U.S.NRC

United States Nuclear Regulatory Commission

Protecting People and the Environment

Fiscal Year 2012

Summary of Performance and Financial Information

MISSION

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

PAPERWORK REDUCTION ACT STATEMENT

This NUREG references information collections that are subject to the Paperwork Reduction Act of 1995 (44 U.S.C. 3501 et seq.). These information collections were approved by the Office of Management and Budget, approval numbers 3150-0014, 3150-0130, and 3150-0195.

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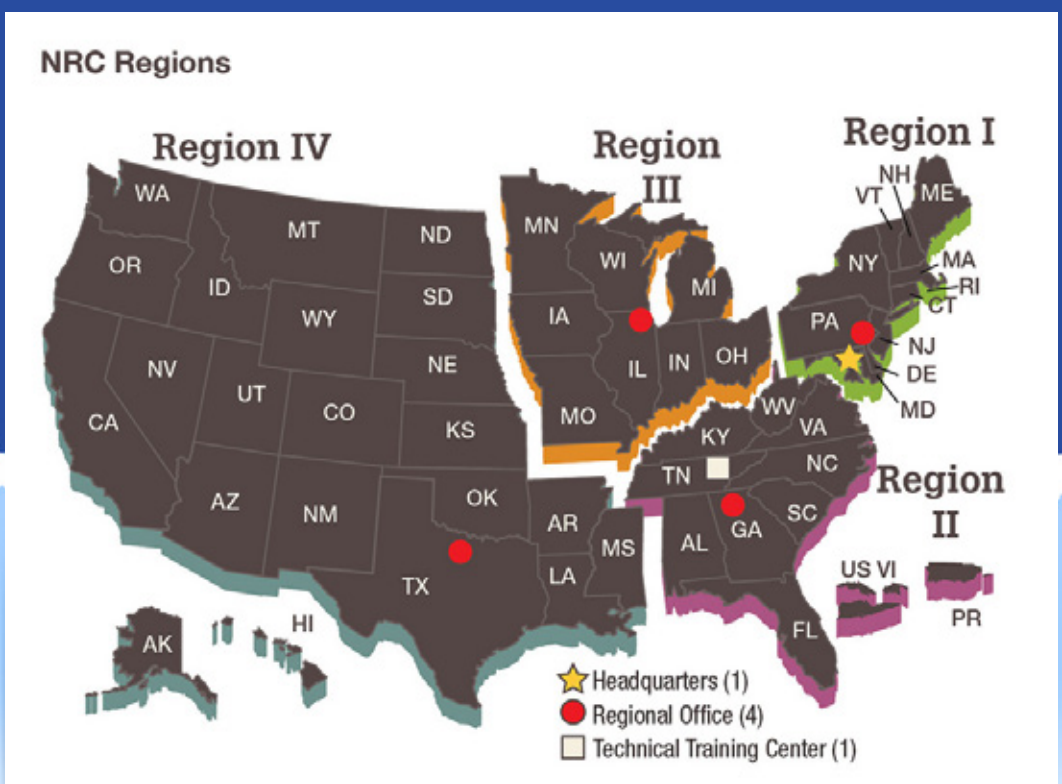
This report is a summary of the U.S. Nuclear Regulatory Commission's (NRC's) Fiscal Year (FY) 2012 Performance and Accountability Report (PAR), published on November 16, 2012. This report is in an easy-to-read format and is available on the NRC Web site at http://www.nrc.gov. In addition, a video message from the Chairman and a full copy of the PAR are available on the DVD located on the back inside cover.

The U.S. Nuclear Regulatory Commission (NRC) Headquarters



The U.S. Nuclear Regulatory Commission (NRC) Regions

A Message From The Chairman

I am pleased to present the U.S. Nuclear Regulatory Commission's (NRC's) Summary of Performance and Financial Information for Fiscal Year (FY) 2012. This report highlights the NRC's success in achieving our mission to ensure the safe use of radioactive materials for beneficial civilian purposes while protecting people and the environment. The report also provides key financial and performance information to Congress and the American people of how we used our resources during FY 2012. The report is available at http://www.nrc.gov/reading-rm/doc-collections/nuregs/staff/sr1542/v18/.

The NRC is an independent regulatory agency devoted to the effective and efficient oversight of the Nation's 104 nuclear reactors. The agency also reviews all safety aspects of new reactor designs, environmental siting, combined license applications, and provides oversight for the two nuclear power plants currently under construction. Further, the agency focuses on the safe and secure use of nuclear materials in the energy, medical, and industrial sectors through effective oversight of fuel facilities, uranium recovery sites, decommissioning sites, and nuclear material user licensees. In FY 2012, the NRC met all of its strategic goals and performance measure targets.

The NRC continues its work in response to the Fukushima Dai-ichi accident in Japan to ensure that appropriate safety enhancements are implemented at nuclear power plants in the U.S. In FY 2012, the NRC issued the first regulatory requirements for the Nation's 104 operating reactors based on the lessons learned at Fukushima Dai-ichi. These requirements set stronger standards for coping with extreme natural events. The NRC also identified additional safety improvements that are part of a longer-term effort to enhance safety, which are expected to be completed in the next four years.

The NRC is committed to good governance and the prudent management of resources entrusted to it by the American people. The agency will continue to evaluate, test, and strengthen its internal controls, including those related to financial reporting and financial management systems, as required by the *Federal Managers' Financial Integrity Act of 1982* (FMFIA). Based on the FMFIA assessments, I have concluded that there is reasonable assurance that the agency is in substantial compliance with FMFIA, and the financial and performance data published in this report are complete, accurate, reliable, and timely, in accordance with the *Reports Consolidation Act of 2000* and Office of Management and Budget Circular A-136 requirements. Additionally, I have determined that the agency is in substantial compliance with the *Federal Financial Management Improvement Act of 1996* (FFMIA), based on the NRC's application of the FFMIA risk model.

I am proud of the performance of NRC employees in achieving the agency's Safety and Security goals, and I look forward to continuing the high-quality service the American people have come to expect from us.

Allison M. Macfarlane
Chairman
February 8, 2013

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Introduction

The U.S. Nuclear Regulatory Commission (NRC) Summary of Performance and Financial Information presents an overview of the agency's program performance and financial management performance during fiscal year (FY) 2012, which covers the period from October 1, 2011, to September 30, 2012. This summary report provides an opportunity for the American public to assess how effectively the NRC uses its funds to achieve results.

When preparing this report, the NRC staff followed the guidance of the Office of Management and Budget (OMB) Circular A-136, "Financial Reporting Requirements." The summarized financial statement data are based on the same underlying data as the financial statements presented in the FY 2012 Performance and Accountability Report (PAR).

About the NRC

The U.S. Congress established the NRC on January 19, 1975, as an independent Federal agency regulating the commercial and institutional uses of nuclear materials. *The Atomic Energy Act of 1954*, as amended, and the *Energy Reorganization Act of 1974*, as amended, define the NRC's purpose. These acts provide the foundation for the NRC's mission to regulate the Nation's civilian use of byproduct, source, and special nuclear materials to ensure adequate protection of public health and safety, to promote the common defense and security, and to protect the environment. The agency regulates civilian nuclear power plants and other nuclear facilities, as well as other uses of nuclear materials. These other uses include nuclear medicine programs at hospitals; academic activities at educational institutions; research work; industrial applications, such as gauges and testing equipment; and the transport, storage, and disposal of nuclear materials and wastes.

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

The NRC's headquarters is located in Rockville, MD. The NRC has an Operations Center in the headquarters building that coordinates communications with its licensees, State agencies, and other Federal agencies. This center is the focal point for assessing and responding to operating events in the industry. NRC operations officers man the Operations Center 24 hours a day, seven days a week.

