

# U.S. NRC

United States Nuclear Regulatory Commission

*Protecting People and the Environment*

## Fiscal Year 2018

# Agency Financial Report



UNITED STATES NUCLEAR REGULATORY COMMISSION

## AVAILABILITY OF REFERENCE MATERIALS IN NRC PUBLICATIONS

### NRC Reference Material

As of November 1999, you may electronically access Nuclear Regulatory Commission document identifier (NUREG)-series publications and other NRC records at NRC's Library at [www.nrc.gov/reading-rm.html](http://www.nrc.gov/reading-rm.html). Publicly released records include, to name a few, NUREG-series publications; *Federal Register* notices; applicant, licensee, and vendor documents and correspondence; NRC correspondence and internal memoranda; bulletins and information notices; inspection and investigative reports; licensee event reports; and Commission papers and their attachments.

NRC publications in the NUREG series, NRC regulations, and Title 10, "Energy," in the *Code of Federal Regulations* may also be purchased from one of these two sources.

#### 1. The Superintendent of Documents

U.S. Government Publishing Office  
Washington, DC 20402-0001  
Internet: [bookstore.gpo.gov](http://bookstore.gpo.gov)  
Telephone: 1-202-512-1800  
Fax: (202) 512-2104

#### 2. The National Technical Information Service

5301 Shawnee Road  
Alexandria, VA 22312-0002  
[www.ntis.gov](http://www.ntis.gov)  
1-800-553-6847 or, locally, (703) 605-6000

A single copy of each NRC draft report for comment is available free, to the extent of supply, upon written request as follows:

Address: **U.S. Nuclear Regulatory Commission**  
Office of Administration  
Multimedia, Graphics, and  
Storage & Distribution Branch  
Washington, DC 20555-0001  
E-mail: [distribution\\_resource@nrc.gov](mailto:distribution_resource@nrc.gov)  
Facsimile: (301) 415-2289

Some publications in the NUREG series that are posted at the NRC's Web site address [www.nrc.gov/reading-rm/doc-collections/nuregs](http://www.nrc.gov/reading-rm/doc-collections/nuregs) are updated periodically and may differ from the last printed version. Although references to material found on a Web site bear the date the material was accessed, the material available on the date cited may subsequently be removed from the site.

### Non-NRC Reference Material

Documents available from public and special technical libraries include all open literature items, such as books, journal articles, transactions, *Federal Register* notices, Federal and State legislation, and congressional reports. Such documents as theses, dissertations, foreign reports and translations, and non-NRC conference proceedings may be purchased from their sponsoring organization.

Copies of industry codes and standards used in a substantive manner in the NRC regulatory process are maintained at—

#### The NRC Technical Library

Two White Flint North  
11545 Rockville Pike  
Rockville, MD 20852-2738

These standards are available in the library for reference use by the public. Codes and standards are usually copyrighted and may be purchased from the originating organization or, if they are American National Standards, from—

#### American National Standards Institute

11 West 42nd Street  
New York, NY 10036-8002  
[www.ansi.org](http://www.ansi.org)  
(212) 642-4900

Legally binding regulatory requirements are stated only in laws; NRC regulations; licenses, including technical specifications; or orders, not in NUREG-series publications. The views expressed in contractor prepared publications in this series are not necessarily those of the NRC. The NUREG series comprises (1) technical and administrative reports and books prepared by the staff (NUREG-XXXX) or agency contractors (NUREG/CR-XXXX), (2) proceedings of conferences (NUREG/CP-XXXX), (3) reports resulting from international agreements (NUREG/IA-XXXX), (4) brochures (NUREG/BR-XXXX), and (5) compilations of legal decisions and orders of the Commission and Atomic and Safety Licensing Boards and of Directors' decisions under Section 2.206 of NRC's regulations (NUREG-0750).

**DISCLAIMER:** This report was prepared as an account of work sponsored by an agency of the U.S. Government. Neither the U.S. Government nor any agency thereof, nor any employee, makes any warranty, expressed or implied, or assumes any legal liability or responsibility for any third party's use, or the results of such use, of any information, apparatus, product, or process disclosed in this publication, or represents that its use by such third party would not infringe privately owned rights.

# About This Report

The Agency Financial Report (AFR) for the U.S. Nuclear Regulatory Commission (NRC) provides financial and summary performance information in accordance with Office of Management and Budget Circular A-136, "Financial Reporting Requirements." This AFR is an account of the agency's stewardship of its resources during fiscal year (FY) 2018, which covers the period from October 1, 2017, to September 30, 2018. The report is organized into the following three chapters:

- **Chapter 1: Management's Discussion and Analysis**  
This chapter provides an overview of the NRC financial information and summary-level program performance information. It includes an overview of program performance, current status of systems, internal controls, financial management, and the FY 2018 financial statement analysis.
- **Chapter 2: Financial Statements and Auditors' Report**  
This chapter contains details on the NRC's finances for FY 2018. It includes a message from the Chief Financial Officer, the financial statements and accompanying notes, required supplementary information, and the independent auditors' report.
- **Chapter 3: Other Information**  
This chapter provides the Office of the Inspector General's discussion of management and performance challenges, a summary of the financial statement audit, information on payment integrity and fraud, space occupancy, a glossary of acronyms, and other information.

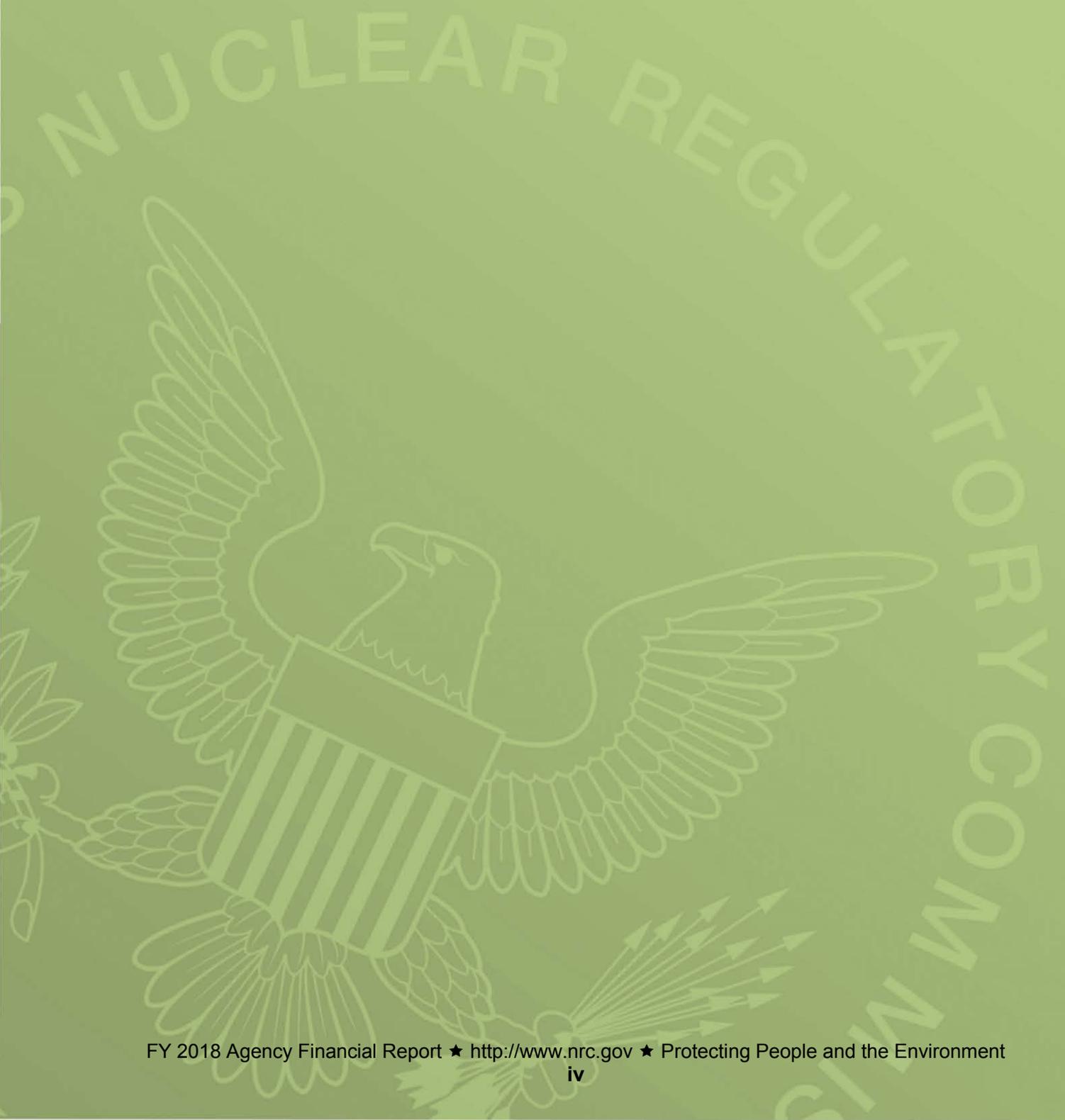
## NRC Reports on the Agency Web Site:

- AFRs since FY 2017 at <http://www.nrc.gov/reading-rm/doc-collections/nuregs/staff/sr2220/>
- The NRC has chosen to produce an AFR and an Agency Performance Report. The FY 2018 Agency Performance Report will accompany the NRC's FY 2020 Congressional Budget Justification and will be posted on the NRC's Web site at <https://www.nrc.gov/reading-rm/doc-collections/nuregs/staff/sr1100/> after publication of the report.
- Performance and Accountability Reports for years before FY 2017, at <http://www.nrc.gov/reading-rm/doc-collections/nuregs/staff/sr1542/>.

## Public Protection Notification

The NRC may not conduct or sponsor, and a person is not required to respond to, a request for information or an information collection requirement unless the requesting document displays a currently valid Office of Management and Budget control number.

The document NUREG-2220, Volume 2, has been reproduced from the best available copy.



# Table of Contents

<b>The Commission .....</b>	<b>vi</b>
<b>A Message from the Chairman.....</b>	<b>vii</b>
<b>Chapter 1: Management’s Discussion and Analysis.....</b>	<b>1</b>
Mission – Vision – Principles of Good Regulation .....	2
About the NRC .....	3
The NRC’s Organizational Structure.....	4
The NRC’s Regulatory Activities.....	5
The Nuclear Industry .....	6
Future Challenges.....	10
Source of Funds .....	12
Analysis of the Financial Statements .....	14
Management Assurances, Systems, Controls, and Legal Compliance .....	18
Program Performance Overview.....	24
<b>Chapter 2: Financial Statements and Auditors’ Report .....</b>	<b>31</b>
A Message from the Chief Financial Officer.....	32
Financial Statements .....	34
Notes to the Financial Statements .....	38
Required Supplementary Information .....	53
Inspector General’s Letter Transmitting Independent Auditors’ Report .....	57
Independent Auditors’ Report.....	60
Management’s Response to the Independent Auditors’ Report .....	66
<b>Chapter 3: Other Information .....</b>	<b>67</b>
Inspector General’s Assessment of the Most Serious Management and Performance Challenges Facing the NRC .....	68
Summary of Financial Statement Audit and Management Assurances .....	93
Payment Integrity.....	94
Fraud Reduction Report .....	96
Reduce the Footprint.....	97
Civil Monetary Penalty Adjustment for Inflation.....	98
Grants Oversight & New Efficiency (GONE) Act Requirements .....	99
Acronyms and Abbreviations .....	100

## The Commission

The authority of the U.S. Nuclear Regulatory Commission is vested in a Commission of five members, with one member designated by the President of the United States to serve as Chairman. With the advice and consent of the Senate, the President appoints each member to serve a 5-year term. The Chairman is the chief executive officer and official spokesperson for the Commission. The Commission as a whole formulates policies and regulations governing the safety and security of nuclear reactors and materials, issues orders to licensees, and adjudicates legal matters brought before it. The Executive Director for Operations carries out program policies and decisions made by the Commission.



Chairman Kristine L. Svinicki



Commissioner Jeff Baran



Commissioner Stephen G. Burns



Commissioner Annie Caputo



Commissioner David A. Wright

## A Message from the Chairman



The U.S. Nuclear Regulatory Commission (NRC) is pleased to present its fiscal year (FY) 2018 Agency Financial Report (AFR). This report presents the NRC's continuing success in achieving its mission to license and regulate the Nation's civilian use of radioactive materials to provide reasonable assurance of adequate protection of public health and safety and to promote the common defense and security. The AFR provides key financial information with a summary of program performance to the President, Congress, and the American people detailing how we used our resources during FY 2018. The AFR is available at <http://www.nrc.gov/reading-rm/doc-collections/nuregs/staff/sr2220/>.

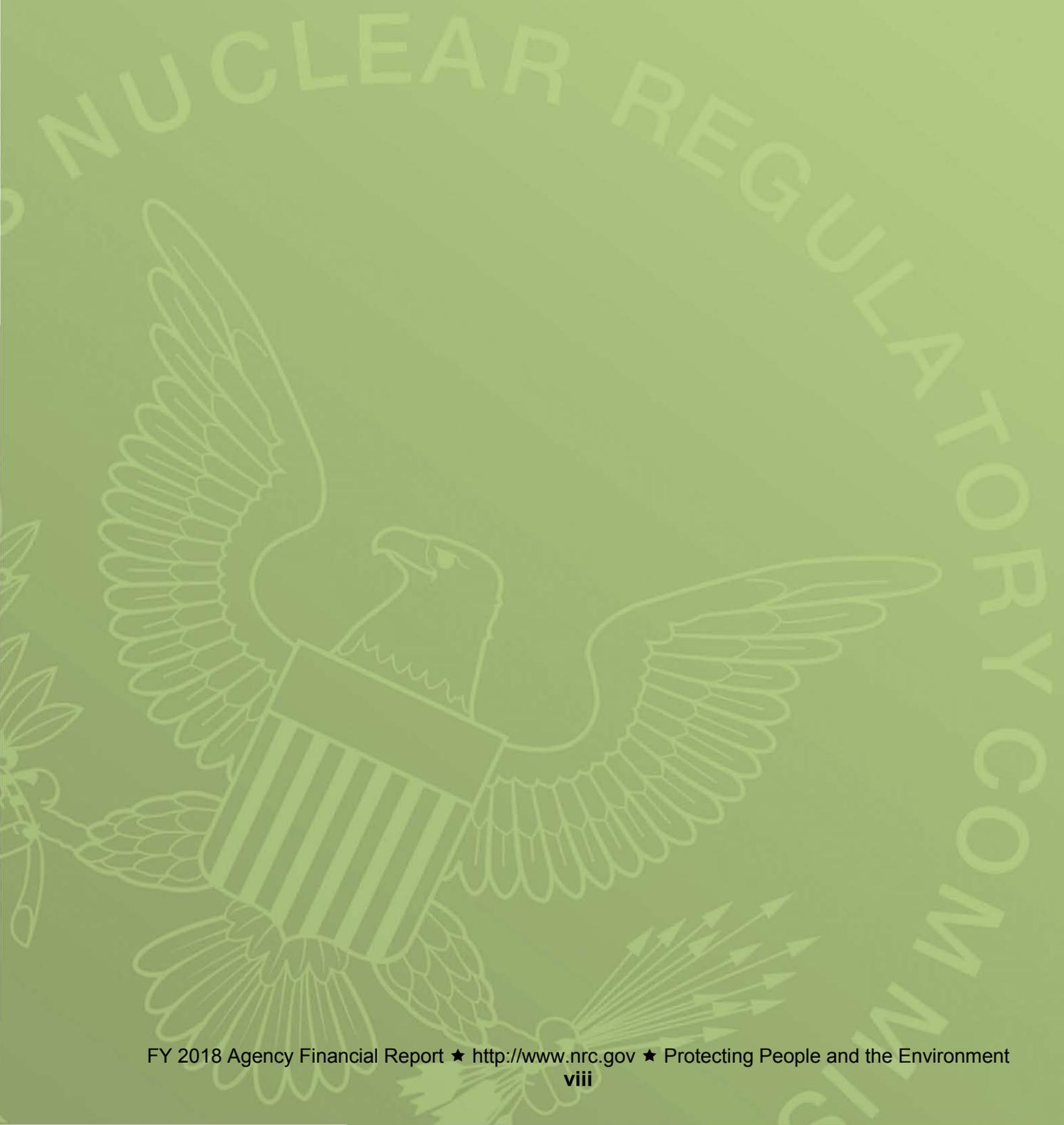
The NRC is an independent regulatory agency devoted to the effective and efficient oversight of the Nation's operating power, research, and test nuclear reactors. The agency also maintains oversight of nuclear reactors in various stages of decommissioning. The NRC reviews all safety aspects of new reactor designs, siting, and construction of new nuclear power reactors, including small modular reactors and advanced reactors. Further, the agency focuses on the safe and secure use of nuclear materials in the energy, medical, educational, and industrial sectors through effective oversight of fuel facilities, uranium recovery sites, decommissioning sites, spent nuclear fuel sites, and nuclear material user licensees. The NRC met all of its strategic goals, objectives, and performance indicator targets in FY 2018.

The NRC is committed to good governance and the prudent management of resources entrusted to it by the American people and effectively managed its internal control environment during FY 2018. There were no material internal control weaknesses uncovered in our assessment. Based on *Federal Manager's Financial Integrity Act of 1982* assessments, I have concluded there is reasonable assurance that the agency is in substantial compliance. The financial and summary performance data published in this report are complete, accurate, reliable, and timely, in accordance with the *Reports Consolidation Act of 2000* and Office of Management and Budget Circular A-136, "Financial Reporting Requirements." Additionally, I have concluded that the agency is in substantial compliance with the *Federal Financial Management Improvement Act of 1996 (FFMIA)*, based on the NRC's application of the FFMIA risk model.

I continue to be impressed by the performance and dedication of NRC employees in achieving the agency's safety and security goals. As an agency, we look forward to continuing to provide the high-quality service the American people have come to expect from us.

A handwritten signature in blue ink, appearing to read 'Kristine L. Svinicki'.

Kristine L. Svinicki  
Chairman  
November 8, 2018



# **Chapter 1: Management's Discussion and Analysis**

## Mission

The U.S. Nuclear Regulatory Commission (NRC) licenses and regulates the Nation’s civilian use of radioactive materials to provide reasonable assurance of adequate protection of public health and safety, and to promote the common defense and security, and to protect the environment.

## Vision

**Demonstrate the Principles of Good Regulation in performing our mission.**

To be successful, the NRC must not only excel in carrying out its mission but must do so in a manner that engenders the trust of the public and stakeholders. The Principles of Good Regulation—independence, openness, efficiency, clarity, and reliability—guide the agency. They affect how the NRC reaches decisions on safety, security, and the environment; how the NRC performs administrative tasks; and how its employees interact with each other as well as external stakeholders, and promotes trust in the agency. The agency puts these principles into practice with effective, realistic, and timely actions.

### Principles of Good Regulation

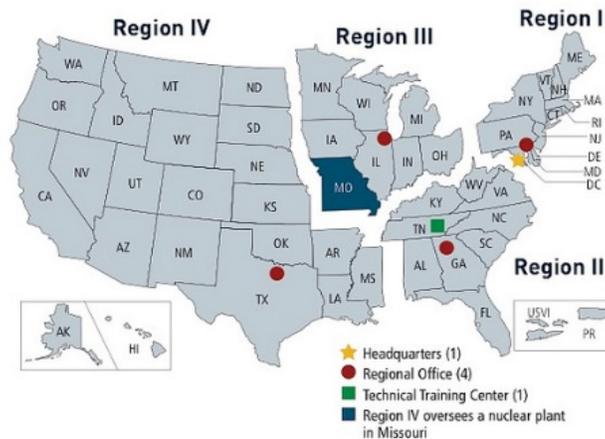
<b>Independence:</b>	<i>Nothing but the highest possible standards of ethical performance and professionalism should influence regulation.</i>
<b>Openness:</b>	<i>Nuclear regulation is the public’s business, and it must be transacted publicly and candidly.</i>
<b>Efficiency:</b>	<i>The highest technical and managerial competence is required and must be a constant agency goal.</i>
<b>Clarity:</b>	<i>Regulations should be coherent, logical, and practical. Agency positions should be readily understood and easily applied.</i>
<b>Reliability:</b>	<i>Regulations should be based on the best available knowledge from research and operational experience.</i>

## About the NRC

The U.S. Congress established the NRC on January 19, 1975, as an independent Federal agency regulating the commercial and institutional uses of nuclear materials. The *Atomic Energy Act of 1954*, as amended, and the *Energy Reorganization Act of 1974*, as amended, define the NRC’s purpose. These acts provide the foundation for the NRC’s mission to regulate the Nation’s civilian use of byproduct, source, and special nuclear materials to provide adequate protection of public health and safety, to promote the common defense and security, and to protect the environment. The agency regulates civilian nuclear power plants and other nuclear facilities, as well as other uses of nuclear materials. These other uses include nuclear medicine programs at hospitals; academic activities at educational institutions; research work; industrial applications, such as gauges and testing equipment; and the transport, storage, and disposal of nuclear materials and wastes. Additional information about the NRC is available in the Information Digest at <https://www.nrc.gov/reading-rm/doc-collections/nuregs/staff/sr1350/>.

NRC Headquarters is located in Rockville, MD. The agency Operations Center in the headquarters building coordinates communications with NRC licensees, State agencies, and other Federal agencies. This center is the focal point for assessing and responding to operating events in the industry. NRC operations officers staff the Operations Center 24 hours a day, 7 days a week. The agency also has four regional offices located in King of Prussia, PA; Atlanta, GA; Lisle, IL; and Arlington, TX. The regional offices allow the agency to work closely with the agency’s licensees to ensure safety. The NRC also employs at least two resident inspectors at each of the Nation’s nuclear power reactor, new reactor, and fuel fabrication sites.

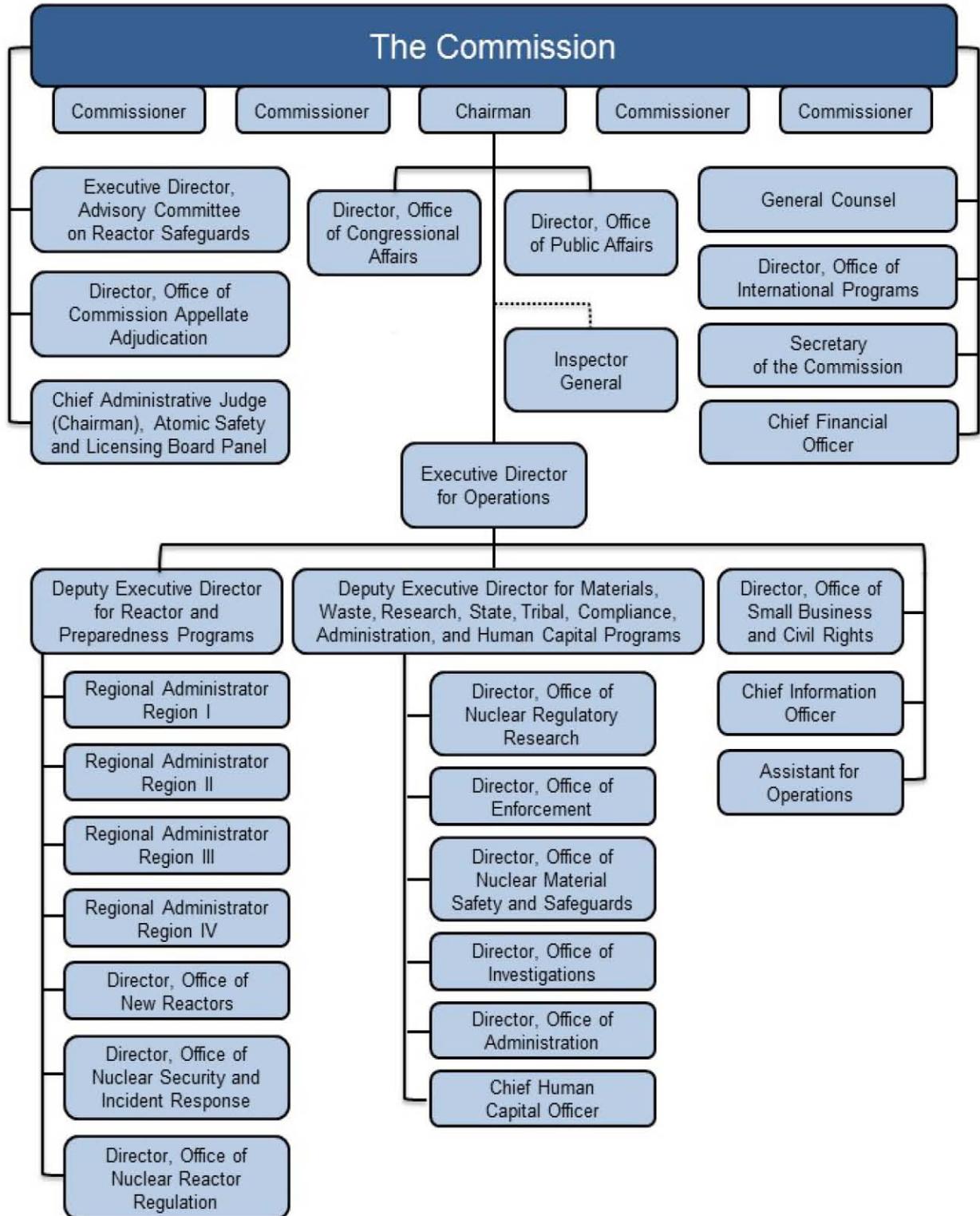
## NRC Regions



- Nuclear Power Plants**
- Each regional office oversees the plants in its region—except for the Callaway plant in Missouri, which Region IV oversees.
- Materials Licensees**
- Region I oversees licensees and Federal facilities located in Region I and Region II.
  - Region III oversees licensees and Federal facilities located in Region III.
  - Region IV oversees licensees and Federal facilities located in Region IV.
- Nuclear Fuel Processing Facilities**
- Region II oversees all the fuel processing facilities in all regions.
  - Region II also handles all construction inspection activities for new nuclear power plants and fuel cycle facilities in all regions.



