
**OFFICE OF
THE INSPECTOR GENERAL**

**U.S. NUCLEAR
REGULATORY COMMISSION**

**SPECIAL EVALUATION OF THE
ROLE AND STRUCTURE
OF NRC'S EXECUTIVE COUNCIL**

OIG-00-E-09 AUGUST 31, 2000

AUDIT REPORT



DF03



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

OFFICE OF THE
INSPECTOR GENERAL

August 31, 2000

MEMORANDUM TO: Chairman Meserve

FROM:

A handwritten signature in cursive script, appearing to read "Hubert T. Bell".

Hubert T. Bell
Inspector General

SUBJECT: SPECIAL EVALUATION OF THE ROLE AND STRUCTURE OF
NRC'S EXECUTIVE COUNCIL

Attached is the Office of the Inspector General's audit report titled, *Special Evaluation of the Role and Structure of NRC's Executive Council*. This report reflects the results of our review.

Overall, we found that the Executive Council does not function as intended. Each member has an independent agenda that is promoted without focus on a common picture of success for the agency. We concluded that an organizational change could improve the effectiveness of agency operations. Specifically, we provided nine alternative reporting arrangements, five of which involve having the Chief Financial Officer (CFO) and the Chief Information Officer (CIO) report directly to the Executive Director of Operations (EDO). This would also address the issue of NRC's inconsistent application of 'head of the agency.' We believe such a reporting structure is consistent with applicable laws and should be considered.

We provided a draft of this report to the EDO, the CFO, and the Acting CIO. Each submitted individual comments to the draft report. The EDO agreed with OIG's facts and conclusions as presented. The CFO and the Acting CIO challenged a number of facts and disagreed with OIG's conclusions. Due to OIG's disagreement with a substantial portion of the CFO's and the Acting CIO's comments, detailed analyses of their comments are provided in Appendices V and VI, respectively.

If you have any questions, please call me on 415-5915.

Attachment: As stated

cc: Commissioner Dicus
Commissioner Diaz
Commissioner McGaffigan
Commissioner Merrifield
EDO
CFO
Acting CIO

cc: R. McOsker, OCM/RAM
B. Torres, ACMUI
B. Garrick, ACNW
D. Powers, ACRS
J. Larkins, ACRS/ACNW
P. Bollwerk III, ASLBP
K. Cyr, OGC
J. Cordes, Acting OCAA
P. Rabideau, Deputy CFO
J. Dunn Lee, OIP
D. Rathbun, OCA
W. Beecher, OPA
A. Vietti-Cook, SECY
F. Miraglia, DEDR/OEDO
C. Paperiello, DEDMRS/OEDO
P. Norry, DEDM/OEDO
J. Craig, AO/OEDO
M. Springer, ADM
R. Borchardt, OE
G. Caputo, OI
P. Bird, HR
I. Little, SBCR
W. Kane, NMSS
S. Collins, NRR
A. Thadani, RES
P. Lohaus, OSP
F. Congel, IRO
H. Miller, RI
L. Reyes, RII
J. Dyer, RIII
E. Merschoff, RIV
OPA-RI
OPA-RII
OPA-RIII
OPA-RIV

EXECUTIVE SUMMARY

PURPOSE

In January 1997, an Executive Council (EC), composed of three equal members: the Executive Director for Operations (EDO), the Chief Financial Officer (CFO), and the Chief Information Officer (CIO), was established at the U.S. Nuclear Regulatory Commission (NRC). As established, the EC as a body, and the three individual members, report directly to the Chairman. During a previous Office of the Inspector General (OIG) review, comments were received from senior agency executives regarding their perceptions that the EC is ineffective and inefficient due to its structure. OIG conducted this special evaluation to determine whether the EC is operating in accordance with applicable laws, and can effectively and efficiently facilitate NRC's mission given its current role and structure.

BACKGROUND

Five statutes are applicable to the EC and its members: the Energy Reorganization Act of 1974, the Reorganization Plan No. 1 of 1980, the Chief Financial Officers Act of 1990, the Paperwork Reduction Act, and the Clinger-Cohen Act. The first two identify the responsibilities of the Commission as a whole, and the individual responsibilities of the Chairman and the EDO. Together, these two statutes can be seen as portraying three different heads of NRC to fulfill different purposes. While both the Chairman and the EDO are ultimately accountable to the Commission, the Chairman has been designated as NRC's principal executive officer and the EDO is charged with the administrative functioning of the agency.

The latter three statutes pertain to the roles and responsibilities of the CIO and CFO. Implementation of these three laws depends on the interpretation of "agency head." Guidance issued by the Office of Management and Budget (OMB) requires agencies covered by these three statutes to report on the alignment of the CIO and CFO within the agency's organizational structure. These agency submissions, and subsequent revisions, are subject to OMB's approval and, to date, OMB has allowed various reporting arrangements.

RESULTS IN BRIEF

While the current reporting lines for the EDO, CIO, and CFO are consistent with applicable laws, no laws require the EC's existence or direct its operations. EC operations are directed by internal NRC guidance. However, the EC is not operating in accordance with this guidance or meeting the expectations established by former NRC Chairman Shirley Jackson. Specifically, the structure of the EC impairs its ability to facilitate the agency's mission. Furthermore, the organizational alignment of the EC members impedes the EDO's ability to carry

out his mandated responsibilities with optimum efficiency and effectiveness because two major support organizations — OCIO and OCFO — are not accountable to him.

MATTERS FOR CONSIDERATION

In order to identify a more efficient and effective use of agency resources to enable NRC to meet its mission, the Chairman/Commission should consider alternative management strategies pertaining to the EC structure and the alignment of the EDO, CIO, and CFO. This report identifies eight alternative management strategies, aside from the status quo. Four OIG-preferred alternatives are provided. Appendix III presents all nine strategies and their associated benefits and drawbacks.

RECOMMENDATIONS

This report makes three recommendations which need to be addressed depending on which management strategy the Chairman/Commission decides to pursue.

MANAGEMENT COMMENTS

Three separate responses were received from the EDO, CFO, and Acting CIO. The EDO agreed with the facts and conclusions as presented. The CFO disagreed with some of the stated facts and with OIG's conclusions. Additionally, the CFO stated that the current reporting structure for his position is consistent with the CFO Act, implying no need for change. The Acting CIO expressed his view that the data presented was insufficient to make a case that improvements are needed to the agency's current management structure. The full text of the EDO's, CFO's, and Acting CIO's comments can be found in Appendices IV, V, and VI, respectively.

OIG ANALYSIS OF MANAGEMENT COMMENTS

The EC members submitted three separate responses to OIG's draft report. The nature of their comments provided additional support that independent agendas are promoted without focus on a common picture of success for the agency. The comments received from the CFO and Acting CIO contained a number of factual errors, inaccurate characterizations of information, and irrelevant arguments. OIG stands by its findings and conclusions, and only minor clarifications have been made in the report, where appropriate. OIG disagrees with a substantial portion of the CFO's and Acting CIO's comments. Therefore, detailed analyses of their comments are presented in Appendices V and VI, respectively.

TABLE OF CONTENTS

EXECUTIVE SUMMARY 1

INTRODUCTION 4

 BACKGROUND 5

EVALUATION RESULTS 9

 EC STRUCTURE IMPAIRS ITS ABILITY TO EFFECTIVELY AND EFFICIENTLY
 CARRY OUT ITS ROLE TO FACILITATE NRC'S MISSION 9

 AGENCY EXPECTATIONS ESTABLISHED FOR THE EC 10

 EC MEETS SOME EXPECTATIONS, BUT LACKS FOCAL POINT
 OF AUTHORITY 12

 EC STRUCTURE AND MEMBER ALIGNMENT HAVE AN IMPACT ON EDO'S
 ABILITY TO PERFORM LEGISLATED DUTIES 15

 EDO AS HEAD OF THE AGENCY FOR ADMINISTRATIVE
 OPERATIONS 15

 HEAD OF THE AGENCY DEFINITION IS FLEXIBLE 16

 CURRENT ALIGNMENT AFFECTS EDO'S ABILITY TO MEET
 LEGISLATIVE MANDATE 18

CONCLUSIONS 19

MATTERS FOR CONSIDERATION 19

RECOMMENDATIONS 24

MANAGEMENT COMMENTS ON THE DRAFT REPORT 24

OIG ANALYSIS OF MANAGEMENT COMMENTS 25

APPENDICES

 I OBJECTIVES, SCOPE, AND METHODOLOGY 26

 II ALTERNATIVE REPORTING ARRANGEMENTS 28

 III ALTERNATIVE MANAGEMENT STRATEGIES 29

 IV EDO COMMENTS AND OIG ANALYSIS 38

 V CFO COMMENTS AND OIG ANALYSIS 40

 VI ACTING CIO COMMENTS AND OIG ANALYSIS 96

 VII ABBREVIATIONS AND ACRONYMS 102

 VIII MAJOR CONTRIBUTORS TO THIS REPORT 103

INTRODUCTION

In passing the Government Performance and Results Act, Congress directed all Federal agencies to improve their internal management and program effectiveness. This and other factors prompted the U.S. Nuclear Regulatory Commission (NRC) to initiate several major reviews of NRC's management processes. These efforts included a contract with Arthur Andersen and Company (the contractor) to perform internal program assessments of the effectiveness of management and support activities. As a result, in October 1999, the contractor produced a report titled, *Assessment of NRC Support Activities*, which identified numerous opportunities for improvements in agency operations. The report recommended specific actions to be taken related to the Office of the Chief Information Officer (OCIO) and the Office of the Chief Financial Officer (OCFO) to achieve greater operational effectiveness and efficiencies in support of NRC's mission, goals, and priorities. Some of Arthur Andersen's findings and recommendations stemmed from the observations that NRC leaders need to work more as a team and that the incomplete integration of information technology in NRC needs to be addressed.

