U.S.NRC

United States Nuclear Regulatory Commission

Protecting People and the Environment

Fiscal Year 2017

Agency Financial Report

The U.S. Nuclear Regulatory Commission Headquarters

UNITED STATES NUCLEAR REGULATORY COMMISSION

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About This Report

The Agency Financial Report (AFR) for the U.S. Nuclear Regulatory Commission (NRC) provides financial and summary performance information in accordance with Office of Management and Budget (OMB) Circular A-136, "Financial Reporting Requirements." This AFR is an account of the agency's stewardship of its resources during fiscal year (FY) 2017, which covers the period from October 1, 2016, to September 30, 2017. The report is organized into the following three chapters:

- **Chapter 1: Management's Discussion and Analysis (MD&A)**

  This chapter provides an overview of the NRC, and financial and summary-level performance information. It includes an overview of the performance and current status of systems, internal control weaknesses, financial management, and the FY 2017 financial condition and results.

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

  This chapter contains details on the NRC's finances of the NRC for FY 2017. It includes the financial statements and accompanying notes, required supplementary information, and the independent auditors' report.

- **Chapter 3: Other Information**

  This chapter provides the Office of the Inspector General's (OIG) discussion of management and performance challenges, a summary of the financial statement audit, and improper payments reporting details, a glossary of acronyms, and other information.

NRC Reports on the Agency Web Site:

- FY 2017 AFR at http://www.nrc.gov/reading-rm/doc-collections/nuregs/staff/sr2220/

- FY 2019 Congressional Budget Justification, which will include the Agency Performance Report, at https://www.nrc.gov/reading-rm/doc-collections/nuregs/staff/sr1100/ after publication of the report.

- Performance and Accountability Reports for years before FY 2017, at http://www.nrc.gov/reading-rm/doc-collections/nuregs/staff/sr1542/.

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NUCLEAR REGULATORY COMMISSION

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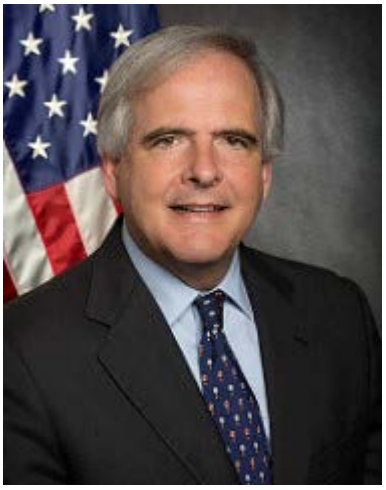
The Commission

The NRC is headed by a Commission composed of five members, with one member designated by the President of the United States to serve as Chairman. With the advice and consent of the Senate, the President appoints each member to serve a 5-year term. The Chairman is the chief executive officer and official spokesperson for the Commission. The Commission as a whole formulates policies and regulations governing the safety and security of nuclear reactors and materials, issues orders to licensees, and adjudicates legal matters brought before it. The Executive Director for Operations (EDO) carries out program policies and decisions made by the Commission. At the end of FY 2017, two of the five Commissioner positions were vacant.

Chairman Kristine L. Svinicki

Commissioner Jeff Baran



Commissioner Stephen G. Burns

An Introduction from the Chief Financial Officer

I am pleased to present the NRC's annual Agency Financial Report (AFR) for FY 2017. This is the first year the NRC has issued an AFR, which replaces the Performance and Accountability Report. In order to increase completeness and efficiency, the NRC has opted to move the detailed agency performance reporting to a separate Agency Performance Report, which will be issued with the NRC Congressional Budget Justification. The AFR provides the audited financial statements that enable the President, Congress, and the public to assess the effectiveness of the agency in the stewardship of its resources. The report contains an overview of the NRC's program performance and operations in Chapter 1, "Management's Discussion and Analysis."

Chapter 1 contains summary performance information for FY 2017. The agency has two strategic goals: Safety and Security. The NRC achieved its goals in meeting all of its FY 2017 performance indicators. The agency's nuclear reactor and materials licensees maintained their excellent safety record. The agency also improved its operational activities by continuing to invest in its skilled workforce of engineers and scientists through knowledge transfer programs, recruiting a diverse workforce, and providing training opportunities. The NRC places a high priority on keeping the public informed of its activities. Visit the agency's Web site at www.nrc.gov to learn more about who the NRC is and what it does to serve the American public.

The NRC has made great strides in the past few years in reducing the cost of operations and passing those savings onto its licensee customers by reducing licensing fees and fees for services. These savings, reflected in the agency's financial statements, resulted from efficiency changes to many of its processes and staff reductions through the Project Aim initiative, and from information technology improvements. During FY 2017, the NRC made substantial improvements to data collection and classification in its information systems in order to improve communications with licensees and other stakeholders. The NRC implemented an electronic vendor billing system, the Invoice Processing Platform (IPP) through the U.S. Department of the Treasury (Treasury), a year ahead of the mandated implementation date. The agency also moved its core financial system into the cloud, further reducing overhead cost. The NRC continues to look for savings in all operations.

The NRC successfully implemented the *Digital Accountability and Transparency Act of 2014* (DATA Act), which provides detailed information on the NRC's stewardship of its corporate resources and detailed information on contract and grant awards on the USASpending.gov Web site. The NRC created a process and prepared the data files in compliance with the broker-ready format of the DATA Act Reporting Submission Specifications (RSS). The files were successfully uploaded to the DATA Act broker ahead of the scheduled deadline for submission. Data was fully reconciled to NRC's accounting and procurement records. The Treasury recognized the NRC at the DATA Act Celebration and Award Ceremony held in June 2017, "in recognition of their outstanding achievement in implementing the DATA Act" with the following award: "First CFO Act Agency Certification Award – In support of the Data Act implementation, NRC effectively and efficiently planned and implemented the reporting requirements laid out by the DATA Act Information Model Schema and regularly demonstrated technical expertise and a commonsense approach in their implementation."

The agency continues to operate in a sound financial position, having sufficient funds to meet programmatic needs and adequate control over these funds. An independent auditor has rendered an unmodified opinion on the NRC financial statements for the 14th consecutive year. The auditor has also rendered an unmodified opinion on the NRC's internal control over financial reporting and noted no reportable instances of noncompliance with pertinent provisions of laws and regulations.

Lastly, the NRC continues to maintain good internal controls over programs, systems, and processes. As a result of the assessments under the *Federal Manager's Financial Integrity Act of 1982* (FMFIA), the NRC management team has concluded that there is reasonable assurance that the agency is in substantial compliance with FMFIA, and the financial and performance summary 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 (OMB) Circular A-136 requirements, "Financial Reporting Requirements." Further, the NRC management team has determined that the agency is in substantial compliance with the *Federal Financial Management Improvement Act of 1996* (FFMIA), based upon the NRC's application of the FFMIA risk model.

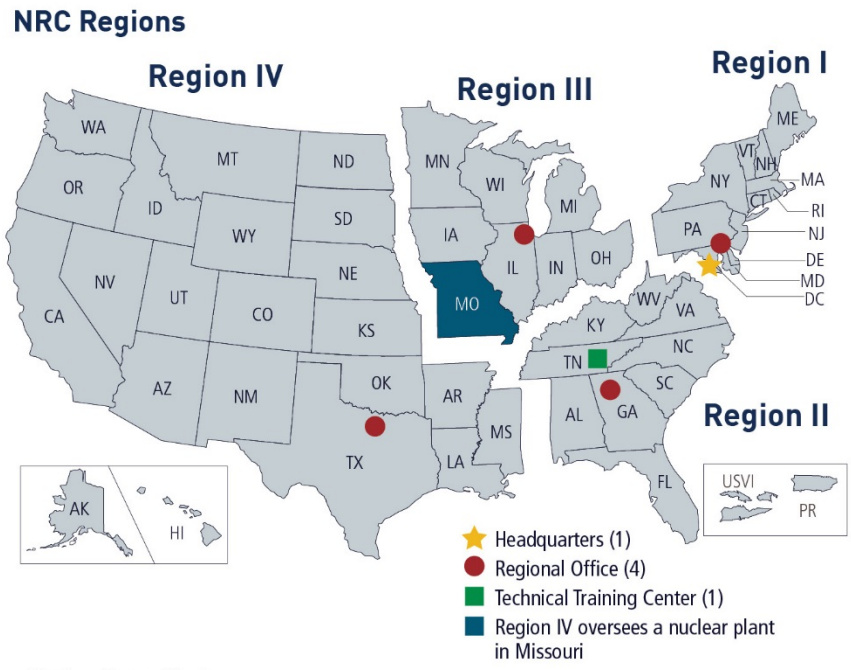
I commend the entire NRC staff who have contributed to a successful FY 2017 and produced this financial report.

Maureen E. Wylie
Chief Financial Officer
November 7, 2017

Chapter 1: Management's Discussion and Analysis

About the NRC

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



Nuclear Power Plants

- Each regional office oversees the plants in its region—except for the Callaway plant in Missouri, which Region IV oversees.

Materials Licensees

- Region I oversees licensees and Federal facilities located in Region I and Region II.
- Region III oversees licensees and Federal facilities located in Region III.
- Region IV oversees licensees and Federal facilities located in Region IV.

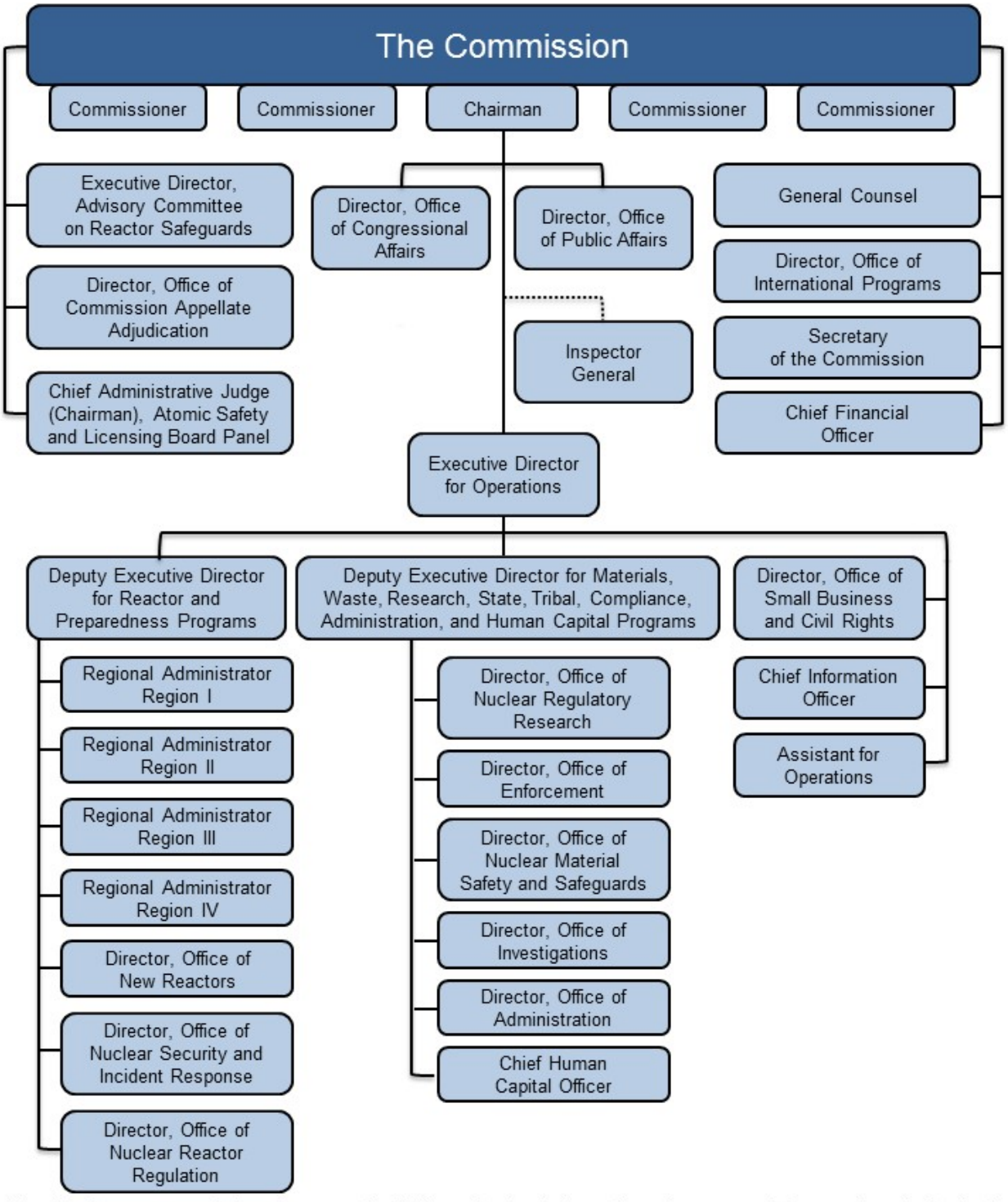
Nuclear Fuel Processing Facilities

- Region II oversees all the fuel processing facilities in all regions.
- Region II also handles all construction inspection activities for new nuclear power plants and fuel cycle facilities in all regions.

As of June 2017

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

The NRC's Organizational Structure



Note: For the most recent information, go to the NRC organizational chart at https://www.nrc.gov/about-nrc/organization.html.

Mission

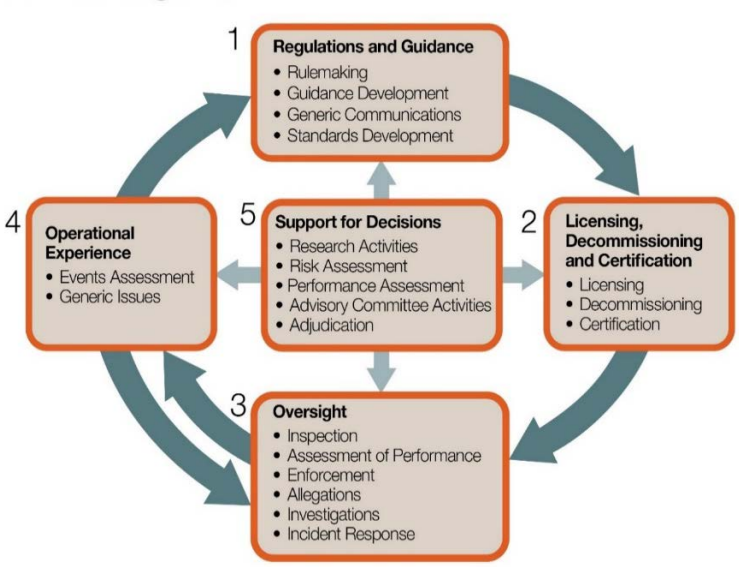
License and regulate the Nation's civilian use of radioactive materials to protect public health and safety, promote the common defense and security, and protect the environment.

The NRC's Regulatory Activities

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

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

Figure 1 How We Regulate



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

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

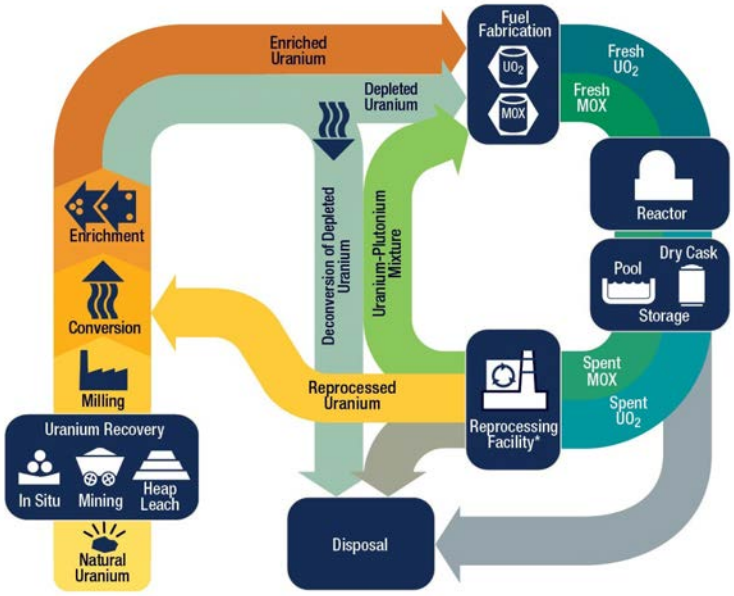
The agency inspects all facilities that it licenses on a regulator basis to verify that they meet NRC regulations and are being operated safely and securely. NRC specialists conduct 10 to 25 routine inspections each year at each of the 99 operating nuclear power plants. In addition, the agency oversees approximately 2,600 licenses for medical, academic, industrial, and general

uses of nuclear materials. The agency conducts approximately 1,000 health and safety inspections of its nuclear materials licensees annually. Under the NRC's Agreement State program, 37 States have assumed primary regulatory responsibility over the industrial, medical, and other users of nuclear materials within their States, accounting for approximately 17,000 licensees. The NRC works closely with these States to assist them in maintaining public safety through acceptable licensing and inspection procedures.

The Nuclear Industry

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

Figure 2 The Nuclear Fuel Cycle

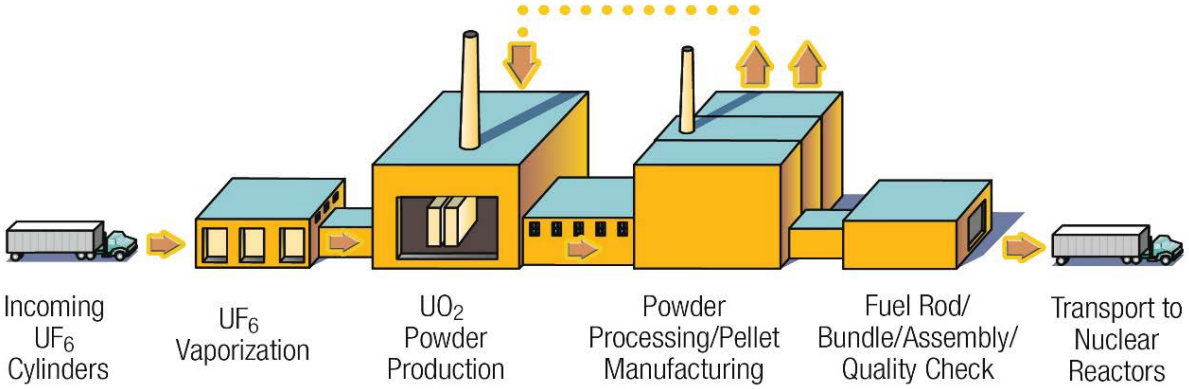


* Reprocessing of spent nuclear fuel, including mixed-oxide (MOX) fuel, is not practiced in the United States.
Note: The NRC has no regulatory role in mining uranium.

Fuel Facilities

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

Figure 3 Simplified Fuel Fabrication Process



Fabrication of commercial light-water reactor fuel consists of the following three basic steps:

(1) the chemical conversion of UF_6 to UO_2 powder

(2) a ceramic process that converts UO_2 powder to small ceramic pellets

(3) a mechanical process that loads the fuel pellets into rods and constructs finished fuel assemblies

Reactors

To generate electricity, power plants change one form of energy into another. Electrical generating plants convert heat energy, the kinetic energy of wind or falling water, or solar energy into electricity. Other types of heat-conversion plants burn coal, oil, or gas to produce heat energy that is then used to produce electricity. Nuclear energy cannot be seen. Heat energy is not produced by the burning of fuel in the usual sense. Rather, energy is given off by the nuclear fuel as certain types of atoms split in a process called nuclear fission. This energy is in the form of fast-moving particles and radiation. As the particles and radiation move through the fuel and surrounding water, the energy is converted into heat, which generates electricity. The radiation energy can be hazardous, and facilities take special precautions at nuclear power plants to protect people and the environment from these hazards (see Figures 4 and 5 on page 7).

