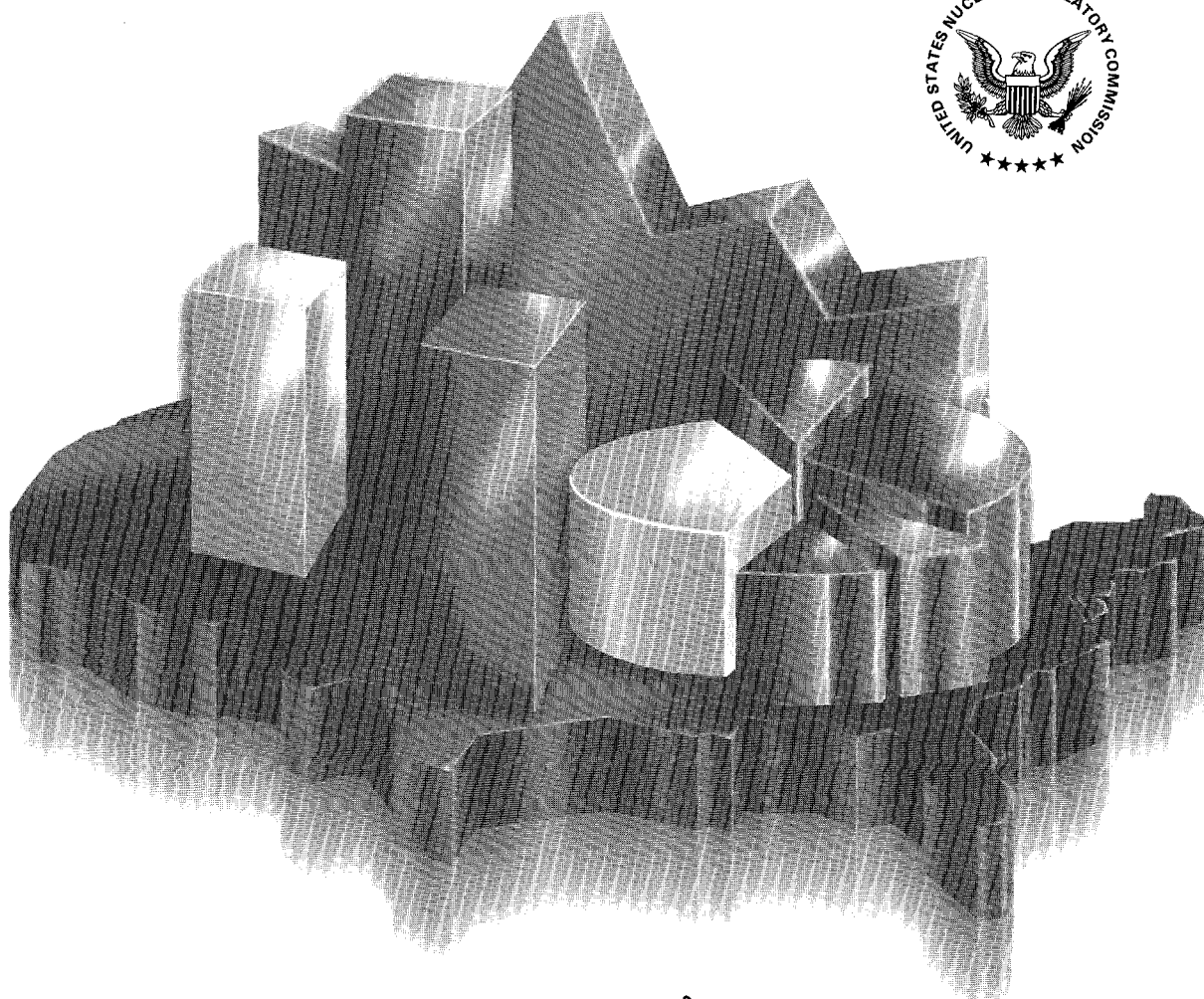


# Accountability Report

Fiscal Year 1997

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



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# NRC Principles of Good Financial Management

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**T**hose who handle public resources have a special responsibility to safeguard the resources entrusted to them and to use them properly. Poor financial management by NRC can undermine the confidence that we are effectively accomplishing our health and safety mission. NRC managers must ensure that public funds are used for authorized purposes only and that they are used economically, efficiently, and within established limits. Toward these ends, the NRC uses the following Principles of Good Financial Management.

**PLANNING.** Good financial management begins with good planning. NRC's strategic planning should be based on sound assumptions and accurate information and should provide the foundation for the entire fiscal process. Resource requests must be consistent with program goals, guidance, and planning assumptions, and must consider current financial status. Plans should be developed for commitment and obligation of funds based on program needs, procurement lead times, and the need for continuity of funding.

**CONTROL.** Good financial management requires good financial control. Appropriate effective cost controls throughout the financial management process ensure adequate accounting of funds expended, prevent over-obligation of funds and inappropriate expenditures, identify early instances where funds should be reallocated, and produce valuable information for the planning process.

**COMMUNICATION.** Good financial management requires good communication among those involved in the financial management process. Complete, accurate, and timely financial information must be readily available, and financial implications must be considered in decision making. Financial systems should be integrated and meet both agency and office data needs. New information and ideas must be shared throughout the organization.

**COST EFFECTIVENESS.** Good financial management balances expenditures and results. Managers at all levels must ensure that NRC gets what it pays for and that the results are what NRC needs to accomplish its mission. Ongoing projects should be evaluated to ensure results justify continued funding. Appropriate precautions ensure that waste is avoided. To ensure maximum utility of available resources, funds should be obligated as early as practicable during the fiscal year, and excess funds should be deobligated as soon as practical after project completion.

**EVALUATION.** Good financial management requires periodic evaluation of performance against meaningful financial and program performance measures. Such performance assessment should evaluate planned versus actual program results as well as the comparison of program costs with program accomplishments.

**PERSONNEL.** Good financial management is the product of competent and motivated people. Those who are given financial management responsibility must have integrity, dedication, and be well trained and qualified. They must have authority commensurate with their responsibility, and they must be recognized when they achieve superior performance.



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# Foreword

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**T**his is the third year that the U.S. Nuclear Regulatory Commission (NRC) has participated in a pilot project, along with several other Federal agencies, to streamline financial management reporting. The goal of this pilot is to consolidate performance-related reporting into a single accountability report. The project, which is being carried out under the guidance of the Chief Financial Officers Council, was undertaken in accordance with the Government Management Reform Act of 1994 (GMRA). The GMRA permits the streamlining of financial management reports in consultation with the appropriate congressional committees through a liaison in the U.S. Office of Management and Budget (OMB).

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

- NRC's annual financial statement, required by the Chief Financial Officers Act of 1990 (CFO Act)
- Chairman's annual report to the President and the Congress, required by the Federal Managers' Financial Integrity Act of 1982 (FMFIA)
- Chairman's semiannual report to the Congress on management decisions and final actions on Office of the Inspector General audit recommendations, required by the Inspector General Act of 1978, as amended

This report also contains performance goals and measures, as required by the CFO Act and the Government Performance and Results Act of 1993 (GPRA), and the Chairman's statement on the compliance of the agency's financial management systems with the Federal Financial Management Improvement Act of 1996 (FFMIA).

Comments on the content and presentation of this report are welcome and may be sent to:

Office of the Chief Financial Officer  
Mail Stop O-17 F3  
U.S. Nuclear Regulatory Commission  
Washington, DC 20555-0001

or

Internet: [src2@nrc.gov](mailto:src2@nrc.gov)





## **The NRC's Mission**

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

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# Message From the Chairman

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I am pleased to present the U.S. Nuclear Regulatory Commission (NRC) accountability report for Fiscal Year (FY) 1997. This is the third year that the NRC has produced an accountability report in an effort to streamline statutory performance-related reporting in accordance with the Government Management Reform Act of 1994.

In FY 1997, we achieved our performance goals for protecting public health and safety. We are continuing to strengthen the NRC by maintaining our primary focus on safety while benefiting those we regulate through the development of better requirements, guidance, and a more efficient regulatory process. We are implementing strategies to make both our nuclear reactor safety and nuclear materials safety regulations more risk-informed and, where appropriate, performance-based. The NRC goal in improving the way it conducts its business is to ensure that the agency is both effective and efficient in implementing its mission.

In reaching this goal, a key factor was the strategic assessment and rebaselining initiative that we initiated two years ago. This broad-scope internal effort was designed to evaluate the current status of major NRC programs, and to outline a clear path for future progress. In addition, this initiative supported NRC implementation of the Government Performance and Results Act of 1993 and other Congressional and Administration initiatives that are demanding greater accountability for results from Federal agencies. Some recent results of this work include the NRC FY 1997-2002 Strategic Plan, FY 1999 Performance Plan, the regulatory excellence initiative, and our program-level operating plans.

The NRC evaluated its management control and financial management systems for FY 1997 as required by the Federal Managers' Financial Integrity Act of 1982. The results of this evaluation provided reasonable assurance that the NRC achieved the objectives of the Act. The evaluation identified no material weaknesses in NRC programs or administrative activities and no material non-conformances with government-wide requirements in NRC financial management systems. The NRC also evaluated its financial management systems for compliance with applicable Federal requirements and accounting standards as required by the Federal Financial Management Improvement Act of 1996. This evaluation disclosed that overall the NRC's major financial management systems were in compliance with the Act except for business continuity plans which were found to be in substantial noncompliance. The audit report on the agency's financial statement, provided at the end of this report, contains a discussion of this issue and the corrective action that the NRC is taking.

The NRC continues to improve its business practices by using sound fiscal management to accomplish the agency's critical mission. The issuance of this third annual report, which includes the results of our FY 1997 performance, confirms our commitment to provide accountability for agency programs and financial management.

A handwritten signature in cursive script that reads "Shirley Ann Jackson".

Shirley Ann Jackson  
Chairman  
U.S. Nuclear Regulatory Commission

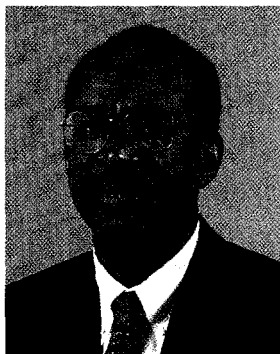




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# Message From the Chief Financial Officer

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I am pleased to report that the NRC has again received an unqualified audit opinion on its financial statement. The NRC issued its first audited financial statement in Fiscal Year (FY) 1992 and received an unqualified audit opinion for each of the four fiscal years since FY 1994.

At the Chairman's request, and in coordination with the NRC's Executive Council, we are concurrently pursuing two significant efforts to improve agency processes for planning, budgeting, financial and resource management, and performance management. The first effort employs an integrated process for planning, budgeting, and performance management for the FY 2000 budget cycle that will enable the agency to meet the demands of the new results-driven Federal environment. The four major interrelated components of the new process are (1) setting strategic direction, (2) determining resources and planned accomplishments, (3) measuring and monitoring performance, and (4) assessing performance.

A second effort provides for an integrated agencywide financial and resource management system that will support the first effort. This system will serve as the agency's single authoritative source for financial and resource information to carry out program and fiduciary responsibilities and to integrate financial planning data with financial performance data. The integrated agency financial and resource management system will support the following functions: core accounting, budget formulation, travel management, property control, funds control, cost accounting, debt management/fee billing, labor-cost distribution, payroll/personnel, and procurement.

We also continue to improve financial management in other ways. Over the past few years, the NRC has increased the effectiveness and efficiency of program financing by more closely monitoring unused contract balances, project planning, and obligation and expenditure rates. The NRC's delinquent debt has steadily declined since FY 1993 through concerted debt management. Timely payment of amounts subject to the Prompt Payment Act has increased and the amount of interest penalties has decreased. We have significantly reduced the number and size of imprest funds. We have consistently paid a high percentage of our employees by electronic funds transfer, and are increasing the amount of vendor payments made by electronic funds transfer.

Our ongoing improvements are important in effectively and efficiently accomplishing our mission and meeting new challenges presented by our changing environment. Our goals are to maintain the standards we have achieved and to continue seeking improved methods to carry out our fiscal responsibilities.

A handwritten signature in dark ink, appearing to read "Jesse L. Funches".

Jesse L. Funches  
Chief Financial Officer  
U.S. Nuclear Regulatory Commission





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# Management Summary

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## Program Performance

In this report we are making the transition to reporting against outcome measures that have been developed in response to the GPRA-required FY 1999 Performance Plan. The following reflects our performance relative to these outcome goals.

### ***Nuclear Reactor Safety***

The general goal is to prevent radiation-related deaths or illnesses due to civilian nuclear reactors. In FY 1997, the NRC met the associated performance goals of (1) zero civilian nuclear reactor accidents, (2) zero deaths due to radiation or radioactivity releases from civilian nuclear reactors, and (3) zero significant radiation exposures due to civilian nuclear reactors. With respect to the NRC's fourth performance goal in this strategic arena, "maintain a low frequency of events that could lead to a severe accident," the NRC is unaware of any events of this type occurring in FY 1997. However, final analyses of all events in this category during FY 1997 will not be completed until approximately 1 year after the end of the fiscal year.

### ***Nuclear Materials Safety***

The general goal is to prevent radiation-related deaths or illnesses due to civilian use of source, byproduct, and special nuclear materials. In FY 1997, the NRC met the associated performance goals of (1) zero radiation-related deaths due to civilian use of source, byproduct, and special nuclear materials, (2) no increase in the number of significant radiation exposures due to loss or use of source, byproduct, and special nuclear materials, (3) no increase in the number of losses of licensed material as reported to the Congress annually, (4) no accidental criticality involving licensed material, and (5) no increase in the number of misadministration events which cause significant radiation exposures.

### ***Nuclear Waste Safety***

The general goal is to ensure treatment, storage, and disposal of wastes produced by civilian use of nuclear material in ways that do not adversely affect this or future generations. In FY 1997, the NRC met the associated performance goals of (1) no significant accidental releases of radioactive material from storage and transportation of high-level waste (including spent fuel) or low-level waste and (2) no offsite release of radioactivity beyond regulatory limits from low-level waste disposal sites. The NRC's target for the FY 1999 performance goal to establish the regulatory framework for high-level waste disposal, consistent with current national policy, is to issue a final rule within 1 year after promulgation of the standard (estimated publication July 1, 1999). Milestones for this initiative will be developed during FY 1998.

*(continued on page xii)*



### ***Common Defense and Security and International Involvement***

The general goal is to prevent the loss or theft of special nuclear materials regulated by the NRC and to support U.S. national interests in the safe use of nuclear materials and in non-proliferation of these materials. In FY 1997, the NRC met the associated performance goals of (1) zero loss or theft of special nuclear materials regulated by the NRC, (2) no substantiated cases of attempted theft or diversion of formula quantities of strategic special nuclear material, and (3) no substantiated breakdown of physical security or material control (i.e., access control, containment, or accountability systems) that significantly weakened the protection against theft or diversion of formula quantities of strategic special nuclear material. Data will be reported in the NRC's FY 1999 Accountability Report for the goal to strengthen international nuclear safety and safeguards by participating in international safety and safeguards exchange activities, by providing assistance through international agreements, and by supporting U.S. non-proliferation interests.

### ***Protecting the Environment***

The general goal is to protect the environment in connection with civilian use of source, byproduct, and special nuclear materials through the implementation of the Atomic Energy Act and the National Environmental Policy Act (NEPA). In FY 1997, the NRC met the associated performance goals of (1) zero offsite releases from operating facilities of radioactive material that have the potential to cause adverse impact on the environment and (2) no increase in the number of offsite releases from operating facilities of radioactive material that exceed 10 CFR Part 20 limits. Data for the performance goal, "environmental impacts have been identified through the NEPA process before regulatory action is taken," will be reviewed in FY 1998 and reported for FY 1999. Data for the performance goal, "no sites will be released until satisfactorily remediated in accordance with NRC release criteria," will be reviewed in FY 1998 and will be reported for FY 1998.

### ***Public Confidence***

The general goal is to provide the public, those we regulate, and other stakeholders in the national and international community with clear and accurate information about, and a meaningful role in, NRC's regulatory program so that there will be respect for and confidence in that program. Data will be reported for FY 1998 for the associated performance goal to implement the agency's plan to improve how it informs and involves the public, those we regulate, and other stakeholders in NRC's regulatory program.

### ***Excellence***

The general goal is to carry out the NRC regulatory program efficiently and effectively. Performance will be reported for FY 1998 for the associated goals to (1) implement the agency's plan for regulatory excellence and (2) evaluate and implement needed improvements for five major NRC processes by July 1, 1999.

---

## **Management Accountability**

### ***Management Controls***

The NRC's annual evaluation of management controls and financial systems identified no material weaknesses in NRC programs or administrative activities and no material non-conformances with governmentwide requirements in the NRC's financial systems.

The NRC's evaluation of its financial management systems for compliance with applicable Federal requirements and accounting standards disclosed that overall NRC's major financial management systems were in compliance, except for business continuity plans which were found to be in substantial non-compliance.

### ***Audits***

At the end of FY 1997, the NRC had six audits with outstanding actions over 1 year old. The status of these actions are discussed on page 22 in the section titled "Management Decisions Not Implemented Within One Year."

## **FY 1997 Audited Financial Statement**

For the fourth successive year the NRC received an unqualified audit opinion on its financial statement. Two reportable conditions carried over from FY 1996 were resolved in FY 1997. These reportable conditions involved the need for a payroll system that is integrated with the general ledger and possesses labor distribution capabilities and the need to improve procedures for capitalizing automated data processing software. The auditors found two new reportable conditions: (1) the NRC's business continuity practices for its major financial management systems do not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996 and (2) there needs to be a segregation of duties of certain employees who have access to the agency's accounting system or additional compensating controls.

# About the U.S. Nuclear Regulatory Commission



**T**he U.S. Nuclear Regulatory Commission (NRC) is an independent regulatory agency of the Federal Government that was created by the U.S. Congress to regulate the Nation's civilian use

of byproduct, source, and special nuclear materials to ensure adequate protection of the public health and safety, to promote the common defense and security, and to protect the environment. Its purposes are defined by the Energy Reorganization Act of 1974, as amended, along with the Atomic Energy Act of 1954, as amended, which provide the foundation for regulating the Nation's civilian uses of nuclear materials.

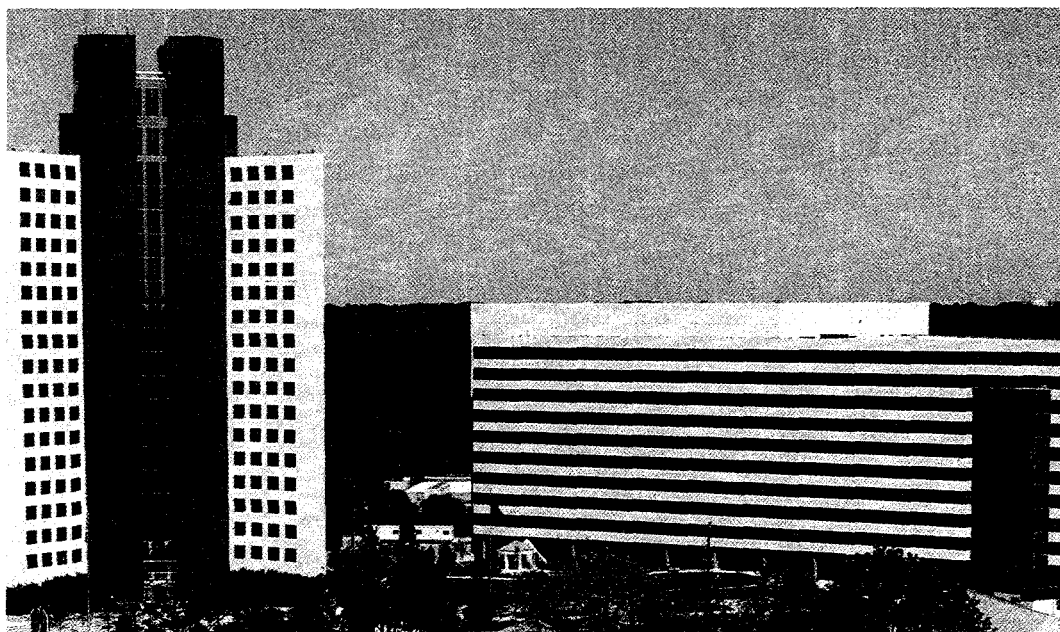
## Organization

The NRC is headed by a Chairman and four Commissioners appointed by the President and confirmed by the Senate for 5-year terms. The

Chairman serves as the principal executive officer and official spokesman for the Commission.

