November 17, 2014

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

I enclose the U.S. Nuclear Regulatory Commission's (NRC's) *Fiscal Year 2014 Performance and Accountability Report*. This report was prepared in accordance with the Reports Consolidation Act of 2000 and the Government Performance and Results Act Modernization Act of 2010.

I have assessed the completeness and reliability of the program and financial data contained in the NRC's *Fiscal Year 2014 Performance and Accountability Report*. Based on evaluation criteria issued by the Office of Management and Budget, I conclude that the data is complete and reliable.

The NRC places a high priority on sound management and public accountability. The Commission looks forward to continuing to work with you to deliver the best possible results for the Government and the American people.

Respectfully,

/RA/

Allison M. Macfarlane

Enclosure:
As stated

November 17, 2014

The Honorable Joseph R. Biden, Jr.
President of the Senate
Washington, DC 20510

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Sincerely,

/RA/

Allison M. Macfarlane

Enclosure:
As stated

Identical letter sent to:

The Honorable Joseph R. Biden, Jr.
President of the Senate
Washington, DC 20510

The Honorable Patrick J. Leahy
President Pro Tempore
United States Senate
Washington, DC 20510

The Honorable John A. Boehner
Speaker of the United States
House of Representatives
Washington, DC 20515

The Honorable Barbara Boxer
Chairman, Committee on Environment
and Public Works
United States Senate
Washington, DC 20510
cc: Senator David Vitter

The Honorable Sheldon Whitehouse
Chairman, Subcommittee on Clean Air
and Nuclear Safety
Committee on Environment and Public Works
United States Senate
Washington, DC 20510
cc: Senator Jeff Sessions

The Honorable Fred Upton
Chairman, Committee on Energy
and Commerce
United States House of Representatives
Washington, DC 20515
cc: Representative Henry A. Waxman

The Honorable Ed Whitfield
Chairman, Subcommittee on Energy and Power
Committee on Energy and Commerce
United States House of Representatives
Washington, DC 20515
cc: Representative Bobby L. Rush

The Honorable John Shimkus
Chairman, Subcommittee on Environment
and the Economy
Committee on Energy and Commerce
United States House of Representatives
Washington, DC 20515
cc: Representative Paul Tonko

The Honorable Mike Simpson
Chairman, Subcommittee on Energy
and Water Development
Committee on Appropriations
United States House of Representatives
Washington, DC 20515
cc: Representative Marcy Kaptur

The Honorable Dianne Feinstein
Chairman, Subcommittee on Energy
and Water Development
Committee on Appropriations
United States Senate
Washington, DC 20510
cc: Senator Lamar Alexander

The Honorable Thomas R. Carper
Chairman, Committee on Homeland Security
and Government Affairs
United States Senate
Washington, DC 20510
cc: Senator Tom Coburn

The Honorable Mary L. Landrieu
Chairman, Committee on Energy
and Natural Resources
United States Senate
Washington, DC 20510
cc: Senator Lisa Murkowski

The Honorable Mike McCaul
Chairman, Committee on Homeland Security
United States House of Representatives
Washington, DC 20515
cc: Representative Bennie G. Thompson

U.S.NRC

United States Nuclear Regulatory Commission

Protecting People and the Environment

PERFORMANCE AND ACCOUNTABILITY REPORT

FISCAL YEAR 2014

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.

Table of Contents

A Message from the Chairman iii

Chapter 1 • Management's Discussion and Analysis 1

Introduction 3
About the NRC 3
U.S. Nuclear Regulatory Commission Organization Chart 4
The NRC's Regulatory Activities 6
The Nuclear Industry 6
FY 2014 Performance Results 9
Future Challenges 14
Data Completeness and Reliability 16
Financial Performance Overview 17
Management Assurances, Systems, Controls, and Legal Compliance 22

Chapter 2: Program Performance 27

Measuring and Reporting 29
Nuclear Reactor Safety Programs 34
Nuclear Materials and Waste Safety Programs 46
Costing to Goals 53
Cross-Cutting Strategies 53
Management Objectives 57
International Activities 61
Program Evaluations 64
Data Sources, Data Quality, and Data Security 66

Chapter 3: Financial Statements and Auditors' Report 69

A Message from the Chief Financial Officer 71
Financial Statements 72
Notes to the Financial Statements 76
Required Supplementary Information 88
Inspector General's Letter Transmitting Independent Auditors' Report 90
Independent Auditors' Report 93
Management's Response to the Independent Auditors' Report on the Financial Statements 98

Chapter 4: Other Information 99

Inspector General's Assessment of the Most Serious Management and Performance Challenges Facing NRC 101
Summary of Financial Statement Audit and Management Assurances 143
Improper Payments Information Act and Recovery Audit Reporting Details 147
Schedule of Spending 151
Acronyms and Abbreviations 155
Bibliographic Data Sheet 161
Availability of Reference Materials in NRC Publications 165

Left to right: Commissioner Jeff Baran, Commissioner Kristine L. Svinicki, Chairman Allison M. Macfarlane, Commissioner William C. Ostendorff, and Commissioner Stephen G. Burns

The Fiscal Year 2014 Performance and Accountability Report provides performance results and audited financial statements that enable the President, Congress, and the public to assess the performance of the agency in achieving its mission and stewardship of its resources. The report contains a concise overview, Management's Discussion and Analysis, as well as performance and financial sections. Details of performance results and program evaluations can be found in the Program Performance section.

A Message from the Chairman

I am pleased to present the U.S. Nuclear Regulatory Commission's (NRC's) Performance and Accountability Report (PAR) for Fiscal Year (FY) 2014. This report presents the NRC's continuing success in achieving our mission to ensure the safe and secure use of radioactive materials for beneficial civilian purposes while protecting people and the environment. The report also provides key financial and performance information to Congress and the American people of how we used our resources during FY 2014. The report is available at http://www.nrc.gov/reading-rm/doc-collections/nuregs/staff/sr1542/.

The NRC is an independent regulatory agency devoted to the effective and efficient oversight of the Nation's 100 operating nuclear reactors and 31 research and test reactors. The agency also maintains oversight of the four reactors currently being decommissioned. The NRC reviews all safety aspects of new reactor designs, environmental siting, combined license applications, and provides oversight for the four nuclear reactors currently under construction. Further, the agency focuses on the safe and secure use of nuclear materials in the energy, medical and industrial sectors through effective oversight of fuel facilities, uranium recovery sites, decommissioning sites, and nuclear material user licensees. The NRC met all of its strategic goals, objectives, and performance indicator targets in FY 2014.

The NRC has continued addressing the recommendations developed following the 2011 Fukushima Dai-ichi accident in Japan. During FY 2014, an independent international review panel determined that the NRC has acted promptly and effectively after the Fukushima Dai-ichi accident in the interests of the public health and safety. Those requirements that were identified as critical to implement as soon as possible have been completed. The recommendations needing more technical study and needing more information to support regulatory action are expected to be completed in the next few years.

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

I take great pride in the performance and dedication of NRC employees in achieving the agency's safety and security goals and look forward to continuing the high-quality service the American people have come to expect from us.

Allison M. Macfar1ane
Chairman
November 12, 2014

2013 Awards


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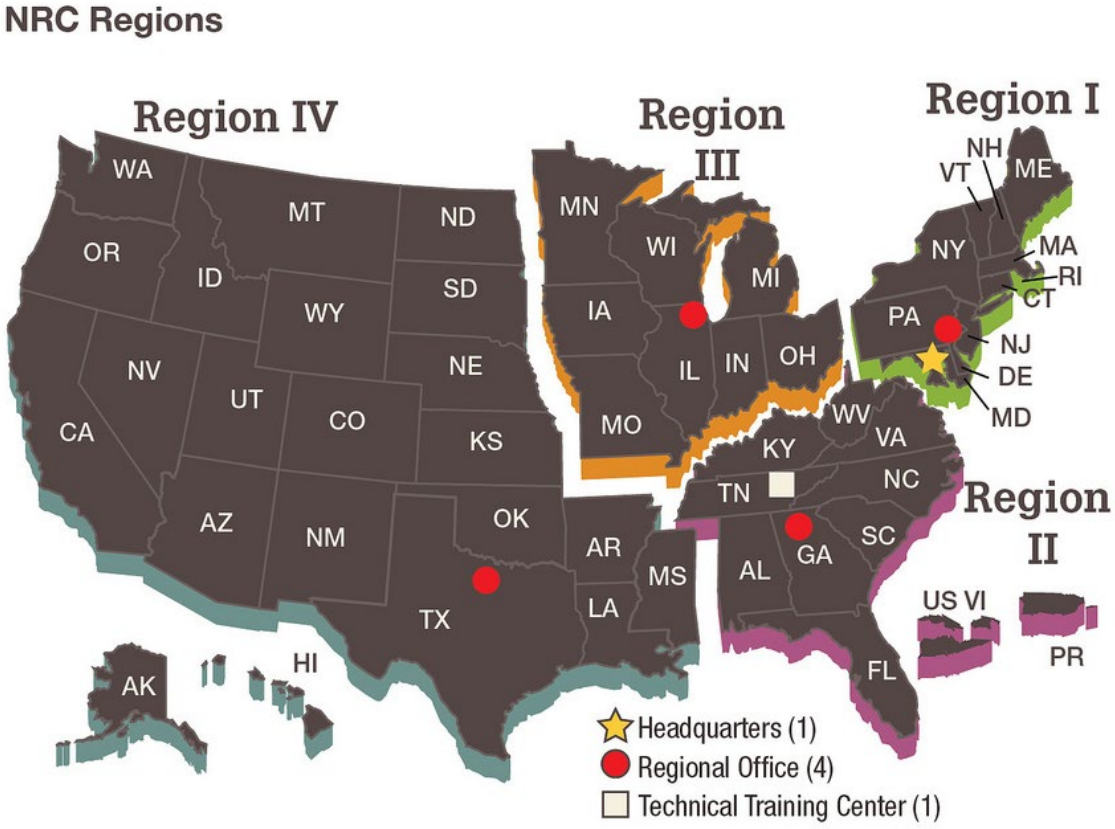
Executive Director, AGA

Chapter 1
Management's Discussion and Analysis

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



INTRODUCTION

The U.S. Nuclear Regulatory Commission (NRC) Performance and Accountability Report is an account of the agency's effectiveness in achieving its mission during fiscal year (FY) 2014. The report describes the agency's program and financial management performance during FY 2014, which covers the period from October 1, 2013 to September 30, 2014.

The agency has two strategic goals: Safety and Security. The agency achieved both its Safety and Security goals and met all of its performance indicator targets in FY 2014.

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 agency is in a sound financial position, having sufficient funds to meet programmatic needs and adequate control of these funds in place. The agency received an unmodified audit opinion on its financial statements from its auditors, with no instances of noncompliance with laws and regulations.

This report consists of four chapters. Chapter 1, "Management's Discussion and Analysis," provides an overview of the NRC and describes its programmatic and financial accomplishments during FY 2014. Chapter 2, "Program Performance," describes in detail the agency's success in meeting its goals and describes the programmatic activities that are the basis for accomplishing those goals. Chapter 3, "Financial Statements and Auditors' Report," describes the agency's financial position. Chapter 4, "Other Information," includes information on management challenges, a summary of the financial statement audit, and other information. The NRC places a high priority on keeping the public informed of its activities. Visit our Web site at www.nrc.gov to access this report (http://www.nrc.gov/reading-rm/doc-collections/nuregs/staff/sr1542/v17/) and learn more about who we are and what we do to serve the American public. The agency welcomes comments on this report at nrc-par.resource@nrc.gov.

ABOUT THE NRC

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

The NRC is headed by a Commission composed of five members, with one member designated by the President to serve as Chairman. With the advice and consent of the Senate, the President appoints each member to serve a 5-year term. The Chairman is the principal executive officer and official spokesperson for the Commission. The Executive Director for Operations carries out program policies and decisions made by the Commission.

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

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

The NRC's new budget authority for FY 2014 was $1,055.9 million, with a full-time equivalent staff ceiling of 3,815 employees. The NRC is primarily supported by the collection of fees collected from its licensees that offset approximately 90 percent of it's new budget authority. Fees collected from licensees and transferred to U.S. Treasury (Treasury) in FY 2014 were $871.2 million, with the remaining funds provided by the Treasury general fund.

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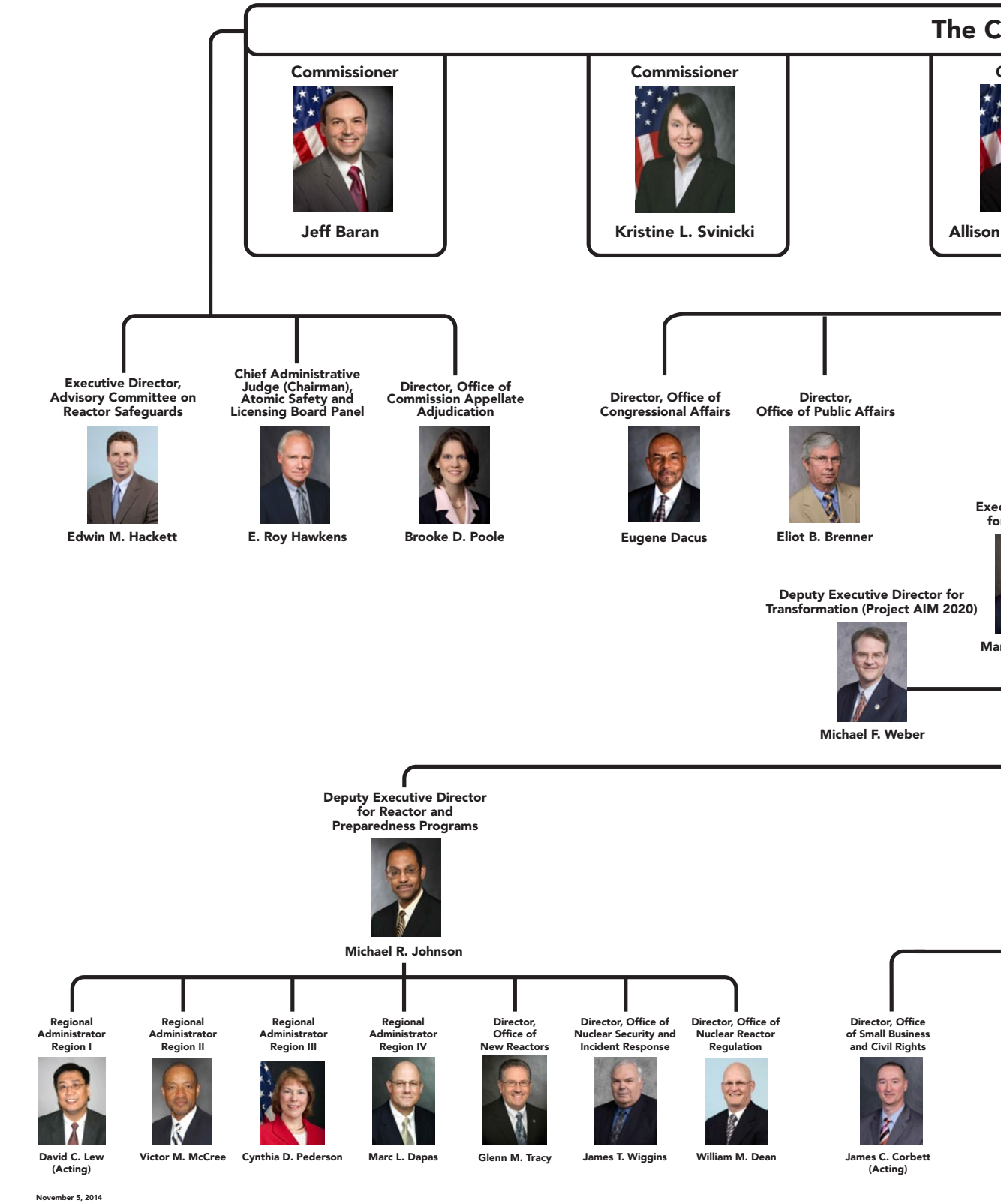
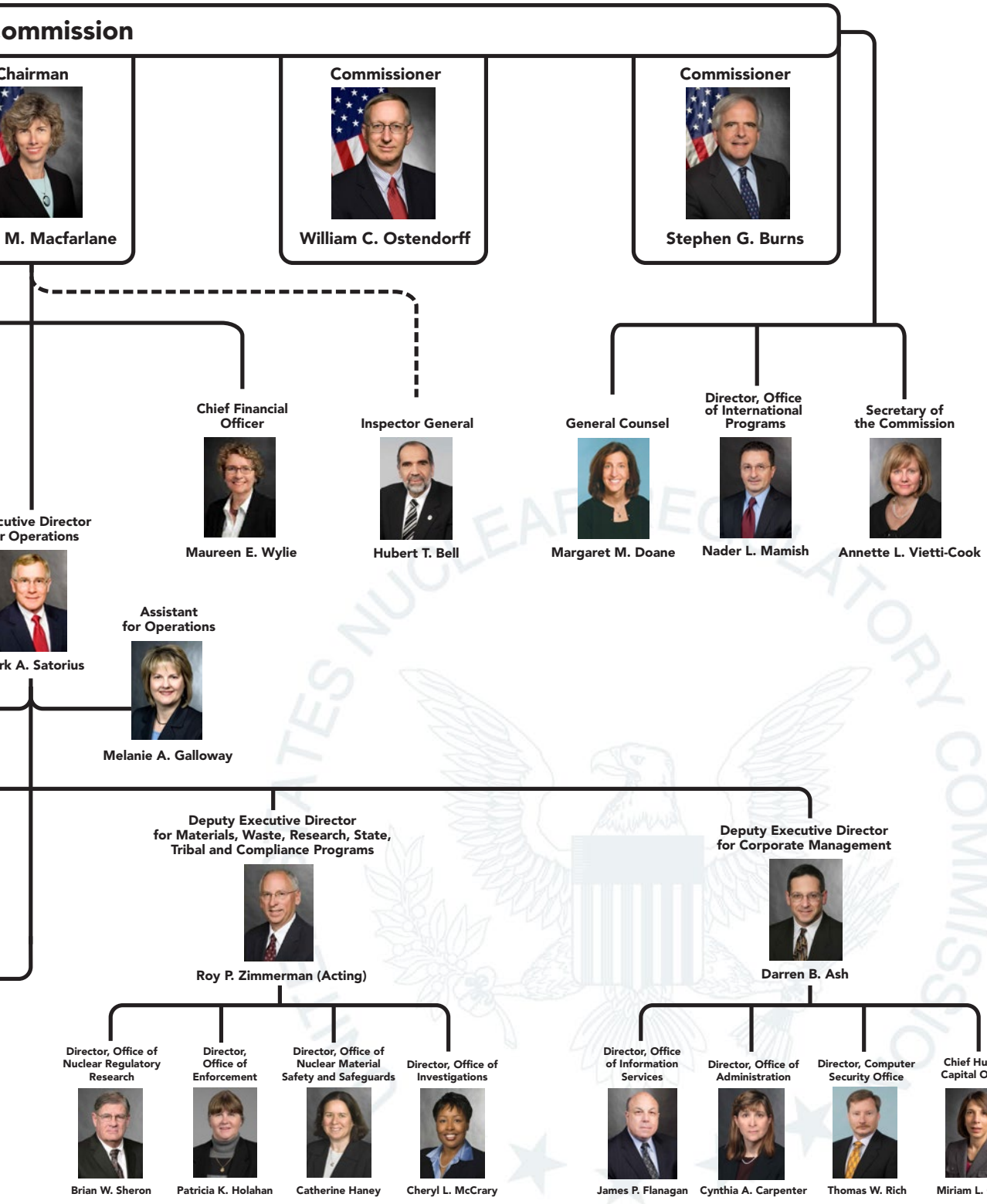


The dotted line signifies that the Inspector General exercises a much higher degree of independence with the Chairman in carrying out his roles and responsibilities in comparison to other executives reporting to the Chairman.

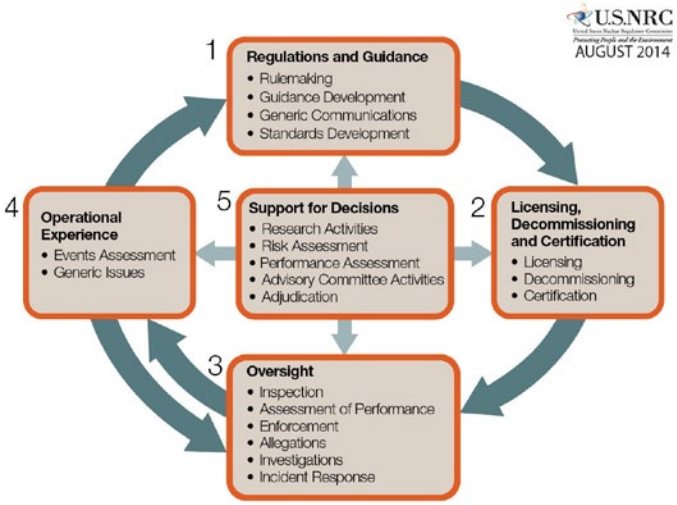
gulatory Commission



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 decommissioning facilities; inspecting and assessing licensee operations and facilities to ensure that licensees comply with NRC requirements and take 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. Figure 1 provides an overview of the NRC's regulatory process.

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 followup 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.*

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.

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 regular basis to ensure that they meet NRC regulations and are operated safely and securely. NRC specialists conduct 10 to 25 routine inspections each year at each of the 100 operating nuclear power plants. In addition, the agency oversees approximately 2,900 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 18,000 licensees. The NRC works closely with these States to ensure that they maintain 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 material cycle. 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 100 nuclear power plants, and ends with the safe transportation and storage of spent nuclear fuel and other nuclear waste. The NRC's regulatory programs ensure that radioactive materials are used safely and securely at every stage in the nuclear material cycle. To address safety and security issues, the NRC has developed regulatory practices, knowledge, and expertise specific to each activity in the nuclear material cycle.

FUEL FACILITIES

The production of nuclear fuel begins at uranium mines where milled uranium ore is used to produce a uranium concentrate called "yellow cake." At a special facility, the yellow cake is converted into uranium hexafluoride (UF_6) gas and loaded into cylinders. The cylinders are sent to a gaseous diffusion plant, where uranium is enriched for use as reactor fuel. The enriched uranium is then converted into oxide powder, fabricated into

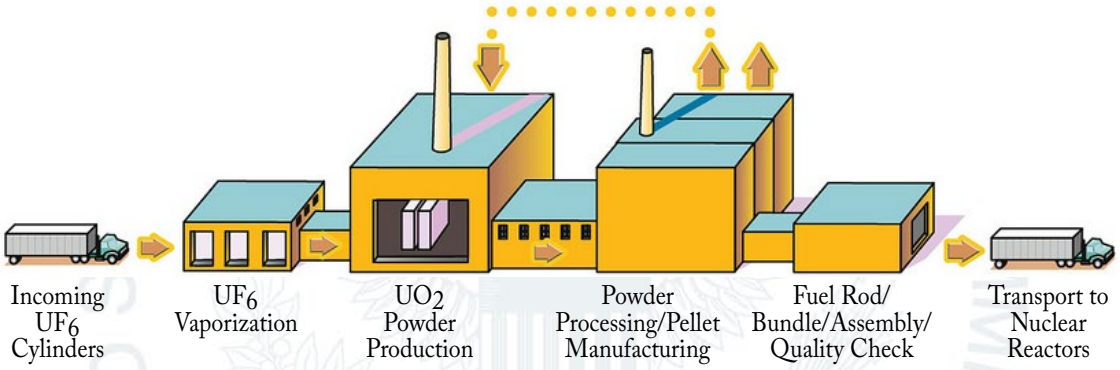
fuel pellets (each about the size of a fingertip), loaded into metal fuel rods about 3.5 meters long, and bundled into reactor fuel assemblies at a fuel fabrication facility. Assemblies are then transported to nuclear power plants, non-power research reactor facilities, and naval propulsion reactors for use as fuel (see Figure 2). The NRC licenses eight major fuel fabrication and production facilities and three enrichment facilities in the United States. Because they handle extremely hazardous material, these facilities take special precautions to prevent theft, diversion by terrorists, and dangerous exposures to workers and the public from this nuclear material.

REACTORS

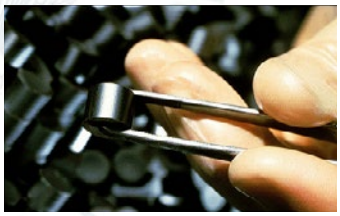
To generate electricity, power plants change one form of energy into another. Electrical generating plants convert heat energy, the kinetic energy of wind or falling water, or solar energy, into electricity. Other types of heat-conversion plants burn coal, oil, or gas to produce heat energy that is then used to produce electricity. Nuclear energy cannot be seen. Heat energy is not produced by burning of fuel in the usual sense. Rather, energy is given off by the nuclear fuel as certain types of atoms split in a process called nuclear fission. This energy is in the form of fast-moving particles and invisible radiation. As the particles and radiation move through the fuel and surrounding water, the energy is converted into heat, 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.

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 2 – 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 uranium dioxide (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



Small ceramic fuel pellets

Figure 3 – The Boiling-Water Reactor (BWR)

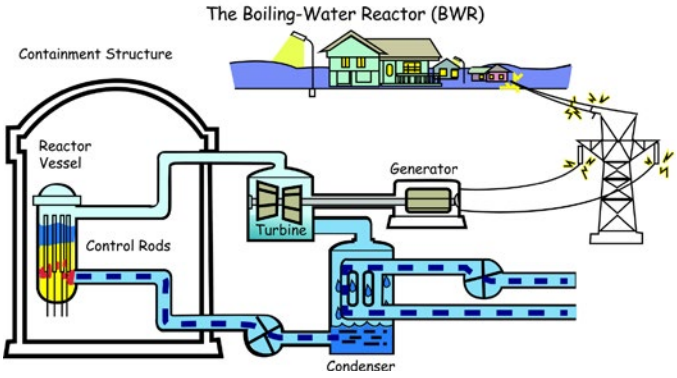
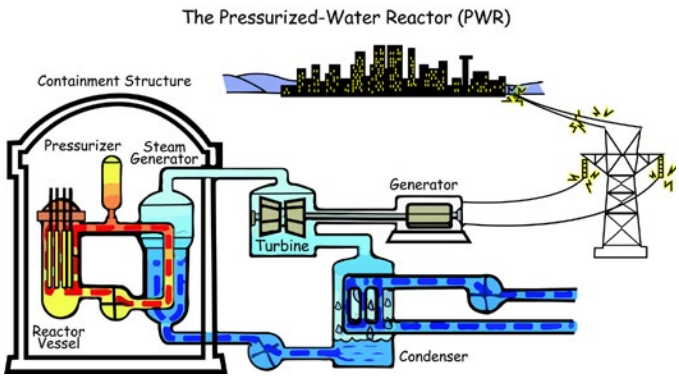


Figure 4 – The Pressurized Water Reactor (PWR)



MATERIALS USERS

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

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

Many of today's industrial processes also use nuclear materials. High-tech 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

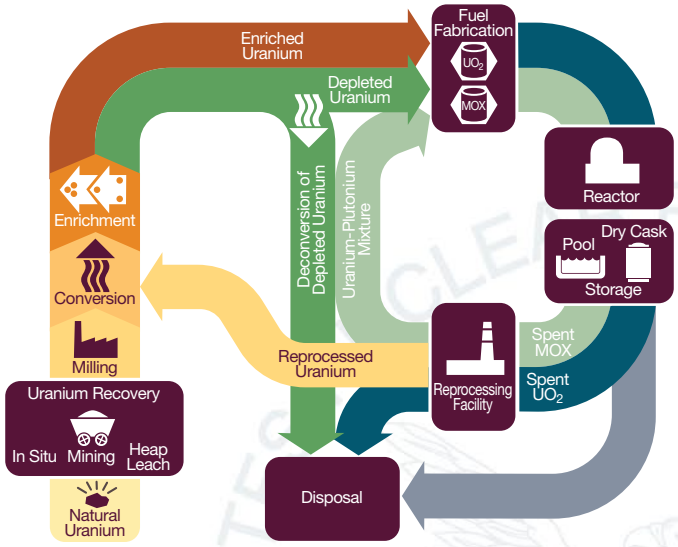
During normal operations, a nuclear power plant generates both high-level radioactive waste, which consists of spent fuel (usually called spent fuel), and low-level radioactive waste, which includes contaminated equipment, filters, maintenance materials, and resins used in purifying water for the reactor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

Nuclear power plants handle each type of radioactive waste differently. They must use special procedures in the handling of the spent fuel because it contains the highly radioactive fission byproducts created while the reactor was operating. Typically, the spent fuel from nuclear power plants is stored in water-filled pools at each reactor site or at a storage facility

in Illinois. 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 heavy 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.

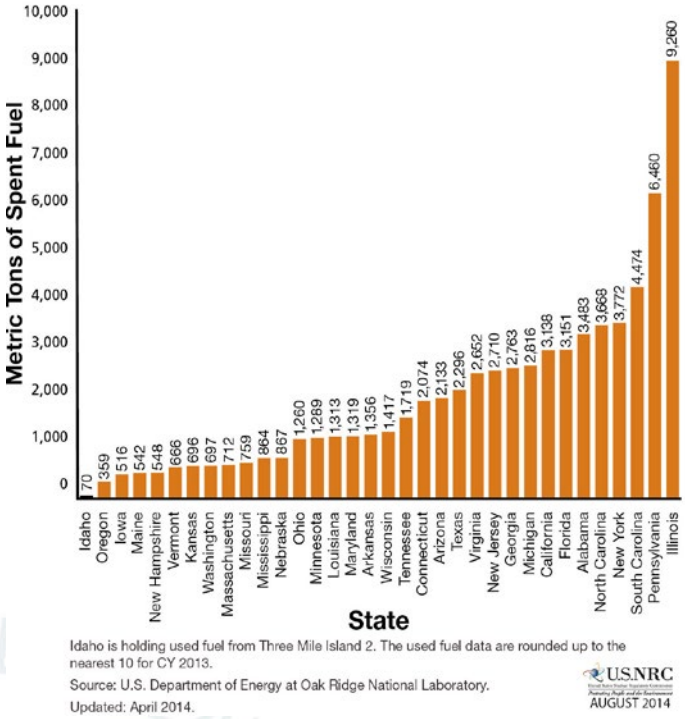
Currently most spent fuel in the United States remains stored at individual plants. Permanent disposal of spent fuel from nuclear power plants will require a disposal facility that can provide reasonable assurance that the waste will remain isolated for thousands of years.

Figure 5 – The Nuclear Fuel Cycle



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 each of the following general classes of waste: Class A, Class B, and Class C waste. Generally, Class A waste contains lower concentrations of radioactive material

Figure 6 – Storage of Commercial Spent Fuel by State through 2013



than Class B and Class C wastes. There are two low-level disposal facilities that accept a broad range of low-level wastes. They are located in Barnwell, SC and Richland, WA.

FY 2014 Performance Results

The NRC's Strategic Plan describes the agency's mission, goals, and strategies. The Strategic Plan can be found on the NRC Web site at http://www.nrc.gov/reading-rm/doc-collections/nuregs/staff/sr1614/v6/. 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 secure use of radioactive materials.*

Because the nature of the agency's Safety and Security strategic objectives is to prevent or minimize undesirable outcomes, the desired trend for all of its performance indicators is 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. Even in the absence of accidents, radiological hazards exist during routine operations, and the NRC ensures that measures are in place to minimize exposure for workers and the public and prevent unintended releases of radioactive materials to the environment.

FY 2014 RESULTS

In FY 2014, the NRC achieved its Safety goal strategic objective. The NRC also uses six performance indicators to determine whether it has met its Safety goal. The agency met all six performance indicator targets in FY 2014 (see Table 1).

The first three performance indicators focus on performance at individual nuclear power plants. Inspection results show that all of the nuclear power plants are operating safely. For the first indicator, a red finding or performance indicator signals a significant reduction in the safety margin in the measured area. The fourth indicator tracks the trends of several key indicators of nuclear power plant safety. This indicator is the broadest measure of the safety of nuclear power plants, incorporating the performance results from all plants to determine industry average results. This indicator shows that there were no statistically significant adverse trends in any of the indicators in FY 2014.

The last two safety performance indicators track harmful radiation exposures to the public and occupational workers and radiation exposures that harm the environment. Neither of these two indicators exceeded their targets in FY 2014.

The cost of achieving the agency's Safety goal in FY 2014 was $998.1 million.

Table 1 – FY 2014 Safety Performance Indicators

1. Number of new conditions evaluated as red by the NRC's Reactor Oversight Process (ROP)[1]						
	FY 2009	FY 2010.	FY 2011.	FY 2012.	FY 2013.	FY 2014.
Target	≤ 3	≤ 3	≤ 3	≤ 3	≤ 3	≤ 3
Actual	0	0	1	1	0	0

[1] This indicator is the number of new red inspection findings during the fiscal year plus the number of new red performance indicators during the fiscal year. Programmatic issues at multi-unit sites that result in red findings for each individual unit are considered separate conditions for purposes of reporting for this indicator. A red performance indicator and a red inspection finding that are due to an issue with the same underlying causes are also considered separate conditions for purposes of reporting for this indicator. Red inspection findings are included in the fiscal year in which the final significance determination was made. Red performance indicators are included in the fiscal year in which the Reactor Oversight Process (ROP) external Web page was updated to show the red indicator.

2. Number of significant accident sequence precursors[2] (ASPs) of a nuclear reactor accident						
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Target	0	0	0	0	0	0
Actual	0	0	0	0	0	0

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

Table 1 – FY 2014 Safety Performance Indicators *(continued)*

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

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Target	≤ 3	≤ 3	≤ 3	≤ 3	≤ 3	≤ 3
Actual	0	0	2	1	0	0

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

4. Number of significant adverse trends in industry safety performance is ≤1[4]

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Target	≤ 1	≤ 1	≤ 1	≤ 1	≤ 1	≤ 1
Actual	0	0	0	0	0	0

[4] *Considering all indicators qualified for use in reporting.*

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

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Reactors Target	0	0	0	0	0	0
Reactors Actual	0	0	0	0	0	0
Materials Target	≤ 2	≤ 2	≤ 2	≤ 2	≤ 2	≤ 2
Materials Actual	0	0	0	0	0	1
Waste Target	0	0	0	0	0	0
Waste Actual	0	0	0	0	0	0

[5] *Releases for which a 30-day report requirement under Title 10 of the Code of Federal Regulations (10 CFR) 20.2203(a)(3) is required.*

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

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Reactors Target[5]	0	0	0	0	0	0
Reactors Actual	0	0	0	0	0	0
Materials Target	≤ 2	≤ 2	≤ 2	≤ 2	≤ 2	≤ 2
Materials Actual	0	0	0	0	0	0
Waste Target	0	0	0	0	0	0
Waste Actual	0	0	0	0	0	0

[6] *With no event exceeding AO Criterion I.B.*

SAFETY GOAL STRATEGIES

The agency used the following safety strategies from its strategic plan to guide its activities and to achieve its Safety goal in FY 2014:

Safety Strategy 1:
Enhance the NRC's regulatory programs as appropriate using lessons learned from domestic and international operating experience and other sources.

Safety Strategy 2:
Enhance the risk-informed and performance-based regulatory framework in response to advances in science and technology, policy decisions, and other factors.

Safety Strategy 3:
Ensure the effectiveness and efficiency of licensing and certification activities to maintain both quality and timeliness of licensing and certification reviews.

Safety Strategy 4:
Maintain effective and consistent oversight of licensee performance to drive continued licensee compliance with NRC safety requirements and license conditions.

Safety Strategy 5:
Ensure the NRC's readiness to respond to incidents and emergencies involving NRC-licensed facilities and radioactive materials and other events of domestic and international interest.

Safety Strategy 6:
Ensure that nuclear facilities are constructed in accordance with approved designs and that there is an effective transition from oversight of construction to oversight of operation.

Safety Strategy 7:
Ensure that the environmental and site safety regulatory infrastructure is adequate to support the issuance of new nuclear licenses.

FUKUSHIMA REGULATORY REVIEW

The NRC's efforts to implement the lessons learned from the Fukushima Dai-ichi accident in March 2011 continued during FY 2014. Nuclear power plants in the United States have made great progress in implementing the near-term actions to address natural disasters that may challenge the design bases of these plants. The agency oversaw implementation of new requirements to address hazards such as earthquakes and flooding. The NRC has also been using the insights from Fukushima to inform its licensing and oversight activities. The agency has been conducting technical studies and regulatory analyses for ensuring the safe operation of existing reactors and to be applied to new reactors. A more complete discussion of the review and the subsequent actions taken by the NRC can be found in Chapter 2 under "Operating Reactors Oversight."

Additional information can be found on the agency Web site http://www.nrc.gov/reactors/operating/ops-experience/japan-info.html

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:

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.

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.

FY 2014 RESULTS

In FY 2014, the NRC achieved its Security goal strategic objectives. The NRC also uses five Security goal performance indicators to determine whether the agency has met its Security goal. The agency met all five performance indicator targets in FY 2014 (see Table 2).

The first performance indicator tracks unrecovered losses or thefts of risk-significant radioactive sources. The indicator ensures that those radioactive sources that the agency has determined to be risk-significant to the public health and safety are accounted for at all times. The ability to account for these sources is critical to secure the nation from "dirty bomb" attacks or other means of radiation dispersal.

The second, third, and fourth performance indicators evaluate the number of significant security events and incidents that occur at NRC-licensed facilities. These indicators determine whether nuclear facilities maintain adequate protective forces to prevent theft or diversion of nuclear material or sabotage; whether systems in place at licensee plants accurately account for the type and amount of materials processed, utilized, or stored; and whether the facilities account for special nuclear material at all times with no losses of this material. There were no events that met the conditions for these indicators in FY 2014.

The last security indicator tracks significant unauthorized disclosures of classified and/or Safeguards information that may cause damage to national security or public safety. This indicator focuses on whether classified information or Safeguards information is stored and utilized in such a way as to prevent its disclosure to the public, terrorist organizations, other nations, or personnel without a need to know. Unauthorized disclosures can harm national security or compromise public health and safety. The indicator also focuses on whether controls are in place to maintain and secure the various devices and systems (electronic or paper based) which the agency and its licensees use to store, transmit, and utilize this information. There were no documented disclosures of this type of information during FY 2014.

The cost of achieving the agency's Security goal was $68.5 million in FY 2014.

Table 2 – FY 2014 Security Performance Indicators

1. Unrecovered loss of risk-significant[1] radioactive sources						
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Target	0	0	0	0	0	0
Actual	0	0	1[2]	0	0	0

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

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

2. Number of substantiated[3] cases of actual theft or diversion of licensed, risk-significant radioactive sources or formula quantities[4] of special nuclear material; or attacks that result in radiological sabotage[5]						
	FY 2009	FY 2010.	FY 2011.	FY 2012.	FY 2013.	FY 2014.
Target	0	0	0	0	0	0
Actual	0	0	0	0	0	0

[3] *"Substantiated" means a situation in which an indication of loss, theft, or unlawful diversion such as an allegation of diversion cannot be refuted following an investigation and requires further action on the part of the agency or other proper authorities.*

[4] *A formula quantity of special nuclear material is defined in 10 CFR 70.4, "Definitions."*

[5] *"Radiological sabotage" is defined in 10 CFR 73.2, "Definitions."*

Table 2 – FY 2014 SECURITY PERFORMANCE INDICATORS *(continued)*

3. Number of substantiated losses of formula quantities of special nuclear material or substantiated inventory discrepancies of formula quantities of special nuclear material that are judged to be caused by theft or diversion or by substantial breakdown of the Accountability System						
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Target	0	0	0	0	0	0
Actual	0	0	0	0	0	0
4. Number of substantial breakdowns[6] of physical security or material control (i.e., access control, containment, or accountability systems) that significantly weakened the protection against theft, diversion, or sabotage						
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Target	≤ 1	≤ 1	≤ 1	≤ 1	≤ 1	≤ 1
Actual	0	0	0	0	0	0

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

5. Number of significant unauthorized disclosures[7] of classified and/or Safeguards information						
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Target	0	0	0	0	0	0
Actual	0	0	0	0	0	0

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

SECURITY GOAL STRATEGIES

The agency used the following security strategies from its Strategic Plan to guide its activities and achieve its Security goal in FY 2014:

Security Strategy 1:
Ensure the effectiveness and efficiency of the regulatory framework using information gained from operating experience and external and internal assessments and in response to technology advances and changes in the threat environment.