## The NRC’s Organizational Structure



## The NRC’s Regulatory Activities

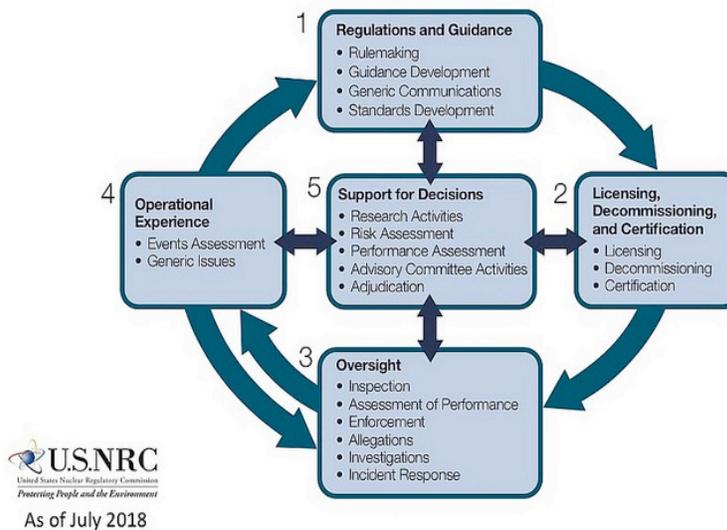
The NRC performs five principal regulatory functions: developing regulations and guidance for applicants and licensees; licensing or certifying applicants to use nuclear materials, operate nuclear facilities, construct new nuclear facilities, and decommission facilities; inspecting and assessing licensee operations and facilities to verify that licensees are complying with NRC requirements and taking appropriate follow-up or enforcement actions when necessary; evaluating operational experience of license facilities and activities; and conducting research, holding hearings, and obtaining independent reviews to support regulatory decisions (see Figure 1).

The standards and regulations established by the agency set the rules that users of radioactive materials must follow. Drawing on the knowledge and experience of the agency’s scientists and engineers, these rules are the basis for protecting workers and the general public from the potential hazards associated with the use of radioactive materials.

With a few exceptions, any organization or individual intending to have or use radioactive materials must obtain a license. A license identifies the type and amount of radioactive material that may be held and used. NRC scientists and engineers evaluate the license application to ensure that the potential licensee’s use of nuclear materials meets the agency’s safety and security requirements.

The NRC regulates 98 commercial nuclear power reactors operating in 30 States at 59 sites; 31 research and test reactors; about 4,600 people licensed to operate reactors; 21 nuclear reactors in various stages of decommissioning; 78 independent spent fuel storage installations; 13 licensed fuel cycle facilities; 11 uranium recovery sites; and about 2,800 licenses for medical, academic, industrial, and general uses of nuclear materials. The agency conducts approximately 1,000 health and safety inspections of its nuclear materials licensees annually.

Under the NRC’s Agreement State program, 38 States have assumed primary regulatory responsibility for the industrial, medical, and other users of nuclear materials within their States, accounting for approximately 17,000 licensees. The NRC works closely with these States to assist them in maintaining public safety through acceptable licensing and inspection procedures.



1. Developing regulations and guidance for applicants and licensees.
2. Licensing or certifying applicants to use nuclear materials, operate nuclear facilities, and decommission facilities.
3. Inspecting and assessing licensee operations and facilities to ensure licensees comply with NRC requirements, responding to incidents, investigating allegations of wrongdoing and taking appropriate follow-up or enforcement actions when necessary.
4. Evaluating operational experience of licensed facilities and activities.
5. Conducting research, holding hearings, and obtaining independent reviews to support regulatory decisions.

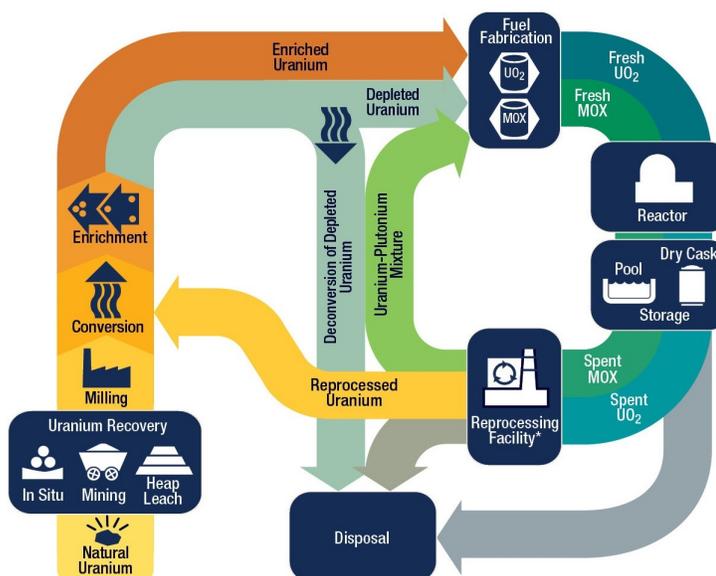
**Figure 1 How We Regulate**

## The Nuclear Industry

The NRC is responsible for regulating all aspects of the civilian nuclear industry. The industry can best be described by examining the nuclear fuel cycle (see Figure 2). The nuclear material cycle begins with the mining and production of nuclear fuel or the use of nuclear materials for medical, industrial, and other applications, continues with the use of nuclear fuel to power the Nation’s nuclear power plants, and ends with the safe transportation and storage of spent nuclear fuel and other nuclear waste. The NRC’s regulatory programs provide reasonable assurance that radioactive materials are used safely and securely at every stage in the nuclear material cycle. To address safety and security issues, the NRC has developed regulatory practices, knowledge, and expertise specific to each activity in the nuclear fuel cycle.

### Fuel Facilities

The production of nuclear fuel begins at uranium mines where milled uranium ore is used to produce a uranium concentrate called “yellowcake.” At a special facility, the yellowcake is converted into uranium hexafluoride (UF<sub>6</sub>) gas and loaded into cylinders. The cylinders are sent to a gaseous diffusion plant, where uranium is enriched for use as reactor fuel. The enriched uranium is then converted into oxide powder, fabricated into fuel pellets (each about the size of a fingertip), loaded into metal fuel rods about 3.5 meters long, and bundled into reactor fuel assemblies at a fuel fabrication facility. Assemblies are then transported to nuclear power plants, non-power research reactor facilities, and naval propulsion reactors for use as fuel (see Figure 3). The NRC licenses eight major fuel fabrication and production facilities and three enrichment facilities in the United States. Because they handle extremely hazardous material, these facilities take special precautions to prevent theft, diversion, and dangerous exposures.



\* Reprocessing of spent nuclear fuel, including mixed-oxide (MOX) fuel, is not practiced in the United States. Note: The NRC has no regulatory role in mining uranium.

Figure 2 The Nuclear Fuel Cycle

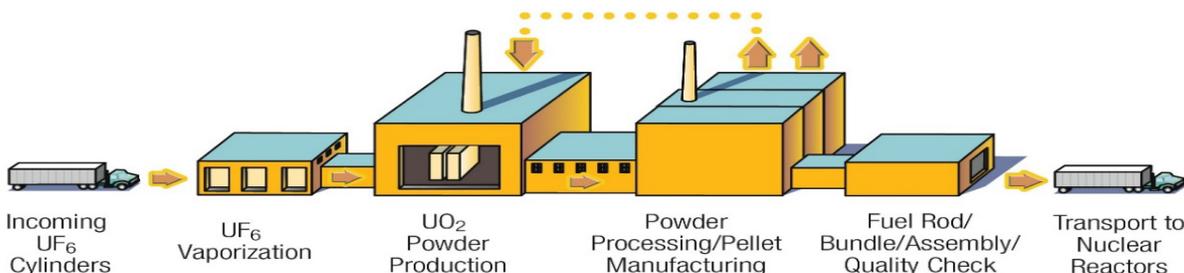


Figure 3 Simplified Fuel Fabrication Process

Reactors

The NRC licensed nuclear reactors generate approximately 20 percent of the U.S. gross electricity needs, or about 805 billion kilowatt hours annually. The NRC regulates about 80 different reactor designs. To generate electricity, power plants change one form of energy into another. Electrical generating plants convert heat energy, the kinetic energy of wind or falling water, or solar energy into electricity. Other types of heat-conversion plants burn coal, oil, or gas to produce heat energy that is then used to produce electricity. Nuclear energy cannot be seen. Heat energy is not produced by the burning of fuel in the usual sense. Rather, energy is given off by the nuclear fuel as certain types of atoms split in a process called nuclear fission. This energy is in the form of fast-moving particles and radiation. As the particles and radiation move through the fuel and surrounding water, the energy is converted into heat, which generates electricity. The radiation energy can be hazardous, and facilities take special precautions at nuclear power plants to protect people and the environment from these hazards (see Figures 4 and 5).

Because the fission reaction produces potentially hazardous radioactive materials, nuclear power plants are equipped with safety systems to protect workers, the public, and the environment. Radioactive materials require careful use because they produce radiation, a form of energy that can damage human cells. Depending on the amount and duration of the exposure, radiation can potentially cause cancer. In a nuclear reactor, most hazardous radioactive substances, called fission byproducts, are trapped in the fuel pellets, or in the sealed metal tubes holding the fuel. However, small amounts of these radioactive fission byproducts, principally gases, become mixed with the water passing through the reactor. Other impurities in the water also become radioactive as they pass through the reactor. The facility processes and filters the water to remove these radioactive impurities and then returns the water to the reactor cooling system.

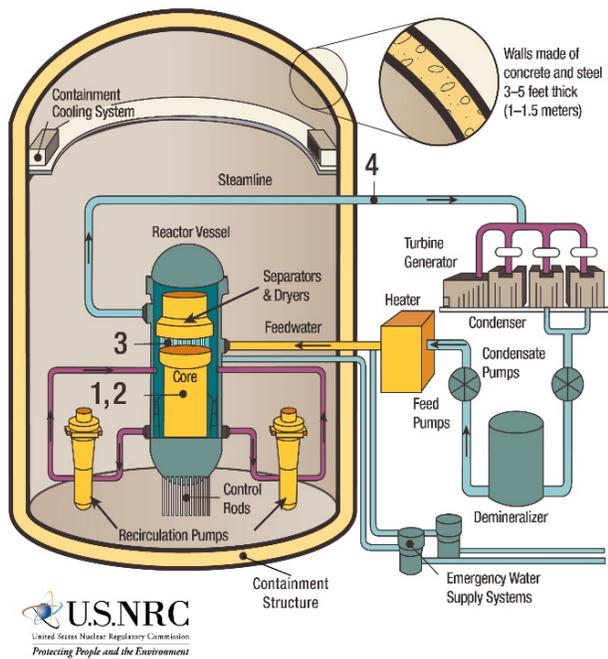


Figure 4 The Boiling-Water Reactor

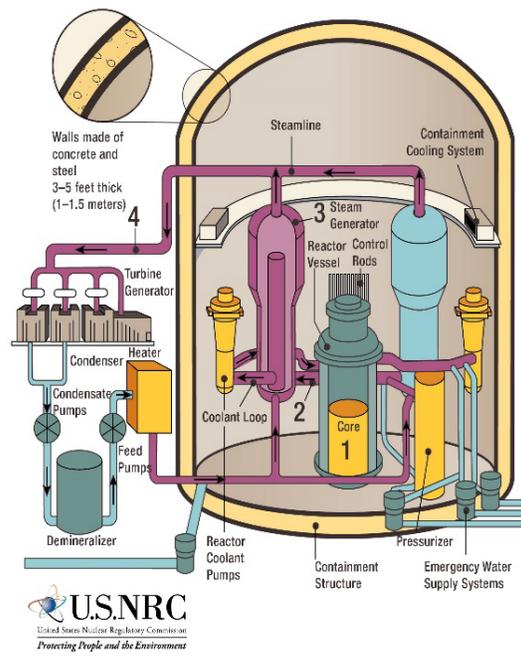


Figure 5 The Pressurized-Water Reactor

### Materials Users

The medical, academic, and industrial fields all use nuclear materials. For example, about one-third of all patients admitted to U.S. hospitals are diagnosed or treated using radioisotopes. Most major hospitals have specific departments dedicated to nuclear medicine. Of the nuclear medicine or radiation therapy procedures performed annually, the vast majority are used in diagnoses. Radioactive materials used as a diagnostic tool can identify the status of a disease and minimize the need for surgery. Radioisotopes give doctors the ability to look inside the body and observe soft tissues and organs, in a manner similar to the way x-rays provide images of bones. Radioisotopes carried in the blood also allow doctors to detect clogged arteries or check the functioning of the circulatory system.

The same property that makes radiation hazardous can also make it useful in treating certain diseases like cancer. When living tissue is exposed to high levels of radiation, cells can be destroyed or damaged. Doctors can selectively expose cancerous cells (cells that are dividing uncontrollably) to radiation to either destroy or damage these cells.

Many of today's industrial processes also use nuclear materials. Technologically advanced methods that ensure the quality of manufactured products often rely on radiation generated by 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, find flaws in critical steel parts and welds that go into automobiles and modern buildings, authenticate valuable works of art, and solve crimes by spotting trace elements of poison. Radioisotopes can also eliminate dust from film and compact discs and reduce static electricity (which may create a fire hazard) from can labels. In manufacturing, radiation can change the characteristics of materials, often giving them features that are highly desirable. For example, wood and plastic composites treated with gamma radiation resist abrasion and require low maintenance. As a result, they are used for some flooring in high-traffic areas of department stores, airports, hotels, and churches.

### Waste Disposal

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

Nuclear power plants handle each type of radioactive waste differently. They must use special procedures in the handling of the spent fuel because it contains the highly radioactive fission byproducts created while the reactor was operating. The spent fuel from nuclear power plants can be stored in water-filled pools at each reactor site. The water in the spent fuel storage pool provides cooling and adequately shields and protects workers from the radiation. Nuclear power plants also use dry casks to store spent fuel. These large metal or concrete casks rest on concrete pads adjacent to the reactor facility. The thick layers of concrete and steel in these casks shield workers and the public from radiation.

Currently, most spent fuel in the United States remains stored at individual plants. Permanent disposal of spent fuel from nuclear power plants will require a disposal facility that can provide reasonable assurance that the waste will remain isolated for thousands of years.

## Chapter 1 • Management's Discussion and Analysis

Licensees often store low-level waste on site until its radioactivity has decayed and the waste can be disposed of as ordinary trash, or until amounts are large enough for shipment to a low level waste disposal site in containers approved by the U.S. Department of Transportation. The NRC has developed a waste classification system for low-level radioactive waste based on its potential hazards and has specified disposal and waste form requirements for Class A, Class B, and Class C waste. Generally, Class A waste contains lower concentrations of radioactive material than Class B and Class C wastes. The two disposal facilities that accept a broad range of low level wastes are located in Barnwell, SC, and Richland, WA.



Spent Fuel Dry Cask Storage

### Future Challenges

There are many challenges and external factors that influence the ability of the NRC to achieve its strategic goals and associated objectives. The most significant challenges include industry operating experience, national priorities, a potential significant incident at a domestic or non-U.S. nuclear facility, the security and threat environment, legislation, Federal court litigation, market forces, new technologies, and resource availability. The NRC strives to respond promptly to shifts in Agency priorities necessitated by these challenges. The nuclear industry has maintained an excellent safety record at nuclear power plants over decades as both the nuclear industry and the NRC have gained substantial experience in the operation and maintenance of nuclear power facilities. Maintaining this excellent safety record requires that the agency take proactive measures to ensure the accomplishment of its mission. The key challenges the Agency faces are highlighted below.

#### Market Forces

Many market forces affect the nuclear industry. These can affect the business operations of facility operators and license applicants subject to NRC jurisdiction and therefore the workload before the agency. The NRC must be prepared with the regulatory infrastructure to continue to provide reasonable assurance of the safety and security of operating facilities, support areas such as decommissioning of nuclear power plants, changes in exports and imports, and licensing of new technologies and facilities.

#### Globalization and Development of Nuclear Technology

Technological changes may affect the development of advanced nuclear systems and support infrastructure, resulting in impacts to the industry activities subject to NRC jurisdiction. Increased globalization of nuclear technology, including small modular reactors and advanced reactor designs, could increase competition in the nuclear supply chain and; therefore, could affect industry operating costs and increase the complexity of regulatory oversight due to the need to encompass foreign vendors. In addition to operating and regulatory impacts on the domestic nuclear industry, globalization increases the value of the NRC's enhanced cooperation with international organizations for licensing activities, training, development and implementation of codes and standards, and conventions and treaties to ensure safe and secure use of nuclear technology.

#### Incidents

The U.S. national security landscape will continue to be dynamic, encompassing a full range of threats and incidents, including the identification of and protection against, cyber and physical security threats. As a result, the regulatory approach needed to ensure the safety and security of nuclear materials and infrastructure may need to evolve in response to such incidents and threats. A significant incident at a nuclear facility, whether caused by adversaries, natural disaster, or other factors, could prompt the agency to reassess its safety and security requirements and could impact the agency's focus. The NRC must anticipate and be prepared for an operational and regulatory response to threats and incidents involving nuclear infrastructure. An incident at a non-U.S. facility could also cause the NRC to reassess its safety and security requirements.

### Legislative and Executive Branch Actions

Congressional or Executive Branch actions may affect the NRC's regulatory responsibilities, and strategies to comply with new direction would need to be developed.

### International Treaties and Conventions

The ratification by the United States of international instruments related to the safety of nuclear facilities or radioactive materials could potentially impose binding provisions on the Nation that can affect responsible governmental agencies, such as the NRC. Strategies to comply with new provisions would need to be developed.

### Workforce Dynamics

The agency's most valuable resource is its staff, and its ability to recruit, hire, train, motivate, and retain qualified staff in a competitive job market is critical to meeting its strategic goals. The agency must also maintain a high-performing, diverse, engaged, and flexible workforce supported by a healthy organizational culture with a focus on safety, security, and continuous improvement to meet mission needs. This will require the NRC to better understand and meet the needs of its employees and become a more flexible and agile organization.

### Information Technology Advances

Information technology developments in an increasingly mobile society will impact the agency's operations. The NRC will need to take advantage of technology to enable an effective and efficient work environment. It is essential to maintain a reasonable balance between the need to maximize technological innovation to perform the Agency's mission and the secure use and protection of sensitive and proprietary information. The NRC needs to be aware of the heightened risk that sensitive information held by the Agency or its licensees could be lost, misplaced, or intercepted and obtained by unauthorized users. The Agency will need to develop and maintain a knowledgeable workforce capable of addressing both these technology and security challenges.

## Source of Funds

### Appropriations

The NRC receives two appropriations: (1) Salaries and Expenses and (2) the Office of the Inspector General (OIG). For FY 2018, the NRC received total appropriations of \$922.0 million, which included \$909.1 million for the Salaries and Expenses appropriation and \$12.9 million for the OIG. The NRC’s Salaries and Expenses appropriation increased \$4.1 million compared to the prior-year. The appropriation for the OIG increased by \$0.8 million.

The Salaries and Expenses appropriation is available until expended. This includes a provision that not more than \$9.5 million be made available for the Office of the Commission; these funds are available for obligation by the NRC through September 30, 2019. After that date, the remaining funds that have not been obligated for the Office of the Commission are available until expended as part of the Salaries and Expenses appropriation.

The OIG appropriation is available to obligate for 2 years (FY 2018 and FY 2019) through September 30, 2019. This 2-year funding includes \$1.1 million for Inspector General services provided to the Defense Nuclear Facilities Safety Board (DNFSB).

### Total Budget Authority

The total budget authority available for the NRC to obligate in FY 2018 was \$975.2 million and included \$922.0 million for current year appropriations, \$38.7 million from prior-year appropriations, \$10.5 million from recoveries of prior-year obligations, and \$4.0 million spending authority from offsetting collections. Funds available to obligate in FY 2018 decreased from the FY 2017 amount of \$979.2 million by \$4.0 million, primarily as a result of an increase of \$4.9 million in

appropriations, offset by decreases of \$3.3 million in unobligated balances from prior-year budget authority, \$4.0 million in recoveries of prior-year obligations, and \$1.6 million in spending authority from offsetting collections.

**Table 1 Total Budget Authority (IN MILLIONS)**

For the fiscal years ended September 30,	2018	2017	Inc/(Dec)
<b>Appropriations</b>			
Salaries and Expenses	\$909.1	\$905.0	\$4.1
Office of the Inspector General	12.9	12.1	0.8
<b>Total Appropriations</b>	<b>922.0</b>	917.1	4.9
<b>Other Budget Authority</b>			
Unobligated balance from prior-year budget authority, brought forward October 1	38.7	42.0	(3.3)
Recoveries of prior-year obligations	10.5	14.5	(4.0)
Spending Authority from Offsetting Collections	4.0	5.6	(1.6)
<b>Total Other Budget Authority</b>	<b>53.2</b>	62.1	(8.9)
<b>Total NRC Budget Authority</b>	<b>\$975.2</b>	\$979.2	\$(4.0)

## Fee Collection Offset of Appropriations

The *Omnibus Budget Reconciliation Act of 1990* (OBRA-90), as amended, requires the NRC to collect fees to offset approximately 90 percent of its appropriation. By law, this excludes amounts appropriated for Waste Incidental to Reprocessing, Generic Homeland Security, Inspector General services for the DNFSB, the Advanced Reactor Regulatory Infrastructure, International Activities, and the Nuclear Waste Fund (NWF). Funds equal to fees collected are transferred to the NRC’s two appropriations, and the U.S. Department of the Treasury (Treasury) issues a negative warrant for the amount of the fee transfer to reduce the NRC’s appropriations.

In FY 2018, the NRC collected fees and transferred \$781.8 million to the Treasury and the net received from the Treasury general fund was \$140.1 million (see Table 2). The fees collected during FY 2017 and transferred to the Treasury totaled \$789.6 million.

## Uses of Funds by Function

Funds are used when the NRC incurs obligations against budget authority. Obligations are legally binding agreements that will result in an outlay of funds.

The NRC incurred obligations of \$934.0 million in FY 2018, which represented a decrease of

\$6.5 million from FY 2017 (see Table 3). Approximately 59 percent of obligations in FY 2018 were for salaries and benefits. The remaining 41 percent were used to obtain technical assistance for the NRC’s principal regulatory programs, to conduct confirmatory safety research, to cover operating expenses (e.g., building rentals, transportation, printing, security services, supplies, office automation, and training), and to pay for staff travel.

The unobligated budget authority at the end of FY 2018 was \$41.1 million, which was a \$2.4 million increase from the FY 2017 amount of \$38.7 million.

**Table 2 Sources of Funds for Appropriations (IN MILLIONS)**

For the fiscal years ended September 30,	2018	2017	Inc/(Dec)
Reactor Fees Collected	\$697.0	\$ 708.4	\$(11.4)
Materials Fees Collected	84.8	81.2	3.6
Nuclear Waste Fund	0	0	0
Treasury General Fund	140.1	127.5	12.6
<b>Total Sources of Funds</b>	<b>\$921.9</b>	<b>\$917.1</b>	<b>\$4.8</b>

**Table 3 Use of Funds (Obligations) (IN MILLIONS)**

For the fiscal years ended September 30,	2018	2017	Inc/(Dec)
Salaries and Benefits	\$553.9	\$567.3	\$ (13.4)
Corporate Support	335.5	330.9	4.6
Travel	21.6	21.1	0.5
Grants	17.0	16.0	1.0
Reimbursable Work	6.0	5.2	0.8
<b>Total Obligations</b>	<b>\$934.0</b>	<b>\$940.5</b>	<b>\$ (6.5)</b>

## Analysis of the Financial Statements

Chapter 2 of this AFR presents the NRC’s financial statements, accompanying notes, and required supplementary information, along with the report of the independent auditors. The independent auditors issued an unmodified opinion on the financial statements and an unmodified opinion on internal controls over financial reporting for the fiscal years ended 2018 and 2017. Additionally, the independent auditors found no reportable instances of noncompliance with laws and regulations.