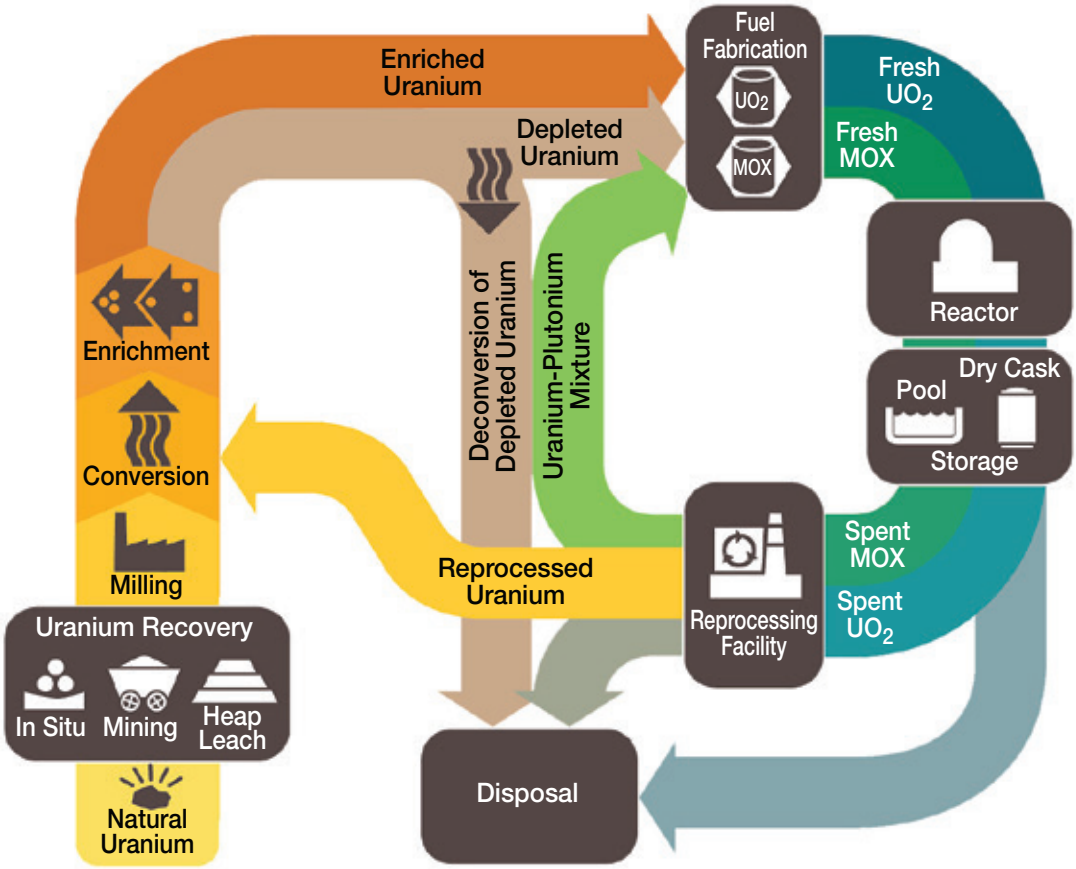
The agency also has four regional offices located in King of Prussia, PA; Atlanta, GA; Lisle, IL; and Arlington, TX. The regional offices allow the agency to work closely with the agency's licensees to ensure safety. The NRC also employs at least two resident inspectors at each of the Nation's nuclear power reactor sites.

The NRC's budget for FY 2012 was $1,038 million, with 3,901 full-time equivalent staff. The NRC is primarily supported by fees collected from its licensees. The agency collected $894 million of its budget from licensees, with the remaining $144 million provided by the U.S. Department of the Treasury (Treasury).

The Nuclear Industry

The NRC is responsible for regulating all aspects of the civilian nuclear industry. The industry can best be described by examining the nuclear fuel cycle (Figure 1). The nuclear fuel cycle begins with the mining and production of nuclear fuel or the use of nuclear materials for medical, industrial, and other applications, continues with the use of nuclear fuel to power the Nation's 104 nuclear power plants, and ends with the safe transportation and storage of spent nuclear fuel and other nuclear waste. The NRC's regulatory programs ensure that radioactive materials are used safely and securely at every stage in the nuclear material cycle. To address safety and security issues, the NRC has developed regulatory practices, knowledge, and expertise specific to each activity in the nuclear material cycle.

Figure 1
THE NUCLEAR FUEL CYCLE



Fuel Facilities

The production of nuclear fuel begins at uranium mines where milled uranium ore is used to produce a uranium concentrate called "yellow cake." At a special facility, the yellow cake is converted into uranium hexafluoride gas and loaded into cylinders. The cylinders are sent to a gaseous diffusion plant, where uranium is enriched for use as reactor fuel. The enriched fuel pellets (each about the size of a fingertip) are loaded into metal fuel rods about 3.5 meters long, and bundled into reactor fuel assemblies at a fuel fabrication facility. Assemblies are then transported to nuclear power plants, non-power research reactor facilities, and naval propulsion reactors for use as fuel. The NRC licenses eight major fuel fabrication and production facilities and three enrichment facilities in the United States. Because they handle extremely hazardous material, these facilities take special precautions to prevent theft, diversion by terrorists, and dangerous exposures to workers and the public from this nuclear material.

Reactors

Power plants change one form of energy into another. Electrical generating plants convert heat energy, the kinetic energy of wind or falling water, or solar energy, into electricity. A nuclear power plant converts heat energy into electricity. Other types of heat-conversion plants burn coal, oil, or gas to produce heat energy that is then used to produce electricity. Nuclear energy cannot be seen. There is no burning of fuel in the usual sense. Rather, energy is given off by the nuclear fuel as certain types of atoms split in a process called nuclear fission. This energy is in the form of fast-moving particles and invisible radiation. As the particles and radiation move through the fuel and surrounding water, the energy is converted into heat. The radiation energy can be hazardous, and facilities take special precautions to protect people and the environment from these hazards.

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

Materials Users

The medical, academic, and industrial fields all use nuclear materials. For example, about one-third of all patients admitted to U.S. hospitals are diagnosed or treated using radioisotopes. Most major hospitals have specific departments dedicated to nuclear medicine. In all, about 112 million nuclear medicine or radiation therapy procedures are performed annually, with the vast majority used in diagnoses. Radioactive materials used as a diagnostic tool can identify the status of a disease and minimize the need for surgery. Radioisotopes give doctors the ability to look inside the body and observe soft tissues and organs, in a manner similar to the way X-rays provide images of bones. Radioisotopes carried in the blood also allow doctors to detect clogged arteries or check the functioning of the circulatory system.

The same property that makes radiation hazardous can also make it useful in treating certain diseases like cancer. When living tissue is exposed to high levels of

radiation, cells can be destroyed or damaged. Doctors can selectively expose cancerous cells (cells that are dividing uncontrollably) to radiation to either destroy or damage these cells.

Waste Disposal

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

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

Program Performance Overview

The NRC's Strategic Plan describes the agency's mission, goals, and strategies. The Strategic Plan can be found on the NRC Web site at http://www.nrc.gov/reading-rm/doc-collections/nuregs/staff/sr1614/v5/index.html. The agency's two strategic goals are focused on Safety and

Security. The Safety goal is to "Ensure adequate protection of public health and safety and the environment." The Security goal is to "Ensure adequate protection in the secure use and management of radioactive materials."

Safety

Safety is the primary goal of the NRC. The agency achieves this goal by ensuring that the performance of licensees is at or above acceptable safety levels. NRC safety programs work in conjunction with its licensees in a partnership. NRC licensees are responsible for designing, constructing, and operating nuclear facilities safely. The NRC is responsible for regulatory oversight of the licensees. The agency Safety goal activities are designed to achieve the following strategic outcomes:

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Strategic Outcomes

- Prevent the occurrence of nuclear reactor accidents.
- Prevent the occurrence of inadvertent criticality events.
- Prevent the occurrence of acute radiation exposures resulting in fatalities.
- Prevent the occurrence of releases of radioactive materials that result in significant radiation exposures.
- Prevent the occurrence of releases of radioactive materials that cause significant adverse environmental impacts.

These strategic outcomes specify the conditions under which the Safety goal can be considered to have been met.

Safety Goal Strategies

The agency used the following safety strategies from its Strategic Plan to guide its activities and to achieve its Safety goal in FY 2012:

1. Develop, maintain, implement, and improve licensing and regulatory programs for existing and new reactors, fuel cycle facilities, materials users, transportation and management of spent fuel, uranium recovery, waste disposal, and decommissioning activities to ensure the adequate protection of public health and safety.
2. Oversee the safe and secure operation of existing facilities and uses of nuclear material.
3. Oversee the construction of new power reactors.
4. Conduct NRC safety and security programs and emergency preparedness in an integrated manner.
5. Implement focused research programs to anticipate and support resolution of safety issues and address new technologies.
6. Use sound science and state-of-the-art methods to establish, where appropriate, risk-informed and performance-based regulations.
7. Promote awareness of the importance of a strong safety culture and individual accountability of those engaged in regulated activities.
8. Use domestic and international operating experience to inform decisionmaking.
9. Oversee licensee safety performance through inspections, investigations, enforcement, and performance assessment activities.
10. Respond to events at NRC -licensed facilities and other events of national and international interest, including maintaining and enhancing the NRC's emergency incident response and communication capabilities.
11. Respond to future national policy decisions regarding high-level nuclear waste and spent nuclear fuel management strategies recommended or adopted as the Nation's policy, and assess issues associated with long-term storage of spent fuel and high-level waste.

FY 2012 Results

In FY 2012, the NRC achieved all five of its Safety goal strategic outcomes. The NRC also uses six performance measures to determine whether it has met its Safety goal. The agency met all six performance measure targets in FY 2012 (see Table 1).

The first three performance measures focus on performance at individual nuclear power plants. Inspection results show that all of the nuclear power plants are operating safely. The fourth measure tracks the trends of several key indicators of nuclear power plant safety. This measure is the broadest measure of the safety of nuclear power plants, incorporating the performance results from all plants to determine industry average results. This measure shows that there were no statistically significant adverse trends in any of the indicators in FY 2012.

The last two safety performance measures track harmful radiation exposures to the public and occupational workers and radiation exposures that harm the environment. Neither of these two measures exceeded their targets in FY 2012.

The cost of achieving the agency's Safety goal in FY 2012 was $975.8 million.