In February 1998, prior to the Arthur Andersen report, the Office of the Inspector General (OIG) sponsored an agency-wide OIG Safety Culture and Climate Survey. Survey results indicated that the staff in some of the highest offices of the agency (i.e., Chairman, Commissioners, and Executive Director for Operations) held a more favorable perception than NRC overall concerning NRC's management leadership. Anecdotal information provided by NRC staff in their survey responses suggested that there was uncertainty among staff regarding the leadership at the top of the agency and that, ultimately, it affected the agency's ability to carry out its mission.

Prompted in part by the survey results, OIG initiated a special evaluation in December 1998 to review the role and structure of NRC's Commission.⁽¹⁾ During that review, the OIG special evaluation team received comments from senior agency managers, including Commissioners, regarding their perceptions that NRC's Executive Council (EC) is ineffective and inefficient due to its structure. The EC, established at NRC in January 1997, is an executive body composed of three equal members: the Executive Director for Operations (EDO), the Chief Financial Officer (CFO), and the Chief Information Officer (CIO). The special evaluation team also identified that the EC, as structured, impedes compliance with certain legislative requirements pertaining to NRC. As established, the EC as a body, and the three individual members, report directly to the Chairman.

More recently, during an OIG review on how NRC follows up on OIG audit recommendations, the issue of EC effectiveness resurfaced regarding the

¹ OIG/99E-09, *Special Evaluation of the Role and Structure of the NRC's Commission*, dated December 23, 1999.

impact of the EC structure on the EDO's ability to conduct his duties as the agency's Audit Followup Official (AFO). In light of this new insight and the earlier raised issues, OIG initiated a special evaluation of the role and structure of NRC's Executive Council. This report provides the results of that evaluation.

The objectives of this evaluation were to determine whether the EC (1) is operating in accordance with applicable laws, and (2) can effectively and efficiently facilitate NRC's mission given its current role and structure. During the evaluation, OIG identified and reviewed a related issue concerning how the EC structure affects the EDO's ability to carry out his legislatively prescribed, and otherwise delegated, responsibilities. Appendix I contains additional information on our objectives, scope, and methodology.

BACKGROUND

In considering the EC's role and structure, it is critical to have an understanding of the interplay among various statutes that have either a clear and direct impact on, or important implications concerning, the way that NRC delegates responsibilities to and among its senior executives. Equally important to understand is the evolution of the authority these statutes portray. Five statutes are applicable to the EC and its members: the Energy Reorganization Act of 1974, the Reorganization Plan No. 1 of 1980, the Chief Financial Officers Act of 1990, the Paperwork Reduction Act, and the Clinger-Cohen Act.

The Energy Reorganization Act of 1974 and the Reorganization Plan No. 1 of 1980

The Energy Reorganization Act of 1974 (the Act) established the Nuclear Regulatory Commission as an independent regulatory commission, composed of five members, each with equal responsibility and authority in all decisions and actions of the Commission. According to the Act, the President designates one Commission member as Chairman, who serves as the agency's official spokesman and as the Commission's principal executive officer. In this latter role, the Chairman is responsible for exercising all of the executive and administrative functions of the Commission. The Act also called for the appointment of an EDO who would report to the Commission. The Act further established the Office of Nuclear Reactor Regulation (NRR), the Office of Nuclear Material Safety and Safeguards (NMSS), and the Office of Nuclear Regulatory Research (RES).

In addressing the relationship between the EDO and the directors of NRR, NMSS, and RES, the Act specified that the EDO "shall perform such functions as the Commission may direct, except that the [EDO] shall not limit the authority of the director of any component organization provided in this Act to communicate with or report directly to the Commission when such director of a component organization deems it necessary to carry out his responsibilities. Notwithstanding the preceding sentence, each such director shall keep the [EDO]

fully and currently informed concerning the content of all such direct communications with the Commission." In other words, the Act established a dual reporting structure for these office directors whereby they would report both to the Commission and the EDO, as appropriate.

In 1980, President Jimmy Carter proposed Reorganization Plan No. 1 (the Reorganization Plan) for NRC. The Reorganization Plan, approved by Congress that same year, echoed some of the key requirements of the Energy Reorganization Act, described above, and modified others. For example, the Reorganization Plan reiterated that the Chairman serves as the Commission's official spokesman and principal executive officer. It also specified that responsibility for policy formulation was to remain with the full Commission. However, it also clarified and strengthened the duties and authorities of the Chairman and established a closer relationship between the Chairman and the EDO. For example, the Reorganization Plan stated that the Chairman would be responsible for assuring that the EDO, and the agency staff, are responsive to the requirements of the Commission in the performance of its functions.

In addition, the Reorganization Plan defined that the Chairman shall [emphasis added] delegate, subject to his direction and supervision, to the EDO, the responsibility for the administrative functioning of the agency. EDO duties would also include the distribution of business throughout the agency and preparation of proposed reorganizations, budget estimates for the Commission, and the proposed distribution of appropriated funds according to major programs and purposes. The Reorganization Plan also stated that the Chairman and the EDO, through the Chairman, shall be responsible for ensuring that the Commission is fully and currently informed about matters within its functions. Furthermore, the Reorganization Plan stated that the EDO shall report for all matters to the Chairman, and that the Directors of NRR, NMSS, and RES shall report to the EDO.

The Reorganization Plan also raised the threshold for office directors to bring matters to the Commission. While the Energy Reorganization Act stated that these office directors could report to the Commission when they deemed it necessary to carry out their responsibilities, the Reorganization Plan provides for a more generic open-door policy and, in so doing, appears to have further strengthened the EDO's role as head of the agency for administrative matters. The Reorganization Plan states that any [emphasis added] NRC officer or employee "may communicate directly to the Commission, or to any member of the Commission, whenever in the view of such officer or employee a critical problem or public health and safety or common defense and security is not being properly addressed."

Taken together, the Energy Reorganization Act and the Reorganization Plan can be seen as portraying three different heads of NRC to fulfill different purposes. While both the Chairman and the EDO are ultimately accountable to the Commission, the Chairman has been designated, by law, as NRC's principal

executive officer and the EDO is charged with the administrative functioning of the agency.

The Chief Financial Officers Act of 1990, the Paperwork Reduction Act, and the Clinger-Cohen Act

The Chief Financial Officers Act of 1990 (the CFO Act) required the designation of a CFO in each Federal executive department and major executive agency in order to increase the visibility and accountability for Federal financial management. The CFO Act directs that at some agencies the CFO is a presidential appointee, while at others (including NRC) the CFO is appointed by the agency head. The CFO Act requires the CFO to "report directly to the head of the agency regarding financial management matters. . . ." Also, according to the CFO Act, the CFO oversees all financial management activities relating to agency programs and operations; prepares and transmits an annual report to the agency head and the Director of the Office of Management and Budget (OMB); and monitors the financial execution of the agency budget. Currently, the CFO reports directly to the NRC Chairman which is consistent with the CFO Act.

The Paperwork Reduction Act of 1980 required each agency head to designate a senior agency official for information resources management who "shall report directly to such agency head to carry out the responsibilities of the agency" as specified in the legislation. The EDO designated the Deputy Executive Director for Nuclear Materials Safety, Safeguards, and Operations Support as this senior agency official. This Deputy was appointed by, and reported directly to the EDO, thereby identifying the EDO as head of the agency for the purpose of implementing the legislation. The Paperwork Reduction Act was amended in 1995 (the PRA) to replace the title "senior agency official" with "Chief Information Officer." According to the PRA, the CIO heads an office responsible for ensuring agency compliance with and prompt, efficient, and effective implementation of the information policies and information resources management responsibilities established in the PRA. The PRA also specifies that each agency program official, in consultation with the designated CIO and the "agency Chief Financial Officer (or comparable official)," define program information needs and develop strategies, systems, and capabilities to meet those needs.

The Clinger-Cohen Act (Clinger-Cohen) further clarified the CIO's role and elevated the importance of incorporating information technology (IT) into the way that Federal agencies do business. According to Clinger-Cohen, the CIO is responsible for providing advice and other assistance to the agency head and other senior management personnel to ensure that IT is acquired and information resources are managed for the agency as required by law and the priorities established by the agency head. Clinger-Cohen also requires the CIO to report to the head of the agency on the progress made in improving information resources management capability. OMB guidance on the implementation of Clinger-Cohen states that the organizational placement of the

CIO is to be determined by the agency head. Currently, the NRC CIO reports directly to the Chairman.