Security Strategy 2:
Maintain effective and consistent oversight of licensee performance to drive continued licensee compliance with NRC security requirements and license conditions.

Security Strategy 3:
Support U.S. national security interests and nuclear nonproliferation policy objectives within NRC's statutory mandate through cooperation with domestic and international partners.

Security Strategy 4:
Ensure material control and accounting for special nuclear materials

Security Strategy 5:
Protect critical digital assets.

Security Strategy 6:
Ensure timely distribution of security information to stakeholders and international partners.

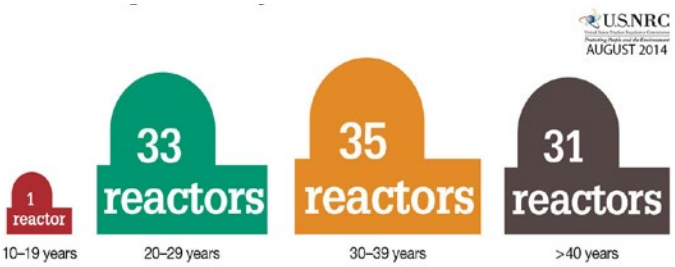
Security Strategy 7:
Ensure that programs for the handling and control of classified and Safeguards Information are effectively implemented at the NRC and at licensee facilities.

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. However, maintaining this excellent safety record of

the industry requires that the agency take a proactive approach to accomplishing its mission. The key challenges that the agency faces as the regulator of nuclear materials are to ensure the safe and secure use of radioactive materials in areas where the NRC regulates.

Figure 7 – U.S. Commercial Nuclear Power Reactors–Years of Operation by the End of 2014



Note: Ages have been rounded up to the end of the year. These numbers include Vermont Yankee, which is scheduled to cease operations at the end of 2014.

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 Department of Energy is funding a program "to design, certify and help commercialize innovative small modular reactors (SMRs) 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.

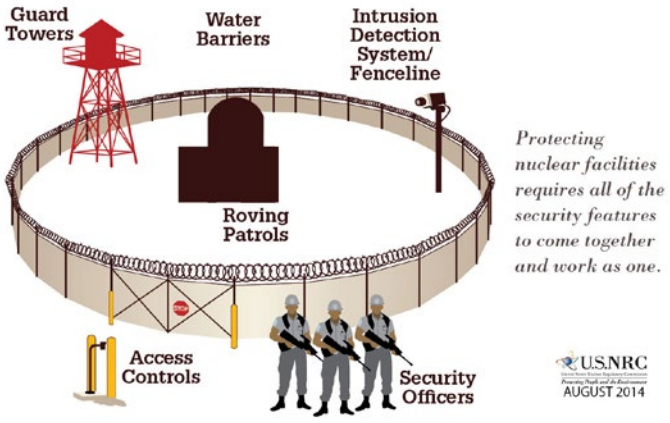
INTERNATIONAL TREATIES AND CONVENTIONS

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.

GLOBALIZATION OF THE NUCLEAR TECHNOLOGY AND THE NUCLEAR SUPPLY CHAIN

Components for nuclear facilities are increasingly manufactured overseas, resulting in 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 use of radioactive material.

Figure 8 – Security Components



SIGNIFICANT TERRORIST INCIDENT

A sector-specific credible threat or actual significant terrorist incident anywhere in the United States would result in the Department of Homeland Security (DHS) raising the threat level under the National Terrorism Advisory System (NTAS). 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.

TREATIES AND CONVENTIONS

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 Department of Energy (DOE).

GLOBALIZATION OF NUCLEAR TECHNOLOGY

The continuing globalization of nuclear technology is driving the need for increased international engagement on the secure use of radioactive material.

LEGISLATIVE AND EXECUTIVE-BRANCH INITIATIVES

Congressional and Executive Branch initiatives concerning cyber security 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 indicator. The agency also considers the data in this report reliable and relevant, because they have been validated and verified. "Data Collection Procedures for Verification and Validation of Performance Measures," contains the processes the agency uses to collect, validate, and verify performance data in this report. This report can be found on page 104 of the NRC's FY 2014 Congressional Budget Justification located on the NRC Web site NRC: Congressional Budget Justification: Fiscal Year 2014 (NUREG-1100, Volume 29).

FINANCIAL PERFORMANCE OVERVIEW

The NRC prepared its financial statements in accordance with the accounting standards codified in the Statements of Federal Financial Accounting Standards (SFFAS) and Office of Management and Budget (OMB) Circular A-136, "Financial Reporting Requirements."

As of September 30, 2014, the financial condition of the NRC was sound with respect to having sufficient funds to meet program needs and adequate control of these funds in place to ensure that obligations did not exceed budget authority.

SOURCES OF FUNDS

New Budget Authority. The NRC has two appropriations, Salaries and Expenses and the Office of the Inspector General. The new FY 2014 budget authority was $1,055.9 million, which included $1,043.9 million for the Salaries and Expenses appropriation and $12.0 million for the Office of the Inspector General.

New Budget Authority *(In Millions)*

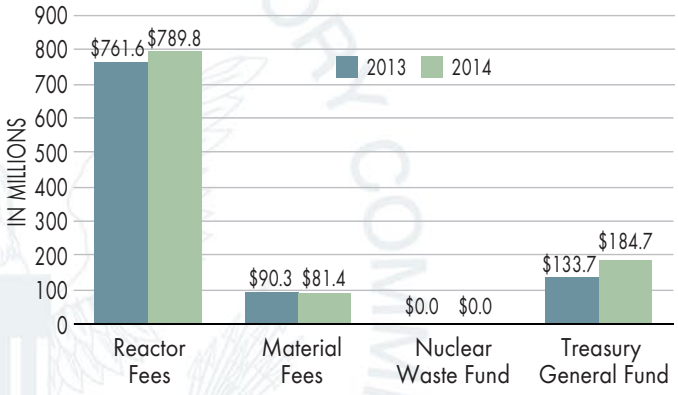
Appropriation	FY 2014	FY 2013
Salaries and Expenses	$ 1,043.9	$ 1,027.2
Less: Sequestration	–	(51.7)
Less: Rescission	–	(.3)
New Budget Authority	1,043.9	975.2
Office of the Inspector General	12.0	10.9
Less: Sequestration	–	(.5)
Less: Rescission	–	–
New Budget Authority	12.0	10.4
Total New Budget Authority	$ 1,055.9	$ 985.6

The new budget authority increased $70.3 million compared to the prior year ($68.7 million for the Salaries and Expenses appropriation and $1.6 million for the Office of the Inspector General). The increase was primarily due to a $16.7 million increase in appropriations and the FY 2013 reduction of $52.5 million in funding resulting from the sequestration and rescission of funds returned to the Treasury.

The Salaries and Expenses new budget authority is available until expended. This includes a provision that not more than $9.5 million be made available for the Office of the Commission as a 2-year (FY 2014/2015) appropriation that is available for obligation by the NRC through September 30, 2015. After September 30, 2015, 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 Office of the Inspector General's new budget authority is a 2-year (FY 2014/2015) appropriation which is available for obligation through September 30, 2015. This 2-year funding includes $0.9 million for Inspector General services for the Defense Nuclear Facilities Safety Board.

The *Omnibus Budget Reconciliation Act of 1990* (OBRA-90), as amended, requires the NRC to collect fees to offset approximately 90 percent of its new budget authority, less the amount appropriated to the NRC from the Nuclear Waste Fund (NWF) and amounts appropriated for waste incidental to reprocessing and generic homeland security. Fees collected are returned to the Treasury during the fiscal year to offset the NRC's two appropriations.

Figure 9 – Sources of Funds for New Budget Authority



The projected amount to be recovered from fees in FY 2014 was $930.7 million, which included $916.7 million from FY 2014 reactor and materials fees and $14.0 million from other fees (unpaid current-year invoices and terminated reactors' FY 2014 annual fee collections, offset by payments of prior year invoices in FY 2014). The NRC collected and transferred $871.2 million to the Treasury (see Figure 9), which

represents 93.6 percent of the approximately $930.7 million projected to be recovered. Fees collected and transferred to Treasury in FY 2014 increased $19.3 million from the FY 2013 amount of $851.9 million, mainly due to the increase in new budget authority.

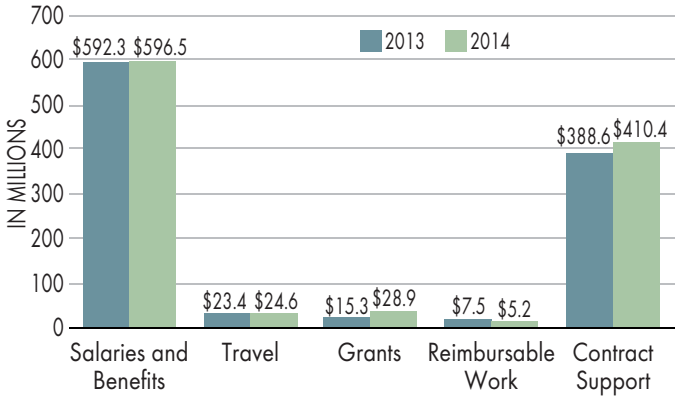
Total Budget Authority. The total budget authority available for the NRC to obligate in FY 2014 was $1,119.1 million and included $1,055.9 million of new budget authority, $22.8 million of prior-year appropriations, $9.0 million from prior-year funding for reimbursable work, $10.6 million of recoveries of prior-year unpaid obligations, $9.8 million of FY 2014 reimbursable work performed for other Federal agencies and commercial customers, and $11.0 million of prior-year funding for resources received from the DOE to fund NRC activities associated with the *Nuclear Waste Policy Act of 1982*, as amended. Funds available to obligate in FY 2014 increased $49.2 million from the FY 2013 amount of $1,069.9 million primarily due to an increase of $70.3 million in new budget authority, offset by decreases in the beginning unobligated balance brought forward of $20.1 million, and actual recoveries of prior-year unpaid obligations and spending authority from offsetting collections of $1.0 million.

USES OF FUNDS

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 $1,065.6 million in FY 2014, which represented an increase of $38.5 million from the FY 2013 amount of $1,027.1 million (see Figure 10). Approximately 56 percent of obligations in FY 2014 were used for salaries and benefits. The NRC used the remaining 44 percent 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.

Figure 10 – Uses of Funds *(Obligations)*



The unobligated budget authority available at the end of FY 2014 was $53.5 million, which was a $10.7 million increase from the FY 2013 amount of $42.8 million. Of the $53.5 million unobligated balance at the end of FY 2014, $8.3 million was for reimbursable work, $4.8 million was for the NWF, $6.2 million was for special purpose funds, and $34.2 million was available to fund critical NRC needs in FY 2015. The $42.8 million unobligated balance at the end of FY 2013 included $9.0 million for reimbursable work, $11.0 million for the NWF and $22.8 million to fund critical NRC needs in FY 2014.

AUDIT RESULTS

The NRC received an unmodified audit opinion on its FY 2014 financial statements and an unqualified audit opinion on internal controls. The auditors found no reportable instances of noncompliance with laws and regulations during the FY 2014 audit. A summary of the financial statement audit results is included in the "Other Accompanying Information" section of this report.

LIMITATIONS ON THE FINANCIAL STATEMENTS

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

FINANCIAL STATEMENT HIGHLIGHTS

The NRC's financial statements summarize the agency's financial activity position. The financial statements, footnotes, and required supplementary information are included in Chapter 3, "Financial Statements and Auditors' Report." The following information is an analysis of the financial statements.

ANALYSIS OF THE BALANCE SHEET

Asset Summary *(In Millions)*

As of September 30,	2014	2013
Fund Balance with Treasury	$ 377.4	$ 318.2
Accounts Receivable, Net	111.6	91.8
Property & Equipment, Net	90.3	107.8
Other	8.0	5.0
Total Assets	$ 587.3	$ 522.8

Assets. The NRC's total assets were $587.3 million as of September 30, 2014, representing an increase of $64.5 million from the same period of FY 2013. Changes in major categories include increases of $59.2 million in the Fund Balance with Treasury, $19.8 million in Accounts Receivable, Net, and $3.0 million in Other Assets, offset by a decrease of $17.5 million in Property & Equipment, Net.

The Fund Balance with Treasury was $377.4 million as of September 30, 2014, which accounts for 64 percent of total assets. This account represents appropriated funds, license fee collections, and other funds maintained at the Treasury to pay for current liabilities and to finance authorized purchase commitments. The $59.2 million increase in the fund balance is primarily the result of an increase in new budget authority for FY 2014 of $70.3 million and a decrease in gross outlays of $28.6 million, which increases the fund balance; offset by a decrease of $39.3 million in the beginning balance compared with the prior year. The decrease in gross outlays primarily consisted of decreases of $24.3 million in contract disbursements, $5.2 million in grant disbursements, and $4.2 million in reimbursements collected; offset by increases of $4.7 million in salaries and benefits disbursements, and $0.3 million in travel costs.

Accounts receivable consists of amounts that other Federal agencies and the public owe to the NRC for license fees. Accounts Receivable, Net, as of September 30, 2014, was $111.6 million, which included an offsetting allowance for doubtful accounts of $4.4 million. For FY 2013, the year-end Accounts Receivable, Net, balance was $91.8 million, including an offsetting allowance for doubtful accounts of $1.8 million. The net increase in accounts receivable from the prior year of $19.8 million is primarily due to outstanding license fee bills where payments were received shortly after the close of the fiscal year.

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 General Services Administration (GSA).) At the end of FY 2014, Property and Equipment, Net was $90.3 million, a decrease of $17.5 million from the FY 2013 amount of $107.8 million. The decrease is primarily due to decreases of $12.0 million in leasehold improvements (mainly for the write-off for the initial build-out of 4 floors in the Three White Flint North (3WFN) building resulting from a change in the lease agreement associated with the NRC vacating the space) and a decrease of $5.3 million in information technology (IT) software due primarily to amortization of the software, which decreases the net book value. Leasehold improvements were $75.5 million in FY 2014 and $87.5 million in FY 2013 and include improvements to the NRC's leased buildings for Headquarters (including the new 3WFN building) and regional offices. IT software was $13.6 million in FY 2014 compared to $18.8 million in FY 2013.

Liabilities Summary *(In Millions)*

As of September 30,	2014	2013
Accounts Payable	$ 38.2	$ 38.0
Federal Employee Benefits	6.7	7.0
Other Liabilities	79.4	74.5
Total Liabilities	$ 124.3	$ 119.5

Liabilities. Total Liabilities were $124.3 million as of September 30, 2014, representing an increase of $4.8 million from the FY 2013 year-end balance of $119.5 million. Accounts Payable, Federal Employee Benefits, and Other Liabilities remained approximately the same as the prior year. For FY 2014, Other Liabilities include $46.9 million in accrued annual leave, $12.3 million in accrued funded salaries and benefits, $9.2 million in grants payable, $5.5 million in advances received by the NRC for services that will be provided, $3.0 million in funded employee benefit contributions, $1.6 million in accrued workers' compensation, and $0.9 million in contract holdbacks, capital lease liability, and miscellaneous liabilities.

Total Liabilities include liabilities not covered by budgetary resources, which represents expenses recognized in the financial statements that will be paid from future appropriations. The liabilities not covered by budgetary resources were $55.2 million for FY 2014 compared to $55.5 million for FY 2013, a $0.3 million decrease. For FY 2014, the liabilities not covered by budgetary resources represent 44 percent of total liabilities and include $46.9 million in unfunded accrued annual leave that has been earned but not yet taken, $1.6 million in accrued workers' compensation included in Other Liabilities, and $6.7 million as an actuarial estimate of accrued future workers' compensation expenses included in Federal Employee Benefits.

Net Position Summary *(In Millions)*

As of September 30,	2014	2013
Unexpended Appropriations	$ 306.2	$ 242.7
Cumulative Results of Operations	156.8	160.6
Total Net Position	$ 463.0	$ 403.3

Net Position. The difference between Total Assets and Total Liabilities, Net Position, was $463.0 million as of September 30, 2014, an increase of $59.7 million from the FY 2013 year-end balance. Net Position consists of two components: Unexpended Appropriations, the amount of spending authority that remains unused at the end of the year, and Cumulative Results of Operations, the cumulative excess of financing sources over expenses. Unexpended Appropriations were $306.2 million at the end of FY 2014, an increase of $63.5million from the prior fiscal year-end. Cumulative Results of Operations decreased by $3.8 million from $156.8 million in FY 2014 compared to $160.6 million in FY 2013.

ANALYSIS OF THE STATEMENT OF NET COST

The Statement of Net Cost represents 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, 2014, was $160.0 million, representing a decrease of $50.9 million compared to the FY 2013 net cost of $210.9 million. This includes a decrease of gross costs of $6.5 million and a decrease in earned revenues of $44.3 million, which offset gross costs.

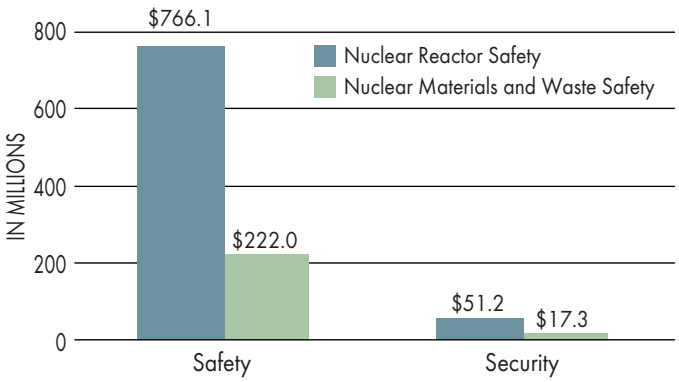
Net Cost of Operations *(In Millions)*

For the years ended September 30,	2014	2013
Nuclear Reactor Safety	$ 2.2	$ 70.8
Nuclear Materials and Waste Safety	157.8	140.1
Net Cost of Operations	$ 160.0	$ 210.9

Gross Costs. The NRC's total gross costs were $1,056.6 million for FY 2014, a decrease of $6.5 million from the prior year's amount of $1,063.1 million. The Nuclear Reactor Safety program gross costs for FY 2014 were $817.3 million compared to FY 2013 gross costs of $831.1 million, a decrease of $13.8 million, and the Nuclear Materials and Waste Safety program gross costs were $239.3 million compared to FY 2013 gross costs of $232.0 million, an increase of $7.3 million.

The cost of achieving the agency's Safety and Security goals for the agency's programs for FY 2014 is the gross cost presented in the Statement of Net Cost. The total cost for achieving the agency's Safety goal was $988.1 million and the cost of achieving the agency's Security goal was $68.5 million (see Figure 11 on page 21).

Figure 11 – Gross Costs by Major Program



Earned Revenue. Total earned revenue as of September 30, 2014, was $896.6 million, an increase of $44.4 million from the September 30, 2013, earned revenue of $852.2 million. The Nuclear Reactor Safety program had revenues in FY 2014 of $815.1 million compared to FY 2013 revenues of $760.3 million, an increase of $54.8 million primarily due to increases in operating reactor annual fees of $71.0 million; offset by decreases in full-cost new reactor fees of $6.3 million and full-cost operating reactor fees of $7.4 million. The Nuclear Materials and Waste Safety program had revenues from license fees in FY 2014 of $81.5 million compared to $92.0 million in FY 2013. The decrease of $10.5 million was primarily due to decreases in Part 171 annual fees for Fuel Facilities of $2.5 million, Part 170 full-cost fees for Fuel Facilities of $4.3 million and Small Materials Users of $2.7 million.

Fees collected (earned primarily in FY 2014) and returned to Treasury were $871.2 million compared to $851.9 million in FY 2013. The increase was the result of increased new budget authority in FY 2014, which increased the amount of fees from licensees that the NRC was required to collect. The NRC is required to collect approximately 90 percent of its new budget authority through license fee billing. Fees for reactor and materials licensing and inspections are collected in accordance with 10 CFR Part 170, "Fees for Facilities, Materials, Import and Export Licenses, and Other Regulatory Services under the *Atomic Energy Act of 1954*, as amended," and 10 CFR Part 171, "Annual Fees for Reactor Licenses and Fuel Cycle Licenses and Materials Licenses, Including Holders of Certificates of Compliance, Registrations, and Quality Assurance Program Approvals and Government Agencies Licensed by the NRC."

ANALYSIS OF THE STATEMENT OF CHANGES IN NET POSITION

The Statement of Changes in Net Position reports the change in net position during the reporting period. Net position is affected by changes in its two components: Cumulative Results of Operations and Unexpended Appropriations. In FY 2014, the NRC had an increase in Net Position of $59.8 million compared to FY 2013 resulting from a decrease of $3.8 million in Cumulative Results of Operations, offset by an increase of $63.6 million in Unexpended Appropriations.

The decrease in Cumulative Results of Operations of $3.8 million was a result of a decrease in financing sources of $55.1 million, offset by decrease in the net cost of operations of $50.9 million. In FY 2014, the NRC collected $19.1 million more in license fees than in FY 2013 resulting in less appropriations used to finance operations. Additionally, operating expenses and the purchase of capital assets decreased by $39.0 million in FY 2014 as compared to FY 2013, offset by a decrease of $3.0 million in reimbursable revenue earned for services provided. The decrease in the net cost of operations was due to an increase of $44.3 million in earned revenue and a decrease of $6.5 million in gross costs.

A change in unexpended appropriations results primarily from appropriations received being more, or less, than appropriations used and adjustments (e.g., sequestration, rescission) during the fiscal year. In FY 2014, unexpended appropriations increased $63.6 million from FY 2013 due to increases of $55.1 million in Appropriations Used and $52.5 million resulting from a change in Adjustments, which reduced unexpended appropriations in FY 2013 due to the sequestration and rescissions; offset by a decrease in the beginning balance of unexpended appropriations of $42.4 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.

The Total Budgetary Resources for FY 2014 were $1,119.1 million, which was $49.2 million more than the

$1,069.9 million available for FY 2013. The increase was primarily $70.3 million in new budget authority in FY 2014 resulting from a $17.8 million increase in appropriations and a $52.5 million sequestration and rescission of funds which reduced the FY 2013 appropriation; offset by a decrease in the beginning unobligated balance brought forward of $20.1 million. (The NRC received $1,055.9 million in FY 2014 new budget authority compared to $985.6 million in FY 2013.)

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 2014 totaled $1,065.6 million, an increase of $38.5 million from the prior-year amount of $1,027.1 million. The increase is primarily due to contract obligations for management and support consisting of $25.3 million in Headquarters leasehold improvements, supplies and materials, and other administrative contract services; and $13.6 million for grants. Unobligated budgetary resources at the end of FY 2014 that were apportioned by OMB were $48.5 million compared to $30.0 million in FY 2013. The $18.5 million increase is primarily due to a $70.3 million increase in new budget authority in FY 2014; offset by a decrease of $20.6 million in the beginning unobligated balance (which excludes the NWF because funds are exempt from apportionment); offset by an increase of $30.2 million in obligations incurred in FY 2014 (which excludes NWF obligations). Budgetary resources not obligated at the end of the fiscal year were $53.5 million, an increase of $10.7 million from the prior-year balance of $42.8 million.

MANAGEMENT ASSURANCES SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

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

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

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

PROGRAMMATIC INTERNAL CONTROL

Internal control is the organization, policy, and procedures that help managers achieve intended results and safeguard the integrity of their programs. NRC managers are responsible for designing and implementing effective internal control in their areas of responsibility. Each NRC business and corporate support product line manager prepares an annual assurance certification that identifies any control weaknesses requiring the attention of the NRC Executive Committee on Internal Control (ECIC). These certifications are based on internal control activities such as probabilistic risk assessments, as well as other activities, such as self-assessments, Construction and Reactor Oversight Process, Integrated Materials Performance Evaluation Program, Fukushima Dai-ichi Task force Lessons Learned, Agency Action Review Meeting outcome, financial statement audits, Inspector General and U.S. Government Accountability Office audits and reports, and other information provided by the congressional committees of jurisdiction.

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

The ECIC met to review the reasonable assurance certifications provided by the NRC business and corporate support product line managers. The ECIC then informed the Chairman as to whether the NRC had any internal control deficiencies serious enough to require reporting as a weakness or noncompliance.

The NRC's programmatic and financial internal control programs require that internal control deficiencies be documented and reported in business line quarterly

U.S. NUCLEAR REGULATORY COMMISSION
FISCAL YEAR 2014
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 conducted its assessment of internal control over programmatic operations in accordance with Office of Management and Budget (OMS) Circular A-123, *Management's Responsibility for Internal Control* (A-123) guidelines. Based on the results of this evaluation, NRC can provide reasonable assurance that its internal control over programmatic operations is in substantial compliance with applicable laws and guidance, and no material weaknesses were found as of September 30, 2014.

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, 2014, was operating effectively, and no material weaknesses were found in the design or operation of the internal control over financial reporting.

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

Allison M. Macfarlane
Chairman
U.S. Nuclear Regulatory Commission
November 12, 2014

performance reports and internal control plans. Together, both ensure that key issues receive senior management attention. Combined with the individual assurance statements discussed previously, the internal control information in these plans provides the framework for monitoring and improving the agency's internal control on an ongoing basis.

FY 2014 INTEGRITY ACT RESULTS

In accordance with Section 2 of the Integrity Act, and under the guidance established in OMB Circular A-123, Management's Responsibility for Internal Control (A-123), NRC business and corporate support product line management certified that, as of September 30, 2014, 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; and
- reliable and timely information was obtained, maintained, reported, and used for sound decision-making.

Based on management's certification of reasonable assurance, as well as the results of programmatic internal control activities such as the Cumulative Effects of Regulation, Reactor Oversight Process, Revised Fuel Cycle Oversight Program, Integrated Materials Performance Evaluation Program, Waste Confidence, independent audit reports, and other sources of information, NRC is able to provide a statement of assurance that its programmatic internal control met the objectives of the Integrity Act. The NRC has reasonable assurance that its internal control is effective and conforms to Government-wide standards.

OMB CIRCULAR A-123 "MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROL"

Internal Control Over Financial Reporting (Appendix A)

In FY 2006, the NRC implemented the requirements of the revised OMB Circular A-123, which defined and strengthened management's responsibility for internal control in Federal agencies. The revised circular included updated internal control standards. Appendix A requires Federal agencies to assess the effectiveness of internal controls over financial reporting and to prepare a separate annual statement of assurance as of June 30, 2014.

The NRC adopted a 3-year rotational testing plan for internal control over financial reporting. The agency determined that three of the nine key processes (financial reporting, revenue, and information technology) were significant enough to include in the testing each year of the 3-year cycle. The remaining six key processes were to be tested once in the 3-year cycle, two each year. In FY 2014, the NRC continued its assessment of internal control over financial reporting. The agency reevaluated its scope of financial reports, materiality values, risk assessments, key processes, and key controls. Based on the results of this evaluation, the NRC can provide reasonable assurance that its internal control over financial reporting was operating effectively as of June 30, 2014, and that the evaluation found no material weaknesses in design or operation of the internal controls over financial reporting.

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

In the FY 2013 Performance and Accountability Report (PAR), the NRC continued to report on the results of improper payment testing completed in FY 2011. The results of that testing allowed the agency to conduct future testing and/or risk assessments on a 3-year cycle. During FY 2014, the NRC's plan was to test its commercial payment program as previously identified as required for testing on a triennial basis, as well as conduct additional risk assessments to determine whether any other 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 Reporting Act of 2010* (IPERA) and the *Improper Payment Elimination and Improvement Act of 2012* (IPERIA). In accordance with the IPERA and OMB guidance, the NRC focused its efforts in FY 2014 toward conducting a new risk assessment around its commercial payment program and other programs that were susceptible to making significant improper payments.

The results of the FY 2014 risk assessment did not identify any programs that are susceptible to making significant improper payments. While the results of the FY 2014 risk assessment identified programs as low risk, the NRC is taking this opportunity to continue to improve controls around its payment processes. The NRC will continue to monitor payment processes in FY 2015, in addition to conducting periodic reviews of key controls for IPIA programs identified by management. We will continue to conduct risk assessments every 3 years, in accordance with the IPIA, as amended by IPERA and IPERIA, as well as OMB guidance. When OMB releases the revised Circular A-123, Appendix C, we will review the new guidance to determine the impact it has on the NRC's current IPIA program. The next NRC IPIA risk assessment will take place in FY 2017. However, the NRC will conduct risk assessments, as needed, if there are material changes in the way programs operate or if new programs are established.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT

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

FY 2014 FFMIA RESULTS

In accordance with guidance established in OMB Circular A-127, "Policies and Standards for Financial Management Systems," the CFO reviewed audit reports and other sources of information, and as of September 30, 2014, can provide reasonable assurance that NRC's financial systems substantially comply with applicable Federal accounting standards as required by the *Federal Financial Management Improvement Act of 1996* (Improvement Act).

FINANCIAL MANAGEMENT SYSTEMS STRATEGIES

The NRC continued in FY 2014 to make substantial progress in modernizing its financial systems. The Strategic Acquisition Systems (STAQS), the agency-wide procurement system which automates a previous manual business function went

live in the beginning of FY 2014. STAQSs real-time interface procurement financial transactions transmits to the core ledger system, the Financial Accounting and Integrated Management Information System (FAIMIS). Also during FY 2014, the Budget Formulation System (BFS) has had an agency-wide Spend Plan application for contractual funds utilization added to its capabilities. The NRC continued to provide routine financial system management user system training while enhancing reporting needs based on evolving NRC business functions. The agency maintained its upgrade plans to move to the E-Gov Travel Service 2 (ETS2) system and Time and Labor Modernization (TLM) system to address legislative requirements, strengthen controls, and further automate system processes.

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 2014, the NRC paid 98 percent of the 8,159 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 2014, delinquent debt was $15.8 million or 1 percent of annual billings. The NRC was able to refer 99.1 percent of all eligible debt over 180 days delinquent to the Treasury for collection. This success was due to an extensive cleanup effort resulting from the deployment of a new accounting system and process changes. The NRC hopes to continue this success through FY 2015

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. On June 30, 2014, the NRC issued a final rule in the *Federal Register* amending the licensing, inspection, and annual fees charged to its applicants and licensees. The amendments are necessary to implement the *Omnibus Budget Reconciliation Act of 1990* (OBRA–90), as amended, which requires the NRC to recover through fees approximately 90 percent of its budget authority, not including amounts appropriated for Waste Incidental to Reprocessing (WIR) and amounts appropriated for generic homeland security activities. Based on the *Consolidated and Further Continuing Appropriations Act of 2014*, the NRC's required fee recovery amount for the FY 2014 budget was projected at approximately $930.7 million. After accounting for billing adjustments, the total amount to be billed as fees to licensees is $916.7 million. The NRC Fee Recovery Schedules for FY 2014 are located at http://www.gpo.gov/fdsys/pkg/FR-2014-06-30/pdf/2014-15193.pdf.

INSPECTOR GENERAL ACT OF 1978

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

UNITED STATES NUCLEAR REGULATORY COMMISSION

Chapter 2
Program Performance

UNITED STATES NUCLEAR REGULATORY COMMISSION

MEASURING AND REPORTING

This chapter presents detailed information on the U.S. Nuclear Regulatory Commission's (NRC) performance in achieving its mission during fiscal year (FY) 2014. The agency's mission, strategic goals, objectives, and strategies are outlined in the FY 2014 – 2018 Strategic Plan. The chapter describes the NRC's performance results and program achievements in accomplishing its strategic goals. The NRC has recently completed the update of the agency's Strategic Plan, and is currently reviewing performance indicators to determine whether the agency can find more effective ways to measure and report our performance. The indicators and results will be reported in the FY 2016 Congressional Budget Justification.

The NRC 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 to protect the environment. The NRC's vision is to carry out the mission as a trusted, independent, transparent, and effective nuclear regulator. The agency's strategic goals are to ensure the safe use of radioactive materials and ensure the secure use of radioactive materials. The NRC's safety and security activities are carried out through two major programs: Nuclear Reactor Safety, consisting of Operating Reactors and New Reactors; and Nuclear Materials and Waste Safety, consisting of Fuel Facilities, Nuclear Material Users, Decommissioning and Low-Level Waste, and Spent Fuel Storage and Transportation.

The NRC's safety research program evaluates and resolves safety issues for nuclear power plants and other facilities and materials that the agency regulates. The research program assesses existing and potential safety issues; supplies independent expertise, information, and technical judgments to support timely and realistic regulatory decisions; reduces uncertainties in risk assessments; and develops technical regulations and standards. The NRC also engages in cooperative research with other government agencies, the nuclear industry, universities, and international partners when appropriate.

In addition, this chapter describes the agency's progress in achieving its Cross-Cutting Strategies of Regulatory Effectiveness and Openness, as well as its Information Technology and Information Management, and Human Capital Management Objectives. It also provides information on data sources, data quality, and completeness and reliability of performance data.

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. Even in the absence of accidents, radiological hazards exist during routine operations, and the NRC ensures that measures are in place to minimize exposure for workers and the public and prevent unintended releases of radioactive materials to the environment.

In FY 2014, the NRC demonstrated that it achieved the safety strategic objective by meeting the performance indicators listed in Table 3 below. The table shows the agency's annual Safety performance indicators and results for FYs 2009 - 2014.

Table 3 – FY 2014 Safety Goal Performance Measures

1. Number of new conditions evaluated as red by the NRC's Reactor Oversight Process (ROP)[1]						
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Target	≤ 3	≤ 3	≤ 3	≤ 3	≤ 3	≤ 3
Actual	0	0	1	1	0	0

[1] *This indicator is the number of new red inspection findings during the fiscal year plus the number of new red performance indicators during the fiscal year. Programmatic issues at multi-unit sites that result in red findings for each individual unit are considered separate conditions for purposes of reporting for this indicator. A red performance indicator and a red inspection finding that are due to an issue with the same underlying causes are also considered separate conditions for purposes of reporting for this indicator. Red inspection findings are included in the fiscal year in which the final significance determination was made. Red performance indicators are included in the fiscal year in which the Reactor Oversight Process (ROP) external Web page was updated to show the red indicator.*

2. Number of significant accident sequence precursors[2] (ASPs) of a nuclear reactor accident						
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Target	0	0	0	0	0	0
Actual	0	0	0	0	0	0

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

3. Number of operating reactors with integrated performance that entered the multiple/repetitive degraded cornerstone column or the unacceptable performance column of the Reactor Oversight Process Action Matrix, or the Inspection Manual Chapter 0350 process is ≤ 3 with no performance leading to the initiation of an Accident Review Group[3]						
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Target	≤ 3	≤ 3	≤ 3	≤ 3	≤ 3	≤ 3
Actual	0	0	2	1	0	0

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

4. Number of significant adverse trends in industry safety performance is ≤1[4]						
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Target	≤ 1	≤ 1	≤ 1	≤ 1	≤ 1	≤ 1
Actual	0	0	0	0	0	0

[4] *Considering all indicators qualified for use in reporting.*

Table 3 – FY 2014 Safety Goal Performance Measures *(continued)*

5. Number of events with radiation exposures to the public or occupational workers that exceed Abnormal Occurrence Criterion I.A.3[6]							
		FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Reactors	Target	0	0	0	0	0	0
Reactors	Actual	0	0	0	0	0	0
Materials	Target	≤ 2	≤ 2	≤ 2	≤ 2	≤ 2	≤ 2
Materials	Actual	0	0	0	0	0	1
Waste	Target	0	0	0	0	0	0
Waste	Actual	0	0	0	0	0	0

[5] *Releases for which a 30-day report requirement under Title 10 of the Code of Federal Regulations (10 CFR) 20.2203(a)(3) is required.*

6. Number of radiological releases to the environment that exceed applicable regulatory limits[6]							
		FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Reactors	Target[5]	0	0	0	0	0	0
Reactors	Actual	0	0	0	0	0	0
Materials	Target	≤ 2	≤ 2	≤ 2	≤ 2	≤ 2	≤ 2
Materials	Actual	0	0	0	0	0	0
Waste	Target	0	0	0	0	0	0
Waste	Actual	0	0	0	0	0	0

[6] *With no event exceeding AO Criterion I.B.*

FY 2014 SAFETY PERFORMANCE INDICATORS RESULTS

1. Reactor Oversight Process

The NRC 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. Each issue is evaluated and assigned one of four categories in order of increasing significance: green, white, yellow, or red. A red finding or performance indicator signals a significant reduction in the safety margin in the measured area. No red findings were issued in FY 2014.

2. Reactor Significant Precursors

The NRC evaluates "precursor events" that occur at reactor facilities using statistical measures to determine the likelihood of such events adversely impacting safety. A significant precursor is defined as any event that has a probability of 1 in 1,000 (or greater) of leading to substantial damage to the reactor fuel. No significant precursors have been identified for FY 2014.

3. Reactor Performance

The conditions in this indicator show whether the NRC finds significant performance issues in a plant during an inspection or based on performance indicators under the Reactor Oversight Process (ROP). A degraded cornerstone for a reactor occurs when two or more white conditions or one yellow condition is identified. A multiple degraded cornerstone occurs when two or more cornerstones are degraded in any one quarter. A repetitive degraded cornerstone is for when more than four consecutive quarters three or more white conditions or one white and one yellow condition are identified. If any of the conditions in this indicator are met, the NRC will implement additional inspection oversight to ensure that plant safety is improved. The NRC continues to carefully monitor and assess the performance at these facilities. No operating reactor has met these conditions during FY 2013 and FY 2014. The indicators for each plant may be seen at http://www.nrc.gov/NRR/OVERSIGHT/ASSESS/pi_summary.html.

4. Reactor Safety Trends

This indicator tracks trends for several key indicators of industry safety performance. These indicators provide insights into major areas of reactor performance, including reactor safety, radiation safety, and emergency preparedness. Statistical analysis techniques are applied to each indicator to calculate long-term trends. These trends represent industry averages rather than individual plant performance. More information on industry trends may be found on the NRC Web site at http://www.nrc.gov/reactors/operating/oversight/industry-trends.html. No significant adverse trends were identified during FY 2014.

5. Nuclear Material Radiation Exposures

This indicator tracks the number of radiation exposures to the public and occupational workers that exceed Abnormal Occurrence (AO) Criterion I.A.3, which is defined as those events that produce unintended permanent functional damage to an organ or a physiological system, as determined by a physician. This indicator tracks both nuclear reactors and other nuclear material users, such as hospitals and industrial users. Only one such exposure took place during FY 2014, meeting the target. Incidents of this nature would be included in the NRC's annual report to Congress, "Report to Congress on Abnormal Occurrences," (NUREG-0090) http://www.nrc.gov/reading-rm/doc-collections/nuregs/staff/sr0090/v36/.

6. Nuclear Material Releases to the Environment

This indicator indicates the effectiveness of the NRC's nuclear material environmental 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 roentgen equivalent man (rem) in a year, exclusive of dose contributions from background radiation. In FY 2014, there were no releases of this nature.

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:

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.

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.