Before FY 1997, the Executive Director for Operations (EDO), as the chief operating and administrative officer of the NRC, carried out the policies and decisions made by the Commission. The EDO had also been designated as the NRC's Chief Financial Officer (CFO). In order to strengthen the agency's ability to perform its mission of protecting public health and safety, the Commission realigned the NRC's top managers in a reorganization that became effective on January 5, 1997. In the new organization, the CFO became a separate position reporting to the Chairman along with the EDO and the Chief Information Officer (CIO). An Executive Council was established composed of the EDO, CFO, and CIO. Responsibilities under the EDO were realigned under three Deputy EDOs: (1) the Deputy

*(continued on page 2)*



*The Nuclear Regulatory Commission Headquarters in Rockville, Maryland*



Executive Director for Regulatory Effectiveness, (2) the Deputy Executive Director for Regulatory Programs, and (3) the Deputy Executive Director for Management Services. A chart showing the realigned organization that became effective January 5, 1997, is in Appendix A.

## Regulatory Responsibility

The NRC regulates civilian nuclear reactors; fuel cycle facilities; medical, academic, and industrial uses of nuclear materials; and the transport, storage, and disposal of nuclear materials and wastes. The NRC carries out its mission through a licensing and regulatory system comprising the following activities:

- licensing the design, construction, operation, and decommissioning of nuclear reactors and other nuclear facilities (such as nuclear fuel cycle facilities, uranium enrichment facilities, and test and research reactors)
- licensing the possession, use, processing, handling, and exporting of nuclear materials
- licensing the siting, design, construction, operation, and closure of low-level radioactive waste disposal sites under NRC jurisdiction and the construction, operation, and closure of geologic repositories for high-level radioactive waste
- licensing the operators of civilian nuclear reactors
- inspecting licensed facilities and activities
- conducting research to gain independent expertise and information for making timely regulatory judgments and for anticipating problems of potential safety significance
- developing and implementing rules and regulations that govern licensed nuclear activities
- collecting, analyzing, and disseminating information about the operational safety of commercial nuclear power reactors and certain nonreactor activities

## Sources of Funds

The NRC has two appropriations, and funds for both are available until expended. One appropriation is for agency salaries and expenses, and the other is earmarked for the Office of the Inspector General (OIG). The NRC's total new budget authority (excluding allocation account transfers from others) for FY 1997 was \$476.8 million, including \$471.8 million for the Salaries and Expenses appropriation, and \$5 million for the OIG appropriation. Additionally, available to obligate in FY 1997 were \$39.6 million from prior-year appropriations, \$6.4 million from prior-year reimbursable work, \$1.2 million from prior-year transfer of funds from other Federal agencies, and new reimbursable work to be performed for others totaling \$4.8 million. The sum of all funds available to obligate (excluding transfers) for FY 1997 was \$528.8 million. (See Figure 1.)

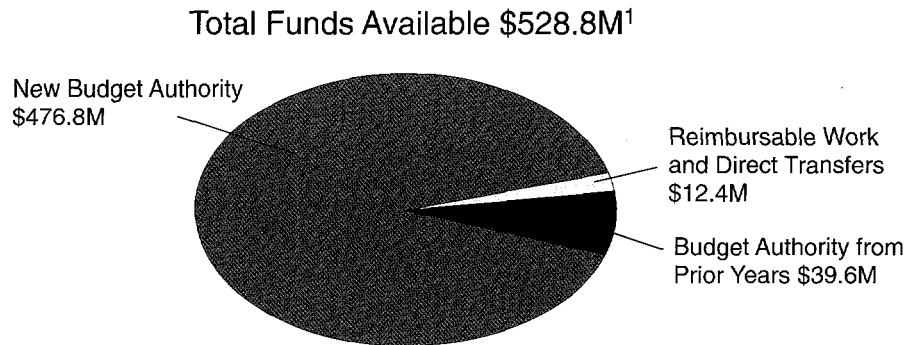
## Uses of Funds by Function

As previously stated, the total budgetary resources available (excluding allocation account transfers from others) for use by the NRC in FY 1997 was \$528.8 million. Of that amount, the NRC incurred obligations of \$503.1 million, with approximately 53 percent used for salaries and benefits. An additional 47 percent was used to obtain technical assistance for the NRC's principal regulatory programs, to conduct confirmatory safety research, to cover operating expenses, (e.g., building rentals, transportation, printing, security services, supplies, office automation, and training), staff travel, and reimbursable work. (See Figure 2.) The remaining \$25.7 million (\$21.0 million from appropriations, \$4.3 million from reimbursable work, and \$.4 million from direct transfer funds) in budget authority that was not obligated in FY 1997 will be available to fund critical needs in FY 1998.

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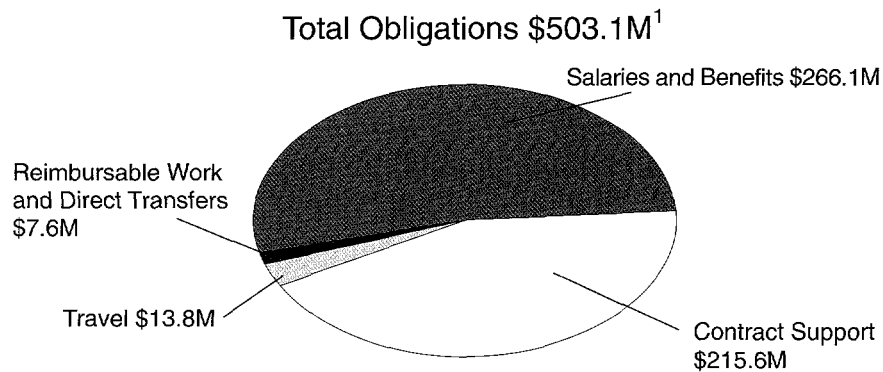


**Figure 1**  
**Sources of NRC Funds**



<sup>1</sup> Total funds available reflects NRC appropriated budget authority and reimbursable work. It excludes transfer appropriations from the General Services Administration (GSA), \$.3M, and the Agency for International Development (AID), \$.6M.

**Figure 2**  
**Uses of Funds by Function**



<sup>1</sup> Total obligations include NRC appropriated budget authority and reimbursable work. It excludes obligations against transfer appropriations from the General Services Administration (GSA), \$.3M, and the Agency for International Development (AID), \$.30M.

## **Financial Condition of NRC**

As of September 30, 1997, the financial condition of the NRC is sound with respect to having sufficient funds to meet program needs and sufficient control of these funds to ensure that NRC obligations do not exceed budget authority. The Statement of Financial Position shows a net position (assets minus liabilities) of \$128.4 million. Consistent with the requirements of the Omnibus Budget Reconciliation Act of 1990, the NRC collected 99.4 percent of its new budget authority, excluding the amounts appropriated from the Nuclear Waste Fund and for certain activities being performed in support of the Department of Energy, and other offsetting receipts.

Over the past few years, the NRC has made a concerted effort to increase the effectiveness and efficiency of program financing by eliminating unnecessary financial reserves pending contract closeout, recovering funds on dormant contracts, exercising closer scrutiny of the need for planned projects, and more closely monitoring obligation and expenditure rates. This prudent financial management initiative has resulted in a 26 percent decrease in unobligated appropriated funds in FY 1997 compared to FY 1996 and the reaching of the desired level for unobligated appropriated funds. The NRC will continue its efforts to closely monitor its financial condition and planning policies to ensure its unobligated balance does not increase to undesirable levels in future years.

# Program Performance

**T**his section highlights key aspects of the NRC's programs, including program goals and program performance measures. Consistent with the requirements of GPRA the NRC has developed a strategic plan, which was submitted to OMB and the Congress in September 1997. The strategic plan defines the overall agency goals and objectives which form the basis for more specific performance goals and associated performance measures that are included in the agency's annual Performance Plan for FY 1999. The performance plan also was submitted to OMB in September 1997 and subsequently to the Congress. For this transitioning period, the performance goals contained within this section reflect the same performance goals and measures reflected in the FY 1999 Performance Plan. The NRC has determined that it will report on these goals for FY 1997 in an effort to support the agency's strategic and performance plans and to develop 2 years of baseline data before the mandated FY 1999 reporting requirement.

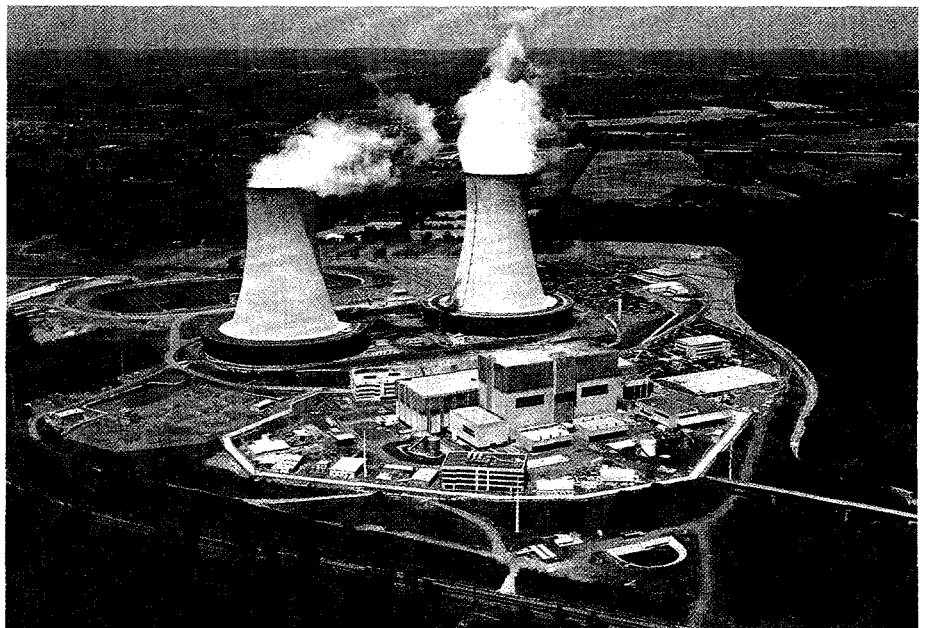
While the structure for performance reporting is transitioning to the structure contained in NRC's strategic and performance plans; these plans are in an evolutionary development phase. In order to maintain consistency in financial reporting and to provide comparative financial data, the structure for the FY 1997 financial statement reflects the current budget structure. Over the next 2 years, the financial reporting structure will transition to the structure contained in the strategic and performance plans.

## Strategic Arenas

The NRC's strategic and performance plans are organized into strategic arenas. This section is organized into the same seven strategic arenas:

- *Nuclear Reactor Safety*
- *Nuclear Materials Safety*
- *Nuclear Waste Safety*
- *Common Defense and Security and International Involvement*
- *Protecting the Environment*
- *Public Confidence*
- *Excellence*

(continued on page 6)



*Limerick 1 and Limerick 2 Nuclear Power Reactors*



For each strategic arena that follows we state the general goal from the strategic plan, provide a brief introduction to the arena, and delineate the performance goals for measuring results toward meeting our general goals. In reviewing the following performance goals, one must be aware that the safe and secure use of nuclear materials for civilian purposes is the responsibility of NRC licensees and Agreement State licensees, and the regulatory oversight of licensees is the responsibility of NRC and the Agreement States. Thus, to achieve these goals requires the collective efforts of the NRC, the Agreement States, and licensees.

## Management Controls

The NRC identified no material management control weaknesses in any of the strategic arenas in FY 1997.

## Nuclear Reactor Safety

### **General Goal: Prevent radiation-related deaths or illnesses due to civilian nuclear reactors**

A major part of the NRC's mission is to ensure that its licensees design, construct, operate, and decommission civilian reactor facilities safely. The Atomic Energy Act of 1954, as amended, and the Energy Reorganization Act of 1974, as amended, provide the foundation for regulating the nation's commercial nuclear power industry. NRC regulates the 104 commercial nuclear power reactors which are licensed to operate and another 18 that are undergoing decommissioning<sup>1</sup>.

Reactor safety encompasses all NRC activities to ensure that civilian nuclear reactor facilities are operated in a manner that provides adequate

protection of public health and safety. These activities include reactor licensing, inspection, performance assessment, identification and resolution of safety issues, reactor regulatory research, regulation development, independent assessment of reactor operational events and experience, investigations of alleged wrongdoing by licensees, applicants, contractors, or vendors, and imposition of enforcement sanctions for violations of NRC requirements.

### **Performance goal: Zero civilian nuclear reactor accidents**

As used in this context, a "nuclear reactor accident" is as defined in the NRC Severe Accident Policy Statement (50 FR 32138, August 8, 1995), that is, those accidents in which substantial damage is done to the reactor core, whether or not serious offsite consequences result. The performance indicator is the number of severe reactor accidents annually. The FY 1999 target is zero.

### **Performance**

Zero civilian nuclear reactor accidents were identified in FY 1997.

### **Performance goal: Maintain low frequency of events which could lead to a severe accident**

The performance indicator is the annual number of events from the population of plants that could result in a 1/1,000 ( $10^{-3}$ ) or greater probability of occurrence of a severe accident. The FY 1999 target is for no more than one such event to occur in the United States.

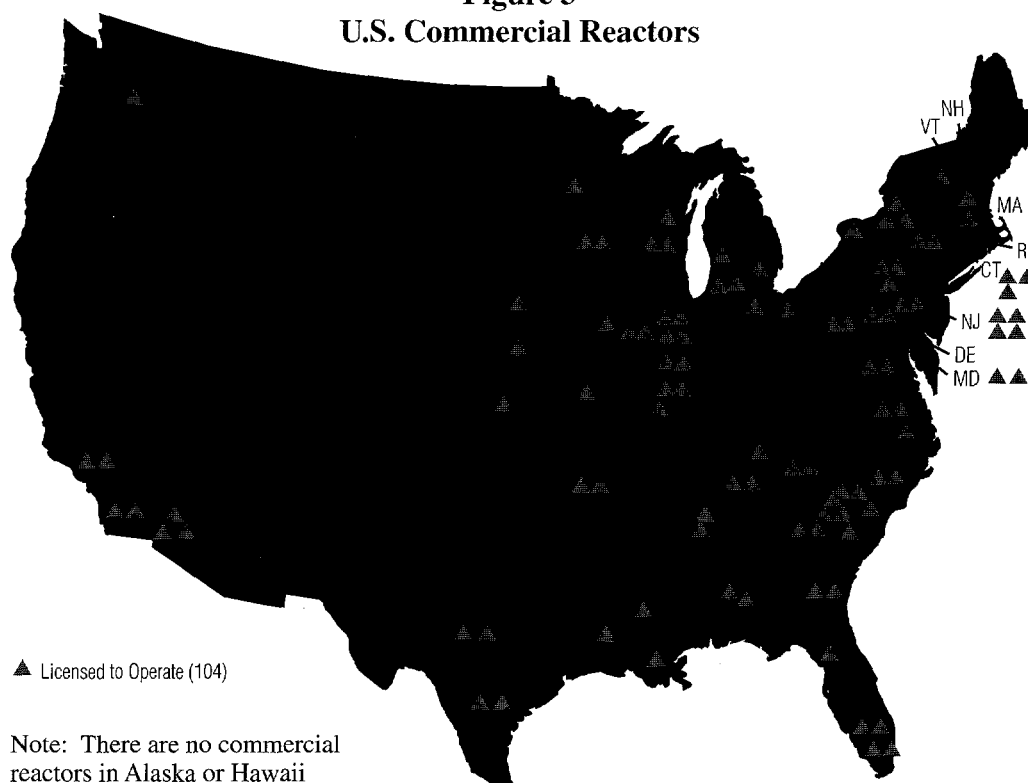
### **Performance**

At this time, the NRC is unaware of any events in FY 1997 that had a 1/1000 ( $10^{-3}$ ) or greater probability of leading to a severe accident. However, final analyses of all events in this period will not be completed until approximately 1 year after the end of the fiscal year. The analyses use probabilistic risk assessments to provide estimates of operating event significance in terms of the potential for core damage (i.e., a severe accident). The analyses of these events include

<sup>1</sup> These figures reflect the submittal of certifications from Haddam Neck, Big Rock Point, Maine Yankee, Zion 1, and Zion 2 nuclear power plants for permanent cessation of operations and removal of fuel from the reactor vessel, and exclude Browns Ferry Unit 1 which has no fuel loaded and requires Commission approval to restart.



**Figure 3**  
**U.S. Commercial Reactors**



review by the licensees and the NRC staff and an independent review by an NRC contractor. The performance data, therefore, for FY 1997 will be reported in a future Accountability Report. For the previous fiscal year, FY 1996, there was one such event. This event occurred at the Catawba Unit 2 nuclear power plant on February 6, 1996, and had a probability of 2.1/1000 ( $2.1 \times 10^{-3}$ ) of leading to a severe accident. The event consisted of a loss of offsite power with one of two emergency diesel generators unavailable.

**Performance Goal: Zero deaths due to radiation or radioactivity releases from civilian nuclear reactors**

This measure addresses actual deaths that were due to acute radiation exposure. The performance indicator is the number of deaths annually. The FY 1999 target is zero.

**Performance**

Zero deaths due to radiation or radioactivity releases from civilian nuclear reactors were identified in FY 1997.

**Performance Goal: Zero significant radiation exposures due to civilian nuclear reactors**

As used in this context, “significant radiation exposures” are those exposures that meet the NRC criteria for reporting abnormal occurrences to the Congress<sup>2</sup> (See Appendix B, Item I.A). This goal encompasses both workers and the general population. The performance indicator is the number of significant radiation exposures annually. The FY 1999 target is zero.

**Performance**

There were zero significant radiation exposures due to civilian nuclear reactors identified in FY 1997.

(continued on page 8)

<sup>2</sup> The NRC is required by Section 208 of the Energy Reorganization Act of 1974 to report abnormal occurrences to the Congress. The report, titled “Report to Congress on Abnormal Occurrences” (NUREG-0090) is submitted to the Congress annually. In the context of the Act, an abnormal occurrence is an unscheduled incident or event that the Commission determines to be significant from the standpoint of public health or safety.

## Nuclear Materials Safety

**General Goal: Prevent radiation-related deaths or illnesses due to civilian use of source, byproduct, and special nuclear materials**

The nuclear materials program encompasses over 20,000 specific and more than 100,000 general licenses that are regulated by the NRC and the existing 30 Agreement States<sup>3</sup>. These materials range from very low-risk smoke detectors to relatively high-risk irradiators. The Atomic Energy Act of 1954, as amended, and the Energy Reorganization Act of 1974, as amended, provide the foundation for regulating the nation's civilian uses of nuclear materials.

Nuclear materials safety encompasses NRC activities to ensure that all NRC-regulated aspects of nuclear fuel cycle facilities and nuclear materials activities are handled in a manner that provides adequate protection of public health and safety. These activities include licensing, inspection, and related regulatory activities for fuel cycle facilities and nuclear materials users, transportation of nuclear materials, and uranium recovery.

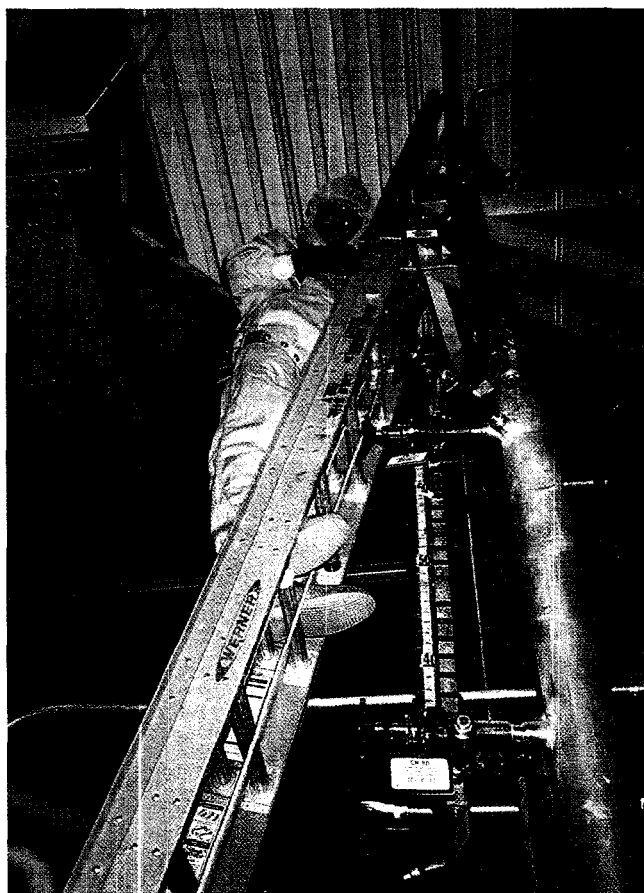
**Performance Goal: Zero radiation-related deaths due to civilian use of source, byproduct, and special nuclear materials**

This goal pertains to non-reactor uses of nuclear materials. The measure addresses actual deaths that were due to acute radiation exposure. The performance indicator is the number of radiation-related deaths per year. The FY 1999 target is zero.

### Performance

Zero radiation deaths due to civilian use of source, byproduct, and special nuclear materials were identified in FY 1997.

<sup>3</sup> An Agreement State is a State that has signed an agreement with the NRC allowing the State to regulate the use of radioactive material, other than use in reactor facilities, within the State.