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

Figure 4 The Boiling-Water Reactor

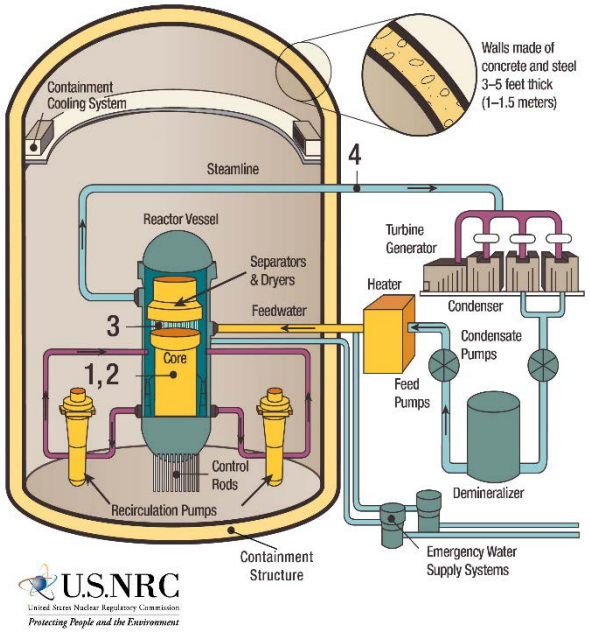
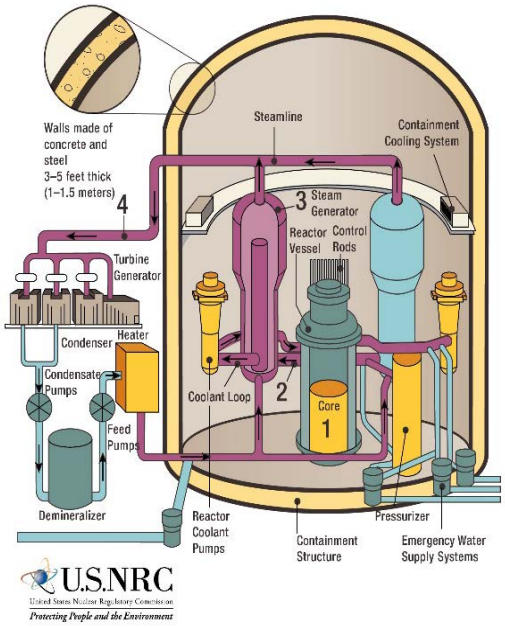


Figure 5 The Pressurized-Water Reactor



Materials Users

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

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

Many of today's industrial processes also use nuclear materials. Technologically advanced methods that ensure the quality of manufactured products often rely on radiation generated by radioisotopes. To determine whether a well drilled deep into the ground has the potential for producing oil, geologists use nuclear well-logging, a technique that employs radiation from a radioisotope inside the well, to detect the presence of different materials. Radioisotopes are also used to sterilize instruments, find flaws in critical steel parts and welds that go into automobiles and modern buildings, authenticate valuable works of art, and solve crimes by spotting trace elements of poison. Radioisotopes can also eliminate dust from film and compact discs and reduce static electricity (which may create a fire hazard) from can labels. In manufacturing, radiation can change the characteristics of materials, often giving them features that are highly desirable. For example, wood and plastic composites treated with gamma

radiation resist abrasion and require low maintenance. As a result, they are used for some flooring in high traffic areas of department stores, airports, hotels, and churches.

Waste Disposal

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

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

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

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

Program Performance Overview

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

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

emergencies involving radioactive materials. The following narrative highlights the agency's progress during FY 2017 in achieving its safety and security goals.

Fiscal Year 2017 Performance Results

The NRC's FY 2014–2018 Strategic Plan (http://www.nrc.gov/reading-rm/doc-collections/nuregs/staff/sr1614/v6/) describes the agency's mission, goals, and strategies. As noted above, the agency's two strategic goals are focused on Safety and Security. The Safety goal is to *Ensure the safe use of radioactive materials*. The Security goal is to *Ensure the secure use of radioactive materials*.

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

Strategic Goal 1: Ensure the Safe Use of Radioactive Materials

Strategic Objective

Strategic objectives express more specifically the results that are needed to achieve a strategic goal. The strategic objective for Goal 1 is:

Prevent and mitigate accidents and ensure radiation safety

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

In FY 2017, the NRC achieved its Safety goal strategic objective. The NRC uses five performance indicators to determine whether it has met its Safety goal. The agency met all five performance indicator targets in FY 2017. Table 1 on page 10 shows the outcomes for the last 3 years (FY 2015-FY 2017). The cost of achieving the agency's Safety goal in FY 2017 was $896.7 million.

Safety Performance Indicators: Fiscal Years 2015–2017

The purpose behind the NRC's performance indicators is to prevent or minimize undesirable outcomes. Therefore, the trends indicating the agency's success in accomplishing its mission would be at or near zero.

The following performance indicators were created in conjunction with the development of the NRC's FY 2014–2018 Strategic Plan.

Table 1 FY 2015–2017 Safety Performance Indicators

Goal–Safety: Ensure the Safe Use of Radioactive Materials

1. Prevent radiation exposures that significantly exceed regulatory limits.

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

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

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

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

3. Prevent the occurrence of any inadvertent criticality events.

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

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

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

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

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

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

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

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

Discussion: This indicator tracks the effectiveness of the NRC's nuclear safety regulatory programs, in part through the number of significant radiation exposures to the public and occupational workers that exceed AO criteria. This indicator tracks exposures from both nuclear reactors and other use of nuclear materials, such as hospitals and industrial uses. In FY 2017, there were no radiation exposures that exceeded AO criteria 1.A.1

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

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

Discussion: This indicator tracks the effectiveness of the NRC's nuclear material regulatory programs. Exceeding the applicable regulatory limits is defined as a release of radioactive material that causes a total effective radiation dose equivalent to individual members of the public greater than 0.1 rem in a year, exclusive of dose contributions from background radiation. In FY 2017, there were no releases of this nature.

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

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

Discussion: This indicator tracks the effectiveness of the NRC's criticality safety regulatory programs through the number of unintended self-sustaining nuclear reactions occurring within a fiscal year. Intended criticality events include the startup of a nuclear power reactor. There were no inadvertent criticality events during FY 2017.

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

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

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

categories in order of increasing significance: green, white, yellow, or red. When the rating is higher (more severe), the NRC applies a greater level of oversight. A red finding or performance indicator is the most severe rating and signals a significant reduction in the safety margin in the measured area. No red findings were issued in FY 2017.

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

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

Discussion: This indicator tracks the effectiveness of NRC's regulatory safety programs for nonreactor facilities or during transportation of nuclear materials through the number of instances in which safety margins at nonreactor facilities are at unacceptable levels. No occurrences of this nature took place during FY 2017.

Safety Goal Strategies

The NRC's FY 2014–2018 Strategic Plan describes the seven Safety goal strategies.

Strategic Goal 2: Ensure the Secure Use of Radioactive Materials

Strategic Objectives

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

1. Ensure protection of nuclear facilities and radioactive materials.

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

2. Ensure protection of classified and Safeguards Information

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

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

Fiscal Year 2017 Results

In FY 2017, the NRC achieved its Security goal strategic objectives. The NRC also uses three Security goal performance indicators to determine whether the agency has met its Security goal. The agency met all three performance indicator targets in FY 2017. Table 2 shows the outcomes from FY 2015–FY 2017. The cost of achieving the agency's Security goal was $43.9 million in FY 2017.

Security Performance Indicators: FY 2015–2017

Table 2 FY 2015–2017 Security Performance Indicators

Goal – Security: Ensure Secure Use of Radioactive Materials

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

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

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

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

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

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

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

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

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

Discussion: This indicator measures the agency's effectiveness at preventing sabotage, theft, diversion, or loss of risk-significant quantities of radioactive material through tracking any loss or theft of radioactive nuclear sources that the NRC has determined to be of significant risk. The indicator also measures the agency's performance in ensuring the proper accounting for radioactive sources of significant risk that could be used for malicious purposes. It also measures whether NRC-licensed facilities maintain adequate protective capabilities to prevent theft or diversion of nuclear material or sabotage that could result in substantial harm to the public health and safety. No such incidents took place during FY 2017.

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

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

Discussion: This indicator measures the agency's effectiveness in maintaining security by tracking any substantial breakdowns in access control, containment, or accountability systems that significantly weakened the protection against theft, diversion, or sabotage for nuclear materials that the agency has determined to be of significant risk. In FY 2017, there were no incidents of this nature.

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

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

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

Discussion: This indicator includes significant unauthorized disclosures of classified or Safeguards Information that cause damage to national security or public safety. This indicator reflects whether information that can harm national security (classified information) or cause damage to the public health and safety (SGI) has been protected sufficiently to prevent its disclosure to terrorist organizations, other nations, or personnel without a need to know. No significant unauthorized disclosures occurred in FY 2017.

Security Goal Strategies

The NRC's FY 2014– 2018 Strategic Plan describes the seven safety goal strategies.

Future Challenges

The NRC's FY 2014– 2018 Strategic Plan describes agency's future challenges. The nuclear industry has maintained an excellent safety record at nuclear power plants over the past two decades as both the nuclear industry and the NRC have gained substantial experience in the operation and maintenance of nuclear power facilities. Maintaining this excellent safety record requires that the agency take proactive measures to ensure the accomplishment of its mission. The key challenges the agency faces are highlighted below.

Market Pressures on Operating Plants and License Applications

Market forces result in pressures to reduce operating costs. As a result, the NRC needs to be prepared to address potential shutdowns of facilities before license expiration and to continue to ensure that oversight programs identify degrading facility safety and security performance. Conversely, the lower capital costs of small modular reactors (under 300 megawatts) may offer industry a more attractive option to add new capacity. Several entities are seeking to submit license applications for small modular reactors in the next several years. The U.S. Department of Energy (DOE) is funding a program "to design, certify and help commercialize innovative small modular reactors in the United States." The NRC is developing a licensing framework for these as well as other advanced reactors.

Significant Operating Incident at a Non-U.S. Nuclear Facility

A significant incident at a nuclear facility outside the United States could cause the agency to reassess its safety and security requirements, which could change the agency's focus on some initiatives related to its objectives until the situation stabilizes.

Significant Operating Incident at a Domestic Nuclear Facility

A significant incident at a U.S. nuclear facility could cause the agency to reassess its safety and security requirements, which could change the agency's focus on some initiatives related to its objectives until the situation stabilizes. Because the NRC's stakeholders are highly sensitive to many issues regarding the use of radioactive materials, even events of relatively minor safety significance could potentially require a response that consumes considerable agency resources.

International Nuclear Standards Developments

International organizations, such as the International Atomic Energy Agency (IAEA), will continue to develop and issue standards and guidance affecting global commitments to nuclear safety and security. To ensure that the best results are achieved both domestically and internationally, the NRC needs to proactively engage in these international initiatives and to provide leadership in a cooperative and collegial manner.

International Treaties and Conventions

As part of the international response to lessons learned from the Fukushima Dai-ichi nuclear accident in Japan, the international nuclear regulatory community is reviewing the Convention on Nuclear Safety. As one of the contracting parties to the Convention, the NRC is a member of the working group that is reviewing the Convention. Likewise, the NRC participates in the Joint Convention on the Safety of Spent Fuel Management and on the Safety of Radioactive Waste Management.

The ratification by the United States of international instruments related to the security of nuclear facilities or radioactive materials could potentially impose binding provisions on the Nation and the corresponding governmental agencies, such as the NRC and the DOE.

Globalization of Nuclear Technology and the Nuclear Supply Chain

Components for nuclear facilities are increasingly manufactured overseas, resulting in the challenges of providing effective oversight to ensure that these components are in compliance with NRC requirements. In addition, the continuing globalization of nuclear technology is driving the need for increasing international engagement on the safe and secure use of radioactive material.

Significant Terrorist Incident

A sector-specific credible threat or actual significant terrorist incident anywhere in the United States would result in the U.S. Department of Homeland Security raising the threat level under the National Terrorism Advisory System. In turn, the NRC would similarly elevate the oversight and response stance for NRC-regulated facilities and licensees. Potentially, new or revised security requirements or other policy decisions might affect the NRC, its partners, and the

regulated community. In a similar fashion, a significant terrorist incident at a nuclear facility or activity anywhere in the world would need to be assessed domestically and potentially lead to a modification of existing security requirements for NRC-regulated facilities and licensees.

Legislative and Executive Branch Initiatives

Congressional and Executive Branch initiatives concerning cybersecurity may potentially impact the NRC's regulatory framework for nuclear security. If the NRC were to become concerned about an aspect of a bill or policy initiative that had been introduced, the staff would consult the Commission to develop a strategy for making such concerns known.

Lost, Misplaced, Intercepted, or Delayed Information

With the increased use of mobile devices and alternative storage options, the introduction of new communication technologies, and the increased use of telecommunication, there is a heightened risk that sensitive information held by the NRC or its licensees can be lost, misplaced, or intercepted and fall into the hands of unauthorized persons.

Data Completeness and Reliability

The NRC considers the data contained in this report to be complete, reliable, and relevant. The data are complete because the agency reports actual performance data for every performance goal and indicator in the report. In addition, all of the data are reported for each measure. The agency also considers the data in this report reliable and relevant, because they have been validated and verified. The NRC's "Report to Congress on Abnormal Occurrences" (NUREG-0090, Volume 38, at http://www.nrc.gov/reading-rm/doc-collections/nuregs/staff/sr0090/v38/) contains more information on the AO criteria. On page 97 of the NRC's FY 2018 Congressional Budget Justification (NUREG-1100, Volume 33. at https://www.nrc.gov/reading-rm/doc-collections/nuregs/staff/sr1100/v33/), the section entitled "Data Collection Procedures for Verification and Validation of Performance Measures," describes the processes the agency uses to collect, validate, and verify performance data in this report.

Financial Performance Overview

The NRC prepared its principal financial statements in accordance with the accounting standards codified in the Statements of Federal Financial Accounting Standards (SFFAS) and the OMB Circular A-136.

As of September 30, 2017, the financial condition of the NRC was sound with respect to having sufficient funds to meet program needs and adequate control over these funds in place to ensure that obligations did not exceed budget authority.

Sources of Funds

Appropriations

The NRC receives two appropriations: (1) Salaries and Expenses and (2) the OIG. For FY 2017 the NRC received total appropriations were $917.1 million, which included $905.0 million for the Salaries and Expenses appropriation and $12.1 million for the OIG.

The NRC's Salaries and Expenses appropriation decreased $85.0 million compared to the prior-year. The appropriation for the OIG stayed at the same level.

The Salaries and Expenses appropriation is available until expended. This includes a provision that not more than $7.5 million be made available for the Office of the Commission; these funds are available for obligation by the NRC through September 30, 2018. After that date, the remaining funds which have not been obligated for the Office of the Commission are available until expended as part of the Salaries and Expenses appropriation. The OIG appropriation is available to obligate for 2 years (FY 2017 and FY 2018) through September 30, 2018. This 2-year funding includes $1.0 million for Inspector General (IG) services to be provided to the Defense Nuclear Facilities Safety Board (DNFSB).

Total Budget Authority

The total budget authority available for the NRC to obligate in FY 2017 was $979.2 million and included $917.1 million for appropriations, $33.3 million of prior-year appropriations, $6.9 million from prior-year funding for reimbursable work, $1.4 million of prior-year funding for resources received from the DOE to fund the NRC activities associated with the Nuclear Waste Policy Act of 1982, $5.6 million from FY 2016 spending authority from offsetting collections (reimbursable work performed for other Federal agencies and commercial customers), $14.5 million from recoveries of prior-year unpaid obligations, and $0.4 million from recoveries of prior-year paid obligations. Funds available to obligate in FY 2017 decreased from the FY 2016 amount of $1,044.0 million by $64.8 million primarily as a result of a decrease of $85.0 million in appropriations, offset by an increase of $16.0 million in prior-years appropriations.

Total Budget Authority *(IN MILLIONS)*

For the fiscal years ended September 30,	2017	2016
Appropriations		
Salaries and Expenses	**$ 905.0**	$ 990.0
Office of the Inspector General	**12.1**	12.1
Total Appropriations	**917.1**	1,002.1
Other Budget Authority		
Prior-years Appropriations	**33.3**	17.3
Prior-years Funding for Reimbursable Work	**6.9**	7.9
Prior-years Funding from DOE	**1.4**	2.8
Spending Authority from Offsetting Collections	**5.6**	4.8
Recoveries of Prior-year Unpaid Obligations	**14.5**	8.9
Recoveries of Prior-year Paid Obligations	**0.4**	0.2
Total Other Budget Authority	**62.1**	41.9
Total NRC Budget Authority	**$ 979.2**	$ 1,044.0

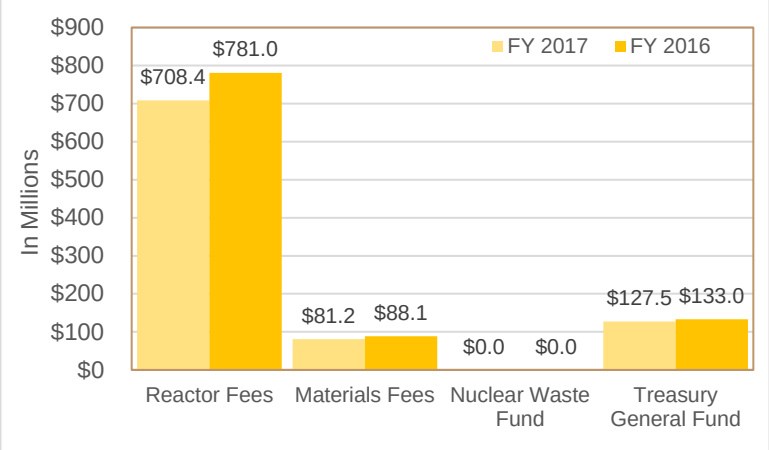
Fee Collection Offset of Appropriations

The *Omnibus Budget Reconciliation Act of 1990* (OBRA-90), as amended, requires the NRC to collect fees to offset approximately 90 percent of its appropriation. By law, this excludes amounts appropriated for Waste Incidental to Reprocessing, generic homeland security, IG services for the DNFSB, and $5.0 million for advanced reactor regulatory infrastructure. Funds

equal to fees collected are transferred to the NRC's two appropriations, and the Treasury issues a negative warrant for the amount of the fee transfer to reduce the NRC's appropriations.

In FY 2017, the NRC collected and transferred $789.6 million to the Treasury (see Figure 6), which represents 98.1 percent of the approximately $804.6 million projected to be recovered in FY 2017. The fees collected during FY 2016 and transferred to the Treasury totaled $869.1 million, which represents 98.4 percent of the approximately $882.9 million projected to be recovered in FY 2016.

Figure 6 Sources of Funds for Appropriations



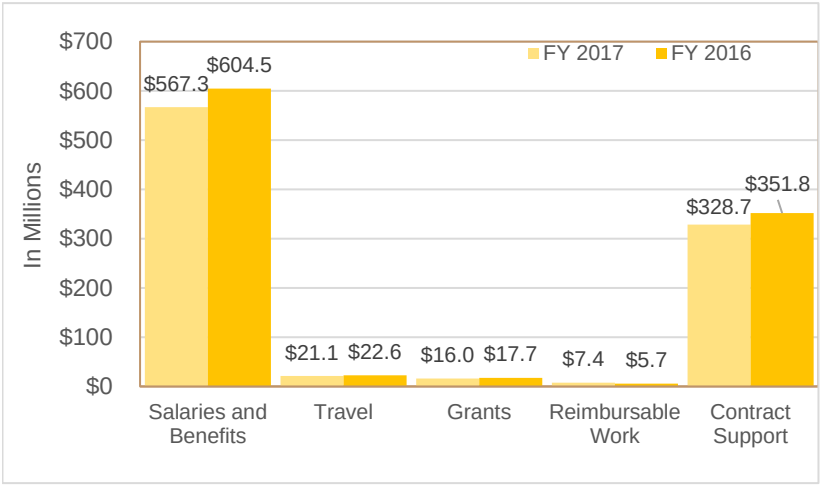
Uses of Funds by Function

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

The NRC incurred obligations of $940.5 million in FY 2017, which represented a decrease of $61.8 million from FY 2016 (see Figure 7). Approximately 60 percent of obligations in FY 2017 were for salaries and benefits. The remaining 40 percent were used to obtain technical assistance for the NRC's principal regulatory programs, to conduct confirmatory safety research, to cover operating expenses (e.g., building rentals, transportation, printing, security services, supplies, office automation, and training), and to pay for staff travel.

The unobligated budget authority at the end of FY 2017 was $38.7 million which was a $2.9 million decrease from the FY 2016 amount of $41.6 million. Of the $38.7 million unobligated balance at the end of FY 2017, $26.1 million was available to fund the NRC critical needs in FY 2018, $7.4 million was for reimbursable work, $4.7 million was for special purpose funds, and $0.5 million was for the Nuclear Waste Fund (NWF). The $41.6 million unobligated balance at the end of FY 2016

Figure 7 Use of Funds (Obligations)



included $28.9 million to fund the NRC critical needs in FY 2017, $7.0 million for reimbursable work, $4.3 million for special purpose funds, and $1.4 million for the NWF.

Audit Results

The NRC received an unmodified audit opinion on its FY 2017 financial statements and internal controls. The auditors found no reportable instances of noncompliance with laws and regulations during the FY 2017 audit.

Chapter 2, "Financial Statements and Auditor's Report" of this report includes a summary of the financial statement audit results.

Limitations of the Financial Statements

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

Financial Statement Highlights

The NRC's financial statements summarize the agency's financial position and financial condition. Chapter 2 of this report includes the financial statements, footnotes, and required supplementary information. The following is an analysis of the financial statements.

Analysis of the Balance Sheet

Asset Summary *(IN MILLIONS)*

As of September 30,	2017	2016
Fund Balance with Treasury	$ 365.8	$ 368.2
Accounts Receivable, Net	87.1	86.2
Property and Equipment, Net	79.9	80.8
Other Assets	12.8	14.2
Total Assets	$ 545.6	$ 549.4

Assets. The NRC's total assets were $545.6 million as of September 30, 2017, representing a decrease of $3.8 million from the same period of FY 2016. Changes in major categories include decreases of $2.4 million in the Fund Balance with the Treasury, $1.4 million in Other Assets, and $0.9 million in Property and Equipment, Net; these are offset by an increase of $0.9 million in Accounts Receivable, Net.

The Fund Balance with Treasury was $365.8 million as of September 30, 2017, which accounts for 67 percent of total assets. This account represents appropriated funds, license fee collections, and other funds maintained at the Treasury to pay current liabilities and to finance authorized purchase commitments. The $2.4 million decrease in the fund balance is primarily the result of an increase of $14.4 million in the beginning balance and a decrease of $85.0 million in appropriations; offset by a decrease in net disbursements (outlays) of $68.2 million, which primarily consists of decreases of $37.3 million in salaries and benefits, $22.8 million for contract services and equipment, and $1.5 million for travel and transportation.