Clearly, the implementation of these three acts depends on the interpretation one gives to the notion of "agency head," based on requirements in both the Energy Reorganization Act of 1975 and the Reorganization Plan No. 1 of 1980.

Role of the Office of Management and Budget

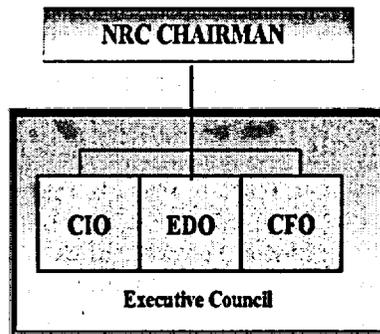
The aforementioned three statutes (the PRA, the CFO Act, and Clinger-Cohen) require affected agencies, including NRC, to report to OMB on their plans for complying with certain aspects of the legislation. In particular, guidance issued by OMB requires agencies covered by these three statutes to report on the alignment of the CIO and CFO within the agency's organizational structure. These agency submissions (and any subsequent revisions) are subject to OMB's approval and, to date, OMB has allowed various reporting arrangements. Further discussion on these differing reporting arrangements occurs later in this report.

Establishment of NRC's Executive Council

In the latter half of 1996, OCIO was established. Former NRC Chairman Shirley Jackson determined that the CIO would report to the Chairman and that this was in accord with the PRA and Clinger-Cohen. In January 1997, Chairman Jackson implemented a major agency reorganization. Under this reorganization, a separate OCFO was created with the CFO also reporting directly to the Chairman. This would, according to Chairman Jackson, relieve the EDO of a significant burden and allow him to concentrate his efforts on regulatory operations. Additionally, the former Chairman stated that the creation of the CFO position and its organizational placement was in accord with OMB guidance pertaining to the CFO Act.

It was this same reorganization that established NRC's EC (see Figure 1) to provide a "comprehensive agency-wide foundation for accomplishing the agency's overall mission."

Figure 1. Executive Council



EVALUATION RESULTS

While the current reporting lines for the EDO, CIO, and CFO are consistent with applicable laws, there appear to be no laws requiring or precluding the existence of the EC, or directing its operations. EC operations are directed by internal NRC guidance. However, the EC is not operating in accordance with existing agency guidance or meeting the expectations established by former Chairman Jackson. Specifically, the structure of the EC impairs its ability to facilitate the agency's mission. Furthermore, the organizational alignment of the EC members impairs the EDO's ability to carry out his mandated responsibilities with optimal effectiveness and efficiency.

EC STRUCTURE IMPAIRS ITS ABILITY TO EFFECTIVELY AND EFFICIENTLY CARRY OUT ITS ROLE TO FACILITATE NRC'S MISSION

We were unable to identify any laws that require or preclude the existence of NRC's EC, or direct its operations. Moreover, senior agency managers, including Office of the General Counsel (OGC) staff, were not aware of any requirements for the establishment of the EC. Given its existence, however, there are a number of criteria specific to defining the role and structure of the EC, including *NRC's CIO Plan*, former Chairman Jackson's announced expectations of the EC, a working draft charter, and NRC's Management Directive (MD) 2.2. In addition, there is other guidance with applicable messages related to effective and efficient management methods, including benchmark data compiled on other executive council experiences and the October 1999 Arthur Andersen study.

Our review determined that the EC does provide a communication mechanism for the EDO, CFO, and CIO, as anticipated, and is structured according to the established criteria. However, the EC is not functioning as intended, due largely to its structure, which hampers the EC's ability to carry out its role.

Agency Expectations Established for the EC

In a July 1996 letter to OMB, former Chairman Jackson described her vision for establishing an EC body, composed of the EDO, the CFO (who at the time was also the EDO), and the CIO. This information was contained in an attachment to the letter titled, *NRC's CIO Plan*. The CIO Plan stated that the EC would "ensure that information resources management, operations, and decisions are integrated with agency planning, budget, financial management, human resources management, and program decisions."

In an October 1996 memorandum to the EDO — following the memorandum to OMB and preceding her agency announcement concerning the reorganization — Chairman Jackson directed the EDO to form a task force to evaluate the proposed changes to NRC's senior management, including the creation of the EC and a separate CFO position. In this memorandum, Chairman Jackson stated her intent that the EDO chair the EC, which would "ensure that financial management and information management systems properly respond to regulatory programs needs and reflect and integrate information and financial management tools within functional areas under each DEDO."⁽²⁾

In response to the Chairman's memo, a task force of senior executives was established to study the proposed changes. In its November 1996 report to Chairman Jackson, the Task Force approved the notion that the EDO would retain responsibility for budget development and execution which, the report stated, "are essential to effective and efficient accomplishment of responsibilities and are specified functions of the EDO in the Reorganization Plan No. 1 of 1980." In addition, the Task Force report cautioned that the financial responsibilities between the EDO and CFO would need to be carefully delineated. Regarding the EC specifically, the report noted that it would be essential that the EC members work together effectively and that the CIO and CFO have a strong mission support/service orientation. The report also made specific reference to the expectation that having the EDO serve as chair over the EC would help assure the integration of planning, budget, financial, and programmatic decisions. It also noted that the EDO, as chair, should provide the NRC Chairman an annual evaluation of support provided by the CFO and CIO to the regulatory programs.

In a December 1996 speech to NRC employees, Chairman Jackson formally announced the pending reorganization of the agency's management structure,

2

"DEDO" stands for Deputy Executive Director for Operations.

including the creation of an EC, to be effective in January 1997. During her speech, she said, "The Commission has determined that a new alignment of our top management will strengthen our ability to perform our mission of protecting public health and safety." According to Chairman Jackson, the EC would establish a management structure that was expected to provide NRC with a comprehensive agency-wide foundation for accomplishing its mission.

On January 30, 1997 — shortly after the formation of the EC — a document titled, *WORKING DRAFT - U.S. NRC Executive Council Charter and Procedures* (Draft Charter), was issued stating a purpose and structure which mirrored that announced by Chairman Jackson to the NRC staff. In addition, the Draft Charter further defined the role of the EC and its members. In so doing, it expanded the membership to include the following "non-voting" members: the three Deputy Executive Directors, Deputy CIO, Deputy CFO, and representatives from OGC and the Chairman's office. Despite June 1997 and May 1998 updates, the Draft Charter has never been finalized. (See Recommendation 3.)

Based on Chairman Jackson's expectations and the Draft Charter's requirements, the EC should:

- ◆ Be composed of the EDO (who serves as EC Chairman), CIO, and CFO as voting members, and the non-voting members listed above.
- ◆ Ensure that financial management and information management systems properly respond to regulatory program needs.
- ◆ Facilitate the implementation of policy decisions arising from the Strategic Assessment and Rebaselining Initiative.
- ◆ Make corporate decisions or recommendations.
- ◆ Ensure that program and resource planning and implementation are closely coordinated and integrated.
- ◆ Facilitate the agency's strategic planning process.
- ◆ Facilitate communications among the EDO, CFO, and CIO.
- ◆ Keep the Chairman fully informed of EC activities, including dissenting views.
- ◆ Brief the Commission on significant matters, at least semiannually.

Another requirement, from NRC's MD 2.2, *Capital Planning and Investment Control* (CPIC), calls for the EC to make 'go/no-go' decisions on whether to continue to support the agency's major IT projects. (See Recommendations 1 and 2.)

Approximately 6 months after the EC was established, a senior official in the EDO's office was tasked to study private sector and Government agency experiences with councils and boards equivalent to the EC to gather benchmarking data. In his survey of 10 Federal agencies, he found that most "councils" are chaired by the agency's Deputy Secretary [or equivalent] and the members of the council are organizationally subordinate to the chair. Similarly, in discussions with two large private corporations, he found that their "Executive Councils" tend to be headed by the Chief Executive Officer with line Vice Presidents as members. The common thread is that these "Executive Councils" are chaired by a senior manager to whom the other council members report. Under such an arrangement, accountability is clear because there is one focal point of authority.

EC Meets Some Expectations, But Lacks Focal Point of Authority

The EC meets regularly and does satisfy some of the expectations as conveyed by former Chairman Jackson and the Draft Charter. For example, the EC is structured in accordance with the established criteria, including the presence of non-voting EC members and the designation of the EDO as the chair. In addition, the EC provides a mechanism to facilitate communication among the EDO, CFO, and CIO (see Recommendation 2), which results in discussion and review of, among other things, the agency's strategic plan and budget. According to some of the EC members, one benefit of the EC is the opportunity it provides to view these issues from three different perspectives. And, as required, the EC does eventually endorse and forward both items to the Commission.