In FY 2014, the NRC demonstrated that it achieved the two security strategic objectives by meeting the performance indicators listed in Table 4 below. Indicators 1 – 4 address the first security objective. Indicator 5 addresses the second security objective. The table shows the agency's annual Security performance indicators and results for FYs 2009-2014.

Table 4 – FY 2014 Security Goal Performance Measures

1. Unrecovered loss of risk-significant[1] radioactive sources	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Target	0	0	0	0	0	0
Actual	0	0	1[2]	0	0	0

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

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

2. Number of substantiated[3] cases of actual theft or diversion of licensed, risk-significant radioactive sources or formula quantities[4] of special nuclear material; or attacks that result in radiological sabotage[5]	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Target	0	0	0	0	0	0
Actual	0	0	0	0	0	0

[3] *"Substantiated" means a situation in which an indication of loss, theft, or unlawful diversion such as an allegation of diversion cannot be refuted following an investigation and requires further action on the part of the agency or other proper authorities.*

[4] *A formula quantity of special nuclear material is defined in 10 CFR 70.4, "Definitions."*

[5] *"Radiological sabotage" is defined in 10 CFR 73.2, "Definitions."*

3. Number of substantiated losses of formula quantities of special nuclear material or substantiated inventory discrepancies of formula quantities of special nuclear material that are judged to be caused by theft or diversion or by substantial breakdown of the Accountability System	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Target	0	0	0	0	0	0
Actual	0	0	0	0	0	0

4. Number of substantial breakdowns[6] of physical security or material control (i.e., access control, containment, or accountability systems) that significantly weakened the protection against theft, diversion, or sabotage	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Target	≤ 1	≤ 1	≤ 1	≤ 1	≤ 1	≤ 1
Actual	0	0	0	0	0	0

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

5. Number of significant unauthorized disclosures[7] of classified and/or Safeguards information	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Target	0	0	0	0	0	0
Actual	0	0	0	0	0	0

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

FY 2014 SECURITY PERFORMANCE INDICATORS RESULTS

1. Unrecovered Losses

This indicator tracks any loss or theft of radioactive nuclear sources that the NRC has determined to be of significant risk. The indicator tracks the agency's performance in ensuring the proper accounting for radioactive sources of significant risk that could be used for malicious purposes. No such instances took place during FY 2014.

2. Thefts or Diversion

This indicator tracks 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 thefts of this nature occurred during FY 2014.

3. Loss or Inventory Discrepancy

This indicator tracks whether special nuclear material is accounted for and verifies that formula-quantity losses of this material do not occur. Loss of material could lead to the creation of an improvised nuclear device or other type of nuclear device. The indicator also tracks whether the systems in place at NRC-licensed facilities maintain accurate inventories of the special nuclear material that the facilities process, use, or store. No such losses took place in FY 2014.

4. Substantial Breakdowns of Physical Security

This indicator tracks any 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 2014, there were no incidents of this nature.

5. Significant Unauthorized Disclosures

This indicator includes significant unauthorized disclosures of classified or Safeguards information (SGI) that cause damage to national security or public safety. This indicator tracks whether information that can harm national security (classified information) or cause damage to the public health and safety (SGI) has been stored and used in ways as to prevent its disclosure to the public, terrorist organizations, other nations, or personnel without a need to know. No significant unauthorized disclosures occurred in FY 2014.

NUCLEAR REACTOR SAFETY PROGRAMS

The NRC regulates activities that provide for the safety and security of 100 operating reactors, test and research reactors, and new reactor construction. Following is a description of the safety and security activities during FY 2014 that resulted in achievement of the strategic goals, strategic objectives, and performance-indicator targets for the Operating Reactors and New Reactors business lines.

OPERATING REACTORS

NRC-licensed nuclear reactors account for about 20 percent of U.S. net electric generation, providing roughly 770 billion kilowatt-hours of electricity. The agency monitors the safe and secure operation of the 100 operating power reactors. The NRC achieves its strategic goals through its licensing, oversight, rulemaking, research, international activities, event response, and generic homeland security functions.

The priorities for the Operating Reactors business line during FY 2014 were as follows:

1. Ensure safe and secure operation of the Nation's fleet of nuclear power plants by implementing the Reactor Oversight Process.
2. Resolve emergent technological and security issues in a safe and efficient manner.
3. Ensure special focus plants resolve safety, security, and technical issues discovered during routine inspections (i.e., Fort Calhoun, Browns Ferry, etc.).
4. Continue to move forward in implementing the recommendations relating to Fukushima in an efficient manner.

Operating Reactors Licensing

Licensing Activity

The agency's nuclear reactor licensing activity ensures that any changes associated with the facilities, processes, or other aspects related to the operation of civilian nuclear power reactors and test and research reactors adequately protect public health and safety and the environment while safeguarding radioactive material used in nuclear reactors. Licenses establish specific technical and operating standards for individual licensees. During FY 2014, the NRC took action to address a backlog of operating reactor licensing actions caused by priority on the Fukushima enhancements.

On September 23, 2014, the agency received the San Onofre Nuclear Generating Station (SONGS) Post Shutdown Decommissioning Activity Report for review and publication in the *Federal Register*. The agency works with licensees to efficiently transition units into the decommissioning process and to process the exemptions and licensing actions received from the decommissioning plants. Interim staff guidance is being developed and issued for public comment in the areas of emergency planning and security in order to ensure that submittals can be worked on most effectively for the near-term reviews.

During FY 2014, the NRC continued to review the construction permit application for a medical radioisotope production facility from SHINE Medical Technologies, Inc., submitted in FY 2013. This is the first application submitted to the NRC for a facility intending to produce molybdenum-99 (Mo-99) utilizing low-enriched uranium (LEU) technology. The NRC also continued to review a license amendment submitted by Oregon State University (OSU) requesting approval to place LEU targets in the OSU TRIGA® reactor for the explicit purpose of demonstrating the production of Mo-99 in a small nuclear reactor. On October 8, 2013, the NRC granted an exemption to Northwest Medical Isotopes that would allow Northwest Medical Isotopes to submit a construction permit application for a medical radioisotope production facility in two parts. The agency also received letters of intent to produce Mo-99 from Precision Engineering Consultants, Inc., on March 24, 2014, Zevacor Molecular on June 18, 2014, and Niowave, Inc., on August 28, 2014. The NRC continued to hold public meetings with potential applicants, including Coqui Radiopharmaceuticals Corporation and Northwest Medical Isotopes in anticipation of construction permit applications to be submitted in FY 2015.

Power Uprates

Since the 1970s, the Nation's utilities have sought power uprates as a way to generate more electricity from existing nuclear plants. By January 2013, the NRC had approved 156 power uprates, resulting in a gain of approximately 7,326 megawatts electric (MWe) at existing plants. The NRC evaluates nuclear reactor power uprate applications to determine whether licensees can safely increase the power output of their plants. The NRC review focuses on the potential impacts of the proposed power uprate on overall plant safety and confirms that plant operation at the increased power level will be safe. In FY 2014, six operating units were uprated a total of 519 MW-thermal or approximately 170 MW-electric.

License Renewal

The NRC grants reactor operating licenses for 40 years, which can be renewed for additional 20-year periods. The review process for renewal applications is designed to assess whether a reactor can continue to be operated safely during the extended period. To renew a license, the utility must demonstrate that aging will not adversely affect passive, long-lived structures or components important to safety during the renewal period. Additionally, the agency assesses the potential impacts of the extended period of operation on the environment. Inspectors travel to the nuclear reactor facility to verify the information in the license renewal application and confirm that aging management programs have been or are ready to be implemented. Following the safety review, the NRC prepares and makes available to the public a safety evaluation report.

On August 26, 2014, the NRC approved a final rule on the environmental effects of continued storage of spent nuclear fuel and lifted its suspension of final licensing actions on nuclear power plant licenses and renewals. With the lifting of the suspension, the NRC is once again making final decisions on license renewal applications. The resumption of licensing actions comes two years after the Commission's August 2012 decision not to make final licensing decisions until the agency responded to a June 2012 decision by the U.S. Appeals Court for the District of Columbia Circuit that struck down a provision in NRC regulations then known as "waste confidence." Waste confidence, now known as "continued storage," is a generic analysis-codified in the NRC's regulations-of the environmental impacts of the storage of spent nuclear fuel after the end of a reactor's license term. This generic analysis was conducted consistent with National Environmental Policy Act and assessed spent nuclear fuel storage. Following the court ruling, the Commission directed the staff to develop a new rule and a generic environmental impact statement detailing the environmental impacts of continued storage. The final rule, supported by a generic environmental impact statement, was approved by the Commission in August 2014, published in the *Federal Register* in September, and became effective on October 20, 2014. The rule does not authorize storage of spent fuel at reactor sites; it allows the NRC to proceed with environmental reviews of new reactors or reactor license renewal without considering the site-specific effects of spent fuel storage after the end of the reactor's license term in the environmental analysis.

Operating Reactors Oversight

Nuclear Reactor Inspection

The NRC provides continuous oversight of nuclear reactors through the ROP to verify that nuclear plants are operated safely and in accordance with the agency's rules and regulations. The NRC performs a rigorous program of inspections at each plant and might perform supplemental inspections and take additional actions to ensure that the plants address significant safety issues. The NRC has at least two full-time resident inspectors at each nuclear power plant site to ensure that facilities are meeting NRC regulations. Inspectors from NRC regional offices and headquarters are also used in the inspection program. The NRC has full authority to take action to protect public health and safety, up to and including shutting the plant down. The NRC also conducts public meetings with licensees to discuss the results of the agency's assessments of their safety performance.

Clinton Power Station, Unit 1

As part of its oversight activities to ensure safety for operating reactors during FY 2014, the NRC completed a number of significant actions. The agency completed the Confirmatory Action Letter (CAL) inspection at Browns Ferry Nuclear Station to evaluate completion of commitments made following the Inspection Procedure (IP) 95003 inspection. A CAL details the commitments the company has made to assure the NRC that it can safely operate the plant. The NRC also provided oversight and numerous inspection activities as part of the Fort Calhoun Station CAL closeout effort. This included continuous watch of control room activities during plant restart operations.

The agency conducted special inspections at Millstone (loss of offsite power and repeated failures of a turbine-driven auxiliary feedwater pump), Calvert Cliffs (loss of switchgear), Farley (solid state protection system), and Catawba (diesel generator); issued White findings of risk significance at LaSalle (operational procedures leading to reactor shutdown) and Duane Arnold (operability determination of reactor core isolation cooling), and issued an Augmented Inspection Team (AIT) follow-up inspection report with preliminary Red and Yellow Findings to Arkansas Nuclear One for the dropped stator event.

Investigations and Enforcement

Compliance with NRC requirements plays an important role in giving the agency confidence that safety is being maintained not only for operating reactors but for all areas that the agency regulates. NRC policies deter noncompliance and encourage prompt identification and timely, comprehensive corrective actions. Willful violations are of particular concern. Licensees, contractors, and their employees who do not achieve the high standard of compliance expected by the NRC are subject to enforcement sanctions. Each enforcement action depends on the circumstances of the case. The NRC will not permit licensees to continue to conduct licensed activities if they cannot achieve and maintain adequate levels of safety. In FY 2014, the NRC processed 37 escalated enforcement actions with 12 of the escalated actions supported through an investigation.

On June 23, 2014, a violation associated with two Yellow Significance Determination Findings was issued to Entergy Operations for an event that occurred on March 31, 2013. The 525-ton Unit 1 stator fell and caused extensive damage to portions of the plant, including safety-related equipment. As a result of the event, multiple personnel injuries and one fatality occurred.

The NRC issued a Confirmatory Order to Exelon resulting from an alternative dispute resolution (ADR) session regarding an apparent violation that involved the failure of several Dresden individuals to immediately inform a reviewing official of the questionable behavior of a now former Dresden Senior Reactor Operator.

During 2014, the NRC issued a renewed Facility Opeating License for the Dow Chemical Company TRIGA® research reactor. The renewal license authorizes continued operation

of the reactor at power levels up to 300 kw for a period of 20 years.

On March 10, 2014, a Confirmatory Order (CO) was issued to V.C. Summer as a result of an ADR mediation session regarding two apparent violations of their access authorization program resulting from an individual inappropriately being granted unescorted access. In addition, an Order prohibiting licensed activities was issued to the individual.

Fukushima Regulatory Review

The Japan Lessons Learned Division (JLD) leads the NRC's efforts to build upon and implement the recommendations issued in July 2011 by a task force convened shortly after the nuclear accident in Japan. The JLD's approximately 55 full-time employees work with NRC experts from across the agency to take action on what the agency learned from the events at Fukushima. The JLD is directed by a steering committee made up of NRC senior managers.

In FY 2014, the NRC reviewed integrated plans submitted by licensees for compliance with the requirements of Orders EA-12-049 ("Mitigation Strategies"), EA-12-051 ("Spent Fuel Pool Instrumentation"), and EA-13-109 ("Severe Accident Capable Hardened Vents"). The NRC also reviewed seismic and flooding re-evaluations submitted by licensees, issued staff assessments regarding walkdowns performed for seismic and flooding protection features at all sites, and issued staff assessments regarding licensees' staffing and communication emergency preparedness activities.

Operating Reactors Rulemaking

During FY 2014, the agency proposed one draft rule related to operating nuclear reactors and published one regulatory basis document for future proposed rulemaking. The NRC also reviewed and resolved three petitions to amend the regulations related to operating nuclear power reactors. In addition, the NRC has been working on new or revised rules related to release of radioactive material after an accident.

In March 2014, the NRC published a draft rule to amend the regulations that govern the Emergency Core Cooling System acceptance criteria. The rule would expand applicability to all cladding materials and fuel designs, incorporate recent research findings pertaining to previously unknown embrittlement mechanisms, replace prescriptive requirements with performance-based requirements, address two petitions for rulemaking, and include a provision that would allow licensees to use a risk-informed alternative to address the effects of debris on long-term core cooling.

In October 2013, the NRC released a regulatory basis for amending onsite emergency response capability regulations, which is an action that stems from the NRC's lessons-learned efforts, associated with the March 2011 Fukushima Dai-ichi Nuclear Power Plant accident. In July 2014, the Commission directed the staff to consolidate this activity with the Station Blackout Mitigation Strategies rulemaking and elements of the NRC's Near-Term Task Force recommendations 9, 10, and 11 related to Emergency Preparedness.

Operating Reactors Research

The NRC research program supports the agency mission by providing independent technical advice, expertise, tools, and information for identifying and resolving safety issues, making regulatory decisions, and promulgating regulations and guidance for nuclear power plants and other facilities and materials regulated by the agency. In support of the licensing and oversight of operating reactors, the research program develops technical bases and information to support timely and realistic regulatory decisions and provides confirmatory research to verify licensee submittals independently. The research program also reduces uncertainties in risk assessments and coordinates the development of consensus and voluntary standards for agency use. In FY 2014, substantive research work was performed in the following technical areas.

NRC Inspection Team

Fire Safety Research

The NRC has continued conducting collaborative research to develop state-of-the-art tools, methods, and data in support

of regulatory activities related to fire protection and fire risk analyses. In FY 2014, key fire research included: testing and expert elicitation to develop state-of-the-art advancements for determining the probability of circuit hot shorting as a result of unwanted fires in commercial nuclear power plants; evaluation of fire protection compensatory measures used in nuclear power plants; publication of a framework for conducting fire probabilistic risk assessment (PRA) at low power and shutdown conditions; improvements and advancements in fire PRA and human reliability analysis; fire modeling development and advancing the (a) verification and validation of select fire modeling, (b) continued study of electrical cable combustion, and (c) testing of Very Early Warning Fire Detection Systems; performing experiments to better understand the heat release rate from electrical enclosures; and leading a High Energy Arcing Fault project with the international community under a program with the Organisation for Economic Co-operation and Development.

Radiation Protection Research

This research supports the agency in the areas of radiation protection, dose assessment, and assessment of human health effects for reactor licensing, emergency preparedness, and nuclear security activities.

In FY 2014, the planning was started for the pilot phase of the NRC-sponsored National Academy of Sciences Analysis of Cancer Risk Study. The purpose of this study is to assess whether cancer incidence and deaths are elevated around NRC-licensed nuclear facilities. Also in FY 2014, the NRC released an updated version of the Radiological Assessment System for Consequence Analysis (RASCAL) computer code version 4.3. This version of the code contains a number of new features and revisions to address lessons learned during the NRC's response to the events during the Fukushima accident in Japan.

Materials Degradation

The NRC continues to research material degradation issues for currently licensed reactors and waste and decommissioning facilities. The purpose of this research is to identify component-specific degradation mechanisms and their implications for structural and component integrity of existing reactors as well as waste and decommissioning facilities. In FY 2014, in cooperation with the U. S. Department of Energy (DOE), the NRC advanced the technical basis by identifying gaps that need to be addressed for subsequent license renewal.

The NRC continued its ongoing scrutiny of the integrity of steam generators to support response to emergent issues and future needs. The NRC also supports the development of confirmatory tools incorporating uncertainty quantification to assess piping and reactor pressure vessel integrity for independent verification of licensee submittals.

Nondestructive Examination Research

In accordance with Title 10 of the *Code of Federal Regulations* (10 CFR) Part 50.55(a), "Codes and Standards," licensees must inspect structures, systems, and components to ensure that the requirements of the American Society of Mechanical Engineers Boiler and Pressure Vessel Code (ASME Code) are met and that structures, systems, and components can continue to perform their safety functions. The NRC conducts research on nondestructive examination (NDE) of light-water reactor (LWR) components and structures and provides the technical basis for regulatory decision-making related to these requirements. The NRC program at Pacific Northwest National Laboratory (PNNL) is evaluating the ability to detect and characterize primary water stress-corrosion cracking in LWR components. In addition, the NRC-directed is directing research at PNNL on the inspection of coarse-grained austenitic alloys and welds. NDE of these components is especially difficult because of signal attenuation and reflections. Research findings will support appropriate inspection requirements for these components to ensure safety.

Digital Instrumentation and Control Research

The NRC's research supports the licensing of new digital instrumentation and control systems intended for use in retrofits to operating reactors and for use in new and next generation reactors. Research topics include safety, security, and knowledge management aspects of digital instrumentation and control systems. The research involves hazard analysis and failure mode analysis to assess safety, reliability, and security and to support safety assurance of digital systems. The research supports development of technical bases for improved regulatory guidance for licensing reviews of digital systems. Knowledge management research includes technical collaborations with the Electric Power Research Institute (EPRI) and international entities and learning from operational experience.

Electrical Engineering Research

NRC electrical engineering research supports specific technical licensing issues to ensure safer operation of nuclear

power plants (NPPs). Ongoing research is examining the reliability of onsite and offsite power systems, including station blackout mitigation, vital direct current system performance, environmental qualification of safety-related equipment, and Fukushima-related topics. Research into limitations of electrical cable condition monitoring and qualification was initiated to support license renewal and the potential for extended license renewal. Long-term research in this area includes impacts of smart grid implementation on NPP offsite power reliability. Electrical engineering research supports developing technical bases for regulatory guidance, confirmatory research, and assessing impacts of emerging technologies.

Probabilistic Risk Assessment

The NRC continues to research the development of advanced models, methods, and tools for probabilistic risk assessment (PRA) activities to support risk-informed regulatory decision-making such as licensing, rulemaking, and oversight of licensee performance. Specific examples include continued investigation of PRA methods for digital instrumentation and control systems, improved PRA software calculational and modeling capabilities, and development of new fire and external hazard nuclear power plant risk models for agency use. In FY 2014, the NRC continued to work on a multi-year project to develop a new integrated site PRA study that will quantitatively estimate the consequences of severe accidents for all modes of operation, all significant hazard categories, and all significant radiological sources onsite (i.e., reactors and spent fuel in pool and dry cask storage). The agency also continues to support PRA standards to support risk-informed regulatory activities for both operating and new reactors.

Natural Hazards Research

The NRC has a well-developed natural hazards research plan that has been broadly reviewed for both technical quality and programmatic elements. The current emphases of this research plan are to evaluate potential risks to U.S. nuclear plants from severe earthquakes, tsunamis and other flooding hazards and to assure the continued safety of new and operating U.S. nuclear power plants. The NRC research on natural hazards produces timely results and insights that are essential for the implementation of the Tier 1 recommendations from the Fukushima Near-Term Task Force (NTTF) on seismic and flooding reevaluations (recommendations 2.1 and 2.2).

Severe Accident and Consequence Research Analysis

The NRC plans, develops, and manages research programs that create computer codes, models, and experimental databases for evaluating nuclear reactor and plant systems under severe accident conditions for current, new, and advanced reactors. State-of-the-art analytical techniques are used to develop realistic best estimates of the potential effects on (consequences for) the public of low-likelihood accidents involving nuclear power plants and spent fuel storage and transportation which could release radioactive material into the environment. Major projects in this area are detailed below.

The NRC continues to conduct research that addresses a number of NTTF recommendations. In FY 2014, research was completed to estimate the risk of potential radioactive releases and consequences of Mark I containment failure due to an extended loss of alternating power (ELAP) accident caused by a beyond-design-basis external event. Additional analytical work is being conducted for filtered containment venting strategies for boiling water reactors with Mark I and II containments NTTF Recommendation 5.1) to develop the technical basis for a filtering strategies rulemaking.

The NRC is participating in domestic research with DOE and the EPRI and international research with the Organisation for Economic Co-operation and Development (OECD) and other international bodies to better understand the accident progression and lessons learned from the multiple reactor units during the Fukushima Dai-ichi Nuclear Power Plant accident. Examples include OECD-led Fukushima accident benchmark exercise, a DOE/NRC joint effort on Fukushima accident reconstructions, and several Nuclear Energy Agency (NEA) studies on topics related to NTTF recommendations (e.g., NTTF 5.1 on filtered containment venting and NTTF 6 on hydrogen).

Through the State-of-the-Art Reactor Consequence Analyses (SOARCA) project, the NRC has developed an updated body of knowledge on the realistic outcomes of selected important severe reactor accidents for two pilot plants, Peach Bottom and Surry. The NRC recently completed an uncertainty analysis of one of the SOARCA scenarios, the Peach Bottom unmitigated long-term station blackout, to take an integrated look at uncertainties in the mature accident simulation tools (MELCOR) accident progression and MELCOR Accident Consequence Code System Version 2 (MACCS2) offsite consequence analyses. The results of the uncertainty

analysis show that the uncertainties studied do not change the overall SOARCA conclusions for this accident scenario. The analysis is publicly available and documented in draft NUREG/CR-7155 (ML13189A145). This NUREG will be finalized in calendar year 2014. The SOARCA Best Practices for MELCOR (NUREG/CR-7008) and MACCS (NUREG/CR-7009) detail the modeling approach and parameter selections used in the SOARCA project. These NUREGs will also be published in calendar year 2014.

Human Reliability Analysis Research

The NRC continues to conduct research to improve human reliability analysis (HRA) methods, data, and models. Based on research insights, the NRC is developing an improved HRA model for agency use and a standard agencywide expert elicitation process. Further, the NRC is collaborating with the nuclear power reactor industry and international partners to collect human performance data from simulator exercises to inform both the qualitative and quantitative analysis portions of HRA methods. The agency is also developing a standard agencywide expert elicitation process for use in many regulatory processes.

The NRC is creating updated human factors review guidance for the review of license applications for new and advanced reactors and is performing research in support of rulemaking activities on fatigue, technologies for drug and alcohol testing, and severe accident mitigation.

The agency continues to support the implementation of the agency's Safety Culture Policy Statement.

Generic Issues Program

The NRC's Generic Issues Program enables the public and NRC staff to raise issues with potentially significant generic safety or security implications in order to ensure that those issues are assessed through an effective, collaborative, and open process and that pertinent information is appropriately disseminated. The agency is currently addressing four active generic issues and one proposed generic issue. In FY 2014, the NRC screened out two proposed generic issues associated with Pre-GI-0001, "Multiunit Core Damage Events," and Pre-GI-0014, "Man-Made External Hazards," because these issues are already being addressed in ongoing actions.

Collection and Analyses of Operating Experience Data

The NRC continues to collect and analyze operating experience data from power reactors to support risk analysis tools that are used in regulatory decision-making. Sources of information include, for example, NRC inspection reports, licensee event reports, and voluntary information provided by nuclear plant licensees to the Institute for Nuclear Power Operations (INPO). The NRC purchases the right to access the INPO Consolidated Events System (ICES), formerly known as the Equipment Performance Information and Exchange (EPIX) system, to use this data to support updates to risk analysis tools, such as the Standardized Plant Analysis Risk models. Analysis of the operating experience data is used to improve the understanding of the uncertainty associated with component reliability and performance, common-cause failure parameters, and initiating event frequencies. Further, trending analysis of operating experience has led the NRC to initiate research into causal factors associated with equipment failures that have challenged the safe operation of nuclear power plants.

Collection and analysis of operating experience data also supports the NRC's ROP Significance Determination Process (SDP); NRC Incident Investigation Program; event assessment process; the Generic Issues Program resolution process; and the Accident Sequence Precursor (ASP) Program. Operating experience data also supports development of generic communications and informs inspections conducted under the ROP to review, e.g., equipment and performance issues related to age-related degradation of active components.

Thermal-Hydraulics Research and Analysis

The NRC plans, develops, and manages research programs that develop computer codes, models, and experimental databases for evaluating coupled neutronic and thermal-hydraulic transient behavior of nuclear reactor and plant systems under normal, abnormal, and accident conditions for current, new, and advanced reactors. The agency also performs thermal-hydraulic and computational fluid dynamics (CFD) analytical analyses to support regulatory decision-making and safety assessments. The results of thermal-hydraulic research are also used to quantify margins, reduce unnecessary burden, and reduce uncertainties for areas of potentially high risk or safety significance. By working in partnerships with universities, laboratories, and other national and international research centers, the agency is able to leverage resources in

this area. During FY 2014, the agency released **TRACE/PARCS Version 5.0 Patch 4**. This version incorporates new features for confirmatory analysis of contemporary nuclear plant designs and design changes. During FY 2014, the updated code was used for modeling small modular reactors, simulating containment behavior, performing more accurate fuel rod behavior studies, and simulating plant transients such as Anticipated Transient Without Scram (ATWS), and Maximum Extended Load Line Limit Analysis Plus (MELLLA+).

Operating Reactors Event Response

The NRC's emergency preparedness and incident response activities ensure that adequate measures can and will be taken to mitigate plant events, to minimize possible radiation doses to members of the public, and to ensure that the agency can respond effectively to events at licensee sites.

In FY 2014, the new Headquarters Operations Center (HOC) in the Three White Flint North building was declared fully functional. The new center enhances the agency's ability to respond to any event under its regulatory oversight. The NRC successfully planned, executed, and evaluated four full participation exercises involving incident responders from various program offices, including three hostile-action based exercises. In addition, the NRC participated in one multi-day exercise with the Canadian Nuclear Safety Commission. The NRC completed all activities related to Eagle Horizon 2014, which is the biennial, externally evaluated continuity of operations (COOP) exercise. Activities conducted as part of Eagle Horizon 2014 included a limited-scope COOP deployment exercise, and a thorough external evaluation of the NRC's COOP Plan, procedures, and exercise. During Eagle Horizon 2014, the agency successfully demonstrated its capability to relocate, conduct its Primary Mission Essential Functions from a remote location, and create a scenario-specific plan to reconstitute the agency.

Operating Reactor Security

The NRC conducts a robust security inspection program within the security cornerstone of the agency's ROP. The security cornerstone focuses on five key attributes of licensee performance: access authorization, access control, physical protection systems, material control and accounting, and response to contingency events. Through the results obtained from all oversight activities, including baseline security inspections and performance indicators, the agency determines whether licensees comply with NRC requirements and can provide high assurance of adequate protection against the design basis threat for radiological sabotage.

The NRC carries out force-on-force inspections at commercial operating nuclear power plants and Category I fuel facilities at least once every three years as part of its comprehensive security program. The agency uses these inspections to evaluate the effectiveness of security programs to prevent radiological sabotage and theft or diversion of Category I material. Force-on-force inspections assess the ability of nuclear facilities to defend against the applicable design-basis threat, which characterizes the adversary against which licensees must design appropriate defenses, such as physical protection systems and response strategies. A force-on-force inspection includes tabletop drills and simulated combat between a mock commando-type adversary force and the site security force. During the attack, the adversary force attempts to reach and simulate damaging key safety systems and components at a nuclear power plant or simulate theft of material at a Category I fuel facility. In FY 2014, the agency completed 24 force-on-force inspections at nuclear power plants.

Integrated and Coordinated Security Activities

The Integrated Response Program (IRP) is a partnership between the Federal Government (NRC, Federal Bureau of Investigation (FBI), and the Department of Homeland Security) and the nuclear power plant industry, which seeks to establish or leverage existing tactical law enforcement capabilities to respond to significant threats at a nuclear power plant effectively. One aspect of the IRP is the Contingency Response Tool (CRT), which is a computer-aided planning tool to assist tactical law enforcement in navigation and response planning inside nuclear power plants. The agency finalized a full schedule for CRT development in conjunction with the Nuclear Energy Institute and the FBI during FY 2014.

The NRC participated in many other nuclear sector activities under the National Infrastructure Protection Plan framework, the DHS's partnership model under the Government Coordinating Council, and the Critical Infrastructure Partnership Advisory Council. The NRC also contributed to national-level policy documents and initiatives such as the National Strategy for Transportation Security Base Plan and the Global Nuclear Detection Architecture Strategic Plan for 2014.

Security Access Control at a Nuclear Power Plant

Cyber Security

To address plans by a number of licensees to extend the cyber security program implementation schedules, the NRC developed evaluation criteria to facilitate consistent reviews.

NEW REACTORS

The NRC reviews applications for standard design certifications (DCs), early site permits (ESPs), limited work authorizations (LWAs), combined licenses (COLs), construction permits, and operating licenses. The current and anticipated applications for new reactors involve both large, light-water reactor facilities and small modular reactor facilities in a variety of projected locations throughout the United States. The NRC oversees construction activities for commercial nuclear power plants that include licensee performance assessment, investigation of allegations, and enforcement activities. This also includes the NRC's Vendor Inspection Center of Expertise, which develops and implements quality assurance and vendor inspection programs for both new and operating reactors.

The priorities for the New Reactors business line during FY 2014 were as follows:

1. Execute construction oversight at Watts Bar Unit 2 and four AP1000 units, including the construction inspection program, Inspections, Tests, Analyses, and Acceptance Criteria (ITAAC) closure verification reviews, and necessary license amendments that provide the regulatory basis to make a 10 CFR Part 52.103(g) finding, allowing a plant ready to operate.
2. Implement the agency's Vendor Inspection Program Plan including inspection, outreach, and communication to stakeholders, and self-assessments in support of both new reactor construction and operating reactor safety.
3. Develop an integrated transition plan that included all safety and security functions (e.g., licensing and oversight) in order to support effective regulatory programs during transition from construction to operations for those sites with the intent to commence operations during FY 2017 and FY 2018.
4. Complete the safety and environmental reviews for the active combined license, design certification, and early site permit applications for large light-water reactors.
5. Establish the regulatory, technical, and policy infrastructure necessary to support effective license reviews and construction oversight of small modular reactor (SMR) applications.
6. Establish a plan by 2016 for preparing the agency for the licensing of non-light-water reactors and associated fuel fabrication facilities.

New Reactors Licensing

New Reactor Design Certifications

The NRC reviews applications for standard DCs using 10 CFR Part 52, "Licenses, Certifications, and Approvals for Nuclear Power Plants." By issuing a DC, the NRC approves a nuclear power plant design independent of an application to construct or operate a plant. A DC is valid for 15 years from the date of issuance but can be renewed for an additional 10 to 15 years.

During FY 2014, the NRC completed its review of the DC application for the General Electric Economic Simplified Boiling Water Reactor (ESBWR) design. The NRC continued reviewing DC applications for the AREVA Evolutionary Power Reactor (EPR™) design and Mitsubishi's U.S. Advanced Pressurized Water Reactor (US-AWPR) design.

In October 2013, AREVA NP, Inc., issued a letter to the NRC communicating its plan to re-phase the U.S. EPR DC application review, thus extending the completion of the review. AREVA organized the safety review into three groups of issues (A, B, and C) identified in terms of short, medium, or long-

term closure and provided closure plans for each of the three groups. The NRC completed its safety evaluation report with no open items for the Group A chapters in FY 2014.

In November 2013, Mitsubishi Heavy Industries, Ltd. issued a letter informing the NRC of its plans to implement a coordinated slowdown of licensing activities related to the US-APWR DC application review. The NRC transitioned to a limited review of the US-APWR DC application beginning in March 2014, in accordance with the applicant's request.

On September 30, 2013, Korea Hydro and Nuclear Power Co., Ltd. (KHNP), and Korea Electric Power Corporation (KEPCO) submitted an application for a standard design certification of the Advanced Power Reactor 1400 (APR1400), pursuant to 10 CFR Part 52, "Licenses, Certifications, and Approvals for Nuclear Power Plants." The NRC's 60-day acceptance review of the DC application began on October 17, 2013, and concluded on December 17, 2013. By letter dated December 19, 2013, KHNP and KEPCO were informed of the agency's decision not to accept for docketing and regulatory review the DC application for the APR1400 standard plant design. The NRC expects KHNP/KEPCO to submit a revised APR1400 DC application in December 2014.

Early Site Permits

As part of the licensing process, the NRC can issue an ESP to approve a site for a domestic nuclear power plant independent of an application for a COL. ESPs are valid for 10 to 20 years and can be renewed for an additional 10 to 20 years.

During FY 2014, the NRC continued its safety and environmental review of one ESP application submitted by PSEG Power, LLC for a site adjacent to the operating Salem and Hope Creek Generating Stations in Salem County, NJ. The draft environmental impact statement for the PSEG ESP application was completed in FY 2014.

Combined Licenses

A COL authorizes construction and operation of a nuclear power plant through 10 CFR Part 52. The application for a COL is one option to receive a license, the other is through 10 CFR Part 50, "Domestic Licensing for Production and Utilization Facilities," which is a construction permit followed by an operating license. The COL application must describe the ITAAC that are necessary to ensure proper construction and safe operation of the plan.

During FY 2014, the NRC supported the safe construction activities at the Vogtle and V.C. Summer COL sites by issuing seven license amendments with one exemption for Vogtle Units 3 and 4 and issuing four license amendments with three exemptions for V.C. Summer Units 2 and 3. The NRC also continued its review of nine COL applications to build and operate fourteen new reactors at sites throughout the United States, including Bell Bend, Calvert Cliffs, Comanche Peak, Fermi, Levy County, North Anna, South Texas Project (STP), Turkey Point, and Lee Station. The NRC issued the Final Environmental Impact Statement (FEIS) in December 2013 for the Lee Nuclear Station's COL application.

In January 2014, the applicant for the Bell Bend COL application requested that the NRC suspend the safety review for this application until further notice. The NRC has continued the environmental review for the Bell Bend application at the applicant's request. In March 2014, the NRC suspended its review of the Comanche Peak COL application until further notice at the applicant's request.

Construction Permits and Operating Licenses

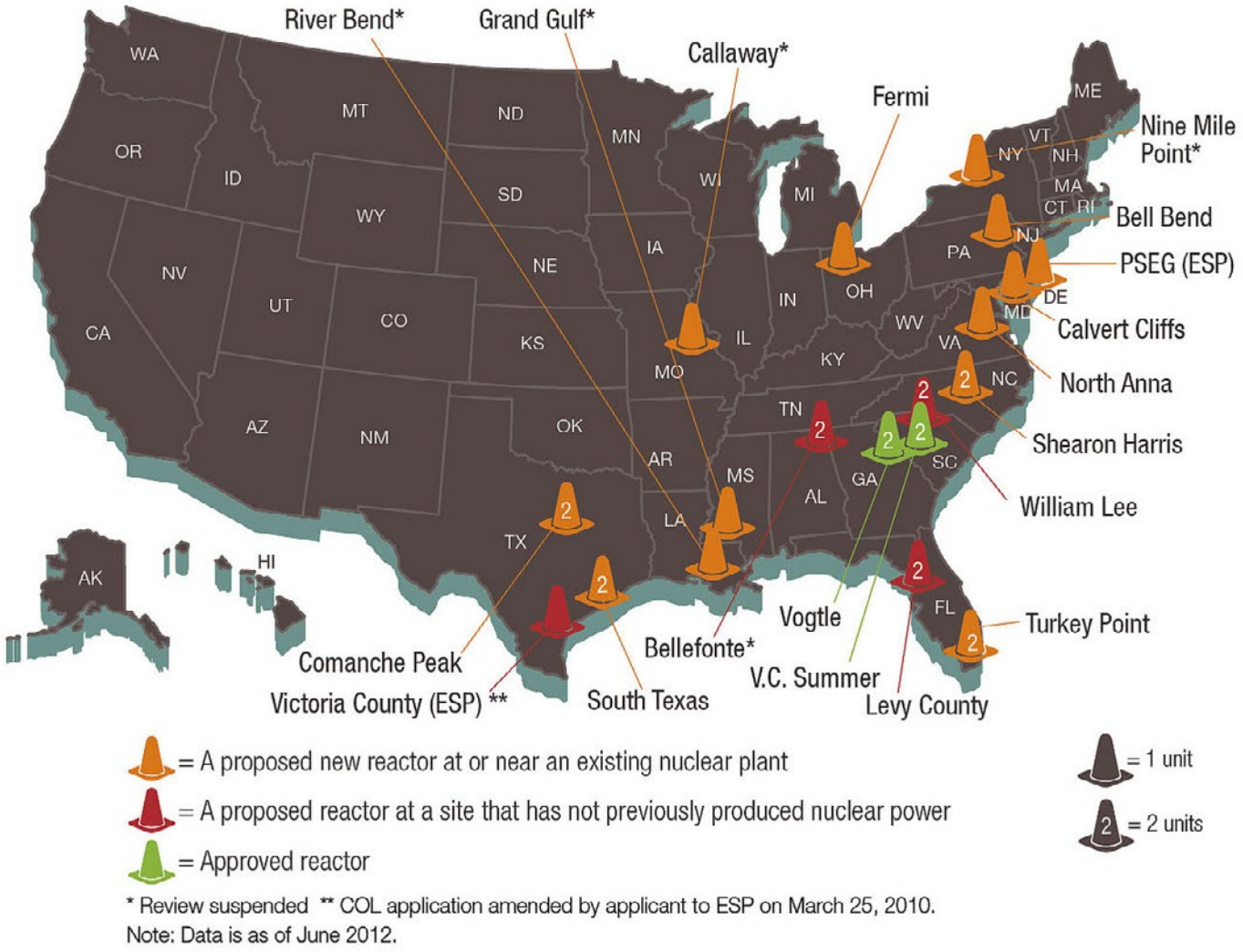
The NRC has continued the extensive inspection and licensing effort associated with the reactivation of the Tennessee Valley Authority (TVA) Watts Bar Unit 2 Nuclear Power Plant. The agency issued a construction permit for this unit in 1973; however, construction was suspended in 1985. Watts Bar Unit 1 received a full power operating license in early 1996 and is presently the most recent power reactor to be licensed in the United States. In August 2007, TVA informed NRC of its plan to resume construction of Watts Bar Unit 2. In FY 2011, the NRC continued its review of the operating license application, which TVA updated in March 2009, and assigned dedicated resident inspectors to monitor TVA's construction activities. The NRC continued its safety, physical security, and emergency preparedness reviews in FY 2014. The current schedule calls for the NRC to complete its review efforts in FY 2015, with inspection activities continuing into FY 2016 (startup testing).

Small Modular Reactors

The NRC has completed draft or final sections of the design specific review standards (DSRS) for both the mPower design and NuScale design at a pace commensurate with industry progress. The agency also completed 36 Interim Staff Guidance documents and Standard Review Plan sections. This critical regulatory infrastructure will allow the agency to better assess new and advanced technologies when they are submitted.