Table 1

FY 2012 Safety Goal Performance Measures

1. Number of new conditions evaluated as red by the NRC's Reactor Oversight Process[1]

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Target:	≤3	≤3	≤3	≤3	≤3	≤3
Actual:	0	0	0	0	1	1

[1]This measure is the number of new red inspection findings during the fiscal year plus the number of new red performance indicators during the fiscal year. Programmatic issues at multiunit sites that result in red findings for each individual unit are considered separate conditions for purposes of reporting for this measure. A red performance indicator and a red inspection finding that are due to an issue with the same underlying causes are also considered separate conditions for purposes of reporting for this measure. Red inspection findings are included in the fiscal year in which the final significance determination was made. Red performance indicators are included in the fiscal year in which the Reactor Oversight Process (ROP) external Web page was updated to show the red indicator. For more information, go to http://www.nrc.gov/NRR/OVERSIGHT/ASSESS/index.html.

2. Number of significant Accident Sequence Precursors of a nuclear reactor accident[2]

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Target:	0	0	0	0	0	0
Actual:	0	0	0	0	0	0

[2]Significant Accident Sequence Precursor (ASP) events have a conditional core damage probability (CCDP) or ΔCDP of > $1x\ 10^{-3}$. Such events have a 1/1000 (10^{-3}) or greater probability of leading to a reactor accident involving core damage. An identical condition affecting more than one plant is counted as a single ASP event if a single accident initiator would have resulted in a single reactor accident.

3. Number of operating reactors with integrated performance that entered the multiple/repetitive degraded cornerstone column, or the unacceptable performance column of the Reactor Oversight Process Action Matrix, or the Inspection Manual Chapter 0350 process, with no performance leading to the initiation of an Accident Review Group[3]

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Target:	≤4	≤4	≤3	≤3	≤3	≤3
Actual:	1	0	0	0	2	1

[3]This measure is the number of plants that have entered the Inspection Manual Chapter 0350 process, the multiple/repetitive degraded cornerstone column, or the unacceptable performance column of the Reactor Oversight Process Action Matrix during the fiscal year (i.e., were not in these columns or process the previous fiscal year). Data for this measure are obtained from the NRC external Web Action Matrix Summary page, which provides a matrix of the five columns with the plants listed within their applicable column and notes the plants in the Inspection Manual Chapter 0350 process. For reporting purposes, plants that are the subject of an approved deviation from the Action Matrix are included in the column or process in which they appear on the Web page. The target value is set based on the expected addition of several indicators and a change in the long-term trending methodology (which will no longer be influenced by the earlier data and will be more sensitive to changes in current performance).

Table 1

FY 2012 Safety Goal Performance Measures *(continued)*

4. Number of significant adverse trends in industry safety performance[4]

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Target:	≤1	≤1	≤1	≤1	≤1	≤1
Actual:	0	0	0	0	0	0

[4]*Considering all indicators qualified for use in reporting.*
For more information, go to http://pbadupws.nrc.gov/docs/ML1206/ML12065A340.pdf.

5. Number of events with radiation exposures to the public and occupational workers that exceed Abnormal Occurrence Criterion I.A.3[5]

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Reactor Target:	0	0	0	0	0	0
Actual:	0	0	0	0	0	0
Material Target:	≤3	≤2	≤2	≤2	≤2	≤2
Actual:	0	0	0	0	0	0
Waste Target:	0	0	0	0	0	0
Actual:	0	0	0	0	0	0

[5]*Releases for which a 30-day report requirement under Title 10 of the* Code of Federal Regulations *(10 CFR) 20.2203(a)(3) is required. The latest Abnormal Occurrence Report to Congress can be viewed at http://www.nrc.gov/reading-rm/doc-collections/nuregs/staff/sr0090/v34/.*

6. Number of radiological releases to the environment that exceed applicable regulatory limits[5]

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Reactor Target:[6]	≤3	0	0	0	0	0
Actual:	0	0	0	0	0	0
Material Target:	≤2	≤2	≤2	≤2	≤2	≤2
Actual:	0	0	0	0	0	0
Waste Target:	0	0	0	0	0	0
Actual:	0	0	0	0	0	0

[6] *With no event exceeding Abnormal Occurrence (AO) Criterion 1.B.1.*

Fukushima Regulatory Review

After the accident at Fukushima Dai-ichi, the Commission directed NRC staff to conduct a systematic and methodical review of NRC processes and regulations to determine whether the agency should make additional improvements to its regulatory system and to provide recommendations to the Commission for its policy direction. The NRC's Near-Term Task Force developed recommendations related to lessons learned from the Fukushima Dai-ichi event. Based on this report, NRC staff prioritized the report's recommendations and provided this prioritization for Commission approval. A more complete discussion of the review and the subsequent actions that the NRC took can be found in Chapter 2's Nuclear Safety Section, of the NRC's FY 2012 Performance and Accountability Report. Additional information can be found on the agency Web site at http://www.nrc.gov/reactors/operating/ops-experience/japan-info.html

STRATEGIC GOAL 2: SECURITY

Ensure Adequate Protection in the Secure Use and Management of Radioactive Materials

The NRC must remain vigilant in ensuring the security of nuclear facilities and materials in an elevated threat environment. The agency achieves its common defense and Security goal using licensing and oversight programs similar to those employed in achieving its Safety goal.

Strategic Outcomes

- Prevent instances where licensed radioactive materials are used domestically in a manner hostile to the security of the United States.
- Prevent unauthorized public disclosures of classified or Safeguards Information through quality measures.

These strategic outcomes specify the conditions under which the Security goal can be considered to have been met.

Security Goal Strategies

The agency used the following security strategies from its Strategic Plan to guide its activities and achieve its Security goal in FY 2012:

1. Conduct oversight of licensee security performance.
2. Use relevant intelligence information and security assessments to maintain realistic and effective security requirements and mitigation measures.
3. Share security information with appropriate stakeholders and international partners.
4. Control the handling and storage of sensitive security information and the communication of information to licensees and Federal, State, local, and Tribal governments.
5. Support Federal response plans that employ an approach to the security of nuclear facilities and radioactive material that integrates the efforts of licensees and Federal, State, local, and Tribal governments.
6. Use risk-informed approaches to inform regulatory controls for security.
7. Maintain the programs for controlling the security of radioactive sources and strategic special nuclear material commensurate with their risk, including actions required by the *Energy Policy Act of 2005*.
8. Promote U.S. national security interests and nuclear nonproliferation policy objectives for NRC-licensed imports and exports of byproduct, source, and special nuclear materials and nuclear equipment.
9. Manage the risk to information and systems to ensure the integrity of cyber security at regulated facilities.
10. Prevent instances of significant unauthorized public disclosures of classified or Safeguards Information.

FY 2012 Results

In FY 2012, the NRC achieved its Security goal strategic outcomes. The NRC also uses five Security goal performance measures to determine whether the agency has met its Security goal. The agency met all five performance measure targets in FY 2012 (see Table 2).

The first performance measure tracks unrecovered losses or thefts of risk-significant radioactive sources. The measure ensures that those radioactive sources that the agency has determined to be risk-significant to the public health and safety are accounted for at all times. The ability to account for these sources is critical to secure the Nation from "dirty bomb" attacks or other means of radiation dispersal. The second, third, and fourth performance measures evaluate the number of significant security events and incidents that occur at NRC-licensed facilities. These measures determine whether nuclear facilities maintain adequate protective forces to prevent theft or diversion of nuclear material or sabotage; whether systems in place at licensee plants accurately account for the type and amount of materials processed, used, or stored; and whether the facilities account for special nuclear material at all times with no losses of this material. There were no events that met the conditions for these measures in FY 2012.

The last security measure tracks significant unauthorized disclosures of classified and Safeguards Information (SGI) that may cause damage to national security or public safety. This measure focuses on whether classified information or SGI is stored and used in such a way as to prevent its disclosure to the public, terrorist organizations, other nations, or personnel without a need to know. Unauthorized disclosures can harm national security or compromise public health and safety. The measure also focuses on whether controls are in place to maintain and secure the various devices and systems (electronic or paper-based) that the agency and its licensees use to store, transmit, and use this information. There were no documented disclosures of this type of information during FY 2012.

The cost of achieving the agency's Security goal was $76.3 million in FY 2012.

Table 2

FY 2012 Security Goal Performance Measures

1. Number of unrecovered losses or thefts of risk-significant[7] radioactive sources

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Target:	0	0	0	0	0	0
Actual:	0	0	0	0	1[8]	0

[7] "Risk-significant" is defined as any unrecovered lost or abandoned sources that exceed the values listed in "Appendix P of 10 CFR Part 110–Category 1 and 2 Radioactive Material." Excluded from reporting under this criterion are those events involving sources that are lost or abandoned under the following conditions: (1) sources abandoned in accordance with the requirements of 10 CFR 39.77(c); (2) recovered sources with sufficient indication that doses in excess of the reporting thresholds specified in AO Criterion I.A.1 and I.A.2 did not occur during the time the source was missing; (3) unrecoverable sources lost under such conditions that doses in excess of the reporting thresholds specified in AO Criterion I.A.1 and I.A.2 were not known to have occurred; (4) other sources that are lost or abandoned and declared unrecoverable; (5) for which the agency has made a determination that the risk-significance of the source is low based upon the location (e.g., water depth) or physical characteristics (e.g., half life, housing) of the source and its surroundings; (6) where all reasonable efforts have been made to recover the source; and (7) it has been determined that the source is not recoverable and will not be considered a realistic safety or security risk under this measure. (This includes licensees under the Agreement States.)