Conversely, the EC is not operating as intended in a number of other areas. Although the EC's Draft Charter calls for the EC to make corporate decisions and recommendations, senior agency managers, including Commissioners and EC members, said that the EC does not make corporate decisions as envisioned and that it has consciously decided not to address issues as a body. Instead, while the full EC may be briefed on an issue, the EC member most affected by the issue will take the lead and address the issue as an individual. For example, on budget matters, formal communication to the Chairman, Commission, or staff is sent by the CFO. As a result, senior officials indicated that the EC is not viewed as a decision-making body. In the one area where the EC is required by NRC MD 2.2 to make go/no go decisions concerning major IT systems that are at risk of significant variation from their cost, schedule, or performance goals, it seems noteworthy that the group has never made a 'no go' decision on a project, as a whole. Two such systems that the EC monitors— ADAMS and STARFIRE⁽³⁾ — have experienced continuing difficulties in meeting budget,

3

The acronym, ADAMS, stands for Agencywide Documents Access and Management System; STARFIRE stands for Standard Financial and Integrated Resource Enterprise system.

performance, and schedule goals. Furthermore, because each of these systems has an EC member as its business sponsor (CFO for STARFIRE, CIO for ADAMS), there is a perception of impaired neutrality regarding such matters.

Additionally, the EC Chairman does not have greater voting authority than the other EC members. In fact, "voting" in the strict sense does not occur. For example, our observations suggest that the non-voting EC members have a strong presence at EC meetings and that EC "voting" is more of a consensus by head-nodding of all members, voting and non-voting members alike. (All subsequent references in this report to "EC members" denotes only the EDO, CIO, and CFO.) Also, NRC is unlike the organizations captured in the study conducted by the EDO's Office in that NRC's EC Chairman does not have the other EC members report to him.

The lack of authority of the EC Chairman is compounded by the contrasting management styles of former Chairman Jackson and her two successors. Interviewees stated that Chairman Jackson aggressively exercised her designated role as the agency's principal executive officer by having regular meetings with the EC, directing EC actions, and making EC-related decisions. As a result, she was informed of its activities, and provided direct oversight of the EC's performance. The current Chairman does not meet regularly with the EC as a body, although the EDO, CIO, and CFO do attend his daily senior management meetings. The Chairman informed us that he meets with the EC members individually in order to keep informed of their respective areas of responsibility. This was also the case with the interim Chairman. This leaves a void in that no one person possessing both a broad NRC-wide perspective and the authority to manage the EC has control over the EC as a body.

In addition, despite the Draft Charter's semi-annual meeting requirements, the EC has only met with the Commission once since its inception. Individual EC members have met on occasion with individual Commissioners and have briefed the Commission representing their own organizations.

Furthermore, the existing EC structure does not foster an environment in which EC members routinely focus on a common picture of success across the agency. For example, since the CIO and CFO are responsible for their own functional areas, they seem to promote their individual responsibilities without careful coordination regarding the impact on staffing constraints of other offices.

Due to their alignment within NRC and their equal voting status on the EC, no one EC member can direct the actions of another. For example, one EC member said that because there is no accountability among the members to each other, he cannot always secure the information or assistance he needs from the others for effective resource planning. Conversely, his staff must often spend unplanned resources to execute programs implemented by the other EC members.

According to many of the NRC staff interviewed, including the three EC members, one benefit of the EC is having an opportunity for coordination. However, there has been poor coordination and integration of program and resource planning, and implementation, with regard to IT and the budget process. For example, several NRC managers mentioned concerns related to the way in which OCIO carries out its role within NRC. Some managers said that OCIO does not always focus on its role to support the program offices, but pursues what appears to be its own program, unrelated to NRC's overall health and safety mission. These managers also said that OCIO does not always consider the impact of its decisions on program office staff. One example repeatedly provided related to ADAMS. Arthur Andersen offered an apt description of the ADAMS-related issues in its 1999 report, stating that "... OCIO has not worked effectively enough with Office Directors to develop a common picture of success where the users can integrate system capabilities into their plans to improve core business processes. . . . The ADAMS implementation seems to have been focused primarily on the technical aspects with little consideration for the 'softer' side of business changes, including the impacts on how people will now be required to do their work."

Additionally, NRC senior officials said they have felt pressured and burdened by OCFO's approach to the Planning, Budgeting, and Performance Management (PBPM) process. The process currently requires these officials and their staff to spend considerable time attending meetings and preparing information for OCFO. However, they feel the information they provide is not considered appropriately by the CFO's staff during the process. Part of the problem is due to the fact that, despite the cautions of the Task Force set up by former Chairman Jackson, the EDO does not have adequate impact on budget planning and execution. While the Reorganization Plan specifically assigns the EDO responsibility for preparing budget estimates for the Commission and the proposed distribution of appropriated funds, OCFO currently performs these duties.

Budget related concerns were also noted in the Arthur Andersen report which identified issues that contributed to the budget formulation burden on agency resources. According to the report, budget formulation guidance and instructions were not timely as they were received about 2 weeks prior to the deadline for office budget submissions. Furthermore, the format and content for office submissions were not sufficiently clear and important guidance, such as fiscal guidance and scenario planning assumptions, was not included. Accordingly, substantial agency resources across programs/offices were needed to comply with budget formulation process requirements. The report also noted staff concerns over additional hours spent preparing for, and participating in, budget review meetings, which they felt were repetitive, included unnecessary multiple levels of review, and frequently resulted in additional workload.

In March 2000, despite staff concerns and the Arthur Andersen findings presented above, the EC endorsed OCIO's recommendation to make ADAMS

the agency's official record keeping system as of April 1, 2000. More recently, due to the problems that persist with ADAMS, the current Chairman tasked the Acting CIO to formulate an action plan to address issues that affect the agency's use of ADAMS. Similarly, the Chairman recently requested that the CFO provide extensive information concerning budget planning in an apparent move to facilitate that process. Both actions seem to have been prompted by the lack of coordination described above.

While the EC is structured as directed, i.e., the EDO as Chairman of the EC, the position of Chairman does not carry the additional weight as intended by former Chairman Jackson and the aforementioned Task Force of senior executives. In fact, EC members said that under the current EC structure, they are equals except for the fact that the EC Chairman conducts the meetings and sets the agenda topics. The current organizational structure, i.e., the equal status of the EDO, CIO, and CFO, appears to be largely responsible for many of the conditions noted above, and as identified by Arthur Andersen in its October 1999 assessment. The present organizational structure — as reflected on the EC — makes it extremely difficult for the EC to effectively ensure optimal coordination and integration of the various functions and initiatives of the support offices with those of the program offices.

The EC's inability to fulfill its prescribed role is directly related to the fact that the EC members have equal authority and that, given its structure, no one person is in charge of EC matters. Having EC members who are subordinate, and therefore accountable, to the chair should help ensure that OCIO and OCFO programs properly respond to regulatory program needs as originally envisioned. Further, the chair could then direct subordinates to take needed actions in a timely manner for the common good of the agency.

EC STRUCTURE AND MEMBER ALIGNMENT HAVE AN IMPACT ON EDO'S ABILITY TO PERFORM LEGISLATED DUTIES

The equal status of the EC members not only impairs the EC's ability to carry out its intended functions, but also is a problem for the management of NRC in that it impedes the EDO's ability to carry out his mandated responsibilities with optimum efficiency and effectiveness.

EDO as Head of the Agency for Administrative Operations

Various pieces of legislation and agency guidance indicate that the EDO is to serve as the head of NRC for day-to-day agency operations. First and foremost, the Reorganization Plan No. 1 of 1980 requires the NRC Chairman, as the agency's "principal executive officer," to delegate responsibility for the agency's administrative functioning to the EDO, subject to the Chairman's direction and supervision. The EDO was to be given responsibility for distribution of business among NRC staff and offices, preparation of the budget estimate for the

Commission, the proposed distribution of appropriated funds according to major programs and purposes, and other specific matters. Thus, the Reorganization Plan is interpreted as giving the EDO day-to-day authority for running NRC, as well as specific responsibilities related to the budget.

This head of the agency role is reflected in the agency's official position description for the EDO, which states, "The EDO is the chief operating and administrative officer of the Nuclear Regulatory Commission (NRC) and, except as provided by law, regulation, Commission and/or Chairman action, discharges licensing, regulatory and administrative functions of the Nuclear Regulatory Commission." Furthermore, MD 9.17, *Office of the Executive Director for Operations*, states that the EDO is the chief operating and administrative officer of the Commission.⁴ According to MD 9.17, the EDO is authorized and directed to discharge all regulatory, financial management, and administrative functions of NRC.

Head of the Agency Definition Is Flexible

Despite the various pieces of guidance and legislation giving the EDO responsibility for the day-to-day functioning of NRC, this head of the agency status is inconsistently applied within NRC. In other words, either the Chairman or the EDO have been designated as the head of the agency for implementing reporting requirements under a number of laws applicable to NRC. While this inconsistency demonstrates flexibility in the definition of the phrase, head of the agency, the inconsistent application for the purposes of the CFO Act and Clinger-Cohen creates a scenario that impairs the EDO's ability to carry out his role as established in the Reorganization Plan.