The NRC continued to prepare for future reviews of SMR design and licensing applications, including development of the regulatory framework to support reviews of these new designs and extensive outreach to external stakeholders. During FY 2014, the NRC held pre-application meetings with SMR vendors to discuss technical topics associated with these designs. The NRC also conducted reviews of both technical and topical reports submitted by SMR vendors. The agency issued Regulatory Issue Summary (RIS) 2013-18, "Licensing Submittal Information and Design Development Activities for Small Modular Reactor Designs." This RIS is a forward-looking planning tool that allows the industry to show its intent to submit an application to the NRC.

Figure 12 – Locations of New Nuclear Power Reactors Applications



* Review suspended ** COL application amended by applicant to ESP on March 25, 2010.
Note: Data is as of June 2012.

New Reactors Oversight

Construction Inspection

The NRC continues to perform construction inspection activities for the four AP1000 units at the Vogtle and Summer sites and for Watts Bar Unit 2, primarily through the Region II office in Atlanta, GA. In FY 2014, AP1000 construction activities were focused on the structural modules and concrete pours. The agency also inspected the Watts Bar Unit 2 open vessel testing which demonstrated that Emergency Core Cooling System components could satisfy their specified design injection safety functions. The tests established proper flow balances to the reactor vessel and yielded flow characteristics and vibration data for the charging, safety injection, and residual heat removal pumps.

The agency received and processed 14 ITAAC Closure Notifications. The NRC continues to refine the processes and guidance for ITAAC Closure, including facilitating several public workshops to solicit input, exchange views and reach consensus on issues such as developing additional examples of ITAAC Closure Notifications.

Vendor Inspection

In FY 2014, the NRC continued implementation of the Vendor Inspection Program, including conducting 36 vendor or quality assurance implementation inspections supporting both new and existing reactor licensees. One international inspection was an NRC-led multinational team inspection of a steam generator tube supplier. Several of the inspections were related to ITAAC for the AP1000 and others were specific to commercial grade dedication. The inspections were focused on the design, qualification and testing of safety-related structures, systems, components and services. Findings were reported in areas of inadequate design control and commercial grade dedication.

Investigations and Enforcement

Just as was the case for operating reactors, the NRC will not permit applicants for new licenses, nor their contractors and vendors, to continue to conduct licensed activities if they cannot achieve and maintain adequate levels of safety. In FY 2014, the NRC processed one escalated enforcement action, which was supported through an investigation.

New Reactors Rulemaking

The NRC completed the ESBWR design certification final rule. This rule certifies the ESBWR design in the Commission's regulations. In addition to completing the ESBWR final rule, the agency was fully engaged in several other rulemakings. These rulemakings were the 10 CFR Part 50 Appendix I ("Numerical Guides for Design Objectives and Limiting Conditions for Operation to Meet the Criterion 'As Low as is Reasonably Achievable' for Radioactive Material in Light-Water-Cooled Nuclear Power Reactor Effluents") rule, the 10 CFR Part 21 ("Reporting of Defects and Noncompliance") rule, and a rule on financial qualifications for merchant plants.

New Reactors Research

Much of the technical work and research described earlier for operating reactors applies to new reactors as well. Over the past several years, the NRC has focused its new reactor regulatory research efforts on potential new light-water reactor facilities in order to prepare for and evaluate standard design certifications. The NRC research program addressed key areas that support the agency's safety mission. Some of the more important issues addressed include: radiation protection research; assessment of digital systems, including hazard analysis and failure mode effects analysis; development of advanced tools for probabilistic risk assessment activities that support risk-informed regulatory decision making; seismic and structural research; research on hazards from natural events, including seismic hazard issues, flooding, and tsunami events; thermal-hydraulic research and analysis; severe accident and consequence research and analysis; and human reliability analysis research. Research related to SMR concepts focuses on identifying phenomenological differences from large reactors and developing and validating tools for analyses to support potential licensing reviews.

NUCLEAR MATERIALS AND WASTE SAFETY PROGRAMS

The NRC regulates activities that provide for the safe and secure production of nuclear fuel used in commercial nuclear reactors; the safe storage, transportation and disposal of high-level radioactive waste and spent nuclear fuel; and the transportation of radioactive materials regulated under the Atomic Energy Act. The agency also develops and implements rules and guidance for the safe and secure use of source, byproduct, and special nuclear material in industrial, medical, academic, and commercial activities, and at decommissioning, uranium recovery, and low-level waste sites. Ensuring safety and security involves licensing, inspection, assessment of licensee performance, events analysis, enforcement, research, and identification and resolution of generic issues.

The following sections describe the safety and security programs the NRC conducted during FY 2014 that resulted in the achievement of its strategic goals for Fuel Facilities, Nuclear Material Users, Spent Fuel Storage and Transportation, and Decommissioning and Low-Level Waste business lines.

FUEL FACILITIES

The NRC licenses and inspects all commercial nuclear fuel facilities that process and fabricate uranium concentrates into the reactor fuel that powers the Nation's nuclear reactors. Licensing activities include detailed health, safety, safeguards, and environmental evaluations. Oversight involves reviews of licensee programs, procedures, operations, and facilities to ensure safe and secure operations.

The priorities for the Fuel Facilities business line during FY 2014 were as follows:

1. Ensure safety, security, and environmental protection through effective oversight of operating fuel facilities and facilities under construction.
2. Ensure safety, security, and environmental protection through effective management of licensing actions and other regulatory activities.
3. Support U.S. non-proliferation activities through implementation of international safeguards and domestic material control and accounting.
4. Maintain effective communications with stakeholders on staff approaches to emergent issues, rulemaking, guidance development, and other regulatory activities.

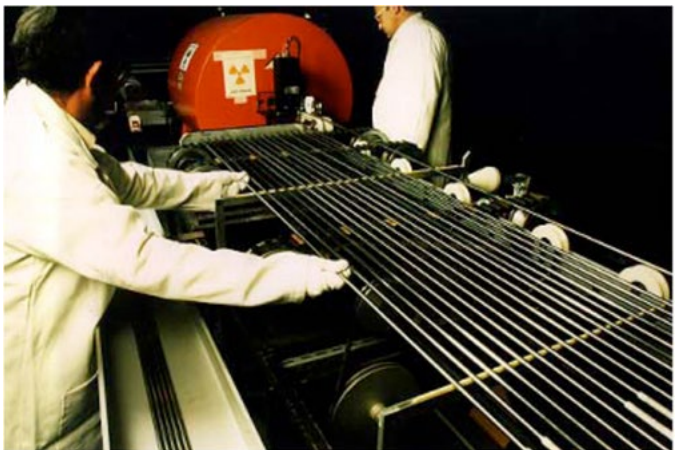
Fuel Facilities Licensing

The NRC's Report to Congress on the Paducah and Portsmouth Gaseous Diffusion Plants (GDPs), as required by Section 1701 of the *Atomic Energy Act* (AEA), was delivered in FY 2014. Having advised the agency in FY 2014 that it intended to cease operations at Paducah, the operating company has requested termination of its Certificate of Compliance, the basis under which the Paducah GDP was licensed and operated.

In FY 2014, the NRC planned for the conclusion of the Research, Development, and Demonstration program at United States Enrichment Corporation (USEC) Lead Cascade, potential expansion to the American Centrifuge Plant (ACP), and potential bankruptcy of USEC, Inc.

Fuel Facilities Oversight

The agency developed a process during FY 2014 through which a fuel cycle facility's Corrective Action Program (CAP) will be reviewed and inspected to allow for the expanded use of non-cited violations. The agency continued to implement the Revised Fuel Cycle Oversight Process (RFCOP) Project Plan, including finalizing the Regulatory Guide for the Fuel Facility CAP. In parallel, the NRC reviewed the CAP proposed by Louisiana Energy Services (LES) and completed the piloting inspection procedure for CAP implementation at LES. The NRC issued a letter stating that the LES CAP is adequate, and authorized LES to use the new non-cited violation provision of the Enforcement Policy on March 4, 2014. LES is the first operating fuel cycle facility authorized to use the NRC Enforcement Policy provision. The new policy permits a fuel cycle facility licensee with an adequate CAP to treat NRC-identified greater-than-minor Severity-Level IV violations as non-cited violations. The agency has been committed to communicate frequently with stakeholders to ensure alignment on RFCOP activities.



Fuel Rod Assembly

In FY 2014, the agency completed unresolved items opened during post-Fukushima evaluations of Fuel Cycle Facilities for the treatment of natural phenomena hazards, and issued on August 8, 2014 a Generic Letter, "Treatment of Natural Phenomena Hazards in Fuel Cycle Facilities," for public comment.

Investigation and Enforcement

The NRC will not permit licensees to continue to conduct licensed activities if they cannot achieve and maintain adequate levels of safety. In FY 2014, the NRC did not process any escalated enforcement actions associated with fuel facilities.

Through use of a post enforcement conference, the NRC issued two cited severity level 4 violations to LES, which closed the potential escalated enforcement case for nuclear criticality safety issues identified at LES.

Fuel Facilities Rulemaking

The NRC published for public comment a draft regulatory basis to support the potential amendments to revise a number of existing security-related regulations relating to physical protection of special nuclear material at NRC-licensed facilities and in transit (10 CFR Part 73, "Physical Protection of Plants and Materials," material attractiveness), as well as the fitness for duty programs (10 CFR Part 26, "Fitness for Duty Programs," fatigue requirements) for security officers at certain fuel cycle facilities.

Fuel Facility Security

In FY 2014, the NRC resolved material control and accounting issues at the Nuclear Fuel Services facility in Erwin, TN. The agency also provided a Report to Congress on High-Enriched Uranium (HEU) exports.

The agency conducted site visits at four fuel cycle facilities to gather information and inform agency decisions on cyber security requirements.

NUCLEAR MATERIALS USERS

The NRC licenses and inspects the commercial use of nuclear material for industrial, medical, and academic purposes. Commercial uses of nuclear materials include medical diagnosis and therapy, medical and biological research, academic training and research, industrial gauging and nondestructive testing, production of radiopharmaceuticals, and fabrication of commercial products (such as smoke detectors) and other radioactive sealed sources and devices. The agency currently regulates about 2,900 specific licensees for the use of radioactive materials. Under the NRC's Agreement State program, 37 States have assumed regulatory responsibility for approximately 18,000 licenses for the industrial, medical, and other users of nuclear materials in their States. The agency reviews Agreement State programs as well as certain NRC licensing and inspection programs through the Integrated Materials Performance Evaluation Program.

Detailed health and safety reviews of license applications, as well as inspections of licensee procedures, operations, and facilities, provide reasonable assurance of safe operations and the production of safe products. The NRC routinely inspects nuclear material licensees to ensure that they are using nuclear materials safely, maintaining accountability of those materials, and protecting public health and safety. The agency also analyzes operational experience from NRC and Agreement State licensees and regularly evaluates the safety significance of events reported by licensees and Agreement States.

The priorities for the Nuclear Materials Users business line during FY 2014 were as follows:

1. Continue oversight of licensing and inspection activities.
2. Continue Agreement State Program oversight and enhancements.

3. Implement 10 CFR Part 37 ("Physical Protection of Category 1 and Category 2 Quantities of Radioactive Material") including Working Group Activities.
4. Implement Integrated Source Management Portfolio (ISMP) 10-year plan and continue investment protection.
5. Continue to assess source security through completion of actions for Radiation Source Protection and Security Task Force and issue the report.
6. Continue rulemaking activities including the guidance development and publishing of the proposed 10 CFR Part 35 ("Medical Use of Byproduct Material") rule and publication of the 10 CFR Part 20 ("Standards for Protection against Radiation") advanced notice of proposed rulemaking.
7. Continue development of Tribal Program initiatives that support implementation of Tribal Policy Statement.

Nuclear Materials Users Licensing

The NRC completed self-assessments of the Sealed Source and Device Program and Exempt Distribution Licensing Program in preparation of the Integrated Materials Performance Evaluation Program (IMPEP) review to be conducted in October 2014.

The NRC managed the large amount of unanticipated work associated with Georgia's Agreement State program being placed on probation late in FY 2013, requiring greater NRC oversight. Georgia implemented agreed upon improvements. In mid-FY 2014, the NRC reviewed the improvements and removed Georgia from probation. The agency also expedited the review and issuance of a license to a hospital in Montana authorizing possession and use of a gamma knife, the only unit in the State.

Nuclear Materials Users Oversight

Throughout FY 2014, the NRC completed safety inspections of materials licensees. As a result of the inspections, the NRC issued penalties and Notices of Violation (NOVs). The violations noted included failure to properly secure a portable nuclear gauge, security-related violations associated with radioactive materials, failure to issue dosimeters to workers, and providing incomplete and inaccurate information to an NRC inspector.

The NRC performed a reactive inspection to investigate a potential overexposure to the hand of a cyclotron operator in West Virginia due to failure of the individual to perform an adequate survey for workplace safety. Another reactive inspection in FY 2014 was to review significant safety concerns involving potential exposures to members of the public identified during a routine, unannounced inspection of Acuren USA's operations in Kenai, AK. A CAL was issued confirming the licensee's commitment to suspend radiography at a field station and conduct evaluations of doses that might have been received by members of the public resulting from past operational practices. Only one exposure exceeded Abnormal Occurrence Criterion 1.A.3. The details of this event can be found at http://www.nrc.gov/reading-rm/doc-collections/event-status/event/2014/20140730en.html.

The agency issued Regulatory Information Summary (RIS) 2014-03, "Notice of 10 CFR Part 37 Implementation Deadline for NRC Licensees," to inform licensees and Agreement States about the implementation date for 10 CFR Part 37. The NRC also issued Enforcement Guidance Memorandum to address enforcement discretion from Part 37 for commercial reactor licensees with large components and robust structures containing Category 1 and 2 quantities of materials.

In FY 2014, to respond to a change in land jurisdiction, the agency completed a successful transition of regulatory oversight of a broad scope R&D licensee, Lovelace Respiratory Research Institute, from the NRC to the State of New Mexico.

Investigation and Enforcement

The NRC will not permit licensees to continue to conduct licensed activities if they cannot achieve and maintain adequate levels of safety. In FY 2014, the NRC processed 43 escalated enforcement actions associated with nuclear materials users. Of these, 12 were supported through investigation.

Gamma Knife

Nuclear Materials Users Rulemaking

The agency issued an RIS to distributors of general licensed devices to remind them of the requirements for submitting proprietary information to the NRC. Also during FY 2014, the NRC published the Part 35 proposed rule and draft guidance for a 120-day public comment period. An advance notice of proposed rulemaking on Part 20 was also published in the *Federal Register.*

Nuclear Materials State and Tribal Programs

The NRC completed five high profile IMPEP reviews for the States of Georgia, New York, North Carolina, Pennsylvania, and Texas to evaluate their adequacy and compatibility as part of NRC's oversight responsibility of the Agreement State Programs. The NRC also completed an internal IMPEP for the Region IV office and conducted a tabletop exercise for the return of an Agreement State program. The exercise included three scenarios, which identified areas for future enhancement of existing policy and procedures. The agency conducted an IMPEP training class in January 2014 for NRC and Agreement State staffs to ensure that an adequate number of reviewers are qualified and available for upcoming IMPEP reviews. Also during FY 2014, the NRC conducted a workshop to train NRC and Agreement State personnel on the registration process for sealed sources and devices.

The NRC staff sent the draft Tribal Policy Statement to the Commission for consideration. The agency continued to enhance staff familiarity with Tribal issues with a well-attended session on Tribal issues presented by the U.S. Forest Service. The agency also improved its Tribal Toolbox to include geographical information system overlays of Tribal boundaries, reactors, and uranium recovery facilities.

Nuclear Material Users Security

The agency completed the Radiation Source Protection and Security Task Force (Task Force) report on August 8, 2014. This report, which addresses the security of Category 1 and 2 sources within the United States, was prepared by 14 partner agencies. In response to a previous recommendation by the Task Force, the agency issued RIS 2014-04, "National Source Tracking System (NSTS) Long-Term Storage Indicator," to encourage licensees to voluntarily submit additional information pertaining to sources identified in long-term storage in the NSTS to include the "use status" of their sealed sources.

The NRC issued Inspection Procedure (IP) 87137, 10 CFR Part 37, "Material Security Programs," to verify that materials licensees are effectively implementing the requirements of 10 CFR Part 37. The NRC also issued NUREG-2166, "Physical Security Best Practices for the Protection of Risk-Significant Radioactive Material," in response to the 2012 Government Accountability Office Audit on Medical Source Security. The guidance provides licensees and inspectors with information about developing and implementing physical protection systems for securing Category 1 and 2 materials.

SPENT FUEL STORAGE AND TRANSPORTATION

The NRC conducts detailed technical reviews to ensure that storage, transportation, and domestic and international shipments of spent nuclear fuel and other risk- significant radioactive materials are safe and secure and comply with agency regulations. The NRC closely coordinates its transportation-related activities with those of the U.S. Department of Transportation and, as appropriate, DOE. The NRC inspects vendors, fabricators, and licensees that build and use storage systems and transportation packages. The NRC also inspects interim storage of spent fuel both at and away from reactor sites.

The priorities for the Spent Fuel Storage and Transportation business line during FY 2014 were as follows:

1. Complete Continued Storage Rule and NUREG-2157, "Generic Environmental Impact Statement".
2. Ensure safety, security, and environmental protection through efficient oversight of licensed facilities through effective management of licensing actions and other regulatory activities.
3. Conduct licensing reviews including frequent communication with internal and external stakeholders to identify technical and administrative issues and determine effective solutions in a manner that maintains safety and security margins and meets business line metrics.
4. Retain focus on establishing firm technical bases for intermediate and long-term waste management framework to support future licensing actions and the evolving national policy.

Spent Fuel Storage and Transportation Licensing and Oversight

During FY 2014, the NRC completed two key technical reviews for storage certification. Amendment No. 3 to Certificate No. 1029 for the Standardized Advanced NUHOMS® cask system added a new canister design and modified the storage module to incorporate high seismic and high burnup fuel. Amendment No. 2 to Certificate No. 1030, for the NUHOMS® HD Horizontal Modular Storage System added blended low enriched uranium fuel contents, increased the shielding effectiveness of the storage module, and clarified technical specifications. The final rules were effective in the third quarter of FY 2014.

The agency approved a high priority application to add liquid high-enriched uranyl nitrate to the Model No. NAC-LWT (Nuclear Assurance Corporation Legal Weight Truck) transportation package to support the DOE/National Nuclear Security Administration (NNSA) Global Threat Reduction Initiative. This is a first-of-its-kind approval for the requested quantity of fissile, liquid material. There is significant public interest in the proposed shipments.

In FY 2014, the NRC continued its review of independent spent fuel storage installation (ISFSI) license renewals. To facilitate these technical reviews and address the associated aging of related components important to safety over an additional 40-year license term, the NRC completed the development and rollout of a storage renewal approach. This included defining NRC expectations for component Aging Management Programs. The NRC engaged aggressively throughout FY 2014 with members of the public, industry, national laboratories, and DOE in numerous public meetings to gather input in order to make the approach as effective as possible in maintaining safety and security margins while allowing for changes to respond to new information received through inspections or monitoring of research and analysis activities.

Nuclear Waste Storage

Spent Fuel Storage and Transportation Rulemaking

The agency completed a 98-day comment period on NUREG-2157, "Generic Environmental Impact Statement (Waste Confidence)" draft Generic Environmental Impact Statement and proposed rule. The NRC held one public commission meeting to discuss project status, and held 13 public meetings at NRC headquarters and around the country to give the public an opportunity to provide oral comments on the documents. The Commission approved the final rule on August 26, 2014. On September 19, 2014, the Environmental Protection Agency published the Notice of Receipt of the Final Generic Environmental Impact Statement, and the NRC published the Notice of Availability of this document in the *Federal Register*.

During FY 2014, the NRC published Direct Final Rule for Transnuclear, Inc.'s Certificate of Compliance (CoC) Amendment 11, "Standardized NUHOMS Horizontal Modular Storage Systems for Irradiated Nuclear Fuel" on Nov 1, 2013. The agency also published Direct Final Rule for Holtec's CoC Amendment 9, "HISTORM 100 Cask System" on December 6, 2013 (79 FR 12362).

Spent Fuel Storage and Transportation Research

The NRC supports research on technical issues related to the safety of extended storage and transportation of dry spent fuel. Specific areas examined include the effects of concrete

degradation and stress corrosion cracking of metallic welds on storage cast integrity, the effects of climate change on cask performance, and transportability of fuel after long term storage. The need for an improved hazards assessment, including the potential impact of long-term storage on eventual disposal, is also being studied. In FY 2014, the NRC advanced the technical bases in all these areas. The NRC also continued research on the performance of metal and polymeric O-ring seals used in spent fuel shipping casks in beyond-design basis temperature excursions (e.g. extreme fires) and on the thermal behavior of storage casks. In addition, the NRC supports research associated with nuclear fuel burn-up and impacts of high burn-up credit and mixed oxide fuels.

DECOMMISSIONING AND LOW-LEVEL WASTE

Decommissioning removes radioactive contamination from buildings, equipment, groundwater, and soil, achieving levels that permit the release of the property while protecting the public. The NRC terminates the licenses for decommissioned facilities after the licensees demonstrate that the residual onsite radioactivity is within regulatory limits and sufficiently low to protect the health and safety of the public and the environment. Completing decommissioning, environmental, and performance assessment activities provides assurance that residual radioactivity does not pose an unacceptable risk to the public.

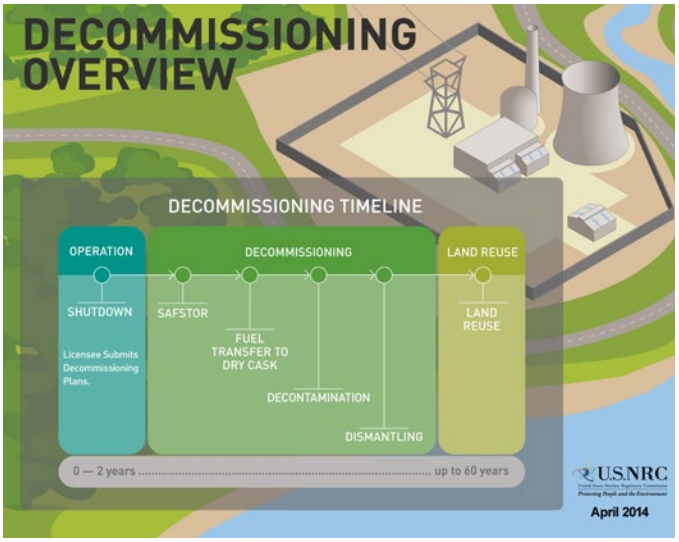
Low-level radioactive waste includes items that are contaminated with radioactive material or have become radioactive through exposure to neutron radiation. Although the NRC regulates low-level waste (LLW) disposal, currently all commercial LLW disposal sites in the U.S. are in Agreement States. The NRC's LLW regulatory program includes: coordinating with, and providing technical assistance to, Agreement States on LLW issues; representing NRC in international waste management activities; reviewing LLW-related import/exporting requests; and consulting with Federal and State officials, Indian Tribes, and other entities to promote understanding of LLW issues and resolving concerns in a timely manner.

Under the Waste Incidental to Reprocessing (WIR) program, per Section 3116 of the *Ronald W. Reagan National Defense Authorization Act* for 2005, DOE consults with the NRC on incidental waste determinations in a Covered State (Idaho and South Carolina). If the DOE Secretary's final determination is that the waste is WIR, then the NRC monitors DOE disposal actions in coordination with the Covered State by assessing the DOE disposal actions to determine compliance with the performance objectives in 10 CFR Part 61, "Licensing Requirements for Land Disposal of Radioactive Waste."

Uranium recovery (UR), the processing of uranium ore, is also managed under the Decommissioning and Low-Level Waste business line. The NRC ensures that UR facilities are licensed, operated, decommissioned and monitored to protect the public and environment. This consists of oversight, inspection, and licensing of operating facilities; licensing of new sites or expansion of existing sites, and the management of legacy sites in decommissioning or long-term care.

The priorities of the Decommissioning and Low-Level Waste business line during FY 2014 were as follows:

1. Maintain oversight activities at unique complex and high-risk activity decommissioning sites.
2. Continue to focus on optimizing available resources for Licensing and Inspection Activities.
3. Conduct environmental reviews required by the *National Environmental Policy Act* (NEPA) and Tribal consultations required by Section 106 of the *National Historic Preservation Act* (NHPA) with efficiency gains, as applicable.
4. Continue efforts to complete high priority rulemaking (10 CFR Part 61).
5. Continue to monitor and review DOE's Waste Incidental to Reprocessing activities.
6. Continue to support the international community (i.e., Joint Convention, IAEA, and NEA).
7. Effectively address pending retirements while increasing knowledge management/transfer efforts (LLW Presentation Series).



Decommissioning and Low-Level Waste Licensing and Oversight

In FY 2014, the NRC issued the Prairie Island Independent Spent Fuel Storage Installation License Renewal Draft Environmental Assessment for 30-day public comment period. The Prairie Island Indian Community (PIIC) is a cooperating agency under the NRC/PIIC Memorandum of Understanding, which allows the community to work with the NRC on the environmental review. PIIC is also an intervener under the hearing process for this review.

The NRC conducted environmental reviews required by NEPA and Tribal Consultations required by Section 106 of the NHPA for uranium recovery facilities and Independent Spent Fuel Storage Installations. To improve these reviews, the agency completed significant activities to improve the process for programmatic agreements under NEPA section 106 consultations. Specifically, the NRC hosted several Webinars and conference calls with Tribes, the Advisory Council on Historic Preservation (ACHP), Bureau of Land Management, Environmental Protection Agency (EPA), and the applicant for the development of both the Strata Ross and Dewey-Burdock programmatic agreements.

The NRC issued an Environmental Assessment and Finding of No Significant Impact for exemption from licensing for the Disposal of Low Activity Radioactive Waste from the Safety Light Corporation Superfund site. The timely completion of this licensing action allowed EPA to move ahead on a time sensitive disposal action.

Finally, the agency issued the Final Supplemental Environmental Impact Statements and Operating Licenses for the Dewey-Burdock and Strata Energy Ross UR applications and the programmatic agreement for Dewey-Burdock for ACHP signature.

The NRC continued its evaluation of the Dominion Energy Kewaunee's request for exemptions to portions of 10 CFR 50.47 and Appendix E to Part 50 and submitted staff recommendations to the Commission. Based on the significantly reduced risk associated with the permanent cessation of operation and transfer of fuel from the reactor vessel to the spent fuel pool, the licensee has requested an exemption from the requirement for formal offsite radiological emergency plans and a reduction of onsite emergency response organization staffing. The licensee will still be required to maintain an onsite emergency plan capable of classifying an emergency, notifying and coordinating with offsite organizations, and responding to a spent fuel pool event.

Waste Incidental to Reprocessing

The NRC issued several monitoring documents in support of WIR at the Savannah River Site (SRS), specifically the Saltstone Disposal Facility's Monitoring Technical Review Report on Technetium Solubility, the H-Area Tank Farm Technical Review Report: Grout Documentation for Tanks 18/19, and an observation report for the F-Area Tank Farm.

Uranium Recovery

In FY 2014, the agency issued a possession license under 10 CFR Part 40 , "Domestic Licensing of Source Material," to the U.S. Army for military use of depleted uranium at the Hawaiian Military Base Installation at Schofield Barracks and Pohakuloa Training Area. Subsequently, the NRC supported a public meeting via teleconference to discuss the recently issued U.S. Army license authorizing possession of depleted uranium from Davy Crockett munitions in Hawaii.

The NRC performed a preoperational inspection of the Uranerz Nichols Ranch in-situ uranium recovery facility in Wyoming. The inspection team determined that key licensee actions remain to be completed before the NRC-authorized startup of licensed activities. The NRC also performed inspections at the Willow Creek, Smith Ranch, and North Butte facilities.

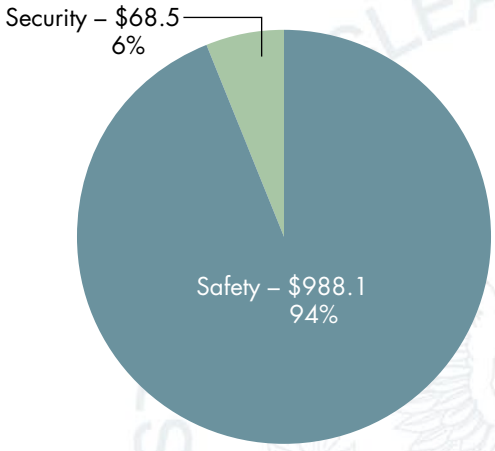
Decommissioning and Low-Level Waste Rulemaking

During FY 2014, the agency worked to complete the 10 CFR Part 61 rulemaking, "Licensing Requirements for Land Disposal of Radioactive Waste."

COSTING TO GOALS

The NRC is working to improve its cost management capabilities to better align its costs with desired outcomes. This year's Performance and Accountability Report presents the full cost of achieving the Safety and Security goals for the agency's major programs, Nuclear Reactor Safety and Nuclear Materials and Waste Safety. The total cost of achieving the agency's strategic goals was $1,056.6 million. The cost of achieving the agency's Safety goal was $988.1 million and the cost of achieving the agency's Security goal was $68.5 million. (see Figure 13).

Figure 13 – Safety and Security Costs *(In Millions)*



CROSS-CUTTING STRATEGIES

The NRC has two cross-cutting strategies: Regulatory Effectiveness and Openness. In addition, the agency has management objectives. These strategies and objectives are critical components to carrying out the agency's regulatory mandate to serve the American people.

The NRC received its thirteenth consecutive Certificate of Excellence in Accountability Reporting from the Association of Government Accountants (AGA) for its FY 2013 Performance and Accountability Report. The NRC FY 2013 Performance and Accountability Report was also recognized for Best-In-Class for having the "Best Description of the Agency's Constituency and How the Agency Operates."

REGULATORY EFFECTIVENESS

The drive to improve performance in government, coupled with increasing demands on the NRC's resources, requires the agency to become more effective, efficient, and timely in its regulatory activities. The NRC's effectiveness initiatives sharpen the agency's focus on safety and security and ensure that its available resources are optimally directed toward accomplishing the agency's mission. The agency continued implementation of the changes identified in a 2011 comprehensive review of NRC overhead functions (e.g., administrative services, human capital, financial management, including contract management, information management (IM), and information technology (IT) to identify effective, efficient, and cost conscious business solutions and eliminate duplicative processes and functions.

Nuclear Reactor Safety

Operating Reactors

In FY 2014, the NRC continued work on the ROP Baseline Inspection Enhancement Project. The goal of this project is to enhance the baseline inspection program to incorporate needed inspection areas based on operating experience, eliminate redundant or no longer applicable inspection areas, maximize efficient and effective use of agency resources, and incorporate flexibility where appropriate. This process should provide a validation of the basic philosophy and key principles of the baseline inspection program with allowances to implement needed changes.

New Reactors

The agency issued **RIS 2013-18**, "Licensing Submittal Information and Design Development Activities for Small Modular Reactor Designs," requesting voluntary information regarding the intent to apply for construction permit, early site permit, combined license, design certification, standard design approval, or manufacturing license for a nuclear power plant that cites a small modular reactor design. The information obtained will help the agency to plan its resource needs for the future.

The agency conducted its annual self-assessment of the vendor inspection program to ensure that the agency continues to effectively identify emergent issues.

The NRC developed action plans and milestones in response to the Part 52 Implementation Working Group Report, dated July 22, 2013. These actions address findings from the agency's self-assessment and will help to improve the efficiency of the licensing and post-licensing implementation processes.

The NRC developed an integrated transition plan for the effective transition of regulatory oversight and licensing readiness as new reactors proceed from construction to operation. The plan identified a number of readiness issues and recommendations for how to address them.

Nuclear Materials and Waste Safety

The NRC has implemented a program to address the Cumulative Effects of Regulation (CER) and facilitate interactions with stakeholders for regulatory activities that impact fuel cycle facilities. The agency has developed an Integrated Schedule of the major regulatory activities that impact fuel facilities, (e.g., rulemakings, guidance, generic issues). The document lists the major milestones for each regulatory initiative, the opportunities for stakeholder interactions, and references to relevant documentation. The information is maintained up to date and is available on the NRC public Web site (**http://www.nrc.gov/materials/fuel-cycle-fac/regs-guides-comm.html#cumeffects**).

OPENNESS

The Openness objective explicitly recognizes that the public must be informed about, and have a reasonable opportunity to participate in the NRC's regulatory processes. The NRC is firmly committed to transparency, participation, and collaboration as key principles governing the agency's relationship with the public and other stakeholders. The agency has demonstrated its commitment to these openness principles through its longstanding efforts to keep stakeholders informed and involved in the NRC's regulatory process.

The NRC issued its FY 2014 – 2018 Strategic Plan in August 2014. In developing the plan, the agency requested and received input from various stakeholders and the public through a *Federal Register* Notice issued on March 5, 2014. The comments received from the draft Strategic Plan were considered by agency senior management. The disposition of these comments may be found at **http://pbadupws.nrc.gov/docs/ML1416/ML14160A891.pdf**.

The agency remained committed to its Open Government Plan, first published in FY 2010 and available on the NRC Web site: **http://www.NRC.gov/public-involve/open.html**. On May 14, 2014, the agency published an addendum to its Open Government Plan outlining how its commitment to openness will be continued in 2014 and 2015. This addendum is available on the NRC Web site: **http://pbadupws.nrc.gov/docs/ML1410/ML14101A097.pdf**.

2014 Regulatory Information Conference

During FY 2014, the NRC continued to expand its use of social media as a vehicle to communicate with stakeholders. The NRC's statistics on the use of social media initiatives (Blog, Twitter, YouTube, Flickr, LinkedIn) reveal a high level of interest in NRC activities from stakeholders. For example,through July 2014, the agency posted 490 blog entries, approved nearly 4,300 comments, and attracted about 575,000 visits. The NRC counted about 5,000 Twitter followers, and sent more than 1,675 "tweets." The NRC also posted 120 video/audio clips to YouTube, had more than 525 regular subscribers, and counted about 70,000 visits. The NRC has nearly 1,900 images posted on Flickr, which have received more than 900,000 views. The agency launched its official Facebook page at the start of August 2014. In two months, there have been 55 NRC-published posts. The page has received 700 likes and over 7,600 views of the contents. The agency also enhanced public and agency stakeholders' ability to access information using mobile devices by launching a mobile version of the public Web site, and providing mobile search capability including NUREG search.

The agency continues to streamline public interactions with agency information systems by upgrading the security, Web browser compatibility, and process flows of the Electronic Information Exchange system that supports Criminal History Submission, General Forms, and Fitness for Duty Submissions. The annual Regulatory Information Conference (RIC) furthered the agency's commitment to openness by hosting a panel discussion: "Interacting with the Nuclear Regulatory Commission." In addition, the agency staffed two information tables at the conference: "Public Gateway to Nuclear Regulatory Information: The NRC Public Document Room," and "Using Public ADAMS."

The agency continued proactively posting information of interest to our stakeholders in the public Agencywide Document and Access Management System (ADAMS) database. In addition, the NRC expanded its efforts to inform the public through releasing records in response to Freedom of Information Act (FOIA) requests. This year, NRC completed its responses to requests on the Fukushima Dai-chi nuclear accident, releasing over 260,000 pages on the FOIA Web site. The NRC also placed more emphasis on improving efficiency in the agency's FOIA program and reduced its backlog by 69 percent by the end of FY 2014.

In support of public meetings, the Public Meeting Notice System was upgraded to provide for more efficient and streamlined posting of public meetings. The Public Meeting Feedback System was implemented to allow the public to easily provide comments and feedback on public meetings by directly linking them to the meeting Web site using quick response (QR) codes. In addition, a database containing Resolutions of Generic Safety Issues is now searchable and can be downloaded by the public from the NRC public Web site.

Additionally, the NRC is an active participant in data.gov, a Federal Web site designed to increase public access to high-value, machine-readable datasets generated by the Executive Branch. In FY 2014, the NRC expanded our participation by implementing OMB Open Data Policy. The NRC fosters the OMB Open Data Policy by making information resources accessible, discoverable, and usable by the public. The NRC will continue to encourage public feedback in ways consistent with agency policy and with guidance provided by OMB.

Nuclear Reactor Safety

Operating Reactors

In March 2014, the NRC held the 26th annual RIC. The RIC brings together diverse groups of stakeholders to learn, share, and discuss information on significant and timely nuclear regulatory activities and emergent issues. The conference serves as a communication vehicle that fosters informal, open dialogue between the public and the NRC staff, and supports the NRC's cross-cutting objective to ensure openness. The plenary sessions are comprised of a keynote address delivered by the NRC's Chairman, followed by remarks from each member of the Commission.

The agency made a presentation on the topic of safety culture and the NRC's Safety Culture Policy Statement at the National Association of Employee Concerns Professionals on February 25, 2014; the Waste Management Symposium on March 4, 2014; the bilateral meeting with Korean visitors on March 21, 2014; and at the High Reliability Organization Conference on March 28, 2014.

During FY 2014, the NRC held dozens of public meetings to discuss technical issues associated with the operating of specific power reactors or general topics related to operating reactors. The agency posts notifications of its public meetings at this Web link: **http://www.nrc.gov/public-involve/public-meetings.html**.

New Reactors

The NRC issued an Annual Report of the New Reactor Program (**NUREG/BR-0476**) highlighting the significant accomplishments and goals of the program and the status of its activities.

The agency conducted extensive public outreach by hosting a Vendor Oversight Workshop, which was attended by 415 domestic and international stakeholders, including industry organizations, regulators, and component and material vendors. The workshop provided an opportunity for the NRC and stakeholders to discuss issues such as counterfeit, fraudulent, or suspect items, commercial-grade dedication, and supplier oversight.

The agency received and addressed almost 2,000 comments from industry on the draft mPower design specific review standard (DSRS) that was issued for public comment in 2013, and the NRC issued 13 additional DSRS sections for comment in April 2014. The NRC held public meetings to discuss various mPower DSRS topics. The agency conducted public outreach as part of the construction oversight process by holding workshops to assess and refine the oversight process, the ITAAC closure notification process, and holding public meetings to discuss the construction inspection program.

Nuclear Materials and Waste Safety

Fuel Facilities

The NRC co-chaired the annual Nuclear Materials Management and Safeguards System (NMMSS) training meeting on May 12-15, 2014. Approximately 152 people attended and participated in the meeting. Other Government agencies who participated in the meeting included the Department of Energy, Department of Homeland Security, and Department of State. The conference included a session on tracking and reporting of nuclear materials to the NMMSS database, several workshops on NMMSS refresher training, and information sharing regarding best practices performed by the nuclear industry.

On June 10-11, 2014, the agency hosted the 9th Annual Fuel Cycle Information Exchange (FCIX). The FCIX provided a unique opportunity for government, industry, and other stakeholders to openly discuss current safety and regulatory topics relevant to key sectors of the nuclear fuel cycle. The FCIX program included panels in operating experience, guidance development, rulemaking, emergency preparedness, and security and safeguards.

The NRC has conducted quarterly meetings with the industry and stakeholders in June 2014 and September 2014 to discuss the status of items on the Integrated Schedule. The exchange of information at these quarterly meetings is used to remove unnecessary regulatory burden resulting from scheduling conflicts, multiple activities during the same period, or other considerations (e.g., safety issues, Commission direction, resources, and industry concerns). Both the NRC staff and fuel cycle stakeholders have found the Integrated Schedule and quarterly meetings an effective approach to mitigate the CER.