[8] There were no losses and one theft of radioactive nuclear material that the NRC considered to be risk-significant during FY 2011.

Table 2

FY 2012 Security Goal Performance Measures *(continued)*

2. Number of substantiated[9] cases of theft or diversion of licensed, risk-significant radioactive sources or formula quantities[10] of special nuclear material; or attacks that result in radiological sabotage[11]

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Target:	0	0	0	0	0	0
Actual:	0	0	0	0	0	0

[9]"Substantiated" means a situation in which any indication of loss, theft, or unlawful diversion cannot be refuted following an investigation and requires further action on the part of the agency or other proper authorities.
[10]A formula quantity of special nuclear material is defined in 10 CFR 70.4.
[11]"Radiological sabotage" is defined in 10 CFR 73.2.

3. Number of substantiated losses of formula quantities of special nuclear material or substantiated inventory discrepancies of a formula quantity of special nuclear material that are judged to be caused by theft, diversion, or by substantial breakdown of the accountability system

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Target:	0	0	0	0	0	0
Actual:	0	0	0	0	0	0

4. Number of substantial breakdowns[12] of physical security or material control (i.e., access control containment or accountability systems) that significantly weakened the protection against theft, diversion, or sabotage

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Target:	≤1	≤1	≤1	≤1	≤1	≤1
Actual:	0	0	0	0	0	0

[12]A "substantial breakdown" is defined as a red finding in the security cornerstone of the Reactor Oversight Process, or any plant or facility determined to either have overall unacceptable performance, or be in a shutdown condition (inimical to the effective functioning of the Nation's critical infrastructure) as a result of significant performance problems and/or operational events.

5. Number of significant unauthorized disclosures[13] of classified and/or Safeguards Information

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Target:	0	0	0	0	0	0
Actual:	0	0	0	0	0	0

[13]"Significant unauthorized disclosure" is defined as a disclosure that harms national security or public health and safety.

Future Challenges

Licensing a New Generation of Nuclear Power Plants

With increased concerns about the continued availability and cost of oil as well as concerns over the environmental damage caused by coal-burning electrical plants, the amount of electricity supplied by nuclear power is likely to increase substantially in the future. The NRC last issued a nuclear power plant construction permit in 1977. To date, the agency has received a total of 18 Combined License (COL) applications for sites across the country. The agency's primary challenge is to license new reactors to ensure that they will operate safely as they provide electricity required by the Nation for economic growth. Some of the proposed new reactors may include small modular reactors. In any case, before licensing any new nuclear reactor, the agency requires a detailed analysis of new reactor designs. This analysis includes a study of the reactor's vulnerability to accidents and security compromises. It also includes the development of inspection procedures, tests, analyses, and acceptable criteria for construction. The agency is also evaluating commercial gas centrifuge facilities that use new methods of enriching nuclear fuel for reactors.

Safe Disposal of High-Level Waste

Current law specifies that high-level radioactive waste will be disposed of underground in a deep geologic repository. On January 29, 2010, President Obama directed the U.S. Secretary of Energy to establish the Blue Ribbon Commission (BRC) on America's Nuclear Future to conduct a comprehensive review of policies for managing the back end of the nuclear fuel cycle and recommend a new strategy. The BRC provided its final recommendations to the Secretary of Energy on January 26, 2012. Several of the BRC recommendations are related to ongoing areas of NRC regulatory activities. The key areas in this effort are the nuclear fuel cycle, spent fuel storage and transportation, and high-level waste disposal.

Security at Nuclear Facilities

The security of nuclear materials is of paramount importance to the Nation. Nuclear facilities are among the most secure facilities in the Nation. The NRC, in concert with other Federal agencies, constantly monitors intelligence to determine the level of threat faced by nuclear facilities. The agency continues to improve the regulatory requirements to better ensure the security of nuclear materials and facilities. The threat faced by the Nation from those seeking to steal classified information has become more urgent in recent years. Nuclear facilities have implemented increased security measures, including "force-on-force" training exercises, to help ensure protection of this vital national infrastructure.

The agency has also focused on security concerns related to radioactive sources typically employed by radiation medicine and other non-power applications of nuclear technology. The sheer number of radioactive sources – numbering in the thousands in the United States alone – creates challenges in securing these sources. Moreover, these sources are widely spread geographically and used for a broad range of purposes. The agency will continue to evaluate ways to enhance its ability to account for these sources.

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

Background

The *Reports Consolidation Act of 2000* requires Federal agency Inspectors General (IG) to annually summarize what they consider to be the most serious management and performance challenges facing their agency and to assess the agency's progress in addressing those challenges.

Objective

In accordance with the act, the IG at the U.S. Nuclear Regulatory Commission (NRC) updated what he considers to be the most serious management and performance challenges facing NRC. The IG considered the overall work of the Office of the Inspector General (OIG), the OIG staff's general knowledge of agency operations, and other relevant information to develop and update his list of management and performance challenges and assess the agency's progress in addressing the challenges. In addition, OIG staff sought input from NRC's Chairman, Commissioners, and management to obtain their views on what challenges the agency is facing and what efforts the agency has taken or are underway or planned to address previously identified management and performance challenges.

Results in Brief

The IG identified seven challenges that he considers the most serious management and performance challenges facing NRC. The challenges identify critical areas or difficult tasks that warrant high-level management attention.

The following chart provides an overview of the seven most serious management and performance challenges facing NRC as of October 1, 2012.

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

Most Serious Management and Performance Challenges Facing the Nuclear Regulatory Commission as of October 1, 2012* ***(as identified by the Inspector General)***	
Challenge 1	Management of regulatory processes to meet a changing environment in the oversight of nuclear materials.
Challenge 2	Management of internal NRC security and oversight of licensee security programs.
Challenge 3	Management of regulatory processes to meet a changing environment in the oversight of nuclear facilities.
Challenge 4	Management of issues associated with the safe storage of high-level radioactive waste when there is no long-term disposal solution.
Challenge 5	Management of information technology.
Challenge 6	Administration of all aspects of financial management and procurement.
Challenge 7	Management of human capital.

**The most serious management and performance challenges are not ranked in any order of importance.*

Conclusion

The seven challenges contained in this report are distinct, yet interdependent relative to the accomplishment of NRC's mission. For example, the challenge of managing human capital affects all other management and performance challenges.

The agency's continued progress in taking actions to address the challenges presented should facilitate achieving the agency's mission and goals.

A Message from the Chief Financial Officer

I am pleased to present the condensed financial statements for the U.S. Nuclear Regulatory Commission (NRC) Summary of Performance and Financial Information Fiscal Year (FY) 2012. For the ninth consecutive year, an independent auditor has rendered an unqualified opinion on the NRC financial statements. The auditor has also rendered an unqualified opinion on our internal controls, concluding that the NRC had no reportable conditions or significant deficiencies.

In FY 2012, the NRC continued to implement our financial system modernization plan. At the beginning of the fiscal year, we installed a new Time and Labor System, which enhanced the user-friendliness of the system, as well as cost reporting and analytical capabilities for management of agency payroll, which represents approximately 60 percent of the agency's budget. We also successfully re-hosted the core financial system to a private cloud environment, resulting in significant cost savings. The agency also enhanced its Budget Formulation and eTravel Systems to improve their capabilities and streamline agency processes.

The NRC effectively used these capabilities to improve our financial internal controls and overall performance during FY 2012. The agency successfully collected licensee fees on its recoverable budget as prescribed by law and reduced its delinquent debt. Our enhanced oversight of budget execution resulted in better payroll management and prompt contract payments, resulting in a reduction of unexpended funds at the end of the year by $30 million from FY 2011.

In FY 2013, the NRC will continue its financial management and system modernization enhancements to better utilize Government resources. We plan to expedite our transition to the new Government-wide eTravel System to enhance travel support at reduced costs. Also in FY 2013, the agency will implement a new framework for assessing its programmatic internal controls based on Federal best practices. At the beginning of FY 2014, the agency will transition to a new acquisition system that will seamlessly interface with the core financial system through a common financial database. When complete, this enhancement will significantly improve the management and quality control of agency spending data.

The NRC is committed to ensuring the safety and security of the Nation's civilian use of nuclear materials in the most effective and efficient manner. The regulation of the Nation's nuclear industry during this period of fiscal challenges and change requires rigorous stewardship of limited taxpayer resources and demands superior financial performance. I am proud of the agency's progress made during the past year to promote sound business practices in the conduct of our regulatory mission and am confident that we will continue to make future improvements.