According to OGC staff, the EDO is considered the head of the agency for a number of legislative acts, including the Paperwork Reduction Act, as noted earlier in the report. In addition, the EDO is considered the head of the agency for the purposes of the NRC Acquisition Regulation (NRCAR), which is used in conjunction with the Federal Acquisition Regulation (FAR) to guide agency acquisition procedures, and which was in effect during former Chairman Jackson's tenure. In fact, the NRCAR specifically defines the head of the agency as the EDO. Yet, for the purpose of implementing the CFO Act and Clinger-Cohen, former Chairman Jackson determined that the CIO and CFO would report to her as the head of the agency.

However, it is clear that the former Chairman viewed the EDO as head of the agency for other matters. Under the same reorganization that created the EC and directed the CIO and CFO to report to the Chairman as head of the agency, Chairman Jackson established the Office of the Deputy Executive Director for

⁴ This (current) version of MD 9.17, dated September 12, 1991, also describes the EDO as serving as the agency's CFO. As previously noted, the EDO no longer serves as CFO. (See Recommendation 1.)

Management Services (DEDM). The DEDM reports directly to the EDO. As part of the reorganization, the former Chairman redirected the reporting chain for the Office of Small Business and Civil Rights (SBCR) from the EDO to the DEDM level. It is important to note that the SBCR director, due to the office's mission to facilitate the Equal Employment Opportunity program and the Small Business Act, as amended (SBA), is required to report to the head of the agency (or, for SBA purposes, the "second ranking person in the agency"). Therefore, by directing SBCR to report to the DEDM, the former Chairman acknowledged the designation of the EDO as the head of the agency for the purposes of the laws applicable to SBCR.

Head of the agency arrangements, for purposes of the CFO Act, PRA, and Clinger-Cohen, must be submitted to OMB. According to OMB staff, for purposes of implementing the CFO Act and Clinger-Cohen, OMB has allowed CIOs and CFOs to report at various levels in different agencies, provided the agency can justify why the alignment is appropriate, i.e., what reporting alignment best serves the agency's needs. They pointed out that in many agencies, a Secretary may be at the top of the organizational chart as the political head, but the head of the agency for day-to-day matters is typically the Deputy Secretary. Thus, they said, at some of these agencies, the CIOs and CFOs report to the Deputy Secretary, rather than to the Secretary who has more of a political, policy-making role.

It appears to be significant, therefore, that neither Clinger-Cohen nor the CFO Act, nor OMB's implementing guidance on these acts, provide clarification on the term, "head of the agency." According to OGC staff, and OIG concurs, by omitting a prescriptive definition of the head of the agency, both the lawmakers and OMB appear to be leaving room for flexibility. In fact, FAR Part 2, Subpart 2.1 states that head of the agency (also called "agency head") means the Secretary, Attorney General, Administrator, Governor, Chairperson, or other chief official of an executive agency, unless otherwise indicated, including any deputy or assistant chief official of an executive agency. Appendix II shows examples of alternative CIO and CFO reporting arrangements (where reporting occurs to other than the political head) in practice in Federal agencies today.⁵⁾

While former Chairman Jackson's intent was for the EDO to have a more authoritative role on the EC, this heightened role is not currently being fulfilled. In an October 1996 memo to a former EDO, the former Chairman stated that having the EDO chair the EC "would ensure that financial management and information management systems properly respond to regulatory programs needs and reflect and integrate information and financial management tools within functional areas under each DEDO." According to one of her former assistants, Chairman Jackson intended the EDO to have authority over the other

5

Examples provided are for agencies that fall under the requirements of both the CFO Act and Clinger-Cohen.

two EC members and perceived that she gave the EDO extra authority in the way she dealt with him and considered his views. According to the former assistant and others, Chairman Jackson sought a great amount of hands-on involvement in the day-to-day management of NRC. In pursuing such involvement, the former Chairman met regularly with the EC body, and with the EDO as EC Chairman, specifically, to discuss EC issues. As it operates today, however, the EC is composed of three equal members — the EDO, CIO, and CFO — and all members report to the current NRC Chairman.

Current Alignment Affects EDO's Ability To Meet Legislative Mandate

The equal status of the EDO, CFO, and CIO, both on the EC and within NRC's organizational structure, impairs the EDO's ability to manage the day-to-day operations of the entire agency with optimum efficiency and effectiveness. The CIO and CFO are not accountable to the EDO and, as discussed previously, there are numerous examples of problems that result from this reporting structure. These include a poorly coordinated budgeting process, an apparent lack of sensitivity by OCIO on the impact of IT system initiatives on program office resources, and the impact on the EDO's role as the agency's AFO. For example, in the OIG's recent review of NRC's audit followup system, OIG auditors were told that because the CIO and CFO do not report to the EDO, the EDO cannot conduct his role as the agency's AFO in an optimum manner. Presently, responses to OIG audit recommendations prepared by non-EDO offices such as OCIO, OCFO, Commission Offices, Panels, and Advisory Committees are sent directly to the OIG without requiring coordination with the AFO. Often, the AFO first learns of disagreements between these offices and the OIG upon receipt of OIG final reports. If these offices were accountable to the EDO in his role as AFO, it would likely result in a reduction in the expenditure of auditee and OIG resources used to defend, refute, and report on differing positions that can often be easily resolved after draft report issuance.

It must be noted that the CFO Act holds the CFO responsible for overseeing financial management activities within the agency. However, the Reorganization Plan, as previously stated, gives the EDO responsibility for preparing the Commission's budget estimate and the distribution of appropriated funds. There appears to be nothing in the CFO Act that overrides the budgetary responsibilities given to the EDO under the Reorganization Plan.

The current EC structure reflects the larger organizational alignment at NRC, under which the EDO, CFO, and CIO have equal reporting status. It is this equal alignment (as reflected on the EC) that interferes with the EDO's ability to carry out his legislatively mandated duties as head of the agency for administrative functioning and as the party responsible for preparation of both the agency's budget estimates and the proposed distribution of appropriated funds according to major programs and purposes.

CONCLUSIONS

When the Executive Council was created in 1997, former Chairman Jackson established a number of expectations regarding its role. Although the EC is meeting some expectations, it is not operating as intended in key areas. For example, it was envisioned that the EC would ensure that the agency's financial and information management systems would properly respond to program office needs. This is not the case, however, due to the structure of the EC and the lack of a focal point of authority. The equal status of the EC members makes it difficult to effectively coordinate and integrate the various functions and initiatives of the support offices with those of the program offices.

Furthermore, the equal status of the EDO, CIO, and CFO, as reflected on the EC, is a problem for the management of NRC. Specifically, the EDO cannot have adequate control over the "distribution of business throughout the agency," as required by the Reorganization Plan of 1980, because two major support organizations — OCIO and OCFO — are not accountable to him. This situation compromises the EDO's ability to carry out his mandated responsibilities as the head of the agency's administrative operations with optimum efficiency and effectiveness.

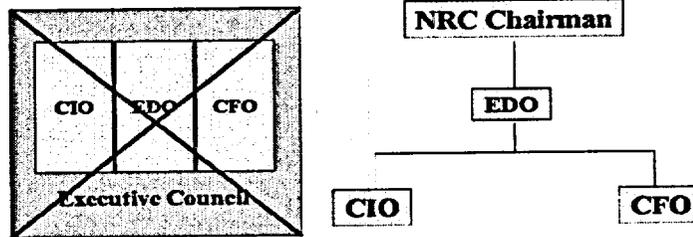
Because of the reasons stated above, the Chairman/Commission should consider alternative management strategies pertaining to the EC structure and the alignment of the EDO, CIO, and CFO. This effort should identify a more efficient and effective use of agency resources to enable NRC to meet its mission.

MATTERS FOR CONSIDERATION

As part of this review, benefits and drawbacks associated with eight alternative management strategies for EC member reporting alignments and the EC body were developed. Benefits and drawbacks of the status quo arrangement were also considered. In this section, four preferred alternatives are provided with their associated benefits and drawbacks. Appendix III presents, in tabular form, all nine strategies and the relevant associated pros and cons. Six of the nine options involve keeping the EC as a body and three involve eliminating the EC. NRC's implementation of any of the eight optional arrangements will facilitate improvements in agency operations. However, the implementation of any one of the preferred alternatives described below will result in a more efficient and effective organization and provide even greater benefits to NRC and its stakeholders.

PREFERRED ALTERNATIVES

1. Eliminate the EC and change reporting lines to indirect reporting⁶ for CIO and CFO. This means that the CIO and the CFO report to the EDO.

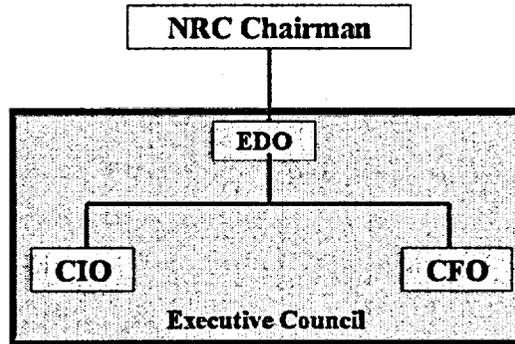


Benefits: 1) Provides a single focal point of authority for day-to-day agency management, which promotes accountability; 2) promotes agency-wide perspective to help ensure common picture of success across NRC; 3) facilitates efficient and effective integration of IT and planning and budgeting components of the PBPM process with program and other offices; and 4) enables EDO to better perform legislated responsibilities.