*NRC Inspector Inspecting a Volume Control Tank Valve*

**Performance Goal: No increase in the number of significant radiation exposures due to loss or use of source, byproduct, and special nuclear materials**

The performance indicator is the number of radiation exposures (excluding those caused by medical misadministrations) at or above the level for reporting abnormal occurrences to the Congress (See Appendix B, Item I.A). The FY 1999 target is that the 5-year average (FY 1995-1999) will not exceed two per year.

### Performance

The NRC 5-year average for FY 1996 was 0.6 per year. The Agreement States 5-year average was 1.0 per year. For FY 1997, the NRC 5-year average decreased to 0.4 per year and the Agreement States 5-year average increased to 1.4 per year (see Table 1).

**Table 1**  
**Significant Radiation Exposures Due to Loss or Use of Source,  
 Byproduct, and Special Nuclear Materials**

YEAR	NRC	AGREEMENT STATES
1993	0	2
1994	0	2
1995	1	1
1996	0	0
1997	1	2
<b>TOTAL</b>	<b>2</b>	<b>7</b>
<b>5-YEAR AVERAGE</b>	<b>.4</b>	<b>1.4</b>

***Performance Goal: No increase in the number of losses of licensed material as reported to Congress annually***

The performance indicator is the 5-year average number of losses of licensed material reported to the Congress annually (See Appendix B, Item I.C.1). The FY 1999 target is that the 5-year average (FY 1995-1999) will not exceed two per year.

**Performance**

The NRC 5-year average for FY 1996 was 0.2 per year. The Agreement States 5-year average

was 1.4 per year. In FY 1997, the NRC 5-year average remained at 0.2 per year and the Agreement States 5-year average decreased to 1.0 per year (see Table 2).

***Performance Goal: No accidental criticality involving licensed material***

The performance indicator is the number of occurrences of accidental criticality annually (See Appendix B, Item I.D.1). The FY 1999 target is zero.

(continued on page 10)

**Table 2**  
**Number of Losses of Licensed Material Reported to the Congress Annually**

YEAR	NRC	AGREEMENT STATES
1993	1	2
1994	0	1
1995	0	0
1996	0	2
1997	0	0
<b>TOTAL</b>	<b>1</b>	<b>5</b>
<b>5-YEAR AVERAGE</b>	<b>0.2</b>	<b>1.0</b>

*Medical Procedure Using  
Radioactive Material*



**Performance**

Zero incidents of accidental criticality involving licensed material were identified in FY 1997.

***Performance Goal: No increase in the number of misadministration events which cause significant radiation exposures.***

The performance indicator is the number of misadministration events that cause radiation exposures at or above the level for reporting abnormal occurrences to the Congress (See

Appendix B, Item I.A). The FY 1999 target is that the 5-year average (FY 1995-1999) will not exceed six per year.

**Performance**

The NRC 5-year average for FY 1996 was 3.2 per year. The Agreement States 5-year average was 2.2 per year. In FY 1997, the NRC 5-year average decreased to 2.4 per year and the Agreement States 5-year average decreased to 1.4 per year (See Table 3).

**Table 3  
Number of Misadministration Events Which Cause  
Significant Radiation Exposures**

YEAR	NRC	AGREEMENT STATES
1993	3	3
1994	4	2
1995	3	0
1996	1	0
1997	1	2
<b>TOTAL</b>	<b>12</b>	<b>7</b>
<b>5-YEAR AVERAGE</b>	<b>2.4</b>	<b>1.4</b>

## Nuclear Waste Safety

**General Goal: Ensure treatment, storage, and disposal of wastes produced by civilian use of nuclear material in ways that do not adversely affect this or future generations**

Nuclear waste is a byproduct of the use of radioactive materials. High-level radioactive waste results primarily from the fuel used by reactors to produce energy. Low-level radioactive waste results from reactor operations, medical, academic, industrial, and other commercial uses, and generally contains relatively limited concentrations of radioactivity.

The NRC's high-level waste regulatory activities are mandated by the Nuclear Waste Policy Act of 1982, the Nuclear Waste Policy Amendments Act of 1987, and the Energy Policy Act of 1992. The Nuclear Waste Policy Act specifies a detailed approach for the long-range undertaking of high-level waste disposal, with the Department of Energy (DOE) having operational responsibility and the NRC having regulatory responsibility. The Nuclear Waste Policy Amendments Act directs DOE to characterize only one candidate site, the Yucca Mountain site in the State of Nevada. Likewise, NRC's activities are focused on Yucca Mountain.

The Low-Level Radioactive Waste Policy Act of 1980, amended in 1985, made States responsible for providing for the disposal of commercial low-level waste generated within their borders. The Act encouraged States to enter into compacts that would allow several States to dispose of waste at a regional disposal facility. Most of the States have entered into compacts, and several States are proceeding with plans to construct and operate as many as 12 new disposal facilities. However, to date, no new disposal facilities have been opened.

**Performance Goal: No significant accidental releases of radioactive material from storage and transportation of high-level waste (including spent fuel) or low-level waste**

The performance indicator is the number of accidental releases of radioactive material that meet the NRC criteria for reporting abnormal occurrences to the Congress. (See Appendix B, Items I.B.1 and I.B.2). The FY 1999 target is zero.

*(continued on page 12)*

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



## Performance

Zero releases of radioactive material from storage and transportation of high-level waste or low-level waste were identified in FY 1997.

**Performance Goal: Establish the regulatory framework for high-level waste disposal, consistent with current national policy, as required by law after the legislatively-required standard is issued**

The performance indicator is conforming 10 CFR Part 60 to the legislatively required environmental standard. The FY 1999 target is to issue a final rule within 1 year after promulgation of the standard (estimated publication July 1, 1999).



*NRC Inspector Taking Soil Samples at Sewage Treatment Facility*

## Performance

The NRC will develop milestones for this initiative during FY 1998.

**Performance Goal: No offsite release of radioactivity beyond regulatory limits from low-level waste disposal sites**

This goal includes sites regulated by the Agreement States but excludes sites under the Environmental Protection Agency (EPA) Superfund authority. The performance indicator is the number of offsite releases per year in excess of 10 CFR 20.1301 public dose limits. The FY 1999 target is zero.

## Performance

Zero offsite releases of radioactivity beyond regulatory limits from low-level waste disposal sites were identified in FY 1997.

## Common Defense and Security and International Involvement

**General Goal: Prevent the loss or theft of special nuclear materials regulated by the NRC, and support U.S. national interests in the safe use of nuclear materials and in non-proliferation**

The NRC performs international activities, some of which support the agency's domestic mission and many of which support broader U.S. national interests. These activities include international policy and priority formulation, export-import licensing for nuclear materials and equipment, treaty implementation, international information exchange activities, and international safety and safeguards assistance. Our domestic safeguards responsibility involves the control of and accounting for nuclear materials, the protection of nuclear materials to prevent theft or diversion, and contingency plans for responding to threatening situations. The primary foundation for these activities includes the Atomic Energy Act of 1954, as amended, the Energy Reorganization Act of 1974, as amended, the Nuclear Non-Proliferation Act of 1978, Executive orders, and treaties and conventions.

**Performance Goal: Zero loss or theft of special nuclear materials regulated by the NRC**

This goal was written within the context of the safeguards program, which is to prevent theft or diversion of formula quantities of strategic special nuclear material. The performance indicator is the number of losses or thefts annually that meet the NRC criteria for reporting abnormal occurrences to the Congress (See Appendix B, Item I.C.1). The FY 1999 target is zero thefts or losses.

**Performance**

Zero incidents of loss or theft of special nuclear materials regulated by the NRC were identified in FY 1997.

**Performance Goal: No substantiated case of attempted theft or diversion of formula quantities of strategic special nuclear material**

The performance indicator is the number of substantiated cases of attempted thefts or diversions annually (See Appendix B, Item I.C.2). The FY 1999 target is zero.

**Performance**

No substantiated cases of attempted theft or diversion of formula quantities of strategic special nuclear material were identified in FY 1997.

**Performance Goal: No substantiated breakdown of physical security or material control (i.e., access control, containment, or accountability systems) that significantly weakened the protection against theft or diversion of formula quantities of strategic special nuclear material**

The performance indicator is the number of annual substantiated breakdowns of physical security or material control (See Appendix B, Item I.C.4). The FY 1999 target is zero.

**Performance**

No substantiated breakdown of physical security or material control that significantly

weakened the protection against theft or diversion of formula quantities of strategic special nuclear material was identified in FY 1997.

**Performance Goal: Strengthen international nuclear safety and safeguards by participating in international safety and safeguards exchange activities, by providing assistance through international agreements, and by supporting U.S. non-proliferation interests**

**Performance**

Data is not available for FY 1997. The NRC plans to report on performance for this goal in future years.

## **Protecting the Environment**

**General Goal: Protect the environment in connection with civilian use of source, byproduct, and special nuclear materials through the implementation of the Atomic Energy Act and the National Environmental Policy Act**

The NRC recognizes a continuing obligation to conduct its civilian licensing and related regulatory functions in a manner that is both responsive to environmental concerns and consistent with the Commission's responsibility as an independent regulatory agency for protecting the radiological health and safety of the public. The Atomic Energy Act of 1954, as amended, the National Environmental Policy Act (NEPA), and other environmental legislation provide the statutory authority for the NRC's activities in protecting the environment.

Protection of the environment from potential hazards associated with the civilian use of source, byproduct, and special nuclear materials involves actions to mitigate environmental impacts during licensed activities. Before authorizing licensed activities, the NRC ensures that potential environmental impacts of such activities are assessed consistent with the requirements of NEPA as implemented by applicable NRC regulations.

(continued on page 14)



*Program Performance (continued)*

Under NRC regulations, decommissioning involves safely removing a facility from service and reducing residual radioactivity to a level that permits the property to be released for unrestricted use. This action is taken by a licensee before termination of the license. In some cases, nonlicensed facilities may also be required to reduce or stabilize contamination before sites are released.

***Performance Goal: Zero offsite releases from operating facilities of radioactive material that have the potential to cause adverse impact on the environment***

The performance indicator is the number of offsite releases annually that meet the NRC criteria for reporting abnormal occurrences to the Congress (See Appendix B, Item I.B.1). The FY 1999 target is zero.

**Performance**

Zero offsite releases from operating facilities (including facilities in a decommissioning status) were identified in FY 1997.

***Performance Goal: No increase in the number of offsite releases from operating facilities of radioactive material that exceed 10 CFR Part 20 limits***

The performance indicator is the number of offsite releases per year in excess of 10 CFR Part 20 limits. The FY 1999 target is that the 5-year average (FY 1995-1999) will not exceed three releases.

**Performance**

The NRC 5-year average for FY 1996 was zero. The Agreement States 5-year average was 0.6 per year. These 5-year averages remain unchanged for FY 1997 (See Table 4).

**Table 4**  
**Number of Offsite Releases From Operating Facilities of Radioactive Material That Exceed 10 CFR Part 20 Limits**

YEAR	NRC	AGREEMENT STATES
1993	0	0
1994	0	1
1995	0	2
1996	0	0
1997	0	0
<b>TOTAL</b>	<b>0</b>	<b>3</b>
<b>5-YEAR AVERAGE</b>	<b>0</b>	<b>0.6</b>

***Performance Goal: Environmental impacts have been identified through the National Environmental Policy Act (NEPA) process before regulatory action is taken***

The performance indicator is the number of environmental impacts identified by external sources each year and substantiated that were not identified as part of the NRC's NEPA process. The FY 1999 target is zero.

**Performance**

Data for this performance goal will be reviewed in FY 1998 and will be reported for FY 1999.

***Performance Goal: No sites will be released until satisfactorily remediated in accordance with NRC release criteria***

The performance indicator is the number of sites identified each year that were previously released as having met NRC release criteria, but that have subsequently been determined to have not met the applicable release criteria. The FY 1999 target is zero.

**Performance**

Data for this performance goal will be reviewed in FY 1998 and will be reported for FY 1998.

*(continued on page 16)*

***Remediation Stages of the Babcock and Wilcox Site in Apollo, Pennsylvania***



***Before Remediation***



***During Remediation***



***After Remediation***

## Public Confidence

**General Goal:** Provide the public, those we regulate, and other stakeholders in the national and international community, with clear and accurate information about, and a meaningful role in NRC's regulatory program so that there will be respect for and confidence in that program

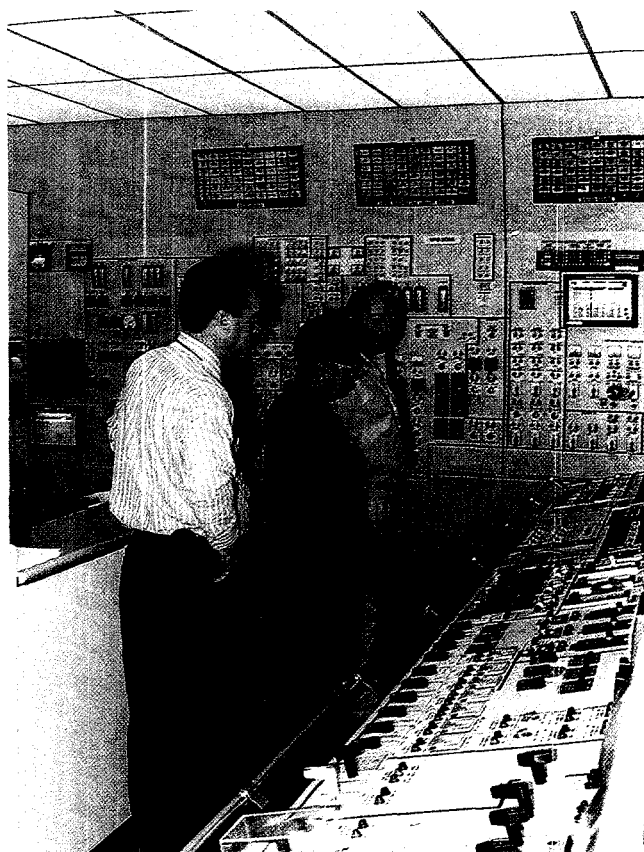
Building and maintaining public trust is critical to carrying out our mission and achieving our vision. To be an effective steward for nuclear safety, our actions must be such that the public, those we regulate, and other stakeholders in the national and international community have respect for and confidence in the NRC. Realizing the importance of this issue, the NRC addressed it as part of its Strategic Assessment and Rebaselining: Direction Setting Issue (DSI) 14 - Public Communication Initiatives. In its final decision on DSI 14, the Commission noted that the NRC should give a high priority to early identification of public concerns and methods for public interaction in making regulatory decisions that are likely to generate substantial public interest or concern.

**Performance Goal:** *Implement the agency's plan to improve how it informs and involves the public, those we regulate, and other stakeholders in NRC's regulatory program*

The NRC Executive Council has established a coordinating group that is developing a plan to implement the Commission's final decision on DSI 14. That plan will include performance goals and measures to assess the effectiveness of the program, consideration of the experience of the private sector and other public agencies, and consideration of the comments received on DSI 14. The plan is scheduled to be given to the Commission by February 27, 1998. The performance indicators for this goal are the milestones in the plan. The FY 1999 targets are the milestones that are due to be completed in FY 1999.

### Performance

Performance for this goal will be reported in future Accountability Reports.



*Chairman Jackson Reviewing a Nuclear Power Reactor Control Room*

## Excellence

**General Goal:** Carry out the NRC regulatory program efficiently and effectively

Striving for regulatory excellence in all NRC functions is both desirable and necessary to maintain an effective and efficient regulatory framework in today's changing environment. The NRC can improve its internal performance by ensuring that its people and processes function with a goal of excellence.

As used in this context, excellence includes both regulatory effectiveness and efficiency, and applies to all NRC functions. Regulatory effectiveness denotes a regulatory framework for ensuring public health and safety that is clear, coherent, logical, consistent, reliable, and technically sound. Efficiency connotes a regulatory framework which is cost effective for both the NRC and its licensees. As stated in the NRC's

Principles of Good Regulation, the American taxpayer, the rate-paying consumer, and licensees are all entitled to the best possible management and administration of regulatory activities. Where several effective alternatives are available, the option that minimizes the use of resources should be adopted.

***Performance Goal: Implement the agency's plan for regulatory excellence***

The EDO has the lead responsibility for developing a plan for enhancing excellence throughout the agency. The plan is scheduled to be given to the Commission by March 31, 1998. The performance indicators for this goal are the milestones in the plan. The FY 1999 targets are the milestones that are due to be completed in FY 1999.

**Performance**

Performance for this goal will be reported in the NRC FY 1998 Accountability Report.

***Performance Goal: Evaluate and implement needed improvements for five major NRC processes<sup>4</sup> by July 1, 1999***

The performance indicator for this goal is the completion of evaluations for and the implementation of improvements for major NRC processes. The FY 1999 target is to complete evaluations of, and implement improvements for, five such processes by July 1, 1999.

**Performance**

Performance for this goal will be reported in the NRC FY 1998 Accountability Report.<sup>5</sup>

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<sup>4</sup> The NRC plan for regulatory excellence is being developed and will include specific milestones and schedules for process evaluations. The performance plan will be updated to be consistent with that plan.

<sup>5</sup> The NRC's regulatory excellence activities to enhance NRC effectiveness and efficiency include: evaluating the reactor inspection program to determine if it achieves its intended goals in an efficient and effective manner; evaluating the program for licensing support and regulatory oversight of operating reactors to determine if it achieves its intended goals in an efficient and effective manner; evaluating the enhancement of safety decision making through use of PRA insights; improving information systems supporting financial management; and improving information systems supporting document and records management.



# Management Accountability

## The NRC's Management Control Program

Individual assurance statements from NRC office directors and regional administrators served as a primary basis for the Chairman's FY 1997 statement of assurance on management controls. These individual statements were based on various sources, including the managers' knowledge of day-to-day operations and existing controls, management reviews of these controls, program reviews and other management evaluations, OIG reports, and reviews of financial management systems.

Each year, regional administrators and directors of offices with the highest risk with respect to programmatic and administrative activities submit an annual management control plan to the Chairman of the NRC's Executive Committee for Management Controls. These plans, combined with the individual assurance statements discussed above, provide the framework for monitoring and improving the agency's management controls on an ongoing basis.

### ***Status of Management Controls and Report on Material Weaknesses and Non-Conformances***

The NRC evaluated its management control and financial management systems for the fiscal year ending September 30, 1997. This evaluation provides reasonable assurance that the objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA) were achieved in FY 1997. The NRC identified no material weaknesses in its programs or administrative activities and no material non-conformances with governmentwide standards in its financial management systems. The auditors identified two reportable conditions that related to the NRC's internal control struc-

ture, but these reportable conditions do not constitute material weaknesses or material non-conformances. (See the OIG audit of the FY 1997 Financial Statement, page 36.)

The NRC reported no material weaknesses in FYs 1994, 1995, and 1996. Two material weaknesses were reported in 1993, and five material weaknesses were reported in the years before FY 1993. All of these material weaknesses have been corrected. No material non-conformances in financial systems have ever been reported by the NRC.

### ***Financial Management Systems***

The NRC evaluated its financial management systems for compliance with applicable Federal requirements and accounting standards as required by the Federal Financial Management Improvement Act of 1996 (FFMIA). This evaluation disclosed that, except for business continuity plans for major financial management systems, NRC was in compliance with the Act. One of the reportable conditions identified by the auditors also disclosed this weakness.

The NRC has six financial systems: the Federal Financial System, Payroll System, Personal Property PC System, License Fee Bill Generator System, Allotment Financial Plan System, and a Budget Formulation System. The Chairman's statement of assurance with respect to the agency's financial systems is supported by management evaluations. Additionally, the OIG performs an annual audit of the agency's principal statements. The OIG issued an unqualified audit opinion on the NRC's FY 1997 financial statement.

*(continued on page 20)*



The Federal Financial System (FFS) is a system that the NRC uses through an interagency agreement with the Department of the Treasury (Treasury). This system is reviewed annually by Treasury's Financial Management Service (FMS) for its client agencies that utilize the system. The results of this year's annual review provided reasonable assurance that FFS, as operated by FMS for NRC, is efficient and effective, contains necessary controls, and is capable of full conformance with the principles, standards, and related requirements prescribed by the Comptroller General, except for the inability to demonstrate data recovery and backup capability of FFS in the event of a disaster, which was noted as a material non-conformance. The necessary disk storage capacity was acquired to perform a simulated disaster recovery data test, but testing has been delayed

until FY 1998 because of higher priorities imposed on the data center by FMS. Testing in FY 1998 is contingent on the data center successfully completing the other high priority tasks.

