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

OFFICE OF THE
INSPECTOR GENERAL

November 16, 2020

MEMORANDUM TO: Chairman Kristine L. Svinicki

FROM: Robert J. Feitel
Inspector General

Robert J. Feitel

Digitally signed by Robert J. Feitel
Date: 2020.11.16 13:16:35 -05'00'

SUBJECT: RESULTS OF THE AUDIT OF THE UNITED STATES NUCLEAR REGULATORY COMMISSION'S FINANCIAL STATEMENTS FOR FISCAL YEAR 2020 (OIG-21-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 CliftonLarsonAllen (CLA) to conduct this annual audit. Transmitted with this memorandum is CLA's audit report. CLA examined NRC's Fiscal Year (FY) 2020 Agency Financial Report, which includes financial statements for FY 2020. CLA'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.

CLA's audit included, among other things, obtaining an understanding of the 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 2020 Audit Results

The results are as follows:

Financial Statements

- Unmodified opinion.

Internal Control over Financial Reporting

- Adverse opinion.

Compliance with Laws and Regulations

- No instances of noncompliance noted.

OIG Oversight of CLA's Performance

To fulfill our responsibilities under the *CFO Act* and related legislation for ensuring the quality of the audit work performed, we monitored CLA's audit of NRC's FY 2020 financial statements by:

- Reviewing CLA's audit approach and planning.
- Evaluating the qualifications and independence of CLA'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 CLA's audit report to ensure compliance with Government Auditing Standards and Office of Management and Budget Bulletin No. 19-03.
- Coordinating the issuance of the audit report.
- Performing other procedures deemed necessary.

CLA is responsible for the attached auditor's report, dated November 12, 2020, 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 CLA did not comply, in all material respects, with applicable auditing standards.

Meeting with the Chief Financial Officer

At the exit conference on November 12, 2020, representatives of the Office of the Chief Financial Officer, OIG, and CLA discussed the results of the audit.

Comments of the Chief Financial Officer

In her response, the Chief Financial Officer agreed to the recommendations in the report. However, the CFO does not believe the leases/leasehold improvement deficiency rises to the level of a material weakness. 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 A. Caputo
Commissioner D. Wright
Commissioner C. Hanson
M. Doane, OEDO
C. Johnson, OCFO
J. Jolicoeur, OEDO
S. Miotla, OEDO
EDO_ACS_Distribution
RidsEDO MailCenter Resource
RidsOCFOMailCenter Resource
OIG Liaison Resource

INDEPENDENT AUDITORS' REPORT

To: Inspector General
United States Nuclear Regulatory Commission

Chairman
United States Nuclear Regulatory Commission

In our audits of the fiscal years (FYs) 2020 and 2019 financial statements of the United States Nuclear Regulatory Commission (NRC), we found

- NRC's financial statements as of and for the FY ended September 30, 2020 and 2019, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- NRC's internal control over financial reporting was not effective as of September 30, 2020; and
- No reportable noncompliance or other matters for FY 2020 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more details (1) our report on the financial statements and on internal control over financial reporting, required supplementary information (RSI)[1], and other information (OI)[2] included in the financial statements; (2) our report on compliance with laws, regulations, contracts, and grant agreements and other matters; and (3) NRC management's response to the findings and recommendations.

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

In accordance with our contract with NRC's Office of Inspector General, we have audited NRC's financial statements in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No.19-03, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 19-03). NRC's financial statements comprise the balance sheets as of September 30, 2020, and 2019; the related statements of net cost, changes in net position, and budgetary resources for the FYs then ended; and the related notes to the financial statements. We also have audited NRC's internal control over financial reporting as of September 30, 2020**,** based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the Federal Managers' Financial Integrity Act (FMFIA). We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

[1] The RSI consists of Management's Discussion and Analysis (MD&A) and the Combining Statement of Budgetary Resources, which are included with the financial statements.
[2] Other Information consists of information included with the financial statements, other than RSI and the auditors' 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 auditors' report, and ensuring the consistency of that information with the audited financial statements and the 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 the criteria established under FMFIA; and (6) its assessment included in the MD&A about the effectiveness of internal control over financial reporting as of September 30, 2020.

Auditors' 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. *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 OI 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 auditors' judgment, including the auditors' assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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. The procedures selected depend on the auditor's judgement, 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 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.

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. A *material weakness* is a deficiency, or a 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.

Definition 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, 2020 and 2019, and its net cost of operations, changes in net position, and budgetary resources for the FYs then ended in accordance with U.S. generally accepted accounting principles.

However, misstatements may nevertheless occur in unaudited financial information reported internally or externally by the NRC as a result of the internal control deficiencies described in this report.

Opinion on Internal Control over Financial Reporting

In our opinion, because of a material weakness in internal control over leases and leasehold improvements, the NRC did not maintain, in all material respects, effective internal control over financial reporting as of September 30, 2020, based on criteria established under FMFIA.

Although the NRC had a material weakness in internal control over leases and leasehold improvements, the NRC made any necessary adjustments to its records and was therefore able to prepare financial statements that were fairly presented in all material respects for FY 2020. This material weakness, which is discussed in Exhibit A and summarized below, is a significant deficiency in NRC's assessment and is not required to be reported in its FY 2020 FMFIA assurance statement. NRC's conclusion was based on the results of its evaluation of the agency's overall system of internal control and enterprise risk management procedures performed. In addition, the NRC indicated in its assurance statement that CLA reported a material weakness and the NRC will continue to take corrective actions to strengthen controls in this area.

We considered this material weakness in determining the nature, timing, and extent of our audit procedures on the NRC's FY 2020 financial statements.

Material Weakness in Internal Control over Leases and Leasehold Improvements

The NRC needs to strengthen controls over leases and leasehold improvements to ensure the accuracy of the financial statements and related notes. Finding details are included in Exhibit A.

In addition, we identified a significant deficiency[3] related to aged unliquidated obligations as described below with details in Exhibit B.

Significant Deficiency in Internal Control over Aged Unliquidated Obligations

The NRC needs to strengthen its internal controls over review of aged unliquidated obligations for validity and de-obligate on a timely basis.

During our FY 2020 audits, we also identified other deficiencies in NRC's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant NRC management's attention. We have communicated these matters to NRC management and, where appropriate, will report on them separately.

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 *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 audits 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

The 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

[3] A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements. In addition, management has included references to information on websites or other data outside the Agency Financial Report (AFR). Our audits were 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 and Other Matters

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 auditors' 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 *Government Auditing Standards*. We also performed tests of compliance with certain provisions of the Federal Financial Management Improvement Act (FFMIA). However, providing an opinion on compliance was not an objective of our audit, and accordingly, we do not express such an opinion.

Management's Responsibility

NRC management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to the NRC, including ensuring NRC's financial management systems are in substantial compliance with FFMIA requirements.