The NRC participated in a successful Nuclear Materials Information Program (NMIP) inter-agency exercise on April 16, 2014. NMIP was established through National and Homeland Security Presidential Directive NSPD-48/HSPD-17. This interagency effort is managed by the Department of Energy's Office of Intelligence and Counterintelligence. In addition, the agency supported a classified Government Accountability Office (GAO) review on the information on NMIP. There is no action or recommendation from the GAO review for the NRC.

Nuclear Materials Users

The agency hosted a series of public meetings including the following:

- A Webinar with over 100 participants to discuss performance based inspections for the Agreement States;
- Seven Management Review Board (MRB) meetings and one Special MRB meeting to discuss Agreement State programs;
- Three meetings to discuss and respond to questions and issues concerning the implementation of 10 CFR Part 37;
- A meeting to discuss the sealed source and device application process and license requirements; and
- A meeting to provide interested industry representatives and members of the public preliminary observations of the NRC's 10 CFR Part 37 Self-Assessment working group.

The NRC completed the "Report to Congress on Abnormal Occurrences; Fiscal Year 2013" (NUREG-0090, Vol. 36) in May 2014. This report provides accurate and timely information to the public about licensee performance and risks associated with radioactive materials, supporting the agency's strategic objective of openness.

Spent Fuel Storage and Transportation

In FY 2014, the NRC conducted a public meeting through a Webinar that discussed the basics of Independent Spent Fuel Storage Installations (ISFSI) and the planned ISFSIs at the Pilgrim Nuclear Power Station and the Palisades Nuclear Generating Station. The agency responded to questions submitted in writing during the Webinar from approximately 70 members of the public. The agency held public meetings in FY 2014 to discuss rule activities. The Commission was informed about public input received on policy issues. The NRC received more than 33,000 written documents and nearly 500 oral comments on the continued storage rule.

Decommissioning and Low-Level Waste

The agency Issued "Information Notice 1999-03, Rev. 1: Exothermic Reactions Involving Dried Uranium Oxide Powder (Yellowcake)."

During FY 2014, the NRC held a workshop with the National Mining Association to discuss radon guidance and National Historic Preservation Act Section 106 consultation lessons learned. In addition, the agency initiated information gathering for the update of the 2007 Low Level Waste Strategic Assessment.

MANAGEMENT OBJECTIVES

This section focuses on the activities related to the key management objectives of human capital and information management and information technology. Other management objectives include acquisitions, space and facilities management, and financial management.

HUMAN CAPITAL

The priorities for Human Resources Management in FY 2014 were as follows:

1. Continue to focus on filling critical skill positions within the agency and re-structuring grade levels across the agency to ensure a solid position management foundation.
2. Continue to focus on providing NRC employees with work life programs and services.
3. Continue to focus on activities to ensure successful implementation of the centralization of human capital functions.
4. Continue to lead the agency in addressing human capital challenges.

As the NRC moves toward the future, the agency is reviewing its human capital needs to respond to its changing environment and implementing strategies to address them while ensuring the agency continues to stay focused on the mission of protecting public health and safety and security. Staffing levels have remained steady since FY 2012, and overall growth in agency staffing is not expected. The NRC continues to make adjustments in staffing levels to support some areas. For example, the NRC is implementing the Fukushima NTFF recommendations and alleviating the backlog of operating reactor licensing actions, while decreasing staffing levels in other areas such as in new reactor licensing.

Recruitment and Staffing

The NRC is approaching work in a context of budgeted priorities and is strategically focusing on evaluating the need to replace employees who depart; fine-tuning available skills sets to meet future mission needs while still emphasizing Government-wide programs such as hiring of the disabled (e.g., OPM's List of People with Disabilities and the Workforce Recruitment Program); employing veterans through coordination of, and attendance at, events focused on veterans including the Operation War Fighter career fair, the Corporate Gray Military Friendly job fair, and the Vets to Feds program; and continuing to support the agency's Comprehensive Diversity Management Plan through the Diversity Management and Inclusion Council. As a result of the increased emphasis on the hiring of veterans and disabled veterans, the NRC exceeded its FY 2014 established hiring goals. In the first three quarters of FY 2014, the agency attended 24 recruitment events of which 13 focused on individuals with disabilities including disabled veterans, and has hired a total of 51 Veterans and 12 disabled veterans, which represents 26 percent and 6 percent of all NRC hires, respectively.

The agency continues to focus on ensuring that its employees have the skills and competencies to carry out the agency mission by fostering internal strategic partnerships between the Office of the Chief Human Capital Officer and the technical program offices to ensure there is a firm understanding of what skills and capabilities exist, where gaps exist, and the best ways to close those gaps through external hiring or internal mobility.

Work Life Services

The NRC has a strong commitment to work life and benefit programs, understanding that creating a flexible, supportive environment for employees maximizes organizational performance and maintains an exceptional, engaged workforce. Programs such as the Employee Wellness Program, the Employee Assistance Program, alternative work flexibilities, and telework allow employees to balance work and personal or family lives. These factors have contributed to the NRC continuing to be one of the best places to work in the Federal government based on the 2013 Federal Employee Viewpoint Survey data.

Internal Safety Culture

According to Federal Human Capital Survey Results, specifically the FY 2013 Federal Employee Viewpoint Survey, the Office of Personnel Management (OPM) placed the NRC in the top three of the 37 largest Federal departments and agencies in each of the four areas (Leadership and Knowledge Management, Results-Oriented Performance Culture, Talent Management, and Job Satisfaction) covered by the survey. The NRC excels in areas such as effective leadership, matching employees' skills to the agency's mission, strategic management, training and development, work-life balance, support for diversity, performance-based rewards and advancements, and alternative work and employee support programs. The NRC realizes that the success of the agency depends on the talent and commitment of our employees. We strive to create an open and collaborative work environment that is rich in work-life balance and where employees are engaged in meaningful and challenging work.

Training and Development

The priorities for Training and Development in FY 2014 were as follows:

1. Continue to manage and improve the training funds centralization process to ensure essential training needs are met and to ensure a professional level of customer satisfaction.
2. Provide training courses to develop the competencies needed by the staff to perform their job functions.
3. Continue with the organization, planning, and development of the Learning Transformation Initiative for the benefit of streamlining and maximizing efficiencies in delivering agency training.

The NRC will ensure continuous improvement by evaluating training products for optimum content and delivery method and will ensure that critical skills and competencies are available in the future is by adapting our training and development programs to meet the changing needs of the agency and changes in technology. The NRC continues to focus on a competency-based approach to training, ensuring a line-of-sight alignment between employees' learning experiences and the agency's mission. Training and development programs are designed to shorten the time to competency. The NRC's learning and development programs continue to evolve to support the needs of the next generation of regulatory experts. For example, the NRC has continued the successful development of new reactor simulators and technical training courses to coincide with the building of a new generation of nuclear reactors. Additionally, the agency has launched an initiative to include more on-line or blended delivery methods into the current training environment. This Learning Transformation Initiative focuses on the needs of the learner and is geared to providing the right information at the right time for individual staff members.

As the ever changing demographics in workforce continues and employees with vast knowledge and experiences become eligible to retire, the NRC recognizes the need to foster an environment of knowledge sharing and provide appropriate tools necessary to capture, retrieve, and share information in a meaningful way. The NRC has made Knowledge Management (KM) an integral part of the agency's Strategic Plan, making it a priority to support effective approaches for knowledge sharing activities. The agency KM program uses a broad and continuously evolving range of methodologies to support strategic hiring and training to fill knowledge gaps and foster a culture of knowledge transfer and retention. In FY 2014, the agency's KM program launched an internal series called, "Ask SME and Learn," to capture and share critical knowledge and experiences of subject matter experts (SME). The sessions provide an opportunity for staff across the agency to learn directly from the agency experts on a particular topic in an open forum. The sessions are recorded and made available to staff as a knowledge resource.

Outreach

The priorities for Outreach in FY 2014 were as follows:

1. Continue to focus on activities to ensure successful implementation of the management of the civil rights program, affirmative employment and diversity management program, outreach and compliance coordination program and the small business program.
2. Continue effective administration of the Minority Serving Institutions (MSI) grants program and Minority Serving Institutions Program (MSIP) to assist in their efforts to develop a diverse skilled workforce to benefit the NRC, the industry, and nation.
3. Continue an exemplary level of small business contract performance and conduct internal training in the benefits of small business contracting.

4. Effectively manage the EEO complaints process in compliance with EEOC regulations to promptly address alleged discrimination, harassment, and retaliation in the workplace.
5. Continue to provide guidance and technical assistance in developing and executing strategies in support of the agency's Comprehensive Diversity Management Plan.

The Civil Rights Program (CR) received nine formal EEO complaints in FY 2014. By comparison, there were a total of 11 complaints filed last fiscal year. The CR Program issued the No FEAR Act Report to Congress on March 31, 2014. Also during FY 2014, two lunch-and-learn training sessions were conducted for collateral duty EEO counselors.

The NRC conducted the 2014 Environmental Justice (EJ) Conference, which resulted in NRC staff and the public being educated in EJ and alignment with the conference theme "Enhancing Communities through Capacity Building and Technical Assistance." The agency participated in two mandatory meetings with the White House Initiatives Office on Historically Black Colleges and Universities (HBCUs) regarding reporting and assistance provided to HBCUs and co-hosted a Webinar with the White House Initiatives Office on American Indian and Alaska Native Education (AIANE) on MSI grants opportunities. The meetings and Webinar provided the prospective MSI applicants with important technical assistance and a Q&A session for the MSI FY 2014 funding opportunity announcement.

INFORMATION MANAGEMENT AND INFORMATION TECHNOLOGY

The priorities for Information Technology and Information Management in FY 2014 were as follows:

1. Improve the business value of NRC's IT solutions by providing the right products and services when and where needed.
2. Enable NRC staff and stakeholders to easily find and use the information they need.
3. Provide the foundation to deliver consistent and secure solutions to meet our customer's needs.
4. Improve enterprise decision-making based on mission-defined value and best practices.
5. Improve the accessibility, delivery and utility of the services that employees and business units need to work identify customer service enhancements.
6. Implement an effective cyber security program for protection of the NRC's information technology assets and identification of attempts at compromise.

In support of the NRC's Information Technology and Information Management (IT/IM) goals to better enable NRC staff and stakeholders to easily find and use the information they need, the NRC successfully imported approximately 3.75 million records consolidated and collected from the public Licensing Support Network (LSN) network into an internal NRC LSN library within the ADAMS. An upgrade to ADAMS replaced the main search engine with a new product that provides faster and better search results. The new search engine also adds several other user-requested features and supports finding results that are more relevant. The upgrade addresses the slow search response times that were cited in the FY 2012 IT/IM Survey as an area of concern. The agency continues to improve the accessibility, delivery, and utility of services needed to identify costumer service enhancements.

The NRC improved the usability of agency information by modernizing the Information and Records Management (IRM) process to make information capture and categorization more transparent, accurate, and complete. The IRM Plan provides a strategic approach to managing twelve interrelated projects over the next five years (FY 2014 – FY 2019), and helps identify resource requirements.

The agency deployed several IT/IM modernization and improvement initiatives to better support external stakeholders and the public. The NRC continues to streamline public interactions with agency information systems by upgrading the security, Web browser compatibility, and processes associated with the Electronic Information Exchange system. This system supports intake and processing of information including: criminal history submissions, general forms data, and fitness for duty data. To better safeguard secure information provided by the public and key stakeholders, improvements were made to the credentialing processes and systems used for access to Integrated Source Management Portfolio (ISMP), Electronic Information Exchange (EIE), Emergency Response Data System (ERDS), and other public facing systems.

In addition to the successes listed above, the NRC has made many internal advances in IT/IM that enable the overall operational success of the agency. A few examples include: progress on the Private Cloud initiative which includes consolidating data centers, more efficiently managing infrastructure services, and supporting the eventual transitioning of appropriate services to the external cloud; enhancements to the Mobility Program that will provide new capabilities and additional device offerings to staff with mobile requirements; and several general IM and IT enhancements (e.g. search and analytic improvements, Intranet platform upgrade, server and network refreshes, bandwidth planning, and Lync implementation) to support new services offering, and a more efficient and redundant IT/IM infrastructure.

During FY 2014, the NRC expanded its incident response database to include tracking and reporting of incidents related to physical security incident reporting. In an effort to improve the agency's cyber security posture and to inform stakeholders, the NRC developed a Cyber Security Risk Dashboard. It is now operational and implementation of office-specific dashboards is ongoing. The NRC is using the dashboard to communicate cyber security risks and posture to Senior Executives and others with cyber security roles and responsibilities.

The NRC continues its efforts to improve cyber security situational awareness and training. This includes administration of phishing tests each quarter and hands-on demonstrations and presentations at all levels of the agency on security risks and vulnerabilities. The agency has seen improvements in this area by the number of reported phishing e-mails. In addition, even though the difficulty level of the phishing tests increased, the percentage of agency staff who succumbed to the test remained consistent with the previous phishing tests.

ADDITIONAL MANAGEMENT OBJECTIVES

Acquisitions

The priorities for Acquisitions in FY 2014 were as follows:

1. Continue to train and implement change management to ensure the continued post-implementation success of the acquisition centralization, Strategic Acquisition System (STAQS), and Business Advisory Center (BAC) operations.
2. Implement additional system, policy, and process efficiencies to optimize agency procurement activities and ensure mission needs are met.
3. Ensure sourcing strategies are strategic and are executed with an agency-wide view.

During FY 2014, significant progress was achieved in streamlining the procurement process for the agency through improved training for users of STAQS and the BAC.

The NRC awarded several enterprise-wide contracts for technical assistance and research, information technology, and corporate support, as well as several enterprise-wide agreements for DOE laboratories. With diverse membership from across the NRC, these strategic acquisitions were initiated through three Portfolio Councils charged with ensuring sourcing strategies represent an agency-wide view.

Administrative Services

The priorities for Administrative Services in FY 2014 were as follows:

1. Develop and initiate an updated headquarters housing strategy for the near-term, including moves into One White Flint North (OWFN) and Two White Flint North (TWFN), and out of Three White Flint North.
2. Develop and implement an updated strategy for housing headquarters and regional staff for the long-term.
3. Provide the necessary level of administrative support to the agency, including rulemaking support.

During FY 2014, the NRC developed a plan with the General Services Administration (GSA) to share office space in Three White Flint North (3WFN) with the Food and Drug Administration (FDA) pursuant to a House Committee on Transportation and Infrastructure resolution approving a prospectus for the TWFN replacement lease. The NRC is releasing eight floors in 3WFN to FDA in two stages. The first stage was implemented in July 2014 with FDA occupancy of four vacated floors. The second stage is scheduled for execution in May 2015 with FDA occupancy of four additional floors.

In February 2014, the NRC published the NRC final plan for the retrospective analysis of existing rules in the *Federal Register* (79 FR 9981) and posted it on the NRC's Open Government Web page. The final Plan describes the processes and activities

that the NRC uses to determine whether any of its regulations should be modified, streamlined, expanded, or repealed. This action is part of the NRC's voluntary implementation of Executive Order 13579, "Regulation and Independent Regulatory Agencies," issued by the President on July 11, 2011.

To enhance agency interaction with the small business community, the NRC launched a new page on the NRC's public Web site called *Small Business Regulatory Enforcement Fairness Act* (SBREFA) Compliance, and updated the existing *Regulatory Flexibility Act* (RFA) Compliance page. From these pages the public can learn about the NRC's compliance with the RFA of 1980, as amended, and the SBREFA of 1996, as amended. New information includes a listing of all rules that impact small entities; the list also contains links providing easy access to small entity compliance guides for these rules.

Throughout FY 2014, the agency reached the goals for timely processing of background investigations and re-investigations as defined in the *Intelligence Reform and Terrorism Prevention Act*.

Financial Management

The priorities for Financial Management in FY 2014 were as follows:

1. Complete centralization of budget formulation, continue to centralize the time keeping functions, Technical Assignment Control (TAC) management, and implement the spend plan and invoice processing systems.
2. Support lessons learned on fee under-billing and implement recommendations from the Office of Inspector General's audit of fee policy and billing.
3. Conduct FY 2013 end-of-year budget execution analysis, provide enhanced support of quarterly program reviews, and develop consistent cost center policy.
4. Continue implementation activities to deploy the new eTravel system during FY 2014 successfully.

The agency met the challenges of ensuring that personnel were paid on time and travelers were accommodated during the Government shutdown. The NRC remained open seven business days longer than a majority of Federal agencies due to management of agency carryover funding to cover salaries and benefits for NRC employees. Once a Continued Resolution was passed, the agency quickly resumed normal operations.

On June 30, 2014, the NRC issued a final rule in the *Federal Register* amending the licensing, inspection, and annual fees charged to its applicants and licensees. The amendments are necessary to implement the *Omnibus Budget Reconciliation Act of 1990* (OBRA–90), as amended, which requires the NRC to recover through fees approximately 90 percent of its budget authority, not including amounts appropriated for waste incidental to reprocessing (WIR) and amounts appropriated for generic homeland security activities. Based on the *Consolidated and Further Continuing Appropriations Act of 2014*, the NRC's required fee recovery amount for the FY 2014 budget is $930.7 million. After accounting for billing adjustments, the total amount to be billed as fees to licensees is $916.7 million. The NRC Fee Recovery Schedules for FY 2014 are located at **http://www.gpo.gov/fdsys/pkg/FR-2014-06-30/pdf/2014-15193.pdf**.

International Activities

The NRC supports U.S. interests abroad in the safe and secure use of nuclear materials and in guarding against the spread of nuclear weapons. The agency performs certain legislatively mandated duties. These include participation in activities that support U.S. Government compliance with international treaties and agreements and serving as the U.S. licensing authority for exports and imports of nuclear materials and equipment.

International Treaties and Agreements

The NRC participates in a variety of conventions, treaties, and other legal and political instruments that together make up the international nuclear regime. For example, the Convention on Nuclear Security, the Joint Convention on the Safety of Spent Fuel Management and on the Safety of Radioactive Waste Management, the Nuclear Non-proliferation Treaty and the Convention on the Physical Protection of Nuclear material are just a few of these activities.

In FY 2014, the NRC provided significant support for the 6th Convention on Nuclear Safety (CNS). This included publication of the United States' Sixth National Report, reviewed 59 Contracting Parties' reports, and issued 187 questions to various countries. The agency responded to 238 questions on the US National Report. In addition, the NRC held two officer positions during the 6th CNS Review Meeting

and supported a delegation of more than 25 members.

The agency prepared for the upcoming CNS Diplomatic Conference assignments by:

- Supporting several Interagency meetings (i.e., NRC, Nuclear Security Council, Department of State, Department of Energy, and US Mission in Vienna),
- Conducting various Commission Technical Assistants and Commission briefings,
- Evaluating of the Diplomatic Conference rules of procedures, and
- Preparing U.S. Government positions and providing alternative language for the proposed amendment.

The NRC is the U.S. licensing authority for exports and imports of nuclear materials and equipment. The NRC work in this area supports the United States non-proliferation objectives to guard against the weaponization of nuclear technology and material.

The agency updated the U.S. National Report on Management of radioactive waste, spent fuel and disused sealed sources in the national safety regime for the Joint Convention meeting in May 2015, as part of a working group which includes signatory countries and organizations. The report is being revised to reflect changes in the U.S. regulatory system in specific topics such as: the continue storage, application of Lessons Learned from the Fukushima Accident, Legacy Cleanup Programs and Recovery Radioactive Source. The report will be submitted to Joint Convention Contracting Parties and the IAEA in September 2014.

During FY 2014, the Integrated Regulatory Review Services (IRRS) Followup Mission was completed. One of two recommendations and 19 of 20 suggestions were closed. One new suggestion was opened and one good practice was identified. The report can be viewed at http://www.nrc.gov/reactors/operating/ops-experience/preliminary-report.pdf. The agency has continued to participate in IRRS missions in other countries.

During FY 2014, the agency supported review of Agreements for Peaceful Nuclear Cooperation (123 Agreements) with the IAEA, Taiwan, Vietnam, China, Republic of Korea, and Norway; the administrative agreement to implement the 123 Agreement with India; and Project and Supply Agreements with Peru and Algeria.

EXPORT AND IMPORT LICENSING

In FY 2014, NRC management participated in several Joint Convention related assignments, including working group meetings with DOE; submission of member state questions and comments in support of the 5th Meeting of the Joint Convention; preparing for the workshop of incoming and outgoing officer's for the Joint Convention; and providing nominations for open officer's positions within the Joint Convention.

In FY 2014 the NRC completed 84 specific export or import licensing actions, 12 reviews of part 810, "Assistance to Foreign Atomic Energy Activities" authorization requests; and 10 Subsequent Arrangements requests proposed by the Executive Branch. NRC participated in U.S. interagency bilateral physical protection visits to support export licensing. The NRC's export/import licensing reviews ensure that nuclear equipment and material are transferred to authorized parties in ways consistent with applicable U.S. law and international obligations. The NRC continued to monitor policy and technical changes at the Nuclear Suppliers Group (NSG) for impacts on its export regulations.

The NRC provided significant support in reviewing Westinghouse application to export reactor equipment to the United Arab Emirates.

BILATERAL COOPERATION AND ASSISTANCE

In FY 2014, 8 bilateral technical cooperation exchange arrangements were finalized with Belgium, Brazil, Czech Republic, EURATOM, Indonesia, Kazakhstan, Mongolia and South Africa. On August 28, 2014, a cooperative arrangement was renewed with Brazil. On September 24, 2014, the NRC renewed its Arrangements with Belgium, Czech Republic, Kazakhstan, and South Africa. The NRC has provided draft Arrangements for review and final signature for Mongolia, Indonesia and EURATOM. All other NRC international agreements are current and all information was exchanged with appropriate agreements and approvals in place.

The agency participated in 24 bilateral meetings on diverse technical topics and supported Joint Standing Committee on Nuclear Energy Cooperation meetings with Taiwan and Argentina.

In FY 2014, the NRC completed a rulemaking effort to modify NRC regulations in 10 CFR Part 110 "Export and Import of Nuclear Equipment and Material." The revised regulations adopt **INFCIRC/225/Rev. 5** "The Physical Protection of Nuclear Material and Nuclear Facilities" as a physical protection criterion in licensing exports of nuclear materials and facilities. The rulemaking facilitates the U.S. Government's support of a global effort to promote the implementation of INFCIRC/225/Rev. 5.

The NRC began implementing a detailed plan with the regulatory authority of China, the National Nuclear Safety Administration (NNSA), for cooperation on the construction of AP1000 reactors in both countries. The plan includes exchange of inspectors and regulatory oversight during the pre-operational testing phases. In 2014, NRC held multiple meetings and discussions with NNSA on the AP1000 design, which resulted in additional questions and answers from both parties, and sent the first NRC representative to serve at NNSA's headquarters in Beijing.

Under its active assistance program, the NRC continued engagement on establishing basic regulatory infrastructure needed for oversight of a nuclear power program with countries of Africa, Europe, the Middle East, and Southeast Asia. The agency also continued expansion of engagement with regulatory counterparts in Africa, Asia, and Latin America on establishing effective regulatory oversight of facilities.

The NRC continued the program of assistance to the countries of Latin America and the former Soviet Union for regulatory controls over radioactive materials, including the establishment or enhancement of national source registries and review of national legislation. The agency also began expansion of sources-related assistance to countries of the Middle East and Africa.

The NRC continues to work with the Japanese counterparts on Fukushima and other safety-related activities. The NRC and the Japan Nuclear Regulatory Authority held several Steering Committee meetings on nuclear security. The cooperative framework provides the basis for more structured bilateral cooperation between NRS and NRC. Additionally the NRC held information exchanges with other Japanese government agencies.

MULTILATERAL COOPERATION AND ASSISTANCE

The agency supported reviews of Agreements for Peaceful Nuclear Cooperation with the IAEA, India, Taiwan, and Vietnam.

The NRC participated in IAEA member state consultancy meetings to draft the IAEA's Nuclear Security Series documents. This included reviewing and providing comments on multiple IAEA guidance documents, including draft NTS023 Implementation Guidance for INFCIRC/225/Rev. 5 "The Physical Protection of Nuclear Material and Nuclear Facilities."

The NRC continues to benefit from its work at the NEA and holds leadership positions in a number of NEA committees and working groups. The NRC chairs the Nuclear Energy Agency's Committee on Safety of Nuclear Installations (CSNI). Some of the most significant work is done in this group is with the Halden Reactor Project, a program of research covering a broad range of areas including fuels, materials, digital systems, human factors, and human reliability. The NRC also continued to co-chair the Nuclear Energy Agency's Committee on Nuclear Regulatory Activities (CNRA). NRC participated in all 3 NEA working groups and 3 senior level task groups under CNRA, chairing one of each of these groups.

The NEA's membership comprises countries with mature nuclear programs and regulatory organizations, which facilitates beneficial dialogue on detailed technical topics. The NEA's research activities enable multiple countries to benefit from research conducted in a single location, which promotes cooperation and efficient use of limited resources.

The NRC is engaged both domestically and internationally in efforts to enhance nuclear safety and security through the regulatory oversight of radioactive sources. The agency has participated in numerous meetings of technical and legal experts on the IAEA's Code of Conduct for the Safety and Security of Radioactive Sources, both to ensure that its implementing guidance is clear and accurate and to encourage Member States that have not yet made a political commitment to implement the Code to do so.

The NRC also participates in numerous IAEA-sponsored coordination, information exchange, and knowledge management forums. These include the Global Nuclear Safety and Security Network, the Asian Nuclear Safety Network, the Regulatory Cooperation Forum, the Technical Support Organization Forum, the Forum of Nuclear Regulatory Bodies in Africa, and the Arab Network of Nuclear Regulators.

The NRC played a leadership role in the Multinational Design Evaluation Program (MDEP), which facilitates cooperation among 13 countries in evaluating the designs for new nuclear power plants including the AP1000, EPR, APR1400, and ABWR. The NRC Chairman led the MDEP Policy Group. The agency participated in seven working groups, leading three of these groups.

The NRC took a lead role in the development of an international regulatory forum for cooperation on small modular reactor designs within the IAEA.

INTERNATIONAL SECURITY

Four years ago, the President of the United States convened the first-ever heads of state-level international Nuclear Security Summit. The objective of this Summit was to focus on how to better safeguard weapons-grade plutonium and uranium in order to prevent nuclear terrorism. One of the outcomes of this first summit was the United States agreeing to an International Physical Protection Advisory Service (IPPAS) Mission to be hosted by the NRC and NIST.

The mission was held from Sept 30- Oct 11, 2013. These missions provide peer advice on implementing nuclear security instruments and IAEA guidance on the protection of nuclear and other radioactive material. It also gives NRC the benefit of international experience to improve nuclear security and gives those participating in the IPPAAS team the opportunity to thoroughly understand best practices by other countries. NRC operating reactor office staff prepared background material, responded to questions, and coordinated a site visit regarding research and test reactors.

The NRC supported numerous bilateral engagements with foreign regulatory bodies to exchange information on security related activities such as emergency preparedness, physical security and cyber security. The agency also participates in many multilateral activities such as the IAEA's Nuclear Security Guidance Committee meetings, and technical and consultancy meetings on security for research and test reactor, and radioactive sources.

The agency supported DOE during FY 2014 in documenting the conclusion of the 1993 US/Russian HEU Agreement for the down blending of 500,000 kilograms of Russian weapon grade uranium into low- enriched uranium (LEU).

PROGRAM EVALUATIONS

The NRC conducted several program evaluations of its regulatory operations during FY 2014. The evaluations were conducted for both the nuclear reactor and the nuclear materials programs.

ABNORMAL OCCURRENCE (AO) REPORT

Objective: To ensure that licensed activities are conducted safely, the Abnormal Occurrence Report provides a summary of the review of and response to industry operating experience.

Scope: The AO report helps to identify safety and security deficiencies and ensure that corrective actions are taken to prevent recurrence. Through the assessment, the NRC and industry review and evaluate operating experience to identify safety concerns and the NRC responds to risk-significant issues through licensing reviews, inspections, and enhancements to its regulations.

ACCIDENT SEQUENCE PRECURSOR (ASP) PROGRAM

Objective: The ASP Program systematically evaluates U.S. nuclear power plant operating experience to identify, document, and rank the operating events that are most likely to lead to inadequate core cooling and severe core damage (precursors) that would contribute to the likelihood of additional failures.

Scope: The annual assessment (1) provides a comprehensive, risk-informed view of nuclear power plant operational experience and a measure for trending nuclear power plant core damage risk, (2) provides a partial check on dominant core damage scenarios predicted by probabilistic risk assessments, (3) provides feedback to regulatory activities, and (4) helps the agency monitor performance against the goals established in the agency's Strategic Plan.

CONSTRUCTION REACTOR OVERSIGHT PROCESS (cROP)

Objective: The annual cROP self-assessment has three objectives: (1) to determine whether the ongoing program is effective in supporting the achievement of the performance goals and the agency's strategic goals, (2) to provide timely, objective information to inform program planning and to develop recommended improvements to the cROP, and (3) to inform the Commission, NRC senior management, and the public of the results of the cROP self-assessment program, including any conclusions and resultant improvement actions.

Scope: At a minimum, the annual self-assessment includes (1) an evaluation of the construction inspection program, the construction significance determination process, the Inspections, Tests, Analysis and Acceptance Criteria (ITAAC) closure verification program, the construction enforcement program, and the construction assessment program; (2) discussions and assessments of cROP communications and cROP resource expenditures; and (3) updates on recent issues associated with ITAAC and recent domestic and international construction experience being incorporated into the NRC's programs.

Outcome: The results of the calendar year 2013 self-assessment indicate that the cROP met its program goals and the agency's strategic goals of ensuring safety and security through objective, risk-informed, understandable, and predictable oversight. Ten of the eleven performance metrics met predetermined criteria and corrective actions were identified for the one that did not.

VENDOR INSPECTION PROGRAM

Objective: An annual self-assessment determines whether the Vendor Inspection Program (VIP) has met the following objectives: verify applicants and licensees are providing effective oversight of supply chain, effectively communicate with stakeholders, perform timely and adequate allegation follow up, and ensure that agency staff has necessary knowledge and skills.

Scope: The self-assessment evaluates performance metrics under each objective to demonstrate that overarching goals are being supported.

Outcome: The results of the fiscal year 2013 self-assessment demonstrated the VIP met its program goals. Nine of eleven performance metrics met the predetermined criteria, and the agency identified corrective actions for those that did not.

SUPPORT SERVICES

Objective: Each program evaluation will determine whether the support services (e.g., administrative services, human capital management, financial management (including contract management), and information technology and information management) are being delivered in ways consistent with the overall goals and whether internal and external customer needs and requirements are met.

Scope: The annual questionnaire, survey, or checklist will determine (1) whether the program area delivers the promised results, (2) the level of customer satisfaction, and (3) program strengths and weaknesses.

INTEGRATED MATERIALS PERFORMANCE EVALUATION PROGRAM REVIEWS OF NRC REGIONAL OFFICES AND AGREEMENT STATES

Objective: Each program evaluation will determine whether the regional offices and Agreement States are conducting programs that meet the objectives set out in Management Directive 5.6, "Integrated Materials Performance Evaluation Program (IMPEP)," dated February 26, 2004.

Scope: The evaluations include common criteria and criteria specific to Agreement States and NRC regional office activities and responsibilities. The agency factors any recommendations or good practices into future reviews of materials programs.

OPERATOR LICENSING PROGRAM

Objective: The NRC's annual self-evaluation of the Operator Licensing Program ensures that the program remains effective and consistently implements the requirements in 10 CFR Part 55, "Operators' Licenses"; the guidance in **NUREG 1021**, "Operator Licensing Examination Standards for Power Reactors," Revision 9, issued July 2004; and other policy documents.

Scope: The annual self-evaluation involves audits of one or two written operator licensing examinations and operating tests in each NRC regional office to ensure consistent quality, level of difficulty, administration, and grading. The evaluation also includes a detailed review of the operator licensing function at one regional office each year, with each NRC region performing a similar self-assessment during the alternate years.

The detailed regional reviews assess seven functional areas: (1) administrative requirements, (2) written examinations, (3) operating tests, (4) requalification program oversight, (5) regional operations, (6) licensing assistant activities, and (7) resource usage.

DATA SOURCES, DATA QUALITY, AND DATA SECURITY

The NRC's data collection and analysis methods are driven largely by the regulatory mandate that Congress entrusted to the agency. Specifically, the NRC's mission is to regulate the Nation's civilian use of byproduct, source, and special nuclear materials to ensure adequate protection of public health and safety, and promote the common defense and security. In undertaking this mission, the agency oversees nuclear power plants, nonpower reactors, nuclear fuel facilities, interim spent fuel storage, radioactive material transportation, disposal of nuclear waste, and the industrial and medical uses of nuclear materials.

As part of the NRC's regulatory requirement under 10 CFR 20.2206, several NRC-regulated industries are required to submit occupational radiation exposure reports to the Radiation Exposure Information and Reporting System (REIRS) database. The agency analyzes these reports to ensure that licensees comply with the annual occupational dose limit of 50 millisieverts (5 rem). The agency uses the data in the following ways: (1) as a metric in the agency's Reactor Oversight Process to evaluate the effectiveness of licensee programs used to keep occupational radiation doses as low as reasonably achievable and for inspection planning; (2) to assist in the evaluation of the radiological risk associated with certain categories of NRC-licensed activities and for comparative analysis of radiation protection performance; (3) to provide occupational radiation exposure history reports to individuals exposed to radiation or radioactive material at NRC-licensed facilities; and (4) to provide facts for responding to Congressional and administration inquiries and to questions from the public regarding occupational radiation exposures at NRC-licensed facilities. The agency publishes NUREG-0713, "Occupational Radiation Exposure at Commercial Nuclear Power Reactors and Other Facilities," annually. NUREG-0713 Volume 33 for calendar year 2012 was issued in April 2014. It is available on the agency's Web site: **http://pbadupws.nrc.gov/docs/ML1412/ML14126A597.pdf**.

Section 208 of the *Energy Reorganization Act of 1974*, as amended, requires the NRC to inform Congress of incidents or events that the Commission determines to be significant from the standpoint of public health and safety. The agency developed the Abnormal Occurrence criteria to comply with the legislative intent of the *Energy Reorganization Act of 1974* to determine which events should be considered significant. Based on these criteria, the agency prepares an annual "Report to Congress on Abnormal Occurrences" (NUREG-0090). One important characteristic of this report is that the data presented normally originate from external sources, such as Agreement States and NRC licensees. NUREG-0090 Volume 36 for FY 2013, issued in May 2014, is available on the agency's Web site: **http://www.nrc.gov/reading-rm/doc-collections/nuregs/staff/sr0090/v36/**.

The NRC finds these data sources credible because (1) agency regulations require Agreement States, licensees, and other external sources to report the necessary information, (2) the NRC maintains an aggressive inspection program that, among other activities, includes auditing licensee programs and evaluating Agreement State programs to ensure that they are reporting the necessary information as required by the agency's regulations, and (3) the NRC has established procedures for inspecting and evaluating licensees. The agency employs multiple database systems to support this process, including the licensee event report Search System, the Accident Sequence Precursor database, the Nuclear Materials Events Database, and the REIRS. In addition, non-sensitive reports submitted by Agreement States and NRC licensees are available to the public through ADAMS, accessible through the agency's Web site **http://www.NRC.gov/reading-rm/adams.html**.

The NRC verifies the reliability and technical accuracy of event information reported to the agency. The agency periodically inspects licensees and reviews Agreement State programs.

In addition, NRC Headquarters, the regional offices, and Agreement States hold periodic conference calls to discuss event information. Events identified as meeting the Abnormal Occurrence Criteria are validated and verified before being reported to Congress.

Additionally, the NRC is an active participant in data.gov, a Federal Web site designed to increase public access to high value, machine-readable datasets generated by the Executive

Branch. The NRC published its first dataset in October 2009, and in response to the Open Government directive published three additional datasets in January 2010, and as of the end of

FY 2012, at total of 30 datasets had been published. The NRC will continue to encourage public feedback on its high-value information, and consistent with agency policy and guidance provided by data.gov, will continue to add new datasets to its high-value dataset publication plan.

INFORMATION SECURITY

The NRC's information security program (1) protects NRC and licensee information and information systems from unauthorized access, use, disclosure, disruption, modification, or destruction, (2) protects electronic control functions from unauthorized access or manipulation, and (3) ensures that adequate controls for protecting security-related information are used in the conduct of NRC business. The NRC information security program includes measures to accomplish the following: (1) ensure that information security requirements, standards, and guidance are clear, concise, appropriate, and able to mitigate the potential adverse effects if sensitive information is compromised; (2) ensure that security controls for information owned by or under the control of the NRC are consistent with established information security controls, operating as intended, and having the desired impact, and that similar controls for licensees regulated by the NRC are in compliance with NRC information security regulations; (3) ensure that suspected or actual information security violations are evaluated and that appropriate sanctions are considered; (4) ensure that the NRC has made sufficient preparations for information security-related emergencies and incidents; and (5) ensure that internal information security program components complement each other and are periodically evaluated and improved.

PERFORMANCE DATA COMPLETENESS AND RELIABILITY

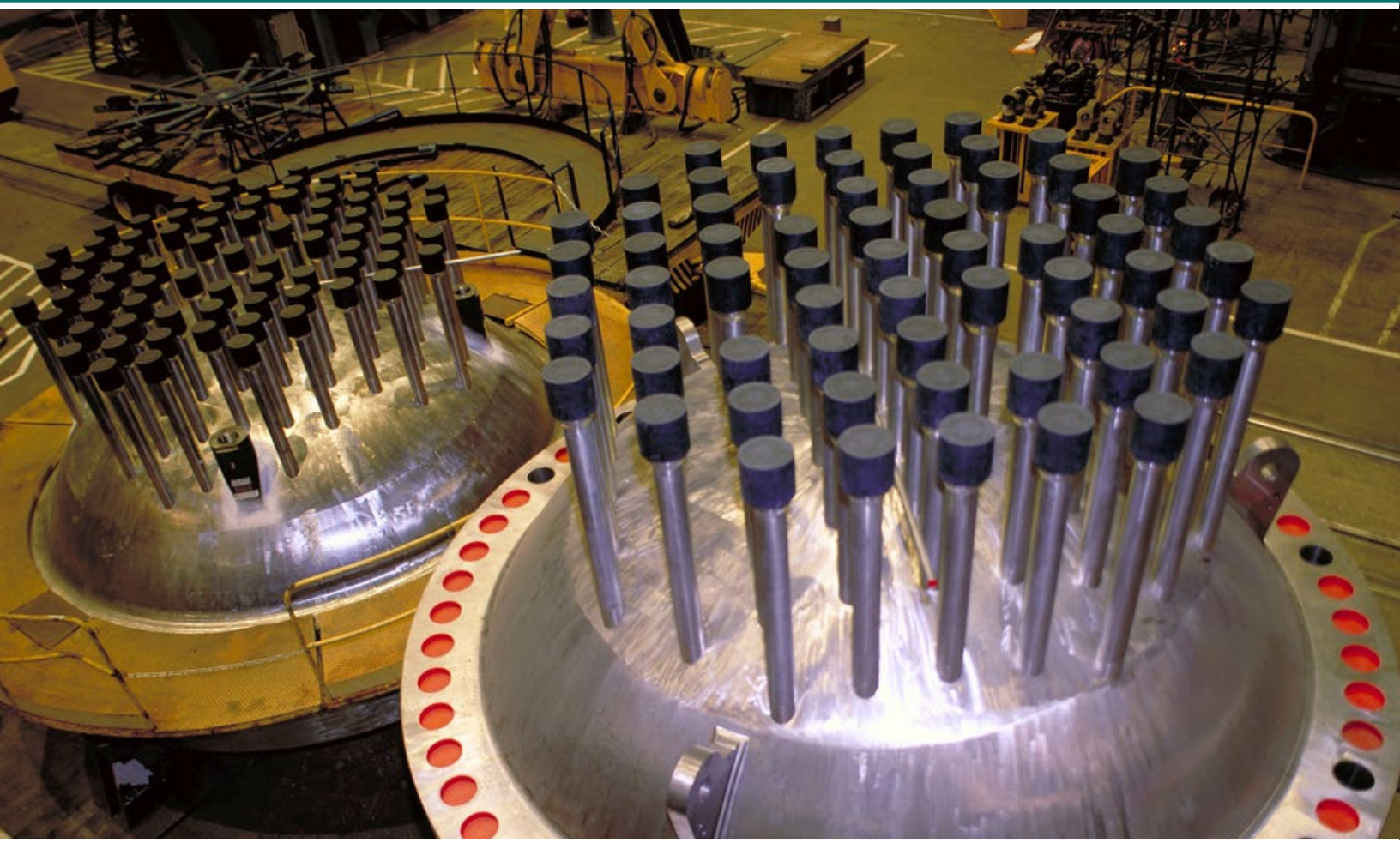
In order to manage for results, it is essential that the NRC assess the completeness and reliability of its performance data. Comparisons of actual performance with the projected levels are possible only if the data used to measure performance are complete and reliable. Consequently, the *Reports Consolidation Act of 2000* requires the NRC Chairman to assess the completeness and reliability of the performance data used in this report. The process for ensuring that the data are complete and reliable requires offices to complete a template for submission to the Chief Financial Officer for every performance indicator certifying that the data submitted have been approved by the applicable office director. The report "Data Collection Procedures for Verification and Validation of Performance Indicators," contains the processes the agency uses to collect, validate, and verify performance data. This report can be found on page 104 of the NRC's FY 2014 Congressional Budget Justification located on the NRC Web site **http://www.nrc.gov/reading-rm/doc-collectionss/staff/sr1100/v29/fy2014-cbj.pdf**.