Accounts receivable consists of amounts that other Federal agencies and the public owe to the NRC for license fees. As of September 30, 2017, Accounts Receivable, Net was $87.1 million,

which includes an offsetting allowance for doubtful accounts of $3.9 million. For FY 2016, the year-end Accounts Receivable, Net, balance was $86.2 million, including an offsetting allowance for doubtful accounts of $3.9 million. The net increase in accounts receivable from the prior year of $0.9 million primarily results from an increase of $1.5 million for license fees due from the public, offset by a decrease of $0.6 million for license fees due from other Federal agencies.

Property and Equipment consists primarily of typical office furnishings, leasehold improvements, nuclear reactor simulators, and computer hardware and software. (The NRC has no real property. The land and buildings in which the NRC operates are leased from the U.S. General Services Administration (GSA).). At the end of FY 2017, Property and Equipment, Net was $79.9 million, a $0.9 million decrease from the FY 2016 amount of $80.8 million. The change is primarily results from a decrease of $3.4 million for completed leasehold improvements and leasehold improvements-in-process, offset by increases of $2.0 million in capitalized software under development, $0.3 million for net realizable value (original cost less accumulated amortization and depreciation) of completed software in operation, and $0.2 million for equipment.

Liabilities. Total liabilities were $114.0 million as of September 30, 2017, representing a decrease of $14.0 million from the FY 2016 balance of $128.0 million. Other Liabilities decreased by $13.3 million while Accounts Payable and Federal Employee Benefits remained approximately the same as the prior year. For FY 2017, Other Liabilities represented 69 percent of the Total Liabilities and included $42.0 million in accrued annual leave, $20.2 million in accrued funded salaries and benefits, $9.6 million in grants payable, $4.0 million in advances received by the NRC for services that will be provided, $1.2 million in accrued workers' compensation, and $1.2 million in contract holdbacks, capital lease liability, and miscellaneous liabilities.

Liabilities Summary *(IN MILLIONS)*

As of September 30,	2017	2016
Accounts Payable	$ 30.4	$ 30.9
Federal Employee Benefits	5.4	5.6
Other Liabilities	78.2	91.5
Total Liabilities	$ 114.0	$ 128.0

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 $48.6 million for FY 2017, compared to $50.7 million for FY 2016, a $2.1 million decrease. For FY 2017 the liabilities not covered by budgetary resources represented 43 percent of Total Liabilities and included $42.0 million in unfunded accrued annual leave that has been earned but not yet taken, $5.4 million as an actuarial estimate of accrued future workers' compensation expenses included in Federal Employee Benefits, and $1.2 million in accrued workers' compensation included in Other Liabilities.

Net Position. The difference between Total Assets and Total Liabilities, Net Position, was $431.6 million as of September 30, 2017, an increase of $10.3 million from the FY 2016 year-end balance. Net Position is comprised of two components: Unexpended Appropriations and Cumulative Results of Operations which is the cumulative excess of

Net Position Summary *(IN MILLIONS)*

As of September 30,	2017	2016
Unexpended Appropriations	$ 306.8	$ 297.5
Cumulative Results of Operations	124.8	123.9
Total Net Position	$ 431.6	$ 421.4

financing sources over expenses. Additional information is presented in the Analysis of the Statement of Changes in Net Position on page 22.

Analysis of the Statement of Net Cost

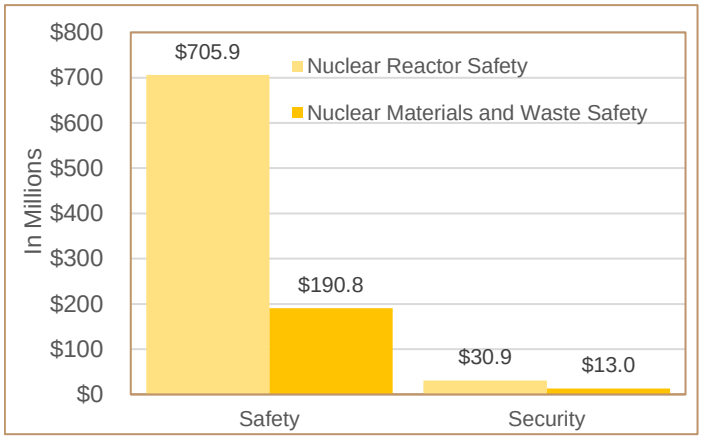
The Statement of Net Cost presents the gross cost of the NRC's two major programs (Nuclear Reactor Safety and Nuclear Materials and Waste Safety) as identified in the NRC Annual Performance Plan, offset by earned revenue. The purpose of this statement is to link program performance to the cost of programs. The NRC's net cost of operations for the year ended September 30, 2017, was $144.3 million, representing a decrease of $7.0 million compared to the FY 2016 net cost of $151.3 million. This includes a decrease in gross costs of $74.8 million and a decrease in earned revenue of $67.8 million, which offset the decreased costs.

Net Costs of Operations *(IN MILLIONS)*

For the fiscal years ended September 30,	2017	2016
Nuclear Reactor Safety	$ 26.7	$ 25.3
Nuclear Materials and Waste	117.6	126.0
Net Cost of Operations	$ 144.3	$ 151.3

Gross Costs. The NRC's total gross costs were $940.6 million for FY 2017, a decrease of $74.8 million from the prior-year amount of $1,015.4 million. The gross costs in FY 2017 for the Nuclear Reactor Safety program were $736.8 million compared to FY 2016 gross costs of $795.2 million, a decrease of $58.4 million. The decrease is primarily resulted from a decrease of $48.2 million in salaries and benefits. The gross costs in FY 2017 for the Nuclear Materials and Waste Safety program were $203.8 million compared to FY 2016 gross costs of $220.2 million, a decrease of $16.4 million. The decrease is primarily resulted from a decrease of $11.0 million in salaries and benefits.

Figure 8 Gross Costs by Strategic Goals for the Fiscal Year Ended September 30, 2017



The cost of achieving the agency's Safety and Security goals for the agency's programs for FY 2017 is the gross cost presented in the Statement of Net Cost. The total cost for achieving the agency's Safety goal was $896.7 million and the cost of achieving the agency's Security goal was $43.9 million (see Figure 8).

Earned Revenue. Total earned revenue for FY 2017 was $796.3 million, a decrease of $67.8 million from the FY 2016 earned revenue of $864.1 million. Revenue for the Nuclear Reactor Safety program in FY 2017 was $710.1 million compared to $769.9 million in FY 2016, a decrease of $59.8 million. The $59.8 million decrease is primarily resulted from decreases of $69.6 million for Operating Reactors licensing fees; offset by an increase of $8.6 million for New Reactor licensing fees. Revenue from the Nuclear Materials and Waste Safety program in FY 2017 was $86.2 million compared to $94.2 million in FY 2016, a decrease of $8.0 million.

Fees collected (earned primarily in FY 2017) and offset against the NRC appropriations were $789.6 million compared to $869.1 million in FY 2016. The decrease of $79.5 million in license fee collections resulted from a decrease of $87.0 million in budget authority in FY 2017, which decreased the amount of fees from licensees that the NRC is required to collect. The NRC is required to collect approximately 90 percent of its appropriation through license fee billing. The agency collects fees for reactor and materials licensing and inspections in accordance with Title 10 of the *Code of Federal Regulations* (10 CFR) Part 170, "Fees for Facilities, Materials, Import and Export Licenses, and Other Regulatory Services under the Atomic Energy Act of 1954, as amended," at https://www.nrc.gov/reading-rm/doc-collections/cfr/part170/, and 10 CFR Part 171, "Annual Fees for Reactor Licenses and Fuel Cycle Licenses and Materials Licenses, Including Holders of Certificates of Compliance, Registrations, and Quality Assurance Program Approvals and Government Agencies Licensed by the NRC," at https://www.nrc.gov/reading-rm/doc-collections/cfr/part171/.

Analysis of the Statement of Changes in Net Position

The Statement of Changes in Net Position (SCNP) reports the change in net position for the reporting period. Net position is affected by the changes in two components: (1) Cumulative Results of Operations and (2) Unexpended Appropriations. In FY 2017, the NRC had an increase in Net Position of $10.2 million resulting from increases of $9.4 million in the Unexpended Appropriations and $0.8 million in Cumulative Results of Operations.

The SCNP and the following analysis reflects offsetting adjustments made to the beginning balances for FY 2017 Cumulative Results of Operations. The FY 2017 beginning balance for Cumulative Results of Operations was adjusted upward by $6.4 million as result of a prior-period adjustment related to Leasehold Improvement projects that were previously expensed. The increase in Cumulative Results of Operations of $0.8 million, primarily comprised of decreases of $2.0 million in the adjusted beginning balance and $4.2 million in financing sources offset by a decrease of $7.0 million in the net cost of operations. The decrease in financing sources resulted from increases of $2.5 million in appropriations used to finance current operations and a decrease of $6.7 million in imputed financing for the future cost of employee retirement, health insurance, and life insurance benefits. The decrease in the net cost of operations resulted from a decrease of $74.8 million in gross costs, offset by a decrease of $67.8 million in earned revenue.

The change in Unexpended Appropriations results from appropriations received, net of license fee collections, being more or less than the appropriations used to finance the NRC operations. The increase in FY 2017 Unexpended Appropriations of $9.4 million resulted from an increase in the adjusted beginning balance of $17.4 million offset by a decrease of $5.5 million in appropriations received, net of license fees collected, and an increase of $2.5 million in appropriations used to finance the NRC operations. The increase in appropriations received, net of license fees collected, resulted from appropriations received for FY 2017 of $917.1 million, reduced by current year license fee collections of $789.6 million, as compared to appropriations received in FY 2016 of $1,002.1 million, reduced by FY 2016 license fee collections of $869.1 million.

Analysis of the Statement of Budgetary Resources

The Statement of Budgetary Resources (SBR) provides information on budgetary resources available to the NRC and their status at the end of the period. In FY 2017, the Total Budgetary Resources of $979.2 million were available. This was $64.8 million less than the

$1,044.0 million available for FY 2016. The two major components of Total Budgetary Resources that contributed to the decrease are appropriations and the beginning unobligated balance brought forward, October 1. The NRC's appropriations were $917.1 million in FY 2017 compared to $1,002.1 million in FY 2016, accounting for a $85.0 million decrease in funding. This was offset by the beginning unobligated balance for FY 2017 of $41.6 million compared to the beginning unobligated balance in FY 2016 of $28.0 million, an increase of $13.6 million. Other increases included recoveries of prior-year unpaid obligations of $5.6 million and spending authority from offsetting collections for reimbursable work of $0.8 million.

The Status of Budgetary Resources accounts for operational activities funded with the NRC's budgetary resources during the fiscal year. The NRC's obligations for FY 2017 totaled $940.5 million, a decrease of $61.8 million from the prior-year amount of $1,002.3 million. The decrease is primarily resulted from decreases of $37.3 million in salaries and benefits; $17.0 million in contract obligations for the Nuclear Reactor Safety program and $4.7 million for the Nuclear Materials and Waste Safety program; $1.6 million for grants; and $0.3 million in travel expenses.

The Status of Budgetary Resources also accounts for the funds that were not used in operations during the fiscal year. Total budgetary resources not obligated at the end of the fiscal year were $38.7 million, a decrease of $2.9 million from the prior-year balance of $41.6 million. The variance resulted from decreases of $4.8 million in unexpired unobligated resources that were apportioned and $0.9 million in resources for the NWF that are exempt from apportionment; offset by $2.6 million that was not apportioned in FY 2017 and $0.2 million in expired unobligated balances.

Management Assurances, Systems, Controls, and Legal Compliance

Federal Managers' Financial Integrity Act (Integrity Act or FMFIA)

FMFIA 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. FMFIA encompasses program, operational, and administrative areas, as well as accounting and financial management. It also requires the NRC Chairman to provide an assurance statement on the adequacy of internal controls and on the conformance of financial systems with Government-wide standards.

Enterprise Risk Management and Programmatic Internal Control

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

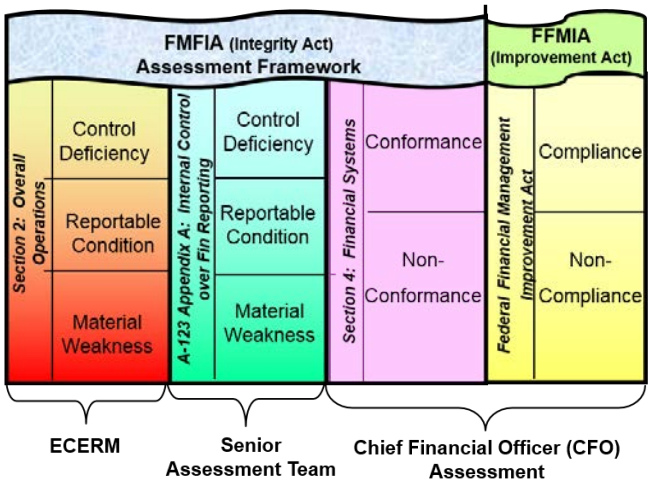
On July 15, 2016, the OMB issued a revised Circular A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," complete with specific ERM requirements

for Federal agencies. Soon after, the NRC developed an ERM framework. The framework highlighted the agency's strategy to fully comply with the OMB's ERM requirements. The strategies include the following:

- **updating** the agency's Internal Control management directive to incorporate ERM
- **leveraging** appropriate agency governance organizations and processes currently in place such as the NRC Internal Control Governance Framework, and the Quarterly Performance Review meetings
- **standing up** the agency's Programmatic Senior Assessment Team (PSAT) as the agency evaluation structure for enterprise risks
- **developing and disseminating** ERM and Internal Control awareness training to all NRC management and staff
- **incorporating** ERM into executive decision-making, and management's evaluation of the NRC's internal control and reasonable assurance processes

Under the NRC's FMFIA Governance Framework (see Figure 9), reading from left to right: the Chief Financial Officer (CFO) is responsible for ensuring that the agency complies with the *Federal Financial Management Improvement Act of 1996* (FFMIA), and Section 4 of FMFIA, "Financial Systems." The Senior Assessment Team, chaired by the CFO, is responsible for ensuring that the agency complies with OMB Circular A-123, Appendix A, "Internal Control over Financial Reporting." The Executive Committee on Enterprise Risk Management (ECERM), co-chaired by the CFO and the EDO, is responsible for ensuring that the agency's internal control over programmatic operations complies with FMFIA.

Figure 9 The NRC's FMFIA Governance Framework

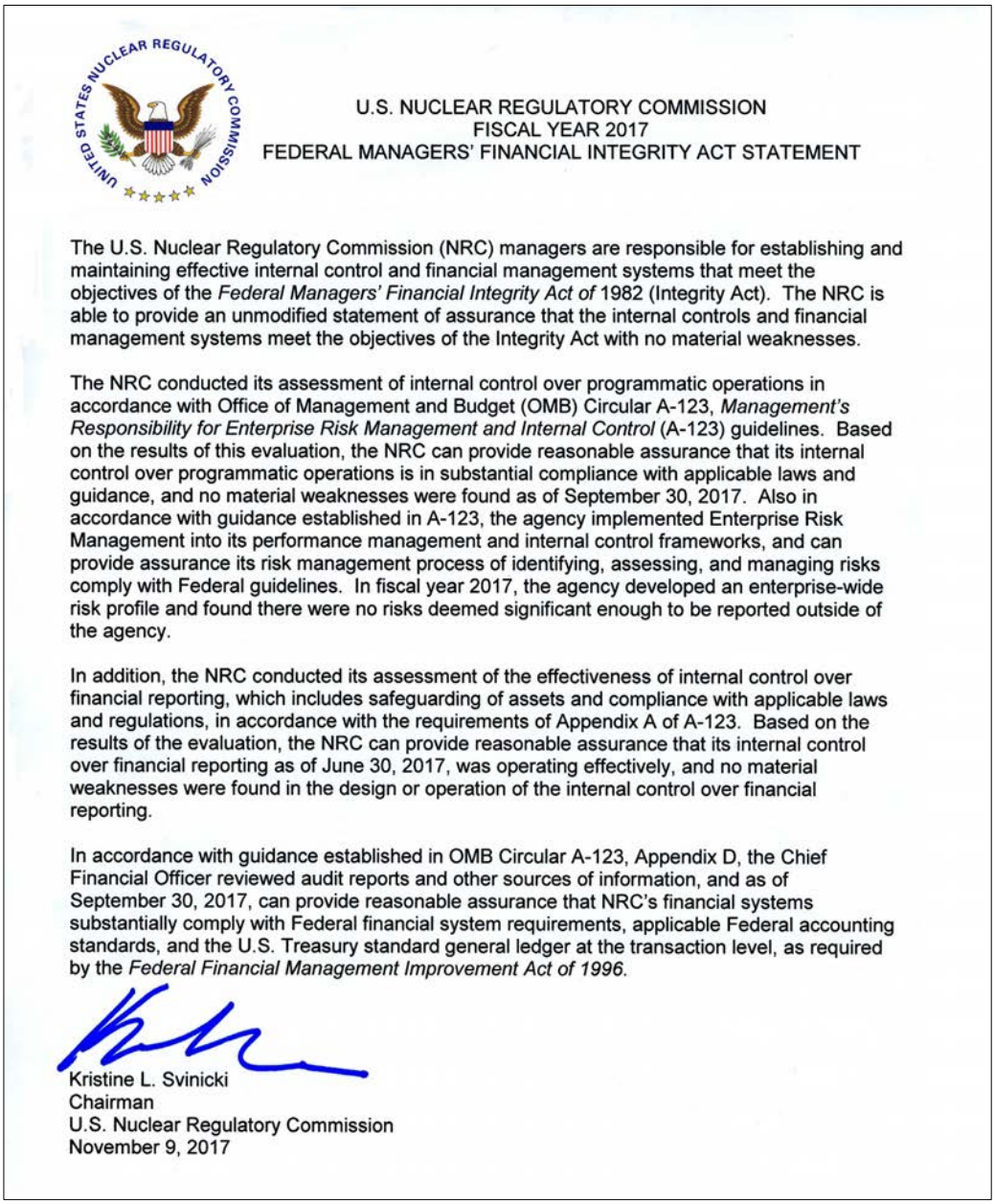


The NRC's EDO and the CFO co-chaired by the ECERM. The other members that comprise the ECERM are senior executives from the Office of the Executive Director for Operations, and the Chief Information Officer. The agency's General Counsel and IG serve as advisory members. The Senior Assessment Team is chaired by the CFO and Includes senior executives from the Office of the Chief Financial Officer (OCFO) as well as the lead senior officials from the agency's corporate support business lines, (i.e., the Chief Human Capital Officer, the Chief Information Officer, and the Office of Administration, which includes the agency's Division of Acquisitions).

The ECERM assessed the agency's programmatic operations, financial systems, and internal control over financial reporting; reported to the NRC Chairman that there were no internal control deficiencies or enterprise risks serious enough to require reporting as a material

weakness or area of noncompliance; and voted to recommend that the Chairman sign the agency's Integrity Act Statement (see Figure 10).

Figure 10 Federal Financial Management Improvement Act Statement



U.S. NUCLEAR REGULATORY COMMISSION
FISCAL YEAR 2017
FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT STATEMENT

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

The NRC conducted its assessment of internal control over programmatic operations in accordance with Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (A-123) guidelines. Based on the results of this evaluation, the NRC can provide reasonable assurance that its internal control over programmatic operations is in substantial compliance with applicable laws and guidance, and no material weaknesses were found as of September 30, 2017. Also in accordance with guidance established in A-123, the agency implemented Enterprise Risk Management into its performance management and internal control frameworks, and can provide assurance its risk management process of identifying, assessing, and managing risks comply with Federal guidelines. In fiscal year 2017, the agency developed an enterprise-wide risk profile and found there were no risks deemed significant enough to be reported outside of the agency.

In addition, the NRC conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of A-123. Based on the results of the evaluation, the NRC can provide reasonable assurance that its internal control over financial reporting as of June 30, 2017, was operating effectively, and no material weaknesses were found in the design or operation of the internal control over financial reporting.

In accordance with guidance established in OMB Circular A-123, Appendix D, the Chief Financial Officer reviewed audit reports and other sources of information, and as of September 30, 2017, can provide reasonable assurance that NRC's financial systems substantially comply with Federal financial system requirements, applicable Federal accounting standards, and the U.S. Treasury standard general ledger at the transaction level, as required by the *Federal Financial Management Improvement Act of 1996*.

Kristine L. Svinicki
Chairman
U.S. Nuclear Regulatory Commission
November 9, 2017

Fiscal Year 2017 FMFIA Results

In accordance with Section 2 of FMFIA and under the guidance established in OMB Circular A-123, all NRC business line leads certified that, as of September 30, 2017, there was reasonable assurance that internal control was in place to achieve the following objectives:

- Programs achieved their intended results, and are protected from waste, fraud, abuse, and mismanagement.

- Resources were used consistently with the agency's mission.
- Information systems were authorized and appropriately secured.
- Laws and regulations were followed.
- Risks were appropriately identified, communicated, and mitigated.
- Reliable and timely information was obtained, maintained, reported, and used for sound decision-making.

Based on management's certification of reasonable assurance, the NRC is able to provide a statement of assurance that its internal control met the objectives of FMFIA. The NRC has reasonable assurance that its internal control is effective and conforms to Government-wide standards.