## Management Decisions and Final Actions on OIG Audit Recommendations

The agency has established and continues to maintain an excellent record in resolving and implementing open audit recommendations presented in OIG reports. Section 5(b) of the Inspector General Act of 1978, as amended, requires the Chairman to report on management decisions and final actions taken on OIG audit recommendations. Table 5 gives the dollar value

**Table 5**  
**Management Report on Office of the Inspector General Audits with Disallowed Costs**

For the Period October 1, 1996 - September 30, 1997

Category	Number of Audit Reports	Questioned Costs (\$)	Unsupported Costs (\$)
A. Audit reports with management decisions on which final action had not been taken at the beginning of this reporting period	10	\$252,919	\$0
B. Audit reports on which management decisions were made during this reporting period	3	\$ 64,056	\$0
C. Audit reports on which final action was taken during this reporting period	12	\$303,656	\$0
(i) Disallowed costs that were recovered by management through collection, offset, property in lieu of cash, or otherwise	12	\$252,919 <sup>1</sup>	\$0
(ii) Disallowed costs that were written off by management	0	\$ 0	\$0
D. Audit reports on which no final action had been taken by the end of this reporting period	1	\$ 13,319	\$0

<sup>1</sup> Questioned costs in the amount of \$50,737 previously reported under two audits were subsequently determined to be allowable costs.

of disallowed costs determined through contract audits conducted by the Defense Contract Audit Agency (DCAA). "Questioned Costs" are those costs that are questioned as to whether they are allowable. "Unsupported Costs" represent costs challenged because of a lack of adequate supporting data. Because of the sensitivity of contractual negotiations, details of these contract audits are not furnished as part of this report. Note that the Department of Defense also reports the cost savings resulting from DCAA audits.

Table 6 gives the dollar value of funds that audits showed could be put to better use. As of September 30, 1997, no outstanding audits recommended that funds be put to better use. Six reports containing seven recommendations are more than a year old and are described in the next section titled "Management Decisions Not Implemented Within One Year."

(continued on page 26)

**Table 6**  
**Management Report on Office of the Inspector General Audits**  
**with Recommendations That Funds Be Put to Better Use**

For the Period October 1, 1996, through September 30, 1997

Category	Number of Audit Reports	Recommendations that funds be put to better use by management agreed to in a management decision (\$)
A. Audit reports on which final action had not been taken by the beginning of this reporting period	0	\$ 0
B. Audit reports on which management decisions were made during this reporting period	3	\$41,133
C. Audit reports on which final action was taken during this reporting period	3	\$41,133
(i) Recommendations that were actually completed	3	\$41,133
(ii) Recommendations that management subsequently concluded should not or could not be implemented or completed	0	\$ 0
D. Audit reports on which no final action had been taken by the end of this reporting period	0	\$ 0



## **Management Decisions Not Implemented Within One Year**

Management decisions were made before September 1996 for the OIG audit reports discussed in the following paragraphs, but as of September 30, 1997, NRC had not taken final action on some of the issues in the reports. The OIG did not recommend that funds be put to better use for any of these reports.

### **Improvement Needed in Agency Oversight of Information Resources Management Activities, September 24, 1996**

The OIG recommended that the agency develop a process to improve NRC's oversight of information resources management activities. The Information Technology Management Reform Act of 1996 (ITMRA) required each Federal agency head to design and implement a Capital Planning and Investment Control (CPIC) process for evaluating information technology (IT) projects. The NRC is developing a comprehensive approach to comply with ITMRA's requirements. During the FY 1999 budget cycle, three major proposed IT projects were reviewed, using a prototype CPIC process. The CPIC process has been finalized based on lessons learned and will be forwarded to the Commission for information. This recommendation will be closed with this action.

### **Review of Videoconferencing Capabilities and Utilization, May 21, 1996**

The OIG recommended that the NRC consider shifting from an office-level to an agencywide approach for implementing videoconferencing, that it develop an agencywide policy statement and administrative procedures to address the details for acquiring and providing video-conferencing services, and that it determine other potential uses the NRC may make of video-conferencing technology. In May 1997, the CIO completed a requirements analysis for video teleconferencing use in the agency along with a cost-benefit analysis that provided the most advantageous implementation of the technology. The requirements analysis identi-

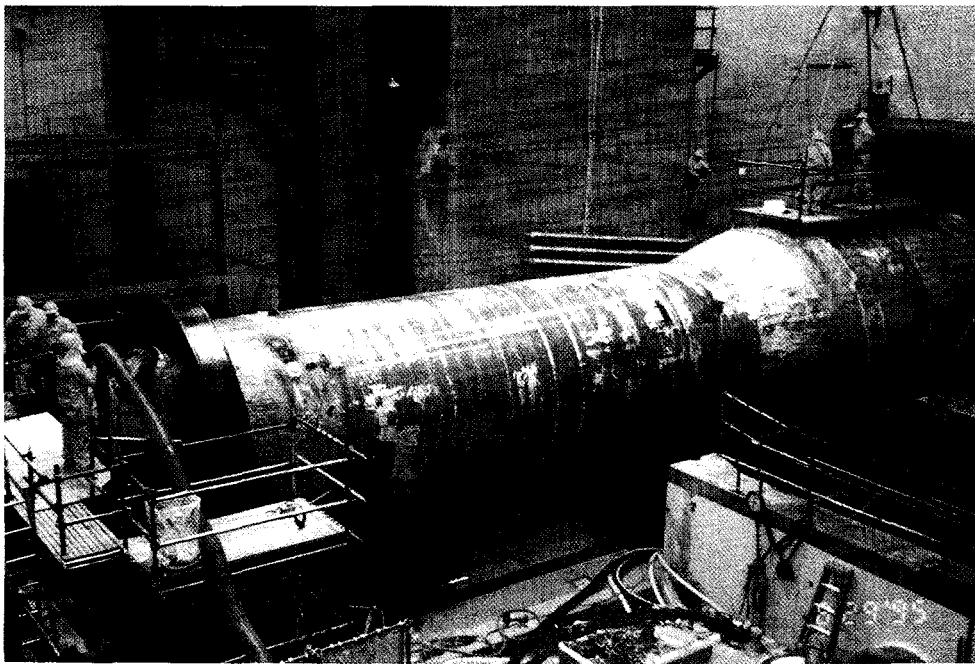
fied the main uses of technology in the agency. As of September 30, 1997, one recommendation, to develop an agencywide policy statement and administrative procedures, remained open. In November 1997, an agencywide policy statement was issued to all NRC employees on video teleconferencing availability. Actions on all recommendations are now complete.

### **NRC's Decommissioning Financial Assurance Requirements for Federal Licensees may not be Sufficient, April 3, 1996**

The OIG report recommended that the staff reevaluate the basis for allowing Federal licensees who operate nuclear power reactors to use a statement of intent for decommissioning financial assurance. As a result of the OIG report, the Commission directed the staff to include some questions on decommissioning funding assurance for a Federal Government licensee in the Advance Notice for Proposed Rulemaking (ANPR) for "Financial Assurance Requirements for Decommissioning Nuclear Power Reactors" (April 8, 1996, 61 FR 15427). The ANPR was published in response to the potential deregulation of the power generating industry. After the Comment period for the ANPR expired, a proposed rule was published on September 10, 1997, (62 FR 47588). In the proposed rule, the NRC staff provided a new definition of "Federal licensee" in response to the OIG report. A final rule on this topic is due to the Commission on March 15, 1998.

### **NRC Needs To Provide Strong Direction for the Licensing Support System, March 17, 1995**

The Nuclear Waste Policy Act of 1982 requires that NRC approve or disapprove the construction of a high-level nuclear waste repository within 3 to 4 years of receiving a DOE construction license application. To meet this deadline, NRC enacted a rule requiring the development of an electronic information management system to reduce the time needed for discovery during the license hearing process. The rule requires that DOE design and develop the system and that NRC operate and maintain it.



*Dismantlement of the Trojan Nuclear Power Plant*

The OIG reported that the program had stalled for the past 5 years for several reasons. Many of the delays were attributed to an inadequate system definition and agreement on the roles and responsibilities of DOE and NRC. As a result, the OIG recommended that NRC obtain a formal commitment from DOE in the form of an Interagency Agreement or Memorandum of Understanding (MOU) on key aspects of the Licensing Support System (LSS).

In response to the OIG report, the EDO appointed a senior management team to reevaluate the purpose of and need for the LSS, and to address the issues affecting the LSS program. As a result of congressional budget action related to DOE's high-level nuclear waste program, LSS activities were not resumed and all of DOE's LSS-related activities have been delayed, including the finalization of an MOU with DOE.

A proposed rule that would amend the Commission's Rules of Practice for the licensing proceeding on the disposal of high-level radioactive waste at a geologic repository was published in the Federal Register on November 13, 1997, (62 FR 60789). The proposed amendments are

intended to allow application of technology advances that have occurred since the original rule was adopted in 1989. The proposed rule achieves the original goal of facilitating the Commission's ability to comply with the schedule for decision on the construction authorization for the repository contained in Section 114(d) of the Nuclear Waste Policy Act. Additionally, the proposed rule provides for a thorough technical review of the license application and equitable access to information for the parties to the hearing. The comment period for the proposed rule closes on January 27, 1998. The proposed rule will restructure the LSS and alleviate the fiscal pressures working against significant progress by DOE. As a result, it would not be necessary for the NRC to establish an MOU with DOE.

**Review of NRC's Implementation of Inspection Manual Chapter 1245 Training Requirements, November 4, 1994**

The OIG recommended that the EDO ensure that the agency's new training tracking system meets management needs for producing reliable information for overseeing and tracking inspector

*(continued on page 24)*

training. In a second audit titled "Inspector Training Program: Improved Coordination and Communication Needed," dated August 4, 1995, the OIG recommended that the EDO evaluate the merits of an integrated schedule or other measure to provide NRC offices with early notice of upcoming inspector training requirements. This recommendation has been closed and the corrective action has been incorporated into the corrective action agreed to in the OIG's November 4, 1994, review of implementation of training requirements. The NRC has determined that its current system does not meet the needs of the agency and that the system needs to be totally redesigned. Because of budget constraints, the new system will not be operational until FY 2002. In the meantime, training requirements are tracked manually with reliance on the direct involvement of individuals and their supervisors.

#### **General Ledger Controls, March 15, 1993**

The OIG recommended that the NRC's payroll system be integrated with the general ledger and possess labor distribution capabilities. This recommendation is closed. The NRC developed a year-end methodology using cost center data to present program costs by budgetary program. Additionally, the guidance provided by FFMLA no longer requires integration of financial systems. See the OIG audit of the FY 1997 Financial Statement page 40.

#### **Review of Funds Management, September 23, 1994**

The OIG reviewed the agency's funds management practices and specifically examined NRC's unobligated budget carryover, advance procurement planning, allottee financial plans, and fund obligation patterns. The audit report disclosed that although NRC's funds management practices generally complied with established policies and procedures, the agency's level of carryover and unliquidated obligations had increased. The OIG offered three recommendations to improve funds management. Action on one of these recommendations, to hold allottees more accountable, was outstanding as of September 30,

1996, and the other two recommendations, expanding the use of an existing management information system and improving the advance procurement process, have been completed.

The agency's Budget Execution Report (BER), which is provided to agency managers monthly and to the Commission quarterly, focuses on the financial performance of the agency as a whole as well as on the individual allowance holders. The BER contains performance parameters such as commitment, obligation, and expenditure rates, months of available funding, and the amounts and trends in unliquidated obligations. This information is issued throughout the year to monitor financial performance and as input in annual performance appraisals. A management directive, which provides guidance on good financial management, establishes performance measures for successful financial management, and describes methods to be used for managing financial resources within the agency, was issued in September 1997. Action on this outstanding recommendation is now completed.

### **Debt Collection**

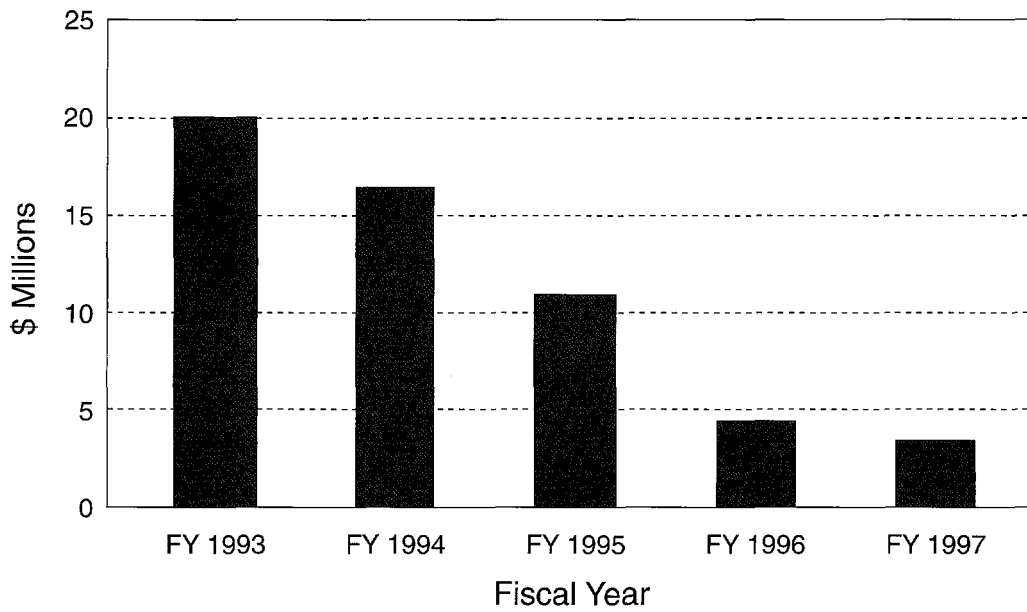
As shown in Figure 4, the NRC has reduced its delinquent debt since FY 1993. The agency has accomplished a steady decline in delinquent debt through a concerted debt management strategy. The strategy includes activities such as license suspensions, referral to the Department of the Treasury's Debt Management Services through a cross-servicing arrangement, credit reporting, and referral to the Department of Justice for enforced collection.

### **Prompt Payment**

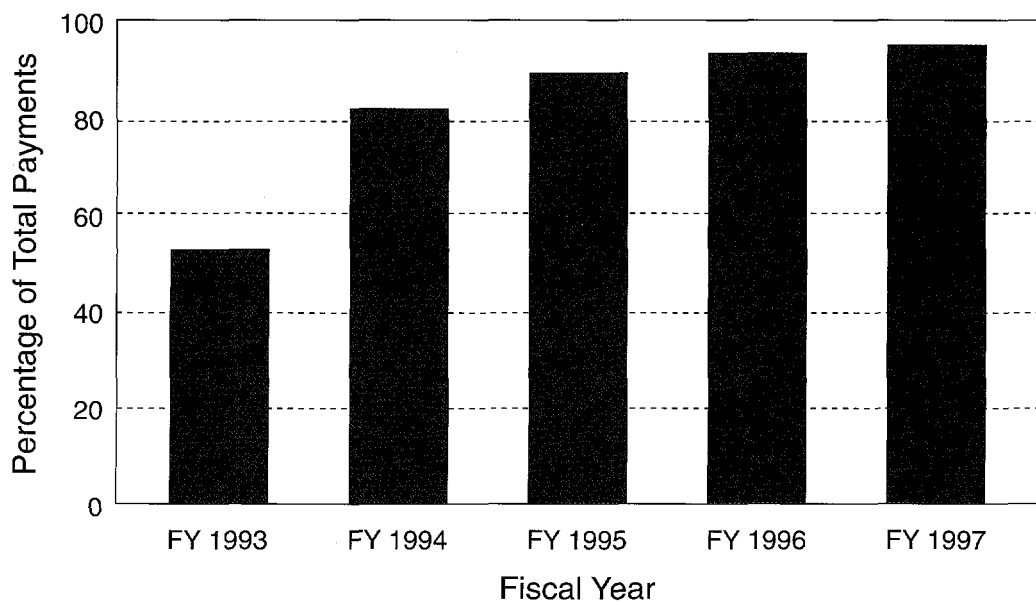
The percentage of on-time payments subject to the Prompt Payment Act has increased as shown in Figure 5. The amount of interest penalties incurred has decreased from \$19,000 in FY 1993 to under \$3,500 in FY 1997.

*(continued on page 26)*

**Figure 4**  
**Delinquent Debt**



**Figure 5**  
**Prompt Payment**



## Civil Penalties

The NRC imposes enforcement sanctions to encourage prompt identification and comprehensive correction of violations and as a deterrent to emphasize the importance of compliance with requirements. One enforcement sanction is the imposition of a civil penalty. Table 7 shows the

amount of civil penalties assessed and the amount collected in FY 1993-1997, distributed according to the year in which the civil penalty was collected. The amount of each civil penalty assessed reflects the amount that the NRC ultimately decides is appropriate in each case through its enforcement or hearing process.

**Table 7**  
**Fiscal Year Civil Penalties Collected**  
**Versus Fiscal Year Penalty Dollars Assessed<sup>1</sup>**

Fiscal Year	Assessed	Collected	Percent Collected
1993	\$4,180,875 <sup>2</sup>	\$4,178,557 <sup>3</sup>	99.94
1994	\$3,867,675	\$3,867,675	100
1995	\$2,289,285	\$2,289,285	100
1996	\$3,106,000	\$3,014,000 <sup>4</sup>	97.04
1997	\$6,343,550	\$5,957,736	93.92

<sup>1</sup> There is not a direct correlation between the amounts assessed and collected in a particular fiscal year because civil penalties may be assessed in one fiscal year and collected in another for a variety of reasons, such as an assessment made in the last month of the fiscal year which is not due for 30 days, or until the next fiscal year.

<sup>2</sup> In some cases, the amount imposed has been changed to reflect a settlement.

<sup>3</sup> This amount reflects the total amount assessed for a case for which an agreement was reached to pay in full, but in installments. The licensee has since made full payment.

<sup>4</sup> This amount reflects payments that have been made in two cases where installment payments are being made.

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# FY 1997 Audited Financial Statement

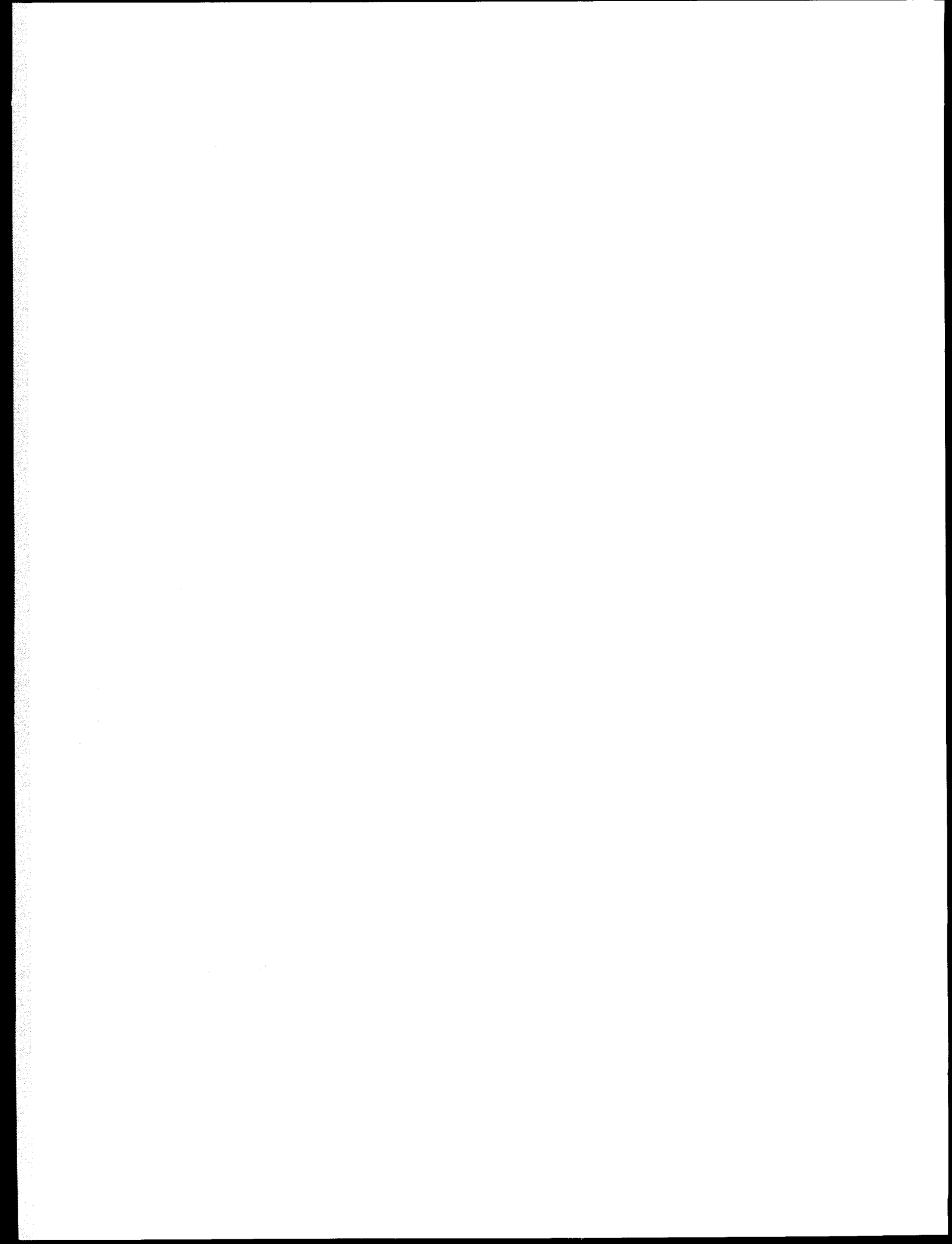
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## Limitations of Principal Statements

The principal statements have been prepared to report the financial position and results of operations of the NRC, pursuant to the requirements of the Chief Financial Officers Act of 1990.