DATA COMPLETENESS

The NRC considers data to be complete if the agency reports actual performance data for every performance goal and indicator in the annual plan. Actual performance data include all data that are available when the agency sends its report to the President and Congress. The agency has reported actual data for every strategic and performance goal indicator. In addition, all of the data are reported for each indicator. As a result, the data presented in this report meet the requirements for data completeness.

DATA RELIABILITY

The NRC considers data to be reliable when agency managers and decisionmakers use the data in carrying out their responsibilities. The NRC, for example, has implemented data driven Quarterly Program Performance reviews with senior managers. The data presented in this report meet this requirement for data reliability because NRC managers and senior leaders review the data quarterly during the Quarterly Performance Reviews and regularly use the reported data in the course of their duties.



Chapter 3
Financial Statements and Auditors' Reports

UNITED STATES NUCLEAR REGULATORY COMMISSION

A MESSAGE FROM THE CHIEF FINANCIAL OFFICER

I am pleased to present the financial statements for the U.S. Nuclear Regulatory Commission (NRC) Fiscal Year (FY) 2014 Performance and Accountability Report. For the eleventh consecutive year, an independent auditor has rendered an unmodified opinion on the NRC financial statements. The auditor has also rendered an unqualified opinion on our internal control over financial reporting, concluding that the NRC is compliant with pertinent provisions of laws and regulations. Receiving this most recent clean opinion was particularly satisfying since FY 2014 presented continuing challenges in workload and budgetary conditions. The NRC ensured that personnel were paid on time and travelers were accommodated during the Government shutdown. The NRC remained open seven business days longer than a majority of Federal agencies due to management of agency carryover funding to cover salaries and benefits for NRC employees. Once a Continued Resolution was passed, the agency quickly resumed normal operations. The NRC managed through budget uncertainty to allocate its resources to address the highest priority regulatory activities and effectively account for the use of funds in its financial statements due to the talent and dedication of the agency's financial managers and staff.

The agency has continued to make substantial progress in modernizing its financial systems in FY 2014. The Strategic Acquisition Systems (STAQS), the agency-wide procurement system that automates a previous manual business function, became operational. The realtime interface of STAQS ensures the agency is properly handling all procurement financial transactions with the core ledger system, the Financial Accounting and Integrated Management Information System (FAIMIS). An agency-wide Spend Plan application for contractual funds utilization was added to the Budget Formulation System (BFS). During FY 2014, the NRC continued to provide routine financial system management system user training while enhancing reporting needs based on evolving NRC business functions. The agency also continued upgrade plans to move to the E-Gov Travel Service 2 (ETS2) system and Time and Labor Modernization (TLM) system to address legislative requirements, strengthen controls, and further automate system processes.

The NRC continued use of its Programmatic Internal Control framework in FY 2014 based upon Federal agency standards for best practices. This framework streamlined and improved the processes and administrative requirements and provides a more interdependent approach to ensure the effectiveness of the agency's programmatic internal controls.

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

Maureen E. Wylie
Chief Financial Officer
November 4, 2014

FINANCIAL STATEMENTS

BALANCE SHEET *(In Thousands)*

As of September 30,	2014	2013
Assets		
Intragovernmental		
Fund balance with Treasury (Note 2)	**$ 377,391**	$ 318,244
Accounts receivable (Note 3)	**26,395**	8,779
Other-Advances and prepayments	**8,056**	4,935
Total intragovernmental	**411,842**	331,958
Cash and other monetary assets	**–**	–
Accounts receivable, net (Note 3)	**85,172**	83,029
Property and equipment, net (Note 4)	**90,280**	107,771
Other	**20**	17
Total Assets	**$ 587,314**	$ 522,775
Liabilities		
Intragovernmental		
Accounts payable	**$ 12,472**	$ 9,322
Other (Note 5)	**4,687**	4,238
Total intragovernmental	**17,159**	13,560
Accounts payable	**25,713**	28,726
Federal employee benefits (Note 6)	**6,669**	7,023
Other (Note 5)	**74,729**	70,189
Total Liabilities	**124,270**	119,498
Net Position		
Unexpended appropriations	**306,226**	242,640
Cumulative results of operations (Note 8)	**156,818**	160,637
Total Net Position	**463,044**	403,277
Total Liabilities and Net Position	**$ 587,314**	$ 522,775

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

STATEMENT OF NET COST *(In Thousands)*

For the periods ended September 30,	2014	2013
Nuclear Reactor Safety		
Gross costs	**$ 817,279**	$ 831,114
Less: Earned revenue	**(815,037)**	(760,283)
Total Net Cost of Nuclear Reactor Safety (Note 9)	**2,242**	70,831
Nuclear Materials and Waste Safety		
Gross costs	**239,305**	232,011
Less: Earned revenue	**(81,515)**	(91,959)
Total Net Cost of Nuclear Materials and Waste Safety (Note 9)	**157,790**	140,052
Net Cost of Operations	**$ 160,032**	$ 210,883

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

STATEMENT OF CHANGES IN NET POSITION *(In Thousands)*

For the periods ended September 30,	2014	2013
Cumulative Results of Operations		
Beginning Balance	**$ 160,637**	$ 160,194
Budgetary Financing Sources		
Appropriations used (Note 11)	**121,099**	176,169
Non-exchange revenue (Note 11)	**165**	482
Transfers-in/out without reimbursement	**–**	–
Other Financing Sources		
Transfers in/out without reimbursement	**–**	–
Imputed financing from costs absorbed by others (Note 11)	**35,114**	35,157
Other	**(165)**	(482)
Total Financing Sources	**156,213**	211,326
Net Cost of Operations	**(160,032)**	(210,883)
Net Change	**(3,819)**	443
Cumulative Results of Operations	**$ 156,818**	$ 160,637
Unexpended Appropriations		
Beginning Balance	**$ 242,640**	$ 285,080
Budgetary Financing Sources		
Appropriations received	**184,685**	186,209
Appropriations used (Note 11)	**(121,099)**	(176,169)
Other adjustments	**–**	(52,480)
Total Budgetary Financing Sources	**63,586**	(42,440)
Total Unexpended Appropriations	**306,226**	242,640
Net Position	**$ 463,044**	$ 403,277

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

STATEMENT OF BUDGETARY RESOURCES *(In Thousands)*

For the periods ended September 30,	2014	2013
Budgetary Resources		
Unobligated balance brought forward, October 1	**$ 42,779**	$ 62,904
Recoveries of prior year unpaid obligations		
Actual	**10,600**	14,921
Unobligated balance from prior year budget authority, net	**53,379**	77,825
Appropriations	**1,055,895**	985,620
Spending authority from offsetting collections	**9,802**	6,385
Total Budgetary Resources	**$ 1,119,076**	$ 1,069,830
Status of Budgetary Resources		
Obligations incurred (Note12)	**$ 1,065,612**	$ 1,027,051
Unobligated balance, end of year		
Apportioned	**48,479**	30,017
Exempt from apportionment	**4,816**	11,005
Unapportioned	**169**	1,757
Total unobligated balance, end of year	**53,464**	42,779
Total Status of Budgetary Resources	**$ 1,119,076**	$ 1,069,830
Change in Obligated Balance		
Unpaid obligations		
Unpaid obligations brought forward, October 1	**$ 278,812**	$ 303,254
Obligations incurred (Note12)	**1,065,612**	1,027,051
Outlays, gross	**(1,007,948)**	(1,036,572)
Recoveries of prior year unpaid obligations	**(10,600)**	(14,921)
Total unpaid obligations, end of year	**$ 325,876**	$ 278,812
Uncollected payments		
Uncollected customer payments from Federal sources, brought forward, October 1	**$ (3,517)**	$ (8,631)
Change in uncollected customer payments, Federal sources	**1,568**	5,114
Total uncollected customer payments, Federal sources, end of year	**$ (1,949)**	$ (3,517)
Memorandum entries:		
Obligated balances, start of year	**$ 275,295**	$ 294,623
Obligated balances, end of year	**$ 323,927**	$ 275,295
Budget Authority and Outlays, Net		
Budget Authority, gross	**$ 1,065,697**	$ 992,005
Actual offsetting collections	**(11,201)**	(11,668)
Change in uncollected customer payments, Federal sources	**1,568**	5,114
Budget Authority, Net	**$ 1,056,064**	$ 985,451
Outlays, gross	**$ 1,007,948**	$ 1,036,572
Actual offsetting collections	**(11,201)**	(11,668)
Outlays, net	**996,747**	1,024,904
Distributed offsetting receipts	**(871,206)**	(851,891)
Agency Outlays, Net	**$ 125,541**	$ 173,013

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

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

B. Basis of Presentation

These financial statements 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 of the United States and the form and content for entity financial statements specified by the OMB in Circular No. A-136, "Financial Reporting Requirements." The GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board, which is the official body for setting the accounting standards of the U.S. Government. These statements are, therefore, different from the financial reports, also prepared by the NRC pursuant to 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 its operations and mission.

Budgetary information for small budget accounts is aggregated by major budget accounts for purposes of the Required Supplementary Information.

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.

In FY 2013, the NRC's appropriations were full-year continuing resolutions at the funding levels included in the *Energy and Water Development Appropriations Act, 2012*, less a 5 percent reduction for sequestration and a 0.2 percent rescission. In FY 2014, Congress passed the *Consolidated Appropriations Act, 2014* that funded the NRC's full budget request of $1.04 billion for FY 2014. Not more than $9.5 million of the budget may be made available for the Office of the Commission as a 2-year appropriation that is available for obligation by the NRC until September 30, 2015. Additionally, Congress enacted a 2-year appropriation of $12.0 million for the Office of the Inspector General, which is available for obligation by the NRC until September 30, 2015.

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 Statement of Budgetary Resources presents budgetary resources available to the NRC and changes in obligations during the year. Interest on borrowings of the Treasury is not included as a cost to NRC programs and is not included in the accompanying financial statements.

E. REVENUES AND OTHER FINANCING SOURCES

The NRC is required to offset its appropriations by revenue received during the fiscal year from the assessment of fees. The NRC assesses two types of fees to recover its budget authority: (1) fees assessed under 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," for licensing, inspection, and other services under the authority of the *Independent Offices Appropriation Act of 1952* to recover the NRC's costs of providing individually identifiable services to specific applicants and licensees; and (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 Material 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 materials annual fee is invoiced 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 financing sources (appropriations used) at the time goods and services are received. Periodically during the fiscal year, appropriations recognized are reduced by the amount of assessed fees collected during the fiscal year to the extent of new budget authority for the year. Collections which exceed the new budget authority are held to offset subsequent years' appropriations. Appropriations expended for property and equipment are recognized as expenses when the asset is consumed in operations as reflected by depreciation and amortization expense.

F. FUND BALANCE WITH TREASURY

The NRC's cash receipts and disbursements are processed by the Treasury. 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. 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, which, 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 provided by the GSA, which charges the NRC rent that approximates the commercial rental rates for similar properties.

Property with a cost of $50 thousand 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. 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 prior to year end that are unpaid. The NRC had previously used an estimation methodology to calculate the accounts payable balance based on a review of the sample obligations from the total open obligations balances. For FY 2014, 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 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. No liability can be paid by the NRC absent an appropriation. Liabilities for which an appropriation has not been enacted are classified as "Liabilities Not Covered by Budgetary Resources." Also, the NRC's liabilities arising from sources other than contracts can be abrogated by the Government acting in its sovereign capacity.

Intragovernmental

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

Federal Employee Benefits

Federal employee benefits represent the actuarial liability for estimated future FECA disability benefits. The future workers' compensation estimate was generated by DOL from an application of actuarial procedures developed to estimate the liability for FECA, which includes the expected liability for death, disability, 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.

Other

Accrued annual leave represents the amount of annual leave earned by NRC employees but not yet taken.

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. A contingent liability (included in Other Liabilities) 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 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. A contingency is disclosed in the Notes to the Financial Statements 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 reasonably possible when the chance of the future confirming event or events occurring is more than remote but less than probable (Note 16). A contingency is not recognized as a contingent liability and an expense nor disclosed in the Notes to the Financial Statements when the chance of the future event or events occurring is remote. A contingency is considered remote when the chance of the future event or events occurring is slight.

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 the NRC's financial statements as an imputed financing source in the NRC's Statement of Changes in Net Position and as program costs on the Statement of Net Cost. The amount of current and estimated future retirement outlays represents biweekly payroll amounts withheld from empoyees' salaries and Federal government contributions.

O. Leases

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

Operating leases consist of real property leases with GSA. The leases are for the NRC's Headquarters and regional offices. The GSA charges the NRC lease rates which 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 No. A-25, "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 its 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 appropriated spending authority that is unobligated and has not been withdrawn by the Treasury and obligations that have not been paid. 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 Generally Accepted Accounting Principles 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 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 the 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 consists of activities related to both operating reactors and new reactors.

The Nuclear Materials and Waste Safety program encompasses all NRC efforts to protect the public health and safety and the environment and ensures the secure use and management of radioactive materials. The Nuclear Materials and Waste Safety program encompasses activities of fuel facilities, nuclear materials users, decommissioning and low-level waste, spent fuel storage and transportation, and establishing 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,	2014	2013
Fund Balances		
Appropriated funds	**$ 371,197**	$ 304,746
Nuclear Waste Fund	**6,191**	13,498
Other fund types	**3**	–
Total	**$ 377,391**	$ 318,244
Status of Fund Balance with Treasury		
Unobligated balance		
Available		
Appropriated funds	**$ 53,464**	$ 41,022
Unavailable		
Unapportioned	**–**	1,757
Temporary reduction of spending authority from offsetting collections	**–**	169
Obligated balance not yet disbursed	**323,927**	275,296
Total	**$ 377,391**	$ 318,244

The Fund Balance with Treasury consists of the unobligated and obligated budgetary account balances, which include NWF activity. The NWF unobligated balance is $4.8 million and $11.1 million as of September 30, 2014, and 2013, respectively.

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

Note 3. ACCOUNTS RECEIVABLE

As of September 30,	2014	2013
Intragovernmental		
Fee receivables and reimbursements	**$ 26,395**	$ 8,779
Receivables with the Public		
Materials and facilities fees-billed	**$ 17,054**	$ 8,048
Materials and facilities fees-unbilled	**72,351**	76,730
Other	**187**	67
Total Receivables with the Public	**89,592**	84,845
Less: Allowance for uncollectible accounts	**(4,420)**	(1,816)
Total Receivables with the Public, Net	**$ 85,172**	$ 83,029
Total Accounts Receivable	**$ 115,987**	$ 93,624
Less: Allowance for uncollectible accounts	**(4,420)**	(1,816)
Total Accounts Receivable, Net	**$ 111,567**	$ 91,808

Note 4. PROPERTY AND EQUIPMENT, NET

As of September 30,				2014	2013
Fixed Assets Class	**Service Years**	**Acquisition Value**	**Accumulated Depreciation and Amortization**	**Net Book Value**	**Net Book Value**
Equipment	5-8	$ 9,663	$ (8,549)	**$ 1,114**	$ 1,283
Leased equipment	5-8	1,806	(1,715)	**91**	181
IT software	5	56,162	(43,002)	**13,160**	15,993
IT software under development	5	396	–	**396**	2,850
Leasehold improvements	20	123,979	(52,975)	**71,004**	85,982
Leasehold improvements in progress	–	4,515	–	**4,515**	1,482
Total		$ 196,521	$ (106,241)	**$ 90,280**	$ 107,771

Note 5. OTHER LIABILITIES

As of September 30,	2014	2013
Intragovernmental		
Liability to offset miscellaneous accounts receivable	**$ 70**	$ 58
Liability for advances from other agencies	**7**	12
Accrued workers' compensation	**1,601**	1,669
Accrued unemployment compensation	**11**	13
Employee benefit contributions	**2,998**	2,486
Other Liabilities, Sequestration and recission awaiting Treasury warrant	**–**	–
Total Intragovernmental Other Liabilities	**$ 4,687**	$ 4,238
Other Liabilities		
Accrued annual leave	**$ 46,923**	$ 46,832
Accrued salaries and benefits	**12,330**	10,423
Contract holdbacks, advances, capital lease liability, and other	**6,319**	6,300
Contingent Liabilities	**–**	–
Grants Payable	**9,157**	6,634
Total Other Liabilities	**$ 74,729**	$ 70,189
Total Intragovernmental and Other Liabilities	**$ 79,416**	$ 74,427

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

Note 6. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

As of September 30,	2014	2013
Intragovernmental		
FECA paid by DOL	**$ 1,601**	$ 1,669
Accrued unemployment compensation	**11**	13
Federal Employee Benefits		
Future FECA	**6,669**	7,023
Other		
Accrued annual leave	**46,923**	46,832
Contingent Liabilities	**–**	–
Total Liabilities not Covered by Budgetary Resources	**55,204**	55,537
Total Liabilities Covered by Budgetary Resources	**69,066**	63,961
Total Liabilities	**$ 124,270**	$ 119,498

Liabilities not Covered by Budgetary Resources represents the amount of future funding needed to pay the accrued unfunded expenses as of September 30, 2014, and 2013. These liabilities are not funded from current or prior-year appropriations and assessments, but rather 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 2014, projected annual payments were discounted to present value based on the OMB interest rate assumptions which were interpolated to reflect the average duration in years for income payments and medical payments. The interest rate assumptions utilized for FY 2014 discounting were 2.73 percent in year 1 and 3.13 percent in year 2 for wage benefits, and 2.33 percent in year 1 and 2.86 percent in year 2 for medical benefits.

Note 7. LEASES

As of September 30,	2014	2013
Assets Under Capital Leases:		
Copiers and booklet maker	**$ 1,806**	$ 1,806
Accumulated depreciation	**(1,715)**	(1,625)
Net Assets Under Capital Leases	**$ 91**	$ 181

As of September 30,				2014	2013
Future Lease Payments Due:	**Fiscal Year**	**Capital**	**Operating**		
	2014	$ 8	$ –	**$ 8**	$ 39,770
	2015	93	46,362	**46,455**	40,239
	2016	–	43,141	**43,141**	40,380
	2017	–	42,497	**42,497**	39,785
	2018	–	37,778	**37,778**	35,117
	2019 and thereafter	–	158,227	**158,227**	237,016
	Total Lease Liability	101	328,005	**328,106**	432,307
Add: Imputed Interest		1	–	**1**	3
Total Future Lease Payments		$ 102	$ 328,005	**$ 328,107**	$ 432,310

The Capital Lease Liability of $101 thousand is included in Other Liabilities (Note 5). For Future Lease Payments, the NRC calculates the Capital Lease Liability and adds the imputed interest to arrive at the Total Future Lease Payments.

For FY 2014, there are 3 capital leases with terms of 5 years, consisting of 1 capital lease added in FY 2014, 1 capital lease added in FY 2013, and 1 capital lease added in FY 2011 with an interest rate of 1.26 percent. The reproduction equipment is depreciated over 5 years using the straight-line method with no salvage value.

Note 8. CUMULATIVE RESULTS OF OPERATIONS

As of September 30,	2014	2013
Liabilities not covered by budgetary resources (Note 6)	**$ (55,204)**	$ (55,537)
Investment in property and equipment, net (Note 4)	**90,280**	107,771
Contributions from foreign cooperative research agreements	**4,306**	4,008
Nuclear Waste Fund	**6,191**	13,498
Accounts receivable - fees	**111,114**	90,889
Fee Collection Revenue Not Transferred	**3**	–
Other	**128**	8
Cumulative Results of Operations	**$ 156,818**	$ 160,637

Note 9. STATEMENT OF NET COST

For the years ended September 30,	2014	2013
Nuclear Reactor Safety		
Intragovernmental gross costs	**$ 234,636**	$ 234,342
Less: Intragovernmental earned revenue	**(55,733)**	(55,560)
Intragovernmental net costs	**178,903**	178,782
Gross costs with the public	**582,643**	596,772
Less: Earned revenues from the public	**(759,305)**	(704,723)
Net costs with the public	**(176,662)**	(107,951)
Total Net Cost of Nuclear Reactor Safety	**$ 2,241**	$ 70,831
Nuclear Materials and Waste Safety		
Intragovernmental gross costs	**$ 63,614**	$ 60,242
Less: Intragovernmental earned revenue	**(5,947)**	(6,216)
Intragovernmental net costs	**57,667**	54,026
Gross costs with the public	**175,691**	171,769
Less: Earned revenues from the public	**(75,567)**	(85,743)
Net costs with the public	**100,124**	86,026
Total Net Cost of Nuclear Materials and Waste Safety	**$ 157,791**	$ 140,052

Note 10. EXCHANGE REVENUES

For the years ended September 30,	2014	2013
Fees for licensing, inspection, and other services	**$ 891,446**	$ 843,703
Revenue from reimbursable work	**5,106**	8,539
Total Exchange Revenues	**$ 896,552**	$ 852,242

Note 11. FINANCING SOURCES OTHER THAN EXCHANGE REVENUE

For the years ended September 30,	2014	2013
Appropriations Used		
Collections are used to reduce the fiscal year's appropriations recognized:		
Funds consumed	**$ 999,612**	$ 1,028,164
Less: Collection of fees assessed	**(871,206)**	(851,891)
Less: Nuclear Waste Funding Expense	**(7,307)**	(104)
Total Appropriations Used	**$ 121,099**	$ 176,169

Funds consumed include $42.9 million and $62.9 million through September 30, 2014, and 2013, respectively, of available funds from prior years.

For the years ended September 30,	2014	2013
Non-Exchange Revenue		
Civil penalties	**$ 45**	$ 184
Miscellaneous receipts	**120**	298
Non-Exchange Revenue	**165**	482
Contra-Revenue	**(165)**	(482)
Total Non-Exchange Revenue, Net of Funds Returned to the U.S. Treasury General Fund	**$ –**	$ –

For the years ended September 30,	2014	2013
Imputed Financing		
Civil Service Retirement System	**$ 18,038**	$ 15,044
Federal Employee Health Benefit	**16,954**	17,215
Federal Employee Group Life Insurance	**89**	89
Judgments/Awards	**33**	2,809
Total Imputed Financing	**$ 35,114**	$ 35,157

The NRC employees belong to either the FERS or the CSRS. For employees belonging to FERS and receiving an appointment prior to January 1, 2013, the NRC withheld 0.8 percent of base pay earnings and provided a 11.9 percent employer contribution. In accordance with Section 5001 of Public Law 112-96 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 a 9.6 percent 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 2014 and FY 2013.

The Thrift Savings Plan (TSP) is a retirement savings and investment plan for employees belonging to either FERS or CSRS. The maximum percentage of base pay that an employee participating in FERS or CSRS may contribute is unlimited, subject to the maximum contribution of $17.5 thousand in 2014 and 2013. For employees participating in FERS, the NRC automatically contributes one percent of base pay to their account and matches contributions up to an additional four percent. For employees participating in CSRS, there is no NRC matching of the contribution. The sum of the employees' and NRC's contributions are transferred to the Federal Retirement Thrift Investment Board.

Note 12. TOTAL OBLIGATIONS INCURRED

For the years ended September 30,	2014	2013
Direct Obligations		
Category A	**$ 1,052,034**	$ 1,019,466
Exempt from Apportionment	**8,391**	52
Total Direct Obligations	**1,060,425**	1,019,518
Reimbursable Obligations	**5,187**	7,533
Total Obligations Incurred	**$ 1,065,612**	$ 1,027,051

Obligations exempt from apportionment are the result of funds derived from the NWF. Category A Obligations consist of NRC appropriations only. Undelivered orders for the NWF are $1.4 million and $2.5 million, Salaries and Expenses are $268.1 million and $221.6 million, and the Office of the Inspector General are $0.9 million and $1.1 million through September 30, 2014, and 2013, respectively.

Note 13. NUCLEAR WASTE FUND

For FY 2014 and FY 2013, the NRC's budget did not include funds from the NWF. The funding provided to the NRC prior to FY2013 and carried forward to subsequent years was for the purpose of performing activities associated with DOE's application for a high-level waste repository at Yucca Mountain, NV.

The SFFAS No. 43, "Funds from Dedicated Collections: Amending SFFAS 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. Also, the law 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 Treasury under the NRC's primary Salaries and Expenses fund (X0200).

Based on these facts, the NWF is not a fund from dedicated collections from the NRC's perspective. In order to provide additional information to the users of these financial statements, enhanced disclosure of the fund is presented below.

The NWF amounts received, expended, obligated, and unobligated balances as of September 30, 2014, and 2013, are shown in the following:

For the years ended September 30,	2014	2013
Appropriations Received	**$ –**	$ –
Expended Appropriations	**$ 7,307**	$ 107
Obligations Incurred	**$ 8,391**	$ 52
Unobligated Balances (includes recoveries of prior year obligations)	**$ 4,813**	$ 11,055

Note 14. EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE U. S. GOVERNMENT

The SFFAS No. 7, "Accounting for Revenue and Other Financing Sources," requires the NRC to reconcile the budgetary resources reported on the SBR to the prior fiscal year actual budgetary resources presented in the Budget of the U.S. Government and explain any material differences. The NRC does not have any material differences between the SBR and the Budget of the U.S. Government.

Note 15. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGETARY RESOURCES

For the periods ended September 30,	2014	2013
Budgetary Resources Obligated		
Obligations incurred (Note 12)	**$ 1,065,612**	$ 1,027,051
Less: Spending authority from offsetting collections and recoveries	**(20,233)**	(21,475)
Less: Distributed offsetting receipts	**(871,206)**	(851,891)
Net Obligations	**174,173**	153,685
Other Resources		
Imputed financing from costs absorbed by others	**35,114**	35,157
Non-Exchange Revenue	**165**	482
Funds returned to U.S. Treasury General Fund	**(165)**	(482)
Net Other Resources Used to Finance Activities	**35,114**	35,157
Total Resources Used to Finance Activities	**209,287**	188,842
Resources Used to Finance Items not Part of the Net Cost of Operations	**(44,118)**	(3,908)
Total Resources Used to Finance the Net Cost of Operations	**165,169**	184,934
Components of the Net Cost of Operations that will not require or generate resources in the current period	**(5,137)**	25,949
Net Cost of Operations	**$ 160,032**	$ 210,883

Note 16. 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.

In FY 2009, the NRC signed an Interagency Agreement with the GSA to fund the build-out of the NRC office space for the new 3WFN office building. The NRC capitalized the cost of the build-out as a leasehold improvement with a total cost $40.4 million. However, to comply with the OMB's Freeze the Footprint initiative, the agency determined that it should only occupy 6 of the 14 floors of the 3WFN office building. Subsequently, GSA has leased 8 of the 14 floors to the FDA of which the FDA occupied 4 floors during the 4th quarter of FY 2014. It is anticipated that FDA will occupy 4 additional floors during the 3rd quarter of FY 2015. Accordingly, the NRC will recognize a loss on the impaired asset for the remaining net realizable value of the build-out cost for the 4 additional floors of $10.2 million in FY 2015.

Reasonably Possible Likelihood of an Adverse Outcome:

As of September 30, 2014, the NRC was a party to a case in which an adverse outcome was reasonably possible. The upper range of the loss on the potential liability was $64 million. As of September 30, 2013, the NRC was not party to a case in which an adverse outcome was probable or reasonably possible.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF BUDGETARY RESOURCES *(In Thousands)*

For the period ended September 30, 2014	Salaries and Expenses	Office of Inspector General	Nuclear Facility Fees	Total
Budgetary Resources				
Unobligated balances, brought forward, October 1	$ 41,411	$ 1,368	$ –	**$ 42,779**
Recoveries of prior year obligations				
Actual	10,223	377	–	**10,600**
Unobligated balance from prior year budget authority, net	51,634	1,745	–	**53,379**
Appropriations	1,043,937	11,955	3	**1,055,895**
Spending authority from offsetting collections	9,800	2	–	**9,802**
Total Budgetary Resources	$ 1,105,371	$ 13,702	$ 3	**$ 1,119,076**
Status of Budgetary Resources				
Obligations incurred (Note 12)	$ 1,054,528	$ 11,084	$ –	**$ 1,065,612**
Unobligated balance, end of period				
Apportioned	45,861	2,618	–	**48,479**
Exempt from apportionment	4,813	–	3	**4,816**
Unapportioned	169	–	–	**169**
Unobligated balance, end of period	50,843	2,618	3	**53,464**
Total Status of Budgetary Resources	$ 1,105,371	$ 13,702	$ 3	**$ 1,119,076**
Change in Obligated Balance				
Unpaid obligations				
Unpaid obligations, brought forward, October 1	$ 278,098	$ 714	$ –	**$ 278,812**
Obligations incurred (Note 12)	1,054,528	11,084	–	**1,065,612**
Outlays, gross	(997,490)	(10,458)	–	**(1,007,948)**
Recoveries of prior year unpaid obligations	(10,223)	(377)	–	**(10,600)**
Total unpaid obligations, end of period	$ 324,913	$ 963	$ –	**$ 325,876**
Uncollected payments				
Uncollected customer payments from Federal sources, brought forward, October 1	$ (3,517)	$ –	$ –	**$ (3,517)**
Change in uncollected customer payments, from Federal sources	1,568	–	–	**1,568**
Total uncollected customer payments, from Federal sources	$ (1,949)	$ –	$ –	**$ (1,949)**
Memorandum entries:				
Obligated balances, start of year	$ 274,581	$ 714	$ –	**$ 275,295**
Obligated balances, end of period	$ 322,964	$ 963	$ –	**$ 323,927**
Budget Authority and Outlays, Net				
Budget Authority, gross	$ 1,053,737	$ 11,957	$ 3	**$ 1,065,697**
Actual offsetting collections	(11,199)	(2)	–	**(11,201)**
Change in uncollected customer payments, from Federal sources	1,568	–	–	**1,568**
Budget Authority, net	$ 1,044,106	$ 11,955	$ 3	**$ 1,056,064**
Outlays, gross	$ 997,490	$ 10,458	$ –	**$ 1,007,948**
Actual offsetting collections	(11,199)	(2)	–	**(11,201)**
Outlays, net	986,291	10,456	–	**996,747**
Distributed offsetting receipts	–	–	(871,206)	**(871,206)**
Agency Outlays, net	$ 986,291	$ 10,456	$ (871,206)	**$ 125,541**

SCHEDULE OF BUDGETARY RESOURCES *(In Thousands)*

For the period ended September 30, 2013	Salaries and Expenses	Office of Inspector General	Nuclear Facility Fees	Total
Budgetary Resources				
Unobligated balances, brought forward, October 1	$ 61,447	$ 1,457	$ –	**$ 62,904**
Recoveries of prior year obligations				
Actual	14,599	322	–	**14,921**
Unobligated balance from prior year budget authority, net	76,046	1,779	–	**77,825**
Appropriations	975,309	10,311	–	**985,620**
Spending authority from offsetting collections	6,384	1	–	**6,385**
Total Budgetary Resources	$ 1,057,739	$ 12,091	$ –	**$ 1,069,830**
Status of Budgetary Resources				
Obligations incurred (Note 12)	$ 1,016,328	$ 10,723	$ –	**$ 1,027,051**
Unobligated balance, end of period				
Apportioned	28,649	1,368	–	**30,017**
Exempt from apportionment	11,005	–	–	**11,005**
Unapportioned	1,757	–	–	**1,757**
Unobligated balance, end of period	41,411	1,368	–	**42,779**
Total Status of Budgetary Resources	$ 1,057,739	$ 12,091	$ –	**$ 1,069,830**
Change in Obligated Balance				
Unpaid obligations				
Unpaid obligations, brought forward, October 1	$ 302,612	$ 642	$ –	**$ 303,254**
Obligations incurred (Note 12)	1,016,328	10,723	–	**1,027,051**
Outlays, gross	(1,026,243)	(10,329)	–	**(1,036,572)**
Recoveries of prior year unpaid obligations	(14,599)	(322)	–	**(14,921)**
Total unpaid obligations, end of period	$ 278,098	$ 714	$ –	**$ 278,812**
Uncollected payments				
Uncollected customer payments from Federal sources, brought forward, October 1	$ (8,631)	$ –	$ –	**$ (8,631)**
Change in uncollected customer payments, from Federal sources	5,114	–	–	**5,114**
Total uncollected customer payments, from Federal sources	$ (3,517)	$ –	$ –	**$ (3,517)**
Memorandum entries:				
Obligated balances, start of year	$ 293,981	$ 642	$ –	**$ 294,623**
Obligated balances, end of period	$ 274,581	$ 714	$ –	**$ 275,295**
Budget Authority and Outlays, Net				
Budget Authority, gross	$ 981,693	$ 10,312	$ –	**$ 992,005**
Actual offsetting collections	(11,667)	(1)	–	**(11,668)**
Change in uncollected customer payments, from Federal sources	5,114	–	–	**5,114**
Budget Authority, net	$ 975,140	$ 10,311	$ –	**$ 985,451**
Outlays, gross	$ 1,026,243	$ 10,329	$ –	**$ 1,036,572**
Actual offsetting collections	(11,667)	(1)	–	**(11,668)**
Outlays, net	1,014,576	10,328	–	**1,024,904**
Distributed offsetting receipts	–	–	(851,891)	**(851,891)**
Agency Outlays, net	$ 1,014,576	$ 10,328	$ (851,891)	**$ 173,013**

INSPECTOR GENERAL'S LETTER TRANSMITTING INDEPENDENT AUDITORS' REPORT

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

OFFICE OF THE
INSPECTOR GENERAL

November 14, 2014

MEMORANDUM TO: Chairman Macfarlane

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

SUBJECT: RESULTS OF THE AUDIT OF THE UNITED STATES NUCLEAR REGULATORY COMMISSION'S FINANCIAL STATEMENTS FOR FISCAL YEARS 2014 AND 2013 (OIG-15-A-03)

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

- Financial Statements
- Internal Control Over Financial Reporting
- Compliance with Laws, Regulations, Contracts and Grant Agreements

NRC's Performance and Accountability Report includes comparative financial statements for FY 2014 and FY 2013.

Objective of a Financial Statement Audit

The objective of a financial statement audit is to determine whether the audited entity's financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation.

CLA's audits were made in accordance with auditing standards generally accepted in the U. S.; *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. The audits 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 2014 Audit Results

The results are as follows:

Financial Statements

- Unmodified opinion

Internal Control Over Financial Reporting

- Unqualified opinion

Compliance with Laws, Regulations, Contracts, and Grant Agreements

- No reportable instances of noncompliance

OIG Oversight of CLA Performance

To fulfill our responsibilities under the CFO Act and related legislation for overseeing the audit work performed, we monitored CLA's audit of NRC's FY 2014 and FY 2013 financial statements by:

- Reviewing CLA's audit approach and planning.
- Evaluating the qualifications and independence of CLA's auditors.
- Monitoring audit progress at key points.
- Examining the working papers related to planning and performing the audit and assessing NRC's internal controls.
- Reviewing CLA's audit reports for compliance with *Government Auditing Standards* and OMB Bulletin No. 14-02.

- Coordinating the issuance of the audit reports.
- Performing other procedures deemed necessary.

CLA is responsible for the attached auditors' reports, dated November 7, 2014, 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, and accordingly we do not express, an opinion on:

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

However, our oversight, as described above, disclosed no instances where CLA did not comply, in all material respects, with applicable auditing standards and requirements.

Meeting with the Chief Financial Officer

At the exit conference on November 10, 2014, representatives of the Office of the Chief Financial Officer, OIG, and CLA discussed the results of the audit.

Comments of the Chief Financial Officer

In her response, the Chief Financial Officer (CFO) agreed with CLA's report. The full text of the CFO's response follows this report.

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

Attachment: As stated

cc: Commissioner Svinicki
Commissioner Ostendorff
Commissioner Baran
Commissioner Burns
M. Galloway, OEDO
K. Brock, OEDO
J. Arildsen, OEDO
C. Jaegers, OEDO
RidsEdoMailCenter

INDEPENDENT AUDITORS' REPORT

CliftonLarsonAllen LLP

www.cliftonlarsonallen.com

INDEPENDENT AUDITORS' REPORT

Inspector General
United States Nuclear Regulatory Commission

Chairman
United States Nuclear Regulatory Commission

Report on the Financial Statements

We have audited the accompanying financial statements of the United States Nuclear Regulatory Commission (NRC), which comprise the balance sheets as of September 30, 2014 and 2013, and the related statements of net cost, changes in net position, and budgetary resources for the years then ended, and the related notes to the financial statements (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 (U.S.) including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of the financial statements in accordance with auditing standards generally accepted in the U.S., the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 14-02). Those standards and OMB Bulletin 14-02 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from 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 auditors' judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting

INDEPENDENT AUDITORS' REPORT, CONTINUED

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.

We are also responsible for applying certain limited procedures with respect to the Required Supplementary Information (RSI) and all other accompanying information included with the financial statements.

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 Nuclear Regulatory Commission as of September 30, 2014 and 2013, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the U.S.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the U.S. issued by the Federal Accounting Standards Advisory Board (FASAB) require that NRC's Management Discussion and Analysis (MD&A), and other RSI, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by FASAB, which considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the MD&A and other RSI in accordance with auditing standards generally accepted in the U.S., which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information
The FY 2014 Performance and Accountability Report contains a wide range of other information, some of which is not directly related to the financial statements. This other information includes the cover, table of contents, Message from the Chairman, Chapter 2 (Program Performance), Message from the Chief Financial Officer, the Inspector General's letter transmitting the Independent Auditors' Report, management's response to the audit report, and Chapter 4 (Other Accompanying Information). This information is presented for purposes of additional analysis and is not a required part of the financial statements or RSI. This other information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Report on Internal Control Over Financial Reporting

We have audited NRC's internal control over financial reporting as of September 30, 2014, based on criteria established under 31 U.S.C. 3512 (c), (d), commonly known as the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and OMB Circular A-123, *Management's Responsibility for Internal Control*, as amended (OMB Circular A-123).