Office of Management and Budget Circular A-123, "Management's Responsibility for Enterprise Risk Management and 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 to the circular requires Federal agencies to assess the effectiveness of internal control over financial reporting and to prepare a separate annual statement of assurance as of June 30, 2017.

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

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

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

The results of the FY 2017 risk assessment did not identify any programs that were susceptible to making significant improper payments. Although the results of the FY 2017 risk assessment identified programs as low risk, the NRC continues to monitor its payment processes, in addition

to conducting periodic reviews of key controls for IPIA programs identified by management. The NRC will continue to conduct a risk assessment every 3 years in accordance with IPIA, as amended by IPERA and IPERIA, and OMB guidance. The next NRC IPIA risk assessment will take place in FY 2020. In addition, the NRC will conduct additional risk assessments, as needed, if there are material changes in the way programs operate or if the NRC establishes new programs.

Chapter 3, "Other Information," of this report presents additional information in the "Improper Payments Information Act of 2002 Reporting Details" section.

Federal Financial Management Improvement Act

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.

Fiscal Year 2017 FFMIA Results

The OCFO successfully completed a system upgrade for its core general ledger system, known as the Financial Accounting and Integrated Management Information System (FAIMIS). The upgrade provides the platform for the required functionality to incorporate the Treasury's IPP mandate for FY 2019. The agency has successfully implemented the Treasury's IPP 1 year in advance of the mandated implementation of October 2018. The E-Gov Travel Service and Budget Formulation System (BFS) have also implemented successful system and reporting enhancements. The Human Resource Management System, formerly known as Time and Labor Modernization, has successfully completed the upgrade to the most recent release to address legislative requirements and strengthen controls.

The CFO reviewed audit reports and other sources of information and, as of September 30, 2017, can provide reasonable assurance that NRC's financial systems substantially comply with applicable Federal accounting standards as required by the FFMIA.

Digital Accountability and Transparency Act of 2014

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

- **Establish Government-wide data standards** for financial data and provide consistent, reliable, and searchable Government-wide spending data that are accurately displayed.

- **Expand accountability** of the *Federal Funding Accountability and Transparency Act of 2006* (FFATA) to disclose direct Federal agency expenditures and link Federal contract, loan, and grant spending information to programs.

- **Simplify reporting** for entities receiving Federal funds by streamlining requirements and reducing compliance costs while improving transparency.

- **Improve data quality** submitted to USASpending.gov by holding Federal agencies accountable for the completeness and accuracy of the information submitted.

- **Apply approaches** developed by the Recovery Accountability and Transparency Board for spending across the Federal Government to increase spending transparency and reduce reporting burden.

During FY 2017, the NRC successfully implemented the DATA Act, ahead of the OMB and the Treasury deadlines.

Financial Management Systems Strategies

The NRC completed significant financial system modernization projects in FY 2017. The agency's core general ledger system, FAIMIS, became the first agency system to migrate to a FedRAMP cloud environment. In FY 2017, the NRC upgraded FAIMIS to obtain required functionality for the FY 2019 Treasury's mandated IPP. Furthermore, the FAIMIS upgrade allows the agency to comply with the DATA Act mandate set by the OMB. The agency completed its integration of travel credit card activity between FAIMIS and the agency's eGov Travel System, eliminating a longstanding manual NRC business process. The agency's BFS implemented its integrated reporting dashboard. Finally, the agency's Human Resources Management System completed its migration to the most recent vendor version in FY 2017.

Invoice Processing Platform (IPP)

In July 2017, the NRC implemented an automated systems interface with the Treasury's IPP, well in advance of the mandated October 2018 due date for implementation by Federal agencies. The interface with the IPP is for the processing of the agency's commercial acquisitions payments.

Prompt Payment

The *Prompt Payment Act of 1982*, as amended, requires Federal agencies to make timely payments to vendors for supplies and services, to pay interest penalties when payments are made after the due date, and to take cash discounts when they are economically justified. In FY 2017, the NRC paid 99 percent of the 6,618 invoices subject to the Prompt Payment Act on time.

Debt Collection

The *Debt Collection Improvement Act of 1996* enhances the ability of the Federal Government to service and collect debts. The agency's goal is to maintain the level of delinquent debt owed to the NRC at year end to less than 1 percent of its annual billings. The NRC met this goal. At the end of FY 2017, delinquent debt was $7.2 million or less than 1 percent of annual billings. The NRC was able to refer 98.3 percent of all eligible debt over 180 days delinquent to the Treasury for collection and 68.6 percent over 120 days old in accordance with the DATA Act. In addition, the NRC met the collections requirements of OBRA-90 which requires the agency to recover through fees approximately 90 percent of its budget authority in the current fiscal year.

Biennial Review of User Fees

The *Chief Financial Officers Act of 1990* requires agencies to conduct a biennial review of fees, royalties, rents, and other charges imposed by agencies and to make revisions to cover program and administrative costs incurred. The NRC conducted the following reviews in FY 2017:

- Criminal History Program Fees – Completed December 2016
- Review of Administrative Public Use of Auditorium Fees – Completed January 2017
- Review *Freedom of Information Act* (FOIA) Request Fees – Completed May 2017
- Indemnity Fees – Completed May 2017
- Licensing, Inspection, Special Project, and Annual Fees Charged NRC Applicants and Licensees – Completed June 2017

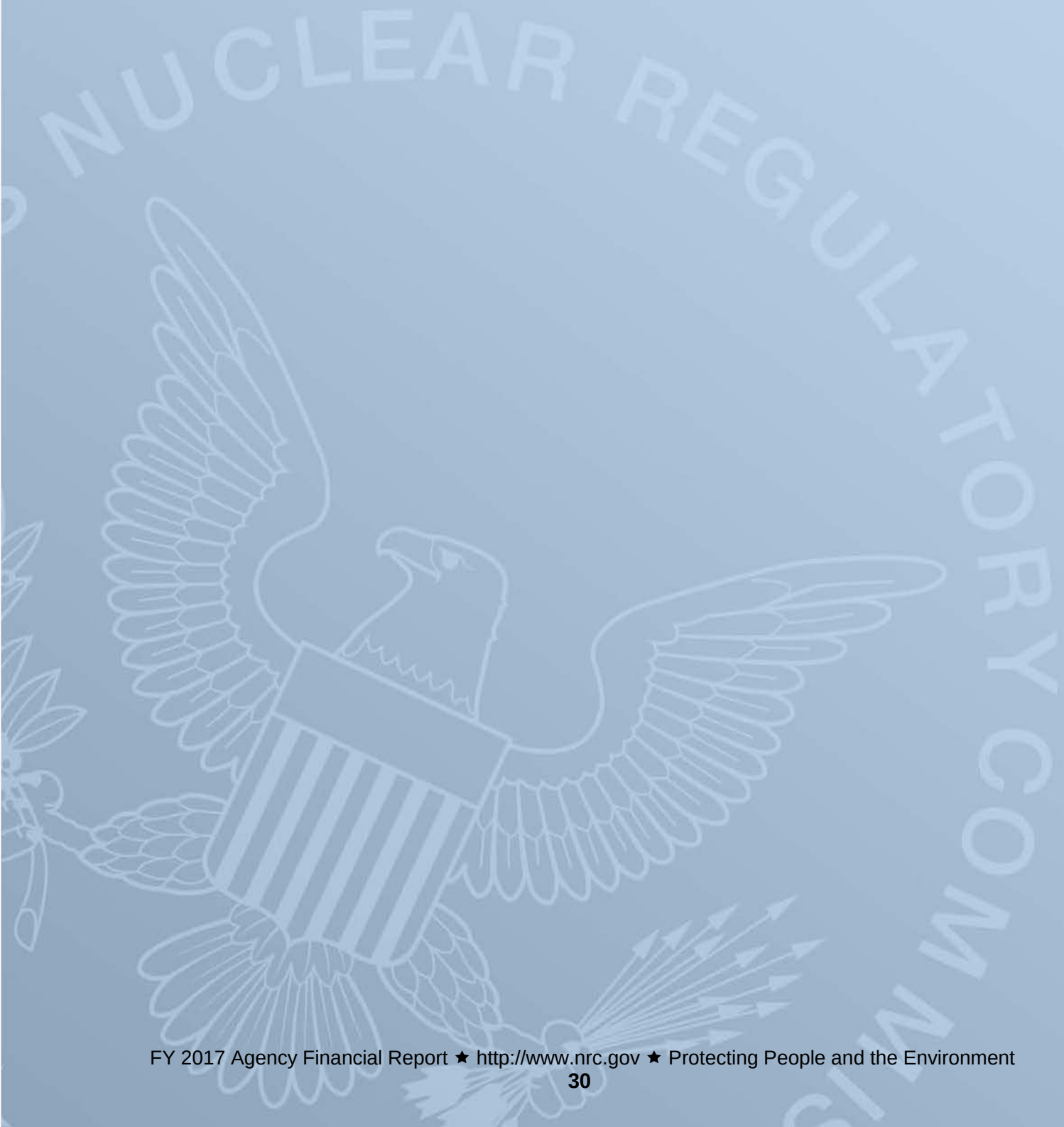
  On June 30, 2017, the NRC issued a final rule in the Federal Register (FR) amending the licensing, inspection, and annual fees charged to its applicants and licensees. This rule can be found at https://www.federalregister.gov/documents/2017/06/30/2017-13520/revision-of-fee-schedules-fee-recovery-for-fiscal-year-2017.

  The amendments are necessary to implement the OBRA-90, as amended, requires the NRC to collect fees to offset approximately 90 percent of its appropriation. By law, this excludes amounts appropriated for Waste Incidental to Reprocessing, generic homeland security, IG services for the DNFSB, and $5.0 million for advanced reactor regulatory infrastructure. Based on the *Consolidated Appropriations Act, 2017*, the NRC's required fee recovery amount for the FY 2017 budget is $804.6 million. After accounting for billing adjustments, the total amount to be billed as fees to licensees is $805.9 million. The NRC revised its Fee Recovery Schedules for FY 2017 in a FR notice dated July 19, 2017, available at https://www.federalregister.gov/documents/2017/07/19/2017-14717/revision-of-fee-schedules-fee-recovery-for-fiscal-year-2017-corrections.

- U.S. Navy Review Fees – Completed July 2017
- Orders, Second Notices, Installment of Licenses & Revocation of Outstanding Debt (Debt Collection) – Completed August 2017

Inspector General Act of 1978

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


NUCLEAR REGULATORY COMMISSION

Chapter 2: Financial Statements and Auditors' Report

Financial Statements

Balance Sheet *(IN THOUSANDS)*

As of September 30,	2017	2016
Assets		
Intragovernmental		
Fund balance with Treasury (Note 2)	**$ 365,832**	$ 368,237
Accounts receivable (Note 3)	**7,152**	7,754
Advances and prepayments	**12,752**	14,169
Total intragovernmental	**385,736**	390,160
Accounts receivable, net (Note 3)	**79,874**	78,383
Property and equipment, net (Note 4)	**79,910**	80,793
Other	**51**	26
Total Assets	**$ 545,571**	$ 549,362
Liabilities		
Intragovernmental		
Accounts payable	**$ 6,759**	$ 7,729
Other (Note 5)	**5,586**	5,972
Total intragovernmental	**12,345**	13,701
Accounts payable	**23,673**	23,204
Federal employee benefits (Note 6)	**5,370**	5,608
Other (Note 5)	**72,571**	85,486
Total Liabilities	**113,959**	127,999
Net Position		
Unexpended appropriations	**306,831**	297,438
Cumulative results of operations (Note 8)	**124,781**	123,925
Total Net Position	**431,612**	421,363
Total Liabilities and Net Position	**$ 545,571**	$ 549,362

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

Statement of Net Cost *(IN THOUSANDS)*

For the fiscal years ended September 30,	2017	2016
Nuclear Reactor Safety		
Gross costs	**$ 736,794**	$ 795,190
Less: Earned revenue	**(710,086)**	(769,847)
Total Net Cost of Nuclear Reactor Safety (Note 9)	**26,708**	25,343
Nuclear Materials and Waste Safety		
Gross costs	**203,826**	220,165
Less: Earned revenue	**(86,168)**	(94,167)
Total Net Cost of Nuclear Materials and Waste Safety (Note 9)	**117,658**	125,998
Net Cost of Operations	**$ 144,366**	$ 151,341

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

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

For the fiscal years ended September 30,	2017	2016
Cumulative Results of Operations		
Beginning Balance	**$ 123,925**	$ 129,104
Adjustments (Note 8)	**6,413**	3,180
Beginning Balance, as adjusted	**$ 130,338**	$ 132,284
Budgetary Financing Sources		
Appropriations used (Note 11)	**118,087**	115,575
Nonexchange revenue (Note 11)	**251**	274
Other Financing Sources		
Imputed financing from costs absorbed by others (Note 11)	**20,722**	27,407
Other	**(251)**	(274)
Total Financing Sources	**138,809**	142,982
Net Cost of Operations	**(144,366)**	(151,341)
Net Change	**(5,557)**	(8,359)
Cumulative Results of Operations	**$ 124,781**	$ 123,925
Unexpended Appropriations		
Beginning Balance	**$ 297,438**	$ 283,151
Adjustments (Note 8)	**–**	(3,180)
Beginning Balance, as adjusted	**$ 297,438**	$ 279,971
Budgetary Financing Sources		
Appropriations received	**127,480**	133,042
Appropriations used (Note 11)	**(118,087)**	(115,575)
Other adjustments	**–**	**–**
Total Budgetary Financing Sources	**9,393**	17,467
Total Unexpended Appropriations	**306,831**	297,438
Net Position	**$ 431,612**	$ 421,363

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

Statement of Budgetary Resources *(IN THOUSANDS)*

For the fiscal years ended September 30,	2017	2016
Budgetary Resources		
Unobligated balance brought forward, October 1	**$ 41,627**	$ 28,000
Recoveries of prior-year unpaid obligations	**14,503**	8,858
Recoveries of prior-year paid obligations	**330**	156
Unobligated balance from prior-year budget authority, net	**56,460**	37,014
Appropriations	**917,129**	1,002,136
Spending authority from offsetting collections	**5,626**	4,794
Total Budgetary Resources	**$ 979,215**	$ 1,043,944
Status of Budgetary Resources		
New obligations and upward adjustments (total) (Note 12)	**$ 940,527**	$ 1,002,317
Unobligated balance, end of year		
Apportioned, unexpired accounts	**35,071**	39,880
Exempt from apportionment, unexpired accounts	**532**	1,382
Unapportioned, unexpired accounts	**2,570**	–
Unexpired unobligated balance, end of year	**38,173**	41,262
Expired unobligated balance, end of year	**515**	365
Unobligated balance, end of year (total)	**38,688**	41,627
Total Status of Budgetary Resources	**$ 979,215**	$ 1,043,944
Change in Obligated Balance		
Unpaid obligations:		
Unpaid obligations brought forward, October 1	**$ 328,965**	$ 327,652
New obligations and upward adjustments (total) (Note 12)	**940,529**	1,002,317
Outlays (gross)	**(925,006)**	(992,146)
Recoveries of prior-year unpaid obligations	**(14,503)**	(8,858)
Unpaid obligations, end of year	**329,983**	328,965
Uncollected payments:		
Uncollected payments, Federal sources, brought forward, October 1	**$ (2,355)**	$ (1,814)
Change in uncollected payments, Federal sources	**(484)**	(541)
Uncollected payments, Federal sources, end of year	**$ (2,839)**	$ (2,355)
Memorandum entries:		
Obligated balances, start of year	**$ 326,610**	$ 325,838
Obligated balances, end of year	**$ 327,144**	$ 326,610
Budget Authority and Outlays, Net		
Budget Authority, gross	**$ 922,755**	$ 1,006,930
Actual offsetting collections	**(5,472)**	(4,409)
Change in uncollected payments, Federal sources	**(484)**	(541)
Recoveries of prior year paid obligations	**330**	156
Budget Authority, Net	**$ 917,129**	$ 1,002,136
Outlays, gross	**$ 925,006**	$ 992,146
Actual offsetting collections	**(5,472)**	(4,409)
Outlays, net	**919,534**	987,737
Distributed offsetting receipts	**(789,648)**	(869,094)
Agency Outlays, Net	**$ 129,886**	$ 118,643

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

Notes to the Financial Statements

(All tables are presented in thousands)

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

The NRC operates through the execution of its congressionally approved appropriations for Salaries and Expenses (which includes funds derived from the NWF) and the OIG.

B. Basis of Presentation

These financial statements for FY 2017 and FY 2016 (prior-year) are presented on a comparative basis. They report the financial position and results of operations of the NRC as required by the *Chief Financial Officers Act of 1990* and the *Government Management Reform Act of 1994*. These financial statements were prepared from the books and records of the NRC in conformance with GAAP for Federal entities of the United States and the form and content for entity financial statements specified by in OMB Circular A-136. GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official body for setting the accounting standards of the U.S. Government. These statements are different from the financial reports prepared by the NRC in compliance with OMB directives, which are used to monitor and control the NRC's use of budgetary resources.

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

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

C. Budgets and Budgetary Accounting

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

Congress passed the *Consolidated Appropriations Act, 2017* that funded the NRC's budget at a level of $905 million for FY 2017. Not more than $7.5 million of the appropriation may be made

available for the costs of the Office of the Commission until September 30, 2018. Additionally, Congress enacted a 2-year appropriation of $12.1 million for the OIG, which is available for obligation by the NRC through September 30, 2018.

In FY 2016, Congress passed the *Consolidated Appropriations Act, 2016* that funded the NRC's budget at a level of $990 million for FY 2016. Not more than $7.5 million of the appropriation be made available for the costs of the Office of the Commission until September 30, 2017. Additionally, Congress enacted a 2-year appropriation of $12.1 million for the OIG, which was available for obligation by the NRC through September 30, 2017.

D. Basis of Accounting

These financial statements reflect both accrual and budgetary accounting transactions. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting is also used to record the obligation of funds prior to the accrual-based transaction. The SBR presents budgetary resources available to the NRC and changes in obligations during the year.

E. Revenues and Other Financing Sources

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

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

2. Annual fees assessed for nuclear facilities and materials licensees under 10 CFR Part 171, "Annual Fees for Reactor Licenses and Fuel Cycle Licenses and Materials Licenses."

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

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

F. Fund Balance with Treasury

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

G. Accounts Receivable

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

H. Non-Entity Assets

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

I. Property and Equipment

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

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

J. Accounts Payable

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

K. Liabilities Not Covered by Budgetary Resources

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

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

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

1. **Intragovernmental.** The NRC records a liability to the U.S. Department of Labor (DOL) for *Federal Employees Compensation Act* (FECA) benefits paid by the DOL on behalf of the NRC.

2. **Federal Employee Benefits.** Federal employee benefits represent the actuarial liability for estimated future FECA disability benefits. The DOL generates the future workers' compensation estimate from an application of actuarial procedures developed to estimate the liability for FECA, which includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is calculated using historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period.

3. **Other.** This category includes the amount of accrued annual leave earned by the NRC employees but not yet taken and contingent liabilities that have the probable likelihood of an adverse outcome.

L. Contingencies

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

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

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

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

M. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave liability account is adjusted to reflect current pay rates. To the extent that current or prior-year funding is not available to cover annual leave

earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of nonvested leave are expensed as taken.

N. Retirement Plans

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

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

The NRC employees make mandatory contributions to their retirement plans through payroll deductions as required by law. For employees belonging to FERS and receiving an appointment before January 1, 2013, the NRC withheld 0.8 percent of base pay earnings and made an employer contribution of 13.7 percent in 2017 and 13.7 percent in 2016. In accordance with *Public Law 112-96, Section 5001 of the Middle Class Tax Relief and Job Creation Act of 2012*, employees hired after January 1, 2013, as Federal Employees Retirement System-Revised Annuity Employees (FERS-RAE) must pay 3.1 percent of their salary to retirement contributions, with 11.9 percent in 2017 and 11.9 percent in 2016 for employer matching contribution. The sum is transferred to the Federal Employees Retirement Fund. For employees covered by CSRS, the NRC withholds 7 percent of base pay earnings. The NRC matched this withholding with a 7 percent contribution in FY 2017 and FY 2016.

The Thrift Savings Plan is a retirement savings and investment plan for employees belonging to either FERS or CSRS. The maximum percentage of base pay that an employee participating in FERS or CSRS may contribute is unlimited, but it is subject to the maximum contribution of $18,000 in 2017 and 2016. For employees participating in FERS, the NRC automatically contributes 1 percent of base pay to the employee's account and matches contributions up to an additional 4 percent. For employees participating in CSRS, the NRC does not match the contribution. The sum of the employees' and the NRC's contributions is transferred to the Federal Retirement Thrift Investment Board.

O. Leases

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

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

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

2. The lease contains an option to purchase the leased property at a bargain price.

3. The lease term is equal or greater than 75 percent of the estimated economic life of the leased property.

4. The present value of rental or other minimum lease payments, excluding that portion of the payments representing executor cost, equals or exceeds 90 percent of the fair value of the leased property.

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

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

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

P. Pricing Policy

The NRC provides nuclear reactor and materials licensing and inspection services to the public and other Government entities. In accordance with OMB Circular A-25, "Transmittal Memorandum #1, User Charges," and the *Independent Offices Appropriation Act of 1952*, the NRC assesses fees under 10 CFR Part 170 for licensing and inspection activities to recover the full cost of providing individually identifiable services.