Auditors' Responsibility

Our responsibility is to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements applicable to the NRC that have a direct effect on the determination of material amounts and disclosures in NRC's financial statements, including whether NRC's financial management systems substantially comply with the FFMIA Section 803(a) requirements, and perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the NRC. Also, our work on FFMIA would not necessarily disclose all instances of noncompliance with FFMIA requirements.

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

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance or other matters for FY 2020 that would be reportable under *Government Auditing Standards*. In addition, our tests of compliance with the FFMIA Section 803(a) requirements disclosed no instances in which NRC's financial management systems did not substantially comply with (1) federal financial management systems requirements, (2) applicable federal accounting standards, or (3) the U.S. Government Standard General Ledger (USSGL) at the transaction level. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to the NRC. Accordingly, we do not express such an opinion.

Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements and Other Matters

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 *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.

NRC Management's Response to the Findings and Recommendations

NRC's response to the findings and recommendations identified in our report is included in Exhibit C. In their response the NRC concurs with the deficiencies in the areas of leases/ leasehold improvements and de-obligating aged unliquidated orders timely; however, the NRC does not believe that the leases/leasehold improvement deficiency rises to the level of a material weakness. We believe that properly designed and effective review of leases/ leasehold improvements is critical to NRC's internal control systems. The NRC states that it will implement corrective actions to eliminate these deficiencies. We did not audit NRC's response, and accordingly, we express no opinion on it.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Arlington, Virginia
November 12, 2020

Improve Controls over Leases and Leasehold Improvements

Criteria
Per NRC's Management Directive 4.1, *Accounting Policies and Practices*, section 4.1-02 d and g, the Chief Financial Officer:

> Established, maintains, and oversees the interpretation and implementation of policies, standards, and general procedures of accounting and related reporting essential to the financial integrity and efficient financial management of the NRC and to the safeguarding of NRC funds and property.
>
> Establishes and maintains an internal control program for NRC program and administrative activities, including a system that reasonably ensures NRC's managers take the necessary action to determine that controls are functioning as intended or are modified as conditions change.

The U.S. Government Accountability Office, *Standards for Internal Control in the Federal Government*, requires that management ensure accurate and timely recording of transactions.

Internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with the applicable financial reporting framework and includes those policies and procedures that:

i. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity;
ii. provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the applicable financial reporting framework, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and
iii. provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements

Condition
The NRC did not effectively perform its internal control in reviewing the:

- schedule of future lease payments included in the notes to the financial statements; and
- leasehold improvements reported in the financial statements.

We noted several errors that impacted prior and current year balances in the calculation of the future lease payments such as missing occupancy agreements, amounts not agreeing to the occupancy agreements, or incorrect adjustments. Additionally, the NRC did not consistently write-off leasehold improvements associated with space no longer being leased by the NRC which resulted in the following before correction in FY 2020:

$21.8 million overstatement of Leasehold Improvements
$10.8 million overstatement of Accumulated Depreciation

$2.1 million overstatement of Depreciation Expense
$13.1 million understatement of Loss on Disposal of Asset.

Cause
The review process and communication between the Office of the Chief Financial Officer and other departments with information on leasehold improvements and current occupancy agreements was not effective in identifying errors related to leases and leasehold improvements.

Effect
The effect of the lease or leasehold improvement findings were as follows:

1. After CLA questioned amounts, the future lease payment notes in the 9/30/19 and 6/30/20 financial statements were determined to be overstated by $82.8 million and $74.6 million respectively.
2. After CLA questioned amounts, the NRC recorded a write-off of $21.8 million in leasehold improvement assets, $10.8 million in accumulated depreciation, $2.1 million correction of overstatement in depreciation expense, and a $13.1 million loss on disposal of asset. The NRC recorded an $11 million write-off of property, plant, and equipment, net in FY 2020 ($21.8 million - $10.8 million) of which $7.7 million should have been expensed in FY 2019 and $3.3 million should have been expenses in FY 2018 when the NRC gave up leased space.
3. The NRC identified and recorded a $5.3 million leasehold improvement in FY 2020, which was erroneously recorded in expense in FY 2019.

Impact on the FY 2019 Financial Statements
FY 2019 expense was understated by $2.4 million ($7.7 million for leasehold improvement write-offs recorded in FY 2020 instead of FY 2019 less $5.3 million for a leasehold improvement erroneously expensed in FY 2019 instead of being capitalized). Leasehold improvement was overstated by $5.7 million ($2.4 million noted above plus $3.3 million related to amounts that should have been expensed in FY 2018) or 10% of property, plant and equipment, net.

In FY 2020 we noted the future lease payment note for FY 2019 was overstated by $82.8 million. This is 20% of the $419.1 million future lease payments total in the note in FY 2019.

Impact on the FY 2020 Financial Statements
For FY 2020 the NRC expensed $5.7 million related to prior years ($11 million expense for leasehold improvements write-offs related to giving up space in prior years ($7.7 million related to FY 2019 and $3.3 million related to FY 2018) less $5.3 million reduction in expense for the leasehold improvement erroneously expensed in FY 2019 and move to capitalized leasehold improvement in FY 2020). The $5.7 million error is 12% of property, plant and equipment, net.

Recommendations
CLA recommends that the NRC Chief Financial Officer:

1. Perform a more robust review of the future lease payments schedule to ensure it reflects all changes and updates to occupancy agreements. This review should include a documented review by the group responsible for negotiating and signing occupancy agreements since they would be most familiar with all current occupancy agreements.
2. Perform a more robust review of leasehold improvements and require accurate communication from accountable property managers to ensure that as occupancy

agreements change, projects begin, or projects are completed, any impact to leasehold improvements in the financial statements is recorded timely and accurately. This review should also include timely and completely documenting the status of leasehold improvements in process.

Improve Controls to De-Obligate Aged Unliquidated Obligations on a Timely Basis

Criteria

NRC Work Practice: Guidance for NRC Staff on De-obligating Excess Fund is FAR 4.804-1, *Closeout by the Office Administering the Contract* and NRC's Management Directive 4.2, *Administrative Control of Funds* Part VII C1. See below:

Per FAR 4.804-1, *Closeout by the Office Administering the Contract:*

(a) Except as provided in paragraph (c) of this section, time standards for closing out contract files are as follows:

(1) Files for contracts using simplified acquisition procedures should be considered closed when the contracting officer receives evidence of receipt of property and final payment, unless otherwise specified by agency regulations.

(2) Files for firm-fixed-price contracts, other than those using simplified acquisition procedures, should be closed within 6 months after the date on which the contracting officer receives evidence of physical completion.

(3) Files for contracts requiring settlement of indirect cost rates should be closed within 36 months of the month in which the contracting officer receives evidence of physical completion.