INDEPENDENT AUDITORS' REPORT, CONTINUED

Management's Responsibility for Internal Control

NRC management is responsible for maintaining effective internal control over financial reporting, and for its statement of assurance on the effectiveness of internal control over financial reporting.

Auditors' Responsibilities

Our responsibility is to express an opinion on NRC's internal control over financial reporting based on our audit. We conducted our audits of internal control over financial reporting in accordance with attestation standards established by the American Institute of Certified Public Accountants and the attestation standards contained in *Government Auditing Standards*.

An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and evaluating the design, and testing the operating effectiveness of internal control over financial reporting based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances.

Definition and Inherent Limitations of Internal Control Over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged by governance, management, and other personnel, designed to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with accounting principles generally accepted in the U.S.; (2) assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and (3) transactions are executed in accordance with laws governing the use of budget authority and other applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error. We also caution that projecting our audit results to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls 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, 2014, based on criteria established under FMFIA and OMB Circular A-123.

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

Compliance With Laws, Regulations, Contracts and Grant Agreements

In connection with our audits, we performed tests of the NRC's compliance with certain provisions of laws, regulations, contracts, and grant agreements consistent with our professional responsibilities discussed below. The results of our tests for the year ended September 30, 2014, disclosed no instances of noncompliance that are required to be reported in accordance with *Government Auditing Standards.*

INDEPENDENT AUDITORS' REPORT, CONTINUED

Systems Compliance With the Federal Financial Management Improvement Act (*FFMIA) Requirements*

Under FFMIA, we are required to report whether the financial management systems used by NRC substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Standard General Ledger (USSGL) at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements. However, providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of 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 USSGL at the transaction level.

Management's Responsibility

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 grant agreements.

Auditors' Responsibilities

We are responsible for testing compliance with certain provisions of laws, regulations, contracts and grants that have a direct and material effect on the determination of financial statement amounts and applicable laws for which OMB Bulletin 14-02 requires testing.

We did not test compliance with all laws, regulations, contracts and grant agreements applicable to NRC. We limited our tests of compliance to certain provisions of laws, regulations, contracts, and grant agreements that have a direct and material effect on the determination of financial statement amounts and those laws and regulations required by OMB Bulletin 14-02. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. We caution that noncompliance with laws and regulations may occur and not be detected by these tests and that such testing may not be sufficient for other purposes. Also, our work on FFMIA would not necessarily disclose all instances of noncompliance with FFMIA requirements.

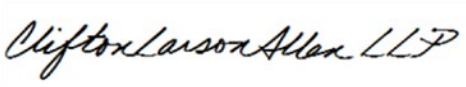
Purpose of the Report on Compliance

The purpose of the Report on Compliance is solely to describe the scope of our testing of compliance with laws and regulations and the result of that testing, and not to provide an opinion on the NRC's compliance. This report is an integral part of audits performed in accordance with *Government Auditing Standards* in considering NRC's compliance. Accordingly, this report is not suitable for any other purpose.

INDEPENDENT AUDITORS' REPORT, CONTINUED

Management's Response to the Independent Auditors' Report

Management's response to our report is presented in the Performance and Accountability Report. We did not audit NRC's response and, accordingly, we express no opinion on it.



CliftonLarsonAllen LLP

Arlington, Virginia
November 7, 2014

MANAGEMENT'S RESPONSE TO THE INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

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

November 7, 2014

CHIEF FINANCIAL OFFICER

MEMORANDUM TO: Stephen D. Dingbaum
Assistant Inspector General for Audits
Office of the Inspector General

FROM: Maureen E. Wylie
Chief Financial Officer

SUBJECT: AUDIT OF THE FISCAL YEAR 2014 AND 2013 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 2014 and 2013 financial statements and are in agreement with it.

cc: M. Galloway, AO/OEDO
J. Arildsen, OEDO
K. Brock, OEDO
H. Rasouli, OEDO
C. Jaegers, OEDO

Chapter 4
Other Information

Inspector General's Assessment of the Most Serious Management and Performance Challenges Facing the NRC 101

Summary of Financial Statement Audit and Management Assurances 143

Improper Payments Information Act and Recovery Audit Reporting Details 147

Schedule of Spending 151

Acronyms and Abbreviations 155

Bibliographic Data Sheet 161

Availability of Reference Materials in NRC Publications 165

UNITED STATES NUCLEAR REGULATORY COMMISSION

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

OFFICE OF THE
INSPECTOR GENERAL

October 16, 2014

MEMORANDUM TO: Chairman Macfarlane

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

SUBJECT: INSPECTOR GENERAL'S ASSESSMENT OF THE MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES FACING NRC (OIG-15-A-01)

The Reports Consolidation Act of 2000 requires the Inspector General of each Federal agency to annually summarize what he or she considers to be the most serious management and performance challenges facing the agency and to assess the agency's progress in addressing those challenges. In accordance with the act, I identified nine management and performance challenges confronting the Nuclear Regulatory Commission that I consider to be the most serious.

The agency provided comments on this report; the comments are included in a report appendix.

If you have any questions, please contact Stephen D. Dingbaum, Assistant Inspector General for Audits, at 415-5915 or me at 415-5930.

Attachment: As stated

cc: Commissioner Svinicki
Commissioner Ostendorff
M.Satorius, EDO
M.Wylie, CFO

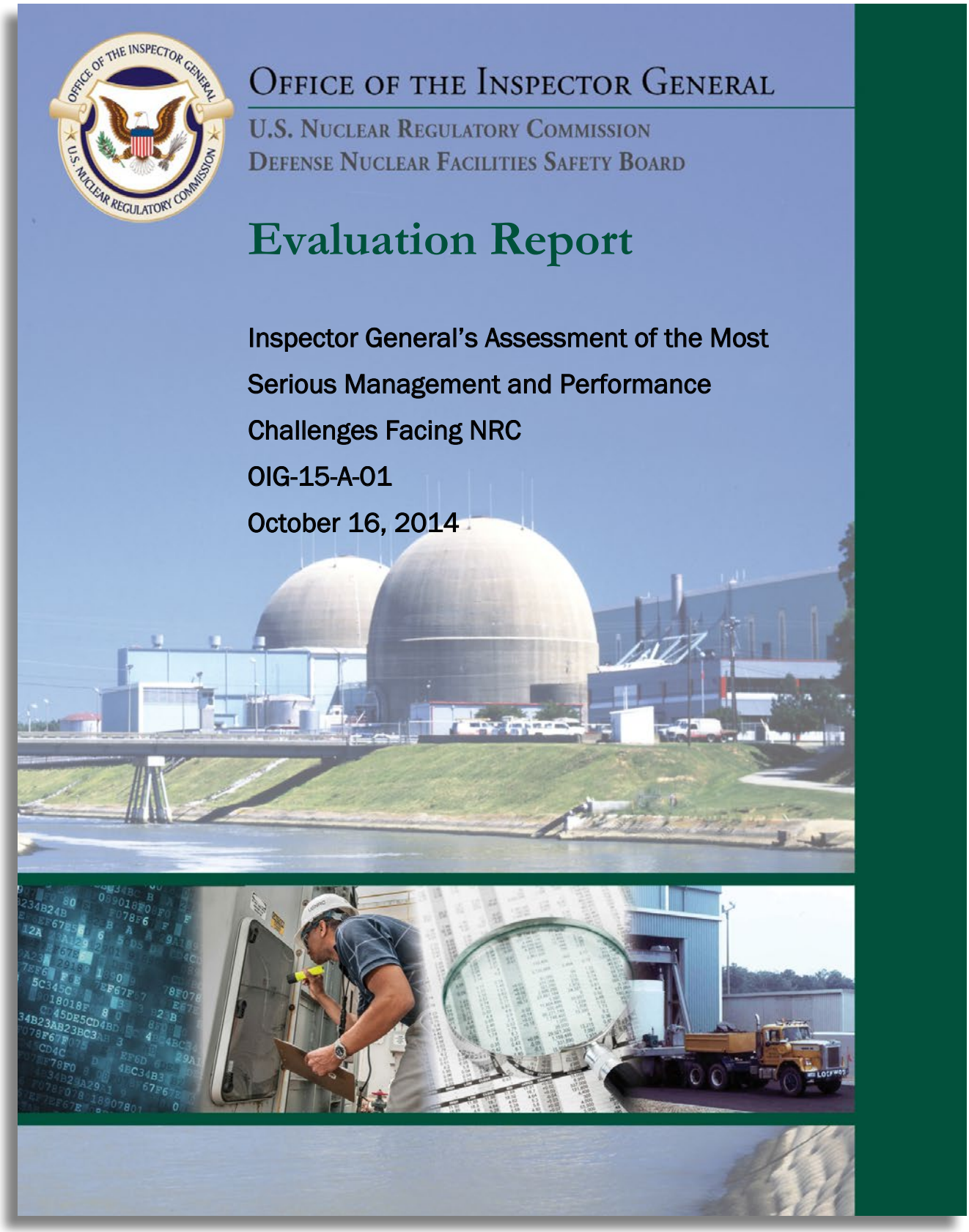

OFFICE OF THE INSPECTOR GENERAL
U.S. NUCLEAR REGULATORY COMMISSION
DEFENSE NUCLEAR FACILITIES SAFETY BOARD
Evaluation Report
Inspector General's Assessment of the Most Serious Management and Performance Challenges Facing NRC
OIG-15-A-01
October 16, 2014

TABLE OF CONTENTS

I. BACKGROUND AND PURPOSE 104
II. ASSESSMENT RESULTS 107
III. AGENCY COMMENTS AND OIG'S RESPONSE TO COMMENTS 131
IV. SCOPE AND METHODOLOGY 133
APPENDIX: AGENCY COMMENTS 134

I. BACKGROUND AND PURPOSE

On January 24, 2000, Congress enacted the *Reports Consolidation Act of 2000*, requiring Federal agencies to provide financial and performance management information in a more meaningful and useful format for Congress, the President, and the public. The act requires the Inspector General (IG) of each Federal agency to annually summarize what he or she considers to be the most serious management and performance challenges facing the agency and to assess the agency's progress in addressing those challenges.

To accomplish this assessment, the NRC IG considered the overall work of the Office of the Inspector General (OIG), the OIG staff's general knowledge of agency operations, and other relevant information to develop and update the list of management and performance challenges and assess the agency's progress in addressing these challenges.

In addition, beginning in 2012, OIG staff performed an analysis of the past 10 years of audit findings and assigned them to performance categories, such as internal controls, accountability and communications. Approximately 540 audit findings and recommendations were analyzed. Every year since, OIG staff incorporated new audit findings into this analysis. As part of the most recent analysis – which focused on the last 5 years of audit findings and recommendations – OIG staff identified a total of eight performance categories that are supported by the audit findings. These categories represent the most serious management and performance challenges facing the agency. They relate directly to the mission-oriented management challenges in past OIG reports in that improvement in the eight performance categories supports improvement in the past mission-oriented challenge areas. The audit-based categories also support enhancing performance in NRC strategic areas and management objectives.

Likewise, the Investigations staff of OIG analyzed 5 years of investigation information for identification of performance trends and opportunities to improve performance. A total of 287 investigations were reviewed. This information was evaluated for applicability to the audit based categories already identified and sorted on that basis as it applied. Additionally, the investigation information was analyzed for any other trends and one

additional management challenge category (cyber security) was developed.

These nine categories are more specific and actionable than those in past NRC OIG management and performance challenge reports. They represent significant opportunities for the agency to improve performance affecting its strategic goals and management objectives. Figure 1 relates these new management and performance challenges to past management and performance challenges and the agency's strategic goals and management objectives.

The agency's performance relative to the new challenge areas will be evaluated by OIG as new information becomes available, including audit and investigative findings and Issue Area Monitoring.[1] As OIG notes improved performance in a challenge, the challenge will be removed, as warranted.

[1] Through OIG's Issue Area Monitor (IAM) program, OIG staff designated as IAMs are assigned responsibility for keeping abreast of major agency programs and activities. The broad IAM areas address nuclear reactors, nuclear materials, nuclear waste, information management, security, financial and administrative programs, human resources, and international programs.

Figure 1. OIG Assessment of Audit and Investigative Results

			Strategic Goals and Functional Areas						
			Security	Safety			Management Objectives		
			Security	Materials	Nuclear Facilities	High Level Waste	Information Technology	Human Capital	Financial Management
CHALLENGES	1	Internal Controls	X	X	X	X	X		X
	2	Guidance & Procedures	X	X	X	X	X		X
	3	Training	X	X	X		X		X
	4	Acquisitions, Contracting, & Procurement			X				X
	5	Project Management		X	X				X
	6	Internal Communication & Coordination	X	X	X	X	X		X
	7	Human Capital Management						X	
	8	Accountability	X	X	X		X		X
	9	Cyber Security	X				X		

II. ASSESSMENT RESULTS

NRC's mission is to license and regulate the Nation's civilian use of byproduct, source, and special nuclear materials to ensure adequate protection of public health and safety, promote the common defense and security, and protect the environment. Like other Federal agencies, NRC faces management and performance challenges in carrying out its mission.

Congress left the determination and threshold of what constitutes a most serious management and performance challenge to the discretion of the IGs.

The NRC IG has 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*. Based on this definition, the IG identified the following as the most serious management and performance challenges facing NRC as of October 1, 2014:

1. Internal Controls.
2. Guidance and Procedures.
3. Training.
4. Acquisition, Contracting, and Procurement.
5. Project Management.
6. Internal Communication and Coordination.
7. Human Capital Management.
8. Accountability.
9. Cyber Security.

Each of these challenges is discussed on the following pages.

Management Challenge #1

Internal Controls

Internal controls are the plans, methods, policies, and procedures an organization employs to ensure effective resource use in fulfilling its mission, goals, objectives, and strategic plan. A quality internal control program promotes operational efficiency, ensures that established policies are followed, safeguards assets, prevents fraud, minimizes errors, and verifies the accuracy and reliability of data.

Internal controls are essential to strong organizational performance and affect all NRC strategic areas and management objectives. Internal controls are essential for NRC's continued and successful management of its regulatory processes (reactors and materials), security programs, information technology, financial management (and procurement), and human capital.

Like all Federal agencies, NRC internal controls are expected to provide reasonable, but not absolute, assurance that agency objectives are consistently met. NRC has established internal controls for its various programs. OIG audits and investigations have consistently identified shortfalls in NRC's internal controls. Examples of performance gaps in internal controls found during OIG audits and investigations are included below. Taken together, these examples indicate the need for NRC to improve its internal controls.

Specific examples

- NRC has some issues executing certain facets of the National Environmental Policy Act (NEPA) because the agency does not have controls in place to ensure that staff is compliant. As a result, staff have varying interpretations on how to comply with NRC's regulations

in 10 CFR Part 51. In an effort to strengthen its internal controls, NRC has proposed to develop agencywide guidance to ensure that staff appropriately follow Part 51.

- NRC's approach to contract oversight has weaknesses in verifying dollar amounts submitted on invoices by contractors. Specifically, NRC's internal control processes do not include steps to routinely use source documentation to verify amounts billed on contractor invoices. The agency has committed to develop steps to include periodic reviews and evaluation of contractor invoice source documentation.

- Until recently, NRC did not systematically track nuclear power reactor licensees' commitments, in part because the agency did not have an adequate tool for tracking them. Subsequently, NRC successfully developed and implemented an approach for systematically tracking power reactor licensee commitments. The agency's new approach to tracking commitments creates a key internal control for managing records that are relevant to the oversight of licensee activities.

Management Challenge #2

Guidance and Procedures

Guidance and procedures refers to directives and other types of formal written guidance that establishes NRC management's expectations for agency staff. Policies and procedures are designed to influence and determine all major decisions and actions and all activities take place within the boundaries set by them. Together policies and procedures ensure that a point of view held by a governing body of an organization such as NRC is translated into steps that result in an outcome compatible with that view. OIG audits and investigations have consistently identified shortfalls in NRC's guidance and procedures. Examples of these gaps found during OIG audits and investigations are included below. Taken together, these examples indicate the need for NRC to improve its guidance and procedures.

Specific examples

- NRC imposed license conditions for fuel cycle and uranium recovery facilities that do not meet the intent of the Atomic Energy Act because NRC does not have adequate guidance for staff preparing the licenses. NRC has proposed to develop and implement detailed guidance for fuel cycle and uranium recovery staff to use when developing license conditions.

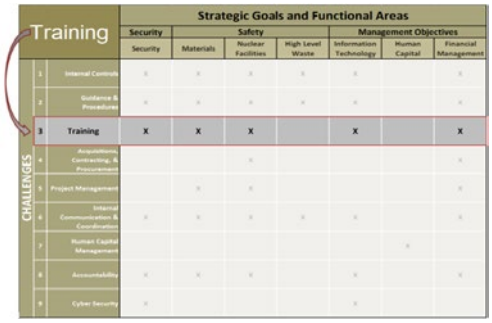
- NRC has not developed and incorporated within policy and guidance the existing mechanisms used for systematic and continual monitoring, collecting, and trending of age-related data for some types of components in nuclear power plants. Age-related studies have emphasized the importance of continual monitoring, collecting, and trending of age-related data for components in an ever changing

environment. Yet, NRC has not systematically and continually collected or evaluated age-related data to determine if a specific aging component oversight program is needed or what type of program would be necessary. Currently, NRC may identify data on active component aging intermittently during Reactor Oversight Process inspections, but not through any methods of systematic data collection, analysis, and trending. At present, age-related failures are not consistently identified in existing reporting mechanisms, when they are identified at all.

- Generally, NRC's oversight of industrial radiography is effective. However, NRC's inspection guidance lacks language defining which licensee location should be visited for each routine inspection, and lacks a methodology to ensure that field station[2] selection is reliable. Additionally, some NRC inspectors do not know what they can require of an NRC licensee during an inspection when that licensee's facility is located in an Agreement State[3] because there is no guidance for NRC inspectors conducting inspections of NRC licensees in Agreement States. NRC staff are currently revising inspection guidance to clearly define expectations, including locations that must be inspected (including field stations) and at what frequency, as well as records and other information inspectors should review for conducting an inspection of a NRC licensee who is located in an Agreement State.

- NRC's travel card program management does not maximize the agency's travel card rebates. This is because the agency does not pay the entire bill for centrally billed accounts upon receipt, but instead pays the bill as charges are matched to specific line items. The agency is in the process of developing and implementing a policy to pay centrally billed travel cards on a daily or weekly basis. Additionally, NRC is currently revising Management Directive 14.1, *Official Temporary Duty Travel,* to require cardholders who travel more than five times a year to use their Government travel card for official travel expenses.

[2] Field stations are facilities listed in the license.
[3] Agreement States are States that have entered into an agreement assuming regulatory authority from NRC. In accordance with Section 274 of the Atomic Energy Act, as amended, NRC may relinquish its authority to regulate byproduct, source, and limited quantities of special nuclear material to States. These States must first demonstrate that their regulatory programs are adequate to protect public health and safety and are compatible with NRC's program.



Management Challenge #3

Training

Training comprises the acquisition of knowledge, skills, and competencies as a result of the teaching of vocational or practical skills and knowledge that relate to specific useful competencies. Training has specific goals of improving one's capability, capacity, productivity, and performance. Through training, NRC establishes a pool of skilled employees to meet current and future organizational needs and support professional growth.

Many of the NRC programs have established training plans to enhance the knowledge base of its staff. OIG audits and investigations have consistently identified a lack of training as a cause for program weaknesses. Examples of a lack of training found during OIG audits and investigations are included below. Taken together, these examples indicate the need for NRC to strengthen its training programs.

Specific examples

- NRC employees are required to comply with personnel reporting responsibilities for continued access authorization. NRC's Management Directive 12.3, *NRC Personnel Security Program*, requires employees to comply with a list of reporting responsibilities set forth in the directive. Specifically, employees are required to report certain events that may bring into question their reliability and trustworthiness; however, NRC employees rarely comply with personnel reporting responsibilities for continued access authorization. The agency is working to implement the needed training.

- Training for NRC's Inspections, Tests, Analyses, and Acceptance Criteria (ITAAC) process staff is improvised. The Office of New

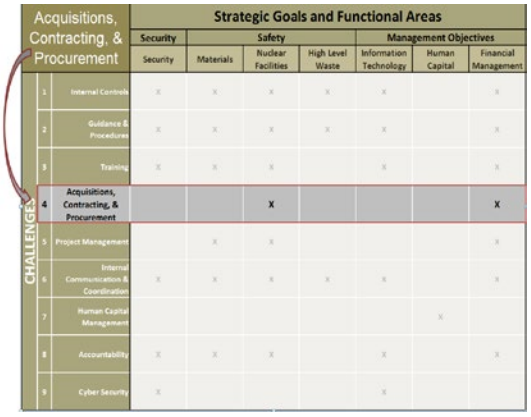
Reactors provides ITAAC training to staff as determined by various managers in headquarters and Region II. However, this training has not been systematically developed in accordance with the training and development policies listed on the NRC's internal training Web site. These policies are based on the Office of Personnel Management's (OPM) training guidance. OPM/agency policies call for a training needs assessment to help agency and program managers identify appropriate subjects and methods for training. Current ad hoc training practices hinder the staff's ability to identify and conduct relevant ITAAC inspections and closure notice reviews. The agency is currently working to design and develop training needs assessment guidance and on the development and delivery of training, and anticipates the training will be accessible to users via NRC's training Web site by October 31, 2014.

- Although the agency provides staff and managers with training on the non-concurrence process, the training is limited. Providing properly implemented training that effectively communicates policies, objectives, responsibilities, authorities, requirements, and information to employees are essential human capital practices that help to ensure employees have the knowledge and skills to perform their job and accomplish the agency mission. However, training on the agency's non-concurrence process is not provided in a medium that is routinely available to all staff when they need it. Without timely training, the non-concurrence process will continue to be inconsistently implemented and staff will perceive the process as ineffective and inefficient. Agency staff are currently working to develop on-line, on-demand non-concurrence process training for all staff and managers.

- Although the agency has offered training on its core accounting system, additional training is needed on the system's report functionalities and features. Agency management acknowledges that the core accounting system reports have been a challenge for program staff to obtain and understand. Recently, the agency has conducted approximately eight training sessions related to interactive reports and plans to conduct monthly user group meetings.

Management Challenge #4

Acquisitions, Contracting, and Procurement



Acquisitions, contracting, and procurement refer to the process through which the government purchases ("acquires") goods and services. NRC's procurement of goods and services aims to achieve the best value for the agency's dollars in a timely manner. Agency policy provides that these activities support the agency's mission and be consistent with sound business practices and contracting principles. The agency focuses on the goals of achieving (1) a 21st century acquisition program that uses state-of-the-art acquisition methodologies for acquisition planning, execution, management, and closeout, and (2) an acquisition program that fully integrates with the agencywide program and financial planning and budget execution.

During the past few years, NRC has made several changes to its acquisitions, contracting and procurement management functions. OIG continues to monitor the impact of these changes through its audits and investigative functions. Included below, are examples of NRC's continuing challenges in acquisitions, contracting, and procurement.

Specific examples

- NRC is in the process of streamlining the agency's contracting practices. During FY 2014, NRC deployed the Strategic Acquisition System (STAQS), the new Agencywide system for acquisitions management. As expected during the first year of implementing a new system, staff had challenges adjusting to the functionalities of STAQS. Also, during the first months of implementation, there were some

delays in migrating prior year data into STAQS. In addition, the agency continues to monitor the interface between STAQS and the core financial system to resolve any outstanding issues. The agency's Office of Administration continues to provide support to staff and is committed to improving the system's overall performance.

- NRC's administration of a $34 million contract to implement Microsoft technologies throughout the agency lacked internal controls over the invoice review process, as evidenced by irregularities in the invoices. The agency had not provided agency staff with detailed guidance that sufficiently addresses the specifics of reviewing and approving contract invoices. Consequently, NRC lacked assurance that contract costs were being consistently and appropriately evaluated to determine whether they are allowable, allocable, and reasonable, thus leaving the agency vulnerable to potential fraud, waste, and abuse. In response to an OIG audit, the agency quickly developed interim guidance, and is in the process of developing permanent guidance and validating invoices associated with the specific contract reviewed by the OIG auditors.

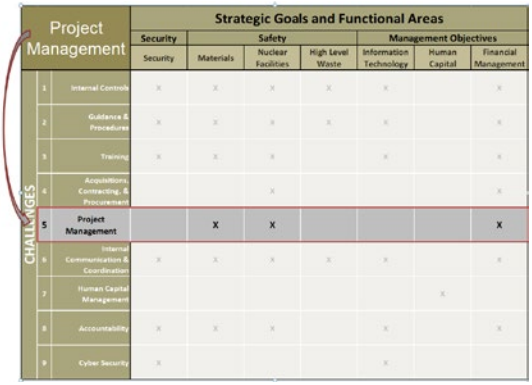
- NRC's contract award policies and procedures need improvement. Specifically, the agency needs to determine what policies and procedures are required for an efficient and effective contract award process, develop or update them, and establish a process to regularly maintain them. During FY 2014, the agency updated Management Directive 11.1, *NRC Acquisition of Supplies and Services*, which establishes a more effective and efficient contract award process.

- NRC staff involved in contract administration and oversight need to maintain diligence to prevent and deter fraud, waste, and abuse in NRC's contracts. An OIG investigation found that a university associate research scientist and two other university employees did not perform work on an NRC contract as claimed and their hours were improperly billed to the NRC contract. The U.S. Department of Justice (DOJ) accepted this contract fraud case for civil litigation; subsequently, a settlement agreement was executed in October 2012 in which the university agreed to pay single damages ($278,674.03) plus investigative costs ($192,395.63) for a total of $471,069.66. In another example, OIG investigated an allegation that an information technology contractor may have inappropriately billed one NRC regional office for the same work the contractor had previously billed a

different regional office. OIG determined that the contractor used a set of documents it prepared for one region as templates for documents for the other region and left information in the documents pertaining to the first region. The contractor apologized to the project officer, removed its quality assurance project manager due to the issues raised by NRC and corrected the documents.

Management Challenge #5

Project Management



Project management is the discipline of planning, organizing, motivating, and controlling resources to achieve specific goals within a defined, limited time period, within budget and with appropriate quality.

The American taxpayer, the rate-paying consumer, and licensees are all entitled to the best possible management and administration of regulatory activities. Effective project management is key to ensuring success whether the project is related to NRC's regulatory processes (reactors and materials), security programs, information technology, financial management (and procurement), or human capital management.

OIG audits and investigations continue to identify areas for improvement regarding NRC's project management. Examples of performance gaps in project management found during OIG audits and investigations are included below. Taken together, these examples indicate the need for NRC to improve its project management.

Specific examples

- NRC provided insufficient oversight of development of the Construction Inspection Program Information Management System, which is a database used to document inspection items and report the results of construction- and vendor-related inspections. The database is also used to support the Commission in making informed findings for permitting licensees to load fuel into a newly constructed reactor. NRC staff members responsible for oversight were unfamiliar with the agency's own "Project Management Methodology" requirements.

Moreover, the agency failed to appoint a single project manager to oversee the database development, resulting in coordination issues and confusion among database stakeholders. The agency addressed the issue for this particular project in an expedient manner, and the recommendations have been closed.

- The National Source Tracking System (NSTS) was developed by NRC and deployed in 2008. NSTS was designed primarily to be an Internet-based system enabling licensees to directly enter data on the movement of certain nuclear material. However, a majority of the licensee user population did not fully adopt the technology required for direct access to NSTS. This trend was caused by challenges inherent in the development of the NSTS credentialing process, as well as technical problems encountered by licensees in using the associated smart card devices. Further, licensees were not able to get help in resolving application and set-up problems. NRC staff re-evaluated its credentialing strategies and implemented a targeted outreach strategy for NSTS users.

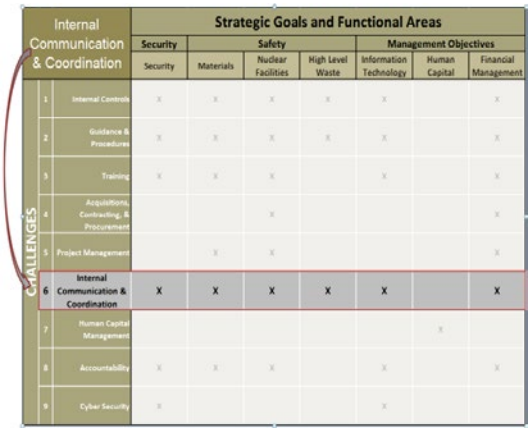
- Management Directive 2.8, Project Management Methodology (PMM), is outdated. It is the sole guidance used for the information technology (IT) investment management process, yet is more than 6 years old and incomplete. The directive does not address how IT aligns with the agency's objectives, and does not even use or define the term "IT governance." Furthermore, NRC's Project Management Methodology Web page depicts an older IT governance structure. The Office of Information Services subsequently worked with the Office of Administration to establish a timeline for a revision and issuance of Management Directive 2.8 in February 2016. The first revision has been drafted.

- NRC conducted limited outreach activities in preparation for implementation of the logical access control systems (LACS) for Homeland Security Presidential Directive 12 (HSPD-12). HSPD-12 established standardized identification to gain physical access to Federal facilities and logical access to Federal information systems. Outreach activities for this project occurred several months after the use of the new standardized identification cards became mandatory for physical access at NRC headquarters. This delay occurred for two main reasons. First, NRC lacked a communications plan for educating employees about LACS and for coordinating outreach activities with

LACS implementation schedules. Second, some policies and procedures for using LACS equipment were still evolving after the equipment's use became mandatory at NRC headquarters. Effective project management includes controls to ensure that communications and training necessary to project success are completed in a timely manner. Subsequently, NRC developed and implemented a LACS communication and outreach plan and also developed on demand training for the new access system.

Management Challenge #6

Internal Communications and Coordination



Internal communications and coordination refers to vertical and horizontal communication linkages designed to provide managers and staff with relevant information for decision making, coordination, evaluation, and control. Communications and coordination are especially important to ensure regulatory and operational consistency across multiple physical locations and program areas. Licensees, other governmental and nongovernmental organizations, and the public are dependent upon NRC being a well-coordinated and informed regulator. As such, effective communication and coordination support NRC's stated goals regarding an open, collaborative work environment, and are key enablers of NRC's organizational values and "Principles of Good Regulation."

Communication and coordination is also essential to adhering to and implementing internal controls. Managers and staff need quality information to support internal control systems. Effective information and communication is vital for an organization to run and control its operations. Therefore, managers and staff need access to relevant and reliable information and communication regarding events and activities that potentially impact the effectiveness and efficiency of the agency's mission.

OIG audits and investigations have regularly identified opportunities to improve NRC's communication and coordination. Examples of performance gaps in communication and coordination found during OIG audits and investigations are included below.

Specific examples

- The agency's information technology governance framework and processes have not been effectively communicated to stakeholders. OIS management has not communicated key evaluation and approval process requirements, including details of individual roles and responsibilities, service followup, project tracking, and matrices to measure the success of its decisions that directly affect program and regional offices. This has resulted in a lack of stakeholder buy-in. Specifically, there is a lack of assurance that IT services and management can be adequately provided to the agency. Some stakeholders believe that OIS has not provided sufficient customer service and have yet to be convinced that OIS can be counted upon to deliver an acceptable level of service. As a result, some stakeholders have been circumventing OIS and the governance process by approving or creating their own shadow IT systems. This, in turn, creates a less effective IT governance process which may result in possible IT security breaches, compliance issues, and investment waste. As a result of our audit, the agency has committed to developing and implementing a comprehensive information technology governance communication strategy.

- Agency managers' roles and responsibilities for supporting resident inspectors could be clarified and communicated. NRC asserts that the director in each of the four regional Divisions of Reactor Projects serve in a champion-like capacity for resident inspectors. However, there is no documentation that describes the regional directors' roles and responsibilities in this capacity. Consequently, there is a need for the Executive Director for Operations to take measures to ensure that the roles and responsibilities for existing support systems for resident inspectors' needs and concerns are communicated and understood by the appropriate management and staff, and are effectively executed. The agency has committed to communicating roles and responsibilities during "available meetings and communications opportunities," and to provide training to selected headquarters staff and management as well as to attendees at regional counterpart meetings.

- NRC's oversight of new reactor construction involves multiple agency stakeholder organizations across headquarters, Region II, and the construction sites. OIG observed a lack of sustained coordination

during the development and revision of key guidance documents, the creation of a key database, and implementation of vendor inspections. For example, NRC does not have formal documentation that outlines a comprehensive strategy for the inspection of modular assembly facilities. Consequently, agency staff were making decisions without the benefit of a structured and systematic evaluation to determine what systems, structures and components assembled or manufactured off-site need to be inspected prior to arrival at the construction site in support of construction inspection closure activities. During FY 2014, the agency completed a number of steps to address these concerns.

- Although NRC had identified significant agencywide lessons learned, agency staff were generally unaware of the agency's formal Lessons Learned program and activities. The purpose of the program is to ensure that knowledge gained from significant lessons learned is retained and disseminated in a manner which maximizes its benefit and usefulness to staff. However, the program's purpose/intention had not been effectively communicated to staff, and management's attention to and support for certain aspects of the program had diminished over time. As a result, NRC was missing opportunities to identify and inform NRC staff of significant agencywide lessons learned that would improve agency operations. In response, NRC staff and managers completed a communication plan and took additional specific actions to better inform staff and managers of the Lessons Learned program.

Management Challenge #7

Human Capital Management

Human Capital Management is the process of acquiring, training, managing, and retaining employees for them to contribute effectively to the goals of the organization. Attributes of human capital management include effective programs for selection and hiring, knowledge management, career development, training and succession planning.

Like many Federal agencies, NRC continues to face increasing challenges related to human capital management. The agency continues to respond to a challenging Federal Government budget environment while trying to streamline processes and maintain or improve the level of service that agency offices provide to each other. Included below, are examples of NRC's continuing challenges in human capital management as identified by OIG audits and investigations.

Specific examples

- At NRC, staff levels have stabilized and it is unlikely that there will be any growth over the next several years. In response, the NRC has adjusted its human capital strategies to ensure that the agency continues to meet its mission of protecting public health and safety and security. For example, NRC implemented a strategy to redistribute work across agency offices by centralizing and streamlining several processes to reduce inefficiencies and overhead. During FY 2014, the agency initiated a project aimed at identifying key strategies and recommendations in NRC programs and processes required during the next 5 years. This project will evaluate, among other items, how

human capital factors such as attractiveness of Government service and millennials in the workforce influence the agency's ability to carry out its mission.

- The agency needs to make improvements to agency programs aimed at providing employees with a flexible work environment. For example, the agency's recordkeeping and training compliance related to its full-time telework program need improvement. In addition, the agency needs to make improvements to its flexible work schedule program, called NEWFlex, specifically in the areas of training compliance, establishing performance measures, and providing program information to employees. The agency is committed to making improvements in this area.

- OIG's most recent Safety Culture Climate Survey at NRC (2012) showed significant improvement since 2005 in (1) "open collaborative work environment," which was viewed favorably by 78 percent of respondents, up 11 points from 2005, and (2) Differing Professional Opinion/Non-Concurrence, which was viewed favorably by 60 percent of respondents, up 7 points from 2005. At the same time, the survey demonstrated that in comparison with 2009 survey results, NRC was well below external benchmarks on recognizing and respecting value of human differences, there was a significant decline in recruiting/retaining talented employees and developing people to their full potential, and that the agency lost ground on Differing Professional Opinion/Non-Concurrence.

  These outcomes indicate that while many employees have positive perceptions towards the workplace environment, such views are not universal, and NRC should continue its efforts to promote an Open Collaborative Work Environment that encourages all employees and contractors to promptly raise concerns and differing views without fear of reprisal and make further improvements related to the NRC Differing Professional Opinion Program/Non-Concurrence Process.

Management Challenge #8

Accountability

Accountability refers to holding an individual responsible, with appropriate incentives and disincentives, for carrying out a defined set of duties or tasks, and for conforming to rules and standards applicable to their posts. Accountability is driven by the tone at the top of an organization and supported by the commitment to integrity and ethical values, organizational structure, and expectations of competence, which influence the control culture of the organization. Accountability for performance of internal control responsibility supports day-to-day decision making, attitudes, and behaviors.

OIG audits and investigations have identified opportunities to improve accountability among managers and staff alike at NRC. Examples of accountability issues found during OIG audits and investigations are included below. These examples illustrate the need for NRC to improve the culture of accountability in the agency.

Specific examples

- Accountability can be established through the implementation of effective internal controls. Currently, however, there are few controls over financial management system codes. One type of financial management system code is a budget object code. These codes are used to classify budget activity by type of cost; for example, supplies, equipment, or personnel. Budget object codes also indicate type of item acquired, such as training and telephone services. Each fiscal year, the Office of the Chief Financial Officer issues a list of budget object codes; however, according to agency managers the use of budget object codes is inconsistently enforced. The agency is

currently exploring how to enforce the use of these codes. Supervisory review over staff implementation of important management expectations and controls establishes accountability. For example, in calculating licensee fees, NRC's Office of the Chief Financial Officer uses various spreadsheets. However, OIG auditors found that the Office of the Chief Financial Officer needs to develop quality control checklists to use during the preparation of the license fee calculation spreadsheets. In addition, NRC needs to ensure a supervisor reviews the completed checklists and documents the review and approval on the quality control checklists. The agency, in response to the OIG advisory, promptly took action to develop such quality control checklists and to include supervisory review.

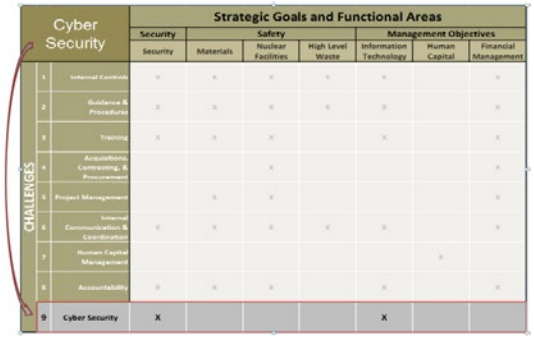
- Clear roles and responsibilities for managers and staff are important for ensuring organizational accountability. NRC's process to identify bankrupt materials licensees is not as efficient as it could be because staff are performing duplicative tasks. Multiple NRC staff members—both in headquarters and some in regional offices—conduct Internet and other searches to determine if organizations declaring bankruptcy are NRC licensees. Lacking written guidance, it is up to each staff member to (or not to) determine the sources of information to examine and the extent of the review to perform, resulting in an inefficient use of resources. Currently, agency staff are working to develop guidance that provides clear roles and responsibilities for identifying bankrupt NRC materials licensees.

- Organization leaders also need to seek information about ways to better support staff and follow through with appropriate support. Resident inspectors, for example, are tasked with a wide variety of activities associated with their role as the agency's onsite presence at individual facilities for inspection and assessment of licensee performance and conformance with regulatory requirements. OIG found that resident inspectors generally receive sufficient support to enable them to adequately perform their roles and responsibilities. However, the residents—via a survey instrument—did identify opportunities for the agency to enhance the type and level of support currently being provided. Agency management had not been aware of a number of these issues, because the agency does not have a formal mechanism for obtaining resident inspectors' concerns, including feedback and perspectives on support-related issues. NRC has

committed to taking specific programmatic steps and computer support solutions to address resident inspector support issues.

Management Challenge #9

Cyber Security



Cyber security refers to measures taken to protect a computer or computer system against unauthorized access or attack. Cyber security threats are a major concern for all Federal entities. Given the importance and sensitivity of NRC's activities, along with the vast array of data it processes and maintains, cyber security has become a crucial aspect of NRC's overall security posture.