J.E. Dyer
Chief Financial Officer
February 8, 2013

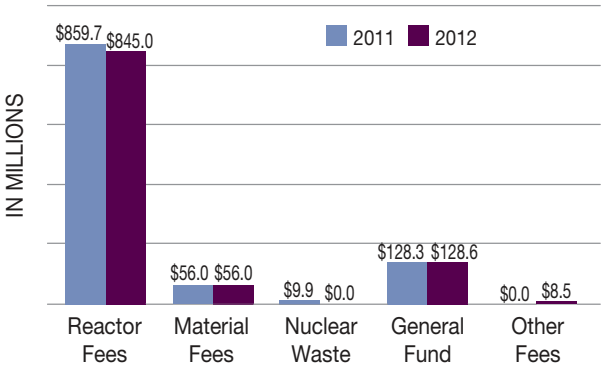
Financial Performance Overview

As of September 30, 2012, the financial condition of the NRC was sound with respect to having sufficient funds to meet program needs, and adequate control of these funds in place to ensure obligations did not exceed budget authority. The NRC prepared its financial statements in accordance with the accounting standards codified in the Statements of Federal Financial Accounting Standards and Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*.

Sources of Funds

The NRC has no-year appropriations for Salaries and Expenses and the Office of the Inspector General, which are available for obligation until expended. Additionally, in FY 2012, the Office of the Inspector General received a two-year appropriation, which is available for obligation until FY 2013. The NRC's new FY 2012 budget authority was $1,038.1 million (see Figure 2). Of this amount, $1,027.2 million was for the Salary and Expenses appropriation and $10.9 million was for the Office of the Inspector General appropriations ($9.8 million for the no-year and $1.1 million for the two-year appropriation). This represents a decrease in new budget authority of $15.8 million compared to FY 2011 ($5.9 million for the Salaries and Expenses appropriation, $9.9 million for resources received from the U.S. Department of Energy (DOE) included in the NRC's 2011 Salaries and Expenses appropriation derived from the Nuclear Waste Fund for NRC activities associated with the *Nuclear Waste Policy Act* (NWPA), as amended, and no change for the Office of the Inspector General appropriation). In addition, $35.8 million from prior-year appropriations, $12.8 million carried over from prior-year for reimbursable work, and $11.0 million for new reimbursable work to be performed for other Federal agencies and commercial customers were available to obligate in FY 2012. The sum of all funds available to obligate for FY 2012 was $1,097.7 million, which represents a decrease of $34.2 million from the FY 2011 amount of $1,131.9 million.

Figure 2
Source of Funds (projected)

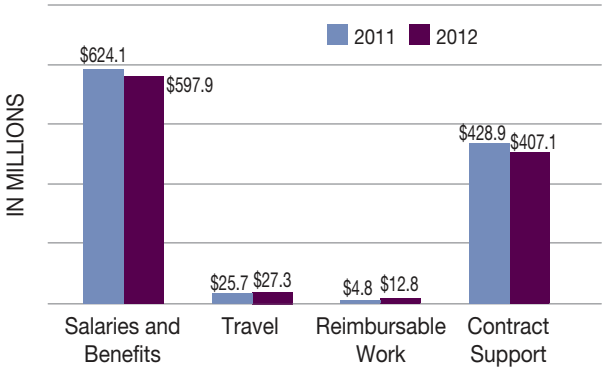


The *Omnibus Budget Reconciliation Act of 1990 (OBRA-90)*, as amended, requires the NRC to collect fees to offset approximately 90 percent of its new budget authority, less the amount appropriated to the NRC from the Nuclear Waste Fund, amounts appropriated for waste incidental to reprocessing and generic homeland security. The projected amount to be received from reactor and materials fees in FY 2012 was $901.0 million, which is the net of fees to be recovered of $909.5 million less estimated billing adjustments of $8.5 million ($2.3 million estimated unpaid current year invoices less $10.8 million in estimated payments received in the current year for previous year invoices). The NRC collected $894.4 million, which represents 98.3 percent of the requirement per OBRA-90 to recover approximately 90 percent ($909.5 million for FY 2012) of its new budget authority, less amounts appropriated for waste incidental to reprocessing and generic homeland security.

Uses of Funds by Function

The NRC incurred obligations of $1,045.1 million in FY 2012, which was a decrease of $38.4 million over FY 2011 (see Figure 3). Approximately 57 percent of obligations were used for salaries and benefits. The remaining 43 percent was used to obtain technical assistance for the NRC 's principal regulatory programs, conduct confirmatory safety research, cover operating expenses (e.g., building rentals, transportation, printing, security services, supplies, office automation, and training), pay for staff travel, and cover reimbursable work.

Figure 3
Use of Funds by Function



The unobligated budget authority available at the end of FY 2012 was $62.9 million, a $14.4 million increase compared to the FY 2011 amount of $48.5 million. Of the unobligated balance at the end of FY 2012, $11.9 million was for reimbursable work and $51.0 million was available to fund critical NRC needs in FY 2013. At the end of FY 2011, the unobligated balance included $12.8 million for reimbursable work and $35.7 million to fund critical NRC needs in FY 2012.

Audit Results

The NRC received an unqualified audit opinion on its FY 2012 financial statements and internal controls. The auditors found no instances of noncompliance or substantial noncompliance with laws and regulations during the FY 2012 audit. The Summary of the Financial Statement Audit and Management Assurances is included on page 28 of this report.

Limitations on the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the NRC, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the NRC in accordance with Generally Accepted Accounting Principles (GAAP) for Federal entities and the formats prescribed by the Office of Management and Budget (OMB), the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. The condensed financial statements presented in this report (see pages 27 and 28) are drawn from the principal financial statements presented in the FY 2012 Performance and Accountability Report.

Financial Statement Highlights

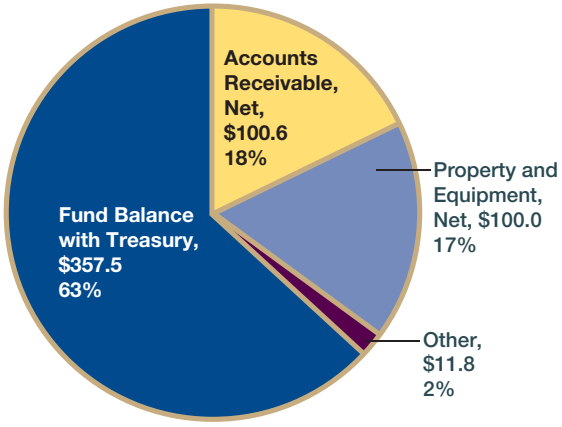
The NRC's financial statements summarize the financial activity and the financial position of the agency.

Analysis of the Balance Sheet

The Balance Sheet, which shows the NRC's assets, liabilities, and net position, is summarized in the Condensed Balance Sheet on page 27.

Assets: The NRC's total assets (see Figure 4) were $569.9 million as of September 30, 2012, representing an increase of $24.8 million from the same period of FY 2011. Changes in major categories include increases of $53.5 million in Property and Equipment, $.3 million in Accounts Receivable, Net, and $8.1 million in Other Assets, offset by a decrease of $37.1 million in the Fund Balance with Treasury.

Figure 4
Asset Summary *(in Millions)*

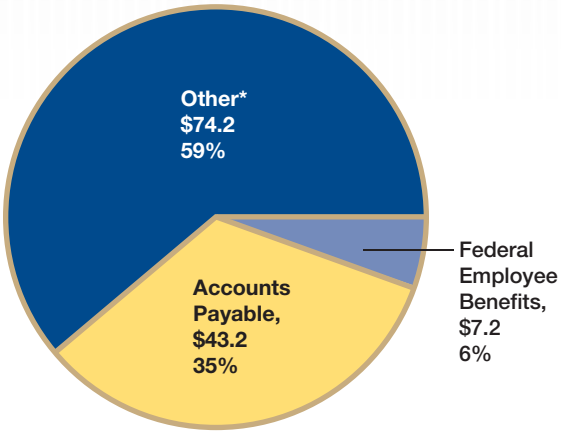


The Fund Balance with Treasury was $357.5 million as of September 30, 2012, which accounts for 63 percent of total assets. This account represents appropriated funds, license fee collections, and other funds maintained at the Treasury to pay for current liabilities and to finance authorized purchase commitments. The $37.1 million decrease in the fund balance is primarily the result of decreases of $25.6 million in the beginning balance compared with the prior year, $5.9 million in the appropriation received, and $9.9 million for the Nuclear Waste Fund, offset by a $2.8 million increase in the receipts for offsetting collections, representing reimbursements for work that the NRC performed and prior year refunds, and $1.5 million in reduced disbursement activity. Fees collected, and then transferred to the Treasury, decreased $16.5 million from FY 2011, producing a net offsetting effect on the fund balance. (The revenue generated by fees assessed to licensees as required by law is sent to the Treasury to offset approximately 90 percent of the NRC's appropriations received during the year). Payments, which reduce the fund balance, had a net decrease of $1.5 million and were comprised primarily of a decrease of $26.2 million in salaries and benefits disbursements, offset by increases of $23.8 million in general disbursements and $0.9 million in grant disbursements.