(4) Files for all other contracts should be closed within 20 months of the month in which the contracting officer receives evidence of physical completion.

(b) When closing out the contract files at 4.804-1(a)(2), (3), and (4), the contracting officer shall use the closeout procedures at 4.804-5. However, these closeout actions may be modified to reflect the extent of administration that has been performed. Quick closeout procedures (see 42.708) should be used, when appropriate, to reduce administrative costs and to enable de-obligation of excess funds.

(c) A contract file shall not be closed if-

(1) The contract is in litigation or under appeal; or

(2) In the case of a termination, all termination actions have not been completed.

NRC Management Directive 4.2, *Administrative Control of Funds*, Handbook Part VII C1 requires that an initial contract funds status review should be conducted within 90 days of completion of a contract, and where appropriate, excess funds should be de-obligated.

Exhibit B
Significant Deficiency
FY 2020

Condition

The NRC's review control was not operating effectively as aged unliquidated orders (ULOs) or obligations that were no longer valid were not de-obligated timely. ULOs were considered aged if there was no activity since 2017 and the period of performance ended in 2017 or prior. CLA noted:

1. Ten out of 11 aged ULO samples tested, totaling $327 thousand with no recent activity and a period of performance end date ranging from 2010 to 2017, were not de-obligated timely. These amounts should have been de-obligated in fiscal year 2018 or prior.

2. At September 30, 2020, there was a $6 million unreconciled difference between the subsidiary details (management report) of outstanding ULO balances and the general ledger. The general ledger was less than the management report. It is possible this difference may be related to about $4 million in amounts on the management report related to change of station that are not true ULOs and should not be on the management report.

Cause

Requests for de-obligation were not processed timely in accordance with FAR 4.804. Some of the requests for de-obligation were not prepared timely and some requests for de-obligation were not posted timely.

Effect

By not ensuring timely review and de-obligation of aged ULOs, the agency is unnecessarily tying up funds that could be used for other mission critical activities. Moreover, the balances in the statement of budgetary resources could be misstated. Based on extrapolating the test results of 10 ULOs that should be de-obligated to the aged population, ULOs were overstated by approximately $8.5 million throughout fiscal year 2020 and at yearend.

Recommendations

CLA recommends that the NRC Chief Financial Officer:

3. Strengthen its internal control to ensure funds are de-obligated timely including identifying amounts to be de-obligated and posting the de-obligation to the accounting system.

4. Maintain adequate documentation, including correspondence, for the reasons why an aged unliquidated obligation should not be de-obligated.

5. Review the process for generating the unliquidated obligation subsidiary details report (management report); ensure that amounts that are not ULOs are not included in the management report; and reconciles the management report to the general ledger.

INDEPENDENT AUDITORS' REPORT, CONTINUED
Exhibit C
Management's Response to Findings and Recommendations
FY 2020

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

CHIEF FINANCIAL OFFICER

November 13, 2020

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

FROM: Cherish K. Johnson
Chief Financial Officer

Cherish K. Johnson
Digitally signed by Cherish K. Johnson
Date: 2020.11.13 15:02:38 -05'00'

SUBJECT: AUDIT OF THE FISCAL YEARS 2020 and 2019 FINANCIAL STATEMENTS

This memorandum responds to the draft report on the audit of the Nuclear Regulatory Commission's (NRC) fiscal years 2020 and 2019 financial statements, provided on November 12, 2020. The audit was conducted by the firm CliftonLarsonAllen LLP (CLA) under contract to the NRC Office of the Inspector General (OIG).

We concur that we have deficiencies in the areas of leases/leasehold improvements and deobligating aged unliquidated orders timely. We strive to continuously improve, and we have more improvements to make. We will implement corrective actions to eliminate these deficiencies. However, we do not believe that the leases/leasehold improvement deficiency rises to the level of a material weakness.

The recommendations and NRC's response are outlined below. 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.

Recommendation No. 1:

Perform a more robust review of the future lease payments schedule to ensure it reflects all changes and updates to occupancy agreements. This review should include a documented review by the group responsible for negotiating and signing occupancy agreements since they would be most familiar with all current occupancy agreements.

NRC Response:

Agree. The Office of the Chief Financial Officer will improve the review of future lease payments, including coordinating with the Office of Administration.

Recommendation No. 2:

Perform a more robust review of leasehold improvements and require accurate communication from accountable property managers to ensure that as occupancy agreements change, projects begin, or projects are completed, any impact to leasehold improvements in the financial statements is recorded timely and accurately. This review should also include timely and completely documenting the status of leasehold improvements in process.

NRC Response:

Agree. The Office of the Chief Financial Officer will improve the review of leasehold improvements. This includes improving communication with the Office of Administration and other program offices that have responsibility for leasehold improvements.

Recommendation No. 3:

Strengthen internal control to ensure funds are de-obligated timely including identifying amounts to be de-obligated and posting the de-obligation to the accounting system.

NRC Response:

Agree. The Office of Administration has implemented a focused effort to eliminate the contract close out backlog.

Recommendation No. 4:

Maintain adequate documentation, including correspondence, for the reasons why an aged unliquidated obligation should not be de-obligated.

NRC Response:

Agree. Documentation will be maintained if reasons that unliquidated obligation should not be deobligated are identified.

Recommendation No. 5:

Review the process for generating the unliquidated obligation subsidiary details report (management report); ensure that amounts that are not ULOs are not included in the management report; and reconcile the management report to the general ledger.

NRC Response:

Agree. The Office of the Chief Financial Officer will review the unliquidated obligations management report.

cc: M. Doane EDO
C. Haney AO/OEDO
J. Jolicoeur, OEDO
C. Cook, OEDO

Financial Statements

Balance Sheet *(IN THOUSANDS)*

As of September 30,	2020	2019
Assets		
Intragovernmental		
Fund balance with Treasury (Note 2)	**$ 390,731**	$ 411,871
Accounts receivable (Note 3)	**3,211**	5,501
Advances and prepayments	**4,950**	7,039
Total intragovernmental	**398,892**	424,411
Accounts receivable, net (Note 3)	**67,485**	60,902
Property and equipment, net (Note 4)	**46,764**	55,649
Other	**76**	45
Total Assets	**$ 513,217**	$ 541,007
Liabilities		
Intragovernmental		
Accounts payable	**$ 9,199**	$ 7,777
Other (Note 5)	**12,734**	11,524
Total intragovernmental	**21,933**	19,301
Accounts payable	**24,113**	27,671
Federal employee benefits (Note 6)	**4,607**	4,607
Other (Note 5)	**81,890**	73,628
Total Liabilities	**132,543**	125,207
Net Position		
Unexpended appropriations	**315,755**	340,983
Cumulative results of operations (Note 8)	**64,919**	74,817
Total Net Position	**380,674**	415,800
Total Liabilities and Net Position	**$ 513,217**	$ 541,007