The principal financial statements are prepared to report the financial position and results of operations of the NRC, pursuant to the requirements of 31 United States Code (U.S.C.) § 3515(b). The statements are prepared from the books and records of the NRC in accordance with Federal generally accepted accounting principles (GAAP) and the formats prescribed by the Office of Management and Budget (OMB). Reports used to monitor and control budgetary resources are prepared from the same books and records. The financial statements should be read with the realization that they are for a component of the U.S. Government.

We present the following analysis of the financial statements and significant changes.

**Table 4 Key Measures (IN MILLIONS)**

For the fiscal years ended September 30,	FY 2018	FY 2017	Inc/(Dec)	%
<b>Assets:</b>				
Fund Balance with Treasury	\$386.9	\$365.8	\$21.1	5.8%
Accounts Receivable, Net	75.3	87.0	(11.7)	(13.4%)
Advances and Prepayments	9.2	12.8	(3.6)	(28.1%)
Property & Equipment, Net	65.0	79.9	(14.9)	(18.6%)
Other Assets	.1	.1	0	-
<b>Total Assets</b>	<b>\$536.5</b>	<b>\$545.6</b>	<b>\$(9.1)</b>	<b>(1.7%)</b>
<b>Liabilities:</b>				
Accounts Payable	\$31.9	\$30.4	\$1.5	4.9%
Federal Employee Benefits	5.3	5.4	(0.1)	(1.9)%
Other Liabilities	77.7	78.2	(0.5)	(0.1%)
<b>Total Liabilities</b>	<b>\$114.9</b>	<b>\$114.0</b>	<b>\$0.9</b>	<b>0.1%</b>
<b>Net Position (Assets minus Liabilities)</b>	<b>\$421.6</b>	<b>\$431.6</b>	<b>\$(10.0)</b>	<b>(2.3%)</b>
<b>COST BY PROGRAMS</b>				
Nuclear Reactor Safety	\$741.9	\$736.8	\$5.1	0.7%
Nuclear Materials and Waste Safety	213.0	203.8	9.2	5.0%
<b>LESS: Earned Revenue (License Fees)</b>	<b>774.7</b>	<b>796.3</b>	<b>(21.6)</b>	<b>(2.7%)</b>
<b>Net Cost of Operations</b>	<b>\$180.2</b>	<b>\$144.3</b>	<b>\$35.9</b>	<b>24.9%</b>
<b>COST BY STRATEGIC GOALS</b>				
Safety	\$912.8	\$896.7	\$16.1	1.8%
Security	42.1	43.9	(1.8)	(4.1%)
<b>LESS: Earned Revenue (License Fees)</b>	<b>774.7</b>	<b>796.3</b>	<b>(21.6)</b>	<b>(2.7%)</b>
<b>Net Cost of Operations</b>	<b>\$180.2</b>	<b>\$144.3</b>	<b>\$35.9</b>	<b>24.9%</b>

## Analysis of the Balance Sheet

**Assets.** The NRC's total assets were \$536.5 million as of September 30, 2018, representing a decrease of \$9.1 million from the fiscal year ended September 30, 2017. Changes in major categories include an increase of \$21.1 million in the Fund Balance with Treasury, offset by decreases of \$3.6 million in Advances and Prepayments, \$14.9 million in Property and Equipment, Net, and \$11.7 million in Accounts Receivable, Net.

The Fund Balance with Treasury was \$386.9 million as of September 30, 2018, which accounts for 72 percent of total assets. This account consists of cash or cash equivalents from appropriated funds, license fee collections, and other funds maintained at the Treasury to pay current liabilities and to finance authorized purchase commitments. The Fund Balance with Treasury can vary largely due to timing of disbursing payments and receiving collections as well as changes in the appropriations. The increase of \$21.1 million in the Fund Balance with Treasury is primarily the result of a decrease in Net Outlays of \$18.7 million and an increase of \$4.9 million in appropriations, offset by a decrease of \$2.4 million in the beginning balance.

Accounts Receivable consists mostly of amounts that other Federal agencies and the public owe to the NRC for license fees. As of September 30, 2018, Accounts Receivable, Net were \$75.3 million, which includes an offsetting allowance for doubtful accounts of \$2.8 million. This represents a net decrease in Accounts Receivable, Net of \$11.7 million from the FY 2017 amount of \$87.0 million. The decrease is primarily due to decreases in intragovernmental fees receivable of \$1.5 million, billed fees receivable of \$4.6 million, unbilled fees receivable of \$6.9 million and the allowance for doubtful accounts of \$1.0 million and an increase of \$0.3 million in other receivables. The changes result from the reduced fee base used for collections and an increased collection effort.

Property and Equipment, Net consists primarily of typical office furnishings, leasehold improvements, nuclear reactor simulators, and computer hardware and software. The NRC has no real property. The land and buildings in which the NRC operates are leased from the U.S. General Services Administration (GSA). At the end of FY 2018, Property and Equipment, Net was \$65.0 million, a \$14.9 million decrease from the FY 2017 amount of \$79.9 million. The decrease primarily results from the amortization of completed Leasehold Improvements and a reduction of Leasehold Improvements in Progress in the amount of \$11.3 million due to the completion of renovations of headquarters offices. Property and Equipment is further decreased by \$14.9 million in Internal Use Software under Development which is offset by an increase in Software capitalized of \$11.9 million.

**Liabilities.** Total liabilities were \$114.9 million as of September 30, 2018, representing an increase of \$0.9 million from the FY 2017 balance of \$114.0 million. Liabilities consist primarily of accounts payable to other Federal agencies and the public, grants payable, accrued salaries and benefits, and other accrued employee benefits.

Total liabilities include liabilities not covered by budgetary resources, which represent expenses recognized in the financial statements that will be paid from future appropriations. The liabilities not covered by budgetary resources are \$48.8 million for FY 2018, compared to \$48.6 million for FY 2017, a \$0.2 million increase. For FY 2018 the liabilities not covered by budgetary resources represent 42 percent of Total Liabilities and include \$42.5 million in unfunded accrued annual leave that has been earned but not yet taken, \$5.3 million as an actuarial estimate of accrued future workers' compensation expenses included in Federal Employee Benefits, and \$1.0 million in accrued workers' compensation included in Other Liabilities.

**Net Position.** The difference between Total Assets and Total Liabilities, Net Position, was \$421.6 million as of September 30, 2018, a decrease of \$10.0 million from the FY 2017 year-end balance. Net Position comprises two components: Unexpended Appropriations and Cumulative Results of Operations which is the cumulative excess of financing sources over expenses. The Analysis of the Statement of Changes in Net Position below presents additional information.

### Analysis of the Statement of Net Cost

The Statement of Net Cost presents the gross cost of the NRC's two major programs (Nuclear Reactor Safety and Nuclear Materials and Waste Safety) as identified in the NRC Annual Performance Plan, offset by earned revenue. The purpose of this statement is to link program performance to the cost of programs. The NRC's net cost of operations for the year ended September 30, 2018, was \$180.2 million, representing an increase of \$35.9 million compared to the FY 2017 net cost of \$144.3 million. This includes an increase in gross costs of \$14.3 million and a decrease in earned revenue of \$21.6 million which result in an increase in net cost of \$35.9 million.

**Gross Costs.** The NRC's total gross costs were \$954.9 million for FY 2018, an increase of \$14.3 million from the prior-year amount of \$940.6 million. The gross costs in FY 2018 for the Nuclear Reactor Safety program were \$741.9 million compared to FY 2017 gross costs of \$736.8 million, an increase of \$5.1 million. The gross costs in FY 2018 for the Nuclear Materials and Waste Safety program were \$213.0 million compared to FY 2017 gross costs of \$203.8 million, an increase of \$9.2 million. Thus, the gross cost of both programs increased a total of \$14.3 million. The increase is due to expected slight fluctuations across all cost categories. The gross cost of \$954.9 million as incurred by the NRC's goals of Safety and Security were \$912.8 million for the Safety goal and \$42.1 million for the Security goal.

**Earned Revenue.** Total earned revenue for FY 2018 was \$774.7 million, a decrease of \$21.6 million from the FY 2017 earned revenue of \$796.3 million. Revenue for the Nuclear Reactor Safety program in FY 2018 was \$692.9 million compared to \$710.0 million in FY 2017, a decrease of \$17.1 million. Revenue from the Nuclear Materials and Waste Safety program in FY 2018 was \$81.8 million compared to \$86.2 million in FY 2017, a decrease of \$4.4 million. The decrease in earned revenue is primarily a result of reductions in the fee base, that is, the amount of the appropriated budget that Congress directs the NRC to recover in license fees. The \$16.2 million appropriated budget for International Activities and an additional \$5 million appropriated budget for the Advanced Reactor Regulatory Infrastructure program were taken off the fee base in FY 2018.

The NRC is required to collect approximately 90 percent of its appropriation through license fee billing. The agency collects fees for reactor and materials licensing and inspections in accordance with Title 10 of the *Code of Federal Regulations* (10 CFR) Part 170, "Fees for Facilities, Materials, Import and Export Licenses, and Other Regulatory Services under the Atomic Energy Act of 1954, as amended," at <https://www.nrc.gov/reading-rm/doc-collections/cfr/part170/>, and 10 CFR Part 171, "Annual Fees for Reactor Licenses and Fuel Cycle Licenses and Materials Licenses, Including Holders of Certificates of Compliance, Registrations, and Quality Assurance Program Approvals and Government Agencies Licensed by the NRC," at <https://www.nrc.gov/reading-rm/doc-collections/cfr/part171/>.

### Analysis of the Statement of Changes in Net Position

The Statement of Changes in Net Position reports the change in net position for the reporting period. Net position is affected by the changes in two components: (1) Cumulative Results of Operations and (2) Unexpended Appropriations. In FY 2018, the NRC had a decrease in Net Position of \$10.0 million resulting from a decrease in Cumulative Results of Operations of \$28.2 million, offset by an increase of \$18.2 million in Unexpended Appropriations.

The change in Unexpended Appropriations results from appropriations received, net of license fee collections, being more or less than the appropriations used to finance the NRC operations. The increase in FY 2018 Unexpended Appropriations of \$18.2 million resulted from an increase in the adjusted beginning balance of \$9.4 million offset by an increase of \$12.7 million in appropriations received, net of license fees collected, and a decrease of \$3.9 million in appropriations used to finance the NRC operations. The increase in appropriations received, net of license fees collected, resulted from appropriations received for FY 2018 of \$922.0 million, reduced by current year license fee collections of \$781.8 million, as compared to appropriations received in FY 2017 of \$917.1 million, reduced by FY 2017 license fee collections of \$789.6 million.

### Analysis of the Statement of Budgetary Resources

The Statement of Budgetary Resources (SBR) provides information on budgetary resources available to the NRC and their status at the end of the period. In FY 2018, the Total Budgetary Resources of \$975.2 million were available. This was \$4.0 million less than the \$979.2 million available for FY 2017. The two major components of Total Budgetary Resources that contributed to the decrease are appropriations and the beginning unobligated balance brought forward, October 1. The decrease is due to the decrease of \$7.3 million in the unobligated balances brought forward, net and \$1.6 million in spending authority from offsetting collections, offset by an increase in appropriations of \$4.9 million.

The SBR accounts for operational activities funded with the NRC's budgetary resources during the fiscal year. The NRC's obligations for FY 2018 totaled \$934.0 million, a decrease of \$6.5 million from the prior-year amount of \$940.5 million.

The SBR also accounts for the funds that were not used in operations during the fiscal year. Total budgetary resources not obligated at the end of the fiscal year were \$41.1 million, an increase of \$2.4 million from the prior-year balance of \$38.7 million.

### Management Assurances, Systems, Controls, and Legal Compliance

#### Federal Managers’ Financial Integrity Act of 1982

The Financial Managers’ Financial Integrity Act (FMFIA or Integrity Act) mandates that Federal agencies establish effective internal control and provide reasonable assurance that the following objectives are being met:

- a. **Program Management** - Programs are achieving their intended results, and are protected from waste, fraud, abuse, and mismanagement.
- b. **Resource Management** - Resources are being used consistent with the agency’s mission.
- c. **IT Systems** - Information systems are authorized and appropriately secured.
- d. **Laws and Regulations** - Laws and regulations are followed.
- e. **Communication** - Reliable and timely information is obtained, maintained, reported, and used for sound decision-making.

The Integrity Act encompasses program, operational, and administrative areas, as well as accounting and financial management. It requires the NRC Chairman to provide an assurance statement on the adequacy of internal controls and on the conformance of financial systems with Governmentwide standards.

#### Enterprise Risk Management and Programmatic Internal Control

Enterprise Risk Management (ERM) provides an enterprise-wide, strategically-aligned portfolio view of organizational challenges that provides better insight into how to most effectively prioritize resource allocations to ensure successful mission delivery. A principal component of ERM is internal control, which the U.S. Government Accountability Office defines in GAO-14-704G, “Standards for Internal Control in the Federal Government,” as “a process effected by an entity’s oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved.”

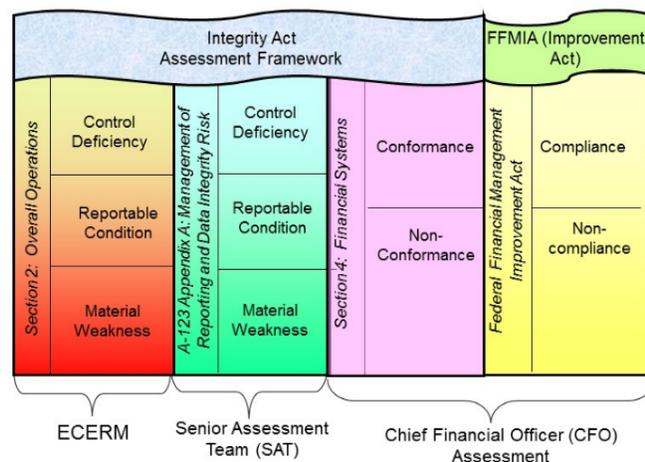
Office of Management and Budget Circular A-123, “Management’s Responsibility for Enterprise Risk Management and Internal Control,” provides Federal agencies guidance on how to comply with the Integrity Act, and requires Federal managers to effectively manage risks that may impact agencies in meeting their strategic objectives.

In fiscal years 2017 and 2018, the NRC developed and implemented an ERM framework that meets OMB requirements. The framework includes the following:

- **Incorporating** ERM and performance management into the agency’s internal control policy document;
- **Leveraging** appropriate agency governance organizations and processes currently in place such as the NRC Internal Control Governance Framework, quarterly performance review meetings, and Executive Committee on Enterprise Risk Management meetings;
- **Standing up** the agency’s Programmatic Senior Assessment Team as the agency evaluation structure for enterprise risks;

- **Developing and disseminating** ERM and internal control awareness training, and risk documentation instructions to NRC management and staff;
- **Incorporating** ERM into executive decision-making, and management’s evaluation of the NRC’s internal control and reasonable assurance processes.

Figure 6 illustrates the NRC’s FMFIA Governance Framework. It shows that the Chief Financial Officer (CFO) is responsible for ensuring that the agency complies with the FFMA, and Section 4, “Financial Systems” of the Integrity Act. The Senior Assessment Team, chaired by the CFO, is responsible for ensuring that the agency complies with OMB Circular A-123, “Management’s Responsibility for Enterprise Risk Management and Internal Control,” Appendix A, “Management of Reporting and Data Integrity Risk.” The Executive Committee on Enterprise Risk Management (ECERM), co-chaired by the CFO and the Executive Director for Operation, is responsible for ensuring that the agency’s internal control over programmatic operations complies with the Integrity Act.



**Figure 6 The NRC’s Integrity Act Governance Framework**

The other members of the ECERM are senior executives from the Office of the Executive Director for Operations, and the Chief Information Officer. The agency’s General Counsel and Inspector General serve as advisory members. The Senior Assessment Team is chaired by the CFO and includes senior executives from the Office of the Chief Financial Officer (OCFO) as well as the lead senior officials from the agency’s corporate support business lines, (i.e., the Chief Human Capital Officer, the Chief Information Officer, and the Office of Administration, which includes the agency’s Acquisition Management Division Director).

The ECERM assessed the agency’s programmatic operations, financial systems, and internal control over financial reporting; reported to the NRC Chairman that there were no internal control deficiencies or enterprise risks serious enough to require reporting as a material weakness or area of noncompliance; and voted to recommend that the Chairman sign the agency’s Federal Manager’s Financial Integrity Act Statement (see Figure 7).

## Fiscal Year 2018 Integrity Act Results

In accordance with Section 2 of the Integrity Act and under the guidance established in OMB Circular A-123, all NRC business line leads and corporate support product line leads certified that, as of September 30, 2018, there was reasonable assurance that the internal control was in place, producing the intended results. Based on management’s certification of reasonable assurance, the NRC is able to provide a statement of assurance that its internal control met the objectives of the Integrity Act, and conforms to Governmentwide standards.

U.S. NUCLEAR REGULATORY COMMISSION  
FISCAL YEAR 2018  
FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT STATEMENT

The U.S. Nuclear Regulatory Commission (NRC) managers are responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the *Federal Managers' Financial Integrity Act of 1982* (Integrity Act). The NRC is able to provide an unmodified statement of assurance that the internal controls and financial management systems meet the objectives of the Integrity Act with no material weaknesses.

The NRC conducted its assessment of internal control over programmatic operations in accordance with Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (A-123) guidelines. Based on the results of this evaluation, the NRC can provide reasonable assurance that its internal control over programmatic operations is in substantial compliance with applicable laws and guidance, and no material weaknesses were found as of September 30, 2018. Also in accordance with guidance established in A-123, the NRC incorporated Enterprise Risk Management into the agency's performance management and internal control framework and can provide assurance on its risk management process of identifying, assessing, and managing risks. The agency developed a risk profile and found there were no enterprise-wide risks determined to be reportable outside the agency.

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 A-123. Based on the results of the evaluation, the NRC can provide reasonable assurance that its internal control over financial reporting as of June 30, 2018, was operating effectively, and no material weaknesses were found in the design or operation of the internal control over financial reporting.

In accordance with guidance established in OMB Circular A-123, Appendix D, the Chief Financial Officer reviewed audit reports and other sources of information and as of September 30, 2018, can provide reasonable assurance that NRC's financial systems substantially comply with Federal financial system requirements, applicable Federal accounting standards, and the U.S. Treasury standard general ledger at the transaction level, as required by the *Federal Financial Management Improvement Act of 1996*.



Kristine L. Svinicki  
Chairman  
U.S. Nuclear Regulatory Commission  
October 25, 2018

Figure 7 FY 2018 Federal Financial Management Improvement Act Statement

### Office of Management and Budget Circular A-123, “Management’s Responsibility for Enterprise Risk Management and Internal Control”

#### “Management of Reporting and Data Integrity Risk” (Appendix A)

The NRC adopted a rotational testing plan to assess the effectiveness of its internal controls over financial reporting to comply with OMB Circular A-123, Appendix A. Two of the eight key processes (financial reporting and IT) were significant enough to include in each year’s testing of the test plan cycle. The remaining six key processes (budget execution, disbursements, payroll, procurement, property, and revenue) were to be tested once in a 3-year cycle, two each year. Based on the results of the FY 2017 evaluation, the NRC can provide reasonable assurance that its internal controls over financial reporting were operating effectively as of June 30, 2018, and that the evaluation found no material weaknesses in the design or operation of the internal controls over financial reporting.

#### “Requirements for Payment Integrity Improvement” (Appendix C)

In FY 2011, the NRC completed an initial risk assessment to determine whether any programs were susceptible to making significant improper payments in accordance with the *Improper Payments Information Act of 2002* (IPIA) as amended by the *Improper Payments Elimination and Recovery Act of 2010* (IPERA) and the *Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA). The results of that assessment allowed the agency to conduct future risk assessments on a triennial basis. The NRC conducted the latest risk assessment in FY 2017.

The FY 2017 risk assessment did not identify any programs that were susceptible to making significant improper payments. Although the results of the FY 2017 risk assessment identified programs as low risk, the NRC continues to monitor its payment processes, in addition to conducting periodic reviews of key controls for IPIA programs identified by management. The NRC will continue to conduct a risk assessment every 3 years in accordance with IPIA, as amended by IPERA and IPERIA, and OMB guidance. The next NRC IPIA risk assessment will take place in FY 2020. In addition, the NRC will conduct additional risk assessments, as needed, if there are material changes in the way programs operate or if the NRC establishes new programs.

Chapter 3, “Other Information,” of this report presents additional information in the “Payment Integrity” section.

#### Federal Financial Management Improvement Act of 1996

The Federal Financial Management Improvement Act of 1996 (FFMIA or Improvement Act) requires each agency to implement and maintain systems that comply substantially with: (1) Federal financial system requirements; (2) applicable Federal accounting standards; and, (3) the standard general ledger at the transaction level. FFMIA requires the Chairman to determine whether the agency’s financial management system complies with FFMIA and to develop remediation plans for systems that do not comply.

#### Fiscal Year 2018 Improvement Act Results

The OCFO successfully completed implementation of the Cost Activity Code System. This included integration enhancements to its core general ledger system, known as the Financial

Accounting and Integrated Management Information System and, its time and labor system, known as the Human Resource Management System. The Cost Activity Code System is the agency-wide authoritative platform of project cost activities that are used as the foundation for the calculation of licensee fee billing. The CFO conducted reviews, reviewed audit reports, and other sources of information and, as of September 30, 2018, can provide reasonable assurance that the NRC's financial systems substantially comply with applicable Federal accounting standards as required by the FFMA.

### Digital Accountability and Transparency Act of 2014 (DATA Act)

The DATA Act aims to establish Governmentwide financial data standards and increase the availability, accuracy, and usefulness of Federal spending information. The purposes of the DATA Act are to:

- **Establish Governmentwide data standards** for financial data and provide consistent, reliable, and searchable Governmentwide spending data that are accurately displayed.
- **Expand accountability** of the *Federal Funding Accountability and Transparency Act of 2006* to disclose direct Federal agency expenditures and link Federal contract, loan, and grant spending information to programs.
- **Simplify reporting** for entities receiving Federal funds by streamlining requirements and reducing compliance costs while improving transparency.
- **Improve data quality** submitted to [USASpending.gov](http://USASpending.gov) by holding Federal agencies accountable for the completeness and accuracy of the information submitted.
- **Apply approaches** developed by the Recovery Accountability and Transparency Board for spending across the Federal Government to increase spending transparency and reduce reporting burden.

During FY 2017, the NRC successfully implemented the DATA Act, ahead of the OMB and the Treasury deadlines. The DATA Act requires that the OIG audit DATA Act compliance every 2 years. The results of the initial OIG audit of FY 2017 second quarter data issued in November 2018 reported that the agency submitted complete and accurate data that conformed to OMB and Treasury requirements. All of the recommendations made in the report were closed in FY 2018.

### Financial Management Systems Strategies

The NRC completed security based initiatives for the agency's financial systems in FY 2018. In compliance with the U.S. Department of Homeland Security Identity, Credential, and Access Management program, the NRC's financial management systems have migrated to a two-factor login authentication. Enabling two-factor login authentication strengthens the NRC security stance with financial management data while reducing help desk calls, routine systems maintenance, and annual and quarterly cybersecurity costs.

### Prompt Payment

The *Prompt Payment Act of 1982*, as amended, requires Federal agencies to make timely payments to vendors for supplies and services, to pay interest penalties when payments are made after the due date, and to take cash discounts when they are economically justified. In FY 2018, the NRC paid 97.43 percent of the 6,104 invoices subject to the Prompt Payment Act on time.

### Debt Collection

The *Debt Collection Improvement Act of 1996* enhances the ability of the Federal Government to service and collect debts. The agency's goal is to maintain the level of delinquent debt owed to the NRC at year end to less than 1 percent of its annual billings. The NRC met this goal. At the end of FY 2018, delinquent debt was \$5.9 million or less than 1 percent of annual billings. The NRC was able to refer 99.5 percent of all eligible debt over 180 days delinquent to the Treasury for collection and 64.8 percent over 120 days old in accordance with the DATA Act. In addition, the NRC met the collections requirements of OBRA-90 which requires the agency to recover through fees approximately 90 percent of its budget authority in the current fiscal year.

### Biennial Review of User Fees

The *Chief Financial Officers Act of 1990* requires agencies to conduct a biennial review of fees, royalties, rents, and other charges imposed by agencies and to make revisions to cover program and administrative costs incurred. The NRC conducted the following reviews in FY 2018:

- Navy Porting - Completed April 2018
- Public Use of Auditorium and On-site Parking Fees - Completed April 2018
- Small Materials and Import and Export Licenses - Completed July 2018
- Administrative Charges for Delinquent Debt - Completed July 2018
- Licensing, Inspection, Special Project, and Annual Fees Charged NRC Applicants and Licensees – Completed June 2018, as follows:

On June 25, 2018, the NRC issued a final rule in the Federal Register (FR) amending the licensing, inspection, and annual fees charged to its applicants and licensees. This rule can be found at <https://www.gpo.gov/fdsys/pkg/FR-2018-06-25/pdf/2018-13320.pdf>.