The NRC's policy is to recover the full cost of goods and services provided to other Government entities where the services performed are not part of the agency's statutory mission and the NRC has not received appropriations for those services. Fees for reimbursable work are assessed at the 10 CFR Part 170 rate with minor exceptions for programs that are nominal activities of the NRC.

Q. Net Position

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

R. Use of Management Estimates

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

S. Statement of Net Cost

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

The Nuclear Reactor Safety program encompasses all the NRC efforts to ensure that civilian nuclear power reactor facilities and research and test reactors are licensed and operated in a manner that adequately protects public health and safety, and the environment, and protects against radiological sabotage and theft or diversion of special nuclear materials. The Nuclear Reactor Safety program contains the following activities: operating reactors and new reactors.

The Nuclear Materials and Waste Safety program encompasses all the NRC efforts to protect the public health and safety and the environment and ensures the secure use and management of radioactive materials. The Nuclear Materials and Waste Safety program contains the following activities: fuel facilities, nuclear materials users, decommissioning and low-level waste, spent fuel storage and transportation, and a high-level waste repository.

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

Note 2 – Fund Balance with Treasury

As of September 30,	2017	2016
Fund Balances		
Appropriated funds	**$ 365,226**	$ 366,751
Nuclear Waste Fund	**606**	1,486
Other fund types	**–**	–
Total	**$ 365,832**	$ 368,237
Status of Fund Balance with Treasury		
Unobligated balance		
Available - Appropriated funds	**$ 35,603**	$ 41,262
Unavailable		
Unapportioned, unexpired accounts	**2,570**	–
Expired accounts	**515**	365
Obligated balance not yet disbursed	**327,144**	326,610
Total	**$ 365,832**	$ 368,237

The Fund Balance with Treasury consists of the unobligated and obligated budgetary account balances, to including NWF activity. The NWF unobligated balance was $0.5 million and $1.4 million as of September 30, 2017, and 2016, respectively.

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

Note 3 – Accounts Receivable

As of September 30,	2017	2016
Intragovernmental		
Fee receivables and reimbursements	**$ 7,152**	$ 7,754
Receivables with the Public		
Materials and facilities fees-billed	**$ 10,759**	$ 9,101
Materials and facilities fees-unbilled	**72,494**	73,077
Other	**475**	118
Total Receivables with the Public	**83,728**	82,296
Less: Allowance for uncollectible accounts	**(3,854)**	(3,913)
Total Receivables with the Public, Net	**$ 79,874**	$ 78,383
Total Accounts Receivable	**$ 90,880**	$ 90.050
Less: Allowance for uncollectible accounts	**(3,854)**	(3,913)
Total Accounts Receivable, Net	**$ 87,026**	$ 86,137

Note 4 – Property and Equipment, Net

As of September 30,				2017	2016
Fixed Assets Class	**Service Years**	**Acquisition Value**	**Accumulated Depreciation and Amortization**	**Net Book Value**	**Net Book Value**
Equipment	5-8	$ 8,829	$ (7,648)	**$ 1,181**	$ 686
Leased equipment	5-8	1,318	(916)	**402**	699
IT software	5	62,965	(56,456)	**6,509**	6,206
IT software under development	–	14,911	–	**14,911**	12,901
Leasehold improvements	20	93,589	(44,343)	**49,246**	54,934
Leasehold improvements in progress	–	7,661	–	**7,661**	5,367
Total		$ 189,273	$ (109,363)	**$ 79,910**	$ 80,793

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

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

Note 5 – Other Liabilities

As of September 30,	2017	2016
Intragovernmental		
Liability to the U.S. Treasury General Fund for misc. receipts	**$ 25**	$ 36
Liability for advances from other agencies	**4**	20
Accrued workers' compensation	**1,174**	1,361
Accrued unemployment compensation	**27**	29
Employee benefit contributions	**4,356**	4,526
Total Intragovernmental Other Liabilities	**$ 5,586**	$ 5,972
Other Liabilities		
Accrued annual leave	**$ 41,989**	$ 43,740
Accrued salaries and benefits	**15,886**	19,585
Contract holdbacks, advances, capital lease liability, and other	**5,119**	6,383
Contingent liabilities	**–**	–
Grants payable	**9,577**	15,778
Total Other Liabilities	**$ 72,571**	$ 85,486
Total Intragovernmental and Other Liabilities	**$ 78,157**	$ 91,458

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

Note 6 – Liabilities Not Covered by Budgetary Resources

As of September 30,	2017	2016
Intragovernmental		
FECA paid by DOL	**$ 1,174**	$ 1,361
Accrued unemployment compensation	**27**	29
Federal Employee Benefits		
Future FECA	**5,370**	5,608
Other		
Accrued annual leave	**41,989**	43,740
Contingent liabilities	**–**	–
Total Liabilities Not Covered by Budgetary Resources	**48,560**	50,738
Total Liabilities Covered by Budgetary Resources	**65,399**	77,261
Total Liabilities	**$ 113,959**	$ 127,999

Liabilities not Covered by Budgetary Resources represents the amount of future funding needed to pay the accrued unfunded expenses as of September 30, 2017, and 2016. These liabilities are not funded from current or prior-year appropriations and assessments, but rather they should be funded from future appropriations and assessments. Accordingly, future funding requirements have been recognized for the expenses that will be paid from future appropriations.

The projected annual benefit payments for FECA are discounted to present value. For FY 2017, projected annual payments were discounted to present value based on the OMB's interest rate assumptions, which were interpolated to reflect the average duration in years for income payments and medical payments. The interest rate assumptions used for FY 2017

discounting were 2.683 percent in year 1 and year 2 for wage benefits, and 2.218 percent in year 1 and year 2 for medical benefits.

Note 7 – Leases

As of September 30,	2017	2016
Assets Under Capital Leases:		
Copiers and booklet maker	$ **1,318**	$ 1,318
Accumulated depreciation	**(916)**	(619)
Net Assets Under Capital Leases	**$ 402**	$ 699

Future Lease Payments Due:

As of September 30,			2017	2016
Fiscal Year	**Capital**	**Operating**		
2017	$ –	$ –	**$ –**	$ 39,351
2018	25	36,425	**36,450**	35,802
2019	298	25,216	**25,514**	24,363
2020	75	31,819	**31,894**	30,884
2021 and thereafter	–	308,264	**308,264**	259,757
Total Lease Liability	398	401,724	**402,122**	390,157
Subtract: Imputed Interest	(5)	–	**(5)**	(14)
Total Future Lease Payments	$ 393	$ 401,724	**$ 402,117**	$ 390,143

The Capital Lease Liability of $398 thousand for reproduction equipment is included in Other Liabilities (Note 5). For Future Lease Payments, the NRC calculates the Capital Lease Liability and subtracts the imputed interest to arrive at the Total Future Lease Payments. The reproduction equipment is generally depreciated over 5 years using the straight-line method with no salvage value.

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

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

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

Note 8 – Cumulative Results of Operations

As of September 30,	2017	2016
Liabilities not covered by budgetary resources (Note 6)	$ (48,560)	$ (50,738)
Investment in property and equipment, net (Note 4)	79,910	80,793
Contributions from foreign cooperative research agreements	5,878	5,581
Nuclear Waste Fund	606	1,486
Office of the Commission (financed by Fees)	–	1,198
Accounts receivable - fees	86,503	85,557
Other	444	48
Cumulative Results of Operations	**$ 124,781**	$ 123,925

The FY 2017 beginning balance for Cumulative Results of Operations was adjusted upward by $6.4 million for capitalized leasehold improvement project costs previously expensed in FY 2014 to FY 2016. The FY 2016 beginning balance for Cumulative Results of Operations was adjusted upward by $3.2 million for prior year license fee transfers recorded to the Office of the Commission 2-year accounts that were originally classified as appropriated capital.

Note 9 – Statement of Net Cost

For the fiscal years ended September 30,	2017	2016
Nuclear Reactor Safety		
Intragovernmental gross costs	$ 207,662	$ 227,113
Less: Intragovernmental earned revenue	(48,809)	(53,919)
Intragovernmental net costs	158,853	173,194
Gross costs with the public	529,132	568,077
Less: Earned revenues from the public	(661,277)	(715,928)
Net costs with the public	(132,145)	(147,851)
Total Net Cost of Nuclear Reactor Safety	**$ 26,708**	$ 25,343
Nuclear Materials and Waste Safety		
Intragovernmental gross costs	$ 54,366	$ 56,548
Less: Intragovernmental earned revenue	(5,782)	(6,505)
Intragovernmental net costs	48,584	50,043
Gross costs with the public	149,460	163,617
Less: Earned revenues from the public	(80,386)	(87,662)
Net costs with the public	69,074	75,955
Total Net Cost of Nuclear Materials and Waste Safety	**$ 117,658**	$ 125,998

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

Note 10 – Exchange Revenues

For the fiscal years ended September 30,	2017	2016
Fees for licensing, inspection, and other services	$ 790,595	$ 858,851
Revenue from reimbursable work	5,659	5,163
Total Exchange Revenues	**$ 796,254**	$ 864,014

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

Note 11 – Financing Sources Other Than Exchange Revenue

For the fiscal years ended September 30,	2017	2016
Appropriations Used		
Collections are used to reduce the fiscal year's appropriations:		
Funds consumed	**$ 908,615**	$ 987,845
Less: Collection of fees assessed	**(789,648)**	(869,089)
Less: Nuclear Waste Funding Expense	**(880)**	(1,983)
Less: Office of the Commission (financed by Fees)	**–**	(1,198)
Total Appropriations Used	**$ 118,087**	$ 115,575

Funds consumed include $36.5 million and $25.9 million through September 30, 2017, and 2016, respectively, of available funds from prior years.

For the fiscal years ended September 30,	2017	2016
Non-Exchange Revenue		
Civil penalties	**$ 182**	$ 109
Miscellaneous receipts	**69**	165
Non-Exchange Revenue	**251**	274
Contra-Revenue	**(251)**	(274)
Total Non-Exchange Revenue, Net of Funds Returned to the U.S. Treasury General Fund	**$ –**	$ –

For the fiscal years ended September 30,	2017	2016
Imputed Financing		
Civil Service Retirement System	**$ 4,345**	$ 5,526
Federal Employees Retirement System	**643**	2,295
Federal Employee Health Benefit	**15,652**	19,500
Federal Employee Group Life Insurance	**82**	86
Judgments/Awards	**–**	–
Total Imputed Financing	**$ 20,722**	$ 27,407

Note 12 – Total Obligations Incurred

For the fiscal years ended September 30,	2017	2016
Direct Obligations		
Category A	**$ 934,421**	$ 994,840
Exempt from Apportionment	**881**	1,772
Total Direct Obligations	**935,302**	996,612
Reimbursable Obligations	**5,225**	5,705
Total Obligations Incurred	**$ 940,527**	$ 1,002,317

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

Note 13 – Undelivered Orders at the End of the Period

For the fiscal years ended September 30,	2017	2016
Undelivered Orders - Unpaid		
Salaries and Expenses	**$ 267,698**	$ 255,560
Inspector General	**846**	1,019
Nuclear Waste Fund	**–**	105
Total Undelivered Orders - Unpaid	**$ 268,544**	$ 256,684
Undelivered Orders - Paid		
Salaries and Expenses	**$ 12,584**	$ 13,756
Inspector General	**168**	413
Nuclear Waste Fund	**–**	–
Total Undelivered Orders - Paid	**12,752**	14,169
Total Undelivered Orders	**$ 281,296**	$ 270,853

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

Note 14 – Nuclear Waste Fund

For FY 2017 and FY 2016, the NRC's budget did not include funds from the NWF. The funding provided to the NRC before FY 2014 and carried forward to subsequent years was for the purpose of performing activities associated with the DOE's application for a high-level waste repository at Yucca Mountain, NV.

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

In 1982, Congress passed the *Nuclear Waste Policy Act of 1982* (Public Law 97-425) establishing the NWF to be administered by the DOE (42 U.S.C. 10222). For the NRC, the NWF transfer is a source of financing from other than non-Federal sources. The NRC collects no revenue on behalf of the NWF and has no administrative control over it. Furthermore, the Treasury has no separate fund symbol for the NWF under the NRC's agency location code. The receipt and expenditure of NWF money is reported to the Treasury under the NRC's primary Salaries and Expenses fund (X0200).

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

For the fiscal years ended September 30,	2017	2016
Appropriations Received	$ -	$ –
Expended Appropriations	$ 880	$ 1,983
Obligations Incurred	$ 881	$ 1,772
Unobligated Balances (includes recoveries of prior-year obligations)	$ 532	$ 1,382

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

SFFAS 7, "Accounting for Revenue and Other Financing Sources" and OMB Circular A-136 require the NRC to reconcile the budgetary resources reported on the SBR to the actual budgetary resources presented in the President's Budget and explain any material differences.

The NRC does not have any material differences between the budgetary resources reported on the SBR for FY 2016 and the FY 2016 actuals in the proposed President's Budget for FY 2018. The reconciliation was based on actual numbers for FY 2016 because the Budget of the United States (also known as the President's Budget) was not published at the time that these financial statements were issued.

The FY 2017 actual budgetary resources numbers will be available in the FY 2019 President's Budget which is expected to be published in 2018, and will be available on the OMB Web site http://www.whitehouse.gov/omb and through the U.S. Government Publishing Office.

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

For the fiscal years ended September 30,	2017	2016
Budgetary Resources Obligated		
Obligations incurred (Note 12)	$ 940,527	$ 1,002,317
Less: Spending authority from offsetting coll. and recoveries	(20,459)	(13,808)
Less: Distributed offsetting receipts, current year	(789,648)	(869,094)
Less: Distributed offsetting receipts, prior year	–	–
Net Obligations	130,420	119,415
Other Resources		
Imputed financing from costs absorbed by others	20,722	27,407
Non-Exchange Revenue	251	274
Funds returned to U.S. Treasury General Fund	(251)	(274)
Net Other Resources Used to Finance Activities	20,722	27,407
Total Resources Used to Finance Activities	151,142	146,822
Resources to Finance Items Not Part of Net Cost of Operations	(23,375)	(17,170)
Total Resources Used to Finance Net Cost of Operations	127,767	129,652
Components of the Net Cost of Operations that will not require or generate resources in the current period	16,599	21,689
Net Cost of Operations	$ 144,366	$ 151,341

Distributed offsetting receipts of $789.6 million were collected and transferred to offset the FY 2017 NRC appropriations through September 30, 2017. Upon transfer, the Treasury issued a negative warrant for the amount of the transfer to reduce the NRC appropriations.

Note 17 – Contingencies

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

Reasonably Possible Likelihood of an Adverse Outcome:

As of September 30, 2017 the NRC is not involved in any cases with a possible likelihood of an adverse outcome. As of September 30, 2016, the NRC was one of three Government agencies that were involved in a case in which the likelihood of loss was reasonably possible. The NRC's portion of the loss could have been up to $21.3 million and any loss would have been paid out of the judgement fund. This case has been settled.

Required Supplementary Information

Deferred Maintenance and Repairs

Deferred Maintenance and Repairs for General Property, Plant, and Equipment (G-PP&E)

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

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

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

The NRC evaluated DM&R activities for leased facilities, the multiple components of the agency information technology (IT) infrastructure, and individual capital asset purchases with a cost equal to or greater than $50,000. The NRC did not include noncapitalized PP&E with a cost of less than $50,000, which are deemed immaterial.

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

For the NRC leased facilities and capital equipment purchases, the NRC typically does not have any DM&R. The NRC had no DM&R for facilities, other structures, and capital equipment as of September 30, 2017, and 2016.

Defining and Implementing Maintenance and Repair Policies in Practice

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

For the regional offices, the building management (lessor) is responsible for performing all required periodic maintenance to keep the systems and buildings in a good state of repair. Generally, the regional leases contain the fixed assets, including equipment purchased to support the operations of the agency's leased space, such as diesel generators and chillers for the Incident Response Center, the local area network, and power cooling. Equipment requiring repair results in a service repair call. For those instances where equipment is purchased to support the NRC regional operations, maintenance contracts are put in place to provide periodic service and maintenance on the equipment. When equipment reaches the end of its useful life, it is generally replaced with like-kind or with upgraded equipment. For any type of an emergent failure, the NRC would request additional funding, as needed, for repairs or replacement of equipment.

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

Ranking and Prioritization of Maintenance and Repair Activities

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

Factors Considered in Determining Acceptable Condition

The NRC's Facilities Management Branch at the headquarters facilities performs the daily inspections and maintenance of the buildings and major systems. The NRC internally reviews planned maintenance activity records and historical logs of M&R to monitor condition

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

Deferred Maintenance and Repairs for Information Technology Infrastructure and Systems

DM&R for IT infrastructure and systems was $0.5 million as of September 30, 2017. The DM&R includes the video teleconference and Voicemail systems. The voicemail for Regions 2, 3, and 4 is close to completion, with Regions 1 and the TTC still awaiting upgrades. The video teleconference will require incremental DM&R as the agency encounters units that have passed the obsolete state. The NRC had $3.3 million in DM&R for IT infrastructure and systems as of September 30, 2016.

The NRC IT infrastructure is a network of multiple equipment, software, and service components, taken as a whole, which provides the critical communication network that allows the NRC to accomplish its mission. The NRC IT infrastructure encompasses the following:

- End-user systems and support and end-user hardware includes desktop, laptop, and handheld devices; peripherals (local printers, shared printers); software (personal computer operating systems, office automation suites, messaging, and groupware); and hardware and software for help desks. Also included are network operations command centers, wire closets, and cable management. For regional offices, this includes regional end-user support similar to that provided by the Customer Support Center at the NRC Headquarters, which includes contract support and Federal full-time equivalent (FTE).

- Telecommunications services includes data networks and telecommunications (including wireless, multimedia, and local and long-distance telephone); hardware and software operations; licenses; maintenance; and backup, continuity of operations, and disaster recovery. For regional offices, this includes local telecommunications, which includes contract support and Federal FTE.

- Production operations include mainframes and servers (including Web hosting, but not Web content development and management); hardware and software operations; licenses; maintenance; and backup, continuity of operations, and disaster recovery. Also included resources related to carrying out Homeland Security Presidential Directive-12, which requires all Federal Executive departments and agencies to implement a Government-wide standard for secure and reliable forms of identification for access to Federal facilities and information systems.

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

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

Defining and Implementing Maintenance and Repair Policies in Practice

All of the NRC IT infrastructure M&R activities are performed under various contracts. For example, the main IT infrastructure and support services (ITISS) contract includes leasing of servers, computers, printers, and software and provides provisions for periodic monitoring, maintenance, and repairs. Replacement of miscellaneous equipment components and software is scheduled as needed when the equipment reaches the end of its useful life and before the equipment and software become obsolete. Desktops and laptops are upgraded on a 3-year rolling schedule so that they do not become obsolete.