These statements have been prepared from the books and records of the NRC in accordance with the formats prescribed by OMB. However, these statements differ from the financial reports used to monitor and control budgetary resources that are prepared from the same books and records. The principal statements should be read with the realization that they are for a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity. Other limitations are included in the footnotes to the principal statements.

The NRC's FY 1997 financial statement was audited by R. Navarro and Associates under contract to the NRC's Office of Inspector General. This section contains the results of the audit, the financial statements, and footnotes.



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**INDEPENDENT AUDITORS' REPORT AND  
PRINCIPAL STATEMENTS FOR THE  
YEARS ENDED SEPTEMBER 30, 1997 AND 1996**

**OIG/97A-17 February 13, 1998**







UNITED STATES  
NUCLEAR REGULATORY COMMISSION  
WASHINGTON, DC 20555-0001

February 13, 1998

MEMORANDUM TO: Chairman Jackson

FROM:

Hubert T. Bell  
Inspector General

A handwritten signature in cursive script, reading "Hubert T. Bell", is written over the printed name.

SUBJECT: RESULTS OF THE AUDIT OF U.S. NUCLEAR REGULATORY  
COMMISSION'S FISCAL YEAR 1997 FINANCIAL STATEMENTS

Attached is the independent auditors' report on the U.S. Nuclear Regulatory Commission's (NRC) Fiscal Year 1997 financial statements. The Chief Financial Officers (CFO) Act requires the Office of the Inspector General (OIG) to annually audit NRC's Principal Financial Statements. The report contains (1) the principal statements and the auditors' opinion on those statements, (2) the auditors' opinion on management's assertion about the effectiveness of internal controls, and (3) a report on NRC's compliance with laws and regulations. Written comments were obtained from the CFO and are included as an appendix to the independent auditors' report.

*Audit Results*

The independent auditor issued an unqualified opinion on the Statement of Financial Position, the Statements of Operations and Changes in Net Position, Cash Flows, and Budgetary Resources and Actual Expenses.

In the opinion on management's assertion about the effectiveness of internal controls, the auditor identified two new reportable conditions and closed two prior-year reportable conditions. The new conditions concern (1) business continuity (recovery) plans for financial systems, and (2) segregation of duties for certain accounting functions. The two reportable conditions closed concern (1) software capitalization procedures, and (2) payroll system integration and labor cost distribution.

The report on NRC's compliance with laws and regulations disclosed that the reportable condition relating to business continuity plans is considered a substantial noncompliance with the Federal Financial Improvement Act of 1996. Tests of compliance with selected provisions of other laws and regulations disclosed no other instances of noncompliance.

(continued on page 32)

The CFO's response to the issue relating to business continuity plans stated, "The three systems mentioned in the audit report are all scheduled for replacement within the next one to two years....The OCFO [Office of the Chief Financial Officer] and the OCIO [Office of the Chief Information Officer] will determine the cost effectiveness of developing continuity/contingency plans for the systems that are to be retired or replaced." Because this is a significant issue, we wish to reiterate and clarify our position.

The Office of Management and Budget Circular A-130 clearly requires agencies to plan for reasonable continuity of support should normal operations be disrupted. Although NRC plans to replace or retire several financial information systems, the agency should not allow its business operations to continue to be at risk. We fully understand that a strategy for cost containment is essential to any agency decision. However, unless a system replacement or retirement is imminent (e.g., the current payroll system), all systems must have some type of continuity/contingency recovery mechanism.

We did not review NRC performance data this year because NRC is in a transition period for reporting this data. Further, over the five previous fiscal years, OIG has reviewed the systems and verified data from which performance information was derived. With one exception, OIG found the prior performance data to be accurate. NRC took corrective action on that one exception. In the future, we plan to review performance data reported in NRC's annual performance plan.

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

Attachment: As stated

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***R. Navarro & Associates, Inc.***

Chairman Shirley A. Jackson  
U.S. NUCLEAR REGULATORY COMMISSION  
Washington, DC

**INDEPENDENT AUDITORS' REPORT**

We audited the U.S. Nuclear Regulatory Commission's (NRC) principal statements at September 30, 1997 and for the year then ended, as required by the *Chief Financial Officers (CFO) Act of 1990*. We found that the principal statements present fairly in all material respects. We believe that our audit provides a reasonable basis for our opinion. The principal statements of the NRC at September 30, 1996 and for the year then ended, were audited by other auditors whose report dated March 6, 1997, expressed an unqualified opinion on those statements. Management stated that the internal control structure in place at September 30, 1997, was effective in (1) safeguarding assets from material loss, (2) assuring material compliance with laws and regulations governing the use of budgetary authority and with other relevant laws and regulations, and (3) assuring that there were no material misstatements in the Principal Statements. We noted two reportable conditions in the current year. One reportable condition relating to business continuity plans is classified as a substantial noncompliance with the *Federal Financial Management Improvement Act* (FFMIA), as well.

The following section outlines our conclusions and discusses the Overview of the Reporting Entity and the scope of the audit.

**REPORT ON PRINCIPAL STATEMENTS**

The Principal Statements, including the accompanying notes, present fairly in all material respects, in conformity with a comprehensive basis of accounting other than generally accepted accounting principles, as described in Note 1 to the principal statements, NRC's:

- assets, liabilities, and net position;
- revenue, financing sources and expenses;
- cash flows; and
- budgetary resources and actual expenses.

**REPORT ON MANAGEMENT ASSERTION ABOUT THE EFFECTIVENESS OF THE INTERNAL CONTROL STRUCTURE**

We evaluated management's assertion that the NRC maintained an effective internal control structure designed to:

(continued on page 36)

***R. Navarro & Associates, Inc.***

- safeguard assets against loss from unauthorized acquisition, use or disposition;
- assure the execution of transactions in accordance with laws governing the use of budget authority and with laws and regulations that have a direct and material effect on the Principal Statements or that are listed in the *Office of Management and Budget (OMB) Bulletin 93-06*, as amended, that could have a material effect on the Principal Statements; and
- properly record, process, and summarize transactions to permit the preparation of reliable financial statements and to maintain accountability for assets.

NRC management fairly stated that internal controls in place on September 30, 1997, provided reasonable assurance that losses, noncompliance, or misstatements, material in relation to the Principal Statements, would be prevented and detected on a timely basis. Management made this assertion based upon criteria established by the *Federal Managers' Financial Integrity Act of 1982 (FMFIA)* and *OMB Circular A-123, Management Accountability and Control*.

**REPORTABLE CONDITIONS AND AUDIT FOLLOW-UP**

We noted two matters involving the internal control structure and its operation that are considered reportable conditions under the standards established by the American Institute of Certified Public Accountants and OMB Bulletin 93-06, as amended. Although not material in relation to the Principal Statements, these reportable conditions involve deficiencies in the internal control structure that, in our judgment, could adversely affect the NRC's ability to ensure that it meets the objectives of internal controls. Management considered these conditions in making their assertion on the effectiveness of the internal controls.

**CURRENT YEAR**

The matters listed below involve the design or operation of the internal control structure and warrant disclosure as reportable conditions. None are classifiable as material weaknesses.

**A. Business Continuity Plans**

Our assessment of the NRC's management control program included a review of the agency's business continuity practices for major financial management systems. The agency's major business systems include (1) the core general ledger - Federal Financial System (FFS) serviced by the U.S. Treasury Financial Management Service (FMS); (2) accounts receivable - billing for license fees; and (3) the payroll system. These systems are critical to recording, summarizing and preparing financial information. We noted that these agency systems either did not have established test plans, did not have a documented recovery plan, or did not have a plan that reflected the actual operations of the system.

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*OMB Circular A-130, Management of Federal Information Resources*, requires agencies to plan for reasonable continuity of support should normal operations be disrupted in an emergency and assigns responsibility to the Department of Commerce for developing guidance and standards for information processing systems.

Guidance provided by the Department of Commerce states [that agencies] "...ensure IT [Information Technology] systems shall develop and maintain, in an up-to-date state, contingency and disaster recovery plans which will provide reasonable assurance that critical data processing can be continued, or resumed quickly, if normal operations are interrupted. The plan for large systems supporting essential...agency functions shall be fully documented and operationally tested at least annually...."

The individual circumstances for the lack of recovery plans are described.

**General Ledger - Federal Financial System**

Prior to fiscal year (FY) 1997, FFS did not have back-up recovery capabilities, as reported by Treasury-FMS in the annual FMFIA reports. During FY 1997, the FMS reported that additional disk storage capacity was installed at the designated FFS back-up site in Austin, Texas. However, due to a lack of available budget resources, the recovery plan will not be tested and validated until sometime in FY 1998. Consequently, the condition was reported in the FMS FY 1997 FMFIA report as: "Unable to demonstrate the ability to perform data recovery and back-up capabilities of the FFS application in the event of a disaster."

**Recovery Plans for Fee Systems**

In September and December 1996, the Office of Information Resources Management certified the major fee systems based on reviews performed by a contractor. The work included: (1) creating security plans; (2) developing and executing test plans; and (3) preparing certification documents.

The results of the reviews indicated that adequate security provisions were in place. However, the contractor indicated that NRC had not developed a contingency or business resumption plan for any of the major fee systems. As of the end of our field work no plans have been developed in response to the conditions reported.

**Recovery Plans for Payroll System**

There is no current recovery plan for the payroll system. A previously existing recovery plan was not updated when the payroll Automatic Data Processing (ADP) operations were transferred from the agency's prior location about four years ago. Currently, the payroll functions are planned to move to a new payroll/personnel system in April 1998, therefore, actions planned for developing a recovery plan will focus on the new system.

(continued on page 38)



***R. Navarro & Associates, Inc.***

***Recommendation***

The CFO should establish, for systems within the agency's control, initiatives for designing recovery plans for all financial management systems. In providing such guidance, the CFO should assess the priority of each system. Furthermore, the CFO should assure that policies are issued ensuring that the design or development of any new financial management systems, and the related security and maintenance programs of such systems include the development of a plan which is documented and tested. We recognize that NRC, as a user of the FFS, does not have the leverage to compel FMS to comply with a sound disaster recovery program. Therefore, no recommendation is offered other than continued monitoring of this condition through the user group.

***CFO's Comments***

"Agency financial systems are currently undergoing major changes. The three systems mentioned in the audit report are all scheduled for replacement within the next one to two years. The Federal Financial System (FFS) and the accounts receivable/license fee billing system will be replaced by the new agency-wide resource management system STARFIRE. The Payroll System will be replaced by the Payroll/Personnel (PAY/PERS) System. The OCFO [Office of Chief Financial Officer] and the OCIO [Office of Chief Information Officer] will determine the cost effectiveness of developing continuity/contingency plans for the systems that are to be retired or replaced. The OCFO and OCIO will then jointly prepare a plan by June 1, 1998 to develop the required continuity/contingency plans for continuing financial systems. These plans will be developed in accordance with OMB Circular A-130, Management of Federal Information Resources, and NRC System Development and Life Cycle Management (SDLCM) Methodology."

***Auditors' Position***

OMB Circular A-130 clearly requires agencies to plan for reasonable continuity of support should normal operations be disrupted. Although NRC plans to replace or retire several financial information systems, the agency should not allow its business operations to continue to be at risk. We fully understand that NRC has a variety of initiatives in place and that a strategy for cost containment is essential to any agency decision. The remediation plan that the CFO and the Chief Information Officer (CIO) will develop and deliver to the Office of the Inspector General (OIG) by June 1, 1998, must focus on managing the NRC's existing business continuity risks and provide detailed steps and timetables that will be used as a framework to minimize such risks. Unless a system replacement or retirement is imminent (e.g. the current payroll system) all systems must have continuity/contingency plans. We further believe that the framework developed under the remediation plan should provide a basis for developing continuity/contingency plans for any planned financial systems.

***B. Segregation of Duties - FFS***

NRC uses the FFS as its primary accounting system. The Division of Accounting and Finance (DAF), OCFO is responsible for maintaining FFS, including controlling access. FFS access is controlled by hierarchical access profiles that range from inquiry only access to the "system administrator" profile that permits unrestricted system access and updating security tables.

At September 30, 1997, there were 92 active FFS users with varying access levels depending on their functions. At that time, eight DAF employees held a "lead accountant" access profile which ranks just below the "system administrator" profile. The "lead accountant" profile allows holders to enter transactions and change any existing transaction or table except for the security tables. At least three of these employees are also responsible for reconciling FFS output to source documents or to output from other systems including the payroll system.

Thus, the employees holding "lead accountant" profiles and preparing reconciliations are performing incompatible functions from an internal control perspective because they are in a position to both commit errors and irregularities and to conceal them in the course of discharging their normal duties.

The General Accounting Office's (GAO) *Standards for Internal Controls in the Federal Government* state "...key duties and responsibilities in authorizing, processing, recording, and reviewing transactions should be separated among individuals."

***Recommendation***

The CFO should reduce the number of persons holding the 'lead accountant' access profile and/or implement additional compensating controls. The compensating controls could include requiring supervisory review and certification of reconciliations and their resulting journal vouchers.

***CFO's Comments***

"The OCFO will examine those persons holding the "lead accountant" access profile and determine whether it is appropriate to make any changes to access profiles. In addition, the OCFO will institute compensating controls consisting of review and certification of reconciliations and their resulting journal vouchers by the Financial Team Leader."

***Auditors' Position***

The actions described by the CFO should strengthen the design of controls over segregation of duties. The CFO should advise the OIG when the controls have been redesigned, in order that during a subsequent audit, controls can be tested to verify implementation of the corrective action.

(continued on page 40)

**R. Navarro & Associates, Inc.**

**PRIOR YEAR**

**CAPITALIZATION PROCEDURES FOR ADP SOFTWARE NEED IMPROVEMENT**

The FY 1996 audit disclosed a need for improvements to software capitalization procedures. This finding represented a continuing OIG concern about NRC's financial reporting of property. While OIG raised and the NRC has resolved similar issues over the past few years, it was believed that the issue indicated a continuing concern and must be identified as a reportable condition.

In the current year, NRC addressed the practice used for properly identifying and classifying software acquisitions in a memorandum dated August 19, 1997. The procedures outlined in the memorandum provide adequate resolution, therefore, this issue is closed.

**PAYROLL SYSTEM MUST BE INTEGRATED WITH THE GENERAL LEDGER AND POSSESS LABOR DISTRIBUTION CAPABILITIES.**

In the FY 1995 audit, OIG reported that NRC's accounting system did not include all of the necessary general accounting controls to produce timely and accurate financial information needed to prepare complete financial reports as required by OMB Bulletin 94-01, *Form and Content of Agency Financial Statements*. The principal weaknesses and issues that remained were:

- the compatibility and integration of the NRC general ledger and subsystems used by NRC for payroll did not provide labor cost distribution capabilities.
- heavy reliance on manual inputs due to the use of incompatible subsystems.

During the current year, NRC developed a year-end methodology using cost center data to present program costs by budgetary program. Furthermore, the guidance provided by FFMIA no longer requires integration of financial systems. Both these actions, presentation of costs by program and the FFMIA, enable us to close this condition.

**REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS**

Our tests of compliance with selected provisions of laws and regulations disclosed no instances of noncompliance, except the reportable condition relating to business continuity plans which is considered a substantial noncompliance with FFMIA, that would be reportable under *Government Auditing Standards* or OMB Bulletin 93-06, *Audit Requirements for Federal Financial Statements*, as amended. However, the objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

### **MATTER OF EMPHASIS**

NRC's principal statements include reimbursable expenses of the U.S. Department of Energy (DOE) National Laboratories. For FY 1997 and 1996, NRC's Statement of Operations included approximately \$79 and \$89 million, respectively, of reimbursed expenses, which represent approximately 14% and 17%, respectively, of total expenses. Our audit included testing these expenses and financing sources for compliance with laws and regulations within NRC. The work placed with DOE is under the auspices of a Memorandum of Understanding between NRC and DOE. The examination of DOE National Laboratories for compliance with laws and regulations is DOE's responsibility. This responsibility was further clarified by a memorandum of the GAO's Assistant General Counsel, dated March 6, 1995, where he opined that "...DOE's inability to assure that its contractors' costs [National Laboratories] are legal and proper...does not compel a conclusion that NRC has failed to comply with laws and regulations." DOE also has the cognizant responsibility to assure audit resolution and should provide the results of its audits to NRC.

### **CONSISTENCY OF OTHER INFORMATION**

The overview of the NRC, program performance output measures, and other supplemental financial and management information sections contain a wide range of data, some of which is not directly related to the Principal Statements. We do not express an opinion on this information. We have, however, compared this information for consistency with the Principal Statements and discussed the measurement and presentation methods with NRC management. Based on this limited effort, we found no material inconsistencies with the Principal Statements or noncompliance with OMB guidance.

### **OBJECTIVES, SCOPE AND METHODOLOGY**

NRC management is responsible for (1) preparing the Principal Statements in conformity with the basis of accounting described in Note 1 to the principal statements, (2) establishing, maintaining, and assessing the internal control structure to provide reasonable assurance that the broad control objectives of FMFIA are met, and (3) complying with applicable laws and regulations including the requirements referred to in FFMIA.

We are responsible for expressing an opinion on whether (1) the Principal Statements are free of material misstatement and presented fairly, in all material respects, in conformity with the basis of accounting described in Note 1 to the principal statements, and (2) for obtaining reasonable assurance whether management's assertion about the effectiveness of the internal control structure is fairly stated, in all material respects, based upon criteria established by FMFIA and OMB Circular A-123, *Management Accountability and Control*. As of the date of our report, NRC management had completed its evaluation of financial controls.

(continued on page 42)

***R. Navarro & Associates, Inc.***

We are also responsible for testing compliance with selected provisions of laws and regulations and for performing limited procedures with respect to certain other information in this annual financial statement. In order to fulfill these responsibilities, we:

- examined, on a test basis, evidence supporting the amounts and disclosures made in the Principal Statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the principal statements;
- obtained an understanding of the internal control structure related to safeguarding of assets, compliance with laws and regulations including execution of transactions in accordance with budget authority and financial reporting, in the principal statements;
- assessed control risk and tested relevant internal controls over safeguarding of assets, compliance, and financial reporting and evaluated management's assertion about the effectiveness of internal control;
- tested compliance with selected provisions of the following laws and regulations: Anti-Deficiency Act (Title 31 U.S.C.), National Defense Appropriation Act (PL 101-510), Omnibus Budgetary Reconciliation Act of 1990 (PL 101-508), Debt Collection Act of 1982 (PL 97-365), Prompt Pay Act (PL 97-177), Civil Service Retirement Act of 1930, Civil Service Reform Act (PL 97-454), Federal Managers' Financial Integrity Act (PL 97-255), CFO's Act (PL 101-576), Budget and Accounting Act, Federal Financial Management Improvement Act (PL 104-208); and,
- reviewed compliance and reported in accordance with FFMIA whether the agency's financial management systems substantially comply with the Federal financial management system requirements, applicable accounting standards and the U.S. Standard General Ledger at the transaction level.

We did not evaluate all internal controls relevant to operating objectives as broadly as defined in FMFIA, such as those controls for preparing statistical reports and those for ensuring efficient and effective operations. We limited our internal control tests to those necessary to achieve the objectives described in our opinion on management's assertion about the effectiveness of internal controls. Because of inherent limitations in any internal control structure, losses, noncompliance, or misstatements may nevertheless occur and not be detected. Also, projection of any evaluation of the internal control structure over financial reporting to future periods is subject to the risk that the internal control structure may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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*R. Navarro & Associates, Inc.*

We performed our work in accordance with generally accepted auditing standards, *Government Auditing Standards* and OMB Bulletin 93-06, *Audit Requirements for Federal Financial Statements*, as amended.

**AGENCY COMMENTS**

On February 6, 1998, the CFO responded to the Inspector General on our draft report and addressed the two recommendations noted in the report. The CFO did not provide specific remedial actions for the substantial non-compliance relating to business continuity. However, the CFO has indicated that a [remediation] plan will be prepared by June 1, 1998, in conjunction with the CIO. Based on our review of the CFO's comments, we are satisfied that the actions described meet the intent of our recommendations and FFMIA guidelines. The CFO's comments are appended to this report in their entirety.

Under separate cover, comments will be provided to NRC management outlining opportunities for strengthening internal control and operating efficiency. We appreciate NRC staff's cooperation and continued interest in improving financial management within the agency.