Accounts receivable consists of amounts that other Federal agencies and the public owe to the NRC. Accounts Receivable, Net, as of September 30, 2012, was $100.6 million, which included an offsetting allowance for doubtful accounts of $1.6 million. For FY 2011, the year-end Accounts Receivable, Net, balance was $100.3 million, including an offsetting allowance for doubtful accounts of $4.5 million.

Liabilities: Total liabilities (see Figure 5) were $124.6 million as of September 30, 2012, representing a decrease of $5.0 million from the FY 2011 year-end balance of $129.6 million. Accounts Payable, Federal Employee Benefits, and Other Liabilities remained basically the same as the prior year. For FY 2012, Other Liabilities include $47.8 million in accrued annual leave, $8.8 million in accrued funded salaries and benefits, $8.2 million in grants payable, $4.6 million in advances the NRC received for services that will be provided, $2.1 million in funded employee benefit contributions, $1.9 million in accrued workers' compensation, and

Figure 5
Liabilities Summary *(in Millions)*



*Other Liabilities: $47.8 Accrued Annual Leave, $8.8 Accrued Salaries and Benefits, $8.2 Grants Payable, $9.4 Other.

$0.8 million in contract holdbacks, capital lease liability, and miscellaneous liabilities.

Total Liabilities include liabilities not covered by budgetary resources, which represent expenses recognized in the financial statements that will be paid from future appropriations. The liabilities not covered by budgetary resources were $56.9 million for FY 2012 compared to $59.0 million for FY 2011, a $2.1 million decrease. For FY 2012, the liabilities not covered by budgetary resources represent 46 percent of total liabilities and include $47.8 million in unfunded accrued annual leave that has been earned, but not yet taken, and $1.9 million in accrued workers' compensation included in Other Liabilities, and $7.2 million as an actuarial estimate of accrued future workers' compensation expenses included in Federal Employee Benefits.

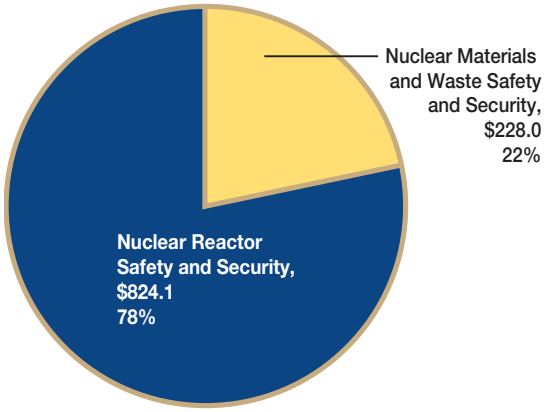
Net Position: The difference between Total Assets and Total Liabilities, Net Position, was $445.3 million as of September 30, 2012, which is an increase of $29.8 million from the FY 2011 year-end balance. Net Position is comprised of two components: Unexpended Appropriations, the amount of spending authority that remains unused at the end of the year, and Cumulative Results of Operations, the cumulative excess of financing sources over expenses. Unexpended Appropriations were $285.1 million at the end of FY 2012, a decrease of $25.2 million from the prior fiscal year end. Cumulative Results of Operations increased by $55.0 million from $105.2 million in FY 2011 to $160.2 million in FY 2012.

Analysis of the Statement of Net Cost

The Statement of Net Cost, which links the NRC's program performance to the cost of programs, is shown on page 27.

The Statement of Net Cost represents the gross cost of the NRC's two programs (Nuclear Reactor Safety and Security and Nuclear Materials Safety and Security) as identified in the NRC Annual Performance Plan, offset by earned revenue. The NRC's Net Cost of Operations for the year ended September 30, 2012, was $147.8 million, representing a decrease of $60.4 million over the FY 2011 net cost of $208.2 million.

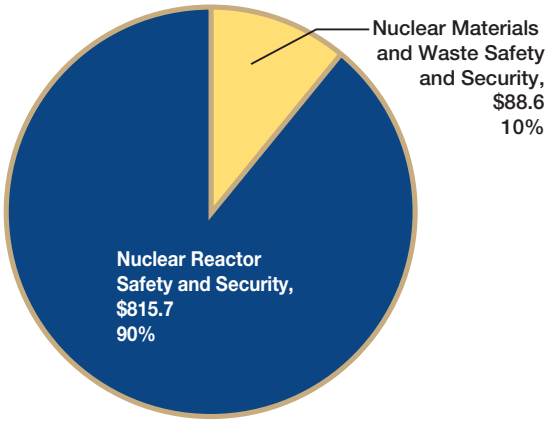
Figure 6
Gross Costs *(in Millions)*



The NRC's total gross costs (see Figure 6) decreased $44.8 million. Gross costs decreased $33.5 million in the Nuclear Reactor Safety and Security program primarily

due to decreases of $28.0 million in allocated overhead costs and $14.6 million in the New Reactors business line, offset by an increase of $9.1 million in the Operating Reactors business line. The Nuclear Materials and Waste Safety and Security program's gross costs decreased $11.3 million.

Figure 7
Earned Revenue *(in Millions)*



Total earned revenue (see Figure 7) as of September 30, 2012, was $904.3 million, an increase of $15.6 million from September 30, 2011.

Fees collected (earned primarily in FY 2012) and transferred to Treasury during FY 2012, was $894.4 million compared to $911.0 million for FY 2011. The NRC is required to collect approximately 90 percent of appropriations for NRC activities through fee billing. Fees for reactor and materials licensing and inspections are collected in accordance with Title 10 of the *Code of Federal Regulations* (10 CFR) Part 170, "Fees for Facilities, Materials, Import and Export Licenses, and Other Regulatory Services under the *Atomic Energy Act of 1954*, as amended," and 10 CFR Part 171, "Annual Fees for Reactor Licenses and Fuel Cycle Licenses and Materials Licenses, Including Holders of Certificates of Compliance, Registrations, and Quality Assurance Program Approvals and Government Agencies Licensed by the NRC."

Analysis of the Statement of Changes in Net Position

The Statement of Changes in Net Position, which reports NRC's change in net position for the reporting period, is summarized in the Condensed Statement of Changes in Net Position on page 28.

Net Position is affected by changes in its two components: Cumulative Results of Operations and Unexpended Appropriations. The increase in Net Position of $29.8 million from FY 2011 to FY 2012 was due to an increase of $55.0 million in Cumulative Results of Operations, offset by a decrease of $25.2 million in Unexpended Appropriations.

The increase in Cumulative Results of Operations of $55.0 million was primarily a result of an increase in financing sources of $7.7 million and a reduction in the net cost of operations of $60.4 million, offset by a decrease in the beginning balance of $13.1 million. Financing sources primarily include imputed financing costs absorbed by others and appropriations used, reduced by the collection of fees assessed and the Nuclear Waste Fund expenses. Imputed finance costs decreased $16.9 million because of costs recorded in FY 2011 of $12.2 million for judgments and awards and $4.7 million in costs for retirement and health benefits. Appropriations used increased $34.5 million from the prior year primarily due to an increase in funds consumed of $4.9 million, a reduction in the collection of fees assessed of $16.5 million, and a reduction in Nuclear Waste Fund expenses of $13.1 million.

A change in unexpended appropriations primarily results from appropriations received and adjustments (e.g., rescissions) being more, or less, than appropriations used during the fiscal year. In FY 2012, appropriations

received of $143.8 million consisted primarily of the NRC's total appropriation of $1,038.1 million, reduced by $894.4 million in fee collections returned to Treasury. Appropriations used in FY 2012 totaled $169.1 million and consisted of $1,064.8 million in funds used, reduced by the collection of $894.3 million in fees assessed and $1.4 million in Nuclear Waste Fund expenses.

Management Assurances, Systems Controls, and Legal Compliance

This section provides information on NRC's compliance with the *Federal Managers' Financial Integrity Act of 1982* (Public Law 97-255), OMB Circular A-123, *Management's Responsibility for Internal Control*, and the *Federal Financial Management Improvement Act of 1996*.

Federal Managers' Financial Integrity Act

The *Federal Managers' Financial Integrity Act of 1982* (Integrity Act) mandates that agencies establish internal control to provide reasonable assurance that the agency complies with applicable laws and regulations; safeguards assets against waste, loss, unauthorized use, or misappropriation; and properly accounts for and records revenues and expenditures. The Integrity Act encompasses program, operational, and administrative areas, as well as accounting and financial management. It also requires the Chairman to provide an assurance statement on the adequacy of internal controls and on the conformance of financial systems with Government-wide standards, shown below.

Internal Control Program

Internal controls are the organization, policies, and procedures to help program and financial managers achieve results and safeguard the integrity of their programs. NRC managers are responsible for designing and implementing effective internal controls in their areas of responsibility. Each office director and regional administrator prepares an annual assurance certification that identifies any control weaknesses requiring the attention of the NRC Executive Committee on Internal Control (ECIC). These certifications are based on internal control activities such as risk assessments, as well as other activities such as Integrated Materials Performance Evaluation Program self-assessments, lessons learned oversight board activities, agency action review meetings, senior leadership meetings, business process improvement reviews, audits of financial statements, reviews of financial statements, Inspector General and U.S. Government Accountability Office audits and reports, and other information provided by the congressional committees of jurisdiction.