The amendments are necessary for the NRC to implement OBRA-90. OBRA-90 requires the NRC to collect fees to offset approximately 90 percent of its appropriation less activities expressly excluded from fee recovery. By law, this excludes the amounts appropriated for: Waste Incidental to Reprocessing activities of \$1.3 million; the OIG services for the DNFSB of \$1.1 million; the advance reactor regulatory infrastructure of \$10.0 million; and, generic homeland security activities of \$15.2 million. Also, for the first time in FY 2018, international activities in the amount of \$16.2 million are excluded from the fee recoverable budget. Based on the Consolidated Appropriations Act of 2018, the NRC's fee recovery budget amount is \$790.3 million.

### Inspector General Act of 1978

The NRC has established and continues to maintain an excellent record in resolving and implementing OIG open audit recommendations. The status of these recommendations can be found at: <http://www.nrc.gov/reading-rm/doc-collections/insp-gen>.

### Program Performance Overview

The NRC's mission is to license and regulate the Nation's civilian use of radioactive materials to protect public health and safety, promote the common defense and security, and protect the environment. The NRC's vision is to carry out the mission as a trusted, independent, transparent, and effective nuclear regulator. The NRC's two strategic goals, Safety and Security, are to ensure the safe and secure use of radioactive materials.

The NRC carries out its safety and security activities through two major programs: Nuclear Reactor Safety, consisting of the Operating Reactors and New Reactors business lines; and, Nuclear Materials and Waste Safety, consisting of the Fuel Facilities, Nuclear Materials Users, Decommissioning and Low-Level Waste, Spent Fuel Storage and Transportation, and High-Level Waste business lines. The agency accomplishes its mission to provide reasonable assurance of adequate protection for public health and safety through regulatory activities that include licensing, oversight, and rulemaking. The NRC oversees licensees through inspection, assessment, investigation, and enforcement actions. Investigations and enforcement actions are a subset of oversight in cases of suspected or proven instances of noncompliance with safety or security regulations. The NRC's event response activities prepare for and respond to emergencies involving radioactive materials. The following narrative highlights the agency's progress during FY 2018 in achieving its Safety and Security goals.

These goals/indicators align to the NRC's FY 2014-2018 Strategic Plan (<http://www.nrc.gov/reading-rm/doc-collections/nuregs/staff/sr1614/v6/>). Starting with the Fiscal Year 2019 Annual Financial Report, the results reported will align with the FY 2018-2022 Strategic Plan which was published in February 2018 and can be found at <https://www.nrc.gov/reading-rm/doc-collections/nuregs/staff/sr1614/v7/>.

### Fiscal Year 2018 Performance Results

The NRC's FY 2014–2018 Strategic Plan describes the agency's mission, goals, and strategies. As noted above, the agency's two strategic goals are focused on Safety and Security.

The Safety goal is to: Ensure the safe use of radioactive materials.

The Security goal is to: Ensure the secure use of radioactive materials.

With the implementation of the Strategic Plan, the agency developed new performance indicators that are more in line with the plan. Because the nature of the agency's Safety and Security strategic goals is to prevent or minimize undesirable outcomes, the desired trends for all of its performance indicators are to either maintain these outcomes at zero or at very low levels.

### Strategic Goal 1: Ensure the Safe Use of Radioactive Materials

#### Strategic Objective

Strategic objectives express more specifically the results that are needed to achieve a strategic goal. The strategic objective for Goal 1 is: Prevent and mitigate accidents and ensure radiation safety.

## Chapter 1 • Management's Discussion and Analysis

Minimizing the likelihood of accidents and reducing the consequences of an accident (should one occur) are the key elements for achieving the NRC's Safety goal. Such accidents, particularly for large complex facilities like nuclear power plants, have the potential to release significant amounts of radioactive material to the environment and expose facility workers and the public to high levels of radiation.

In FY 2018, the NRC achieved its Safety goal strategic objective. The NRC uses five performance indicators to determine whether it has met its Safety goal. The agency met all five performance indicator targets in FY 2018. Table 5 shows the outcomes for the last 4 years (FY 2015-FY 2018). The cost of achieving the agency's Safety goal in FY 2018 was \$912.8 million.

### Safety Performance Indicators: Fiscal Years 2015–2018

The purpose behind the NRC's performance indicators is to prevent or minimize undesirable outcomes. Therefore, the trends indicating the agency's success in accomplishing its mission would be at or near zero. The following performance indicators were created in conjunction with the development of the NRC's FY 2014–2018 Strategic Plan.



Limerick Generating Station, Units 1 and 2

**Table 5 FY 2015–2018 Safety Performance Indicators**

**Goal–Safety: Ensure the Safe Use of Radioactive Materials**

**1. Prevent radiation exposures that significantly exceed regulatory limits.**

Business Line	FY 2015		FY 2016		FY 2017		FY 2018	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
Operating Reactors	0	0	0	0	0	0	0	0
New Reactors	0	0	0	0	0	0	0	0
Fuel Facilities	0	0	0	0	0	0	0	0
Decommissioning and Low-Level Waste	0	0	0	0	0	0	0	0
Spent Fuel Storage and Transportation	0	0	0	0	0	0	0	0
Nuclear Materials Users	≤ 3	1*	≤ 3	2	≤ 3	0	≤ 3	1

\*Reported in the FY 2015 Performance and Accountability Report and the FY 2017 Congressional Budget Justification as 2 due to one event previously labeled as an abnormal occurrence (AO) that upon further investigation was reclassified as not meeting the AO threshold.

**2. Prevent releases of radioactive materials that significantly exceed regulatory limits.**

Business Line	FY 2015		FY 2016		FY 2017		FY 2018	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
Operating Reactors	0	0	0	0	0	0	0	0
New Reactors	0	0	0	0	0	0	0	0
Fuel Facilities	0	0	0	0	0	0	0	0
Decommissioning and Low-Level Waste	0	0	0	0	0	0	0	0
Spent Fuel Storage and Transportation	0	0	0	0	0	0	0	0
Nuclear Materials Users	0	0	0	0	0	0	0	0

**3. Prevent the occurrence of any inadvertent criticality events.**

Business Line	FY 2015		FY 2016		FY 2017		FY 2018	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
Operating Reactors	0	0	0	0	0	0	0	0
Fuel Facilities	0	0	0	0	0	0	0	0
Decommissioning and Low-Level Waste	0	0	0	0	0	0	0	0

**4. Prevent accident precursors and reductions of safety margins at commercial nuclear power plants (operating or under construction) that are of high safety significance.**

Business Line	FY 2015		FY 2016		FY 2017		FY 2018	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
Operating Reactors	≤ 3	0	≤ 3	0	≤ 3	0	≤ 3	0
New Reactors	≤ 3	0	≤ 3	0	≤ 3	0	≤ 3	0

**5. Prevent accident precursors and reductions of safety margins at nonreactor facilities or during transportation of nuclear materials that are of high safety significance.**

Business Line	FY 2015		FY 2016		FY 2017		FY 2018	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
Fuel Facilities	0	0	0	0	0	0	0	0
Decommissioning and Low-Level Waste	0	0	0	0	0	0	0	0
Spent Fuel Storage and Transportation	0	0	0	0	0	0	0	0

## Chapter 1 • Management's Discussion and Analysis

### **Safety Objective 1: Prevent and mitigate accidents and ensure radiation safety.**

**Performance Goal 1:** Prevent radiation exposures that significantly exceed regulatory limits.

**Performance Indicator:** Number of radiation exposures that meet or exceed abnormal occurrence (AO) criteria I.A.1 (unintended radiation exposure to an adult), I.A.2 (unintended radiation exposure to a minor), or I.A.3 (radiation exposure that has resulted in unintended permanent functional damage to an organ or physiological system).

**Discussion:** This indicator tracks the effectiveness of the NRC's nuclear safety regulatory programs, in part through the number of significant radiation exposures to the public and occupational workers that exceed AO criteria. This indicator tracks exposures from both nuclear reactors and other use of nuclear materials, such as hospitals and industrial uses. In FY 2018, there were no radiation exposures that exceeded AO criteria 1.A.1

**Performance Goal 2:** Prevent releases of radioactive materials that significantly exceed regulatory limits.

**Performance Indicator:** Number of releases of radioactive materials that meet or exceed AO criterion I.B (discharge or dispersal of radioactive material from its intended place of confinement, which results in releases of radioactive material).

**Discussion:** This indicator tracks the effectiveness of the NRC's nuclear material regulatory programs. Exceeding the applicable regulatory limits is defined as a release of radioactive material that causes a total effective radiation dose equivalent to individual members of the public greater than 0.1 rem in a year, exclusive of dose contributions from background radiation. In FY 2018, there were no releases of this nature.

**Performance Goal 3:** Prevent the occurrence of any inadvertent criticality events.

**Performance Indicator:** Number of instances of unintended nuclear chain reactions involving NRC-licensed radioactive materials.

**Discussion:** This indicator tracks the effectiveness of the NRC's criticality safety regulatory programs through the number of unintended self-sustaining nuclear reactions occurring within a fiscal year. Intended criticality events include the startup of a nuclear power reactor. There were no inadvertent criticality events during FY 2018.

**Performance Goal 4:** Prevent accident precursors and reductions of safety margins at commercial nuclear power plants (operating or under construction) that are of high safety significance.

**Performance Indicator:** Number of malfunctions, deficiencies, events, or conditions at commercial nuclear power plants (operating or under construction) that meet or exceed AO criteria II.A-II.D (events at commercial nuclear power plant licensees).

**Discussion:** The NRC's Reactor Oversight Process monitors nuclear power plant performance in three areas: (1) reactor safety, (2) radiation safety, and (3) security. Analysis of individual plant performance is based on both licensee-submitted performance indicators and NRC inspection findings, which are independent assessments of licensee performance that the NRC conducts as the regulatory authority. Each issue is evaluated and assigned one of four

categories in order of increasing significance: green, white, yellow, or red. When the rating is higher (more severe), the NRC applies a greater level of oversight. A red finding or performance indicator is the most severe rating and signals a significant reduction in the safety margin in the measured area. No red findings were issued in FY 2018.

**Performance Goal 5:** Prevent accident precursors and reductions of safety margins at nonreactor facilities or during transportation of nuclear materials that are of high safety significance.

**Performance Indicator:** Number of malfunctions, deficiencies, events, or conditions at nonreactor facilities or during transportation of nuclear materials that meet or exceed AO criteria III.A or III.B (events at facilities other than nuclear power plants and all transportation events).

**Discussion:** This indicator tracks the effectiveness of the NRC's regulatory safety programs for nonreactor facilities or during transportation of nuclear materials through the number of instances in which safety margins at nonreactor facilities are at unacceptable levels. No occurrences of this nature took place during FY 2018.

### Safety Goal Strategies

The NRC's FY 2014–2018 Strategic Plan describes the seven Safety goal strategies at the following link: [strategieshttps://www.nrc.gov/reading-rm/doc-collections/nuregs/staff/sr1614/v6/](https://www.nrc.gov/reading-rm/doc-collections/nuregs/staff/sr1614/v6/).

## Strategic Goal 2: Ensure the Secure Use of Radioactive Materials

### Strategic Objectives

Strategic objectives more specifically express the results that are needed to achieve a strategic goal. The two strategic objectives for Goal 2 follow in bold text.

#### **1. Ensure protection of nuclear facilities and radioactive materials.**

Protecting nuclear facilities and radioactive materials are key elements for achieving the NRC's Security goal. Nuclear facilities and materials are protected against hostile intent by two primary means: (1) control of access to facilities and materials; and (2) accountability controls for radioactive materials. These controls are intended to prevent those with hostile intent from either damaging a nuclear facility in such a way that a significant release of radioactive materials to the environment occurs, or obtaining enough radioactive material for malevolent use.

#### **2. Ensure protection of classified and Safeguards Information.**

Protecting classified and Safeguards Information is another key contributor to achieving the agency's Security goal. This is accomplished primarily by controlling access to this information to ensure that potential adversaries cannot use it for malevolent purposes, such as sabotage, theft, or diversion of radioactive materials.

The strategic objectives specify the conditions that must be met for the agency to ensure the secure use of radioactive materials.

## Fiscal Year 2018 Results

In FY 2018, the NRC achieved its Security goal strategic objectives. The NRC also uses three Security goal performance indicators to determine whether the agency has met its Security goal. The agency met all three performance indicator targets in FY 2018. Table 5 shows the outcomes from FY 2015–FY 2018. The cost of achieving the agency’s Security goal was \$42.1 million in FY 2018.

## Security Performance Indicators: FY 2015–2018

**Table 6 FY 2015–2018 Security Performance Indicators**

### Goal – Security: Ensure Secure Use of Radioactive Materials

#### 1. Prevent sabotage, theft, diversion, or loss of risk-significant quantities of radioactive material.

Business Line	FY 2015		FY 2016		FY 2017		FY 2018	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
All Business Lines	0	0	0	0	0	0	0	0

#### 2. Prevent substantial breakdowns of physical security, cybersecurity, or material control and accountability.

Business Line	FY 2015		FY 2016		FY 2017		FY 2018	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
All Business Lines	≤ 1	0	≤ 1	0	≤ 1	0	≤ 1	0

#### 3. Prevent significant unauthorized disclosures of classified or Safeguards Information (SGI).

Business Line	FY 2015		FY 2016		FY 2017		FY 2018	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
All Business Lines	0	0	0	0	0	0	0	0

### Security Objective 1: Ensure protection of nuclear facilities and radioactive materials.

**Performance Goal 1:** Prevent sabotage, theft, diversion, or loss of risk significant quantities of radioactive material.

**Performance Indicator:** Number of instances of sabotage, theft, diversion, or loss of risk-significant quantities of radioactive material that meet or exceed AO criteria I.C. 1 (unrecovered lost, stolen, or abandoned sources), I.C.2 (substantiated case of actual theft or diversion), and the portion of criterion I.C.3 (substantiated loss of a formula quantity) concerning theft or diversion of special nuclear material.

**Discussion:** This indicator measures the agency’s effectiveness in preventing sabotage, theft, diversion, or loss of risk-significant quantities of radioactive material through tracking any loss or theft of radioactive nuclear sources that the NRC has determined to be of significant risk. The indicator also measures the agency’s performance in ensuring the proper accounting for radioactive sources of significant risk that could be used for malicious purposes. It also measures whether NRC-licensed facilities maintain adequate protective capabilities to prevent theft or diversion of nuclear material or sabotage that could result in substantial harm to the public health and safety. No such incidents took place during FY 2018.

## Chapter 1 • Management's Discussion and Analysis

**Performance Goal 2:** Prevent substantial breakdowns of physical security, cybersecurity, or material control and accountability.

**Performance Indicator:** Number of substantial breakdowns of physical security, cybersecurity, or material control and accountability that meet or exceed AO criterion I.C.4 (substantial breakdown of physical security or materials control that will include breakdowns of cybersecurity) and the portion of AO criterion I.C.3 (substantiated loss of a formula quantity) concerning breakdowns of the accountability system for special nuclear material.

**Discussion:** This indicator measures the agency's effectiveness in maintaining security by tracking any substantial breakdowns in access control, containment, or accountability systems that significantly weakened the protection against theft, diversion, or sabotage for nuclear materials that the agency has determined to be of significant risk. In FY 2018, there were no incidents of this nature.

**Security Objective 2: Ensure protection of classified and Safeguards Information (SGI).**

**Performance Goal 3:** Prevent significant unauthorized disclosures of classified information or SGI.

**Performance Indicator:** Number of significant unauthorized disclosures of classified information or SGI by licensees as defined by AO criterion I.C.5 and by NRC employees or contractors as defined by analogous NRC internal criteria.

**Discussion:** This indicator includes significant unauthorized disclosures of classified information or SGI that cause damage to national security or public safety. This indicator reflects whether information that can harm national security (classified information) or cause damage to the public health and safety (SGI) has been protected sufficiently to prevent its disclosure to terrorist organizations, other nations, or personnel without a need to know. No significant unauthorized disclosures occurred in FY 2018.

### Security Goal Strategies

The NRC's FY 2014– 2018 Strategic Plan describes the seven Security goal strategies at the following link: [strategieshttps://www.nrc.gov/reading-rm/doc-collections/nureqs/staff/sr1614/v6/](https://www.nrc.gov/reading-rm/doc-collections/nureqs/staff/sr1614/v6/).

## **Chapter 2: Financial Statements and Auditors' Report**

### A Message from the Chief Financial Officer



I can report that the financial condition of the U.S. Nuclear Regulatory Commission (NRC) is sound. The independent auditors' issued an unmodified opinion on the fiscal year (FY) 2018 financial statements and an unmodified opinion on our internal controls over financial reporting. Moreover, the auditors found no reportable instances of noncompliance with laws and regulations for FY 2018. Since the passage of the *Chief Financial Officers Act of 1990*, the NRC has consistently issued sound reports on the status of resources entrusted to the agency. This long term consistency in excellent reporting has built up trust and goodwill from the communities we serve.

Good management of financial resources begins with our budgeting process. Beginning in FY 2017, we improved the clarity and transparency of the NRC's Congressional Budget

Justification. For example, we added prior year actuals to the budget trend tables, workload tables to each business line chapter, and expanded explanations of how the budget relates to fees. We review our budget formulation process each year to continually improve it. The savings from our most recent effort included fewer formal meetings, an increase in deadlines being met because of consistency in budget deliverables, and streamlining the concurrence process for budget documents.

Good management is also inherent in the efficiency and effectiveness of our operations. The NRC has made great strides in the past few years in reducing the cost of operations and passing those savings on to our licensee stakeholders in the form of reduced license fees and fees for services. These savings, reflected in the agency's financial statements as lower cost of operations, resulted from process efficiency gains and staff reductions through our ongoing Project AIM initiative. During FY 2018, as an additional cost reduction initiative, the NRC transferred its bill-paying operations and collections to a Federal cross-service enterprise, the Administrative Resource Center, Treasury Bureau of the Fiscal Service. Additional functional transfers are being considered for the future.

In recent years, the NRC made substantial improvements in IT related to financial management and labor reporting. Improvements in data collection and classification in our information systems, along with the redesign of invoices, has improved communications with our licensees and other stakeholders. We continue to strive for improved service to our customers with new initiatives such as electronic billing.

## Chapter 2 • Financial Statements and Auditors' Report

Our Enterprise Risk Management effort institutes an agency level approach to risk management processes and systems that make sense. It is designed to identify risks early, bring them to the attention of agency leadership, and develop viable solutions. Under the NRC governance framework, each NRC business line lead prepares an annual assurance certification based on their assessment of all relevant programmatic internal control activities and activities that have internal control implications. Other sources of information also contribute to the assurance certification such as Senior Assessment Team direction, audit reports, and management challenges as identified by the Inspector General. We continue to adjust our Enterprise Risk Management program to ensure that it remains effective. As a result of our assessment, the NRC management team has concluded that the agency is in substantial compliance with laws and regulations, programs are achieving desired results, and the financial data published in the report are complete, accurate, reliable, and timely.

This Agency Financial Report illustrates our sound stewardship of NRC resources. As noted in Chapter 1, the NRC has reduced its costs while meeting all of its goals and objectives. Chapter 2 presents the NRC's financial statements and the independent auditors' report. Finally, Chapter 3 presents other relevant information such as the Inspector General's assessment of the most serious management and performance challenges facing the NRC, information on payment integrity including improper payments and fraud reduction, and reducing our occupancy footprint, as well as other information to round out the report.

The NRC remains committed to its mission of ensuring the safety and security of the Nation's civilian use of radioactive materials in the most effective and efficient manner. The regulation of the Nation's nuclear industries during times of fiscal and regulatory challenges requires careful stewardship of limited agency resources and demands superior financial performance. I am gratified that we have continued using sound business practices to accomplish our regulatory mission and I am confident that we will continue such improvements in the future.



Maureen E. Wylie  
Chief Financial Officer  
November 8, 2018

## Financial Statements

### Balance Sheet (IN THOUSANDS)

As of September 30,	2018	2017
<b>Assets:</b>		
Intragovernmental		
Fund balance with Treasury (Note 2)	\$ 386,894	\$ 365,832
Accounts receivable (Note 3)	5,680	7,152
Advances and prepayments	9,190	12,752
Total intragovernmental	401,764	385,736
Accounts receivable, net (Note 3)	69,640	79,874
Property and equipment, net (Note 4)	65,073	79,910
Other	57	51
<b>Total Assets</b>	<b>\$ 536,534</b>	<b>\$ 545,571</b>
<b>Liabilities:</b>		
Intragovernmental		
Accounts payable	\$ 6,211	\$ 6,759
Other (Note 5)	5,398	5,586
Total intragovernmental	11,609	12,345
Accounts payable	25,683	23,673
Federal employee benefits (Note 6)	5,259	5,370
Other (Note 5)	72,393	72,571
<b>Total Liabilities</b>	<b>114,944</b>	<b>113,959</b>
<b>Net Position:</b>		
Unexpended appropriations	324,998	306,831
Cumulative results of operations (Note 8)	96,592	124,781
<b>Total Net Position</b>	<b>421,590</b>	<b>431,612</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 536,534</b>	<b>\$ 545,571</b>

The accompanying notes to the financial statements are an integral part of these statements.

**Statement of Net Cost** *(IN THOUSANDS)*

For the fiscal years ended September 30,	2018	2017
<b>Nuclear Reactor Safety</b>		
Gross costs	\$ 741,875	\$ 736,794
Less: Earned revenue	(692,947)	(710,086)
<b>Total Net Cost of Nuclear Reactor Safety (Note 9)</b>	<b>48,928</b>	26,708
<b>Nuclear Materials and Waste Safety</b>		
Gross costs	213,063	203,826
Less: Earned revenue	(81,813)	(86,168)
<b>Total Net Cost of Nuclear Materials and Waste Safety (Note 9)</b>	<b>131,250</b>	117,658
<b>Net Cost of Operations</b>	<b>\$ 180,178</b>	\$ 144,366

*The accompanying notes to the financial statements are an integral part of these statements*

**Statement of Changes in Net Position (IN THOUSANDS)**

For the fiscal years ended September 30,	2018	2017
<b>Unexpended Appropriations:</b>		
Beginning Balance	\$ 306,831	\$ 297,438
Budgetary Financing Sources:		
Appropriations received	140,171	127,480
Appropriations used (Note 11)	(121,936)	(118,087)
Other adjustments	(68)	–
Total Budgetary Financing Sources	18,167	9,393
<b>Total Unexpended Appropriations</b>	<b>\$ 324,998</b>	<b>\$ 306,831</b>
<b>Cumulative Results of Operations:</b>		
Beginning Balance	\$ 124,781	\$ 123,925
Adjustments (Note 8)	(368)	6,413
Beginning Balance, as adjusted	124,413	130,338
Budgetary Financing Sources:		
Appropriations used (Note 11)	121,936	118,087
Non-exchange revenue (Note 11)	394	251
Other Financing Sources:		
Imputed financing from costs absorbed by others (Note 11)	30,421	20,722
Other	(394)	(251)
Total Financing Sources	152,357	138,809
<b>Net Cost of Operations</b>	<b>(180,178)</b>	<b>(144,366)</b>
<b>Net Change</b>	<b>(27,821)</b>	<b>(5,557)</b>
<b>Cumulative Results of Operations</b>	<b>\$ 96,592</b>	<b>\$ 124,781</b>
<b>Net Position</b>	<b>\$ 421,590</b>	<b>\$ 431,612</b>

*The accompanying notes to the financial statements are an integral part of these statements.*

**Statement of Budgetary Resources** *(IN THOUSANDS)*

For the fiscal years ended September 30,	2018	2017
<b>Budgetary Resources:</b>		
Unobligated balance from prior-year budget authority, net	\$ 49,226	\$ 56,460
Appropriations	921,928	917,129
Spending authority from offsetting collections	4,004	5,626
<b>Total Budgetary Resources</b>	<b>\$ 975,158</b>	<b>\$ 979,215</b>
Memorandum Entry:		
Net adjustments to unobligated balance brought forward Oct 1	\$ 10,538	\$ 14,503
<b>Status of Budgetary Resources:</b>		
New obligations and upward adjustments (total) (Note 12)	\$ 934,014	\$ 940,527
Unobligated balance, end of year:		
Apportioned, unexpired accounts	39,575	35,071
Exempt from apportionment, unexpired accounts	431	532
Unapportioned, unexpired accounts	3	2,570
Unexpired unobligated balance, end of year	40,009	38,173
Expired unobligated balance, end of year	1,135	515
Unobligated balance, end of year (total)	41,144	38,688
<b>Total Status of Budgetary Resources</b>	<b>\$ 975,158</b>	<b>\$ 979,215</b>
<b>Outlays, net:</b>		
Outlays, net	900,866	919,534
Distributed offsetting receipts	(781,825)	(789,648)
<b>Agency Outlays, Net</b>	<b>\$ 119,041</b>	<b>\$ 129,886</b>

*The accompanying notes to the financial statements are an integral part of these statements.*

### Notes to the Financial Statements

(All tables are presented in thousands)

#### Note 1 – Summary of Significant Accounting Policies

##### A. Reporting Entity

The NRC is an independent regulatory agency of the U.S. Federal Government that the Congress created 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. 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 (which includes funds derived from the Nuclear Waste Fund (NWF)) and the OIG.