Ranking and Prioritization of Maintenance and Repair Activities

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

Factors Considered in Determining Acceptable Condition

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

Combining Statement of Budgetary Resources *(IN THOUSANDS)*

For the fiscal year ended September 30, 2017	Salaries and Expenses	Office of Inspector General	Nuclear Facility Fees	Total
Budgetary Resources				
Unobligated balances, brought forward, October 1	$ 38,626	$ 3,001	$ –	**$ 41,627**
Recoveries of prior-year unpaid obligations	14,283	220	–	**14,503**
Recoveries of prior-year paid obligations	330	–	–	**330**
Unobligated balance from prior-year budget authority, net	53,239	3,221	–	**56,460**
Appropriations	905,000	12,129	–	**917,129**
Spending authority from offsetting collections	5,626	–	–	**5,626**
Total Budgetary Resources	$ 963,865	$ 15,350	$ –	**$ 979,215**
Status of Budgetary Resources				
New obligations and upward adjustments (total) (Note 12)	$ 928,346	$ 12,181	$ –	**$ 940,527**
Unobligated balance, end of year				
Apportioned, unexpired accounts	32,348	2,723	–	**35,071**
Exempt from apportionment, unexpired accounts	532	–	–	**532**
Unapportioned, unexpired accounts	2,570	–	–	**2,570**
Unexpired unobligated balance, end of year	35,450	2,723	–	**38,173**
Expired unobligated balance, end of year	69	446	–	**515**
Unobligated balance, end of year	35,519	3,169	–	**38,688**
Total Status of Budgetary Resources	$ 963,865	$ 15,350	$ –	**$ 979,215**
Change in Obligated Balance				
Unpaid obligations:				
Unpaid obligations, brought forward, October 1	$ 327,578	$ 1,387	$ –	**$ 328,965**
New obligations and upward adjustments (Note 12)	928,346	12,181	–	**940,527**
Outlays, gross	(913,103)	(11,903)	–	**(925,006)**
Recoveries of prior-year unpaid obligations	(14,282)	(221)	–	**(14,503)**
Unpaid obligations, end of year	$ 328,539	$ 1,444	$ –	**$ 329,983**
Uncollected payments:				
Uncollected customer payments from Federal sources, brought forward, October 1	$ (2,355)	$ –	$ –	**$ (2,355)**
Change in uncollected payments, Federal sources	(484)	–	–	**(484)**
Uncollected payments, Federal sources, end of year	$ (2,839)	$ –	$ –	**$ (2,839)**
Memorandum entries:				
Obligated balances, start of year	$ 325,223	$ 1,387	$ –	**$ 326,610**
Obligated balances, end of year	$ 325,699	$ 1,445	$ –	**$ 327,144**
Budget Authority and Outlays, Net				
Budget Authority, gross	$ 910,626	$ 12,129	$ –	**$ 922,755**
Actual offsetting collections	(5,472)	–	–	**(5,472)**
Change in uncollected customer payments, from Federal sources	(484)	–	–	**(484)**
Recoveries of prior year paid obligations	330	–	–	**330**
Budget Authority, Net	$ 905,000	$ 12,129	$ –	**$ 917,129**
Outlays, gross	$ 913,103	$ 11,903	$ –	**$ 925,006**
Actual offsetting collections	(5,472)	–	–	**(5,472)**
Outlays, net	907,631	11,903	–	**919,534**
Distributed offsetting receipts	–	–	(789,648)	**(789,648)**
Agency Outlays, Net	$ 907,631	$ 11,903	$(789,648)	**$ 129,886**

Combining Statement of Budgetary Resources *(IN THOUSANDS)*

For the fiscal year ended September 30, 2016	Salaries and Expenses	Office of Inspector General	Nuclear Facility Fees	Total
Budgetary Resources				
Unobligated balances, brought forward, October 1	$ 25,722	$ 2,278	$ –	**$ 28,000**
Recoveries of prior-year unpaid obligations	8,138	720	–	**8,858**
Recoveries of prior-year paid obligations	156	–	–	**156**
Unobligated balance from prior-year budget authority, net	34,016	2,998	–	**37,014**
Appropriations	990,000	12,136	–	**1,002,136**
Spending authority from offsetting collections	4,794	–	–	**4,794**
Total Budgetary Resources	$1,028,810	$ 15,134	$ –	**$1,043,944**
Status of Budgetary Resources				
New obligations and upward adjustments (total) (Note 12)	$ 990,184	$ 12,133	$ –	**$1,002,317**
Unobligated balance, end of year				
Apportioned, unexpired accounts	37,181	2,699	–	**39,880**
Exempt from apportionment, unexpired accounts	1,382	–	–	**1,382**
Unapportioned, unexpired accounts	–	–	–	**–**
Unexpired unobligated balance, end of year	38,563	2,699	–	**41,262**
Expired unobligated balance, end of year	63	302	–	**365**
Unobligated balance, end of year	38,626	3,001	–	**41,627**
Total Status of Budgetary Resources	$1,028,810	$ 15,134	$ –	**$1,043,944**
Change in Obligated Balance				
Unpaid obligations:				
Unpaid obligations, brought forward, October 1	$ 325,804	$ 1,848	$ –	**$ 327,652**
New obligations and upward adjustments (Note 12)	990,184	12,133	–	**1,002,317**
Outlays, gross	(980,271)	(11,875)	–	**(992,146)**
Recoveries of prior-year unpaid obligations	(8,138)	(720)	–	**(8,858)**
Unpaid obligations, end of year	$ 327,579	$ 1,386	$ –	**$ 328,965**
Uncollected payments:				
Uncollected customer payments from Federal sources, brought forward, October 1	$ (1,814)	$ –	$ –	**$ (1,814)**
Change in uncollected payments, Federal sources	(541)	–	–	**(541)**
Uncollected payments, Federal sources, end of year	$ (2,355)	$ –	$ –	**$ (2,355)**
Memorandum entries:				
Obligated balances, start of year	$ 323,990	$ 1,848	$ –	**$ 325,838**
Obligated balances, end of year	$ 325,224	$ 1,386	$ –	**$ 326,610**
Budget Authority and Outlays, Net				
Budget Authority, gross	$ 994,794	$ 12,136	$ –	**$ 1,006,930**
Actual offsetting collections	(4,409)	–	–	**(4,409)**
Change in uncollected customer payments, from Federal sources	(541)	–	–	**(541)**
Recoveries of prior year paid obligations	156	–	–	**156**
Budget Authority, Net	$ 990,000	$ 12,136	$ –	**$ 1,002,136**
Outlays, gross	$ 980,271	$ 11,875	$ –	**$ 992,146**
Actual offsetting collections	(4,409)	–	–	**(4,409)**
Outlays, net	975,862	11,875	–	**987,737**
Distributed offsetting receipts	–	–	(869,094)	**(869,094)**
Agency Outlays, Net	$ 975,862	$ 11,875	$(869,094)	**$ 118,643**

Inspector General's Letter Transmitting Independent Auditors' Report

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

OFFICE OF THE
INSPECTOR GENERAL

November 9, 2017

MEMORANDUM TO: Chairman Svinicki

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

SUBJECT: RESULTS OF THE AUDIT OF THE UNITED STATES NUCLEAR REGULATORY COMMISSION'S FINANCIAL STATEMENTS FOR FISCAL YEAR 2017 (OIG-18-A-04)

The *Chief Financial Officers Act of 1990*, as amended (*CFO Act*), requires the Inspector General (IG) or an independent external auditor, as determined by the IG, to annually audit the United States Nuclear Regulatory Commission's (NRC) financial statements in accordance with applicable standards. In compliance with this requirement, the Office of the Inspector General (OIG) retained Acuity Consulting, Inc. (Acuity), to conduct this annual audit. Transmitted with this memorandum is Acuity's report, which contains the following:

- Opinion on the Principal Statements.
- Opinion on Internal Control.
- Report on Compliance with Laws and Regulations.

NRC's Agency Financial Report includes comparative financial statements for Fiscal Years (FY) 2017 and 2016. Acuity performed the audit of the FY 2017 financial statements. The predecessor auditor, CliftonLarsonAllen LLP, performed the audit for the FY 2016 financial statements.

Objective of a Financial Statement Audit

The objective of a financial statement audit is to determine whether the audited entity's financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial

statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation.

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

FY 2017 Audit Results

The results are as follows:

Financial Statements

- Unmodified opinion.

Internal Controls

- Unmodified opinion.

Compliance with Laws and Regulations

- No instances of noncompliance noted.

Office of the Inspector General Oversight of Acuity Performance

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

- Reviewing Acuity's audit approach and planning.
- Evaluating the qualifications and independence of Acuity's auditors.
- Monitoring audit progress at key points.
- Examining the working papers related to planning and performing the audit and assessing NRC's internal controls.

- Reviewing Acuity's audit report to ensure compliance with Government Auditing Standards and OMB Bulletin No. 17-03.
- Coordinating the issuance of the audit report.
- Performing other procedures deemed necessary.

Acuity is responsible for the attached auditors' report, dated November 7, 2017, and the conclusions expressed therein. OIG is responsible for technical and administrative oversight regarding the firm's performance under the terms of the contract. Our oversight, as differentiated from an audit in conformance with Government Auditing Standards, was not intended to enable us to express an opinion, and accordingly we do not express an opinion on:

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

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

Meeting with the Chief Financial Officer

At the exit conference on November 7, 2017, representatives of the Office of the Chief Financial Officer, OIG, and Acuity discussed the results of the audit.

Comments of the Chief Financial Officer

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

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

Attachment: As stated

cc: Commissioner Baran
Commissioner Burns
M. Wylie, OCFO
R. Lewis, OEDO
H. Rasouli, OEDO
J. Jolicoeur, OEDO
J. Bowen, OEDO
EDO_ACS_Distribution
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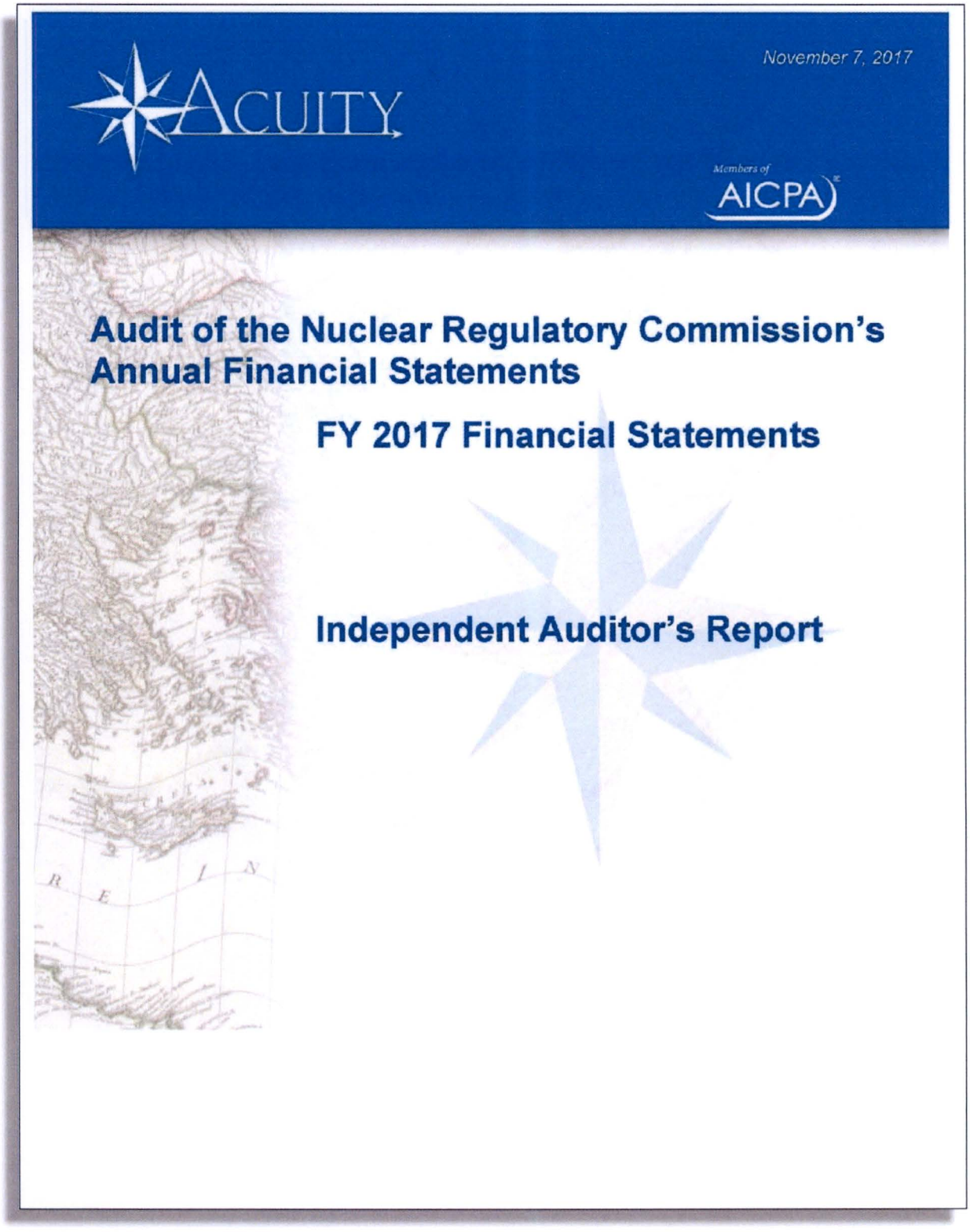
Independent Auditors' Report



INDEPENDENT AUDITOR'S REPORT

To: Inspector General
United States Nuclear Regulatory Commission

Chairman
United States Nuclear Regulatory Commission

Independent Auditor's Report on the Financial Statements

We have audited the accompanying balance sheet of the Nuclear Regulatory Commission (NRC) as of September 30, 2017, and the related statements of net cost, changes in net position, and budgetary resources for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

NRC management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the requirements of Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*. Those standards and the OMB bulletin require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

INDEPENDENT AUDITOR'S REPORT

of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the NRC as of September 30, 2017, and its net cost of operations, changes in net position, and budgetary resources for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The accompanying balance sheet of the NRC as of September 30, 2016, and the related statements of net cost, changes in net position, and budgetary resources for the year then ended were audited by a predecessor auditor, CliftonLarsonAllen LLP (CLA). CLA expressed an unmodified opinion on NRC's September 30, 2016, financial statements in its report dated November 8, 2016. That report also referred to other matters regarding Required Supplementary Information (RSI) and other information, including performance data, contained in NRC's Fiscal Year 2016 Performance and Accountability Report (PAR). CLA noted the application of limited procedures conducted with respect to the RSI, and the absence of audit procedures conducted with respect to the other PAR information, and CLA expressed no opinion or assurances with respect to that information.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The RSI, including "Management's Discussion & Analysis," are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America; OMB Circular A-136, *Financial Reporting Requirements*; and the Federal Accounting Standards Advisory Board (FASAB). This supplementary information is the responsibility of the NRC's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, such information has not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we do not express an opinion on it.

Independent Auditor's Report on Internal Control over Financial Reporting

We have audited NRC's internal control over financial reporting as of September 30, 2017, based on criteria established under 31 U.S.C. 3512 (c) and (d), commonly known as the Federal

ACUITY

INDEPENDENT AUDITOR'S REPORT

Managers' Financial Integrity Act of 1982 (FMFIA), and OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*.

Management's Responsibility for Internal Control

NRC management is responsible for designing, implementing, and maintaining effective internal control over financial reporting, evaluating the effectiveness of internal control over financial reporting based on the criteria noted above, and for its statement of assurance on the effectiveness of internal control over financial reporting.

Auditor's Responsibility for Internal Control

Our responsibility is to express an opinion on NRC's internal control over financial reporting based on our audit. We conducted our audit in accordance with auditing standards established by the American Institute of Certified Public Accountants and incorporated in *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risks that a material weakness exists. An audit includes obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk. We limited our internal control testing to testing controls over financial reporting. Our internal control testing was for the purpose of expressing an opinion on whether effective internal control over financial reporting was maintained, in all material respects. Consequently, our audit may not identify all deficiencies in internal control over financial reporting that are less severe than a material weakness.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Definitions and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance that (1) records are maintained in reasonable detail, and accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management

INDEPENDENT AUDITOR'S REPORT

and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of our audit results to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion on Internal Control over Financial Reporting

In our opinion, NRC maintained, in all material respects, effective internal control over financial reporting as of September 30, 2017, based on FMFIA and OMB Circular A-123 criteria.

Report on Compliance Based Upon an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

As part of obtaining reasonable assurance about whether the NRC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 17-03. The results of our tests for the year ended September 30, 2017, disclosed no instances of noncompliance that are required to be reported in accordance with *Government Auditing Standards*. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests of compliance with certain provisions of the Federal Financial Management Improvement Act (FFMIA) disclosed no instances in which NRC's financial management systems did not substantially comply with (1) Federal financial management systems requirements; (2) applicable Federal accounting standards; or (3) the United States Standard General Ledger (USSGL) at the transaction level.

Management's Responsibility for Compliance

Management is responsible for ensuring NRC's financial management systems are in substantial compliance with FFMIA requirements, and ensuring compliance with other applicable laws, regulations, contracts, and agreements.

Auditor's Responsibility for Compliance

Our responsibility is to test compliance with certain provisions of laws, regulations, contracts, and agreements that have a direct effect on the determination of material financial statement amounts and disclosures. We did not test compliance with all laws, regulations, contracts, and agreements applicable to NRC. We limited our tests of compliance to certain provisions of laws,

INDEPENDENT AUDITOR'S REPORT

regulations, contracts, and agreements noncompliance with which could have a direct effect on the determination of material financial statement amounts and disclosures. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

Agency Comments

NRC provided comments to our audit report, which are included in the Agency Financial Report. We reviewed NRC's response and took no issue with it.

Acuity Consulting, Inc.

Acuity Consulting, Inc.
Alexandria, Virginia
November 7, 2017

Management's Response to the Independent Auditors' Report on the Financial Statements

CHIEF FINANCIAL OFFICER

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

November 6, 2017

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

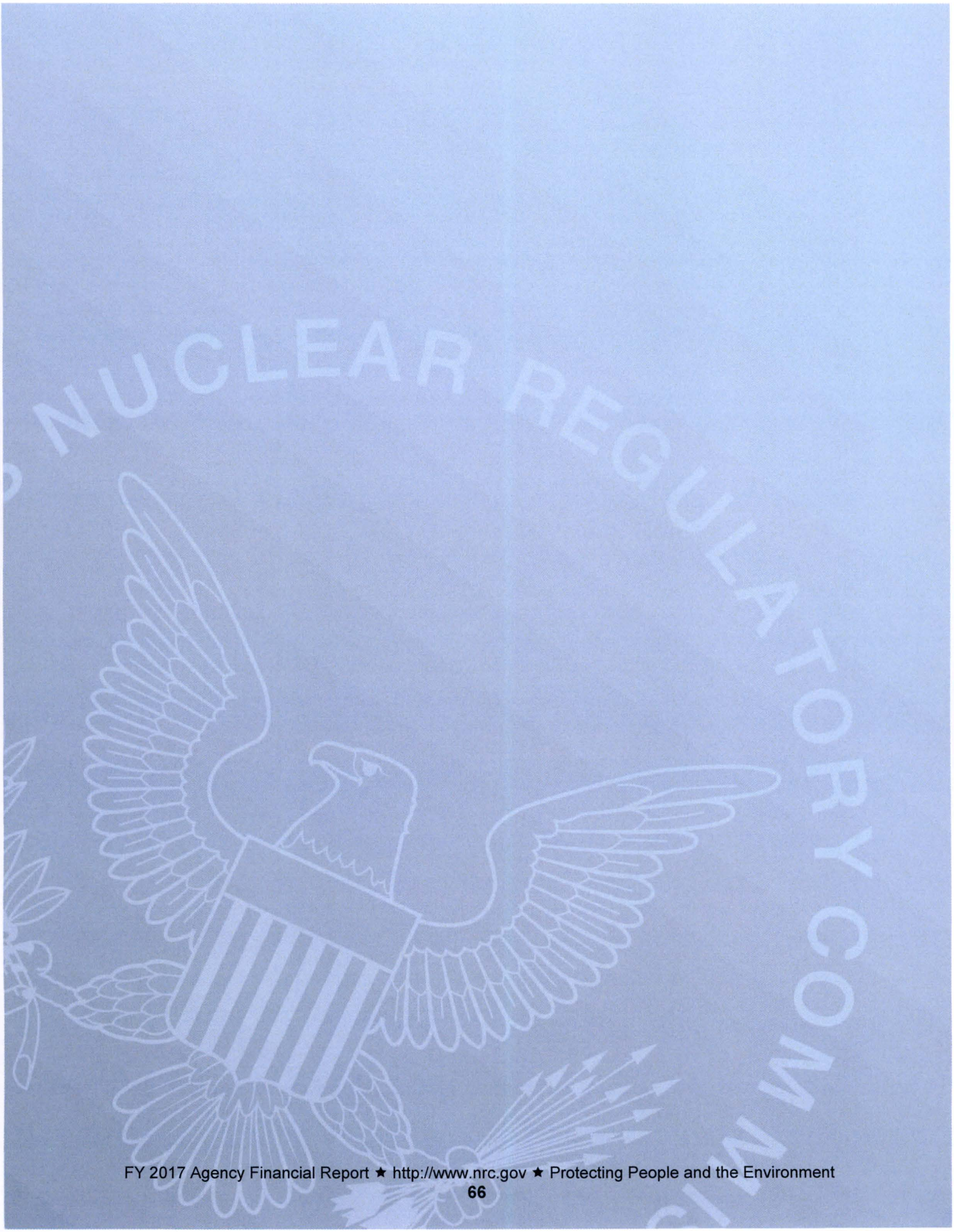
FROM: Maureen E. Wylie */RA/ Ben Ficks for*
Chief Financial Officer

SUBJECT: AUDIT OF THE FISCAL YEAR 2017 FINANCIAL STATEMENTS

We appreciate the collaborative relationship between the Office of the Inspector General, the auditors, and the Office of the Chief Financial Officer in supporting our continuing effort to improve financial reporting. We have reviewed the Independent Auditor's Report of the Agency's fiscal year 2017 financial statements and are in agreement with it.

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

CONTACT: Susan Jones/DOC/FRAB
(301) 415-6072


NUCLEAR REGULATORY COMMISSION

Chapter 3: Other Information

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

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

OFFICE OF THE
INSPECTOR GENERAL

October 18, 2017

MEMORANDUM TO: Chairman Svinicki

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

SUBJECT: INSPECTOR GENERAL'S ASSESSMENT OF THE MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES FACING THE NUCLEAR REGULATORY COMMISSION IN FISCAL YEAR 2018 (OIG-18-A-01)

In accordance with the *Reports Consolidation Act* of 2000, I am providing what I consider to be the most serious management and performance challenges facing the NRC in FY 2018. Congress left the determination and threshold of what constitutes a most serious management and performance challenge to the discretion of the Inspectors General. I have defined serious management and performance challenges as *mission critical areas or programs that have the potential for a perennial weakness or vulnerability that, without substantial management attention, would seriously impact agency operations or strategic goals.*

INTRODUCTION

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

NRC performs critical functions to ensure the safe and secure use of radioactive materials in the United States and to protect both the public and radiation workers from radiation hazards that could result from the use of radioactive materials. NRC provides licensing and oversight activities for approximately 100 commercial nuclear power

reactors; research, test, and training reactors; and radioactive materials used in medicine, academia, and industry.