The ECIC consists of senior executives from the Office of the Chief Financial Officer and the Office of the Executive Director for Operations. The agency's General Counsel and Inspector General participate as advisors.

The ECIC met and reviewed the reasonable assurance certifications provided by the offices and regions. The ECIC then informed the Chairman as to whether the NRC had any internal control deficiencies serious enough to require reporting as a weakness or noncompliance.

The NRC's internal control program requires that internal control deficiencies be documented and reported in office and regional internal control plans and operating plans. The internal control plans provide for annual reporting, and the operating plan process provides for quarterly updates; together, both ensure that key issues receive senior management attention. Combined with the individual assurance statements discussed previously, the internal control information in these plans provides the framework for monitoring and improving the agency's internal control on an ongoing basis.

U.S.NRC
United States Nuclear Regulatory Commission
Protecting People and the Environment

FY 2012 Integrity Act Results

The NRC evaluated its internal control systems for the fiscal year ending September 30, 2012. Based on this evaluation, the NRC is able to provide a statement of assurance that the internal controls and financial systems meet the objectives of the Integrity Act. The NRC has reasonable assurance that its internal controls are effective and that its financial management systems conform to Government-wide standards.

Office of Management and Budget Circular A-123, "Management's Responsibility for Internal Control"

Internal Control Over Financial Reporting (Appendix A)

In FY 2006, the NRC implemented the requirements of the revised OMB Circular A-123, which defined and strengthened management's responsibility for internal control in Federal agencies. The revised circular included updated internal control standards. Appendix A requires Federal agencies to assess the effectiveness of internal controls over financial reporting and to prepare a separate annual statement of assurance as of June 30, 2012.

In FY 2007, the NRC adopted a 3-year rotational testing plan. The agency determined that three of the original nine key processes (financial reporting, revenue, and information technology) were significant enough to include in the testing each year of the 3-year cycle. The remaining six key processes were to be tested once in the 3-year cycle, two each year. In FY 2012, the NRC continued its assessment of internal control over financial reporting. The agency reevaluated its scope of financial reports, materiality values, risk assessments, key processes, and key controls. Based on the results of this evaluation, the NRC can provide reasonable assurance that its internal control over financial reporting was operating effectively as of June 30, 2012. The evaluation found no material weaknesses in design or operation of the internal controls over financial reporting.

U.S. NUCLEAR REGULATORY COMMISSION
FISCAL YEAR 2012
FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT STATEMENT

The U.S. Nuclear Regulatory Commission (NRC) managers are responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the *Federal Managers' Financial Integrity Act* (Integrity Act). The NRC conducted its assessment of internal control over programmatic operations in accordance with Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control* (A-123) guidelines. Based on the results of this evaluation, NRC can provide reasonable assurance that its internal control over programmatic operations is in compliance with applicable laws and guidance, and no material weaknesses were found as of September 30, 2012.

In addition, NRC conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of A-123. Based on the results of the evaluation, NRC can provide reasonable assurance that its internal control over financial reporting as of June 30, 2012, was operating effectively, and no material weaknesses were found in the design or operation of the internal control over financial reporting.

The NRC can also provide reasonable assurance that its financial systems substantially comply with applicable Federal accounting standards as required by the *Federal Financial Management Improvement Act of 1996*.

Allison M. Macfarlane
Chairman
U.S. Nuclear Regulatory Commission
November 2, 2012

Requirements For Effective Measurement and Remediation of Improper Payments (Appendix C)

In FY 2011, OMB revised Parts I and II to Appendix C of OMB Circular A-123. Appendix C, "Requirements for Effective Measurement and Remediation of Improper Payments," as amended, implemented the *Improper Payments Information Act of 2002* (IPIA) and the *Improper Payments Elimination and Reporting Act of 2010* (IPERA). The purpose of this guidance was to reduce improper payments, hold agencies accountable for reducing improper payments, and increase penalties for contractors that fail to timely disclose improper payments. The NRC complied with this guidance by incorporating improper payments testing into the FY 2011 OMB Circular A-123 Appendix A assessment.

The NRC conducted its first IPERA testing in FY 2011, which yielded an estimated improper payment rate for commercial payments of 0.02 percent and an estimated improper payment amount of less than $27,000. These results fell below the IPERA thresholds of 2.5 percent of program outlays and $10 million of all program or activity payments, or $100 million. Due to the NRC's low rate in estimated improper payments in FY 2011, the OMB and the NRC agreed that the NRC would conduct IPERA testing every three years (instead of yearly) in accordance with the IPERA and OMB guidance. The next review is scheduled for FY 2014.

Federal Financial Management Improvement Act

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

FY 2012 FFMIA Results

As of September 30, 2012, the NRC evaluated its financial systems and found that they comply with applicable Federal requirements and accounting standards required by FFMIA. In making this determination, the agency considered all available information, including the report from the ECIC on the effectiveness of internal control, Office of the Inspector General audit reports, and the result of the agency's financial management system reviews.

Financial Management Systems Strategies

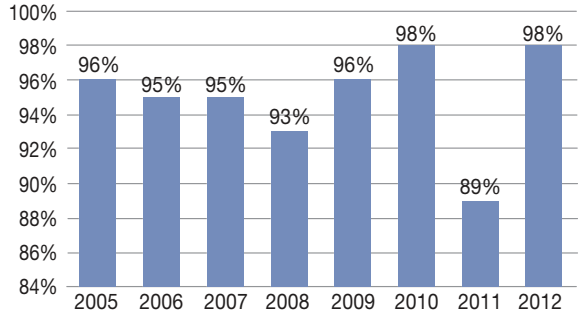
The NRC continued to make substantial progress in modernizing its financial systems throughout FY 2012. The NRC enhanced system performance, data integrity, business processes, user expertise, and reporting in the agency's Financial Accounting and Integrated Management Information System (FAIMIS) Core Financial System (CFS). On July 31, 2012, the NRC completed a FAIMIS CFS Re-hosting Initiative and successfully transferred hosting and customer Helpdesk support services for the FAIMIS CFS from the U.S. Department of Interior's National Business Center to CGI Federal's (CGI's) Phoenix Data Center (PDC). The entire initiative, which included standing up new hardware at the hosting facility, modifying all system interfaces, completing an extensive systems security evaluation, testing system functionality, verifying converted historical data, establishing a new secure communications protocol between the hosting site and NRC, and executing a formal independent verification and validation process, was all completed in less than seven months. As a result of the FAIMIS Re-hosting Initiative, the NRC is hosted within a private cloud environment. In FY 2012, the agency also upgraded its Time and Labor (T&L) System. The new T&L system strengthened data security, eliminated electronic workflows, and reduced yearly costs. The agency also added a Salary and Benefits Projection Tool to its Budget Formulation System (BFS). This BFS enhancement facilitates the analysis of employee compensation and benefits scenarios for future years and improves budget forecasting. Sustained emphasis on

modern, Web-enabled technology, automated processes, and extensive user support has improved the financial information available to the agency, which has allowed for better informed decision making.

Prompt Payment

The *Prompt Payment Act of 1982*, as amended, requires Federal agencies to make timely payments to vendors for supplies and services, pay interest penalties when payments are made after the due date, and take cash discounts when they are economically justified. In FY 2012, the NRC paid 98 percent of the 10,183 invoices subject to the Prompt Act on time.

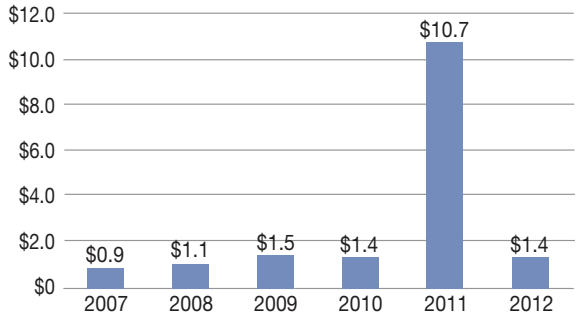
Figure 8
Payment Percentage



Debt Collection

The *Debt Collection Improvement Act of 1996* enhances the ability of the Federal Government to service and collect debts. The NRC's goal is to maintain the level of delinquent debt owed to the agency at year end to less than 1 percent of its annual billings. The agency met this goal. At the end of FY 2012, delinquent debt was $1.4 million (non-Federal delinquent debt over 31 days old less installments). The agency was able to improve its referral to 99.8 percent of all eligible debt over 180 days delinquent to the U.S. Department of the Treasury for collection. In order to accurately reflect delinquent debt as well as all non-Federal debt between 31-180 days, less installment loans, the numbers previously reported for FYs 2007-2011 have required adjustment. This success was due to an extensive cleanup effort resulting from the deployment of a new accounting system and process changes.