##### B. Basis of Presentation

These financial statements for FY 2018 and FY 2017 (prior-year) are presented on a comparative basis. They 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 conformance with GAAP for Federal entities of the United States and the form and content for entity financial statements specified in OMB Circular A-136, Financial Reporting Requirements. GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board, which is the official body for setting the accounting standards of the U.S. Government. These statements are different from the financial reports prepared by the NRC in compliance with OMB directives, which are used to monitor and control the NRC's use of budgetary resources.

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

Presentation of the budget accounts on the Combining Statements of Budgetary Resources shows columns for the no-year Salaries and Expenses appropriation, which includes funding for the Office of the Commission; no-year and 2-year funds aggregated for the OIG; and the Nuclear Facility Fees, which reflect the Distributed Offsetting Receipts.

##### C. Budgets and Budgetary Accounting

Budgetary accounting measures the appropriation and consumption of budget spending authority or other budgetary resources. It also 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.

Congress passed the *Consolidated Appropriations Act, 2018* which funded the NRC's budget at a level of \$909.1 million for FY 2018. Not more than \$9.5 million of the appropriation may be made available for the costs of the Office of the Commission until September 30, 2019. Additionally, Congress enacted a 2-year appropriation of \$12.9 million for the OIG, which was available for obligation by the NRC through September 30, 2019.

In FY 2017, Congress passed the *Consolidated Appropriations Act, 2017* which funded the NRC's budget at a level of \$905 million for FY 2017. Not more than \$7.5 million of the appropriation may be made available for the costs of the Office of the Commission until September 30, 2018. Additionally, Congress enacted a 2-year appropriation of \$12.1 million for the OIG, which is available for obligation by the NRC through September 30, 2018.

### 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. The SBR presents budgetary resources available to the NRC and changes in obligations during the year.

### E. Revenues and Other Financing Sources

The NRC is required to offset its appropriations by revenue received during the FY from the assessment of fees. The NRC assesses two types of fees to recover its appropriation:

1. Fees assessed to recover the NRC's costs of providing individually identifiable services to specific applicants and licensees under 10 CFR Part 170, "Fees for Facilities, Materials, Import and Export Licenses, and Other Regulatory Services under the *Atomic Energy Act of 1954, as Amended*," for licensing, inspection, and other services under the authority of the *Independent Offices Appropriation Act of 1952*.
2. Annual fees assessed for nuclear facilities and materials licensees under 10 CFR Part 171, "Annual Fees for Reactor Licenses and Fuel Cycle Licenses and Materials Licenses."

Licensing revenues are recognized on a straight-line basis over the licensing period. The annual licensing period for reactor and materials fees begins October 1 and ends September 30. Annual fees for reactors are invoiced in four quarterly installments, before the end of each quarter. The NRC invoices licensees for materials annual fees in the month the license was originally issued. Inspection fees are recorded as revenues when the services are performed.

For accounting purposes, appropriations are recognized as a financing source (appropriations used) at the time goods and services are received. Periodically during the FY, appropriations recognized are reduced by the amount of assessed fees collected during the FY to the extent of new budget authority for the year. Collections that exceed 90 percent of the NRC's appropriation, excluding amounts appropriated for Waste Incidental to Reprocessing, Generic Homeland Security, Advanced Reactor Regulatory Infrastructure, International Activities, and Inspector General services for the DNFSB, are held to offset subsequent years' appropriations. Appropriations expended for property and equipment are recognized as expenses when the asset is consumed in operations as reflected by the depreciation and amortization expense.

### F. Fund Balance with Treasury

The Treasury processes the NRC's cash receipts and disbursements. The Fund Balance with Treasury is primarily appropriated funds and license fee collections that are available to pay current liabilities and to finance authorized purchase commitments. The Fund Balance with Treasury represents the NRC's right to draw on the Treasury for allowable expenditures.

### G. Accounts Receivable

Accounts receivable consist of amounts that other Federal agencies and the public owe to the NRC. Amounts due from the public are presented net of an allowance for uncollectible accounts. The allowance is determined based on the age of the receivable and allowance rates established from historical experience. Receivables from Federal agencies are expected to be collected; therefore, there is no allowance for uncollectible accounts for Federal agencies.

### H. Non-Entity Assets

Non-entity assets consist of miscellaneous penalties and interest due from the public that when collected, must be transferred to the Treasury.

### I. Property and Equipment

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

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

### J. Accounts Payable

The NRC uses an estimation methodology to calculate the accounts payable balance, which represents costs for billed and unbilled goods and services received before year-end that are unpaid. The NRC calculates the accounts payable amount using an average based on the historical trend of validated accruals. The estimation methodology is validated quarterly.

### K. Liabilities Not Covered by Budgetary Resources

Liabilities Not Covered by Budgetary Resources represent the amount of future funding needed to pay the accrued unfunded expenses as of the end of the FY. These liabilities are not funded from current or prior-year appropriation and assessments, but instead they are funded from future appropriations and assessments.

Liabilities represent the amount of monies or other resources that are likely to be paid by the NRC as the result of a transaction or event that has already occurred. The NRC cannot pay liabilities without an appropriation. Liabilities for which an appropriation has not been enacted

are classified as "Liabilities Not Covered by Budgetary Resources" and fall into the following three categories:

1. **Intragovernmental.** The NRC records a liability to the U.S. Department of Labor (DOL) for *Federal Employees Compensation Act* (FECA) benefits paid by the DOL on behalf of the NRC.
2. **Federal Employee Benefits.** Federal employee benefits represent the actuarial liability for estimated future FECA disability benefits. The DOL generates the future workers' compensation estimate 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 is calculated using historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period.
3. **Other.** This category includes the amount of accrued annual leave earned by the NRC employees but not yet taken and contingent liabilities that have the probable likelihood of an adverse outcome.

### L. Contingencies

Contingent liabilities are those for which the existence or amount of the liability cannot be determined with certainty pending the outcome of future events. The uncertainty should ultimately be resolved when one or more future events occur or fail to occur. Accounting treatment of the contingency depends on if the likely outcome is considered probable, reasonably possible, or remote.

A contingency is considered probable when the future confirming event or events are more likely than not to occur, with the exception of pending or threatened litigation and unasserted claims. This type of contingency is recorded in the financial statements as a contingent liability (included in Other Liabilities) and as an expense. It should be recorded when a past event or exchange transaction has occurred, a future outflow or other sacrifice of resources is probable and the future outflow or sacrifice of resources is measurable.

A contingency is considered reasonably possible when the chance of the future confirming event or events occurring is more than remote but less than probable. This type of contingency is disclosed in the notes to the financial statements (Note 17) if any of the conditions for liability recognition are not met and there is at least a reasonable possibility that a loss or an additional loss may have been incurred.

A contingency is considered remote when the chance of the future event or events occurring is slight. This type of contingency is not recognized as a liability and as an expense in the financial statements, nor is it disclosed in the notes when the chance of the future event or events occurring is remote.

### 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 non-vested leave are expensed as taken.

### N. Retirement Plans

The NRC employees belong to either the Federal Employees Retirement System (FERS) or the Civil Service Retirement System (CSRS).

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 FERS and CSRS not paid by the NRC is included in the NRC's financial statements as an imputed financing source in the Statement of Changes in Net Position and as program costs on the Statement of Net Cost.

The NRC employees make mandatory contributions to their retirement plans through payroll deductions as required by law. For employees belonging to FERS and receiving an appointment before January 1, 2013, the NRC withheld 0.8 percent of base pay earnings and made an employer contribution of 13.7 percent in 2018 and 13.7 percent in 2017. In accordance with *Public Law 112-96, Section 5001 of the Middle Class Tax Relief and Job Creation Act of 2012*, employees hired after January 1, 2013, as Federal Employees Retirement System-Revised Annuity Employees must pay 3.1 percent of their salary to retirement contributions, with 11.9 percent in 2018 and 11.9 percent in 2017 for employer matching contribution. For employees hired after January 1, 2014, as Federal Employees Retirement System-Revised Annuity Employees must pay 4.4 percent of their salary to retirement contributions with 11.9 percent in 2018 and 11.9 percent in 2017 for employer matching contribution. The sum is transferred to the Federal Employees Retirement Fund. For employees covered by CSRS, the NRC withholds 7 percent of base pay earnings. The NRC matched this withholding with a 7 percent contribution in FY 2018 and FY 2017.

The Thrift Savings Plan (TSP) is a retirement savings and investment plan for employees belonging to either FERS or CSRS. The maximum percentage of base pay that an employee participating in FERS or CSRS may contribute is unlimited, but it is subject to the maximum contribution of \$18,500 in 2018 and \$18,000 in 2017. For employees participating in FERS, the NRC automatically contributes 1 percent of base pay to the employee's account and matches contributions up to an additional 4 percent. For employees participating in CSRS, the NRC does not match the contribution. The sum of the employees' and the NRC's contributions is transferred to the Federal Retirement Thrift Investment Board.

### O. Leases

The NRC has two types of leases: capital leases and operating leases (Note 7).

Capital leases: Capital leases are leases that transfer substantially all the benefits and risks of ownership to the lessee. Capital leases are reported in the Balance Sheet as an asset under Property and Equipment and as a liability under Other Liabilities. If at its inception, a lease meets one or more of the following four criteria, the lessee should classify the lease as a capital lease:

1. The lease transfers the ownership of the property to the lessee by the end of the lease term.

2. The lease contains an option to purchase the leased property at a bargain price.
3. The lease term is equal or greater than 75 percent of the estimated economic life of the leased property.
4. The present value of rental or other minimum lease payments, excluding that portion of the payments representing executor cost, equals or exceeds 90 percent of the fair value of the leased property.

The NRC's capital leases are for personal property consisting of reproduction equipment that is installed at the NRC Headquarters.

Operating leases: The Federal Accounting Standards Advisory Board defines an operating lease as a lease in which the Federal entity does not assume the risks of ownership of the property, plant, and equipment. It is an agreement conveying the right to use property for a limited time in exchange for periodic rental payments.

Operating leases at the NRC consist of real property leases with the GSA. The leases are for the NRC's Headquarters, regional offices, and Technical Training Center (TTC). The GSA charges the NRC lease rates that approximate commercial rates for comparable space.

### P. Pricing Policy

The NRC provides nuclear reactor and materials licensing and inspection services to the public and other Government entities. In accordance with OMB Circular A-25, "Transmittal Memorandum #1, User Charges," and the *Independent Offices Appropriation Act of 1952*, the 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 the services performed are not part of the agency's statutory mission and the 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.

### Q. Net Position

The NRC's net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent (1) appropriated spending authority that is unobligated and has not been withdrawn by the Treasury, and (2) unliquidated obligations and expenditures not yet disbursed. Cumulative results of operations represent the excess of financing sources over expenses since inception.

### R. Use of Management Estimates

The preparation of the accompanying financial statements in accordance with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. Actual results could differ from those estimates.

### S. Transfers of Authority

In prior years, the NRC was a party to non-expenditure transfers of funds, as a receiving entity, from the U.S. Agency for International Development (USAID). The purpose of the funding authority transferred were for the international development of nuclear safety and regulatory authorities in other countries. Transfers are legal delegations by one agency of its authority to obligate and outlay funds to another agency. The NRC completed its participation in this project and had residual unobligated funds of \$68,076.04 remaining from these transfers. The remaining unobligated funds were rescinded in FY 2018.

### T. Statement of Net Cost

The programs as presented on the Statement of Net Cost are based on the annual performance budget and are described as follows:

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 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 contains the following activities: operating reactors and new reactors.

The Nuclear Materials and Waste Safety program 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 the following activities: fuel facilities, nuclear materials users, decommissioning and low-level waste, spent fuel storage and transportation, and a high-level waste repository.

For intragovernmental gross costs and revenue, the buyers and sellers are Federal entities. For earned revenues from the public, the buyers of the goods or services are non-Federal entities.

### Note 2 – Fund Balance with Treasury

As of September 30,	2018	2017
<b>Fund Balances:</b>		
Appropriated funds	\$ 386,433	\$ 365,226
Nuclear Waste Fund	461	606
Other fund types	–	–
<b>Total</b>	<b>\$ 386,894</b>	<b>\$ 365,832</b>
<b>Status of Fund Balance with Treasury:</b>		
Unobligated balance		
Available - Appropriated funds	\$ 40,006	\$ 35,603
Unavailable		
Unapportioned, unexpired accounts	3	2,570
Expired accounts	1,135	515
Obligated balance not yet disbursed	345,750	327,144
<b>Total</b>	<b>\$ 386,894</b>	<b>\$ 365,832</b>

## Chapter 2 • Financial Statements and Auditors' Report

The Fund Balance with Treasury consists of the unobligated and obligated budgetary account balances, to including NWF activity. The NWF unobligated balance was \$0.4 million and \$0.5 million as of September 30, 2018, and 2017, respectively.

Other fund types in the Fund Balance with Treasury represent license fee collections used to offset the NRC current-year budget authority, miscellaneous collections, and adjustments that will offset revenue in the following FY.

### Note 3 – Accounts Receivable

As of September 30,	2018	2017
<b>Intragovernmental:</b>		
Fee receivables and reimbursements	\$ 5,680	\$ 7,152
<b>Receivables with the Public:</b>		
Materials and facilities fees-billed	\$ 6,150	\$ 10,759
Materials and facilities fees-unbilled	65,508	72,494
Other	790	475
Total Receivables with the Public	72,448	83,728
Less: Allowance for uncollectible accounts	(2,808)	(3,854)
<b>Total Receivables with the Public, Net</b>	<b>\$ 69,640</b>	<b>\$ 79,874</b>
Total Accounts Receivable	\$ 78,128	\$ 90,880
Less: Allowance for uncollectible accounts	(2,808)	(3,854)
<b>Total Accounts Receivable, Net</b>	<b>\$ 75,320</b>	<b>\$ 87,026</b>

### Note 4 – Property and Equipment, Net

As of September 30,				2018	2017
Fixed Assets Class	Service Years	Acquisition Value	Accumulated Depreciation and Amortization	Net Book Value	Net Book Value
Equipment	5-8	\$ 8,995	\$ (8,033)	\$ 962	\$ 1,181
Leased equipment	5-8	1,318	(1,213)	105	402
IT software	5	78,715	(60,323)	18,392	6,509
IT software under development	–	–	–	–	14,911
Leasehold improvements	20	84,253	(39,021)	45,232	49,246
Leasehold improvements in progress	–	382	–	382	7,661
<b>Total</b>		\$ 173,663	\$ (108,590)	\$ 65,073	\$ 79,910

In FY 2017, the NRC identified two leasehold improvement projects expensed from FY 2014 through FY 2016 for heating, ventilation, and air conditioning upgrades in the One White Flint North building that should have been capitalized. The NRC recorded prior period adjustments in FY 2017 of \$6.8 million to capitalize the leasehold improvement project costs and \$0.4 million in related depreciation costs for FY 2014 through FY 2016.

## Chapter 2 • Financial Statements and Auditors' Report

In accordance with Statement of Federal Financial Accounting Standards (SFFAS) 44, "Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use," the NRC repairs or replaces capital assets as required and does not recognize impairment losses.

### Note 5 – Other Liabilities

As of September 30,	2018	2017
<b>Intragovernmental:</b>		
Liability to the U.S. Treasury General Fund for misc. receipts	\$ 30	\$ 25
Liability for advances from other agencies	18	4
Accrued workers' compensation	1,045	1,174
Accrued unemployment compensation	–	27
Employee benefit contributions	4,305	4,356
<b>Total Intragovernmental Other Liabilities</b>	<b>\$ 5,398</b>	<b>\$ 5,586</b>
<b>Other Liabilities:</b>		
Accrued annual leave	\$ 42,476	\$ 41,989
Accrued salaries and benefits	15,598	15,886
Employer Contributions & Payroll Taxes Payable	688	700
Contract holdbacks, advances, capital lease liability, and other	2,495	4,419
Contingent liabilities	–	–
Grants payable	11,136	9,577
<b>Total Other Liabilities</b>	<b>\$ 72,393</b>	<b>\$ 72,571</b>
<b>Total Intragovernmental and Other Liabilities</b>	<b>\$ 77,791</b>	<b>\$ 78,157</b>

Other liabilities are current except for capital lease liability (Note 7).

### Note 6 – Liabilities Not Covered by Budgetary Resources

As of September 30,	2018	2017
<b>Intragovernmental:</b>		
FECA paid by DOL	\$ 1,045	\$ 1,174
Accrued unemployment compensation	-	27
<b>Federal Employee Benefits:</b>		
Future FECA	5,259	5,370
<b>Other:</b>		
Accrued annual leave	42,476	41,989
Contingent liabilities	–	–
<b>Total Liabilities Not Covered by Budgetary Resources</b>	<b>48,780</b>	<b>48,560</b>
<b>Total Liabilities Covered by Budgetary Resources</b>	<b>66,164</b>	<b>65,399</b>
<b>Total Liabilities</b>	<b>\$ 114,944</b>	<b>\$ 113,959</b>

Liabilities Not Covered by Budgetary Resources represents the amount of future funding needed to pay the accrued unfunded expenses as of September 30, 2018, and 2017. These liabilities are not funded from current or prior-year appropriations and assessments, but rather they 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.

## Chapter 2 • Financial Statements and Auditors' Report

The projected annual benefit payments for FECA are discounted to present value. For FY 2018, projected annual payments were discounted to present value based on the OMB's interest rate assumptions, which were interpolated to reflect the average duration in years for income payments and medical payments. The interest rate assumptions used for FY 2018 discounting were 2.716 percent in year 1 and year 2 for wage benefits, and 2.379 percent in year 1 and year 2 for medical benefits.

### Note 7 – Leases

As of September 30,	2018	2017
<b>Assets Under Capital Leases:</b>		
Copiers and booklet maker	\$ 1,318	\$ 1,318
Accumulated depreciation	(1,213)	(916)
<b>Net Assets Under Capital Leases</b>	<b>\$ 105</b>	<b>\$ 402</b>

#### Future Lease Payments Due:

As of September 30,			2018	2017
Fiscal Year	Capital	Operating		
2018	\$ –	\$ –	\$ –	36,450
2019	25	31,244	<b>31,269</b>	25,514
2020	75	37,847	<b>37,922</b>	31,894
2021	-	36,469	<b>36,469</b>	276,540
2022 and thereafter	-	284,779	<b>284,779</b>	-
Total Lease Liability	100	390,339	<b>390,439</b>	370,398
Subtract: Imputed Interest	-	-	-	(5)
<b>Total Future Lease Payments</b>	<b>\$ 100</b>	<b>\$ 390,339</b>	<b>\$ 390,439</b>	<b>\$ 370,393</b>

The Capital Lease Liability of \$100 thousand for reproduction equipment is included in Other Liabilities (Note 5). For Future Lease Payments, the NRC calculates the Capital Lease Liability and subtracts the imputed interest to arrive at the Total Future Lease Payments. The reproduction equipment is generally depreciated over 5 years using the straight-line method with no salvage value.

The land and buildings in which the NRC operates are leased through the GSA. The NRC Headquarters complex consists of three office buildings and a warehouse located in Rockville, MD, with one of the headquarters office buildings jointly leased with the U.S. Food and Drug Administration (FDA). The NRC has four regional offices that are located in King of Prussia, PA, Atlanta, GA, Lisle, IL, and Arlington, TX. In addition, the NRC operates and maintains the TTC located in Chattanooga, TN.

In Three White Flint North (3WFN), the NRC occupies 138,035 usable square feet (USF) which is 42.8 percent of the building. The NRC is no longer the primary tenant. The FDA occupies the other floors. Future plans to reduce the NRC footprint call for the NRC to release four floors of the 3WFN office building in late calendar year 2019. The lease bill for 3WFN will be approximately \$4.0 million less per year. The NRC will not recognize savings for these floors until another Federal agency leases the space.

The NRC leases for land and buildings do not have renewal options or contingent rental restrictions. The joint lease for the 3WFN office building with the FDA and the leases for the four regional office buildings have escalation clauses. The leases for the two remaining headquarters office buildings, the warehouse, and the TTC do not have escalation clauses.

### Note 8 – Cumulative Results of Operations

As of September 30,	2018	2017
Liabilities not covered by budgetary resources (Note 6)	\$ (48,780)	\$ (48,560)
Investment in property and equipment, net (Note 4)	65,073	79,910
Contributions from foreign cooperative research agreements	5,245	5,878
Nuclear Waste Fund	461	606
Office of the Commission (financed by fees)	–	–
Accounts receivable - fees	74,256	86,503
Other	337	444
<b>Cumulative Results of Operations</b>	<b>\$ 96,592</b>	<b>\$ 124,781</b>

The beginning balances of Cumulative Results of Operations were adjusted for leasehold improvement corrections resulting in a decrease of \$0.4 million in FY 2018 and an increase of \$6.4 million for FY 2017.

### Note 9 – Statement of Net Cost

For the fiscal years ended September 30,	2018	2017
<b>Nuclear Reactor Safety:</b>		
Intragovernmental gross costs	\$ 210,872	\$ 207,662
Less: Intragovernmental earned revenue	(48,845)	(48,809)
Intragovernmental net costs	162,027	158,853
Gross costs with the public	531,003	529,132
Less: Earned revenues from the public	(644,102)	(661,277)
Net costs with the public	(113,099)	(132,145)
<b>Total Net Cost of Nuclear Reactor Safety</b>	<b>\$ 48,928</b>	<b>\$ 26,708</b>
<b>Nuclear Materials and Waste Safety:</b>		
Intragovernmental gross costs	\$ 59,148	\$ 54,366
Less: Intragovernmental earned revenue	(6,180)	(5,782)
Intragovernmental net costs	52,968	48,584
Gross costs with the public	153,915	149,460
Less: Earned revenues from the public	(75,633)	(80,386)
Net costs with the public	78,282	69,074
<b>Total Net Cost of Nuclear Materials and Waste Safety</b>	<b>\$ 131,250</b>	<b>\$ 117,658</b>

Nuclear Reactor Safety and Nuclear Materials and Waste Safety represent the NRC's two major programs, as identified in the NRC Annual Performance Plan.

**Note 10 – Exchange Revenues**

For the fiscal years ended September 30,	2018	2017
Fees for licensing, inspection, and other services	\$ 769,185	\$ 790,595
Revenue from reimbursable work	5,574	5,659
<b>Total Exchange Revenues</b>	<b>\$ 774,759</b>	<b>\$ 796,254</b>

Earned revenues or exchange revenues arise when an entity provides goods and services to the public or another Government entity for a price. The NRC's revenues are primarily for services provided for inspections, fees for licensing, and reimbursable work.

**Note 11 – Financing Sources Other Than Exchange Revenue**

For the fiscal years ended September 30,	2018	2017
<b>Appropriations Used</b>		
Collections are used to reduce the fiscal year's appropriations:		
Funds consumed	\$ 903,906	\$ 908,615
Less: Collection of fees assessed	(781,825)	(789,648)
Less: Nuclear Waste Fund Expense	(145)	(880)
Less: Office of the Commission (financed by fees)	–	–
<b>Total Appropriations Used</b>	<b>\$ 121,936</b>	<b>\$ 118,087</b>

Funds consumed include \$33.0 million and \$36.5 million through September 30, 2018, and 2017, respectively, of available funds from prior years.

For the fiscal years ended September 30,	2018	2017
<b>Non-Exchange Revenue</b>		
Civil penalties	\$ 282	\$ 182
Miscellaneous receipts	112	69
<b>Non-Exchange Revenue</b>	<b>394</b>	<b>251</b>
Contra-Revenue	(394)	(251)
<b>Total Non-Exchange Revenue, Net of Funds Returned to the U.S. Treasury General Fund</b>	<b>\$ –</b>	<b>\$ –</b>

For the fiscal years ended September 30,	2018	2017
<b>Imputed Financing</b>		
Civil Service Retirement System	\$ 4,391	\$ 4,345
Federal Employees Retirement System	6,367	643
Federal Employee Health Benefit	19,582	15,652
Federal Employee Group Life Insurance	81	82
Judgments/Awards	–	–
<b>Total Imputed Financing</b>	<b>\$ 30,421</b>	<b>\$ 20,722</b>

### Note 12 – Total Obligations Incurred

For the fiscal years ended September 30,	2018	2017
Direct Obligations		
Category A	\$ 927,959	\$ 934,421
Exempt from Apportionment	101	881
Total Direct Obligations	928,060	935,302
Reimbursable Obligations	5,954	5,225
<b>Total Obligations Incurred</b>	<b>\$ 934,014</b>	<b>\$ 940,527</b>

Obligations exempt from apportionment represent funds derived from the NWF. Category A obligations consist of the NRC appropriations only.