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

Statement of Net Cost *(IN THOUSANDS)*

For the periods ended September 30,	2020	2019
Nuclear Reactor Safety		
Gross costs	**$ 723,021**	$ 729,946
Less: Earned revenue	**(644,719)**	(692,962)
Total Net Cost of Nuclear Reactor Safety (Note 9)	**78,302**	36,984
Nuclear Materials and Waste Safety		
Gross costs	**204,585**	208,364
Less: Earned revenue	**(70,966)**	(74,900)
Total Net Cost of Nuclear Materials and Waste Safety (Note 9)	**133,619**	133,464
Net Cost of Operations	**$ 211,921**	$ 170,448

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

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

For the periods ended September 30,	2020	2019
Unexpended Appropriations		
Beginning Balance	**$ 340,983**	$ 324,998
Adjustments (Note 8)	**-**	-
Beginning Balance, as adjusted	**$ 340,983**	$ 324,998
Budgetary Financing Sources		
Appropriations received	**154,852**	138,743
Appropriations used (Note 11)	**(179,642)**	(122,758)
Other adjustments	**(438)**	-
Total Budgetary Financing Sources	**(25,228)**	15,985
Total Unexpended Appropriations	**315,755**	340,983
Cumulative Results of Operations		
Beginning Balance	**$ 74,817**	$ 96,592
Adjustments (Note 8)	**-**	(6,692)
Beginning Balance, as adjusted	**$ 74,817**	$ 89,900
Budgetary Financing Sources		
Appropriations used (Note 11)	**179,642**	122,758
Nonexchange revenue (Note 11)	**797**	667
Other Financing Sources:		
Imputed financing from costs absorbed by others (Note 11)	**22,381**	32,608
Other	**(797)**	(667)
Total Financing Sources	**202,023**	155,366
Net Cost of Operations	**(211,921)**	(170,448)
Net Change	**(9,898)**	(15,082)
Cumulative Results of Operations	$ 64,919	$ 74,817
Net Position	**$ 380,674**	$ 415,800

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

Statement of Budgetary Resources *(IN THOUSANDS)*

For the periods ended September 30,	2020	2019
Budgetary Resources		
Unobligated balance from prior-year budget authority, net	**$ 87,091**	$ 49,770
Appropriations	**859,180**	910,959
Spending authority from offsetting collections	**6,322**	3,662
Total Budgetary Resources	**$ 952,593**	$ 964,391
Status of Budgetary Resources		
New obligations and upward adjustments (total) (Note 12)	**$ 865,239**	$ 895,020
Unobligated balance, end of year		
Apportioned, unexpired accounts	**84,983**	67,717
Exempt from apportionment, unexpired accounts	**756**	407
Unapportioned, unexpired accounts	**-**	-
Unexpired unobligated balance, end of year	**85,739**	68,124
Expired unobligated balance, end of year	**1,615**	1,247
Unobligated balance, end of year (total)	**87,354**	69,371
Total Budgetary Resources	**$ 952,593**	$ 964,391
Outlays Net and Disbursements Net		
Outlays Net and Disbursements Net	**879,882**	885,983
Distributed offsetting receipts (-)	**(704,328)**	(772,216)
Agency Outlays, net	**$ 175,554**	$ 113,767

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 U.S. Nuclear Regulatory Commission (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 NWF) and OIG.

B. Basis of Presentation

These financial statements for Fiscal Year (FY) 2020 and FY 2019 (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. GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB). The FASAB has been recognized by the American Institute of Certified Public Accountants (AICPA) as the official accounting standard setting authority for the Federal 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.

Presentation of the budget accounts on the Combining Statement 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 reflects the Distributed Offsetting receipts.

The NRC collects miscellaneous receipts for information requests under the Freedom of Information Act; civil penalties; and interest, administrative, and penalty charges on delinquent debt. All miscellaneous receipts, when collected, are returned to the U.S. Treasury. The NRC has not presented these amounts on a Statement of Custodial Activity as the amounts involved are immaterial and incidental to the Agency's operations and mission.

C. Budgets and Budgetary Accounting

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

Congress passed the *Further Consolidated Appropriations Act 2020* that funded the NRC's budget at a level of $842.2 million for FY 2020. Not more than $9.5 million of the appropriation was made available for the costs of the Office of the Commission until September 30, 2021. Congress enacted a 2-year appropriation of $13.3 million for the OIG, which is available for obligation by the NRC through September 30, 2021. Additionally, Congress passed the *Coronavirus Aid, Relief, and Economic Security Act 2020* that made available supplemental funding of $ 3.3 million until September 30, 2021 for costs to prevent, to prepare for, and to respond to coronavirus.

In FY 2019, Congress passed the *Energy and Water, Legislative Branch, and Military Construction and Veterans Affairs Appropriations Act, 2019* that funded the NRC's budget at a level of $898.3 million for FY 2019. Not more than $9.5 million of the appropriation was made available for the costs of the Office of the Commission until September 30, 2020. Additionally, Congress enacted a 2 year appropriation of $12.6 million for the OIG, which was available for obligation by the NRC through September 30, 2020.

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. SBR presents total budgetary resources available to the NRC, the status of total budgetary resources, and net outlays for 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, Regulatory Infrastructure for Advanced Reactor Technologies, International activities, Integrated University Grants program, and OIG services for the DNFSB, are held to offset subsequent years' appropriations. The NRC recognizes appropriated expenses over the useful life of property and equipment as reflected by 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 U.S. 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 fees assessed for Freedom of Information Act requests; civil penalties; and interest, administrative charges, and penalties assessed on delinquent debt due from the public. Once collected, the funds are transferred to the U.S. 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 as the land and buildings in which the NRC operates are leased through the General Services Administration (GSA). The rent 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 but unpaid before year-end. 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 represents 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 appropriations 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 a 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. The NRC also accrued a liability to GSA for Broker Commission Credits received by the NRC and annual step rent increases on the occupancy agreements for rent of NRC office space. The NRC amortizes the liability on a straight-line basis and paid to GSA over the life of the occupancy agreements.

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.

3. **Other.** This category includes the amount of accrued annual leave earned by the NRC employees, but not yet taken; and contingent liabilities which 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 nonvested 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 (OPM). The portion of the current and estimated future outlays for FERS and CSRS not paid by the NRC is included in 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 2020 and 2019. 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 (FERS-RAE) must pay 3.1 percent of their salary to retirement contributions with 11.9 percent in 2020 and 2019 for employer matching contributions. For employees hired after January 1, 2014, as FERS-RAE must pay 4.4 percent of their salary to retirement contributions with 11.9 percent in 2020 and 2019 for employer matching contributions. 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 2020 and 2019.