NRC's principal regulatory functions are to establish regulatory requirements and conduct confirmatory research to support requirements; issue licenses to facility operators and owners, possessors, and users of nuclear materials; oversee these licensees to ensure they are in compliance with NRC requirements and operate safely and securely; and respond to emergencies involving regulated activities. NRC also participates in international work that is integral to the agency's mandate to protect public health and safety and promote the common defense and security. To carry out its mission, NRC's FY 2018 proposed budget is approximately $952 million, including 3,284 full-time equivalent positions.

Based on NRC's mission and objectives, the Office of the Inspector General (OIG) annually identifies what it considers to be the most serious management and performance challenges facing NRC. Our goal is to focus attention on these issues to enhance the effectiveness of NRC programs and operations.

MANAGEMENT CHALLENGES

The FY 2018 management and performance challenges are directly related to NRC's mission areas (commercial nuclear reactors and nuclear materials) and address security, information technology, financial programs, and administrative functions. Our work in these areas indicates that while program improvements are needed, NRC is continually making progress to address OIG recommendations and improve the efficiency and effectiveness of its programs. The FY 2018 management and performance challenges are as follows:

1. Regulation of nuclear reactor safety programs.
2. Regulation of nuclear materials and radioactive waste programs.
3. Management of security over internal infrastructure (personnel, physical, and cyber security) and nuclear security.
4. Management of information technology and information management.
5. Management of financial programs.
6. Management of administrative functions.

These challenges represent what OIG considers to be inherent and continuing program challenges relative to maintaining effective and efficient oversight and internal

management controls. As a result, some are likely to remain challenges from year to year, while others may be removed from the list as progress is made toward resolution. Challenges do not necessarily equate to problems, rather, they should be considered areas of continuing important focus for NRC management and staff.

Attached is a brief synopsis of each management and performance challenge along with summaries of OIG audits and planned work that has informed the decision-making process. A complete list of reports can be found at: https://www.nrc.gov/reading-rm/doc-collections/insp-gen/2017/

1. Regulation of nuclear reactor safety programs.

NRC is responsible for maintaining an established regulatory framework for the safe and secure use of civilian nuclear reactors, including commercial nuclear power plants as well as research, test, and training reactors. There are currently 99 civilian nuclear power reactors licensed to operate in the United States, which generate about 20 percent of the nation's electricity, as well as 2 plants under construction (Vogtle 3 and 4) There are also 31 licensed research and test reactors. NRC's regulatory oversight responsibilities in the reactor arena include developing policy and rulemaking; licensing and inspecting reactors; licensing reactor operators; and enforcing regulations. Based on its control points, the agency implemented its nuclear reactor safety program in Fiscal Year 2017 with approximately 49 percent ($462.3 million, including $5 million for Advanced Reactor Infrastructure Activities) of its total budget authority, including carryover, and 60 percent (2,048 full-time equivalent employees) of its total staff. Thus, it is of paramount importance that the agency implement these programs as effectively and efficiently as possible.

Key reactor safety oversight challenges for NRC include the following:

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

- Incorporating operational experience from the domestic and international nuclear industries into NRC's regulatory program, and identifying generic requirements.

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

Audit of NRC's Fire Protection Oversight for Operating Reactors
OIG-17-A-10, April 11, 2017

NRC staff at headquarters and regions oversee fire protection at commercial nuclear power plants. NRC headquarters staff perform safety evaluations associated with fire protection regulations, develops regulations and regulatory guidance, and supports application of the fire protection regulations at the regional level. NRC regional inspectors perform in-depth fire protection inspections every 3 years. These inspections include an examination of fire plans, electrical cable separation, operating procedures, and fire procedures to ensure plant personnel can safely shut down a plant during a fire. NRC resident inspectors assigned to nuclear power plants perform quarterly and annual inspections that focus on firefighting capabilities such as fire suppression equipment, fire barriers and fire brigade drills.

The audit objective was to assess the consistency of NRC's oversight of fire protection programs at operating nuclear power plants.

Our review found opportunities for NRC to improve the consistency of its fire protection oversight by ensuring (1) specific regulatory requirements for individual nuclear plants are clear to cognizant staff, and (2) documentation of inspection insights from discussions of issues that do not result in findings or violations.

Agency management stated their general agreement with the findings and recommendations in this report.

The full report is available at: https://www.nrc.gov/docs/ML1710/ML17101A737.pdf

Audit of NRC's Oversight of Employee Participation in American Society of Mechanical Engineers Code Committees
OIG-17-A-11, April 26, 2017

NRC participates in American Society of Mechanical Engineers (ASME) code committees as part of its responsibilities under the *National Technology Transfer Act* of 1995. ASME is a non-profit professional organization that develops technical codes for the public and private sectors and includes a range of public and private sector employees. ASME codes are used in connection with technical standards for design, construction, and maintenance for commercial nuclear power plants. We undertook this work based on awareness of the potential lack of internal controls for managing committee participation in the areas of management oversight, monitoring, coordination, and guidance.

The audit objective was to assess NRC's oversight and compliance with applicable law, regulation, and policy relating to NRC employee participation in ASME code committees.

We found that NRC generally complies with applicable law, regulation, and policy pertaining to participation in ASME code committees. However, we recommended that management oversight of staff participation be improved by strengthening recordkeeping practices and internal controls for staff adherence to NRC ethics policies.

NRC management stated their agreement with the findings and recommendations in this report.

The full report is available at: https://www.nrc.gov/docs/ML1711/ML17116A103.pdf

Audit of NRC's 10 CFR 2.206 Petition Review Process
OIG-17-A-23, August 22, 2017

Since the agency was established in 1975, NRC has encouraged members of the public to use Title 10, Code of Federal Regulations, Section 2.206, *Requests for Action Under This Subpart* (10 CFR 2.206) as one method to bring issues to the agency's attention. Any person may file a request by using 10 CFR 2.206 to institute a proceeding to modify, suspend, or revoke a license, or for any other action as may be proper.

The audit objective was to determine whether NRC staff followed agency guidance consistently in reviewing 10 CFR 2.206 petitions, and took steps to ensure appropriate information supports NRC decisions on 10 CFR 2.206 petitions.

NRC committed to periodically assess the 10 CFR 2.206 petition process to enhance its effectiveness, timeliness and credibility. However, our review found that NRC did not perform periodic assessments because it has not established management controls to ensure periodic assessments of the 10 CFR 2.206 petition process are performed. As a result, NRC missed opportunities to use data to enhance the 10 CFR 2.206 petition process. In addition, we found that NRC staff have difficulty applying 10 CFR 2.206 petition review and rejection criteria because the criteria are not clear. As a result, some petitions might not be dispositioned consistently or properly.

The audit report recommended that NRC (1) develop controls to ensure formal assessments are performed and are documented for future use, and (2) clarify the criteria for reviewing and rejecting petitions.

Agency management stated their general agreement with the findings and recommendations in this report.

The full report is available at: https://www.nrc.gov/docs/ML1723/ML17234A561.pdf

Evaluation of Proposed NRC Modifications to the Probabilistic Risk Assessment Process, OIG-17-A-26, September 21, 2017

The NRC and its licensees use the Probabilistic Risk Assessment (PRA) process to estimate the risk of potential accidents at nuclear power plants. PRA is a structured, analytical process for identifying potential weaknesses and strengths of plant designs and operations in an integrated fashion. PRA considers accident scenarios to determine what can go wrong, the likelihood of occurrence, and the consequences for people and the plant. NRC has a tool to estimate risk at nuclear power plants known as Standardized Plant Analysis Risk (SPAR) Model Development Programs. SPAR models are used by NRC staff in support of risk-informed activities.

The OIG evaluation objective was to assess NRC's process for piloting alternative risk modeling techniques including analyzing costs, benefits, and feasibility of these alternatives.

Although preliminary staff assessments showed credible cost and feasibility limitations to adopting industry risk models, NRC has yet to document the results of this work and use it as the basis for a formal agency position. These actions are particularly important in the current regulatory climate, which emphasizes risk-informed decision-making.

OIG made a recommendation to improve the process for assessing alternatives to using SPAR models. Specifically, OIG recommends in this report that the Executive Director for Operations formally document evaluation results that will establish the agency position on NRC's use of licensee PRA models, to include reliable, verifiable cost data.

NRC management stated their agreement with the findings and recommendation in this report and opted to provide formal comments for inclusion in this report.

The full report is available at: https://www.nrc.gov/docs/ML1726/ML17264A298.pdf

2. Regulation of nuclear materials and radioactive waste programs.

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

Upon a State's request, NRC may enter into an agreement to discontinue its authority to the State to regulate certain radioactive materials and limited quantities of special nuclear material. The State must demonstrate that its regulatory program is adequate to protect public health and safety and compatible with NRC's program. The States that enter into an agreement assuming this regulatory authority from NRC are called Agreement States. Currently, there are 37 Agreement States and two States that have submitted draft applications to become Agreement States.

NRC regulates high-level radioactive waste generated from commercial nuclear power reactors. High-level radioactive waste is either spent (used) reactor fuel when it is accepted for disposal or waste material remaining after spent fuel is reprocessed. Because of its highly radioactive fission products, high-level radioactive waste must be handled and stored with care. Since radioactive waste becomes harmless only through decay (which can take hundreds of thousands of years for high-level waste), the material must be stored and ultimately disposed of in a way that provides adequate protection of the public for a very long time. Due to the lack of a permanent repository for high-level radioactive waste in the United States, NRC continues to deal with the issues associated with storing high-level radioactive waste at Independent Spent Fuel Storage Installations across the country for the foreseeable future.

Low-level radioactive waste is typically produced at nuclear power reactors, hospitals, research facilities, and clinics from the use of nuclear materials for industrial and medical purposes. NRC regulates the management, storage, and disposal of radioactive waste produced as a result of NRC-licensed activities. Low-level

radioactive waste includes contaminated protective clothing, equipment and tools, medical supplies, and laboratory animal tissues. Currently, all of the country's disposal facilities are located in Agreement States.

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

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

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

- Ensuring that licensing activities are conducted consistent with NRC requirements.
- Providing effective oversight of licensees' radioactive materials programs to preclude loss or theft.
- Staying current with emerging technologies, particularly with medical uses of radioactive materials.
- Tracking radioactive materials.
- Ensuring that nuclear materials are safe and accounted for during exporting and importing activities.
- Ensuring that Agreement State programs are adequate to protect public health and safety and the environment, and are compatible with NRC's program.
- Providing effective oversight for the safe and secure interim storage of increasing quantities of high-level radioactive waste until a permanent repository for high-level radioactive waste is operational.

- Ensuring the management of licensee programs for the safe storage and disposal of low-level radioactive waste produced as a result of NRC-licensed activities.
- Managing complex decommissioning activities.

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

Audit of NRC's Oversight of Source Material Exports to Foreign Countries
OIG-17-A-08, February 16, 2017

One of the agency's statutorily mandated responsibilities under the Atomic Energy Act of 1954, as amended, is to license the import and export of nuclear materials. Source material is often exported to be enriched and used as fuel for nuclear power plants across the world. As source material (uranium) could potentially be enriched to produce highly enriched uranium – the primary ingredient of an atomic weapon – tracking and accounting for the exports of source material are important to (1) ensure that it is used only for peaceful purposes, (2) comply with international treaty obligations, and (3) provide data to policymakers and other government officials.

The audit objective was to determine the effectiveness of NRC's oversight of the export of source material.

OIG found that NRC provides effective oversight of source material exports in coordination with other Federal agencies; however, opportunities for improvement exist within NRC's internal processes.

NRC does not perform source material export prelicensing site visits or inspections even though one of NRC's principal regulatory functions – oversight – consists of inspections and performance assessment. This occurs because NRC does not require site visits or inspections. Without prelicensing site visits or inspections, NRC cannot confirm if export applicants are legitimate and does not have the assurance licensees are in compliance with export regulations. Additionally, NRC does not verify if some export applicants have a certain required NRC license, nor does NRC enforce the requirement that export carriers be listed on export applications. This gap is due to some ambiguity in the export regulations and the lack of a formalized training program for export licensing officers.

This report made recommendations to improve NRC's oversight of the export of source material. The recommendations would have NRC (1) create an export inspection program, (2) clarify specific NRC regulations related to exports, and (3) create a qualification program for export licensing officers.

Agency management does not entirely agree with the findings and recommendations. Agency comments are included in Appendix E of the report.

The full report is available at: https://www.nrc.gov/docs/ML1704/ML17047A540.pdf

Audit of NRC's Oversight for Issuing Certificates of Compliance for Radioactive Material Packages
OIG17-A-21, August 16, 2017

The Nuclear Regulatory Commission (NRC) issues certificates of compliance to approve the design of a (1) package for transportation of radioactive material or (2) cask for spent fuel storage. A transportation package includes the assembly of components necessary to ensure compliance with packaging requirements and the radioactive contents as presented for transport. A spent fuel storage cask is a heavily shielded container using lead, concrete and/or steel in order to provide dry storage of spent fuel assemblies.

The audit objective was to determine if NRC's processes for issuing certificates of compliance and reviewing 10 CFR Part 72.48 changes provide adequate protection for public health, safety, and the environment.

OIG found that NRC processes for issuing certificates of compliance are adequate; however, opportunities for improvement exist within NRC's internal processes. Specifically, NRC should (1) determine and provide the basis for an appropriate term for Part 71 certificates of compliance and (2) establish sufficient controls for Part 72.48 reviews.

NRC should regulate in a manner that clearly communicates requirements and ensures that regulations incorporate an assessment of safety significance or relative risk. Title 10 Code of Federal Regulations Part 71 (Part 71) establishes the requirements for the transportation of radioactive material packages that apply to any holder or applicant for a transportation certificate of compliance. NRC issues transportation certificates of compliance for a period of 5 years. However, NRC does not have regulatory or technical bases to support the 5-year term. As a result, the agency is imposing a regulatory requirement without clearly assessing the importance to safety or the potential burden imposed on NRC staff and the certificate holders.

Additionally, NRC management and staff are responsible for providing and following effective procedures to ensure implementation of agency policies. However, there are insufficient internal controls to ensure internal guidance is consistently followed. As a result, NRC may not detect Part 72.48 changes that should have been submitted as amendment requests.

This report made recommendations to improve NRC's oversight for issuing certificates of compliance for radioactive material packages.

NRC Management agreed with the findings and recommendations in this report.

The full report is available at: https://www.nrc.gov/docs/ML1722/ML17228A217.pdf

Audit of NRC's Oversight of the National Materials Program
(*Ongoing audit*)

The National Materials Program (NMP) is a term that has been used for many years, to define the broad collective framework within which both NRC and the Agreement States function in carrying out their respective radiation safety regulatory programs. This framework also includes the Organization of Agreement States and the Conference of Radiation Control Program Directors, Inc.

The focus of the NMP is the shared program activities between NRC and Agreement States and the ability of Agreement States to assume a greater proportional responsibility for the shared program activities. The scope of the NMP covers Atomic Energy Act materials, which are currently regulated by NRC and Agreement States.

Per NRC Commission direction, NRC and the Agreement States continue to collaboratively address materials issues within the constraints of available resources. Currently, there are 13 non-Agreement States and 37 Agreement States. Two of the non-Agreement States have submitted draft applications to become Agreement States in some capacity.

NRC has been developing and piloting the NMP for decades, which reflects the evolving relationship between NRC and the Agreement States. This relationship has been evolving as more States become Agreement States. NRC and Agreement States continue to be challenged with the ability to deal with the NMP environment that is constantly evolving such as changes in priorities for regulatory needs and fiscal conditions.

The audit objective is to determine if the National Materials Program is an effective and efficient framework for carrying out NRC and Agreement State radiation safety regulatory programs.

3. Management of security over internal infrastructure (personnel, physical, and cyber security) and nuclear security.

NRC must remain vigilant with regard to the security of its infrastructure and that of nuclear facilities and nuclear materials. NRC must continue to use robust, proactive measures to protect its infrastructure – the buildings, personnel, and information – from both internal and external threats. Moreover, as the nature of the threat continues to evolve, NRC faces challenges with oversight of protecting operating and decommissioned nuclear facilities and nuclear materials, the sharing of sensitive information, as well as emergency preparedness and incident response.

Key security oversight challenges for NRC include the following:

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

- Directing agency-wide information resource planning to ensure that agency information technology, information management, and information technology security resources are selected and managed to provide maximum value to the agency.

- Executing the insider threat prevention and detection program for detecting, deterring, and mitigating insider threats to address protection of classified and safeguards information from exploitation, compromise, or unauthorized disclosure.

- Continuing to pursue the need for new regulations focused on unique requirements of decommissioned nuclear power plants, which present different security considerations than operating plants.

- Ensuring effective oversight of physical and personnel security at nuclear power plants.

- Executing the Federal Information Security Modernization Act of 2014, to strengthen the security of computer networks.

The following synopses are examples of work that OIG has completed in the agency's security programs.

Audit of NRC's Foreign Assignee Program
OIG-17-A-07, December 19, 2016

Under the foreign assignee program, the NRC invites peers from other nuclear safety regulators to obtain experience that would enhance safety programs and research programs worldwide, as well as promote exchange of technical information and expertise. Foreign assignees remain employees of the sponsoring regulatory or research organization in their home country. Approximately 80 foreign nationals have worked as assignees at NRC since 2005, representing 21 countries.

The objective of this audit was to assess whether the NRC foreign assignee program provides adequate information security.

Existing foreign assignee program policies establish controls for protection of and access to information within the foreign assignee program. However, improvements are needed to better implement policies and strengthen information security. For example, information security requirements for the foreign assignee program are not implemented consistently, because there is no specific procedure to guide implementation of those requirements. As a result, program offices may not be able to maintain adequate information protection.

In addition, foreign assignees use a non-NRC, external email address while working at NRC. Foreign assignees do not have an NRC email address because that would require access to the internal local-area network and foreign assignees do not meet the access standard to use NRC's network. The use of external email presents a potential risk of an unintentional spillage of information that should be protected.

The report made recommendations to develop a procedure for security planning during the process of onboarding and hosting a foreign assignee and to provide a secure, cost-effective email for the use of foreign assignees at NRC.

NRC management agreed with the report's findings and recommendations.
The full report is available at: https://www.nrc.gov/docs/ML1635/ML16354A662.pdf.

Audit of NRC's Oversight of Security at Decommissioning Reactors
OIG-17-A-09, February 09, 2017

Decommissioning is the process used to safely remove a nuclear power plant from service and reduce residual radioactivity to a level that permits release of the property and termination of its license. NRC has rules governing power plant decommissioning that protects workers and the public during the decommissioning process. For example, NRC regulations require power plant licensees to establish, maintain, and implement an insider mitigation program. Other NRC regulations are designed to ensure licensees effectively manage worker fatigue and provide reasonable assurance that workers are able to safely and competently perform their duties.

The audit objective was to determine whether NRC's oversight of security at decommissioning reactors provides for adequate protection of radioactive structures, systems, and components.

NRC's oversight of security at decommissioning reactors provides for adequate protection of radioactive structures, systems, and components. However, NRC regulations lack clarity on which elements of fitness-for-duty decommissioning licensees must implement. In addition, NRC lacks regulatory requirements for a fatigue management program for decommissioning licensees.

However, NRC is currently taking steps to address the issues. Presently, there are ongoing rulemaking efforts in the area of decommissioning. Additionally, NRC recently finalized a report to document lessons learned associated with permanent power reactor shutdowns that occurred from 2013 – 2016.

The report made recommendations to clarify which fitness-for-duty elements decommissioning licensees must implement to meet the requirements of the insider mitigation program; and to establish requirements for a fatigue management program.

NRC Management agreed with the findings and recommendations in this report.

The full report is available at: https://www.nrc.gov/docs/ML1705/ML17053A022.pdf

4. Management of information technology and information management.

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

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

- Ensuring that data is securely accessible from anywhere, at any time, on any device to support the agency's workforce.
- Leveraging innovative technologies to coordinate, securely share, and collaborate on information with both domestic and international partners.
- Managing risk-based information security strategies to protect against sophisticated cyber-attacks.

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

Audit of NRC's Adoption of Cloud Computing
OIG-17-A-16, June 20, 2017

Adoption of cloud computing became Federal policy in 2010. Cloud computing is defined as a model for enabling convenient, on-demand network access to a shared pool of configurable computing resources.

The audit objective was to assess whether NRC's adoption of cloud computing is adequately managed.

NRC has not had a cohesive approach to cloud adoption. Federal and NRC guidance emphasize management's role in providing objectives, resources, and oversight for information technology (IT) projects. However, until 2016, NRC management's focus on the agency's data centers substituted for an effective cloud strategy.

For example, NRC management committed to consolidating two older data centers into its new Three White Flint North data center. The decision was made without completing a cloud alternatives study that would have not only defined a basis for determining which options best met NRC's requirements, but also provided complete cost analysis of cloud and internal options. The consolidation resulted in resources that are not scalable, rapidly provisioned, or shared.

Further, it did not realize expected operating cost savings. Due to a lack of cost analysis in the beginning, it is not clear whether the project's modernization benefits were worth the additional cost, or whether the same benefits could have been achieved at a lower cost while also enabling the adoption of effective cloud solutions.

The report made recommendations to (1) develop guidelines to ensure that cloud services acquisitions rely on thorough project planning, and (2) train NRC information technology and acquisitions staff to manage new models of service delivery.