### Note 13 – Undelivered Orders at the End of the Period

For the fiscal years ended September 30,	2018	2017
Undelivered Orders - Unpaid		
Salaries and Expenses	\$ 283,929	\$ 267,698
Inspector General	1,576	846
Nuclear Waste Fund	30	–
Total Undelivered Orders - Unpaid	\$ 285,535	\$ 268,544
Undelivered Orders - Paid		
Salaries and Expenses	\$ 8,738	\$ 12,584
Inspector General	619	168
Nuclear Waste Fund	–	–
Total Undelivered Orders - Paid	9,357	12,752
<b>Total Undelivered Orders</b>	<b>\$ 294,892</b>	<b>\$ 281,296</b>

Undelivered Orders are obligations where the amount of goods or services ordered have not been actually or constructively received.

### Note 14 – Nuclear Waste Fund

For FY 2018 and FY 2017, the NRC's budget did not include funds from the NWF. The funding provided to the NRC before FY 2014 and carried forward to subsequent years was 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, NV.

SFFAS 43, "Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds," lists three defining criteria for funds from dedicated collections. Generally, funds from dedicated collections must have at least one source of funds external to the Federal Government, and the statute provides explicit authority to retain current, unused revenues for future use. SFFAS 43 also includes a requirement to account for and report on the receipt and use of the financing sources as distinguished from general revenues.

In 1982, Congress passed the *Nuclear Waste Policy Act of 1982* (Public Law 97-425) establishing the NWF to be administered by the DOE (42 U.S.C. 10222). For the NRC, the NWF transfer is a source of financing from other than non-Federal sources. The NRC collects no revenue on behalf of the NWF and has no administrative control over it. Furthermore, the

Treasury has no separate fund symbol for the NWF under the NRC's agency location code. The receipt and expenditure of NWF money is reported to the Treasury under the NRC's primary Salaries and Expenses fund (X0200).

As a result, the NWF is not a fund from dedicated collections from the NRC's perspective. However, to provide additional information to the users of these financial statements, the table below presents enhanced disclosure of the fund.

For the fiscal years ended September 30,	2018	2017
Appropriations Received	\$ -	\$ -
Expended Appropriations	\$ 145	\$ 880
Obligations Incurred	\$ 101	\$ 881
Unobligated Balances (includes recoveries of prior-year obligations)	\$ 431	\$ 532

### Note 15 – Explanation of Differences between the Statement of Budgetary Resources and the Budget of the U.S. Government

SFFAS 7, "Accounting for Revenue and Other Financing Sources" and OMB Circular A-136 require the NRC to reconcile the budgetary resources reported on the SBR to the actual budgetary resources presented in the President's Budget and explain any material differences. The NRC does not have any material differences between the budgetary resources reported on the SBR for FY 2017 and the FY 2017 actuals in the proposed President's Budget for FY 2019. The reconciliation was based on actual numbers for FY 2017 because the Budget of the United States (also known as the President's Budget) was not published at the time that these financial statements were issued. The FY 2018 actual budgetary resources numbers will be available in the FY 2020 President's Budget which is expected to be published in 2019, and will be available on the OMB Web site <http://www.whitehouse.gov/omb/budget/> and through the U.S. Government Publishing Office.

## Note 16 – Reconciliation of Net Cost of Operations to Budgetary Resources

For the fiscal years ended September 30,	2018	2017
<b>Budgetary Resources Obligated:</b>		
Obligations incurred (Note 12)	\$ 934,014	\$ 940,527
Less: Spending authority from offsetting coll. and recoveries	(14,542)	(20,459)
Less: Distributed offsetting receipts, current year	(781,825)	(789,648)
Less: Distributed offsetting receipts, prior year	–	–
<b>Net Obligations</b>	<b>137,647</b>	130,420
<b>Other Resources:</b>		
Imputed financing from costs absorbed by others	30,421	20,722
Non-Exchange Revenue	394	251
Funds returned to U.S. Treasury General Fund	(394)	(251)
<b>Net Other Resources Used to Finance Activities</b>	<b>30,421</b>	20,722
<b>Total Resources Used to Finance Activities</b>	<b>168,068</b>	151,142
Resources to Finance Items Not Part of Net Cost of Operations	(17,701)	(23,375)
<b>Total Resources Used to Finance Net Cost of Operations</b>	<b>150,367</b>	127,767
Components of the Net Cost of Operations that will not require or generate resources in the current period	29,811	16,599
<b>Net Cost of Operations</b>	<b>\$ 180,178</b>	\$ 144,366

Distributed offsetting receipts of \$781.8 million were collected and transferred to offset the FY 2018 NRC appropriations through September 30, 2018. Upon transfer, the Treasury issued a negative warrant for the amount of the transfer to reduce the NRC appropriations.

## Note 17 – Contingencies

The NRC is subject to potential liabilities in various administrative proceedings, legal actions, environmental suits, and claims brought against it. In the opinion of the NRC's management and legal counsel, the ultimate resolution of these proceedings, actions, suits, and claims will not materially affect the financial position or net costs of the NRC.

### Probable Likelihood of an Adverse Outcome

As of September 30, 2018 the NRC was not involved in any cases in which the likelihood of loss is probable.

### Reasonably Possible Likelihood of an Adverse Outcome

As of September 30, 2018, the NRC was not involved in any cases with a possible likelihood of an adverse outcome.

## Note 18 – Net Adjustments to Unobligated Balance Brought Forward October 1

There were no material adjustments to correct the unobligated balance brought forward October 1 for fiscal year 2018.

### Required Supplementary Information

#### Deferred Maintenance and Repairs for General Property, Plant, and Equipment

Information on Deferred Maintenance and Repairs (DM&R) is required under SFFAS 42, "Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29, and 32."

SFFAS 42 defines DM&R as "maintenance and repairs that were not performed when they should have been or were scheduled to be and which are put off or delayed for a future period." Maintenance and repairs (M&R) are defined as activities directed toward keeping fixed assets in an acceptable condition. Activities include preventive maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain the asset. M&R, as distinguished from capital improvements, excludes activities directed towards expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use.

DM&R should include funded and unfunded M&R activities that have been delayed to a future period. DM&R on inactive or excess general property, plant, and equipment should be included to the extent that it is required to maintain those items in acceptable condition.

The NRC evaluated DM&R activities for leased facilities, the multiple components of the agency IT infrastructure, and individual capital asset purchases with a cost equal to or greater than \$50,000. The NRC did not include non-capitalized property, plant, and equipment with a cost of less than \$50,000, which is deemed immaterial.

#### Deferred Maintenance and Repairs for the NRC Facilities, Other Structures, and Capital Equipment

For the NRC leased facilities and capital equipment purchases, the NRC typically does not have any DM&R. The NRC had no DM&R for facilities, other structures, and capital equipment as of September 30, 2018, and 2017.

#### Defining and Implementing Maintenance and Repair Policies in Practice

For the NRC Headquarters facilities, the agency uses the GSA guidelines for maintenance activities along with industry best practices to determine the preventive maintenance activities to perform and the schedule for those activities. For the building structures and systems, the maintenance contractor performs all required periodic maintenance to keep the systems and buildings in a good state of repair. The contractor is held to a 98 percent scheduled completion rate, with all the preventive maintenance completed within a reasonable time. When equipment reaches the end of its useful life, it is generally replaced with like-kind or upgraded equipment. For any type of an emergent failure to facilities, the NRC would request additional funding, as needed, for repairs or replacement of structures and equipment.

For the regional offices, the building management (lessor) is responsible for performing all required periodic maintenance to keep the systems and buildings in a good state of repair. Generally, the regional leases contain the fixed assets, including equipment purchased to support the operations of the agency's leased space, such as diesel generators and chillers for the Incident Response Center, the local area network, and power cooling. Equipment requiring

repair results in a service repair call. For those instances where equipment is purchased to support the NRC regional operations, maintenance contracts are put in place to provide periodic service and maintenance on the equipment. When equipment reaches the end of its useful life, it is generally replaced with like-kind or with upgraded equipment. For any type of an emergent failure, the NRC would request additional funding, as needed, for repairs or replacement of equipment.

The TTC facility and associated systems are leased and maintained by the lessor. This includes any emergent repairs that may occur, as well as any scheduled maintenance. Assets within the TTC are predominantly maintained by facilities personnel or, in some cases, such as for simulator systems, contractor personnel perform all required emergent and periodic maintenance to keep the simulator systems in a good state of repair. When equipment reaches the end of its useful life, it is replaced with like-kind or upgraded equipment.

### Ranking and Prioritization of Maintenance and Repair Activities

Personnel safety is a top priority at the NRC leased facilities. Maintenance activity, such as for fire alarms and emergency exits, is given top priority. If a preventative maintenance activity must be deferred, which is typically only for 2 to 4 weeks, the impact to personnel safety and building functionality is considered during the review. Other M&R activities are executed as required so that there is no disruption to the NRC operations and the TTC training schedules.

### Factors Considered in Determining Acceptable Condition

The NRC's Facilities Management Branch at the headquarters facilities performs the daily inspections and maintenance of the buildings and major systems. The NRC internally reviews planned maintenance activity records and historical logs of M&R to monitor condition information for equipment. Based on the information gathered, the NRC will determine whether planning for replacement or upgrade is needed. Additionally, the GSA conducts onsite inspections every 3 to 5 years at the headquarters facilities to assess the overall condition of the buildings and to determine when major systems and components need to be scheduled for replacement. For the TTC and regional offices, the NRC has a Facilities Management staff person on site to work with the GSA to manage the buildings with support from the lessors. As a result, the GSA performs more frequent onsite inspections of the facilities. The NRC works in close coordination with the GSA to ensure that M&R activities are performed on a timely basis for all the NRC-occupied facilities.

### Deferred Maintenance and Repairs for Information Technology Infrastructure and Systems

The NRC did not have any DM&R for IT Infrastructure and Systems for FY 2018. The NRC IT infrastructure is a network of multiple equipment, software, and service components, taken as a whole, which provides the critical communication network that allows the NRC to accomplish its mission. The NRC IT infrastructure encompasses the following:

- End-user systems and support and end-user hardware include desktop, laptop, and handheld devices; peripherals (local printers, shared printers); software (personal computer operating systems, office automation suites, messaging, and groupware); and hardware and software for help desks. Also included are network operations command centers, wire closets, and cable management. For regional offices, this includes regional end-user

support similar to that provided by the Customer Support Center at the NRC Headquarters, which includes contract support and Federal full-time equivalent (FTE) personnel.

- Telecommunications services include data networks and telecommunications (including wireless, multimedia, and local and long-distance telephone); hardware and software operations; licenses; maintenance; and backup, continuity of operations, and disaster recovery. For regional offices, this involves local telecommunications, which includes contract support and Federal FTE personnel.
- Production operations include mainframes and servers (including Web hosting, but not Web content development and management); hardware and software operations; licenses; maintenance; and backup, continuity of operations, and disaster recovery. Also included resources related to carrying out Homeland Security Presidential Directive-12, "Policy for a Common Identification Standard for Federal Employees and Contractors," which requires all Federal executive departments and agencies to implement a Governmentwide standard for secure and reliable forms of identification for access to Federal facilities and information systems.

For IT systems, whether computer-off-the-shelf or internally developed software, the NRC relies on the project and program managers to establish an M&R budget and schedule. Minor repairs, enhancements, and upgrades are completed internally through the regular M&R operations process. For major upgrades and replacement systems, the project manager must submit a request to perform the work to the appropriate IT governance boards for their approval.

### Defining and Implementing Maintenance and Repair Policies in Practice

The NRC's IT infrastructure operations and maintenance (O&M) and development, modernization and enhancement (DME) activities are performed by various vendors under several different contracts. For example, the enterprise-wide IT Infrastructure and Support Services (ITISS) contract supports data center and network operations, and the Global Infrastructure Development Acquisition (GLINDA) End User Computing Services Blanket Purchase Agreement (BPA) supports the Agency's personal computing requirements. As a result of the FY2017 ITISS restructuring, the government became the owner of the Agency's hardware and software assets. OCIO, in its management of IT hardware, plans refresh dates based on a number of criteria (type of hardware, manufacturer end-of -support, current condition, etc.); refreshes are then prioritized and implemented based on balancing those requirements and the available contract and budget resources.

### Ranking and Prioritization of Maintenance and Repair Activities

The NRC program managers determine the requirements for ranking, scheduling, and performing IT infrastructure M&R activities and include them in the contractor statement of work. For the critical ITISS contract, the main ranking factor is the age of the asset (e.g., desktop, laptop, printer, BlackBerry), followed by cost and budget constraints. However, when applicable, personnel safety is considered and is the highest priority.

### Factors Considered in Determining Acceptable Condition

In determining acceptable condition, the NRC mainly considers the asset's age, remaining useful life, and compatibility with current and required software.

**Combining Statement of Budgetary Resources** (IN THOUSANDS)

For the fiscal year ended September 30, 2018	Salaries and Expenses	Office of Inspector General	Nuclear Facility Fees	Total
<b>Budgetary Resources:</b>				
Unobligated balance from prior-year budget authority, net	\$ 45,684	\$ 3,542	\$ –	\$ 49,226
Appropriations	909,069	12,859	–	921,928
Spending authority from offsetting collections	4,004	–	–	4,004
<b>Total Budgetary Resources</b>	<b>\$ 958,757</b>	<b>\$ 16,401</b>	<b>\$ –</b>	<b>\$ 975,158</b>
<b>Memorandum Entry:</b>				
Net adjustments to unobligated balance brought forward October 1	\$ 9,494	\$ 204	\$ –	\$ 9,698
<b>Status of Budgetary Resources:</b>				
New obligations and upward adjustments (total) (Note 12)	\$ 920,576	\$ 13,438	\$ –	\$ 934,014
Unobligated balance, end of period:				
Apportioned, unexpired accounts	37,645	1,930	–	39,575
Exempt from apportionment, unexpired accounts	431	–	–	431
Unapportioned, unexpired accounts	–	3	–	3
Unexpired unobligated balance, end of year	38,076	1,933	–	40,009
Expired unobligated balance, end of year	105	1,030	–	1,135
Unobligated balance, end of year	38,181	2,963	–	41,144
<b>Total Status of Budgetary Resources</b>	<b>\$ 958,757</b>	<b>\$ 16,401</b>	<b>\$ –</b>	<b>\$ 975,158</b>
<b>Outlays Net:</b>				
Outlays, net	888,324	12,542	–	900,866
Distributed offsetting receipts	–	–	(781,825)	(781,825)
<b>Agency Outlays, Net</b>	<b>\$ 888,324</b>	<b>\$ 12,542</b>	<b>\$(781,825)</b>	<b>\$ 119,041</b>
For the fiscal year ended September 30, 2017	Salaries and Expenses	Office of Inspector General	Nuclear Facility Fees	Total
<b>Budgetary Resources:</b>				
Unobligated balance from prior-year budget authority, net	\$ 53,239	\$ 3,221	\$ –	\$ 56,460
Appropriations	905,000	12,129	–	917,129
Spending authority from offsetting collections	5,626	–	–	5,626
<b>Total Budgetary Resources</b>	<b>\$ 963,865</b>	<b>\$ 15,350</b>	<b>\$ –</b>	<b>\$ 979,215</b>
<b>Memorandum Entry:</b>				
Net adjustments to unobligated balance brought forward October 1	\$ 14,283	\$ 220	\$ –	\$ 14,503
<b>Status of Budgetary Resources:</b>				
New obligations and upward adjustments (total) (Note 12)	\$ 928,346	\$ 12,181	\$ –	\$ 940,527
Unobligated balance, end of period:				
Apportioned, unexpired accounts	32,348	2,723	–	35,071
Exempt from apportionment, unexpired accounts	532	–	–	532
Unapportioned, unexpired accounts	2,570	–	–	2,570
Unexpired unobligated balance, end of year	35,450	2,723	–	38,173
Expired unobligated balance, end of year	69	446	–	515
Unobligated balance, end of year	35,519	3,169	–	38,688
<b>Total Status of Budgetary Resources</b>	<b>\$ 963,865</b>	<b>\$ 15,350</b>	<b>\$ –</b>	<b>\$ 979,215</b>
<b>Outlays Net:</b>				
Outlays, net	907,631	11,903	–	919,534
Distributed offsetting receipts	–	–	(789,648)	(789,648)
<b>Agency Outlays, Net</b>	<b>\$ 907,631</b>	<b>\$ 11,903</b>	<b>\$(789,648)</b>	<b>\$ 129,886</b>

## Inspector General's Letter Transmitting Independent Auditors' Report



OFFICE OF THE  
INSPECTOR GENERAL

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

November 8, 2018

MEMORANDUM TO: Chairman Svinicki

FROM: Hubert T. Bell /RA/  
Inspector General

SUBJECT: RESULTS OF THE AUDIT OF THE UNITED STATES  
NUCLEAR REGULATORY COMMISSION'S FINANCIAL  
STATEMENTS FOR FISCAL YEARS 2018 AND 2017  
(OIG-19-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, the Office of the Inspector General (OIG) retained Acuity Consulting, Inc. (Acuity) to conduct this annual audit. Transmitted with this memorandum is Acuity's audit report. Acuity examined NRC's Fiscal Year (FY) 2018 Agency Financial Report, which includes comparative financial statements for FYs 2018 and 2017. Acuity's audit report contains the following reports:

- Opinion on the Financial Statements.
- Opinion on Internal Control over Financial Reporting.
- Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements.

### Objective of a Financial Statement Audit

The objective of a financial statement audit is to determine whether the audited entity's 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.

Acuity's audit included, among other things, obtaining an understanding of NRC and its operations, including internal control over financial reporting; evaluating the design and operating effectiveness of internal control and assessing risk; and testing relevant internal controls over financial reporting. Because of inherent limitations in internal controls, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of any internal control to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

### **FY 2018 Audit Results**

The results are as follows:

#### Financial Statements

- Unmodified opinion.

#### Internal Control over Financial Reporting

- Unmodified opinion.

#### Compliance with Laws and Regulations

- No instances of noncompliance noted.

### **OIG Oversight of Acuity's Performance**

To fulfill our responsibilities under the *CFO Act* and related legislation for ensuring the quality of the audit work performed, we monitored Acuity's audit of NRC's FY 2018 and 2017 financial statements by:

- Reviewing Acuity's audit approach and planning.
- Evaluating the qualifications and independence of Acuity's auditors.
- Monitoring audit progress at key points.
- Examining the working papers related to planning and performing the audit and assessing NRC's internal controls.
- Reviewing Acuity's audit report to ensure compliance with Government Auditing Standards and Office of Management and Budget Bulletin No. 19-01.
- Coordinating the issuance of the audit report.
- Performing other procedures deemed necessary.

Acuity is responsible for the attached auditor's report, dated November 7, 2018, and the conclusions expressed therein. OIG is responsible for technical and administrative oversight regarding the firm's performance under the terms of the contract. Our oversight, as differentiated from an audit in conformance with Government Auditing Standards, was not intended to enable us to express an opinion, and accordingly we do not express an opinion on:

- NRC's financial statements.
- Effectiveness of NRC's internal control over financial reporting.
- NRC's compliance with laws, regulations, contracts, and grant agreements.

However, our monitoring review, as described above, disclosed no instances where Acuity did not comply, in all material respects, with applicable auditing standards.

#### **Meeting with the Chief Financial Officer**

At the exit conference on November 7, 2018, representatives of the Office of the Chief Financial Officer, OIG, and Acuity discussed the results of the audit.

#### **Comments of the Chief Financial Officer**

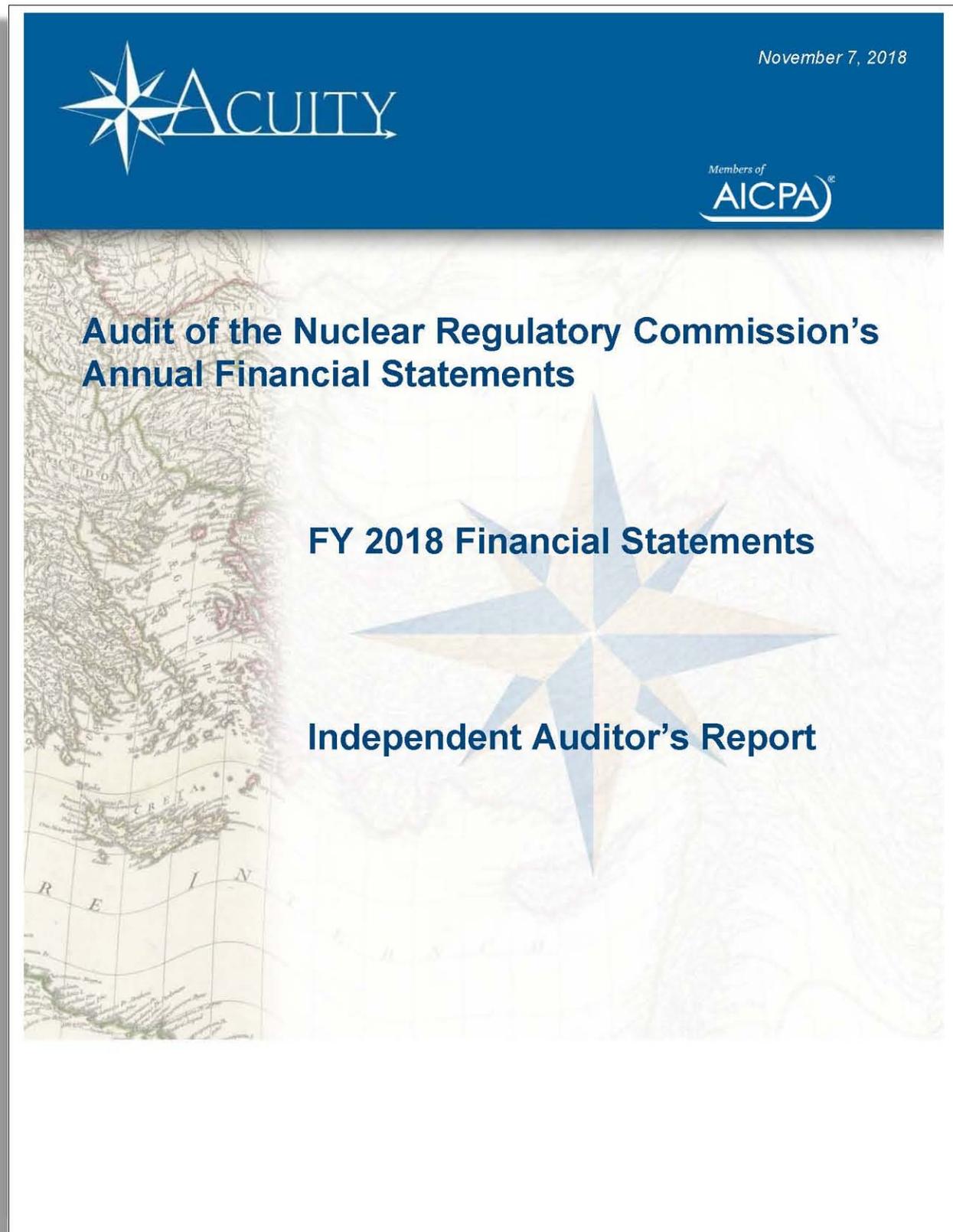
In her response, the Chief Financial Officer agreed with the report. The full text of her response follows this report.

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

Attachment: As stated

cc: Commissioner J. Baran  
Commissioner S. Burns  
Commissioner A. Caputo  
Commissioner D. Wright  
M. Doane, OEDO  
M. Wylie, OCFO  
H. Rasouli, OEDO  
J. Jolicoeur, OEDO  
J. Bowen, OEDO  
EDO\_ACS\_Distribution  
RidsOCFOMailCenter Resource

## Independent Auditors' Report





## INDEPENDENT AUDITOR'S REPORT

To: Inspector General  
United States Nuclear Regulatory Commission

Chairman  
United States Nuclear Regulatory Commission

In our audits of the fiscal years 2018 and 2017 financial statements of the Nuclear Regulatory Commission (NRC), we found

- NRC's financial statements as of and for the fiscal years ended September 30, 2018, and 2017 are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- NRC maintained, in all material respects, effective internal control over financial reporting as of September 30, 2018; and
- no reportable noncompliance for fiscal year 2018 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more detail (1) our report on the financial statements and on internal control over financial reporting, which includes required supplemental information (RSI)<sup>1</sup> and other information included with the financial statements;<sup>2</sup> (2) our report on compliance with applicable laws, regulations, contracts, and grant agreements; and (3) agency comments.

### **Report on the Financial Statements and on Internal Control over Financial Reporting**

In accordance with contract D17PD00255, we have audited NRC's financial statements. NRC's financial statements comprise the balance sheets as of September 30, 2018, and 2017; the related statements of net cost, changes in net position, and budgetary resources for the fiscal years then ended; and the related notes to the financial statements. We have also audited NRC's internal control over financial reporting as of September 30, 2018, based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the *Federal Managers' Financial Integrity Act* (FMFIA).

We conducted our audits in accordance with U.S. generally accepted government auditing standards. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

---

<sup>1</sup> The RSI consists of Management's Discussion and Analysis, Deferred Maintenance and Repairs, and the Combining Statement of Budgetary Resources, which are included with the financial statements.

<sup>2</sup> Other information consists of information included with the financial statements, other than the RSI and the auditor's report.