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 $19,500 in 2020 and $19,000 in 2019. 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 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 FASAB 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 (PP&E). 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 U.S. 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

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. The transfers 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 budget authority and outlay funds to another Agency.

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 the 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 consist of the following activities: operating reactors and new reactors.

The Nuclear Materials and Waste Safety program encompasses all the 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 consist of 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.

U. Classified Activities

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

Note 2 – Fund Balance with Treasury

As of September 30,	2020	2019
Fund Balances		
Appropriated funds	**$ 389,975**	$ 411,438
Nuclear Waste Fund	**426**	433
Other fund types	**330**	-
Total	**$ 390,731**	$ 411,871
Status of Fund Balance with Treasury		
Unobligated balance		
Available - Appropriated funds	**$ 85,739**	$ 68,124
Unavailable		
Unapportioned, unexpired accounts	**-**	-
Expired accounts	**1,615**	1,247
Obligated balance not yet disbursed	**303,377**	342,500
Non-budgetary funds with Treasury	**-**	-
Anticipated Appropriation	**-**	-
Total	**$ 390,731**	$ 411,871

The Fund Balance with Treasury consists of the unobligated and obligated budgetary account balances, including NWF activity. The NWF unobligated balance was $0.4 million as of September 30, 2020 and $0.4 million as of September 30, 2019.

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,	2020	2019
Intragovernmental		
Fee receivables and reimbursements	**$ 3,211**	$ 5,501
Receivables with the Public		
Materials and facilities fees-billed	**$ 16,995**	$ 4,026
Materials and facilities fees-unbilled	**51,925**	58,622
Other	**2,119**	671
Total Receivables with the Public	**71,039**	63,319
Less: Allowance for uncollectible accounts	**(3,554)**	(2,417)
Total Receivables with the Public, Net	**$ 67,485**	$ 60,902
Total Accounts Receivable	**$ 74,250**	$ 68,820
Less: Allowance for uncollectible accounts	**(3,554)**	(2,417)
Total Accounts Receivable, Net	**$ 70,696**	$ 66,403

Note 4 – Property and Equipment, Net

As of September 30,				2020	2019
Fixed Assets Class	**Service Years**	**Acquisition Value**	**Accumulated Depreciation and Amortization**	**Net Book Value**	**Net Book Value**
Equipment	5	$ 13,925	$ (8,402)	**$ 5,523**	$ 1,513
Leased equipment	5-8	924	(924)	**-**	-
IT software	5	78,715	(69,504)	**9,211**	13,775
IT software under development	-	2,292	-	**2,292**	1,403
Leasehold improvements	4-16	63,152	(34,798)	**28,354**	38,171
Leasehold improvements in progress	-	1,384	-	**1,384**	787
Total		$ 160,392	$ (113,628)	**$ 46,764**	$ 55,649

In accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 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.

In September 2020, NRC corrected an overstatement of amortization expenses in leasehold improvements by $2.1 million. In addition, NRC wrote-off a total of $21.8 million in leasehold improvement costs and accumulated amortization expenses of $8.8 million with a net book value of $13.1 million.

Note 5 – Other Liabilities

As of September 30,	2020	2019
Intragovernmental		
Liability to the U.S. Treasury General Fund for misc. receipts	**$ 65**	$ 14
Liability for advances from other agencies	**15**	10
Accrued workers' compensation	**953**	970
Accrued unemployment compensation	**1**	9
Employee benefit contributions	**5,893**	4,596
Other liabilities	**5,807**	5,925
Total Intragovernmental Other Liabilities	**$ 12,734**	$ 11,524
Other Liabilities		
Accrued annual leave	**$ 48,531**	$ 42,004
Accrued salaries and benefits	**19,539**	16,553
Employer Contributions & Payroll Taxes Payable	**898**	746
Contract holdbacks, advances, capital lease liability, and other	**1,447**	815
Contingent Liabilities	**354**	-
Grants Payable	**11,121**	13,510
Total Other Liabilities	**$ 81,890**	$ 73,628
Total Intragovernmental and Other Liabilities	**$ 94,624**	$ 85,152

Other Liabilities represents the accrual of broker commission credits (BCC) received by the NRC and the sum of annual step rent increases paid to GSA for rent of NRC office space. The credits received by the NRC and the step rent increases are amortized on a straight-line basis over the life of the occupancy agreements.

Other liabilities are current except for the $5.8 million accrual for BCC and annual step rent increases on the existing occupancy agreements with GSA.

Note 6 – Liabilities Not Covered by Budgetary Resources

As of September 30,	2020	2019
Intragovernmental		
FECA paid by DOL	**$ 953**	$ 970
Accrued unemployment compensation	**1**	9
Federal Employee Benefits		
Future FECA	**4,607**	4,607
Employer Contributions & Payroll Taxes Payable	**-**	-
Other		
Accrued annual leave	**48,531**	42,004
Contingent Liabilities	**354**	-
Other Liabilities	**5,807**	5,925
Total Liabilities Not Covered by Budgetary Resources	**60,253**	53,515
Total Liabilities Covered by Budgetary Resources	**72,290**	71,692
Total Liabilities	**$ 132,543**	$ 125,207

Liabilities not Covered by Budgetary Resources represents the amount of future funding needed to pay the accrued unfunded expenses as of September 30, 2020, and 2019. 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.

The projected annual benefit payments for FECA are discounted to present value. For FY 2020 and FY 2019, 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 2020 discounting were 2.414 percent in year 1 and year 2 for wage benefits, and 2.303 percent in year 1 and year 2 for medical benefits. The amount for FY 2020 is $4,573; however, this was not applied in FY 2020, thus reflects the same as FY 2019. The interest rate assumptions used for FY 2019 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,	2020	2019
Assets Under Capital Leases:		
Copiers and booklet maker	**$ 924**	$ 924
Accumulated depreciation	**(924)**	(924)
Net Assets Under Capital Leases	**$ -**	$ -

Future Lease Payments Due:

As of September 30,			2020
Fiscal Year	**Capital**	**Operating**	
2021	$ –	$ 33,111	**$ 33,111**
2022	–	31,637	**31,637**
2023	–	31,742	**31,742**
2024	–	30,561	**30,561**
2025	–	28,976	**28,976**
2026 and thereafter		145,864	**145,864**
Total Lease Liability	–	301,891	**301,891**
Subtract: Imputed Interest	–	–	**–**
Total Future Lease Payments	$ –	$ 301,891	$ 301,891

For Future Lease Payments, the NRC calculated the Capital Lease Liability as of September 30, 2020 and subtracted 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 lease agreement ended in the first quarter of FY 2019.