This report is intended solely for the use of management of the U.S. Nuclear Regulatory Commission and the Office of Inspector General. This restriction is not intended to limit the distribution of this report, which upon acceptance by the Office of Inspector General is a matter of public record.

*R. Navarro & Associates, Inc.*

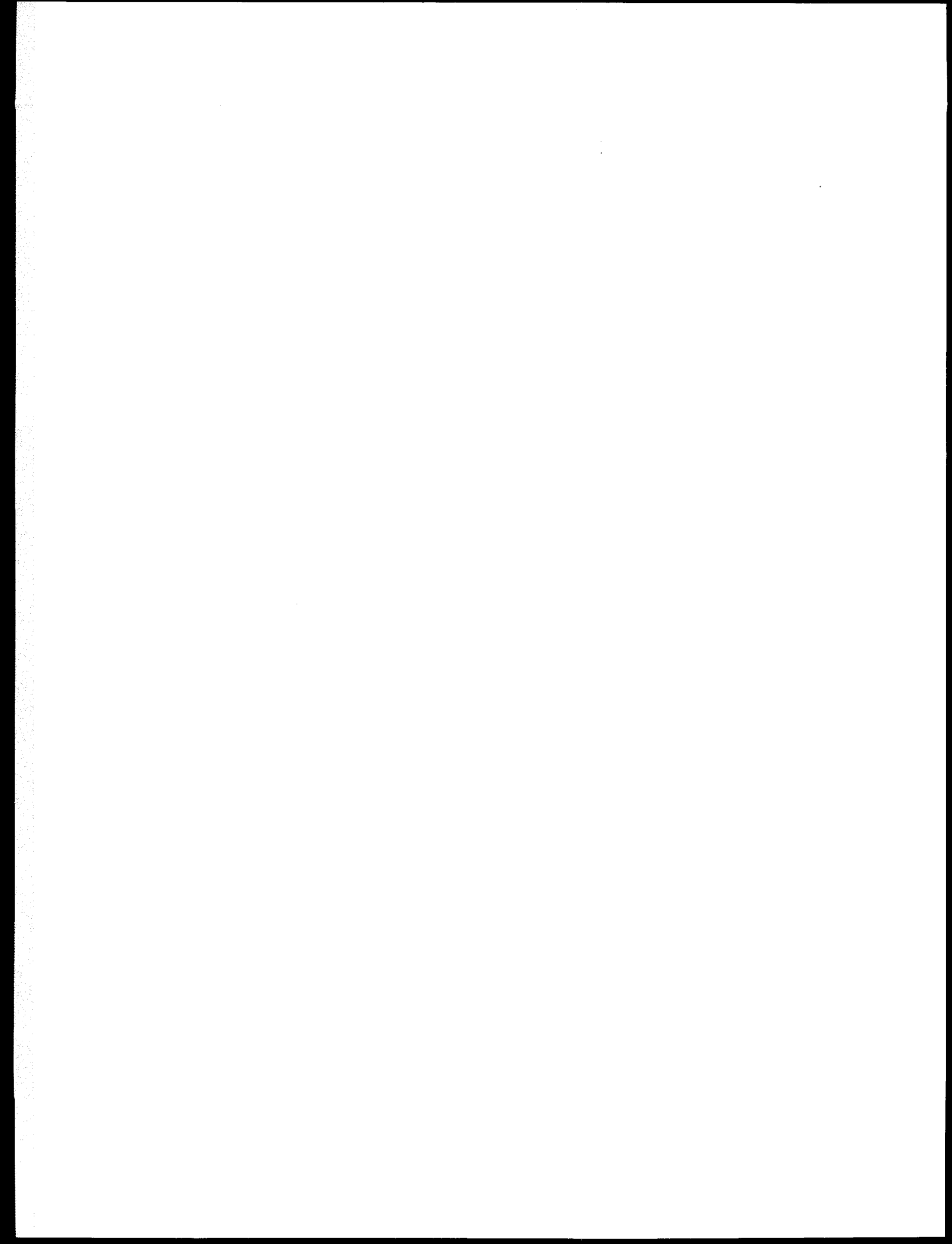
January 23, 1998



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**PRINCIPAL STATEMENTS  
FOR FISCAL YEAR 1997  
U. S. NUCLEAR REGULATORY COMMISSION**





**STATEMENT OF FINANCIAL POSITION**  
**September 30, 1997 and 1996**

ASSETS	<u>1997</u>	<u>1996</u>
<b>Entity Assets:</b>		
<i>Intragovernmental assets:</i>		
Fund balances with Treasury (Note 2)	\$176,556,311	\$210,748,055
Accounts receivable (Note 3)	3,019,507	5,822,652
Advances and prepayments (Note 4)	2,948,348	4,948,524
<i>Governmental assets:</i>		
Accounts receivable, net (Note 3)	28,854,870	24,079,551
Advances and prepayments (Note 4)	512,767	472,592
<i>Property and equipment, net (Note 5)</i>	<u>35,798,569</u>	<u>38,189,091</u>
<b>Total entity assets</b>	<u>\$247,690,372</u>	<u>\$284,260,465</u>
<b>Non-Entity Assets:</b>		
<i>Governmental assets:</i>		
Accounts receivable, net (Note 3)	<u>55,061</u>	<u>312,470</u>
<b>Total non-entity assets</b>	<u>55,061</u>	<u>312,470</u>
<b>Total assets</b>	<u>\$247,745,433</u>	<u>\$284,572,935</u>

(continued on page 48)

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

**STATEMENT OF FINANCIAL POSITION (Continued)**  
**September 30, 1997 and 1996**

<b>LIABILITIES</b>	<b><u>1997</u></b>	<b><u>1996</u></b>
<b>Liabilities Covered By Budgetary Resources:</b>		
<i>Intragovernmental liabilities:</i>		
Accounts payable and advances (Note 6)	\$ 12,775,896	\$ 11,805,497
Other intragovernmental liabilities (Note 8)	30,754,696	26,519,644
<i>Governmental liabilities:</i>		
Accounts payable (Note 6)	21,155,283	21,229,287
Other governmental liabilities (Note 8)	5,525,519	7,143,659
Accrued payroll and benefits (Note 7)	<u>12,450,388</u>	<u>11,527,847</u>
<b>Total liabilities covered by budgetary resources</b>	<b><u>\$ 82,661,782</u></b>	<b><u>\$ 78,225,934</u></b>
<b>Liabilities Not Covered By Budgetary Resources:</b>		
<b>Governmental liabilities:</b>		
Other governmental liabilities (Note 9)	<u>36,635,843</u>	<u>32,710,987</u>
<b>Total liabilities not covered by budgetary resources</b>	<b><u>36,635,843</u></b>	<b><u>32,710,987</u></b>
<b>Total liabilities</b>	<b><u>\$119,297,625</u></b>	<b><u>\$110,936,921</u></b>
<b>NET POSITION</b>		
<b>Balances (Note 11):</b>		
Unexpended appropriations	129,285,082	168,157,910
Invested capital	35,798,569	38,189,091
Future funding requirements	<u>(36,635,843)</u>	<u>(32,710,987)</u>
<b>Total net position</b>	<b><u>\$128,447,808</u></b>	<b><u>\$173,636,014</u></b>
<b>Total liabilities and net position</b>	<b><u>\$247,745,433</u></b>	<b><u>\$284,572,935</u></b>

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

**STATEMENT OF OPERATIONS AND CHANGES IN NET POSITION**  
for the years ended September 30, 1997 and 1996

<b>REVENUES AND FINANCING SOURCES</b>	<b>1997</b>	<b>Restated 1996</b>
Appropriated capital used (Note 12)	\$ 62,086,597	\$ 52,837,295
Other revenues and financing sources (Note 14)	477,704,094	452,184,128
Excess (shortage) of current year receipts of fees over billings	(4,707,194)	14,633,020
Imputed financing (Note 13)	19,976,493	20,478,243
Less: Receipts transferred to the Treasury or other agencies	<u>(6,055,409)</u>	<u>(2,925,845)</u>
<b>Total revenues and financing sources</b>	<b><u>\$549,004,581</u></b>	<b><u>\$537,206,841</u></b>
<b>EXPENSES</b>		
Operating Expenses		
Personnel services and benefits	\$291,993,719	\$283,521,310
Travel and transportation	15,451,061	16,174,764
Rent, communication, and utilities	26,276,698	25,240,443
Printing and reproduction	1,605,504	1,579,151
Contractual services	194,959,500	189,329,595
Supplies and materials	13,829,863	12,868,778
Grants, subsidies, and contributions	1,653,680	1,486,946
Insurance claims and indemnities and other	<u>40,903</u>	<u>101,991</u>
Total operating expenses	<u>545,810,928</u>	<u>530,302,978</u>
Depreciation and amortization (Note 5)	6,462,011	8,540,608
Interest	3,370	4,683
Other expenses (Note 17)	<u>653,130</u>	<u>17,101</u>
<b>Total expenses</b>	<b><u>\$552,929,439</u></b>	<b><u>\$538,865,370</u></b>
<b>Excess or (shortage) of revenues and financing sources over total expenses (Note 18)</b>	<b><u>\$ (3,924,858)</u></b>	<b><u>\$ (1,658,529)</u></b>
<b>Net position, beginning balance</b>	<b>\$173,636,014</b>	<b>\$209,483,290</b>
Excess (shortage) of revenues and financing sources over expenses	(3,924,858)	(1,658,529)
Plus non-operating changes (Note 19)	<u>(41,263,348)</u>	<u>(34,188,747)</u>
<b>Net position, ending balance</b>	<b><u>\$128,447,808</u></b>	<b><u>\$173,636,014</u></b>

(continued on page 50)

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

**STATEMENT OF CASH FLOWS**  
for the years ended September 30, 1997 and 1996

<b>CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>1997</b>	<b>1996</b>
<b>Cash Provided:</b>		
Fees for licensing, inspection, and other services (Note 12)	\$ 458,626,753	\$ 454,049,125
Other operating cash provided	<u>8,968,118</u>	<u>8,450,745</u>
<b>Total cash provided</b>	<b>\$ 467,594,871</b>	<b>\$ 462,499,870</b>
<b>Cash Used:</b>		
Personnel services and benefits	(267,638,742)	(259,816,269)
Travel and transportation	(15,766,363)	(16,275,698)
Rent, communications, and utilities	(25,184,924)	(26,342,185)
Printing and reproduction	(1,670,930)	(1,554,538)
Other contractual services	(188,142,460)	(193,678,520)
Supplies and materials	(14,406,394)	(11,162,708)
Insurance claims and indemnities	(44,125)	(98,271)
Grants, subsidies, and contributions	(1,489,740)	(1,527,452)
Other operating cash used	<u>(1,900,841)</u>	<u>(6,867,038)</u>
<b>Total cash used</b>	<b>\$(516,244,519)</b>	<b>\$(517,322,679)</b>
<b>Net cash used by operating activities</b>	<b>\$ (48,649,648)</b>	<b>\$ (54,822,809)</b>
<b>CASH USED BY INVESTING ACTIVITIES</b>		
Purchase of property and equipment	<u>(6,365,343)</u>	<u>(11,680,069)</u>
<b>Net cash used by investing activities</b>	<b>\$ (6,365,343)</b>	<b>\$ (11,680,069)</b>
<b>CASH PROVIDED BY FINANCING ACTIVITIES</b>		
Appropriations	18,173,247	18,536,875
Add: Transfers of cash from others	<u>2,650,000</u>	<u>111,672</u>
<b>Net appropriations</b>	<b>\$ 20,823,247</b>	<b>\$ 18,648,547</b>
<b>Net cash provided by financing activities</b>	<b>\$ 20,823,247</b>	<b>\$ 18,648,547</b>

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

**STATEMENT OF CASH FLOWS (Continued)**  
for the years ended September 30, 1997 and 1996

	<u>1997</u>	<u>1996</u>
<b>Net cash provided (used) by operating, investing, and financing activities</b>	\$ (34,191,744)	\$ (47,854,331)
<b>Fund balances with Treasury, beginning</b>	<u>210,748,055</u>	<u>258,602,386</u>
<b>Fund balances with Treasury, ending</b>	<u>\$176,556,311</u>	<u>\$210,748,055</u>
<b><i>Reconciliation of Shortage of Revenues and Financing Sources Over Total Expenses:</i></b>		
Excess (shortage) of revenue and financing sources over total expenses	\$ (3,924,858)	\$ (1,658,529)
Adjustments to Reconcile Shortage Of Revenues and Financing Sources Over Total Expenses to Net Cash Provided by Operating Activities:		
Appropriated capital used	(62,086,597)	(52,837,295)
Decrease (increase) in accounts receivable	2,740,306	(2,823,343)
Decrease (increase) in other assets	1,960,001	(2,258,975)
Increase (decrease) in accounts payable	896,395	(887,331)
Increase (decrease) in other liabilities	(911,952)	(6,682,254)
Depreciation and amortization	6,462,011	8,540,608
Other unfunded expenses	3,924,858	1,658,529
Other adjustments	<u>2,290,188</u>	<u>2,125,781</u>
<b>Total adjustments</b>	<u>(44,724,790)</u>	<u>(53,164,280)</u>
<b><i>Net Cash Used by Operating Activities</i></b>	<u>\$ (48,649,648)</u>	<u>\$ (54,822,809)</u>

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

**STATEMENT OF BUDGETARY RESOURCES AND ACTUAL EXPENSES**  
for the years ended September 30, 1997 and 1996

Program Name (Note 15)	Budget		Actual 1997	Restated Actual 1996
	Resources	Obligations		
		Direct	Reimbursements	Expenses
Regulatory Program	\$227,669,016	\$223,768,332	\$ 894,825	\$238,846,031
Regulatory Effectiveness Program	119,111,948	111,459,273	3,835,296	132,520,693
Management and Support Program	164,003,050	156,423,699	1,941,596	167,707,506
Regulation of DOE Program	3,500,000	2,584,705	163,175	1,661,955
Inspector General Program	6,877,839	5,245,692	-	5,263,367
Depreciation and amortization expenses not allocated to programs				
Other expenses not allocated to programs				6,462,011
Unissued allowances-funds not assigned to programs				467,876
Totals	<u>14,525,133</u> <u>\$535,686,986</u>	<u>-</u> <u>\$499,481,701</u>	<u>-</u> <u>\$6,834,892</u>	<u>\$538,865,370</u>
<b>Budget Reconciliation:</b>				
<b>Total expenses</b>			\$552,929,439	\$538,865,370
Add: Capital acquisitions			6,365,343	11,680,069
Other expended budget authority			(1,698,068)	(2,105,885)
Less: Expenses not covered by available budgetary resources:				
Depreciation and amortization			(6,462,011)	(8,540,608)
Unfunded annual leave expense			(546,501)	(795,701)
Unfunded workers' compensation expense			(3,378,357)	(862,828)
Employer's pension benefit paid by others			(19,976,493)	(20,478,243)
Accrued expenditures			527,233,352	517,762,174
Less reimbursements			(8,311,063)	(9,842,179)
<b>Accrued expenditures, direct</b>			<u>\$518,922,289</u>	<u>\$507,919,995</u>

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

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**NOTES TO PRINCIPAL STATEMENTS**  
*September 30, 1997 and 1996*

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. *Basis of Presentation***

These principal statements were prepared to report the financial position and results of operations of the U.S. Nuclear Regulatory Commission (NRC) as required by the Chief Financial Officers Act of 1990. The principal statements were prepared from the books and records of NRC in accordance with the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in OMB Bulletins 94-01 and 97-01 and NRC accounting policies summarized in this note. These statements are, therefore, different from the financial reports, also prepared by the NRC pursuant to OMB directives, which are used to monitor and control NRC's use of budgetary resources.

**B. *Reporting Entity/Program Name***

The NRC is an independent regulatory agency of the Federal Government that was created by the U.S. Congress to regulate the Nation's civilian use of byproduct, source, and special nuclear materials to ensure adequate protection of the public health and safety, to promote the common defense and security, and to protect the environment. Its purposes are defined by the Energy Reorganization Act of 1974, as amended, along with the Atomic Energy Act of 1954, as amended, which provide the foundation for regulating the Nation's civilian uses of nuclear materials.

NRC has two appropriations:

- 31X0200 - Salaries and Expenses
- 31X0300 - Office of Inspector General

The 31X0200 appropriation includes approximately \$11 million for FY 1997 and for FY 1996 of funds derived from the Nuclear Waste Fund in accordance with the provisions of Public Law 104-206. Public Law 104-134 rescinded \$0.7 million from the FY 1996 NRC Salaries and Expenses Appropriation.

In addition, \$2.65 million and \$0.5 million of the appropriation received by the U.S. Agency for International Development for FY 1997 and 1996, respectively, was transferred for the Nuclear Safety Assistance Program in Russia, Armenia, Kazakhstan and the Ukraine which is under the control of NRC. The accompanying financial statements of NRC include the accounts of all funds under NRC control.

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**NOTES TO PRINCIPAL STATEMENTS**  
**September 30, 1997 and 1996**

**C.     *Budgets and Budgetary Accounting***

For the past 23 years, Congress has enacted no-year appropriations which are available for obligation by NRC until expended. The Omnibus Budget Reconciliation Act (OBRA) of 1990 requires NRC to recover approximately 100 percent of its new budget authority, less the amount derived from the Nuclear Waste Fund, by assessing fees. For FY 1997, Congress appropriated funds for the commercial vitrification of high-level radioactive waste at the Hanford, Washington, site. These funds are exempt from the requirement in OBRA for fee recovery. At the end of the fiscal year, NRC's appropriations are reduced by the amount of revenues collected during the fiscal year.

**D.     *Basis of Accounting***

Transactions are recorded on both an accrual accounting basis and on a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and control over the use of Federal funds.

**E.     *Revenues and Other Financing Sources***

Licensing fees and fees for inspections and other services, assessed in accordance with OBRA, are recognized as other financing sources when earned.

For reporting purposes, appropriations are recognized as revenues (Appropriated Capital Used) at the time expenses are accrued. At the end of the fiscal year, appropriations recognized are reduced by the amount of assessed fees collected during the fiscal year to the extent of new budget authority for the year. Collections which exceed the new budget authority are held to offset subsequent years' appropriations. Appropriations expended for property and equipment are recognized as expenses when the asset is consumed in operations (depreciation and amortization). Appropriated Capital Used does not include (a) appropriations used to purchase capital items; (b) expenses incurred but not yet funded by Congress, such as workers' compensation benefits and annual leave expenses; and (c) expenses which are paid by other Federal agencies, such as retirement benefits. The differences between the accrual basis recognition of appropriations expensed and the budgetary basis recognition of outlays are presented in the Statement of Budgetary Resources and Actual Expenses.

Miscellaneous receipts collected by NRC are not available to NRC for obligation or expenditure. These receipts must be transferred to the U.S. Treasury when collected.

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**NOTES TO PRINCIPAL STATEMENTS**  
**September 30, 1997 and 1996**

**F. *Funds with the U.S. Treasury and Cash***

NRC cash receipts and disbursements are processed by the U.S. Treasury. The fund balances with the Treasury and cash are primarily appropriated funds that are available to pay current liabilities and to finance authorized purchase commitments. Cash balances held outside the U.S. Treasury are not material.

**G. *Accounts Receivable, Net of Allowance***

The amounts due for receivables, except those due from Federal agencies, are stated net of an allowance for uncollectible accounts. Since receivables from Federal agencies are expected to be collected, there is no allowance for uncollectible accounts. The estimate of the allowance is based on an analysis of the outstanding balances and the application of estimated uncollectible percentages to categories of aged receivable balances.

**H. *Advances***

NRC makes cash payments to other Federal agencies, employees, grantees, and contractors to provide for future NRC program expenditures. These advance payments are recorded as assets which are reduced when NRC receives reports of expenditures or when accruals of cost estimates are made.

**I. *Property and Equipment***

The NRC's property and equipment consists primarily of typical office furnishings, nuclear reactor simulators, and computer hardware and software. The agency has no real property and loan or loan guarantee programs.

The land and buildings in which NRC operates are provided by the General Services Administration (GSA), which charges NRC rent that approximates the commercial rental rates for similar properties.

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

Property is depreciated using the straight-line method over useful lives which range from 5 to 20 years.

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**NOTES TO PRINCIPAL STATEMENTS**  
**September 30, 1997 and 1996**

**J.     *Prepaid and Deferred Charges***

Payments in advance of the receipt of goods and services are recorded as prepaid charges at the time of prepayment and are recognized as expenditures/expenses when the related goods and services are received.

**K.     *Liabilities***

Liabilities represent the amount of monies or other resources that are likely to be paid by NRC as the result of a transaction or event that has already occurred. However, no liability can be paid by NRC absent an appropriation. Liabilities for which an appropriation has not been enacted and for which there is no certainty that an appropriation will be enacted are classified as Liabilities not Covered by Budgetary Resources. Also, NRC liabilities arising from sources other than contracts can be abrogated by the Government acting in its sovereign capacity.