## INDEPENDENT AUDITOR'S REPORT

### Management's Responsibility

NRC management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring and presenting the RSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in documents containing the audited financial statements and auditor's report, and ensuring the consistency of that information with the audited financial statements and RSI; (4) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; (5) evaluating the effectiveness of internal control over financial reporting based on criteria established under FMFIA; and (6) its assessment about the effectiveness of internal control over financial reporting.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements and an opinion on NRC's internal control over financial reporting based on our audits. U.S. generally accepted government auditing standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement, and whether effective internal control over financial reporting was maintained in all material respects. We are also responsible for applying certain limited procedures to RSI and other information included with the financial statements.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the auditor's assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

An audit of internal control over financial reporting involves performing procedures to obtain evidence about whether a material weakness exists.<sup>3</sup> The procedures selected depend on the auditor's judgment, including the assessment of the risk that a material weakness exists. An audit of internal control over financial reporting also includes obtaining an understanding of internal

---

<sup>3</sup> A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.



### INDEPENDENT AUDITOR'S REPORT

control over financial reporting, and evaluating and testing the design and operating effectiveness of internal control over financial reporting based on the assessed risk. Our audit of internal control also considered NRC's process for evaluating and reporting on internal control over financial reporting based on criteria established under FMFIA. Our audits also included performing such other procedures as we considered necessary in the circumstances.

We did not evaluate all internal controls relevant to operating objectives as broadly established under FMFIA, such as those controls relevant to preparing performance information and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Our internal control testing was for the purpose of expressing an opinion on whether effective internal control over financial reporting was maintained, in all material respects. Consequently, our audit may not identify all deficiencies in internal control over financial reporting that are less severe than a material weakness.

#### Definitions and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error. We also caution that projecting any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

#### Opinion on Financial Statements

In our opinion, NRC's financial statements present fairly, in all material respects, NRC's financial position as of September 30, 2018, and 2017, and its net cost of operations, changes in net position, and budgetary resources for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

#### Opinion on Internal Control over Financial Reporting

In our opinion, NRC maintained, in all material respects, effective internal control over financial reporting as of September 30, 2018, based on criteria established under FMFIA.



## INDEPENDENT AUDITOR'S REPORT

### Other Matters

#### Required Supplementary Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented to supplement the financial statements. Although the RSI is not a part of the financial statements, FASAB considers this information to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to the auditor's inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

#### Other Information

NRC's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. We read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements. Our audit was conducted for the purpose of forming an opinion on NRC's financial statements. We did not audit and do not express an opinion or provide any assurance on the other information.

### **Report on Compliance with Laws, Regulations, Contracts and Grant Agreements**

In connection with our audits of NRC's financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibility discussed below. We caution that noncompliance may occur and not be detected by these tests. We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

#### Management's Responsibility

NRC management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to NRC.



## INDEPENDENT AUDITOR'S REPORT

### Auditor's Responsibility

Our responsibility is to test compliance with selected provisions of laws, regulations, contracts, and grant agreements applicable to NRC that have a direct effect on the determination of material amounts and disclosures in NRC's financial statements, and perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to NRC.

### Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2018 that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to NRC. Accordingly, we do not express such an opinion.

### Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

### **Agency Comments**

In commenting on a draft of this report, NRC stated it was in agreement with the report. The complete text of NRC's response is reprinted in the Agency Financial Report.

*Acuity Consulting, Inc.*

Acuity Consulting, Inc.  
Alexandria, Virginia  
November 7, 2018

## Management's Response to the Independent Auditors' Report



CHIEF FINANCIAL  
OFFICER

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

November 7, 2018

**MEMORANDUM TO:** Brett M. Baker  
Assistant Inspector General for Audits  
Office of the Inspector General

**FROM:** Maureen E. Wylie /RA/  
Chief Financial Officer

**SUBJECT:** AUDIT OF THE FISCAL YEAR 2018 FINANCIAL STATEMENTS

We appreciate the collaborative relationship between the Office of the Inspector General, the auditors, and the Office of the Chief Financial Officer in supporting our continuing effort to improve financial reporting. We have reviewed the Independent Auditor's Report of the Agency's fiscal year 2018 financial statements and are in agreement with it.

cc: M. Doane EDO  
R. Lewis, AO/OEDO  
H. Rasouli, DAO/OEDO  
J. Jolicoeur, OEDO  
J. Bowen, OEDO

## **Chapter 3: Other Information**

## Inspector General's Assessment of the Most Serious Management and Performance Challenges Facing the NRC



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

October 23, 2018

OFFICE OF THE  
INSPECTOR GENERAL

MEMORANDUM TO: Chairman Svinicki

FROM:

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

Hubert T. Bell  
Inspector General

SUBJECT: INSPECTOR GENERAL'S ASSESSMENT OF THE MOST  
SERIOUS MANAGEMENT AND PERFORMANCE  
CHALLENGES FACING THE NUCLEAR REGULATORY  
COMMISSION (NRC) IN FY 2019 (OIG-19-A-01)

In accordance with the *Reports Consolidation Act of 2000*, I am providing what I consider to be the most serious management and performance challenges facing the NRC in FY 2019. Congress left the determination and threshold of what constitutes a most serious management and performance challenge to the discretion of the Inspectors General. I have defined serious management and performance challenges as *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.*

### **INTRODUCTION**

NRC is an independent Federal agency established to license and regulate the Nation's civilian use of radioactive materials to ensure adequate protection of public health and safety, promote the common defense and security, and protect the environment.

NRC performs critical functions to ensure the safe and secure use of radioactive materials in the United States and to protect both the public and radiation workers from radiation hazards that could result from the use of radioactive materials. NRC provides licensing and oversight activities for 98 commercial nuclear power reactors as well as

nuclear fuel cycle facilities, research, test, and training reactors; and radioactive materials used in medicine, academia, and industry.

NRC's principal regulatory functions are to establish regulatory requirements and conduct confirmatory research to support requirements; issue licenses to facility operators and owners, possessors, and users of nuclear materials; oversee these licensees to ensure they are in compliance with NRC requirements and operate safely and securely; and respond to emergencies involving regulated activities.

NRC also participates in international work that is integral to the agency's mandate to protect public health and safety and promote the common defense and security. To carry out its mission, NRC's appropriation for FY 2019 is \$898.35 million.

Based on NRC's mission and objectives, the Office of the Inspector General (OIG) annually identifies what it considers to be the most serious management and performance challenges facing NRC. Our goal is to focus attention on these issues to enhance the effectiveness of NRC programs and operations. Please note, challenges do not necessarily equate to problems; rather, they should be considered areas of continuing important focus for NRC management and staff.

### MANAGEMENT CHALLENGES

The FY 2019 management and performance challenges are directly related to NRC's mission areas (commercial nuclear reactors and nuclear materials) and address security, information technology, financial programs, and administrative functions. Our work in these areas indicates that while program improvements are needed, NRC is continually making progress to address OIG recommendations and improve the efficiency and effectiveness of its programs. The FY 2019 management and performance challenges are as follows:

1. Regulation of nuclear reactor safety and security programs.
2. Regulation of nuclear materials and radioactive waste safety and security programs.
3. Management of information and information technology.
4. Management of financial programs.
5. Management of corporate functions.

IG's Assessment of the Most Serious Management and Performance Challenges Facing the NRC in FY 2019

During previous management and performance challenges reports, the OIG used six categories to organize the challenge areas for the agency. For the FY 2019 report, we restructured the challenge areas into the five categories shown above to more closely align with the NRC mission areas of external regulatory oversight and internal operations.

From the FY 2018 challenge of management of security over internal infrastructure (personnel, physical, and cyber security) and nuclear security, we moved the internal infrastructure personnel and physical security components under the management of corporate functions challenge. We also moved the internal infrastructure cyber security component under the management of information and information technology challenge. Finally, we moved nuclear security to be shown along with the safety of nuclear plants and materials to form the challenges for nuclear plant safety and security and nuclear materials safety and security.

These challenges represent what OIG considers to be inherent and continuing program challenges relative to maintaining effective and efficient oversight and internal management controls. As a result, some are likely to remain challenges from year to year, while others may be removed from the list as progress is made toward resolution.

Attached is a brief synopsis of each management and performance challenge along with summaries of OIG audits and planned work that has informed the decision-making process. A complete list of reports can be found at: <https://www.nrc.gov/reading-rm/doc-collections/insp-gen/>

### 1. Regulation of nuclear reactor safety and security programs.

NRC is responsible for maintaining an established regulatory framework for the safe and secure use of civilian nuclear reactors, including commercial nuclear power plants as well as research, test, and training reactors. There are currently 98 civilian nuclear power reactors licensed to operate in the United States, which generate about 20 percent of the Nation's electricity, as well as two plants under construction (Vogtle 3 and 4). There are also 31 licensed research and test reactors.

NRC's regulatory oversight responsibilities in the reactor arena include developing policy and rulemaking, licensing and inspecting reactors, licensing reactor operators, and enforcing regulations.

In FY 2018, the agency implemented its nuclear reactor safety program with \$449 million and 2,048 full-time equivalent employees. However, in its FY 2019 congressional budget justification, NRC requested approximately \$475 million to support 1,925 full-time equivalent employees. This anticipated reduction of 123 personnel underscores the importance of implementing nuclear reactor safety oversight activities as effectively and efficiently as possible.

Key reactor safety and security oversight challenges for NRC include the following:

- Ensuring an adequate and efficient reactor and operator licensing process, accounting for safety impacts of major changes to plant configuration, and sufficiently evaluating older plants for license extensions.
- Providing an adequate number of trained inspectors for sufficient oversight, and ensuring inspection procedures are adequate and are being followed.
- Ensuring adequate construction oversight of new power reactors, adequately reviewing and approving design changes that are occurring concurrent with the construction, and verifying whether plants are built in accordance with the intended design.
- Ensuring appropriate and reasonable application of the agency's Reactor Oversight Process, Construction Reactor Oversight Process, Enforcement Policy, generic

IG's Assessment of the Most Serious Management and Performance Challenges Facing the NRC in FY 2019

requirements and backfit process, safety culture policy, and Alternative Dispute Resolution.

- Incorporating operating experience from the domestic and international nuclear industries into NRC's regulatory program, and identifying generic requirements.
- Ensuring effective oversight of physical and personnel security at nuclear power plants.

The following synopses are examples of work that OIG has completed or is ongoing pertaining to nuclear reactor safety and security programs.

### **Audit of NRC's Special and Infrequently Performed Inspections OIG-18-A-13, May 16, 2018**

The NRC may conduct special and infrequent inspections using criteria in Inspection Manual Chapter (IMC) 2515 Appendix C. These inspections are in addition to baseline inspections conducted at commercial nuclear power plants in support of the Reactor Oversight Process. NRC conducts these special and infrequent inspections in response to safety and security events at nuclear power plants, and to ensure the safety of infrequent, but major, plant licensing and maintenance activities.

The audit objectives were to assess NRC's processes for (1) identifying conditions that warrant special and infrequently performed inspections at commercial power reactors under IMC 2515 Appendix C, and (2) conducting these inspections in accordance with agency guidance.

NRC staff are required to review IMC 2515 Appendix C inspection procedures on a 4-year periodic basis. However, NRC staff do not consistently review all IMC 2515 Appendix C inspection procedures on a periodic basis as required because there is conflicting guidance and low staff awareness of procedural requirements for conducting these reviews. As a result, outdated IMC 2515 Appendix C inspection procedures could reduce the efficiency and effectiveness in the planning and performance of these inspections.

Additionally, NRC management is responsible for developing application controls to achieve validity, completeness, and accuracy of data processed in an information system. However, NRC staff incorrectly coded inspections under IMC 2515 Appendix C in the agency's legacy Reactor Program System. This occurred because application controls in the Reactor Program System, operational before October 2017, were not sufficient to ensure proper coding of inspections to IMC 2515 Appendix C. Reliable data is important for effective management and oversight of NRC's inspection activities.

This report made six recommendations regarding periodic assessments of IMC 2515 Appendix C inspection procedures and application controls in the Replacement Reactor Program System – Inspections Module.

The full report is available at: <https://www.nrc.gov/docs/ML1813/ML18136A734.pdf>

### **Audit of NRC's Process for Modifying and Communicating Standard Technical Specifications, OIG-18-A-15, June 18, 2018**

Technical specifications are part of an NRC license authorizing the operation of a nuclear production or utilization facility. The Standard Technical Specifications are guidance for modifying the approved nuclear power plant's operating license in accordance with Section 36 of Part 50 of Title 10 of the Code of Federal Regulations, "Technical specifications" (10 CFR 50.36).

The Standard Technical Specifications are published for each of the reactor types in a set of NUREG-series publications. NRC modifies the Standard Technical Specifications through a process initiated by the industry-sponsored Technical Specifications Task Force, which submits proposed changes to NRC. The submissions are referred to as Travelers.

The audit objective was to assess the effectiveness and efficiency of NRC's process for modifying Standard Technical Specifications and communicating these modifications to staff and licensees. NRC generally modifies Standard Technical Specifications in an efficient and effective manner. However, NRC's Standard Technical Specification modification process could be strengthened in the following areas:

- Implementation of structured knowledge management practices to fully implement knowledge sharing practices directed at succession planning, training, and guidance for the Traveler modification process. Establishing a more structured approach to knowledge management would reduce the risk of regulatory inconsistency and inefficiency.
- Implementation of quality assurance measures for Traveler data in the Replacement Reactor Program System—Licensing Module to prevent staff hour discrepancies and billing misallocations. NRC is taking corrective action to address the staff hour discrepancies and billing misallocations, however, these actions are not yet complete.

This report made eight recommendations to strengthen Technical Specifications Branch knowledge management practices and enhance quality assurance measures for program data.

The full report is available at: <https://www.nrc.gov/docs/ML1816/ML18169A142.pdf>

## 2. Regulation of nuclear materials and radioactive waste safety and security programs.

NRC is responsible for maintaining an established regulatory framework for the safe and secure use of nuclear materials; medical, industrial, and academic applications; uranium recovery activities; and high-level and low-level radioactive waste. NRC is authorized to grant licenses for the possession and use of radioactive materials and establish regulations to govern the possession and use of those materials. NRC's oversight of material licensees is done through its regional offices, Region I, Region III, and Region IV. Region I handles the oversight for licensees in the Region II area. Region II handles oversight for all of NRC's fuel cycle licensees.

Upon a State's request, NRC may enter into an agreement to relinquish its authority to the State to regulate certain radioactive materials and limited quantities of special nuclear material. The State must demonstrate that its regulatory program is adequate



Source: e-mail from Chief, NMSS/MSTR/ASPB, SEP 26 2018

to protect public health and safety and compatible with NRC's program. The States that enter into an agreement assuming this regulatory authority from NRC are called Agreement States. On September 25, 2018, the NRC entered into an agreement with the state of Wyoming, transferring regulatory authority to the state over certain radioactive materials. Effective September 30, 2018, Wyoming became the 38<sup>th</sup> Agreement State. With the agreement, the NRC is transferring to

Wyoming the responsibility for licensing, rulemaking, inspection and enforcement activities necessary to regulate source material involved in uranium or thorium milling and the management and disposal of milling waste, or mill tailings. Fourteen uranium recovery licenses will be transferred to Wyoming's jurisdiction.

NRC regulates high-level radioactive waste generated from commercial nuclear power reactors. High-level radioactive waste is either spent (used) reactor fuel when it is accepted for disposal or waste material remaining after spent fuel is reprocessed. Because of its highly radioactive fission products, high-level radioactive waste must be handled and stored with care. Since radioactive waste becomes harmless only

through decay (which can take hundreds of thousands of years for high-level waste), the material must be stored and ultimately disposed of in a way that provides adequate protection of the public for a very long time. Due to the lack of a permanent repository for high-level radioactive waste in the United States, NRC continues to license and regulate the storage of high-level radioactive waste at Independent Spent Fuel Storage Installations across the country.

Low-level radioactive waste is typically produced at nuclear power reactors, hospitals, research facilities, and clinics from the use of nuclear materials for industrial and medical purposes. NRC regulates the management, storage, and disposal of radioactive waste produced as a result of NRC-licensed activities. Low-level radioactive waste includes contaminated protective clothing, equipment and tools, medical supplies, and laboratory animal tissues. Currently, all of the country's disposal facilities are located in Agreement States.

In addition, the number of nuclear power reactors being decommissioned continues to increase as more reactors reach the end of their licensed life or face challenging financial conditions. The decommissioning of nuclear power reactors continues to be a challenge for NRC and many licensees.

A large number of materials licenses are also terminated each year. Most of these license terminations are routine, and the sites require little remediation to meet NRC's criteria for unrestricted release. However, some of these decommissioning facilities present technical and policy challenges that could require large expenditures of NRC staff resources.

Key nuclear materials and radioactive waste safety and security oversight challenges for NRC include the following:

- Ensuring that licensing activities are conducted consistent with NRC requirements.
- Providing effective oversight of licensees' radioactive materials programs to preclude loss or theft.
- Staying current with emerging technologies, particularly with medical uses of radioactive materials.
- Tracking radioactive materials.

IG's Assessment of the Most Serious Management and Performance Challenges Facing the NRC in FY 2019

- Ensuring that nuclear materials are safe and accounted for during exporting and importing activities.
- Ensuring that Agreement State programs are adequate to protect public health and safety and the environment, and are compatible with NRC's program.
- Providing effective oversight for the safe and secure interim storage of increasing quantities of high-level radioactive waste until a permanent repository for high-level radioactive waste is operational.
- Ensuring the management of licensee programs for the safe storage and disposal of low-level radioactive waste produced as a result of NRC-licensed activities.
- Managing complex decommissioning activities.
- Continuing to pursue the need for new regulations focused on unique requirements of nuclear power plants undergoing decommissioning, in order to align the requirements with the reduction in risk that occurs over time, while maintaining safety and security.

The following synopses are examples of work that OIG has completed or has underway in the nuclear materials and radioactive waste safety and security programs.

**Audit of NRC's Oversight of the National Materials Program  
OIG-18-A-11, April 4, 2018**

OIG found that the National Materials Program provides a framework for carrying out NRC and Agreement State radiation safety regulatory programs; however, opportunities for improvement exist with regard to effectiveness. Specifically, NRC should improve its documentation and communication of the program framework.

The National Materials Program framework is not well understood by stakeholders. In order for a program to be effective at accomplishing its mission, stakeholders should share a common understanding of a program. However, the National Materials Program framework is not well documented or communicated and lacks a champion. As a result, Agreement States are not satisfied with the level of influence they have on the Program.

This report included two recommendations to improve the effectiveness of NRC's oversight of the National Materials Program through improving documentation and communication of the Program framework.

The full report is available at: <https://www.nrc.gov/docs/ML1809/ML18094A280.pdf>

### **Audit of NRC's Transition Process for Decommissioning Power Reactors (To be initiated in FY 2019)**

When a power company decides to close a nuclear power plant permanently, the facility must be decommissioned by safely removing it from service and reducing residual radioactivity to a level that permits release of the property and termination of the operating license. The NRC's regulatory process for transitioning power reactors from operation to decommissioning has been a challenge for many licensees.

The largest amount of licensing activity is expected to occur during the transition from operation to decommissioning. During this period a number of modifications — both technical and organizational — are needed to adapt the plant to meet new objectives and requirements as stated in several NRC regulations.

The NRC's transition period typically concludes with the transfer of regulatory responsibility from the operating reactor organization, NRR, to the nuclear materials program organization, the Office of Nuclear Material Safety and Safeguards (NMSS).

The number of nuclear power reactors being decommissioned may increase in the coming years as more reactors reach the end of their original or extended licensed life, and as some plants face challenging financial conditions.

This audit objective is to determine whether the process NRC uses to transfer responsibility for oversight of commercial reactors transitioning from operating to decommissioning status ensures licensees meet applicable requirements and protects public health and safety.

### 3. Management of information and information technology.

Technology advances rapidly. The challenge is supporting a future-ready workforce equipped with modern tools, technologies, skills, and knowledge necessary to meet both current and future mission needs. NRC must also meet the regulatory and statutory Federal mandates for Information Technology/Information Management (IT/IM). The responsibility of the NRC's IT/IM program is to maintain and enhance services and infrastructure to enable the mission. This goal reflects the NRC's commitment to openness and is essential for effective agency operations.

Key information technology and information management challenges for NRC include the following:

- Ensuring that data is securely accessible from anywhere, at any time, on any device to support the agency's workforce.
- Leveraging innovative technologies to coordinate, securely share, and collaborate on information with both domestic and international partners.

NRC manages information and employs information technology (IT) to enhance information access and strengthen physical security and agency performance in carrying out its mission. NRC must continue to use robust, proactive measures to protect its infrastructure – the buildings, personnel, and information – from both internal and external threats. Moreover, as the nature of the threat continues to evolve, NRC faces challenges with oversight of the protection of operating facilities and facilities undergoing decommissioning, the use of nuclear materials, sharing of sensitive information, emergency preparedness and incident response.

Key internal security oversight challenges for NRC include the following:

- Increasing numbers, types, and sophistication of cyber threats highlight the need to reinforce the security over NRC's information systems. For example, advanced persistent threats where an adversary that possesses sophisticated levels of expertise and significant resources can attack using multiple means such as cyber, physical, or deception to achieve its objectives, pose increasing risks.

IG's Assessment of the Most Serious Management and Performance Challenges Facing the NRC in FY 2019

---

- Directing agency-wide information resource planning to ensure that agency information technology, information management, and information technology security resources are selected and managed to provide maximum value to the agency.
- Executing the insider threat prevention and detection program for detecting, deterring, and mitigating insider threats to address protection of classified and safeguards information from exploitation, compromise, or unauthorized disclosure.
- Managing risk-based information security strategies to protect against sophisticated cyber-attacks.
- Executing the *Federal Information Security Modernization Act of 2014*, to strengthen the security of computer networks.
- The biggest challenge to IT in the future is security. Security could negatively impact connectivity to public networks.

The following audit report synopses are examples of work that OIG has completed in the IT/IM and information security programs.

### **Evaluation of NRC's Shared "S" Drive OIG-18-A-06, December 21, 2017**

On July 6, 2017, OIG identified and accessed an employee's bank account information on a personal check that was scanned and saved to the agency's shared "S" drive. After finding that the sensitive information was not protected by access controls, OIG reviewed the shared "S" drive for Personally Identifiable Information (PII) and identified a folder dated 2011, which had 35 subfolders for several offices in the agency. Of the 35 subfolders, 17 contained PII without appropriate access controls.

The objective was to assess how NRC effectively manages and protects PII stored on the shared "S" drive in accordance with Federal regulations.

OIG evaluated NRC's shared drives to assess how the agency effectively manages and protects PII stored on the shared "S" drive in accordance with Federal regulations. OIG found weaknesses in the following areas:

- NRC staff store PII on the shared "S" drive without appropriate safeguards.
- NRC does not manage PII stored on the shared "S" drive.

This report made four recommendations to improve NRC's procedures and process for managing and protecting PII stored on the shared "S" drive.

The full report is available at: <https://www.nrc.gov/docs/ML1735/ML17355A433.pdf>

**U.S. Nuclear Regulatory Commission Office of the Inspector General External Vulnerability Assessment and Penetration Test  
OIG-18-A-14, June 6, 2018**

The *Federal Information Security Modernization Act of 2014 (FISMA)* outlines the information security management requirements for Federal agencies, which includes an annual independent evaluation of the agency's information security program and practices to determine their effectiveness.

FISMA requires the annual evaluation to be performed by the agency's OIG or by an independent auditor. The NRC OIG retained Richard S. Carson & Associates, Inc., to perform the fiscal year 2017 FISMA evaluation, including conducting an external vulnerability assessment and penetration test.

The objective of the testing was to verify the presence of network devices, identify vulnerabilities in external systems that could be exploited by external threats through the Internet, determine risk, and aid management in countering or mitigating associated risks.

OIG conducted a vulnerability assessment and penetration testing of external Internet systems on the NRC computer network. The testing was conducted from Carson, Inc. Penetration Testing Lab in Bethesda, Maryland and the Washington, DC, metro area.

As a result of the assessment and testing, OIG made one recommendation to the Executive Director for Operations that will improve NRC's information security program.

**The full report is Official Use Only and not publically available.**

**Summary Report of FISMA Evaluations Conducted in Fiscal Year 2017  
OIG-18-A-08, December 21, 2017**

The OIG issued this memorandum report to summarize the findings and recommendations of the six Federal Information Security Modernization Act of 2014 (FISMA) evaluations conducted in Fiscal Year (FY) 2017. FISMA outlines the information security management requirements for Federal agencies, which includes an independent evaluation of the agency's information security program and practices to determine their effectiveness.

Each regional office and the Technical Training Center (TTC) is responsible for implementing the NRC information security program at their location. In order to evaluate the effectiveness of NRC's information security program and practices across the entire agency, NRC OIG conducts periodic independent evaluations at the regional offices and TTC.

Overall, the six FY 2017 FISMA evaluations at Headquarters (HQ), the Regions, and TTC resulted in nine findings and 14 recommendations to address those findings.

There was one management issue identified, but there were no recommendations made. As such, there are no new recommendations in this summary report.