Drawbacks: 1) Necessitates a new communication mechanism among the EDO, CIO, and CFO; and 2) requires OMB approval prior to change, which could impact timeliness of NRC's efforts to make improvements in agency operations.

⁶ Use of the phrase, "indirect reporting," is intended to denote reporting to someone other than the political head of the agency.

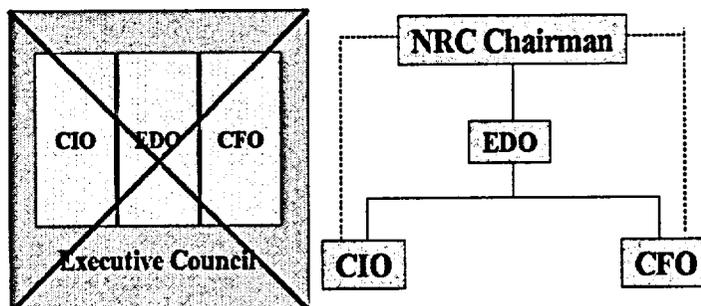
2. Keep the EC and change reporting lines to indirect reporting. This means that the CIO and CFO report to the EDO.



Benefits: 1) Facilitates formal communication among the EDO, CIO, and CFO; 2) is in accordance with results of NRC's study of Government and industry best practices, i.e., EC members are subordinate organizationally to the EC Chairman; 3) provides a single focal point of authority for day-to-day agency management, which promotes accountability; 4) promotes agency-wide perspective to help ensure common picture of success across NRC; 5) facilitates efficient and effective integration of IT and planning and budgeting components of PBPM with program and other offices; and 6) enables EDO to better perform legislated responsibilities.

Drawbacks: Requires OMB approval prior to change, which could impact timeliness of NRC's efforts to make improvements in agency operations.

3. Eliminate the EC and change reporting lines to dual reporting for CIO and CFO. This means that the CIO and the CFO report to the EDO with a dotted line to the Chairman for problem resolution.⁽⁷⁾



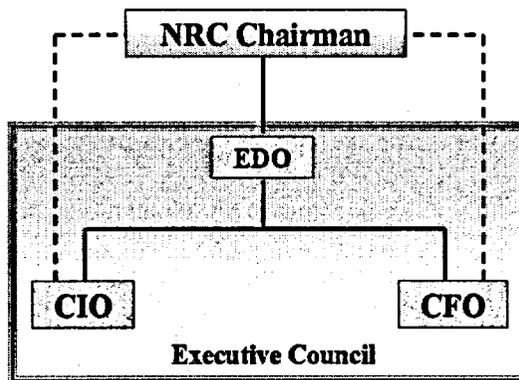
Benefits: 1) Provides a single focal point of authority for day-to-day agency management, which promotes accountability; 2) promotes agency-wide perspective to help ensure common picture of success across NRC; 3) facilitates efficient and effective integration of IT and planning and budgeting components of PBPM with program and other offices; and 4) enables EDO to better perform legislated responsibilities.

Drawbacks: 1) Necessitates a new communication mechanism among the EDO, CIO, and CFO; and 2) requires OMB approval prior to change, which could impact timeliness of NRC's efforts to make improvements in agency operations.

7

In accordance with Reorganization Plan No. 1 of 1980, Section 4(a), any officer or employee under the Commission may communicate directly to the Commission, or to any member of the Commission, when such officer or employee believes a critical problem or public health and safety or common defense and security is not being properly addressed. Thus, a dotted line to the Chairman does not appear necessary. However, the dotted line may facilitate OMB approval.

4. Keep the EC and change reporting lines to dual reporting. This means that the CIO and CFO report to the EDO with a dotted line to the Chairman for problem resolution.⁽⁸⁾



Benefits: 1) Facilitates communication among the EDO, CIO, and CFO; 2) is in accordance with results of NRC's study of Government and industry best practices, i.e., EC members are subordinate organizationally to the EC Chairman; 3) provides a single focal point of authority for day-to-day agency management, which promotes accountability; 4) promotes agency-wide perspective to help ensure common picture of success across NRC; 5) facilitates efficient and effective integration of IT and planning and budgeting components of PBPM with program and other offices; and 6) enables EDO to better perform legislated responsibilities.

Drawbacks: Requires OMB approval prior to change, which could impact timeliness of NRC's efforts to make improvements in agency operations.

OIG considers these four alternatives to be preferred because they result in the EDO serving as the focal point for day-to-day agency management. Such action promotes an agency-wide perspective to help ensure a common picture of

success across NRC, facilitates efficient and effective integration of support and program office functions, and enables the EDO to better perform legislated, and otherwise delegated, responsibilities.

The Chairman/Commission should carefully weigh the benefits and drawbacks of the alternatives presented, including those detailed in Appendix III, and implement a strategy that the Chairman/Commission feels will best enable NRC people and processes to function in an optimal manner with a goal of excellence.

RECOMMENDATIONS

Depending on the management strategy the Chairman/Commission decide to pursue, there are certain items that need to be addressed. Therefore, we recommend that the EDO:

1. Update NRC's management directives to reflect the responsibilities and alignments of the EDO, CIO, and CFO.
2. Establish a mechanism to ensure that the necessary communication between the CIO and CFO, as required by OMB guidance, can occur if the EC is eliminated. Furthermore, current EC responsibilities related to the CPIC process would need redefinition.
3. As the EC Chairman, finalize the Charter if the EC is retained.

MANAGEMENT COMMENTS ON THE DRAFT REPORT

The EDO agreed with the facts and conclusions as presented. The EDO concluded that the staff has successfully met its mandated responsibilities but that improvements in efficiency and effectiveness could be achieved by addressing the issues discussed in the report. He further stated that, following any organizational changes made by the Commission, he will address the proposed action(s) associated with those changes. (See complete EDO comments in Appendix IV.)

The CFO stated that the current reporting structure for his position is consistent with the CFO Act. He added that the report should provide a more balanced discussion of Congressional intent regarding to whom the CFO should report, and NRC's historical efforts to satisfy the CFO Act. Furthermore, he stated that the report contains a number of unsupported conclusions and factual errors. Finally, the CFO concluded that the organizational reporting requirements of the CFO and CIO and the effectiveness of the EC are mutually exclusive. (See complete CFO comments in Appendix V.)

The Acting CIO expressed his view that the data presented was insufficient to make the case that improvements are needed to the status quo [i.e., the current structure of the EC and its members reporting lines]. The Acting CIO also stated that the draft report flows counter to best practice "lessons learned" regarding the optimum delivery of support services to further an organization's efficiency and effectiveness. (See complete Acting CIO comments in Appendix VI.)

OIG ANALYSIS OF MANAGEMENT COMMENTS

Each EC member submitted an individual response to the draft report. The nature of their comments provides additional support that independent agenda of the EC members are promoted without focus on a common picture of success for the agency. This is also an indication that the EC's effectiveness and organizational alignment of its members are not mutually exclusive issues.

While the current NRC reporting structure is consistent with the CFO Act and Clinger-Cohen, different reporting structures used by other Federal agencies demonstrates flexibility within the laws, thereby allowing an organizational realignment within NRC. OIG concluded that such an organizational change could improve the effectiveness of agency operations.

The comments received from the CFO and Acting CIO contained a number of factual errors, inaccurate characterizations of information from the draft report and other sources, and irrelevant arguments. OIG stands by its findings and conclusions, and maintains that the information presented in the report is fair and accurate. Furthermore, OIG believes its conclusion that a change in the agency's management structure will result in improved operations is well supported.

Based on the comments received, minor changes have been made in the report to provide clarification, where appropriate. However, due to OIG's disagreement with a substantial portion of the CFO's and Acting CIO's comments and assertions, point-by-point analyses of their comments are presented in Appendices V and VI, respectively.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of this special evaluation were to review the role and structure of the U.S. Nuclear Regulatory Commission's (NRC) Executive Council (EC) to determine whether the EC is operating in accordance with applicable laws and whether the EC, given its current role and structure, can effectively and efficiently facilitate NRC's mission. We also addressed how the current role and structure of the EC affect the NRC's Executive Director for Operations' ability to perform his legislatively prescribed and other delegated responsibilities.

To accomplish our objectives, we reviewed applicable laws including the Energy Reorganization Act of 1974; the Reorganization Plan No. 1 of 1980; the Chief Financial Officers Act of 1990; the Paperwork Reduction Act of 1995, as amended; and the Clinger-Cohen Act. We also reviewed NRC Announcement No. 106 dated December 3, 1996, titled, *Senior Management Organization and Personnel Changes*, that announced the establishment of the EC; the *WORKING DRAFT - U.S. NRC Executive Council Charter and Procedures* dated January 30, 1997 (and June 1997 and May 1998 revisions); and *NRC'S CIO Plan* as submitted to the Office of Management and Budget in July 1996. Applicable NRC Management Directives were reviewed to identify the role and responsibilities of the EC and its individual members, as well as to ascertain reporting arrangements for other NRC program offices.