NRC management agreed with the report's findings. As part of NRC's current IT contracting effort, NRC management stated the agency will implement actions responsive to the recommendations.
The full report is available at: https://www.nrc.gov/docs/ML1717/ML17171A136.pdf

Evaluation of NRC's Network Storage Interruption
OIG-17-A-19, July 27, 2017

On November 16, 2016, at 4:45 a.m., NRC's Network Operations Center identified that access was lost to key information technology (IT) services, including availability to the network, remote access, internet, email and servers (file, print, and applications). The network outage resulted in NRC excusing headquarters employees for the entire workday on November 17, 2016, and for 2 hours on November 18, 2016. It cost NRC an estimated $941,739 to grant employees administrative leave for this time.

The objective of this audit was to evaluate the NRC network storage service interruption that occurred on November 16, 2016, and identify opportunities for improvement and solutions moving forward.

OIG evaluated the network storage interruption and its effect on agency operations, and identified opportunities for improvement in how NRC manages its IT services contract. OIG found weaknesses in the following areas:

1. The contract modification process. Specifically, NRC inadvertently modified the IT services contract disincentive fee.
2. Administration of the IT services contract. Specifically, NRC allowed the contractor to make all decisions on the data center storage system architecture.

Additionally, OIG identified multiple issues with how the IT services contract was written and overseen. These issues relate to the number and relative weight of the Service Level Requirements included in the contract and the lack of associated penalties. Service Level Requirements are agreements between a service provider and end user that defines the level of service expected.

The report made recommendations to improve NRC's processes, procedures, and operations under the next IT services acquisition (GLINDA).

NRC management agreed with the report's findings and recommendations and plans to take action to address the recommendations.

The full report is available at: https://www.nrc.gov/docs/ML1720/ML17208A031.pdf.

5. Management of financial programs.

NRC is required by the *Omnibus Budget Reconciliation Act* of 1990 to collect fees totaling approximately 90 percent of its annual budget authority. The agency's budget authority for FYs 2016 and 2017, including carryover, was approximately $1,006 million and $940 million, respectively. The NRC estimated that $882.9 million for FY 2016 and $804.6 million for FY 2017 should be recovered from invoiced fees. NRC is required to establish a schedule of charges that fairly and equitably assesses the fees to license holders and license applicants. In recent years, multiple external stakeholders have questioned NRC's budget and fee structure. Moreover, in recent years, NRC has been reducing its budget and full-time equivalents. In recent years, NRC has initiated projects to improve its fee calculation process and fee billing structure. To maintain transparency, NRC must continue to implement solid internal controls over financial management and reporting.

Key financial management and reporting challenges include the following:

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

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

Audit of NRC's Compliance with Improper Payments
OIG-17-A-13, May 11, 2017

On July 22, 2010, the *Improper Payments Elimination and Recovery Act of 2010* (IPERA) was signed into law, which amended the *Improper Payments Information Act of 2002* (IPIA). IPERA directed OMB to issue implementing guidance to agencies. IPERA also requires Federal agencies to periodically review all programs and activities that the agency administers and identify all programs and activities that may be susceptible to significant improper payments. In addition, IPERA requires each agency to conduct recovery audits with respect to each program and activity of the agency that expends $1,000,000 or more annually, if conducting such audits would be cost effective. The *Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA) was signed into law on January 10, 2013. IPERIA established the Do Not Pay Initiative, which directs agencies to verify the eligibility of payments using databases before making payments. On October 20, 2014, OMB issued Memorandum M-15-02, Appendix C to Circular No. A-123, Requirements for Effective Estimation and Remediation of Improper Payments.

OMB guidance also specifies that each agency's Inspector General should review agency improper payment reporting in the agency's annual Performance and Accountability Report or Annual Financial Report, and accompanying materials, to determine whether the agency complied with IPERA.

OIG conducted this audit to assess NRC's compliance with the IPIA, as amended by IPERA, and IPERIA and report any material weaknesses in internal control.

OIG determined that the agency is in compliance with the requirements of IPIA. OIG also concluded that agency reporting of improper payments is accurate and complete.

However, this report makes one recommendation regarding questioned costs that were identified during a contract audit performed by the Defense Contract Audit Agency (DCAA) on behalf of OIG.

NRC management reviewed the draft memorandum report and had no comments.

The full report is available at: https://www.nrc.gov/docs/ML1713/ML17131A214.pdf

Audit of NRC's Process for Managing Intra-Government Payment and Collection System Payments
(To be initiated in FY 2018)

Federal agencies frequently provide services to other agencies. These services require an exchange of money when the agencies enter into an agreement and services are performed. Federal agencies use the Department of Treasury's Intra-Government Payment and Collection (IPAC) system to transfer funds from one agency to another with standardized descriptive data. While the Department of Treasury administers the IPAC system, NRC has to ensure that transactions in the system are accurate and paid in a timely manner. NRC processes approximately $80 million a year through the IPAC system. The agency's Office of the Chief Financial Officer receives the IPAC payment or reimbursement request and then forwards the IPAC action to the corresponding NRC Contracting Officer's Representative (COR) for review and approval.

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

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

6. Management of administrative functions.

NRC should continue exploring ways to gain administrative efficiencies while maintaining the appropriate corporate support to carry out agency operations. During FY 2017, NRC workforce totaled approximately 3,300 staff positions. To support the agency's technical staff, NRC provides corporate support services such as contract support and multiple human resource programs. While NRC has implemented multiple programs to support agency staff, NRC continues to operate in a Federal Government environment of stagnant or reduced agency budgets, and increasing pressure to reduce corporate support costs. Because of this, the agency needs to have an appropriate balance between administrative functions and technical needs. In addition, NRC must be able to effectively recruit, train, and transfer knowledge to new hires, if applicable. This includes maintaining up-to-date guidance to effectively transfer knowledge and train current staff. NRC initiated Project Aim with the purpose of, among other things, identifying inefficiencies in work processes, and right-sizing the agency to retain skill sets needed to accomplish the agency's mission.

Key NRC corporate support function challenges include the following:

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

The following audit report synopses are examples of work that OIG will conduct that pertain to NRC's administrative functions.

Audit of NRC's Program Management, Policy Development and Analysis Division (PMDA) and Division of Resource Management and Administration (DRMA) Functions to Identify Program Efficiencies
OIG-17-A-18, July 3, 2017

Many NRC offices maintain corporate support through PMDA and DRMA functions. The PMDA function at NRC headquarters and the DRMA function at NRC regional offices manage service delivery in support areas.

The audit objective was to determine if the activities performed by NRC's PMDA and DRMA programs produce the intended results from their operational processes in a manner that optimizes the expenditure of agency resources.

Since the realignment between regional and headquarters PMDA and DRMA functions, administrative functions have not been performed in a manner consistent with policies and procedures governing the revised processes, roles, and responsibilities. For example, in the absence of an NRC approved policy or procedure, some PMDA and DRMA offices created their own respective processes for supporting budget formulation. In those instances, processes were not consistent with the established agency-wide budget formulation process.

While policies and procedures for budget formulation exist, the objectives of the related recommendation are to (1) clearly establish and document roles and responsibilities for all individuals managing or supporting budget formulation activities, (2) gain a mutual understanding of centralized budget formulation activities within the Office of the Chief Financial Officer (OCFO), and (3) ensure consistent office processes for budget formulation, as well as a streamlined and reduced effort for developing formulation deliverables.

The report made a recommendation to complete implementation of all Mission Support Task Force recommendations that may assist in optimizing the use of resources and result in improving standardization and centralization throughout the agency. Management is in agreement with the finding and recommendation in this report.

The full report is available at: https://www.nrc.gov/docs/ML1718/ML17184A101.pdf

Audit of NRC's Contract Administration Process
OIG-17-A-20, August 16, 2017

The Federal Acquisition Regulation and Nuclear Regulatory Commission's (NRC) Management Directive 11.1, *NRC Acquisition of Supplies and Services*, and NRC's Acquisition Regulation under 48 Code of Federal Regulations Chapter 20 provide specific requirements for NRC's contract administration process.

Contract administration involves those activities performed by agency officials after they award a contract. Contracting Officers (COs) administer NRC contracts. However, COs delegate specific contract administration responsibilities and technical supervision tasks to a Contracting Officer's Representative (COR). CORs are responsible for daily administration and technical direction of contracts during the period of performance. CORs review and reconcile invoices including verifying support for payment and collection. The COR is expected to maintain working contract files.

The audit objective was to assess the effectiveness of NRC's contract administration process and compliance with Federal and agency regulations.

OIG made recommendations to improve the effectiveness of management of contractor invoices and supporting documentation and to strengthen adherence to contract closeout procedures by CORs. Some recommendations addressed the effectiveness of internal controls over recordkeeping for contractor invoices and supporting documentation. Another recommendation addressed enhancement of internal controls to ensure better adherence to contract closeout procedures.

NRC Management stated their agreement with the findings and recommendations in this report.

The full report is available at: https://www.nrc.gov/docs/ML1722/ML17228A029.pdf

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COMMENTS AND SUGGESTIONS

If you wish to provide comments on this report, please email OIG using this link.

In addition, if you have suggestions for future OIG audits, please provide them using this link.

Summary of Financial Statement Audit and Management Assurances

Summary of Financial Statement Audit for FY 2017					
Audit Opinion	Unmodified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
None	0	0	0	0	0
Total Material Weaknesses	0	0	0	0	0

Summary of Management Assurances for FY 2017						
Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	0	0	0	0
Total Material Weaknesses	0	0	0	0	0	0
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	0	0	0	0
Total Material Weaknesses	0	0	0	0	0	0
Conformance with Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Federal systems conform to financial management system requirements					
Nonconformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	0	0	0	0
Total Nonconformances	0	0	0	0	0	0

Compliance with *Federal Financial Management Improvement Act* (FFMIA)		
	Agency	**Auditor**
1. Federal Financial Management Systems Requirements	No Lack of Compliance Noted	No Lack of Compliance Noted
2. Applicable Federal Accounting Standards	No Lack of Compliance Noted	No Lack of Compliance Noted
3. United States Standard General Ledger at the Transaction Level	No Lack of Compliance Noted	No Lack of Compliance Noted

Improper Payments Information Act of 2002 Reporting Details

Risk Assessment

The NRC is required to complete assessments to determine whether any programs were susceptible to making significant improper payments in accordance with IPIA as amended by IPERA and IPERIA. Before the passing of IPERIA, which further amended IPIA, agencies were not required to review intragovernmental transactions or payments to employees. IPERIA now requires agencies to review payments to employees as well as Government charge card transactions. Intragovernmental transactions continue to be exempt from IPERIA requirements.

The NRC performed a risk assessment as of September 30, 2017. Management identified commercial payments, grants payments, employee payments, payroll, and Government charge cards as potential areas to include in the IPIA risk assessment. In FY 2017, the NRC reviewed FY 2016 disbursements of selected programs to determine the appropriate threshold to conduct a risk assessment and possible testing. For FY 2016, total commercial payments were $207,097,711.65; total grants payments were $17,465,544.74; total employee payments were $15,738,781.90; and total payroll payments were $476,025,081.98. The NRC did not conduct a risk assessment over its purchase card (total disbursements of $3,274,878.58) and travel card (total disbursements of $4,619,532.68) since disbursement totals for each were below $10.0 million. Conducting a risk assessment over those two programs would not produce an error rate that would meet the minimum threshold set by the OMB ($10.0 million and 1.5 percent of total program payments).

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

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

Improper Payment Reporting

The NRC has not identified any programs that are susceptible to making significant improper payments. Therefore, there are no improper payments that exceed the statutory thresholds to report or to develop reduction goals.

Recapture of Improper Payments Reporting

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

Agency Improvement of Payment Accuracy with the Do Not Pay Initiative

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

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

Barriers

The NRC is not aware of any barriers that limit the agency's ability to properly control payments.

Accountability

The NRC has not developed any specific accountability plans because the agency has not identified any programs that are susceptible to making significant improper payments.

Agency Information Systems and Other Infrastructure

The NRC has sufficient internal controls, human capital, and information systems in place for payments. The NRC has not identified any programs that are susceptible to making significant improper payments.

Sampling and Estimation

The results of the FY 2017 risk assessment did not identify any programs that were susceptible to making significant improper payments. Therefore, no sampling or estimation methodologies were required. The next IPIA risk assessment will take place in FY 2020.

Overpayment Payment Recaptures without Recapture Audit Programs ($ in millions)

Results for FY 2017	Overpayments Recaptured outside of Payment Recapture Audits	
Program or Activity	Amount Identified	Amount Recaptured
Nuclear Regulatory Commission – 31000001	$0.5 million	$0.5 million
Total	$0.5 million	$0.5 million

Fraud Reduction Report

Historically, the NRC has had appropriate processes and control mechanisms in place to mitigate the low level of fraud risk within NRC operations. As a result, the NRC did not implement any additional financial nor administrative controls as a result of the issuance of the Fraud Reduction and Data Analytics Act. The NRC has determined that the agency is of low risk of fraud for many reasons, including the following:

- The NRC uses the U.S. Department of the Interior to manage its payroll and does not make any entitlement payments.
- Grants at the NRC represent less than 1.5 percent of the overall NRC program.
- Over the past 4 years, the NRC has averaged approximately $75,000 in identified improper payments, none of which appear to be the result of fraud.
- Over the past few fiscal years, there have been no instances of fraud identified through internal nor external reviews.

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

- A fully operational ERM process through which the NRC conducts enterprise risk assessments on a quarterly basis, including an assessment of fraud risk within NRC operational activities. The agency established the ERM program in FY 2013, when the OCFO's Internal Control and Planning Branch facilitated risk assessments with each of the NRC's business lines to identify programmatic and cross-cutting risks. The cross-cutting risks identified during these risk assessments became the initial baseline ERM risks.
- Annual Internal Control Plans developed by each of the NRC's operational units and reviewed by the Internal Control and Planning Branch. At a summary level, this review centers on the relatively high-risk areas including those that have recently been affected by change or are perceived to have the potential for fraud, waste, or abuse.
- Annual implementation of OMB Circular A-123, Appendix A (financial business processes) and Appendix B (purchase cards), and triennial implementation of Appendix C (improper payments). As the NRC has previously determined and documented that it is at low risk of improper payments, it performs a risk assessment every 3 years to determine whether there is sufficient risk to apply additional IPERIA requirements. The results of the FY 2017 risk assessment confirmed that the NRC remains at low risk with regard to improper payments, including those that would arise from fraud.

- Analytical tools to monitor and manage NRC issued travel charge cards, including an automated comparison of travel charges against the eTravel System, a creditworthiness check that will result in reduced credit limits for those with lower credit scores, and the analysis of Merchant Category Codes so that NRC travel cards may not be used at inappropriate locations.

- Self-assessments and a variety of other reviews conducted by the NRC's operational units to measure their effectiveness and efficiency and validate that fraud, waste, and abuse are minimized.

Reduce the Footprint

Combined Reduce the Footprint Baseline Comparison

	FY 2015 Baseline	FY 2016	Change (FY 2015 Baseline – 2016)
Square Footage (SF in millions)	1.079	1.079	0.000

Reporting of O&M Costs – Owned and Direct Lease Buildings

	FY 2015 Reported Cost	FY 2016	Change (FY 2015 Baseline – 2016)
Operation and Maintenance Costs ($ in millions)	N/A*	N/A*	N/A*

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

The NRC's current office and warehouse portfolio of properties total 1,079,543 usable square feet (USF), which is consistent with GSA occupancy agreements, remains unchanged from the 2015 Reduce the Footprint office and warehouse baseline. In FY 2015, the agency relinquished over 155,000 USF of office and related space from two of its Rockville, MD, locations, as reported in the FY 2017 Real Property Savings Plan. The agency is targeting additional reductions of the office and warehouse portfolio to 940,299 USF (87 percent of the Reduce the Footprint office and warehouse baseline) by the end of the FY 2018 - FY 2022 planning period. The NRC plans to reach its target by renovating, reconfiguring, and releasing a total of 139,244 USF of office space at its Rockville, MD, headquarters and four regional office locations. In FY 2018, the NRC budgeted $43.2 million for rental payments to the GSA.

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Office Target (Net USF Reduction)	33,561	42,561	29,561	33,561	0

Civil Monetary Penalty Adjustment for Inflation

On November 2, 2015, the *Federal Civil Penalties Inflation Adjustment Act of 1990* was amended by the *Federal Civil Penalties Inflation Adjustment and Improvements Act of 2015*

(Sec. 701, Pub. L. 114-74, 129 Stat.599). This act requires that the head of each agency annually adjust for inflation the amounts of any civil monetary penalties assessed under statutes enforced by that agency.

As displayed in the table below, the NRC annually adjusts two civil penalty amounts for inflation, most recently on January 24, 2017. With respect to civil penalties for violations of the *Atomic Energy Act of 1954*, as amended, the NRC codifies the maximum civil penalty amount at 10 CFR 2.205, "Civil Penalties," although individual penalties are assessed based on the class of licensee and severity of violation in accordance with the NRC Enforcement Policy (available at https://www.nrc.gov/docs/ML1619/ML16197A561.pdf). With respect to monetary penalties under the *Program Fraud Civil Remedies Act*, the NRC codifies the maximum penalty amount at 10 CFR 13.3, "Basis for Civil Penalties and Assessments."

Penalty (Name of Penalty)	Statutory Authority	Year Enacted	Date of Current Adjustment	Current Penalty Level ($ Amount)	Location for Penalty Update Details
Maximum civil penalty for violations of the *Atomic Energy Act*	*Atomic Energy Act of 1954*, as amended (42 U.S.C. 2282)	1980	January 2017	$285,057	Federal Register; 82 FR 8133 (January 24, 2017)
Fraudulent false claims and statements	*Program Fraud Civil Remedies Act* (31 U.S.C. 3802)	1986	January 2017	$10,957	Federal Register; 82 FR 8133 (January 24, 2017)

Grants Oversight & New Efficiency (GONE) Act Requirements

Category	2-3 Years	>3-5 Years	>5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	7	-	-
Number of Grants/Cooperative Agreements with Undisbursed Dollar Balances	11	-	-
Total Amount of Undisbursed Balances	$197,926.25	$0.00	$0.00

The NRC has 18 grants that expired before September 30, 2015, that have not been closed out. Delays in grant closeouts occurred during FY 2017, as a result of the elimination of contractor support for this work. The NRC staff members have been trained on the grant closeout process and the NRC has been able to fund some contractor support for this work in FY 2018. The agency has an initiative underway to eliminate the backlog of grants waiting to be closed out.

Acronyms and Abbreviations

Acronym	
3WFN	Three White Flint North
10 CFR	Title 10 of the Code of Federal Regulations
AFR	Agency Financial Report
AO	abnormal occurrence
BFS	Budget Formulation System
CFO	Chief Financial Officer
CSRS	Civil Service Retirement System
DATA Act	*Digital Accountability and Transparency Act of 2014*
DM&R	deferred maintenance and repairs
DNFSB	Defense Nuclear Facilities Safety Board
DOE	U.S. Department of Energy
DOL	U.S. Department of Labor
ECERM	Executive Committee on Enterprise Risk Management
EDO	Executive Director for Operations
ERM	Enterprise Risk Management
FAIMIS	Financial Accounting and Integrated Management Information System
FASAB	Federal Accounting Standards Advisory Board
FDA	U.S. Food and Drug Administration
FECA	*Federal Employees Compensation Act of 1993*
FERS	Federal Employees Retirement System
FFATA	*Federal Funding Accountability and Transparency Act of 2006*
FFMIA	*Federal Financial Management Improvement Act of 1996*
FMFIA	*Federal Managers' Financial Integrity Act of 1982*
FOIA	*Freedom of Information Act*
FR	Federal Register
FTE	full-time equivalent
FY	fiscal year
G-PP&E	General Property, Plant, and Equipment
GAAP	generally accepted accounting principles
GONE	*Grants Oversight & New Efficiency Act of 2016*
GSA	U.S. General Services Administration

Acronym	
IAEA	International Atomic Energy Agency
IG	Inspector General
IPERA	*Improper Payments Elimination and Recovery Act of 2010*
IPERIA	*Improper Payments Elimination and Recovery Improvement Act of 2012*
IPIA	*Improper Payments Information Act of 2002*
IPP	Invoice Processing Platform
IT	information technology
ITISS	IT infrastructure and support services
M&R	Maintenance and repairs
MD&A	Management's Discussion and Analysis
NRC	U.S. Nuclear Regulatory Commission
NUREG	Nuclear Regulatory Commission document identifier
NWF	Nuclear Waste Fund
OBRA-90	Omnibus Budget Reconciliation Act of 1990
OCFO	Office of the Chief Financial Officer
OIG	Office of the Inspector General
OMB	Office of Management and Budget
SBR	Statement of Budgetary Resources
SCNP	Statement of Changes in Net Position
SFFAS	Statement of Federal Financial Accounting Standards
SGI	Safeguards Information
Treasury	U.S. Department of the Treasury
TTC	Technical Training Center
U.S.C.	United States Code
USF	Usable Square Feet

NRC FORM 335
(12-2010)
NRCMD 3.7

U.S. NUCLEAR REGULATORY COMMISSION

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Washington, DC 20555-0001

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10. SUPPLEMENTARY NOTES

11. ABSTRACT (200 words or less)

The Fiscal Year 2017 Agency Financial Report (AFR) presents the agency's performance and financial management information in compliance with the *Government Performance and Results Modernization Act of 2010* The AFR gives the President, Congress, and the American public the opportunity to assess the agency's performance in achieving its mission and the stewardship of its resources.

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