The land and buildings in which the NRC operates are leased through 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) and the National Institutes of Health (NIH). 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 the Three White Flint North (3WFN) office building, the NRC occupies 30,052 useable square feet and the NRC is no longer the primary tenant. The NRC occupies the Data center (half of fourth floor), Operations center (floor B2), and the Conference center. The FDA and NIH occupy the other floors. In early FY 2020, NRC released an additional two and a half floors of 3WFN. The lease bill for 3WFN will be approximately $8.0 million less per year. The NRC will not recognize savings for these floors until another Federal Agency leases the space.

The GSA leases for land and buildings occupied by NRC, and their corresponding Occupancy Agreements (OAs) between GSA and NRC do not have renewal options or contingent rental restrictions. Consistent with leases ten years and over, some OAs such as the OA for the 3WFN, TWFN, and the four regional office buildings, have or had escalation clauses. The OAs for OWFN (GSA owned), the warehouse, and the TTC do not have escalation clauses.

Note 8 – Cumulative Results of Operations

As of September 30,	2020	2019
Liabilities not covered by budgetary resources (Note 6)	**$ (60,253)**	$ (53,515)
Investment in property and equipment, net (Note 4)	**46,764**	55,649
Contributions from foreign cooperative research agreements	**8,587**	6,070
Nuclear Waste Fund	**430**	436
Office of the Commission (financed by Fees)	**-**	-
Accounts receivable	**68,957**	63,920
Fee Collection Revenue Not Transferred	**330**	-
Other	**104**	2,257
Cumulative Results of Operations	**$ 64,919**	$ 74,817

A prior period adjustment (PPA) of $6.7 million was recorded in FY 2019 to the beginning Cumulative Results of Operations. The PPA represents $0.8 million for prior year amortization expense recorded on Leasehold Improvement projects and $5.9 million to establish a liability to GSA for broker commission credits received by the NRC on occupancy agreements for rent of office space and the sum of step rent increases paid to GSA for rent of NRC office space. The step rent increases, net of the credits received by the NRC, are amortized on a straight-line basis over the life of the occupancy agreements.

Note 9 – Statement of Net Cost

For the fiscal years ended September 30,	2020	2019
Nuclear Reactor Safety:		
Intragovernmental gross costs	**$ 207,385**	$ 208,573
Less: Intragovernmental earned revenue	**(44,062)**	(49,153)
Intragovernmental net costs	**163,323**	159,420
Gross costs with the public	**515,636**	521,373
Less: Earned revenues from the public	**(600,657)**	(643,809)
Net costs with the public	**(85,021)**	(122,436)
Total Net Cost of Nuclear Reactor Safety	**$ 78,302**	$ 36,984
Nuclear Materials and Waste Safety:		
Intragovernmental gross costs	**$ 56,762**	$ 57,961
Less: Intragovernmental earned revenue	**(4,625)**	(5,639)
Intragovernmental net costs	**52,137**	52,322
Gross costs with the public	**147,823**	150,403
Less: Earned revenues from the public	**(66,341)**	(69,261)
Net costs with the public	**81,482**	81,142
Total Net Cost of Nuclear Materials and Waste Safety	**$ 133,619**	$ 133,464

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

Note 10 – Exchange Revenues

For the periods ended September 30,	2020	2019
Fees for licensing, inspection, and other services	$ 709,471	$ 762,148
Revenue from reimbursable work	6,215	5,714
Total Exchange Revenues	**$ 715,686**	**$ 767,862**

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 periods ended September 30,	2020	2019
Appropriations Used		
Collections are used to reduce the fiscal year's appropriations:		
Funds consumed	$ 883,647	$ 895,002
Less: Collection of fees assessed	(703,998)	(772,216)
Less: Nuclear Waste Fund Expense	(7)	(28)
Less: Office of the Commission (financed by Fees)	-	-
Total Appropriations Used	**$ 179,642**	**$ 122,758**

Funds consumed include $62.5 million and $34.7 million through September 30, 2020, and 2019, respectively, of available funds from prior years. Current year funds consumed were $821.1 million and $860.3 million through September 30, 2020 and 2019, respectively.

For the fiscal years ended September 30,	2020	2019
Non-Exchange Revenue		
Civil penalties	$ 455	$ 413
Miscellaneous receipts	342	254
Non-Exchange Revenue	797	667
Contra-Revenue	(797)	(667)
Total Non-Exchange Revenue, Net of Funds Returned to the U.S. Treasury General Fund	**$ –**	**$ –**

For the periods ended September 30,	2020	2019
Imputed Financing		
Civil Service Retirement System	$ 2,972	$ 3,649
Federal Employees Retirement System	(498)	8,777
Federal Employee Health Benefit	19,830	18,810
Federal Employee Group Life Insurance	77	78
Judgments/Awards	-	1,294
Total Imputed Financing	**$ 22,381**	**$ 32,608**

Note 12 – Total Obligations Incurred

For the periods ended September 30,	2020	2019
Direct Obligations		
Category A	$ 861,428	$ 891,493
Exempt from Apportionment	5	28
Total Direct Obligations	861,433	891,521
Reimbursable Obligations	3,806	3,499
Total Obligations Incurred	**$ 865,239**	**$ 895,020**

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

Note 13 – Undelivered Orders at the End of the Period

For the periods ended September 30,	2020	2019
Undelivered Orders - Unpaid		
Salaries and Expenses	$ 235,096	$ 271,894
Inspector General	1,221	2,279
Nuclear Waste Fund	-	26
Total Undelivered Orders - Unpaid	$ 236,317	$ 274,199
Undelivered Orders - Paid Salaries and Expenses	$ 4,703	$ 6,364
Inspector General	336	685
Nuclear Waste Fund	-	-
Total Undelivered Orders - Paid	5,039	7,049
Total Undelivered Orders	**$ 241,356**	**$ 281,248**

Note 14 – Nuclear Waste Fund

For FY 2020 and FY 2019, 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 application for a high-level waste repository at Yucca Mountain, NV.

The 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.

1. A statute committing the Federal government to use specifically identified revenues and/or other financing sources that are originally provided to the Federal government by a non-federal source only for designated activities, benefits or purposes;

2. Explicit authority for the fund to retain revenues and/or other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and

3. A requirement to account for and report on the receipt, use, and retention of the revenues and/or other financing sources that distinguishes the fund from the Federal government's 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 U.S. Department of Energy (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 funding is reported to the U.S. Treasury under the NRC's primary Salaries and Expenses Treasury Account Symbol (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 periods ended September 30,	2020	2019
Appropriations Received	$ -	$ -
Expended Appropriations	$ 7	$ 28
Obligations Incurred	$ 5	$ 28
Unobligated Balances (includes recoveries of prior year obligations)	$ 426	$ 407

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 2019 and the FY 2019 actuals in the proposed President's Budget for FY 2021. The reconciliation was based on actual numbers for FY 2019 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 2020 actual budgetary resources numbers will be available in the FY 2021 President's Budget which is expected to be published in 2021, and will be available on the OMB Web site http://www.whitehouse.gov/omb and through the U.S. Government Publishing Office.