Figure 9
Delinquent Debt *(in Millions)*



Biennial Review of User Fees

The *Chief Financial Officers Act of 1990* requires agencies to conduct a biennial review of fees, royalties, rents, and other charges imposed by agencies, and to make revisions to cover program and administrative costs incurred. Each year, the NRC revises the hourly rates for license and inspection fees and adjusts the annual fees to meet the fee collection requirements of the *Omnibus Budget Reconciliation Act of 1990*, as amended. The most recent changes to the license, inspection, and annual fees are described in the *Federal Register* (77 FR 35809: June 15, 2012). There were no biennial reviews completed in FY 2012.

Inspector General Act of 1978

Page 13 of this document includes "Inspector General's Assessment of the Most Serious Management and Performance Challenges Facing NRC." The complete report may be accessed at http://pbadupws.nrc.gov/docs/ML1227/ML12275A280.pdf. The NRC has established and continues to maintain an excellent record in resolving and implementing Office of Inspector General (OIG) open audit recommendations, as well as data concerning disallowed costs determined through contract audits conducted by the Defense Contract Audit Agency.

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

OFFICE OF THE
INSPECTOR GENERAL

February 8, 2013

MEMORANDUM TO: Chairman Macfarlane

FROM: Hubert T. Bell **/RA/**
Inspector General

SUBJECT: TRANSMITTAL OF THE INDEPENDENT AUDITORS' REPORT ON THE CONDENSED FINANCIAL STATEMENTS (OIG-13-A-12)

Office of Management and Budget Circular No. A-136, *Financial Reporting Requirements*, Revised, August 3, 2012, requires all entities covered under *The Chief Financial Officer's Act of 1990* to prepare a Summary of Performance and Financial Information which summarizes performance and accountability results for the fiscal year. The Summary Report should include the most important performance and financial information contained in the Performance and Accountability Report in a brief, user-friendly format that is easily understood by a reader with little technical background in these areas. The purpose of this memorandum is to transmit CliftonLarsonAllen LLP (CLA) Auditors' Report on the Condensed Financial Statements included in the Summary Report.

CLA is responsible for the attached unqualified auditor's opinion, dated November 8, 2012. The Office of the Inspector General (OIG) is responsible for technical and administrative oversight regarding the firm's performance under the terms of the contract. Our oversight of CLA's work, as differentiated from an audit in conformance with *Government Auditing Standards*, was not intended to enable us to express, and accordingly we do not express, an opinion on the condensed financial statements included in the Summary Report. However, OIG's oversight of CLA's work disclosed no instances where CLA did not comply with applicable auditing standards.

We appreciate the cooperation provided by NRC staff.

Attachment: As stated

cc: Commissioner Svinicki
Commissioner Apostolakis
Commissioner Magwood
Commissioner Ostendorff
N. Mamish, OEDO
K. Brock, OEDO
J. Arildsen, OEDO
C. Jaegers, OEDO

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

INDEPENDENT AUDITORS' REPORT ON THE CONDENSED FINANCIAL STATEMENTS

Inspector General
United States Nuclear Regulatory Commission

Chairman
United States Nuclear Regulatory Commission

We have audited the balance sheets of the United States Nuclear Regulatory Commission (NRC) as of September 30, 2012 and 2011, and the related statements of net cost, changes in net position, and budgetary resources ("financial statements") for the fiscal years then ended. Our audit was performed in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. In our report dated November 8, 2012, we expressed an unqualified opinion on those financial statements.

In our opinion, the information set forth in the accompanying condensed financial statements is fairly stated in all material respects in relation to the financial statements referred to above from which it has been derived.

In accordance with *Government Auditing Standards*, our report on the financial statements referred to above includes an opinion on the effectiveness of internal control over financial reporting and a report on compliance with laws and regulations for the fiscal years ended September 30, 2012 and 2011. Those reports are integral parts of a financial statement audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

CliftonLarsonAllen LLP

Arlington, Virginia
November 8, 2012

Condensed Financial Statements

Condensed Balance Sheet* *(In Thousands)*

As of September 30,	2012	2011
Assets		
Fund balance with Treasury	**$ 357,529**	$ 394,580
Accounts receivable, net	**100,606**	100,296
Property and equipment, net	**99,982**	46,542
Other	**11,750**	3,722
Total Assets	**$ 569,867**	$ 545,140
Liabilities		
Accounts payable	**$ 43,172**	$ 43,202
Federal employee benefits	**7,224**	7,245
Other	**74,197**	79,168
Total Liabilities	**124,593**	129,615
Net Position		
Unexpended appropriations	**285,080**	310,332
Cumulative results of operations	**160,194**	105,193
Total Net Position	**445,274**	415,525
Total Liabilities and Net Position	**$ 569,867**	$ 545,140

Statement of Net Cost* *(In Thousands)*

For the years ended September 30,	2012	2011
Nuclear Reactor Safety and Security		
Gross costs	**$ 824,091**	$ 857,569
Less: Earned revenue	**(815,701)**	(786,741)
Total Net Cost of Nuclear Reactor Safety and Security	**8,390**	70,828
Nuclear Materials and Waste Safety and Security		
Gross costs	**228,000**	239,350
Less: Earned revenue	**(88,630)**	(101,919)
Total Net Cost of Nuclear Materials and Waste Safety and Security	**139,370**	137,431
Net Cost of Operations	**$ 147,760**	$ 208,259

Condensed Statement of Changes in Net Position* *(In Thousands)*

For the years ended September 30,	2012	2011
Cumulative Results of Operations		
Beginning Balance	**$ 105,193**	$ 118,312
Budgetary Financing Sources	**169,056**	144,606
Other Financing Sources	**33,705**	50,534
Net Cost of Operations	**(147,760)**	(208,259)
Net Change	**55,001**	(13,119)
Cumulative Results of Operations	**$ 160,194**	$ 105,193
Unexpended Appropriations		
Beginning Balance	**$ 310,332**	$ 311,869
Budgetary Financing Sources	**(25,252)**	(1,537)
Total Unexpended Appropriations	**285,080**	310,332
Net Position	**$ 445,274**	$ 415,525

* For a complete set of financial statements and notes, see Chapter 3, "Financial Statements and Auditors' Report" beginning on page 69 of the Fiscal Year 2012 Performance and Accountability Report. This report can be accessed on the NRC Web site at http://www.nrc.gov/reading-rm/doc-collections/nuregs/staff/sr1542/.

Summary of Financial Statement Audit and Management Assurances**

SUMMARY OF FINANCIAL STATEMENT AUDIT		
Audit Opinion – Unqualified	Restatement – No	Material Weaknesses – No
SUMMARY OF MANAGEMENT ASSURANCES		
Effectiveness of Internal Control over Financial Reporting and Operations (FMFIA § 2)		
Statement of Assurance – Unqualified		Material Weaknesses – No
Conformance with Financial Management System Requirements (FMFIA § 4)		
Statement of Assurance – Systems Conform to Requirements		Nonconformance – No
Compliance with Federal Financial Management Improvement Act (FFMIA)		
Overall Substantial Compliance	Agency – Yes	Auditor – Yes

** For the complete Summary of Financial Statement Audit and Management Assurances see page 126 of the FY 2012 Performance and Accountability Report. This report can be accessed on the NRC Web site at http://www.nrc.gov/reading-rm/doc-collections/nuregs/staff/sr1542/.

Availability of Reference Materials in NRC Publications

NRC Reference Materials

As of November 1999, you may electronically access NUREG-series publications and other NRC records at the NRC Library at http://www.nrc.gov/reading-rm.html.

Publicly released records include, to name a few, NUREG-series publications; *Federal Register* notices; applicant, licensee, and vendor documents and correspondence; NRC correspondence and internal memoranda; bulletins and information notices; inspection and investigative reports; licensee event reports; and Commission papers and their attachments.

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

1. The Superintendent of Documents
   U.S. Government Printing Office
   Mail Stop SSOP
   Washington, DC 20402-0001
   Internet: bookstore.gpo.gov
   Telephone: 202-512-1800
   Fax: 202-512-2250
2. The National Technical Information Service
   Springfield, VA 22161-0002
   www.ntis.gov
   1-800-553-6847 or, locally, 703-605-6000

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

Address: Office of Administration,
Publications Branch
U.S. Nuclear Regulatory Commission
Washington, DC 20555-0001
E-mail: DISTRIBUTION.Resource@nrc.gov
Facsimile: 301-415-2289

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

Non-NRC Reference Material

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

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

The NRC Technical Library
Two White Flint North
11545 Rockville Pike
Rockville, MD 20852-2738

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

American National Standards Institute
11 West 42nd Street
New York, NY 10036-8002
www.ansi.org
212-642-4900

Legally binding regulatory requirements are stated only in laws; NRC regulations; licenses, including technical specifications; or orders, not in NUREG-series publications. The views expressed in contractor-prepared publications in this series are not necessarily those of the NRC.

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David Holley, James Coyle, et. al

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Office of the Chief Financial Officer
U.S. Nuclear Regulatory Commission
Washington, DC 20555-0001

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11. ABSTRACT *(200 words or less)*

The Fiscal Year 2012 NRC Summary of Performance and Financial Information provides performance results and condensed audited financial statements that enable the U.S. Congress, the President, and the public to assess the performance of the agency in achieving its mission and stewardship of its resources.

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