**L.     *Contingencies***

NRC is a party to various administrative proceedings, legal actions, environmental suits, and claims brought by or against it. Based on the advice of legal counsel concerning contingencies, it is the opinion of management that the ultimate resolution of these proceedings, actions, suits, and claims will not materially affect the agency's financial position or results of operations.

**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.

Sick leave and other types of nonvested leave are expensed as taken.

**N.     *Retirement Plans***

NRC employees hired after December 31, 1983, are automatically covered by the Federal Employees' Retirement System (FERS), which was implemented on January 1, 1987. Employees hired prior to that date could elect to join FERS or to remain in the Civil Service Retirement System (CSRS). Approximately 60 percent of NRC employees belong to CSRS and 40 percent belong to FERS. In FY 1997 and 1996, for employees in FERS, NRC withheld 0.8 percent of base pay earnings in addition to Federal Insurance Contribution Act (FICA) withholdings and matched the withholding with an 11.4 percent contribution. The sum was transferred to the Federal Employees Retirement Fund.

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**NOTES TO PRINCIPAL STATEMENTS**  
**September 30, 1997 and 1996**

The FY 1997 contribution resulted in approximately \$622,000 being paid in excess of NRC's pension expense for the year. For employees covered by CSRS, NRC withholds 7 percent of their base pay earnings. This withholding is matched by NRC and the sum of the withholding and the match is transferred to the CSRS.

On April 1, 1987, the Federal government initiated the Thrift Savings Plan (TSP) which is a retirement savings and investment plan for employees covered by either FERS or CSRS. For employees covered by FERS, NRC automatically contributes one percent of base pay to their account and matches contributions up to an additional four percent. The maximum percentage that an employee participating in FERS may contribute is 10 percent of base pay. Employees covered by CSRS may contribute up to five percent of their base pay, but there is no NRC matching of the contribution. The maximum amount that either FERS or CSRS employees may contribute to the plan in a calendar year is \$9,500. The sum of the employees' and NRC's contributions is transferred to the Federal Retirement Thrift Investment Board.

The NRC does not report on its financial statements FERS and CSRS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of the Office of Personnel Management. The portion of the current and estimated future outlays for CSRS not paid by NRC is included in NRC's financial statements as an imputed financing source (Note 13).

**O. Net Position**

The NRC's net position consists of the following components:

1. **Unexpended appropriations** which include the undelivered orders and unobligated balances of NRC's funds. All NRC appropriations remain available for obligation until expended.
2. **Invested capital** which represents U.S. Government resources invested in NRC's property and equipment. Increases to invested capital are recorded when assets are acquired with direct appropriations, and decreases are recorded as a result of the depreciation, amortization, and disposition of capital assets.
3. **Future funding requirements** which represent (a) accumulated annual leave earned but not taken as of the financial statement date and (b) actual and estimated future payments to be made for worker's compensation pursuant to the Federal Employees Compensation Act (FECA). The expense for these accruals is not funded from current appropriations, but rather will be funded from future appropriations and assessments.

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**NOTES TO PRINCIPAL STATEMENTS**  
**September 30, 1997 and 1996**

**P. Department of Energy Charges**

Financial transactions between the Department of Energy (DOE) and NRC are fully automated through the U.S. Treasury's On-Line Payment and Collection (OPAC) System. The OPAC System allows DOE to collect amounts due from NRC directly from NRC's account at the U.S. Treasury for goods and/or services rendered. Project manager verification of goods and/or services received is subsequently accomplished through a system-generated voucher approval system. The vouchers are returned to the Division of Accounting and Finance documenting that the charges have been accepted. For FY 1997, NRC made approximately \$79.5 million in payments to DOE in this manner for research conducted by the DOE National Laboratories.

**Q. Restatement**

Certain amounts for FY 1996 have been restated to conform with the FY 1997 presentation.

**NOTE 2. FUND BALANCES WITH THE U.S. TREASURY**

Fund balances with the U.S. Treasury consist of the following amounts as of September 30, 1997 and 1996:

	<u>1997</u>	<u>1996</u>
Appropriated funds:		
Obligated	\$153,920,505	\$180,045,631
Unobligated	<u>21,257,563</u>	<u>28,682,412</u>
	175,178,068	208,728,043
Other fund types	<u>1,378,243</u>	<u>2,020,012</u>
	<u>\$176,556,311</u>	<u>\$210,748,055</u>

U.S. Government cash is handled on an overall consolidated basis by the U.S. Treasury. "Funds with Treasury" represent NRC's right to draw on the U.S. Treasury for allowable expenditures. All amounts are available to NRC for current use. The obligated and unobligated balances exclude amounts related to unfilled customer orders.

**NOTES TO PRINCIPAL STATEMENTS**  
**September 30, 1997 and 1996**

**NOTE 3. ACCOUNTS RECEIVABLE, NET**

Accounts receivable, net, is composed of the following amounts as of September 30, 1997 and 1996:

**Entity Assets**

**Intragovernmental** accounts receivable consists primarily of receivables and reimbursements due from other Federal agencies which were \$3,019,507 and \$5,822,652 at September 30, 1997 and 1996, respectively.

**Governmental** accounts receivable is comprised of the following amounts as of September 30, 1997 and 1996:

	<u>1997</u>	<u>1996</u>
Materials and facilities fees - billed	\$ 4,270,361	\$ 3,532,779
Materials and facilities fees - unbilled	25,475,254	22,667,134
Other	<u>121,624</u>	<u>103,295</u>
Total accounts receivable	\$29,867,239	26,303,208
Less: Allowance for uncollectible accounts	<u>(1,012,369)</u>	<u>(2,223,657)</u>
Accounts receivable, net	<u>\$28,854,870</u>	<u>\$24,079,551</u>

Governmental accounts receivable represents primarily amounts due for fees assessed for licensing and inspections of nuclear facilities and radioactive materials and other services. In the year collected, the amounts will be used to offset NRC's appropriations.

**Non-Entity Assets**

**Governmental** accounts receivable, net, represents miscellaneous amounts due from the public (\$55,061 and \$312,470 at September 30, 1997 and 1996, respectively), which, when collected, must be transferred to the U.S. Treasury.

The NRC's methodology to estimate the allowance for uncollectible accounts is based on an analysis of the outstanding balances and the application of estimated uncollectible percentages to categories of aged receivable balances.

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**NOTES TO PRINCIPAL STATEMENTS**  
**September 30, 1997 and 1996**

**NOTE 4. ADVANCES AND PREPAYMENTS**

Advances and prepayments as of September 30, 1997 and 1996, consist primarily of the following:

	<u>1997</u>	<u>1996</u>
<b>Entity Assets</b>		
<b>Intragovernmental:</b>		
Advances - other Federal agencies	\$2,325,666	\$4,948,524
Prepayment - pension expenses	<u>622,682</u>	<u>-</u>
	<u>\$2,948,348</u>	<u>\$4,948,524</u>
<b>Governmental:</b>		
Advances	<u>\$ 512,767</u>	<u>\$ 472,592</u>

Advances and prepayments are recorded as assets until receipt of the goods or services involved or until contract terms are met. When goods or services are received or contract terms are met, the advance or prepayment is reduced and the expense or acquired asset is recognized.

**NOTE 5. PROPERTY AND EQUIPMENT, NET**

Property and equipment, net, consists of the following as of September 30, 1997 and 1996:

	<u>Service Years</u>	<u>Acquisition Value</u>	<u>Accumulated Depreciation</u>	<u>1997 Net Book Value</u>	<u>1996 Net Book Value</u>
<b><u>Fixed Assets Class</u></b>					
Equipment	5-8	\$ 26,587,156	\$(20,400,890)	\$ 6,186,266	\$ 8,081,496
ADP software	5	45,249,731	(42,526,961)	2,722,770	4,915,553
ADP software under development		11,340,853	-	11,340,853	9,002,437
Leasehold improvements	5-20	19,181,964	(3,633,284)	15,548,680	14,625,594
Leasehold improve- ments in progress		-	-	-	1,564,011
Total		<u>\$102,359,704</u>	<u>\$(66,561,135)</u>	<u>\$35,798,569</u>	<u>\$38,189,091</u>

**NOTES TO PRINCIPAL STATEMENTS**  
**September 30, 1997 and 1996**

The straight-line depreciation method is used for all classes of fixed assets. Depreciation expense for FY 1997 and 1996 was \$6,462,011 and \$8,540,608, respectively.

The land and buildings occupied by NRC are provided by GSA. For FY 1997 and 1996, GSA charged NRC \$19,499,176 and \$24,100,381, respectively, for the use of these facilities based on a rental fee which is to approximate the commercial rates for similar properties.

**NOTE 6. ACCOUNTS PAYABLE AND ADVANCES**

Accounts payable and advances consist of the following as of September 30, 1997 and 1996:

	<u>1997</u>	<u>1996</u>
<b>Intragovernmental:</b>		
<b>Accounts payable</b>		
Department of Energy	\$ 7,079,111	\$ 9,368,752
Other Federal agencies	<u>5,331,554</u>	<u>2,282,932</u>
	12,410,665	11,651,684
<b>Advances</b>	<u>365,231</u>	<u>153,813</u>
	<u>\$12,775,896</u>	<u>\$11,805,497</u>
 <b>Governmental:</b>		
<b>Accounts payable</b>		
Vendors payable	\$19,474,528	\$19,743,864
Contract holdbacks	<u>1,680,755</u>	<u>1,485,423</u>
	<u>\$21,155,283</u>	<u>\$21,229,287</u>

The vendors payable are all current. Current payables represent amounts which are expected to be paid within the fiscal year following the reporting date.

**NOTE 7. ACCRUED PAYROLL AND BENEFITS**

Accrued payroll and benefits as of September 30, 1997 and 1996, consists of:

	<u>1997</u>	<u>1996</u>
Accrued personnel services	\$10,629,617	\$ 9,824,164
Accrued benefits	<u>1,820,771</u>	<u>1,703,683</u>
	<u>\$12,450,388</u>	<u>\$11,527,847</u>

Accrued payroll and benefits represent wages and benefits which have been earned but not paid as of the financial statement date.

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**NOTES TO PRINCIPAL STATEMENTS**  
**September 30, 1997 and 1996**

**NOTE 8. OTHER LIABILITIES COVERED BY BUDGETARY RESOURCES**

Other liabilities as of September 30, 1997 and 1996, include:

	<u>1997</u>	<u>1996</u>
<b>Governmental:</b>		
Liability for deposit funds	\$1,126,887	\$1,554,395
Advances from others	<u>4,398,632</u>	<u>5,589,264</u>
	<u>\$5,525,519</u>	<u>\$7,143,659</u>

The liability for deposit funds consists primarily of liabilities arising from payroll deductions and tax withholdings. Advances from others consists of funds primarily from foreign governments for the participation in cooperative research programs.

	<u>1997</u>	<u>1996</u>
<b>Intragovernmental:</b>		
Liability to offset net accounts receivable for fees assessed	\$30,699,637	\$26,206,946
Liability to offset net miscellaneous accounts receivable	<u>55,059</u>	<u>312,698</u>
	<u>\$30,754,696</u>	<u>\$26,519,644</u>

The liability to offset the net accounts receivable for fees assessed represents amounts which, when collected, will be transferred to the U.S. Treasury to offset NRC's appropriations in the year collected.

The liability to offset net miscellaneous accounts receivable represents amounts which will be reverted to the U.S. Treasury when collected.

All other liabilities except advances from others are current. Current liabilities represent amounts which are expected to be paid within the fiscal year following the reporting date. Advances from others may not be liquidated in the fiscal year following the reporting date.

**NOTE 9. OTHER LIABILITIES NOT COVERED BY BUDGETARY RESOURCES**

Unfunded liabilities as of September 30, 1997 and 1996, include:

	<u>1997</u>	<u>1996</u>
<b>Governmental:</b>		
Accrued annual leave	\$25,905,986	\$25,359,485
Accrued workers' compensation:		
Benefits paid	1,700,857	1,476,502
Estimated future benefits	<u>9,029,000</u>	<u>5,875,000</u>
	<u>\$36,635,843</u>	<u>\$32,710,987</u>

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**NOTES TO PRINCIPAL STATEMENTS**  
**September 30, 1997 and 1996**

Accrued annual leave represents the amount of annual leave earned by NRC employees but not yet taken. Accrued workers' compensation includes: (a) FECA benefits paid by the Department of Labor (DOL) on NRC's behalf which had not been billed to or paid by NRC as of September 30, 1997 and 1996, and (b) an actuarial estimate for future disability benefits. The FY 1997 future workers' compensation estimate was generated by DOL from an application of actuarial procedures developed to estimate the liability for FECA, which includes the expected liability for death, disability, and medical and miscellaneous costs for approved compensation cases. The liability was calculated using historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. These projected annual benefit payments were discounted to present value.

Accrued annual leave and accrued workers' compensation are not funded by current or prior years' appropriations and assessments. Funding will be provided from future years' appropriations and assessments (see Note 11).

**NOTE 10. INTRAGOVERNMENTAL ACTIVITIES**

The NRC's financial activities interact with and are dependent upon those of the Federal Government as a whole. Other Federal agencies make financial decisions and report certain financial matters on behalf of all Federal agencies. The practice of having Federal agencies record or report only those governmentwide financial matters for which they are directly responsible is consistent with generally accepted accounting principles for Federal agencies which seek to identify financial matters to the department or agency that has been granted budget authority and resources to manage them. Activities which are performed or reported by other Federal agencies in which NRC is indirectly involved are as follows:

- The NRC funds a portion of its employee pension benefits under the CSRS and the FERS (Note 16). The portion not funded by NRC is included in NRC's financial statements as an imputed financing source (Note 13). The NRC does not disclose actuarial data with respect to accumulated plan benefits, plan assets, or the unfunded pension liability relative to its employees. Reporting of these amounts is the responsibility of the Office of Personnel Management.

In addition, the NRC makes contributions to the TSP on behalf of its employees. The NRC does not have control over the plan's assets. The TSP is administered by the National Finance Center of the Department of Agriculture.

- Certain legal matters to which NRC may be a named party are administered, and in some cases litigated, by other Federal agencies. Amounts paid under any decision, settlement, or award pertaining thereto are generally funded through the U.S. Treasury.

*(continued on page 64)*

**NOTES TO PRINCIPAL STATEMENTS**  
**September 30, 1997 and 1996**

In most cases, claims (including personal injury claims) are administered and resolved by the Department of Justice, and any amounts necessary for resolution are obtained from a special fund maintained by the U.S. Treasury. Any legal actions for workers' compensation claims brought by NRC employees fall under FECA, which is administered by DOL's Employment Standards Administration. The cost of administering, litigating, and settling these legal matters has not been allocated to individual Federal agencies.

- Interest on borrowings of the U.S. Treasury is not included as a cost to NRC's programs and is not included in the accompanying financial statements.

**NOTE 11. NET POSITION**

The net position consists of the following as of September 30, 1997 and 1996:

	<u>1997</u>	<u>1996</u>
Unexpended appropriations:		
Unobligated	\$ 25,683,385	\$ 34,765,076
Undelivered orders	<u>103,601,697</u>	<u>133,392,834</u>
	129,285,082	168,157,910
Invested capital	35,798,569	38,189,091
Future funding requirements (Note 9)	<u>(36,635,843)</u>	<u>(32,710,987)</u>
	<u>\$128,447,808</u>	<u>\$173,636,014</u>

Unexpended appropriations include (a) unobligated appropriation balances and (b) undelivered orders, which are amounts which have been obligated but not yet expended. The unobligated appropriations balance does not include \$4,306,364 and \$6,262,153 in unfilled customer orders - unobligated as of September 30, 1997 and 1996, respectively. The undelivered orders balance does not include \$4,425,821 and \$6,082,665 in unfilled customer orders - obligated as of September 30, 1997 and 1996, respectively.

Invested capital represents the net investment of the U.S. Government appropriations expended for NRC's capitalized property and equipment.

Future funding requirements represent the amount of future funding needed to pay the accrued unfunded expenses as of September 30, 1997 and 1996. These accruals are not funded from current or prior appropriations and assessments, but rather should be funded from future appropriations and assessments. Accordingly, future funding requirements have been recognized for these expenses that will be paid from future appropriations (See Note 9).

**NOTES TO PRINCIPAL STATEMENTS**  
**September 30, 1997 and 1996**

**NOTE 12. APPROPRIATED CAPITAL USED**

Appropriated capital used, a financing source, is recognized to the extent that appropriated funds have been consumed less the amount collected from fees assessed for licensing, inspections, and other services. During FY 1997 and 1996, \$458.6 million and \$454.0 million, respectively, were collected from fees assessed for licensing, inspections, and other services. OBRA requires NRC to recover approximately 100 percent of its new budget authority, less the amount appropriated from the Nuclear Waste Fund and appropriated for work at the Hanford, Washington, site, by assessing fees. At the end of the fiscal year, appropriations recognized are reduced by the amount of assessed fees collected during the fiscal year to the extent of new budget authority for the year. Collections which exceed the new budget authority are held to offset subsequent years' appropriations.

For FY 1997 and 1996, \$458.6 million and \$454.0 million, respectively, of collections were used to reduce the fiscal year's appropriations recognized:

	<u>1997</u>	<u>1996</u>
Appropriated funds consumed	\$520,713,350	\$ 506,886,420
Less: Collection from fees assessed	<u>(458,626,753)</u>	<u>(454,049,125)</u>
	<u>\$ 62,086,597</u>	<u>\$ 52,837,295</u>

The appropriated capital used for FY 1997 and 1996 includes \$41,263,348 and \$34,188,747, respectively, of available funds from prior years (Note 19).

**NOTE 13. IMPUTED FINANCING**

In accordance with Statement of Federal Financial Accounting Standards (SFFAS) Number 5, *Accounting for Liabilities of the Federal Government*, the Statement of Operations and Changes in Net Position includes an imputed financing source of \$19,976,493 and \$20,478,243 for FY 1997 and 1996, respectively. The imputed financing source represents the service costs related to NRC employees' post-employment benefits which are paid by the Office of Personnel Management, as follows:

	<u>1997</u>	<u>1996</u>
Civil Service Retirement System	\$13,156,011	\$14,525,205
Federal Employee Health Benefit	6,788,439	5,921,303
Federal Employee Group Life Insurance	<u>32,043</u>	<u>31,735</u>
	<u>\$19,976,493</u>	<u>\$20,478,243</u>

(continued on page 66)

**NOTES TO PRINCIPAL STATEMENTS**  
**September 30, 1997 and 1996**

**NOTE 14. OTHER REVENUES AND FINANCING SOURCES**

Other revenues and financing sources for September 30, 1997 and 1996, were:

	<u>1997</u>	<u>1996</u>
Fees for licensing, inspection, and other services	\$463,333,946	\$439,416,105
Appropriation reimbursements	8,311,063	9,842,179
Other miscellaneous receipts	6,055,409	2,925,844
Gain on disposition of assets	3,676	-
	<u>\$477,704,094</u>	<u>\$452,184,128</u>

**NOTE 15. PROGRAMS**

The Statement of Budgetary Resources and Actual Expenses contains operating expenses by program for FY 1997. Comparative data for FY 1996 is not available. The description of NRC's five programs is as follows:

1. **Regulatory Program** encompasses all NRC efforts to ensure that the operation of commercial and nonpower nuclear reactor facilities and all NRC-regulated aspects of nuclear fuel cycle facilities; nuclear materials licensing; nuclear waste transport, storage, and disposal; and decommissioning activities are conducted in a manner that provides reasonable assurance of adequate protection of public health and safety, as required by the Atomic Energy Act of 1954 and other relevant laws.
2. **Regulatory Effectiveness Program** helps ensure adequate protection of the public health and safety, as required by the Atomic Energy Act of 1954, by providing the Commission with the technical bases for regulatory decisions for all regulatory programs.
3. **Management and Support Program** encompasses NRC central policy direction, legal advice for the Commission, analysis of long-term policy issues, administrative proceedings review and advice, liaison with outside constituents and other government agencies, financial management, all administrative and logistical support, information resources management, executive management services for the Commission, personnel and training, international programs, and matters involving small and disadvantaged businesses and civil rights.

**NOTES TO PRINCIPAL STATEMENTS**  
**September 30, 1997 and 1996**

4. **Regulation of DOE Program** involves the continued commitment of DOE and NRC to resolve issues of concern to either agency that relate to the regulation of nuclear facilities, projects, and activities in the protection of public health and safety and the environment.
5. **Inspector General Program** independently evaluates the agency's programs and operations to ensure their efficiency and effectiveness and investigates allegations of fraud, waste, and abuse.

**NOTE 16. EMPLOYEE RETIREMENT PLANS**

The NRC's contributions for employee retirement plans for FY 1997 and 1996 were as follows:

	<u>1997</u>	<u>Restated 1996</u>
Civil Service Retirement System	\$ 8,963,175	\$ 9,066,506
Federal Employees' Retirement System	10,174,861	9,476,956
Federal Insurance Contribution Act	9,850,629	6,078,868
Thrift Savings Plan	4,648,337	3,754,354
	<u>\$33,637,002</u>	<u>\$28,376,684</u>

Data on the actuarial present value of accumulated benefits, assets available for benefits, and unfunded pension liability are maintained by other Federal agencies and are not allocated to individual departments and agencies. The portion of the current and estimated future outlays for CSRS not paid by NRC is included in NRC's financial statements as an imputed financing source (Note 13).