Although NRC has implemented countermeasures during the recent years, security challenges and threats to the agency's information systems continue and are constantly evolving. Adversaries routinely attempt to compromise the information technology assets of the agency. In the recent past, targeted spear phishing attempts, credential harvesting and attacks of NRC's public Web site have highlighted the importance of protecting these systems as well as the difficulty and diligence required to guard against such intrusions.

It is critical that cyber security protective measures keep pace with the growing threat as evidenced by the examples included below.

Specific examples

- Several recent cyber-attack attempts against the agency's networks and systems have underscored the importance and urgency of a strong cyber security program. In April 2014, several senior NRC managers were targets of credential harvesting phishing emails, in which two senior NRC managers who received the e-mail, clicked on the link and provided their login credentials, which resulted in more than 2,000 e-mails being sent from one of the senior manager's

compromised e-mail account to various recipients on the manager's contact list, both inside and outside of NRC. In June 2013, an e-mail was sent to over 5,000 NRC e-mail accounts, directing users to click on a link and input their logon credentials to update the storage space in the email box. More than 50 NRC employees clicked on the link and input their logon credentials.

- In March 2012, a hacker notified NRC of a vulnerability on NRC's public facing NRC.gov Web site and NRC discovered questionable documents as well as a vulnerability used by an unknown person to gain access to the server.

- The Federal Information Security Management Act of 2002 (FISMA) established the requirement for Federal agencies to develop, implement and manage agencywide information security programs, and provide acceptable levels of security for the information and systems that support the operations and assets of the agency. As part of OIG's responsibilities under FISMA, OIG conducts an annual independent evaluation of NRC's implementation of FISMA. The most recent FISMA evaluation for fiscal year (FY 2013) found that while the agency has continued to make improvements in its IT security program and has made progress in implementing the recommendations resulting from previous FISMA evaluations, information system security program weaknesses exist pertaining, for example, to the agency's contractor oversight program and inconsistent application of configuration management procedures.

- The US-CERT continues to report that spear phishing attempts are increasing governmentwide. CSO CSIRT's analysis reveals that recent phishing attempts are typically carried out by sending emails to target personnel attempting to acquire information such as usernames, passwords, and other personally identifiable information by masquerading as a trustworthy entity. Additionally, phishing awareness exercises performed by CSO found that NRC is up 1 percentage point to 17 percent of NRC users receiving a test phishing email clicking on the link to provide their login information.

- The Office of Information Services' (OIS) Security Operations Center (SOC) reported for FY 2013, that there were three US-CERT Category 3, Malicious Code, reportable events. A US-CERT Category 3 event is

the successful installation of malicious software (e.g., virus, worm, Trojan horse, or other code-based malicious entity) that infects an operating system or application. In January 2013, OIS discovered that an NRC workstation had been infected with malicious files. Additionally, in July 2013, OIS discovered an NRC workstation was attempting to make outbound calls to known malware sites, and it was determined that the computer was infected with a virus.

- The Computer Security Office's Computer Security Incident Response Team (CSIRT) performs ongoing trend analysis as a means to evaluate and report security incident information to senior agency officials. During FY 2013, NRC experienced 51 US-CERT Category 5 (scans, probes, and attempted access) reportable events at NRC – an increase from 25 incidents reported during FY 2012. A US-CERT Category 5 event is a category that "includes any activity that seeks to access or identify a Federal agency computer, open ports, protocols, service, or any combination for later exploit. This activity does not directly result in a compromise or denial of service."

III. AGENCY COMMENTS AND OIG'S RESPONSE TO COMMENTS

On September 9, 2014, OIG issued a discussion draft of this report to the Executive Director for Operations (EDO) and the Chief Financial Officer (CFO) and requested formal and/or informal comments. On October 6, the Office of the Chief Financial Officer notified OIG that the office had no comments concerning the report. On October 9, 2014, the EDO provided formal comments, which conveyed the following main points:

- The discussion draft report and process involved in its development differ significantly from recent years in that NRC was not asked to provide suggested challenges and information supporting the challenges. The new format appears to be an assessment of NRC's past 5 years of performance rather than an assessment of the challenges facing NRC.
- The examples used to illustrate the challenges are past OIG recommendations that NRC has recognized as areas for continued improvement, has addressed, and continues to address.
- The tone of the discussion draft could be read to convey numerous programmatic weaknesses across the agency's processes and not as specific, challenging areas for enhancement or improvement. Many of the examples cited in the report do not rise to the threshold OIG has established for the challenges.

In addition to these general comments, the EDO provided specific technical and editorial comments for OIG's consideration. The EDO's comments are presented in their entirety in the appendix to this report.

OIG agrees that its approach to developing and presenting the 2014 management and performance challenges report differs from prior years. OIG described this new approach to representatives from the Office of the Executive Director for Operations and the Office of the Chief Financial Officer during a June 27, 2014, management challenges kickoff meeting, and in a July 1, 2014, memorandum from OIG to the EDO and CFO. During the briefing and in the memorandum, OIG explained that as part of the new approach, the office would not be requesting early input from the agency and that, instead, the 2014 challenges and assessment would be based on OIG's collective significance analysis of findings and recommendations from OIG audit reports, findings and issues identified in

OIG investigative reports, agency action in response to OIG reports, and information gathered through OIG's Issue Area Monitoring Program.

OIG's intent was to prepare an independent assessment based primarily on OIG audit and investigative findings and agency actions and plans for action in response to OIG reports. The management and performance challenges identified in this year's report reflect trends that emerged over the past 5 years and remain apparent, based on audit and investigative findings and audit recommendations for which agency action is not yet completed. The examples described under each challenge area are intended to convey both areas needing improvement and progress made to address the challenges. Individual examples do not, in and of themselves, serve as evidence of a challenge, but viewed collectively, they do. Moreover, each of the nine challenges identified through OIG's evidence-based approach meet the IG's threshold for what constitutes a serious management and performance challenge.

OIG anticipates that in future years, as the agency completes actions to address prior OIG findings, and as OIG identifies new areas that warrant management attention, the list of management and performance challenges will change and evolve as some challenges drop off the list and others, potentially, are added. This 2014 list is intended to be more actionable than prior year lists and, therefore, to serve as a tool for continuing and positive agency change.

OIG appreciates the EDO's comments concerning the draft, and made modifications to two examples in the report based on those comments.

IV. SCOPE AND METHODOLOGY

This report presents the IG's annual assessment of the most serious management and performance challenges facing the NRC. The challenges represent critical areas or difficult tasks that warrant high level management attention. To accomplish this work, OIG reviewed and analyzed pertinent laws and authoritative guidance, agency documents, and OIG reports, and analyzed approximately 540 audit findings issued over the past 12 years and 287 investigative reports issued over the past 5 years to identify common themes and trends. Based on this analysis, OIG identified nine performance categories that represent the most serious management and performance challenges facing the agency.

This evaluation was conducted in accordance with the "Quality Standards for Inspection and Evaluation." OIG staff conducted this evaluation from June through August 2014 at NRC headquarters.

APPENDIX

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

October 9, 2014

MEMORANDUM TO: Stephen D. Dingbaum
Assistant Inspector General for Audits

FROM: Mark A. Satorius
Executive Director for Operations

SUBJECT: AGENCY COMMENTS REGARDING DISCUSSION DRAFT REPORT, INSPECTOR GENERAL'S ASSESSMENT OF THE MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES FACING NRC

By e-mail dated September 9, 2014, you provided the Office of the Inspector General's (OIG) discussion draft report, Inspector General's Assessment of the Most Serious Management and Performance Challenges Facing NRC to me for agency review for any (1) formal comments the agency would like to be included in the "Agency Comments" section of the report, (2) any informal comments the agency would like considered for incorporation in the report's narrative, or (3) notification that the agency has no comments concerning the report.

The agency appreciates the opportunity to provide comments on this discussion draft report, and following extensive review, the agency is providing the following general comments and an enclosure containing more specific comments, including technical and editorial comments for your consideration.

First, the agency notes that, in general, the discussion draft report provides challenges, and states examples of past OIG recommendations that the agency has recognized as areas for continued improvement and has addressed and continues to address those areas as appropriate with respect to priority and available resources.

Second, both the discussion draft report and the process involved in its development significantly differ from recent years. This year the agency was not requested to provide suggested challenges and information supporting those challenges. In addition, the discussion draft report appears to be more of an assessment of the Nuclear Regulatory Commission (NRC) performance over the past 5 years than an assessment of the challenges facing NRC. The characterization of the challenges as broad topical areas may be less useful to the staff than more focused areas.

Third, the overall tone of the discussion draft report can be read to convey numerous programmatic weaknesses across the agency's processes and not as specific, challenging areas for enhancement or improvement. Many of the examples, while factual, do not collectively and clearly covey potential or actual significant impact on the agency's mission, and do not rise to the appropriate threshold the OIG has established for the challenges as stated in the discussion draft report. Furthermore, many of the recommendations provided in the discussion draft report, lack information on the recommendations being in a "resolved" status.

Lastly, in general, the agency found the challenges of "Acquisition, Contracting, & Procurement" and "Cyber Security" to be well presented for the agency to move forward toward improvement in those areas.

Enclosure:
As stated

cc: Chairman Macfarlane
Commissioner Svinicki
Commissioner Ostendorff
SECY

NRC's Technical and Editorial Comments for OIG's Consideration Regarding the OIG Discussion Draft Report, *Inspector General's Assessment Of The Most Serious Management And Performance Challenges Facing NRC.*

The agency notes that, for several of the Management Challenges, the draft report does not describe, and it is not clear, how the provided specific examples constitute a "vulnerability that, without substantial management attention, would seriously impact agency operations or strategic goals." In addition, some of the specific examples provided describe actions that the agency has already implemented and, therefore, would not appear to represent existing challenges to support the applicable Management Challenges.

Management Challenge #1 – Internal Controls

The Inspector General's (IG's) Management Challenge #1, Internal Controls, lists three specific examples of performance gaps in internal controls that indicate the need for NRC to improve internal controls. Comments are provided on the first and third specific examples.

The IG's first specific example for Management Challenge #1 states:

> *NRC has some issues executing certain facets of the National Environmental Policy Act (NEPA) because the agency does not have controls in place to ensure that staff is compliant. As a result, staff have varying interpretations on how to comply with NRC's regulations in 10 CFR Part 51. In an effort to strengthen its internal controls, NRC has proposed to develop agencywide guidance to ensure that staff appropriately follow Part 51.*

Given that the statement uses qualifiers such as some issues and executing certain facets, it is not clear how this example meets the high threshold for a Management Challenge. The IG has 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." Also, the statements "NRC has some issues executing certain facets of the National Environmental Policy Act (NEPA) because the agency does not have controls in place to ensure that staff is compliant," and "NRC has proposed to develop agency wide guidance to ensure that staff appropriately follow Part 51," imply that NRC is not in full compliance with NEPA or following 10 CFR Part 51. In fact, the NRC is in full compliance with NEPA and NRC regulations (See ADAMS ML13198A216, "G20130489 – Hubert T. Bell re: Final Draft Report: Audit of the Nuclear Regulatory Commission's Compliance with 10 CFR (FSME)" for the NRC's comments on the OIG Draft Report, "Audit of NRC's Compliance with 10 CFR Part 51 Relative to Environmental Impact Statements"). The agency suggests that the statement be edited to state that there are differences in the manner in which each program office implements NEPA requirements, as codified in 10 CFR Part 51, and that the staff is utilizing OIG's recommendations to develop an agency-wide NEPA guidance document as part of the agency's continuous improvement efforts to enhance effectiveness, efficiency, and consistency across NRC programs and improve the NRC's public outreach efforts. In addition, the discussion draft report does not acknowledge the existing potential check on staff compliance with 10 CFR Part 51 regulations provided by the Atomic Safety and Licensing Board review.

Enclosure

The IG's third specific example for Management Challenge #1 states:

> *Until recently, NRC did not systematically track nuclear power reactor licensees' commitments, in part because the agency did not have an adequate tool for tracking them. Subsequently, NRC successfully developed and implemented an approach for systematically tracking power reactor licensee commitments. The agency's new approach to tracking commitments creates a key internal control for managing records that are relevant to the oversight of licensee activities.*

This third specific example describes actions the NRC has taken to address previously identified issues associated with the lack of a tracking tool to systematically track nuclear power reactor licensees' commitments. The example states that the NRC "successfully developed and implemented an approach for systematically tracking power reactor licensee commitments. The agency's new approach to tracking commitments creates a key internal control for managing records that are relevant to the oversight of licensee activities." This does not appear to be an appropriate example of a "performance gap in internal controls that indicate a need for NRC to improve its internal controls."

Management Challenge #3 – Training

The Inspector General's (IG's) Management Challenge #3, Training, lists four specific examples that indicate the need for NRC to strengthen its training program. A comment is provided on the second specific example.

The IG's second specific example for Management Challenge #3 states:

> *Training for NRC's Inspections, Tests, Analyses, and Acceptance Criteria (ITAAC) process staff is improvised. The Office of New Reactors provides ITAAC training to staff as determined by various managers in headquarters and Region II. However, this training has not been systematically developed in accordance with the training and development policies listed on the NRC's internal training Web site. These policies are based on the Office of Personnel Management's (OPM) training guidance. OPM/agency policies call for a training needs assessment to help agency and program managers identify appropriate subjects and methods for training. Current ad hoc training practices hinder the staff's ability to identify and conduct relevant ITAAC inspections and closure notice reviews.*

This second specific example states that the training for NRC's Inspections, Tests, Analyses, and Acceptance Criteria (ITAAC) process (on page 11) has not been systematically developed in accordance with the training and development policies listed on the NRC's internal training Web site. There is no mention of the staff's actions to address this concern. A memo dated September 29, 2014, from the Assistant Inspector General for Audits to the EDO, states that the recommendation is resolved, and that the proposed actions continue to meet the intent of OIG's recommendation. The memo acknowledges the changes to the schedule based on delays in the contracting process and the new completion date of October 31, 2014, for testing and completion of online training available in iLearn. OIG will close this recommendation upon completion, issuance, and OIG review of the new training needs assessment guidance.

Management Challenge #5 – Project Management

The Inspector General's (IG's) Management Challenge # 5, Project Management, lists four specific examples of performance gaps in project management that indicate the need for NRC to improve its project management. A comment is provided on the second specific example.

The IG's second specific example for Management Challenge #5 states:

> *The National Source Tracking System (NSTS) was developed by NRC and deployed in 2008. NSTS was designed primarily to be an Internet-based system enabling licensees to directly enter data on the movement of certain nuclear material. However, a majority of the licensee user population did not fully adopt the technology required for direct access to NSTS. This trend was caused by challenges inherent in the development of the NSTS credentialing process, as well as technical problems encountered by licensees in using the associated smart card devices. Further, licensees were not able to get help in resolving application and set-up problems. NRC staff re-evaluated its credentialing strategies and implemented a targeted outreach strategy for NSTS users.*

The issues listed in this example (i.e., problems with the credentialing process, problems with getting the smart card devices to work, no assistance in resolving application and set-up problems) are technical, information technology, computer firm ware issues in nature and not issues related to poor project management. Licensees were still able to comply with the NSTS requirements in 10 CFR 20.2207, which allows licensees to submit transaction information to NSTS via methods (fax, email, and mail) other than online. There are some licensees who will never use the online system due to minimal transactions or information technology barriers. The NSTS Help Desk was stood up shortly after NSTS deployment to assist users with application and set-up problems.

Management Challenge #6 – Internal Communications and Coordination

The Inspector General's (IG's) Management Challenge # 6, Internal Communications and Coordination, lists four specific examples of performance gaps in communications and coordination found in OIG audits and investigations that are identified as opportunities to improve NRC's communications and coordination. A comment is provided on the third specific example.

The IG's third specific example for Management Challenge #6 states:

> *NRC's oversight of new reactor construction involves multiple agency stakeholder organizations across headquarters, Region II, and the construction sites. OIG observed a lack of sustained coordination during the development and revision of key guidance documents, the creation of a key database, and implementation of vendor inspections. For example, NRC does not have formal documentation that outlines a comprehensive strategy for the inspection of modular assembly facilities. Consequently, agency staff were making decisions without the benefit of a structured and systematic evaluation to determine what systems, structures and components assembled or manufactured off-site need to be inspected prior to arrival at the construction site in support of construction inspection closure activities. During FY 2014, the agency completed a number of steps to address these concerns.*

This example states that during FY 2014, the agency completed a number of steps to address these concerns. It would be more accurate to state that the recommendation has been closed, per the OIG memo dated September 29, 2014.

Management Challenge #7 – Human Capital Management

The Inspector General's (IG's) Management Challenge # 7, Human Capital Management, lists three specific examples of NRC's continuing challenges in human capital management as identified by OIG audits and investigations. Comments are provided on the first and third specific examples.

The IG's first specific example for Management Challenge #7 states:

> *At NRC, staff levels have stabilized and it is unlikely that there will be any growth over the next several years. In response, the NRC has adjusted its human capital strategies to ensure that the agency continues to meet its mission of protecting public health and safety and security. For example, NRC implemented a strategy to redistribute work across agency offices by centralizing and streamlining several processes to reduce inefficiencies and overhead. During FY 2014, the agency initiated a project aimed at identifying key strategies and recommendations in NRC programs and processes required during the next 5 years. This project will evaluate, among other items, how human capital factors such as attractiveness of Government service and millennials in the workforce influence the agency's ability to carry out its mission. The agency plans to complete this project by late calendar year 2014.*

It describes actions that the NRC has taken to adjust its human capital strategies to ensure that the agency continues to meet its mission of protecting public health and safety and security. It also describes actions that the NRC is taking to identify key strategies and recommendations in NRC programs and processes required during the next 5 years. Consequently, this does not appear to be an appropriate example of a continuing challenge in human capital management.

The IG's third specific example for Management Challenge #7 states:

> *Over the past 5 years, OIG has conducted 10 investigations pertaining to a chilled workplace environment, retaliation, and abuse of authority. OIG investigations partially substantiated wrongdoing in two of the cases and found no indication in the remaining eight cases that staff acted inappropriately or that a "chilled environment" existed. In addition, OIG's most recent Safety Culture Climate Survey at NRC (2012) showed significant improvement since 2005 in (1) "open collaborative work environment," which was viewed favorably by 78 percent of respondents, up 11 percentage points from 2005, and (2) Differing Professional Opinion/Non-Concurrence, which was viewed favorably by 60 percent of respondents, up 7 percentage points from 2005. At the same time, the survey demonstrated that in comparison with 2009 survey results, NRC was well below external benchmarks on recognizing and respecting value of human differences, there was a significant decline in recruiting/retaining talented employees and developing people to their full potential, and that the agency lost ground on Differing Professional Opinion/Non-Concurrence.*

These outcomes indicate that while many employees have positive perceptions towards the workplace environment, such views are not universal, and NRC should continue its efforts to promote an Open Collaborative Work Environment that encourages all employees and contractors to promptly raise concerns and differing views without fear of reprisal and make further improvements related to the NRC Differing Professional Opinion Program/Non-Concurrence Process.

This example describes the results of 10 OIG investigations conducted over the past 5 years, pertaining to a chilled workplace environment, retaliation, and abuse of authority. This would represent an average of 2 investigations per year. In eight of the cases, the IG did not substantiate the claim. In two of the cases, the IG "partially substantiated wrongdoing." While the goal of every manager is to create an open work environment free of retaliation and abuse of authority, and the NRC reinforces these principles with the leadership team, two partially substantiated cases in the last 5 years does not appear to represent a "perennial weakness or vulnerability that, without substantial management attention, would seriously impact agency operations or strategic goals."

The concluding statement for the third specific example further describes "significant improvement since 2005" in employee views regarding an open collaborative working environment and Differing Professional Opinion/Non-Concurrence. The example does note some declines in some human capital survey areas between 2009 and 2012; however, the NRC has worked hard to improve the workplace environment. These actions have been successful in improving the workplace environment. The agency does recognize that there is always room for improvement. Consequently, the NRC will continue its efforts to promote an Open Collaborative Work Environment that encourages all employees and contractors to promptly raise concerns and differing views without fear of reprisal and make further improvements related to the NRC Differing Professional Opinion Program/Non-Concurrence Process. This example, as written, does not appear to represent a "perennial weakness or vulnerability that, without substantial management attention, would seriously impact agency operations or strategic goals."

Management Challenge #8 - Accountability

The Inspector General's (IG's) Management Challenge # 8, Accountability, lists four examples of performance gaps in accountability that represent "opportunities to improve accountability among managers and staff alike at NRC." It is not apparent that "identifying opportunities to improve" represents a "perennial weakness or vulnerability that, without substantial management attention, would seriously impact agency operations or strategic goals." A comment is provided on the fourth specific example.

The IG's fourth specific example for Management Challenge #8 states:

Organization leaders also need to seek information about ways to better support staff and follow through with appropriate support. Resident inspectors, for example, are tasked with a wide variety of activities associated with their role as the agency's onsite presence at individual facilities for inspection and assessment of licensee performance and conformance with regulatory requirements. OIG found that resident inspectors generally receive sufficient support to enable them to adequately perform their roles and responsibilities. However, the residents—via a survey instrument—did identify opportunities for the agency to enhance the type and level of support currently being provided. Agency management had not been

aware of a number of these issues, because the agency does not have a formal mechanism for obtaining resident inspectors' concerns, including feedback and perspectives on support-related issues. NRC has committed to taking specific programmatic steps and computer support solutions to address resident inspector support issues.

This example describes that the "OIG found that resident inspectors generally receive sufficient support to enable them to adequately perform their roles and responsibilities. However, the residents—via a survey instrument—did identify opportunities for the agency to enhance the type and level of support currently being provided." The description goes on to say that "Agency management had not been aware of a number of these issues, because the agency does not have a formal mechanism for obtaining resident inspectors' concerns, including feedback and perspectives on support-related issues." It is not apparent that the failure of the NRC to have a formal process specific to the resident inspectors to enhance the type and level of support currently being provided constitutes a "perennial weakness or vulnerability that, without substantial management attention, would seriously impact agency operations or strategic goals."

UNITED STATES NUCLEAR REGULATORY COMMISSION

Chapter 4
Summary of Financial Statement Audit and Management Assurances

UNITED STATES NUCLEAR REGULATORY COMMISSION

Summary of Financial Statement Audit for FY 2014		
Audit Opinion	Unmodified	
Restatement	No	
Material Weaknesses	No	
Summary of Management Assurances for FY 2014		
Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)		
Statement of Assurance	Unqualified	
Material Weaknesses	No	
Effectiveness of Internal Control over Operations (FMFIA § 2)		
Statement of Assurance	Unqualified	
Material Weaknesses	No	
Conformance with Financial Management System Requirements (FMFIA § 4)		
Statement of Assurance	Systems conform to financial management system requirements	
Non-Conformances	No	
Compliance with Federal Financial Management Improvement Act (FFMIA)		
	Agency	**Auditor**
1. Systems Requirements	No Noncompliance noted	No Noncompliance noted
2. Accounting Standards	No Noncompliance noted	No Noncompliance noted
3. U.S. Standard General Ledger at the Transaction Level	No Noncompliance noted	No Noncompliance noted

UNITED STATES NUCLEAR REGULATORY COMMISSION

Chapter 4
Improper Payments Information Act and Recovery Audit Reporting Details

UNITED STATES NUCLEAR REGULATORY COMMISSION

IPIA REPORTING DETAILS

To comply with the *Improper Payments Information Act of 2002* (IPIA) as amended by the *Improper Payments Elimination and Reporting Act of 2010* (IPERA), and Improper Payment Elimination and Improvement Act of 2012 (IPERIA), the NRC incorporated improper payment work into its A-123 Appendix A procedures. Based on the results of improper payment work completed in FY 2011 and OMB's guidance, the NRC focused its efforts in FY 2014 toward conducting a new risk assessment around its commercial payment program and other programs that were susceptible to making significant improper payments.

The NRC performed a risk assessment as of September 30, 2014, to determine which programs would require improper payment testing using a statistically valid sample. Prior to the passing of IPERIA, which further amended IPIA, agencies were not required to review intra-governmental transactions or payments to employees. IPERIA now requires agencies to review payments to employees as well as Government charge card transactions. Intra-governmental transactions remain the lone exception to IPERIA requirements. Therefore, management identified commercial payments, grants payments, employee payments, payroll, and Government charge cards as potential areas to test pending results of an IPIA risk assessment. The NRC reviewed FY 2013 disbursements of selected programs to determine the appropriate threshold for conducting a risk assessment and possible testing. For FY 2013, total commercial payments were $230,153,040.29; total grant payments were $22,035,829.01; total employee payments were $24,089,080.17; and total payroll payments were $470,363,997.02. The NRC did not conduct a risk assessment over its purchase card (total disbursements of $3,337,043.45) and travel card (total disbursements of $6,386,480.57) because disbursements totals for each were below $10 million. Conducting a risk assessment over those two programs would not produce an error rate that would meet the minimum threshold set by OMB ($10 million and 1.5% of total program payments).

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

The results of the FY 2014 risk assessment did not identify any programs that are susceptible to making significant improper payments. While the results of the FY 2014 risk assessment identified programs as low risk, the NRC is taking this opportunity to continue to improve controls around its payment processes. The NRC will continue to monitor payment processes in FY 2015, in addition to conducting periodic reviews of key controls for IPIA programs identified by management. We will continue to conduct risk assessments every 3 years in accordance with the IPIA, as amended by IPERA and IPERIA, and OMB guidance. When OMB releases the revised Circular A-123, Appendix C, we will review the new guidance to determine the impact it has on the NRC's current IPIA program. The next IPIA risk assessment will take place in FY 2017. However, the NRC will conduct risk assessments, as needed, if there are material changes in the way programs operate or if new programs are established.

In addition to risk-assessing identified programs, OCFO staff determined there were $101,620.11 in improper payments made during FY 2014, which have since been recaptured. This represents a significant drop from the $4.2 million in duplicate payments identified in FY 2013, and it also demonstrates the NRC's ongoing efforts to prevent, detect, and recoup such payments. Additionally, new procedures have been put in place this year: certifiers have a new checklist to ensure that all appropriate steps are taken before certifying a payment, prompt payment reports are reviewed periodically to identify duplicate payments, and the NRC's OCFO periodically conducts audits of all payments certified on a schedule to identify improper payments.

UNITED STATES NUCLEAR REGULATORY COMMISSION

Chapter 4
Schedule of Spending

SCHEDULE OF SPENDING

The Schedule of Spending (SOS) is a summary and comparison of how the NRC spent money during FY 2014 and FY 2013. The SOS presents all budgetary resources and obligations incurred for the NRC. The data used to populate the SOS come from the NRC's core accounting system and are the same data that the NRC uses to populate the SBR.

In the SOS and the SBR, obligations incurred include personnel compensation and benefits, contracts, agreements between Federal agencies, travel, training, grants, and bankcard purchases below the micro-purchase threshold. The "Total Amounts Agreed to be Spent" line of each section of the SOS agrees with the "Obligations Incurred" line in the SBR.

The NRC also reports obligation information through the Web site USASpending.gov. The information reported by the NRC in USASpending.gov includes only contract obligations, which are a subset of NRC's total obligations.

WHAT MONEY IS AVAILABLE TO SPEND?

This section presents total budgetary resources that are reported in the SBR.

Total Resources refers to budgetary resources approved for spending by law.

Amounts Not Agreed to be Spent represents amounts that the NRC was allowed to spend but did not take action on by the end of the fiscal year.

Amounts Not Available to be Spent represents amounts that the NRC was not approved to spend during the current fiscal year.

Total Amounts Agreed to be Spent represents spending actions by the NRC, including payroll and benefits, travel, training, contracts, orders, grants, and other legally binding agreements to pay for goods or services.

HOW WAS THE MONEY SPENT?

This section presents the value of goods and services that the NRC obligated for each of the NRC's two major programs: Nuclear Reactor Safety and Nuclear Materials and Waste Safety.

For the purposes of this section, the breakdown of "How was the Money Spent?" is based upon OMB budget object class definitions in OMB Circular A-11.

Payroll represents compensation, including benefits directly related to duties performed for the Government by Federal civilian employees.

Contracts represents purchases of contractual services and supplies.

Grants represents contributions to States, local governments, foreign governments, corporations, associations (domestic and international), and individuals in compliance with programs allowed by law for distributing funds in this manner.

Travel represents the NRC's payment for transportation, sustenance, and miscellaneous expenses for employees/persons on official business.

Rent, Communications, and Utilities represents the NRC's purchases of contractual services for the NRC's offices.

Structures and Equipment represents purchases of capital equipment and leasehold improvements.

WHO DID THE MONEY GO TO?

This section identifies the recipient of the money, by Federal and non-Federal entities. Amounts in this section reflect "amounts agreed to be spent."

SCHEDULE OF SPENDING *(In Thousands)*

For the years ended September 30,	2014	2013
WHAT MONEY IS AVAILABLE TO SPEND?		
Total Resources	**$ 1,119,076**	$ 1,069,830
Less Amount Available but Not Agreed to be Spent	**(53,295)**	(41,022)
Less Amount Not Available to be Spent	**(169)**	(1,757)
Total Amounts Agreed to be Spent	**$ 1,065,612**	$ 1,027,051
HOW WAS THE MONEY SPENT?		
Spending within NRC Major Programs		
Nuclear Reactor Safety		
Payroll	**$ 461,430**	$ 463,196
Contracts	**256,573**	257,295
Grants	**22,388**	11,949
Travel	**18,994**	18,264
Rent, Communications, and Utilities	**44,794**	47,583
Structures and Equipment	**20,180**	4,868
Total money spent for Nuclear Reactor Safety	**$ 824,359**	$ 803,155
Nuclear Materials and Waste Safety		
Payroll	**$ 135,041**	$ 129,126
Contracts	**75,093**	71,731
Grants	**6,552**	3,331
Travel	**5,559**	5,092
Rent, Communications, and Utilities	**13,109**	13,265
Structures and Equipment	**5,899**	1,351
Total money spent for Nuclear Materials and Waste Safety	**$ 241,253**	$ 223,896
Total Amounts Agreed to be Spent	**$ 1,065,612**	$ 1,027,051
WHO DID THE MONEY GO TO?		
For Profit	**$ 244,248**	$ 236,663
Individuals	**498,583**	500,746
Federal	**287,892**	281,328
State & Local Government	**17,872**	13,210
Other	**17,017**	(4,896)
Total Amounts Agreed to be Spent	**$ 1,065,612**	$ 1,027,051

In accordance with OMB Circular A-136, Section 11.5.1, the Schedule of Spending is not a required part of the Financial Statements and, therefore, it is not audited.

UNITED STATES NUCLEAR REGULATORY COMMISSION

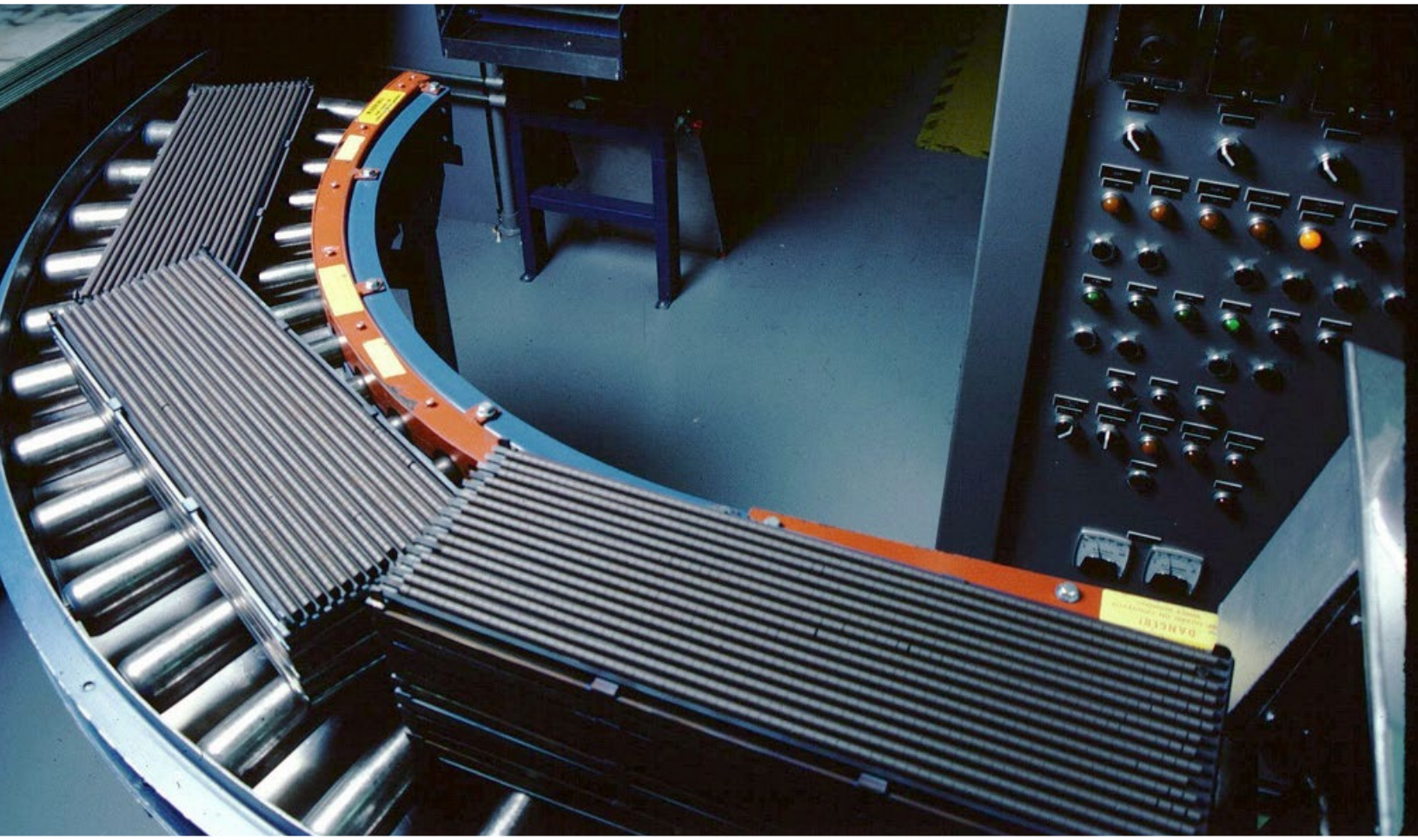
Chapter 4
Acronyms and Abbreviations

ACRONYM	
10 CFR	Title 10 of the *Code of Federal Regulations*
ABWR	Advanced Boiling-Water Reactor
ACHP	Advisory Council on Historic Preservation
ADAMS	Agencywide Documents Access and Management System
ADR	alternative dispute resolution
AGA	Association of Government Accountants
AIT	Augmented Inspection Team
ALC	agency location code
AO	Abnormal Occurrence
ASME	American Society of Mechanical Engineers
ASP	Accident Sequence Precursor
BWR	Boiling-Water Reactor
CAL	Confirmatory Action Letter
CAP	corrective action program
CCDP	conditional core damage probability
CER	Cumulative Effects of Regulation
CFD	computational fluid dynamics
CFO	Chief Financial Officer
CFR	*Code of Federal Regulations*
CNS	Convention on Nuclear Safety
CO	Confirmatory Order
CoC	Certificate of Compliance
COL	combined license
COOP	continuity of operations
cROP	Construction Reactor Oversight Process
CRT	Contingency Response Tool
CSRS	Civil Service Retirement System
CSS	Content Search Services
DC	design certification
DHS	U.S. Department of Homeland Security
DOE	U.S. Department of Energy
DOJ	U.S. Department of Justice
DOL	U.S. Department of Labor
DOT	U.S. Department of Transportation
DSRS	design specific review standards
ECIC	Executive Committee on Internal Control
EDO	Executive Director for Operations
EEO	equal employment opportunity
EJ	environmental justice

ACRONYM	
ELAP	extended loss of alternating power
EPA	U.S. Environmental Protection Agency
EPR	Evolutionary Power Reactor
EPRI	Electric Power Research Institute
ESP	early site permit
FDA	U.S. Food and Drug Administration
FECA	*Federal Employees Compensation Act of 1993*
FEIS	final environmental impact statement
FERS	Federal Employees Retirement System
FFMIA	*Federal Financial Management Improvement Act of 1996*
FMFIA	*Federal Managers' Financial Integrity Act of 1982*
FOIA	*Freedom of Information Act of 1966*
FR	*Federal Register*
FY	fiscal year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GDP	gaseous diffusion plant
GSA	General Services Administration
HEU	High-enriched Uranium
HOC	Headquarters Operations Center
HRA	human reliability analysis
IAEA	International Atomic Energy Agency
IEC	International Electrotechnical Commission
IG	Inspector General
IM	information management
IMC	Inspection Manual Chapter
IMPEP	Integrated Materials Performance Evaluation Program
INPO	Institute for Nuclear Power Operations
Integrity Act	*Federal Managers' Financial Integrity Act of 1982*
IP	Inspection Procedure
IPERA	*Improper Payments Elimination and Reporting Act of 2012*
IPIA	*Improper Payments Information Act of 2002*
IPPAS	International Physical Protection Advisory Service
IRP	Integrated Response Plan

ACRONYM	
IRRS	Integrated Regulatory Review Service
ISG	interim staff guidance
ISFSI	independent spent fuel storage installation
ISMP	Integrated Source Management Portfolio
IT	information technology
ITAAC	inspections, tests, analyses, and acceptance criteria
IT/IM	Information Technology and Information Management
JC	Joint Convention
KM	knowledge management
LEU	Low-enriched Uranium
LLW	low-level waste
LSN	Licensing Support Network
LWA	limited work authorization
LWR	Light-water reactor
MACCS2	MELCOR Accident Consequence Code System Version 2
MD	Management Directive
MDEP	Multinational Design Evaluation Program
MELCOR	mature accident simulation tools
Mo-99	molydenum-99
MSI	minority serving institution
MWe	Megawatt electric
MWt	Megawatt thermal
NDE	nondestructive examination
NEA	Nuclear Energy Agency
NEPA	*National Environmental Policy Act*
NHPA	*National Historic Preservation Act*
NIST	National Institute of Standards and Technology
NMIP	Nuclear Materials Information Program
NPP	nuclear power plant
NPT	Nuclear Non-Proliferation Treaty
NRC	U.S. Nuclear Regulatory Commission
NSTS	National Source Tracking System
NTAS	National Terrorism Advisory System
NUREG	Nuclear Regulatory Commission document identifier
NWF	Nuclear Waste Fund
OBRA-90	*The Omnibus Budget Reconciliation Act of 1990*

ACRONYM	
OCFO	Office of the Chief Financial Officer
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OPM	U.S. Office of Personnel Management
PC	Portfolio Council
PNNL	Pacific Northwest National Laboratory
PRA	probabilistic risk assessment
PRM	Petition for Rulemaking
PWR	pressurized water reactor
REIRS	Radiation Exposure Information and Reporting System
REM	Roentgen Equivalent Man
RFCOP	Revised Fuel Cycle Oversight Process
RIC	Regulatory Information Conference
RIS	Regulatory Issue Summary
ROP	Reactor Oversight Process
SDP	Significance Determination Process
SEIS	supplemental environmental impact statement
SER	Safety Evaluation Report
SFFAS	Statement of Federal Financial Accounting Standards
SFI	Safeguards information
SGI	Safeguards information
SMR	small modular reactor
SOARCA	State-of-the-Art Reactor Consequence Analyses
SONGS	San Onofre Nuclear Generating Station
SRP	Security Review Plan
SRS	Savannah River Site
TVA	Tennessee Valley Authority
UF_6	uranium hexafluoride
UO_2	uranium dioxide
UR	uranium recovery
USAID	U.S. Agency for International Development
US-APWR	U.S. Advanced Pressurized Water Reactor
WIR	Waste Incidental to Reprocessing



Chapter 4
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