.

Note 16 – Reconciliation of Net Cost to Net Outlays

For the fiscal year ended September 30, 2020		Intra-governmental		With the Public		
Net Cost of Operations	**$**	**215,460**	**$**	**(3,539)**	**$**	**211,921**
Components of the Net Cost That Are Not Part of Net Outlays						
Property, plant, and equipment depreciation		-		(9,490)		(9,490)
		-		(13,076)		(13,076)
Property, plant, and equipment disposal & revaluation		-		535		535
Other- ADP Software Cost Capitalization						
Subtotal		-		(22,031)		(22,031)
Increase/(decrease) in assets:						
Accounts receivable		(2,355)		6,647		4,292
Other assets		(2,088)		31		(2,057)
Subtotal		(4,443)		6,678		2,235
(Increase)/decrease in liabilities:						
Accounts payable		(1,426)		3,260		1,834
Salaries and benefits		(1,298)		(3,139)		(4,437)
Other liabilities		(263)		(4,477)		(4,740)
Subtotal		(2,987)		(4,356)		(7,343)
Other Financing sources:						
Federal employee retirement benefit cost paid by OPM and imputed to the Agency		(22,381)		_		(22,381)
Other imputed financing — Judgement Fund with Treasury		-		_		-
Subtotal		(22,381)		_		(22,381)
Total Components if Net Cost That Are Not Part of Net Outlays	**$**	**(29,811)**	**$**	**(19,709)**	**$**	**(49,520)**
Components of Net Outlays That Are Not Part of Net Cost						
Acquisition of capital assets		7,475		5,317		12,792
Other		816		(455)		361
Other Timing Differences						
Prior Period Adjustment		**–**		_		_
Total Components of Net Outlays That Are Not Part of Net Cost		**8,291**		4,862		13,153
Net Outlays	**$**	**193,940**	**$**	**(18,386)**	**$**	**175,554**

Note 17 – Commitments and 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, 2020, the NRC was involved in a case with the likelihood of an adverse outcome being probable, with the upper limit of the expected loss being $354 thousand. As of September 30, 2019, the NRC was not involved in a case in which the likelihood of loss is probable.

Reasonably Possible Likelihood of an Adverse Outcome:

As of September 30, 2020, the NRC was involved in three cases with the likelihood of an adverse outcome being reasonably possible, with the upper limit of the expected loss being unknown. As of September 30, 2019, the NRC was involved in a case with the likelihood of an adverse outcome being reasonably possible, with the upper limit of the expected loss being $300 thousand.

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 FY 2020 and FY 2019.

Note 19 – Financial Statements to Reclassified Financial Statements

For the period ending September 30, 2020

NRC Financial Statement		Line Items Used to Prepare the Government-wide Balance sheet	
Assets			**Assets**
Intra-Governmental Assets			**Intra-Governmental Assets**
FBWT	$ 390,731	$ 390,731	FBWT
Accounts Receivable	3,211	2,820	Accounts Receivable
Total Accounts Receivable	3,211	2,820	*Total Reclassified A/R*
Other	4,950	4,950	Advances to Others and Prepayments
Total Other	4,950	4,950	*Total Reclassified Other*
Total Intra-Governmental Assets	398,892	398,501	**Total Intra-Governmental Assets**
Accounts Receivable, Net	67,485	67,876	Accounts and Taxes Receivable, Net
General PP&E, Net	46,764	46,764	PP&E, Net
Other	76	76	Other Assets
Total Assets	$ 513,217	$ 513,217	**Total Assets**
Liabilities			**Liabilities**
Intra-Governmental Liabilities			**Intra-Governmental Liabilities**
Accounts Payable	$ 9,199	$ 15,006	Accounts Payable
Total Accounts Payable	9,199	15,006	*Total Reclassified Accounts Payable*
Other - Custodial Liability	65	65	Liability to GF for Custodial and Other Non-Entity Assets
		5,413	Benefit Program Contributions Payable
Other - Miscellaneous Liabilities	12,669	14	Advances from Other & Deferred
		1,435	Other Liabilities
Total Other - Miscellaneous Liabilities	12,669	6,862	*Total Reclassified Other - Miscellaneous Liabilities*
Total Intra-Governmental Liabilities	21,933	21,933	**Total Intra-Governmental Liabilities**
Accounts Payable	24,113	24,113	Accounts Payable
Federal Employee and Veteran Benefits	4,607	54,036	Federal Employee and Veteran Benefits Payable
Miscellaneous Liabilities	81,890	32,461	Other Liabilities
Total Liabilities	$ 132,543	$ 132,543	**Total Liabilities**

Net Position					Net Position
Unexpended Appropriations - Funds from Dedicated Collections		315,755		380,674	Net Position - Funds from Dedicated Collections
Cumulative Results of Operations - Funds from Dedicated Collections		64,919			
Total Net Position		380,674		380,674	**Total Net Position**
Total Liabilities & Net Position	$	513,217	$	513,217	**Total Liabilities & Net Position**

Statement of Net Cost to Reclassified Statement of Net Cost

For the period ending September 30, 2020

NRC Financial Statement			Line Items Used to Prepare the Government-wide SNC		
					Non-Federal Costs
			$	663,459	Non-Federal Gross Cost
				663,459	***Total Non-Federal Costs***
					Intragovernmental Costs
				90,165	Benefit Program Costs
Gross Costs	$	927,606		22,381	Imputed Costs
				124,388	Buy/Sell Costs
				7,475	Purchase of Assets
				(7,475)	Purchase of Assets Offset
				27,213	Other Expenses (w/o Reciprocals)
				264,147	***Total Intragovernmental Costs***
Total Gross Costs		927,606		927,606	*Total Reclassified Gross Costs*
				666,871	Non-Federal Earned Revenue
Earned Revenue		715,685		666,871	***Total Non-Federal Revenue***
				48,814	Buy/Sell Revenue
				48,814	***Total Intragovernmental Earned***
Total Earned Revenue		715,685		715,685	*Total Reclassified Earned Revenue*
Net Cost	$	211,921	$	211,921	**Net Cost**

