, or refer to another place in the report where that information is presented, all of which is required by OMB Circular A-136. This matter should be addressed.

NRC Response: This year the NRC had no material weaknesses to report.

MAKING THE REPORT MORE USEFUL TO THE USERS

1. The discussion of waste disposal identifies two types of radioactive wastes: high level waste and low level waste and describes how high level waste is handled (page 7). Describing how low level waste is handled would avoid readers concluding that NRC is not concerned with low level waste.

NRC Response: The FY 2008 PAR Management's Discussion and Analysis chapter now addresses how low level waste is handled.

2. Management's assurances regarding NRC's internal control and financial systems is presented on page 21. Noting the location in the Table of Contents would enable interested readers to readily locate the assurances.

NRC Response: The "Management Assurances" discussion is an integral part of the "Systems, Controls and Legal Compliance" section and is placed at the beginning of the section of the FY 2008 PAR where it can be brought into context.

3. The report describes three program evaluations that were conducted during the year (page 57). The descriptions state that "reviewers identified areas of potential improvement" or "evaluated these activities and assigned priorities of high, medium, or low based on criteria," neither of which is very explicit. Summarizing the recommendations, as required by OMB Circular A-11, would demonstrate NRC's responsiveness to the evaluations, and thereby disclose another aspect of its performance.

NRC Response: The FY 2008 PAR outlines new program evaluations for 2008 consisting of Operator Licensing Program, Reactor Oversight Process, and Management Work Planning Process. The evaluation discussions summarize the findings and recommendations of the program evaluations where appropriate.

4. Note 6 Liabilities Not Covered By Budgetary Resources discloses a capital lease liability of \$936 thousand (page 75). Indicating the location of that liability on the balance sheet would increase readers' understanding of NRC's financial position.

NRC Response: This comment actually related to Note 7 - Leases. This year the NRC included an additional disclosure to footnote 7 to include the location of the capital lease liability on the balance sheet.

EDITORIAL MATTERS

1. The Table of Contents lists Goals and Performance Measures starting on page 29, and Industry Trends starting on page 32 (page i). The text presents the goals and performance measures for the first strategic goal, Safety, on page 29, but for the 2nd strategic goal, Security, on page 43, and the 3 operational goals on page 48, which is after the Industry Trends. Listing the Table of Contents materials consistent with the manner in which they are presented in the text would avoid reader confusion.

NRC Response: The Table of Contents has been updated to reflect the flow of the report.

2. The Program Performance Overview contains a chart depicting the relationship between NRC's strategic goals, major programs, and activities (page 8). The program Nuclear Materials and Waste Safety is misnamed as Nuclear Materials and Waste Security. This matter should be addressed.

NRC Response: This error was corrected in the NRC FY 2008 PAR.

3. The section title, "Industry Trends" is the only section title in the Program Performance chapter presented in all caps and blue (page 32), inferring that everything that follows is an industry trend. Since this is probably not the case, attention should be paid to the type fonts, sizes, and colors used for section titles in order to avoid reader confusion.

NRC Response: This title was brought down to a lower level and the titles for the strategic plans were made more prominent.

4. The results for Management Goal 1b "5% reduction of agency FTE used to develop and submit the FY 2008 and FY 2009 performance budgets" is 12%, yet it is marked as Not Achieved (page 10). This difference should be addressed.

NRC Response: There was a typo – there was an increase in agency FTE to develop the budget. The error has been corrected in the FY 2008 PAR.

5. The introduction to Industry Trends and the text accompanying the Collective Radiation Exposure, Automatic Scrams, and Safety System Failures graphs states that 1988 is the baseline for the statistical analysis, even though results are not presented for years prior to 1993 (page 32). The explanation for the Significant Events and Precursor Occurrence Rate graphs uses 1993 as the baseline for the statistical analysis (page 33). These differences and inconsistencies should be addressed.

NRC Response: We addressed this concern by adding text before the Industry Charts that states, “For ease of viewing, all the charts in this section display data since 1993.”

6. The bar graph that depicts the number of licensing actions is titled Licensing Action Timeliness (page 34). The bar graph that depicts licensing action timeliness is titled Licensing Action Age (page 34). Assuring consistency between the titles and the contents of graphs would avoid reader confusion.

NRC Response: The title of the first chart was changed to “Licensing Actions Completed” in the FY 2008 PAR.

7. The bar chart on page 36 depicting license renewals received and license renewals completed is apparently cumulative. Sub-titling the chart “Cumulative” would avoid reader misunderstanding.

NRC Response: The comment was incorporated in the FY 2008 PAR.

8. Operational Goal 1a is the only unmet goal in the table titled FY 2007 Operational Goals and Associated Performance Measures that carries a “Not Achieved” notation (page 49). The same notation should be marked next to other unmet goals, or removed from Operational Goal 1a, in order to avoid reader confusion.

NRC Response: The notation “Not Achieved” was removed from this table in the FY 2008 PAR.

9. The auditors’ report states that its examination of the effectiveness of NRC’s internal control over financial reporting is based on the criteria in OMB Bulletin 07-04 (page 87). Bulletin 07-04 defines the required procedures for performing an audit of a Federal agency’s financial statements. The criteria for internal control over financial reporting, which provide the basis for an auditor examining internal control, are presented in the Government Accountability Office’s *Standards for Internal Control* and replicated in OMB Circular A-123. Identifying the proper source of the criteria would avoid reader confusion. This matter should be addressed.

NRC Response: The current auditors' report refers to OMB Circular A-123.

10. The auditors' report states that the required supplementary information referred to as the Management's Discussion and Analysis is supplementary information required by OMB Circular A-136 and he has therefore applied certain limited procedures (page 92). The Schedule of Budgetary Resources (page 82) is also required supplementary information and should be identified as such by the auditor.

NRC Response: The comment was incorporated in the FY 2008 PAR.

11. Appendix E describes how the outcome and performance measure data are verified and validated. Footnote 7 provides the definition of "substantiated" as used in the performance measure "Number of substantiated cases of actual theft or diversion of licensed risk-significant radioactive" (page 158). The exact same definition introduces the description of the verification process. Avoiding this type of repetition provides an opportunity to shorten the report.

Also, there are two paragraphs describing the verification process separated by a paragraph describing the validation process (page 159). Removing the description of the validation process from the middle of the description of the verification process would avoid reader confusion.

NRC Response: The comment was incorporated in the FY 2008 PAR.

12. The report includes a Glossary of Acronyms (page 165). Nonetheless, acronyms appear in the report that are not defined in the Glossary (e. g., CAM-page 48). Using the Glossary to define all acronyms appearing in the report would enhance readers' understanding.

NRC Response: The Appendix of "Acronyms and Abbreviations" in the NRC FY 2008 PAR is more extensive than FY 2007.