**NOTE 17. OTHER EXPENSES**

Other expenses as of September 30, 1997 and 1996, consist of:

	<u>1997</u>	<u>1996</u>
Loss on disposal of property	\$613,338	\$ 41,403
Bad debt expense	39,792	(24,302)
	<u>\$653,130</u>	<u>\$ 17,101</u>

(continued on page 68)



**NOTES TO PRINCIPAL STATEMENTS**  
**September 30, 1997 and 1996**

**NOTE 18. EXCESS OR (SHORTAGE) OF REVENUES AND FINANCING SOURCES OVER TOTAL EXPENSES**

The excess or (shortage) of revenues and financing sources over total expenses represents expenses not covered by budgetary resources for the years ended September 30, 1997 and 1996, and consists of:

	<u>1997</u>	<u>1996</u>
Accrued annual leave	\$ (546,501)	\$ (795,701)
Accrued workers' compensation	<u>(3,378,357)</u>	<u>(862,828)</u>
	<u><u>\$(3,924,858)</u></u>	<u><u>\$(1,658,529)</u></u>

Expenses not covered by budgetary resources are not funded from current appropriations but are to be funded from future appropriations and assessments.

**NOTE 19. NON-OPERATING CHANGES**

Non-operating changes for the fiscal years ended September 30, 1997 and 1996, consist of the following:

	<u>1997</u>	<u>1996</u>
Change in unexpended appropriation	\$(38,872,829)	\$(35,202,426)
Change in invested capital	<u>(2,390,519)</u>	<u>1,013,679</u>
	<u><u>\$(41,263,348)</u></u>	<u><u>\$(34,188,747)</u></u>

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**APPENDIX**  
**COMMENTS OF**  
**THE CHIEF FINANCIAL OFFICER**






UNITED STATES  
NUCLEAR REGULATORY COMMISSION  
WASHINGTON, DC 20555-0001

February 6, 1998

MEMORANDUM TO: Hubert T. Bell  
Inspector General

FROM: Jesse L. Funches   
Chief Financial Officer

SUBJECT: DRAFT AUDIT REPORT - AUDIT OF THE NUCLEAR  
REGULATORY COMMISSION'S FISCAL YEAR 1997  
FINANCIAL STATEMENTS

We have reviewed the draft audit report of the Nuclear Regulatory Commission's FY 1997 financial statements. There are two reportable conditions and recommendations. Our comments are:

**Recommendation 1:** The CFO should establish, for systems within the agency's control, initiatives for designing recovery plans for all financial managements systems. In providing such guidance, the CFO should assess the priority of each system. Furthermore, the CFO should assure that policies are issued ensuring that the design or development of any new financial management systems, and the related security and maintenance programs of such systems include the development of a plan which is documented and tested. We recognize that NRC, as a user of the FFS, does not have the leverage to compel FMS to comply with a sound disaster recovery program. Therefore, no recommendation is offered other than continued monitoring of this condition through the user group.

**Response:** Agency financial systems are currently undergoing major changes. The three systems mentioned in the audit report are all scheduled for replacement within the next one to two years. The Federal Financial System (FFS) and the accounts receivable/license fee billing system will be replaced by the new agency-wide resource management system STARFIRE. The Payroll System will be replaced by the Payroll/Personnel (PAY/PERS) System. The OCFO and OCIO will determine the cost effectiveness of developing continuity/contingency plans for the systems that are to be retired or replaced. The OCFO and OCIO will then jointly prepare a plan by June 1, 1998, to develop the required continuity/contingency plans for continuing financial systems. These plans will be developed in accordance with OMB Circular A-130, Management of Federal information Resources, and the NRC System Development and Life Cycle Management (SDLCM) Methodology.

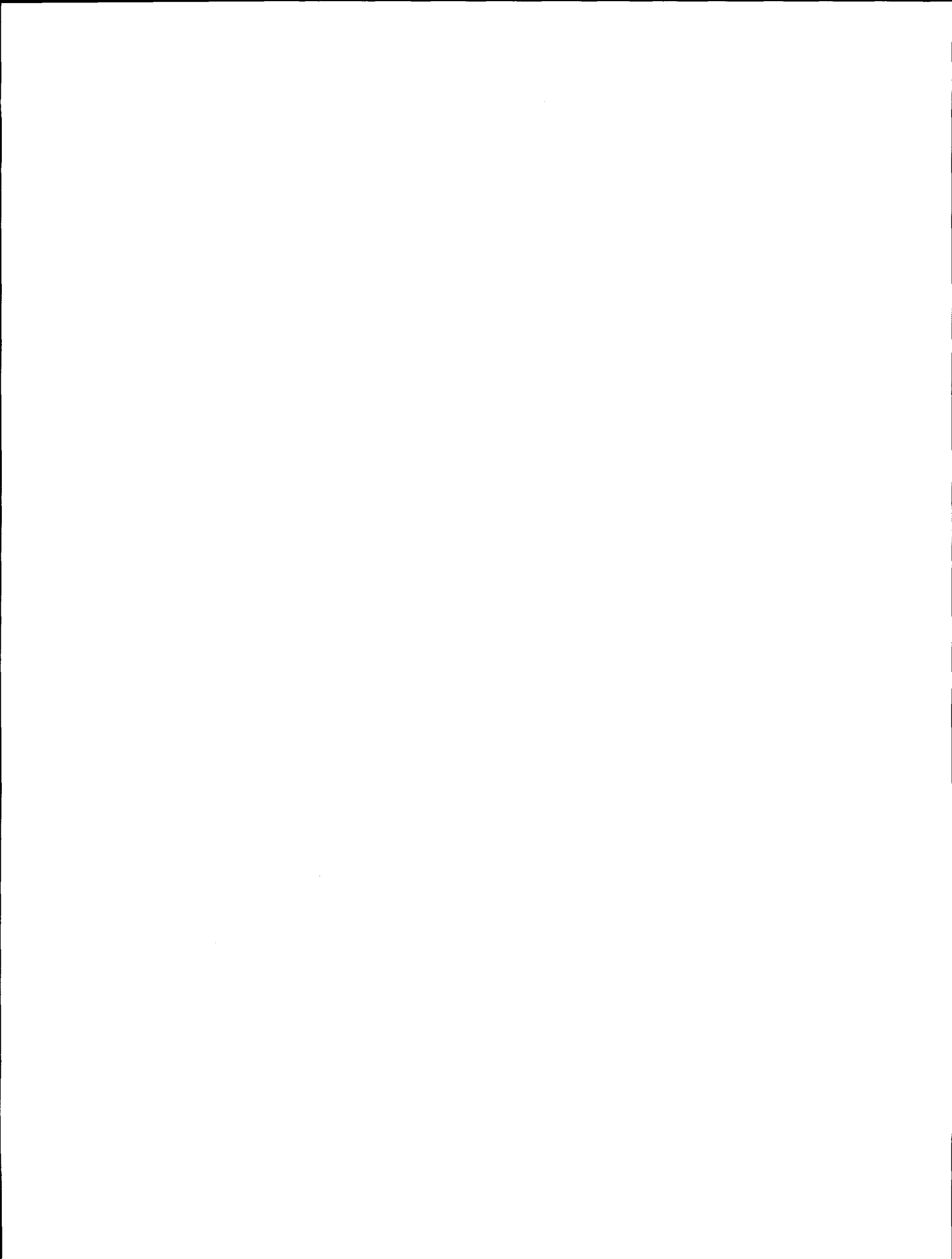
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**Recommendation 2:** The CFO should reduce the number of persons holding the “lead accountant” access profile and/or implement additional compensating controls. The compensating controls could include requiring supervisory review and certification of reconciliations and their resulting journal vouchers.

**Response:** The OCFO will examine those persons holding the “lead accountant” access profile and determine whether it is appropriate to make any changes to access profiles. In addition, the OCFO will institute compensating controls consisting of review and certification of reconciliations and their resulting journal vouchers by the Financial Team leader.

We appreciate the opportunity to respond to the draft audit report.

CONTACT: Barbara K. Gusack, OCFO/DAF/GAB  
415-6054



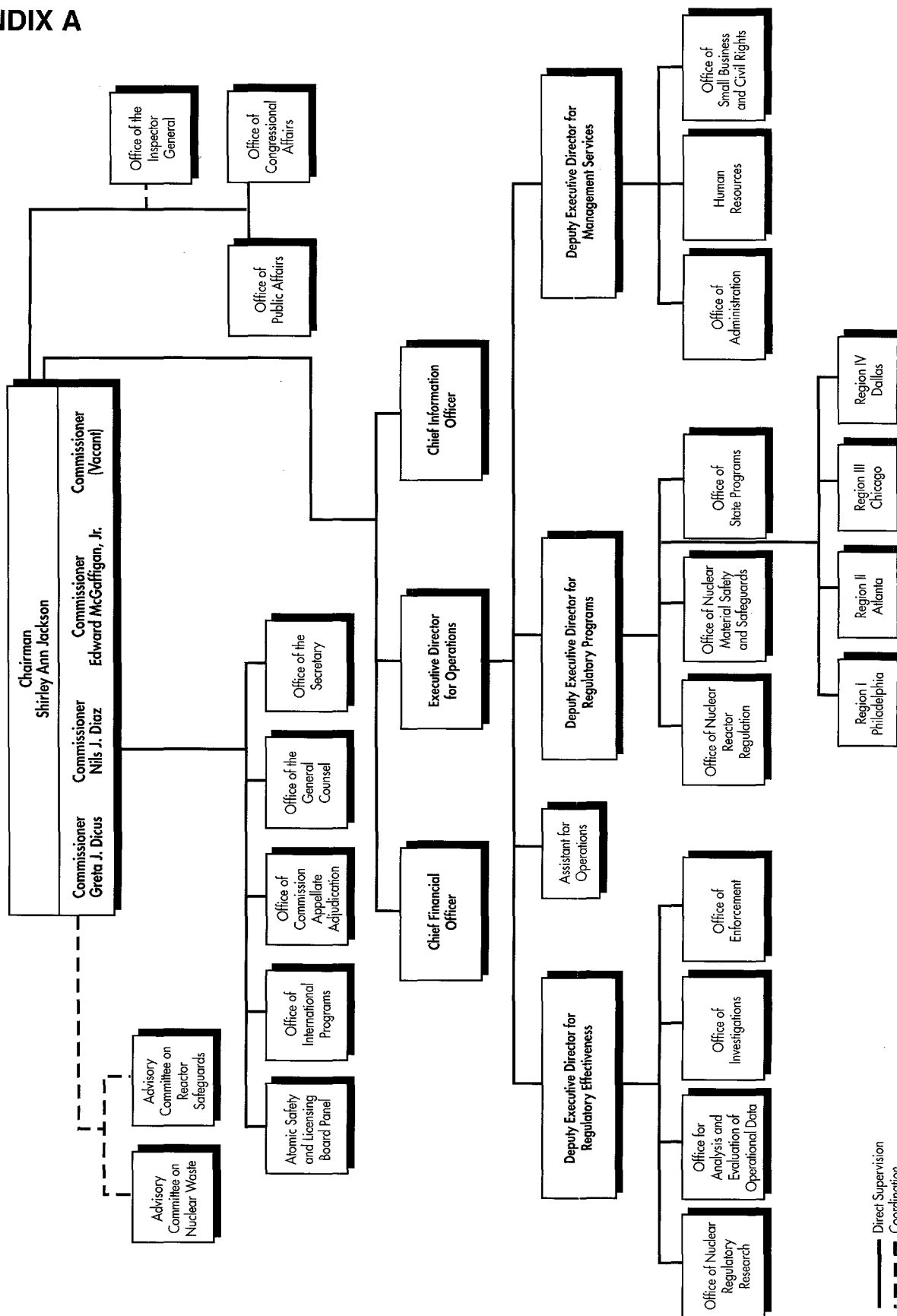
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# Appendix

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# APPENDIX A

## U.S. Nuclear Regulatory Commission Organization Chart



— Direct Supervision  
- - - Coordination

## APPENDIX B

### ABNORMAL OCCURRENCE CRITERIA AND GUIDELINES FOR OTHER EVENTS OF INTEREST

An event will be considered an abnormal occurrence (AO) if it involves a major reduction in the degree of protection of the public health or safety. This type of incident or event would have a moderate or more severe impact on the public health or safety and could include, but need not be limited to the following:

- (1) Moderate exposure to, or release of, radioactive material licensed by or otherwise regulated by the Commission;
- (2) Major degradation of essential safety-related equipment; or
- (3) Major deficiencies in design, construction, use of, or management controls for facilities or radioactive material licensed by or otherwise regulated by the Commission.

The following criteria for determining an AO and the guidelines for "Other Events of Interest" were set forth in an NRC policy statement published in the Federal Register on December 19, 1996, (61 FR 67072). The policy statement was revised to include criteria for gaseous diffusion plants and was published in the Federal Register on April 17, 1997 (62 FR 18820).

Note that in addition to the criteria for fuel cycle facilities (Section III of the AO criteria) that are applicable to licensees and certificate holders, such as the gaseous diffusion plants, other criteria that reference "licensees," "licensed facility," or "licensed material" also may be applied to events at facilities of certified holders.

#### ***Abnormal Occurrence Criteria***

Criteria by types of events used to determine which events will be considered for reporting as AOs are as follows:

#### **I. For All Licensees**

##### **A. Human Exposure to Radiation from Licensed Material**

1. Any unintended radiation exposure to an adult (any individual 18 years of age or older) resulting in an annual total effective dose equivalent (TEDE) of 250 millisievert (mSv) (25 rem) or more; or an annual sum of the deep dose equivalent (external dose) and committed dose equivalent (intake of radioactive material) to any individual organ or tissue other than the lens of the eye, bone marrow, and the gonads of 2500 mSv (250 rem) or more; or an annual dose equivalent to the lens of the eye of 1 Sv (100 rem) or more; or an annual sum of the deep dose equivalent and committed dose equivalent to the bone marrow, and the gonads of 1 Sv (100 rem) or more; or an annual shallow-dose equivalent to the skin or extremities of 2500 mSv (250 rem) or more.
2. Any unintended radiation exposure to any minor (an individual less than 18 years of age) resulting in an annual TEDE of 50 mSv (5 rem) or more, or to an embryo/fetus resulting in a dose equivalent of 50 mSv (5 rem) or more.

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3. Any radiation exposure that has resulted in unintended permanent functional damage to an organ or a physiological system as determined by a physician.

**B. Discharge or Dispersal of Radioactive Material from its Intended Place of Confinement**

1. The release of radioactive material to an unrestricted area in concentrations which, if averaged over a period of 24 hours, exceeds 5000 times the values specified in Table 2 of Appendix B to 10 CFR Part 20, unless the licensee has demonstrated compliance with § 20.1301 using § 20.1302 (b)(1) or 20.1302 (b)(2)(ii).
2. Radiation levels in excess of the design values for a package or the loss of confinement of radioactive material resulting in one or more of the following: (a) a radiation dose rate of 10 mSv (1 rem) per hour or more at 1 meter (3.28 feet) from the accessible external surface of a package containing radioactive material; (b) a radiation dose rate of 50 mSv (5 rem) per hour or more on the accessible external surface of a package containing radioactive material and that meet the requirements for "exclusive use" as defined in 10 CFR 71.47; or (c) release of radioactive material from a package in amounts greater than the regulatory limits in 10 CFR 71.51 (a)(2).

**C. Theft, Diversion, or Loss of Licensed Material, or Sabotage or Security Breach.<sup>5</sup>**

1. Any lost, stolen, or abandoned sources that exceed 0.01 times the  $A_1$  values, as listed in 10 CFR Part 71, Appendix A, Table A-1, for special form (sealed/nondispersible) sources, or the smaller of the  $A_2$  or 0.01 times the  $A_1$  values, as listed in Table A-1, for normal form (unsealed/dispersible) sources or for sources for which the form is not known. Excluded from reporting under this criterion are those events involving sources that are lost, stolen, or abandoned under the following conditions: sources abandoned in accordance with the requirements of 10 CFR 39.77(c); sealed sources contained in labeled, rugged source housings; recovered sources with sufficient indication that doses in excess of the reporting thresholds specified in AO criteria I.A.1 and I.A.2 did not occur during the time the source was missing; and unrecoverable sources lost under such conditions that doses in excess of the reporting thresholds specified in AO criteria I.A.1 and I.A.2 were not known to have occurred.
2. A substantiated case of actual or attempted theft or diversion of licensed material or sabotage of a facility.
3. Any substantiated loss of special nuclear material or any substantiated inventory discrepancy that is judged to be significant relative to normally expected performance, and that is judged to be caused by theft or diversion or by substantial breakdown of the accountability system.

<sup>5</sup> Information pertaining to certain incidents may be either classified or under consideration for classification because of national security implications. Classified information will be withheld when formally reporting these incidents in accordance with Section 208 of the Energy Reorganization Act of 1974, as amended. Any classified details regarding these incidents would be available to the Congress, upon request, under appropriate security arrangements.

4. Any substantial breakdown of physical security or material control (i.e., access control containment or accountability systems) that significantly weakened the protection against theft, diversion, or sabotage.

**D. Other Events (i.e., those concerning design, analysis, construction, testing, operation, use, or disposal of licensed facilities or regulated materials).**

1. An accidental criticality [10 CFR 70.52(a)].
2. A major deficiency in design, construction, control, or operation having significant safety implications requiring immediate remedial action.
3. A serious deficiency in management or procedural controls in major areas.
4. Series of events (where individual events are not of major importance), recurring incidents, and incidents with implications for similar facilities (generic incidents) that create a major safety concern.

**II. For Commercial Nuclear Power Plant Licensees.**

**A. Malfunction of Facility, Structures, or Equipment.**

1. Exceeding a safety limit of license technical specification (TS) Section 50.36(c).
2. Serious degradation of fuel integrity, primary coolant pressure boundary, or primary containment boundary.
3. Loss of plant capability to perform essential safety functions so that a release of radioactive materials, which could result in exceeding the dose limits of 10 CFR Part 100 or 5 times the dose limits of 10 CFR Part 50, Appendix A, General Design Criterion (GDC) 19, could occur from a postulated transient or accident (e.g., loss of emergency core cooling system, loss of control rod system).

**B. Design or Safety Analysis Deficiency, Personnel Error, or Procedural or Administrative Inadequacy.**

1. Discovery of a major condition not specifically considered in the safety analysis report (SAR) or TS that requires immediate remedial action.
2. Personnel error or procedural deficiencies that result in loss of plant capability to perform essential safety functions so that a release of radioactive materials, which could result in exceeding the dose limits of 10 CFR Part 100 or 5 times the dose limits of 10 CFR Part 50, Appendix A, GDC 19, could occur from a postulated transient or accident (e.g., loss of emergency core cooling system, loss of control rod system).

**III. For Fuel Cycle Facilities**

- A. A shutdown of the plant or portion of the plant resulting from a significant event and/or violation of a law, regulation, or a license/certificate condition.
- B. A major condition or significant event not considered in the license certificate that requires immediate remedial action.

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- C. A major condition or significant event that seriously compromises the ability of a safety system to perform its designated function that requires immediate remedial action to prevent a criticality, radiological or chemical process hazard.

#### IV. For Medical Licensees

##### **A medical misadministration that:**

- A. Results in a dose that is (1) equal to or greater than 1 gray (Gy) (100 rads) to a major portion of the bone marrow, to the lens of the eye, or to the gonads, or (2) equal to or greater than 10 Gy (1000 rads) to any other organ; and
- B. Represents either (1) a dose or dosage that is at least 50 percent greater than that prescribed in a written directive or (2) a prescribed dose or dosage that (i) is the wrong radiopharmaceutical<sup>6</sup>; or (ii) is delivered by the wrong route of administration, or (iii) is delivered to the wrong treatment site, or (iv) is delivered by the wrong treatment mode, or (v) is from a leaking source(s).

##### **Guidelines for "Other Events of Interest"**

The Commission may determine that events other than AOs may be of interest to Congress and the public and be included in an appendix to the AO report as "Other Events of Interest." Guidelines for events to be included in the AO report for this purpose are items that may possibly be perceived by the public to be of health or safety significance. Such items would not involve a major reduction in the level of protection provided for public health or safety; therefore, they would not be reported as abnormal occurrences. An example is an event where upon final evaluation by an NRC Incident Investigation Team, or an Agreement State equivalent response, a determination is made that the event does not meet the criteria for an abnormal occurrence.

<sup>6</sup> The wrong radiopharmaceutical as used in the AO criterion for medical misadministration refers to any radiopharmaceutical other than the one listed in the written directive or in the clinical procedures manual.