For the period ending September 30, 2020				
NRC Financial Statement			**Line Items Used to Prepare the Government-wide SCNP**	
Unexpended Appropriation				
Unexpended Appropriations, Beginning Balance	$	340,983	$ 340,983	Net Position, Beginning of Period
Corrections of Errors		-	-	Correction of Errors - years Preceding the Prior Year
Total Corrections of Errors		-	-	*Total Reclassified Corrections of Errors*
Appropriations Received		154,852	154,414	Appropriations Received as Adjusted
Other Adjustments		(438)		
Appropriations Used		(179,642)	(179,642)	Appropriations Used (Federal)
Total Unexpended Appropriations	$	315,755	$ 315,755	**Total Unexpended Appropriations**
Cumulative Results of Operations				
Cumulative Results, Beginning Balance	$	74,871	$ 74,817	Net Position, Beginning of Period
Appropriations Used Correction of Errors		-	-	Appropriations Used Correction of Errors - Years Preceding the Prior Year
		797		***Non-Federal Non-Exchange Revenues***
Non-Exchange Revenues			797	Other Taxes and Receipts
			797	***Total Non-Federal Non-Exchange Revenues***
Total Non-Exchange Revenues		797	797	*Total Reclassified Non-Exchange Revenues*
			-	Non-Expenditure Transfers-In of Unexpended Appropriations and Financing Sources
Transfers In/Out w/o Reimbursement - Budgetary		-	-	Non-Expenditure Transfers-Out of Unexpended Appropriations and Financing Sources
			-	*Total Reclassified Transfers In/Out w/o Reimbursement - Budgetary (Federal)*

Total Transfers-In/Out w/o Reimbursement - Budgetary		-	-	*Total Reclassified Transfers-In/Out w/o Reimbursement – Budgetary*
Other		(797)		***Intragovernmental Other***
			(679)	Accrual of Collections Yet to be Transferred to a TAS Other than the General Fund
			(118)	Other Budgetary Financing Sources
			(797)	***Total Intragovernmental Other***
Total Other		(797)	(797)	*Total Reclassified Other*
Imputed Financing		22,381	22,381	Imputed Financing Sources (Federal)
Total Financing Sources		202,023	202,023	**Total Financing Sources**
Net Cost of Operations		(211,921)	(211,921)	**Net Cost of Operations**
Ending Balance - Cumulative Results of Operations		64,919	64,919	**Net Position - Ending Balance**
Total Net Position	$	380,674	$ 380,674	**Total Net Position**

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 G-PP&E 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 information technology infrastructure, and individual capital asset purchases with a cost equal to or greater than $50,000. The NRC did not include noncapitalized PP&E with a cost of less than $50,000, which are 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, 2020, and 2019.

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 to 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 perform 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 onsite 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 NRC-occupied facilities.

Deferred Maintenance and Repairs for Information Technology Infrastructure and Systems

The NRC had no DM&R for IT Infrastructure and Systems as of September 30, 2020 and 2019.

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 includes 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).

- Telecommunications services includes 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 includes local telecommunications, which includes contract support and Federal FTE.

- 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, which requires all Federal Executive departments and agencies to implement a Government-wide standard for secure and reliable forms of identification for access to Federal facilities and information systems.

The NRC relies on the asset project and program managers to execute the maintenance budget and to establish and modify the M&R schedule as needed. Ranking factors that may impact the M&R schedule include personnel safety, age of the asset, scheduled replacement date, budget constraints, and unforeseen or unexpected events.

Additionally, for IT systems, whether computer-off-the-shelf or internally developed software, the NRC relies on the project and program managers to establish a 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

All of the NRC IT infrastructure M&R activities are performed under various contracts which includes leasing of servers, computers, printers, and software and provides provisions for periodic monitoring, maintenance, and repairs. Replacement of miscellaneous equipment components and software is scheduled as needed when the equipment reaches the end of its

useful life and before the equipment and software become obsolete. Desktops and laptops are upgraded on a 3-year rolling schedule so that they do not become obsolete.

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 IT infrastructure and support services contract, the main ranking factor is the age of the asset (e.g., desktop, laptop, printer), 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, 2020	Salaries and Expenses	Office of the Inspector General	Nuclear Facility Fees	Total
Budgetary Resources:				
Unobligated balance from prior-year budget authority, net	$ 83,343	$ 3,748	$ –	**$ 87,091**
Appropriations	845,536	13,314	330	**859,180**
Spending authority from offsetting collections	6,322	–	–	**6,322**
Total Budgetary Resources	$ 935,201	$ 17,062	$ –	**$ 952,593**
Memorandum Entry:				
Net adjustments to unobligated balance brought forward October 1	$ 17,312	$ 845	$ –	**$ 18,157**
Status of Budgetary Resources:				
New obligations and upward adjustments (total) (Note 12)	$ 853,085	$ 12,154	$ –	**$ 865,239**
Unobligated balance, end of period:				
Apportioned, unexpired accounts	81,598	3,385	–	**84,986**
Exempt from apportionment, unexpired accounts	426	–	330	**756**
Unapportioned, unexpired accounts	–	–	–	**–**
Unexpired unobligated balance, end of year	82,024	3,385	330	**85,739**
Expired unobligated balance, end of year	92	1,523	–	**1,615**
Unobligated balance, end of year	82,116	4,908	330	**87,354**
Total Status of Budgetary Resources	$ 935,201	$ 17,062	$ 330	**$ 952,593**
Outlays Net:				
Outlays, net	867,622	12,260	–	**879,882**
Distributed offsetting receipts	–	–	(704,328)	**(704,328)**
Agency Outlays, Net	$ 867,622	$ 12,260	$(704,328)	**$ 175,554**

For the fiscal year ended September 30, 2019	Salaries and Expenses	Office of the Inspector General	Nuclear Facility Fees	Total
Budgetary Resources:				
Unobligated balance from prior-year budget authority, net	$ 46,760	$ 3,010	$ –	**$ 49,770**
Appropriations	898,350	12,609	–	**910,959**
Spending authority from offsetting collections	3,662	–	–	**3,662**
Total Budgetary Resources	$ 948,772	$ 15,619	$ –	**$ 964,391**
Memorandum Entry:				
Net adjustments to unobligated balance brought forward October 1	$ 8,579	$ 47	$ –	**$ 8,626**
Status of Budgetary Resources:				
New obligations and upward adjustments (total) (Note 12)	$ 882,673	$ 12,347	$ –	**$ 895,020**
Unobligated balance, end of period:				
Apportioned, unexpired accounts	66,557	2,160	–	**67,717**
Exempt from apportionment, unexpired accounts	407	–	–	**407**
Unapportioned, unexpired accounts	–	-	–	**-**
Unexpired unobligated balance, end of year	65,964	2,160	–	**68,124**
Expired unobligated balance, end of year	136	1,111	–	**1,247**
Unobligated balance, end of year	66,100	3,271	–	**69,371**
Total Status of Budgetary Resources	$ 948,773	$ 15,618	$ –	**$ 964,391**
Outlays Net:				
Outlays, net	874,413	11,570	–	**885,983**
Distributed offsetting receipts	–	–	(772,216)	**(772,216)**
Agency Outlays, Net	$ 874,413	$ 11,570	$(772,216)	**$ 113,767**