In addition, we interviewed a variety of NRC officials, including the Chairman, the Commissioners, and EC members, as well as other NRC senior managers from, but not limited to, the Office of the Executive Director for Operations, the Office of Nuclear Reactor Regulation, the Office of Nuclear Regulatory Research, and the Office of the General Counsel. We spoke with personnel from other Federal agencies, including but not limited to, the Office of Management and Budget, the Department of Labor, and the Department of Housing and Urban Development. We also coordinated with the Office of the Inspector General's Counsel, as necessary.

We examined alternative reporting arrangements at other Federal agencies covered by the Chief Financial Officers Act of 1990, the Paperwork Reduction Act, and the Clinger-Cohen Act. Organization charts from 13 Federal agencies were obtained and reviewed. The reporting arrangement for NRC's Office of Small Business and Civil Rights was also examined as an example of an alternative implementation of a 'report to the head of the agency' requirement. In addition, we researched the applicable legislation and other Federally-approved documents for definitions of head of the agency, including the Federal Acquisition Regulation and the Nuclear Regulatory Commission Acquisition Regulation.

In addition, we reviewed the report, *Assessment of NRC Support Activities*, dated October 15, 1999, and prepared by Arthur Andersen and Company with whom NRC had contracted to conduct an assessment of support activities at headquarters and within the regional and program offices. And, finally, in order to gain firsthand experience with how the EC functions, we attended a number of EC meetings.

We evaluated the management controls related to the role and structure of the EC and conducted our audit from April 2000 through June 2000 in accordance with generally accepted Government auditing standards.

ALTERNATIVE REPORTING ARRANGEMENTS FOR CFOs AND CIOs IN 13 FEDERAL AGENCIES

U.S. Agency	Chief Financial Officer (CFO)			Chief Information Officer (CIO)		
	Direct ¹ Reporting	Indirect ² Reporting	Dual ³ Reporting	Direct ¹ Reporting	Indirect ² Reporting	Dual ³ Reporting
Dept. of the Interior			✓ ⁴			✓
Dept. of State		✓			✓	
Agency for International Development		✓			✓	
Dept. of Education		✓			✓	
Dept. of Housing and Urban Development		✓			✓	
Dept. of Health and Human Services		✓			✓	
Environmental Protection Agency			✓			✓
Social Security Administration	✓ ⁴				✓ ⁴	
Dept. of Treasury			✓ ⁴			✓ ⁴
National Aeronautics and Space Admin.	✓			✓		
General Services Administration			✓			✓
Dept. of Energy			✓		✓ ⁴	
Dept. of Labor			✓			✓
Total # Agencies	2	5	6	1	7	5

- ¹ Direct Reporting - reports directly to the political head of the agency (e.g., Secretary, Chairman, Administrator).
² Indirect Reporting - reports to a tier lower than the political head (i.e., Deputy Secretary or Chief Operating Officer).
³ Dual Reporting - reports to either the political head and a Deputy Secretary, or other official determined to be an agency's equivalent of a Chief Operating Officer.
⁴ These Officers perform dual roles (e.g., Assistant Secretary - Management also acts as CFO).

ALTERNATIVE MANAGEMENT STRATEGIES

ALTERNATIVE	BENEFITS	DRAWBACKS
<p>1. Eliminate EC - CIO and CFO report to EDO</p> <p>(This is one of four OIG preferred alternatives.)</p>	<ul style="list-style-type: none"> ● Provides a single focal point of authority for day-to-day agency management (promotes accountability) ● Promotes agency-wide perspective to help ensure common picture of success across NRC ● Facilitates efficient and effective integration of IT and planning and budgeting components of PBPM with program and other offices ● Enables EDO to better perform legislated responsibilities 	<ul style="list-style-type: none"> ● Necessitates a new communication mechanism among EDO, CIO, and CFO ● Requires OMB approval prior to change, which could impact timeliness of NRC's efforts to make improvements in agency operations

Appendix III
 Special Evaluation of the Role and Structure of NRC's Executive Council

ALTERNATIVE	BENEFITS	DRAWBACKS
<p>2. Keep EC - CIO and CFO report to EDO</p> <p>(This is one of four OIG preferred alternatives.)</p>	<ul style="list-style-type: none"> ● Facilitates communication among EDO, CIO, and CFO ● In accordance with results of NRC's study of Government and industry best practices, EC members are subordinate organizationally to EC Chairman ● Provides a single focal point of authority for day-to-day agency management (promotes accountability) <ul style="list-style-type: none"> ● Promotes agency-wide perspective to help ensure common picture of success across NRC ● Facilitates efficient and effective integration of IT and planning and budgeting components of PBPM with program and other offices ● Enables EDO to better perform legislated responsibilities 	<ul style="list-style-type: none"> ● Requires OMB approval prior to change, which could impact timeliness of NRC's efforts to make improvements in agency operations

ALTERNATIVE	BENEFITS	DRAWBACKS
<p>3. Eliminate EC - CIO and CFO report to EDO with dotted line to Chairman for problem resolution</p> <p>(This is one of four OIG preferred alternatives.)</p> <p>Notes: In accordance with Reorganization Plan No. 1 of 1980, Section 4(a), any officer or employee under the Commission may communicate directly to the Commission, or to any member of the Commission, when such officer or employee believes a critical problem or public health and safety or common defense and security is not being properly addressed. Thus, a dotted line to the Chairman does not appear necessary. However, the dotted line may facilitate OMB approval.</p>	<ul style="list-style-type: none"> ● Provides a single focal point of authority for day-to-day agency management (promotes accountability) ● Promotes agency-wide perspective to help ensure common picture of success across NRC ● Facilitates efficient and effective integration of IT and planning and budgeting components of PBPM with program and other offices ● Enables EDO to better perform legislated responsibilities 	<ul style="list-style-type: none"> ● Necessitates a new communication mechanism among EDO, CIO, and CFO ● Requires OMB approval prior to change, which could impact timeliness of NRC's efforts to make improvements in agency operations

Appendix III
Special Evaluation of the Role and Structure of NRC's Executive Council

ALTERNATIVE	BENEFITS	DRAWBACKS
<p>4. Keep EC - CIO and CFO report to EDO with dotted line to Chairman for problem resolution</p> <p>(This is one of four OIG preferred alternatives.)</p> <p>See Notes for alternative 3.</p>	<ul style="list-style-type: none"> ● Facilitates communication among EDO, CIO, and CFO ● In accordance with results of NRC's study of Government and industry best practices, EC members are subordinate organizationally to EC Chairman ● Provides a single focal point of authority for day-to-day agency management (promotes accountability) <ul style="list-style-type: none"> ● Promotes agency-wide perspective to help ensure common picture of success across NRC ● Facilitates efficient and effective integration of IT and planning and budgeting components of PBPM with program and other offices ● Enables EDO to better perform legislated responsibilities 	<ul style="list-style-type: none"> ● Requires OMB approval prior to change, which could impact timeliness of NRC's efforts to make improvements in agency operations

ALTERNATIVE	BENEFITS	DRAWBACKS
<p>5. Keep EC as is</p> <p>Note: OIG advises against maintaining the status quo, based on the various opportunities for enhanced operational efficiency and effectiveness that can be achieved by implementing one of the other alternatives identified in this report.</p>	<ul style="list-style-type: none"> ● Facilitates communication among EDO, CIO, and CFO 	<ul style="list-style-type: none"> ● No single focal point of authority for day-to-day agency management (impairs accountability) ● Does not promote agency-wide perspective to help ensure common picture of success across NRC ● Does not facilitate efficient and effective integration of IT and planning and budgeting components of PBPM with program and other offices ● Impairs EDO's ability to perform legislated responsibilities

Appendix III
 Special Evaluation of the Role and Structure of NRC's Executive Council

ALTERNATIVE	BENEFITS	DRAWBACKS
<p>6. Keep EC - NRC Chairman has direct and frequent involvement with EC as a body</p> <p>Note: OIG believes that while this alternative does provide a focal point of authority, it does not address the impairment of the EDO's ability to carry out his responsibilities.</p>	<ul style="list-style-type: none"> ● Facilitates communication among EDO, CIO, and CFO ● Provides a single focal point of authority for day-to-day agency management (promotes accountability) <ul style="list-style-type: none"> ● Promotes agency-wide perspective to help ensure common picture of success across NRC ● Facilitates efficient and effective integration of IT and planning and budgeting components of PBPM with program and other offices 	<ul style="list-style-type: none"> ● Places a heavier burden on NRC Chairman which may detract from the time he has available to perform other duties ● Impairs EDO's ability to perform legislated responsibilities