The full report is available at: <https://www.nrc.gov/docs/ML1735/ML17355A502.pdf>

### 4. Management of financial programs.

NRC is required by the *Omnibus Budget Reconciliation Act of 1990* to collect fees totaling approximately 90 percent of its annual budget authority. The agency's budget authority for FYs 2017 and 2018, including carryover, was approximately \$935 million and \$911 million, respectively. The NRC estimated that \$881 million for FY 2017 and \$800 million for FY 2018 should be recovered from invoiced fees. NRC is required to establish a schedule of charges that fairly and equitably assesses the fees to license holders and license applicants. In recent years, multiple external stakeholders have questioned NRC's budget and fee structure. Moreover, NRC has been reducing its budget and full-time equivalents, with the exception of a FY 2019 request to increase funding for resources for the High-Level Waste program and activities related to preparing to review advanced nuclear reactor technologies. In recent years, NRC has initiated projects to improve its fee calculation process and fee billing structure. To maintain transparency, NRC must continue to implement solid internal controls over financial management and reporting.

Key financial management and reporting challenges include the following:

- Developing and implementing the agency's budget in accordance with Federal laws, regulations, and guidelines.
- Maintaining a fee structure in accordance with laws and regulations and that is fair to agency licensees.
- Improving controls over license fee billing.
- Maintaining effective controls over financial reporting, contracts, and grants.
- Improving agency guidance for decommissioning programs.

The following audit report synopses are examples of completed, initiated or planned OIG work pertaining to financial programs.

**Audit of NRC's Grants Awards Process  
(Initiated in 2018, and will continue in 2019.)**

In FY 2018, NRC awarded 51 individual grants totaling \$15 million to universities for scholarships, fellowships, and faculty development grants. In addition, the Agency made grants to trade schools and community colleges. NRC's intends grant funding to help support education in nuclear science, engineering, and related trades to develop a workforce capable of the design, construction, operation, and regulation of nuclear facilities and the safe handling of nuclear materials.

The Office of Management and Budget requested NRC develop performance metrics for the grants program and require grantees to address those metrics in 6-month performance progress reports. While NRC's grant program supports over 500 students annually, it directs most grant money to university faculty and curriculum development. NRC also notes a critical workforce need in the trade and craft areas of nuclear education and observes that outreach to pre-college students is essential to enable students to make informed decisions about pursuing the study of nuclear technology.

The audit objectives are to determine if (1) NRC's policies and procedures for reviewing grant proposals and making awards comply with applicable federal regulations, and (2) internal controls over the pre-award and award process are adequate.

**Audit of NRC's Process for Managing Intra-Government Payment and Collection System Payments  
(To be initiated in FY 2019)**

Federal agencies frequently provide services to other agencies. These services require an exchange of money when the agencies enter into an agreement and services are performed. Federal agencies use the Department of Treasury's Intra-Government Payment and Collection (IPAC) system to transfer funds from one agency to another with standardized descriptive data. While the Department of Treasury administers the IPAC system, NRC has to ensure that transactions in the system are accurate and paid in a timely manner.

NRC processes approximately \$80 million a year through the IPAC system. The agency's Office of the Chief Financial Officer receives the IPAC payment or reimbursement request and then forwards the IPAC action to the corresponding NRC Contracting Officer's Representative (COR) for review and approval.

In recent years, there have been concerns about IPAC payment requests being sent to incorrect NRC CORs, payments not being submitted in a timely manner, and insufficient data being provided to review IPAC transactions.

The audit objective is to assess whether NRC has established and implemented an effective process to ensure that IPAC payments are processed in a timely and accurate manner.

### 5. Management of corporate functions.

NRC should continue exploring ways to gain administrative efficiencies while maintaining the appropriate corporate support to carry out agency operations. During FY 2018, the NRC workforce totaled approximately 3,133 available staff positions. To support the agency's technical staff, NRC provides corporate support services such as contract support and multiple human resource programs. While NRC has implemented multiple programs to support agency staff, NRC continues to operate in a Federal Government environment of reduced full time equivalents (FTE) with only a recent small increase in the budget request for FY 2019. Because of this, the agency needs to have an appropriate balance between administrative functions and technical needs. In addition, NRC must be able to effectively recruit, train, and transfer knowledge to new hires, if applicable. This includes maintaining up-to-date guidance to effectively transfer knowledge and train current staff. NRC initiated Project Aim with the purpose of, among other things, identifying inefficiencies in work processes, and right-sizing the agency to retain skill sets needed to accomplish the agency's mission.

Key NRC corporate support function challenges include the following

- Reducing related costs while continuing to provide essential administrative functions that help the agency carry out its mission.
- Maintaining agency headquarters operations while complying with Federal space utilization guidelines and carbon footprint reduction targets.
- Recruiting, training, and effectively transferring knowledge to NRC new hires, if applicable.
- Providing current staff with the training and tools to maintain and/or improve the skills needed to effectively perform their jobs.
- Keeping NRC policies and procedures current.

The following audit report synopses are examples of work that OIG has conducted or is planning to conduct pertaining to NRC's administrative functions.

### **Audit of NRC's Knowledge Management Program (To be initiated in FY 2019)**

Knowledge management is a discipline that promotes an integrated approach to identifying, capturing, evaluating, retrieving, and sharing an enterprise's information assets. These assets may include databases, documents, policies, procedures, and previously un-captured expertise and experience in individual workers.

However, efforts to reduce NRC's staffing and budget have raised knowledge management concerns affecting the performance of the agency. Additionally, OIG's FY 2018 management challenges report noted a key NRC corporate support function challenge includes "recruiting, training, and effectively transferring knowledge to NRC new hires."

The audit objective is to assess the effectiveness of NRC's knowledge management program in helping the agency capture and transfer knowledge for the purposes of meeting its mission.

### **Audit of NRC's Contract Administration Process (To be initiated in FY 2019)**

NRC obligated over \$402 million through contracts for products and services as of December 31, 2016. This spending accounted for almost 40 percent of the agency's discretionary spending, indicating that NRC is greatly reliant on contractors to execute its mission.

Because contract spending consumes a large portion of the agency's discretionary budget, contract obligations pose significant risks if effective contract oversight is not in place. As a result, OIG has taken steps to strengthen and enhance oversight of contracting practices. During FY 2017, OIG completed the *Audit of NRC's Contract Administration Process* and found that, while internal controls governing NRC's contract administration practices are adequate, opportunities exist to improve the effectiveness of internal controls for management of contractor invoices and supporting documentation, and contract closeout procedures followed by agency CORs.

Based on the results of work for the FY 2017 contract administration audit, OIG plans to perform follow-up audits or evaluations of NRC's contract administration functions, processes, and procedures.

The audit objective is to identify additional areas for improvement of NRC's contract administration processes and assess whether CORs are carefully monitoring the work of contractors, reviewing invoices for accuracy and adhering to contract terms and regulations.

### **Evaluation of NRC's Headquarters Operations Center Staffing OIG-18-A-16, June 21, 2018**

The NRC Headquarters Operations Center (HOC) maintains direct contact with nuclear power plants and receives reports from reactor, fuel cycle, and nuclear materials licensees as required by regulations.

The HOC is staffed 24 hours a day, 365 days a year with qualified watch standers. In serving as NRC's initial contact for all incident reports, HOC staff are responsible for maintaining awareness of NRC-licensed facilities and materials, and for performing independent situational analysis of incidents in order to ensure that licensees are implementing appropriate protective measures and to notify appropriate NRC staff.

The OIG found that response and coordination activities were able to be supported by the HOC during calendar year 2017, but under sub-optimal conditions that strained available staff resources.

Resource reduction, HOC staff departures, and hiring delays combined to produce a staffing shortage throughout calendar year 2017. Management underestimated the magnitude of programmatic impacts from the staff resource reduction and had not adequately planned how to maintain staffing levels. The number of available HOC staff dropped to the point of requiring that a non-qualified second person fill shifts.

Staffing conditions resulted in reducing the HOC's available capacity to support the agency's response and coordination role. Current staffing has improved through ongoing management efforts, and can be further strengthened.

This report included three recommendations to improve the management of HOC staffing.

The full report is available at: <https://www.nrc.gov/docs/ML1817/ML18172A159.pdf>

IG's Assessment of the Most Serious Management and Performance Challenges Facing the NRC in FY 2019

---

### TO REPORT FRAUD, WASTE, OR ABUSE

---

#### Please Contact:

Email: [Online Form](#)

Telephone: 1-800-233-3497

TTY/TDD: 7-1-1, or 1-800-201-7165

Address: U.S. Nuclear Regulatory Commission  
Office of the Inspector General  
Hotline Program  
Mail Stop O5-E13  
11555 Rockville Pike  
Rockville, MD 20852

---

### COMMENTS AND SUGGESTIONS

---

If you wish to provide comments on this report, please email OIG using this [link](#).

In addition, if you have suggestions for future OIG audits, please provide them using this [link](#).

## Summary of Financial Statement Audit and Management Assurances

Summary of Financial Statement Audit for FY 2018						
Audit Opinion	Unmodified					
Restatement	No					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance	
None	0	0	0	0	0	
Total Material Weaknesses	0	0	0	0	0	
Summary of Management Assurances for FY 2018						
Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	0	0	0	0
Total Material Weaknesses	0	0	0	0	0	0
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	0	0	0	0
Total Material Weaknesses	0	0	0	0	0	0
Conformance with Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Federal systems conform to financial management system requirements					
Non-conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	0	0	0	0
Total Non-conformances	0	0	0	0	0	0
Compliance with <i>Federal Financial Management Improvement Act</i> (FFMIA)						
	Agency			Auditor		
1. Federal Financial Management Systems Requirements	No Lack of Compliance Noted			No Lack of Compliance Noted		
2. Applicable Federal Accounting Standards	No Lack of Compliance Noted			No Lack of Compliance Noted		
3. United States Standard General Ledger at the Transaction Level	No Lack of Compliance Noted			No Lack of Compliance Noted		

### Payment Integrity

#### Risk Assessment

The NRC is required to complete risk assessments to determine whether any programs were susceptible to making significant improper payments in accordance with IPIA as amended by IPERA and IPERIA. At this time, only intragovernmental transactions are exempt from IPERIA requirements.

The NRC performed a risk assessment as of September 30, 2017. Management identified commercial payments, grant payments, employee payments, payroll, and Government charge cards as potential areas to include in the IPIA risk assessment. In FY 2017, the NRC reviewed FY 2016 disbursements of selected programs to determine the appropriate threshold to conduct a risk assessment and possible testing. For FY 2016, total commercial payments were \$207.1 million; total grants payments were \$17.5 million; total employee payments were \$15.7 million; and total payroll payments were \$476.0 million. The NRC did not conduct a risk assessment over its purchase cards (total disbursements of \$3.3 million) and travel cards (total disbursements of \$4.6 million) since disbursement totals for each were below \$10.0 million. Conducting a risk assessment over those two programs would not produce an error rate that would meet the minimum threshold set by the OMB (\$10.0 million and 1.5 percent of total program payments).

For the programs selected for testing, as part of the qualitative and quantitative risk assessment, the NRC used its best judgment to select samples from each program under review, based on the universe of payments, which were reconciled to the general ledger. This sample was not meant to be statistically valid, as testing was performed to support the risk assessment process versus conducting full IPIA testing for high-risk programs. The testing was further refined through the identification of select attributes for each program to determine whether the right recipient received the right payment amount for the right goods or services at the right time.

The results of the FY 2017 risk assessment did not identify any programs that were susceptible to making significant improper payments. Although the results of the FY 2017 risk assessment identified programs as low risk, the NRC continued to monitor its payment processes, in addition to conducting periodic reviews of key controls for IPIA programs identified by management. The NRC will continue to conduct risk assessments on a triennial basis, in accordance with the IPIA, as amended by IPERA and IPERIA as well as OMB guidance. The next IPIA risk assessment will take place in FY 2020. However, the NRC will conduct risk assessments, as needed, if there are material changes in the way programs operate or if the agency establishes new programs. More detailed information on improper payments can be found at <https://paymentaccuracy.gov>.

#### Recapture of Improper Payments Reporting

As noted above, the NRC conducted a risk assessment in FY 2017 and discovered no improper payments. Therefore, the agency determined that recovery or recapture audits are not cost effective. The NRC conducts risk assessments every 3 years by as required by IPERIA.

### Agency Improvement of Payment Accuracy with the Do Not Pay Initiative

The NRC uses the Treasury's Do Not Pay automated tools to monitor and reduce improper payments. This process has not resulted in the capture of any improper payments. Instead, the NRC captures improper payments through the agency's internal controls. The NRC uses the Federal Awardees Performance and Integrity Information System and other data systems such as the System for Award Management and financial reports to establish whether a contractor has the integrity and business ethics to receive a Federal contract and is otherwise responsible, which is consistent with applicable statutes and regulations.

To date, the NRC awards grants only to educational institutions and other entities, not individuals. The NRC uses the System for Award Management and other data systems to ensure that only responsible and otherwise eligible applicants receive the NRC grants. The agency uses the same monitoring practices for both grantees and commercial vendors. The NRC reviews for debarments and suspensions as part of the pre-award risk review for eligibility and takes appropriate action internally to debar and suspend grant recipients, as appropriate. The NRC continues to follow the lead of the Office of Federal Procurement Policy on award recipients and continues to implement any changes directed by the policy. The NRC will also continue to use Do Not Pay to review and monitor improper payments.

### Overpayment Recaptures without Recapture Audit Programs (\$ in millions)

Certain NRC contracts are subject to independent audits by the Defense Contract Audit Agency (DCAA). DCAA questioned costs of \$1.6 million for Fiscal Years 2011 through 2013 paid to a single vendor on two contracts. An NRC contracting officer reviewed these costs and made a final decision that \$664,777 is unsupported and an overpayment. The costs are disallowed because of a lack of supporting documentation that demonstrates the allocatability of the costs to the NRC. These costs are considered improper payments. The NRC is working with the contractor to recover these costs and settle the debt.

Results for FY 2018	Overpayments Recaptured outside of Payment Recapture Audits	
Program or Activity	Amount Identified	Amount Recaptured
Nuclear Regulatory Commission – 31000001	\$0.96 million*	\$0.29 million
<b>Total</b>	<b>\$0.96 million</b>	<b>\$0.29 million</b>

\*The chart includes the improper payment of \$664,777 discussed above.

### Fraud Reduction Report

Historically, the NRC has had appropriate processes and control mechanisms in place to mitigate the low level of fraud risk within the NRC operations. As a result, the NRC did not implement any additional financial or administrative controls as a result of the Fraud Reduction and Data Analytics Act. The NRC has determined that the agency is at low risk of fraud for many reasons, including the following:

- The NRC uses the U.S. Department of the Interior to manage its payroll and does not make any entitlement payments.
- Grants at the NRC represent less than 1.5 percent of the overall the NRC program.
- Over the past few fiscal years, there have been no instances of fraud identified through internal nor external reviews.

The NRC mitigates fraud risk through existing activities such as the following:

- The NRC follows a fully operational Enterprise Risk Management framework as coordinated by the Office of the Executive Director for Operations and OCFO's Internal Control and Planning Team. Through this framework, the NRC conducts quarterly enterprise risk assessments, including an assessment of fraud risk within the NRC operational activities. The agency established the ERM program in FY 2013, when the CFO's Internal Control and Planning Team facilitated risk assessments with each of the NRC's business lines to identify programmatic and cross-cutting risks. The cross-cutting risks identified during these risk assessments became the initial baseline ERM risks.
- Business Line Control Plans are developed by the NRC's operational units and updated quarterly. These plans are independently reviewed by the Internal Control and Planning Team. At a summary level, this review centers on the relatively high risk areas including those that have recently been affected by changes or are perceived to have the potential for fraud, waste, or abuse.
- The NRC consistently adheres to the requirements of OMB Circular A-123, Appendix A (financial business processes) and Appendix B (purchase cards), and triennial implementation of Appendix C (improper payments). As the NRC has previously determined and documented that it is at low risk of improper payments, it performs a risk assessment every 3 years to determine whether there is sufficient risk to apply additional IPERIA requirements. The FY 2017 risk assessment confirmed that the NRC remains at low risk with regard to improper payments, including those that would arise from fraud.
- The NRC uses analytical tools to monitor and manage the NRC's issued travel charge cards, including an automated comparison of travel charges against the eTravel System, a creditworthiness check that will result in reduced credit limits for those with lower credit scores, and the analysis of Merchant Category Codes so that the NRC travel cards may not be used at inappropriate locations.
- The NRC's operational units conduct self-assessments and a variety of other reviews to measure their effectiveness and efficiency and validate that fraud, waste, and abuse are minimized.

## Reduce the Footprint

### Combined Reduce the Footprint Baseline Comparison

	FY 2017 Baseline	FY 2018	Change (FY 2017 Baseline – 2018)
Square Footage (SF in millions)	1.134*	1.134*	0.000

*\*This total includes the NRC Technical Training Center, which was not included in last year's report.*

### Reporting of Operations & Maintenance Costs – Owned and Direct Lease Buildings

	FY 2015 Reported Cost	FY 2017	Change (FY 2015 Baseline – 2017)
Operation and Maintenance Costs (\$ in millions)	N/A*	N/A*	N/A*

*\*The NRC does not directly lease or own any space, but instead it has occupancy agreements with GSA.*

The NRC's current office and warehouse portfolio of properties comprise a total of 1,134,068 usable square feet (USF), which is consistent with GSA occupancy agreements and remains unchanged from FY 2017. The agency is targeting additional reductions of the office and warehouse portfolio to 993,068 USF (88 percent of the FY 2017 baseline) by the end of the FY 2018 - FY 2022 planning period. The NRC plans to reach its target by renovating, reconfiguring, and releasing a total of 141,000 USF of office space at its Rockville, MD, headquarters and four regional office locations. In FY 2018, the NRC budgeted \$43.2 million for rental payments to the GSA.

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Office Target (Net USF Reduction)	54,190	60,810	11,000	15,000	0

## Civil Monetary Penalty Adjustment for Inflation

On November 2, 2015, the *Federal Civil Penalties Inflation Adjustment Act of 1990* was amended by the *Federal Civil Penalties Inflation Adjustment and Improvements Act of 2015* (Sec. 701, Pub. L. 114-74, 129 Stat. 599). This act requires that the head of each agency annually adjust for inflation the amounts of any civil monetary penalties assessed under statutes enforced by that agency.

As displayed in the table below, the NRC annually adjusts two civil penalty amounts for inflation, most recently on January 12, 2018. With respect to civil penalties for violations of the *Atomic Energy Act of 1954*, as amended, the NRC codifies the maximum civil penalty amount at 10 CFR 2.205, “Civil Penalties,” although individual penalties are assessed based on the class of licensee and severity of violation in accordance with the NRC Enforcement Policy (available at <https://www.nrc.gov/docs/ML1813/ML18138A138.pdf>). With respect to monetary penalties under the *Program Fraud Civil Remedies Act*, the NRC codifies the maximum penalty amount at 10 CFR 13.3, “Basis for Civil Penalties and Assessments.”

Penalty (Name of Penalty)	Statutory Authority	Year Enacted	Date of Current Adjustment	Current Penalty Level (\$)	Location for Penalty Update Details
Maximum civil penalty for violations of the <i>Atomic Energy Act</i>	<i>Atomic Energy Act of 1954</i> , as amended (42 U.S.C. 2282)	1980	January 2018	\$290,875	Federal Register; 83 FR 1515 (January 12, 2018)
Fraudulent false claims and statements	<i>Program Fraud Civil Remedies Act</i> (31 U.S.C. 3802)	1986	January 2018	\$11,181	Federal Register; 83 FR 1515 (January 12, 2018)

### Grants Oversight & New Efficiency (GONE) Act Requirements

Category	2-3 Years	>3-5 Years	>5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	8	4	-
Number of Grants/Cooperative Agreements with Undisbursed Dollar Balances	11	4	-
Total Amount of Undisbursed Balances	\$169,752.51	\$16,604.28	\$0.00

The NRC has 27 grants that expired before September 30, 2016, all of which are in the process of being closed out. Delays in grant closeouts occurred primarily during FY 2018, as a result of allocating resources to higher priority operational activities. Additionally, during the third quarter of FY 2018, an upgrade of the agency's acquisition system that focused on grants functionality resulted in some limitations that further delayed the closeout efforts. The NRC initiated efforts to supplement grants closeout tasks with additional resources after the year-end closeout and will be prioritizing the closeout of older grants during the first half of FY 2019.

## Acronyms and Abbreviations

Acronym	
3WFN	Three White Flint North
10 CFR	Title 10 of the Code of Federal Regulations
AFR	Agency Financial Report
AO	abnormal occurrence
CFO	Chief Financial Officer
CSRS	Civil Service Retirement System
DATA Act	<i>Digital Accountability and Transparency Act of 2014</i>
DM&R	deferred maintenance and repairs
DNFSB	Defense Nuclear Facilities Safety Board
DOE	U.S. Department of Energy
DOL	U.S. Department of Labor
ECERM	Executive Committee on Enterprise Risk Management
ERM	Enterprise Risk Management
FDA	U.S. Food and Drug Administration
FECA	<i>Federal Employees Compensation Act of 1993</i>
FERS	Federal Employees Retirement System
FFMIA	<i>Federal Financial Management Improvement Act of 1996</i>
FMFIA	<i>Federal Managers' Financial Integrity Act of 1982</i>
FR	Federal Register
FTE	full-time equivalent
FY	fiscal year
GAAP	generally accepted accounting principles
GONE	<i>Grants Oversight &amp; New Efficiency Act of 2016</i>
GSA	U.S. General Services Administration
IPERA	<i>Improper Payments Elimination and Recovery Act of 2010</i>
IPERIA	<i>Improper Payments Elimination and Recovery Improvement Act of 2012</i>
IPIA	<i>Improper Payments Information Act of 2002</i>
IT	information technology
ITISS	IT infrastructure and support services
MOX	mixed-oxide fuel
NRC	U.S. Nuclear Regulatory Commission

## Chapter 3 • Other Information

Acronym	
NUREG	Nuclear Regulatory Commission document identifier
NWF	Nuclear Waste Fund
OBRA-90	Omnibus Budget Reconciliation Act of 1990
OCFO	Office of the Chief Financial Officer
OIG	Office of the Inspector General
OMB	Office of Management and Budget
SBR	Statement of Budgetary Resources
SFFAS	Statement of Federal Financial Accounting Standards
SGI	Safeguards Information
Treasury	U.S. Department of the Treasury
TTC	Technical Training Center
UF <sub>6</sub>	Uranium hexafluoride
UO <sub>2</sub>	Uranium dioxide
U.S.C.	United States Code
USF	usable square feet



<b>NRC FORM 335</b> (12-2010) NRCMD 3.7	<b>U.S. NUCLEAR REGULATORY COMMISSION</b>  <b>BIBLIOGRAPHIC DATA SHEET</b> <i>(See instructions on the reverse)</i>	1. REPORT NUMBER <i>(Assigned by NRC, Add Vol., Supp., Rev., and Addendum Numbers, if any.)</i>  NUREG-2220, Vol. 2
2. TITLE AND SUBTITLE  U.S Nuclear Regulatory Commission Fiscal Year 2018 Agency Financial Report	3. DATE REPORT PUBLISHED MONTH                      YEAR November                      2018	
	4. FIN OR GRANT NUMBER	
5. AUTHOR(S)  Anthony Rossi, April McIlwain, Susan Stengel, Susan Jones, Anh Dang, Sherry Titherington, et al	6. TYPE OF REPORT  Annual	
	7. PERIOD COVERED (Inclusive Dates)  Fiscal Year 2018	
8. PERFORMING ORGANIZATION - NAME AND ADDRESS (if NRC, provide Division, Office or Region, U. S. Nuclear Regulatory Commission, and mailing address; if contractor, provide name and mailing address.) Division of the Controller Office of the Chief Financial Officer U.S Nuclear Regulatory Commission Washington, DC 20555-0001		
9. SPONSORING ORGANIZATION - NAME AND ADDRESS (if NRC, type "Same as above", if contractor, provide NRC Division, Office or Region, U. S. Nuclear Regulatory Commission, and mailing address.)  Same as above		
10. SUPPLEMENTARY NOTES		
11. ABSTRACT (200 words or less)  The Fiscal Year 2018 Agency Financial Report (AFR) presents the agency's financial results of operations which includes the audited annual financial statements of the NRC. The AFR also provides a summary of NRC program performance and cost. The information is presented in accordance with applicable statutes and OMB requirements in OMB Circular A-136, Financial Reporting Requirements.		
12. KEY WORDS/DESCRIPTORS (List words or phrases that will assist researchers in locating the report.)  Agency Financial Report (AFR) Fiscal Year (FY) 2018	13. AVAILABILITY STATEMENT unlimited	
	14. SECURITY CLASSIFICATION <i>(This Page)</i> unclassified	
	<i>(This Report)</i> unclassified	
	15. NUMBER OF PAGES	
	16. PRICE	



United States  
Nuclear Regulatory Commission  
NUREG-2220, Vol. 2  
November 2018



@NRCgov