ALTERNATIVE	BENEFITS	DRAWBACKS
<p>7. Keep EC - EDO has two votes, CIO and CFO each have one vote, majority of votes rules, ties to be resolved by Chairman</p> <p>Notes: Gives the EDO greater authority than the other EC members.</p> <p>The CIO and CFO continue to report directly to the NRC Chairman which limits the EDO's ability to both promote an agency-wide perspective and facilitate integration of support and program office functions.</p> <p>OIG believes marginal improvements may result from implementing this alternative.</p>	<ul style="list-style-type: none"> ● Facilitates communication among EDO, CIO, and CFO ● Partially promotes agency-wide perspective to help ensure common picture of success across NRC ● Partially facilitates efficient and effective integration of IT and planning and budgeting components of PBPM with program and other offices 	<ul style="list-style-type: none"> ● No single focal point of authority for day-to-day agency management (impairs accountability) ● Partially (not fully) promotes agency-wide perspective to help ensure common picture of success across NRC ● Partially (not fully) facilitates efficient and effective integration of IT and planning and budgeting components of PBPM with program and other offices ● Impairs EDO's ability to perform legislated responsibilities

Appendix III
Special Evaluation of the Role and Structure of NRC's Executive Council

ALTERNATIVE	BENEFITS	DRAWBACKS
<p>8. Keep EC - EDO has three votes</p> <p>Notes: Gives the EDO greater authority than the other EC members and more authority than in alternative 7.</p> <p>The CIO and CFO continue to report directly to the NRC Chairman which limits the EDO's ability to both promote an agency-wide perspective and facilitate integration of support and program office functions.</p> <p>OIG believes that implementation of this alternative could achieve greater operational improvements than would result from implementation of alternative 7.</p>	<ul style="list-style-type: none"> ● Facilitates communication among EDO, CIO, and CFO ● Partially promotes agency-wide perspective to help ensure common picture of success across NRC ● Partially facilitates efficient and effective integration of IT and planning and budgeting components of PBPM with program and other offices 	<ul style="list-style-type: none"> ● No single focal point of authority for day-to-day agency management (impairs accountability) ● Partially (not fully) promotes agency-wide perspective to help ensure common picture of success across NRC ● Partially (not fully) facilitates efficient and effective integration of IT and planning and budgeting components of PBPM with program and other offices ● Impairs EDO's ability to perform legislated responsibilities

ALTERNATIVE	BENEFITS	DRAWBACKS
<p>9. Eliminate EC - CIO <u>or</u> CFO reports to EDO with a dotted line to Chairman for problem resolution</p> <p>Notes: Gives the EDO greater authority.</p> <p>The CIO <u>or</u> CFO continue to report directly to the NRC Chairman which limits the EDO's ability to both promote an agency-wide perspective and facilitate integration of support and program office functions.</p> <p>See Notes for alternative 3.</p>	<ul style="list-style-type: none"> ● Partially promotes agency-wide perspective to help ensure common picture of success across NRC ● Partially facilitates efficient and effective integration of IT and planning and budgeting components of PBPM with program and other offices 	<ul style="list-style-type: none"> ● No single focal point of authority for day-to-day agency management (impairs accountability) ● Partially (not fully) promotes agency-wide perspective to help ensure common picture of success across NRC ● Partially (not fully) facilitates efficient and effective integration of IT and planning and budgeting components of PBPM with program and other offices ● Impairs EDO's ability to perform legislated responsibilities ● Necessitates a new communication mechanism among EDO, CIO, and CFO ● Requires OMB approval prior to change, which could impact timeliness of NRC's efforts to make improvements in agency operations

EDO COMMENTS AND OIG ANALYSIS

The Executive Director for Operations' (EDO) Comments:

August 18, 2000

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

FROM: William D. Travers /RA/
Executive Director for Operations

SUBJECT: DRAFT AUDIT REPORT - SPECIAL EVALUATION OF THE ROLE
AND STRUCTURE OF NRC'S EXECUTIVE COUNCIL (OIG-00-E-
09)

Your July 31, 2000, memorandum provided copies of and requested comments on the draft Office of the Inspector General (OIG) audit report, Special Evaluation of the Role and Structure of the NRC's Executive Council. I have reviewed the report and agree with the facts as presented. Following the Commission's decision concerning the options for the structure of the Executive Council discussed in the report, in accordance with Commission procedures, proposed action(s) associated with the option selected will be addressed. I believe that clarification of one aspect of the report is appropriate as discussed below.

The aspect is related to the negative impact of the EC on implementing agency programs and meeting mandated responsibilities. The report concluded that the structure of the EC impairs its (the EC's) ability to facilitate the agency's mission. The report also concluded that the organizational alignment of the EC members impedes the EDO's ability to carry out his mandated responsibilities. These conclusions, based upon interviews with various NRC managers, are consistent with other examples discussed in the report concerning Information Technology projects and budget development activities. As noted in the report, a lack of coordination is a central aspect of this issue.

While I agree with this conclusion, it is important to clarify that this issue is largely related to efficiency and effectiveness. I suggest clarification of the report to note that the staff has successfully met our mandated responsibilities. However, addressing the issues discussed in the report would improve our ability to meet mandated responsibilities in a more effective and efficient manner.

I appreciate the opportunity to comment on this report. If you have any questions, please let me know.

cc: Chairman Meserve
Commissioner Dicus
Commissioner Diaz
Commissioner McGaffigan
Commissioner Merrifield
CFO
CIO

OIG's Analysis of the EDO's Comments:

OIG agrees that improvements in the efficiency and effectiveness could be achieved by addressing the issues in this report. Clarifications were made to emphasize that addressing these issues will enable the EDO to optimally perform his responsibilities.

CFO COMMENTS AND OIG ANALYSIS

The Chief Financial Officer's (CFO) Comments:

(Please note that the attachments to the CFO's comments follow OIG's point-by-point analysis.)

August 21, 2000

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

FROM: Jesse L. Funches /RA/
Chief Financial Officer

SUBJECT: COMMENTS ON DRAFT OIG AUDIT REPORT - SPECIAL EVALUATION
OF THE ROLE AND STRUCTURE OF NRC'S EXECUTIVE COUNCIL

I appreciate the opportunity to comment on the subject report. I have two substantive concerns with the draft report.

First, I believe the report needs to provide a more balanced presentation of the Congressional intent concerning to whom the Chief Financial Officer (CFO) reports, and the NRC's historical efforts to meet the requirements of the Chief Financial Officers (CFOs) Act of 1990. For example, in letters dated April 20, 1990, and September 11, 1990, to Congressman John Conyers the Commission made two unsuccessful attempts to persuade the House Government Operations Committee to draft a bill that would have permitted the NRC to have its CFO report to the Executive Director for Operations (EDO). Additionally, in an April 29, 1991, letter former Chairman Carr was notified by Senator Glenn, floor manager for the CFOs Act, and Senator Roth that the CFOs Act required the NRC CFO to report directly to the Chairman. Further, NRC officials met with the Office of Management and Budget (OMB) in 1991 to discuss the agency's proposal for creating a CFO at the NRC to comply with the CFOs Act. At that time, the EDO had forwarded a recommendation (SECY-91-046) to the Commission that the CFO report to him. At the OMB meeting, NRC representatives were advised that the CFO must report to the Chairman. Former EDO James Taylor subsequently withdrew SECY-91-046 and notified former Chairman Carr of OMB's requirements in a March 19, 1991, memorandum. A copy of the referenced correspondence is attached.

As indicated by the above, Congress and OMB have consistently rejected proposals, which were based on some of the same reasons in the draft report, to have the CFO report to the EDO. Thus, I believe the decision of this agency to have the CFO report directly to the policy-formulating, politically accountable head of the agency, is consistent with the CFOs Act. While the draft report provides considerable discussion of the purpose and intent of the Energy Reorganization Act and Reorganization Plan, it does not provide a similar discussion for the CFOs Act, nor does it address the pros and cons of each alternative in meeting the intent of the CFOs Act. Moreover, I understand the Commission's 1996 decision to separate the CFO function from the EDO and create a separate organization reporting directly to the Chairman and

S. Dingbaum

-2-

the Commission was based in part on a recognition of the increasing responsibilities of the CFO as a result of enactment of the CFOs Act, the Federal Financial Management Improvement Act, and the Government Performance and Results Act and in part to strengthen the agency's ability to perform its mission of protecting public health and safety. Another consideration was the importance of providing for integration of the program management and performance planning, budgeting and evaluation functions at the policy-making level of the agency, the Commission. These factors need to be evaluated to provide a more balanced presentation to the decisionmaker.

My second concern is that I believe the report contains a number of unsupported conclusions and factual errors which undermine the basis for the conclusions and recommendations reached. The more striking examples include the following:

- On page 2 and 26, the report states that, "Furthermore, the organizational alignment of the EC members impedes the EDO's ability to carry out his mandated responsibilities because two major support organizations -- OCIO and OCFO -- are not accountable to him". I do not agree with this conclusion.
- On page 20, the second paragraph implies that the pressures and burdens of the budget process are due, in part, to the OCFO's unilateral decision making without adequate EDO influence. For the past three years, the driving force behind the integrated Planning, Budgeting, and Performance Management Process has been the Government Performance and Results Act of 1993 (GPRA), which requires agencies to establish strategic plans, performance plans and performance reports. My office has worked closely and collegially with the Executive Council, Program Review Committee and all of NRC's offices to meet these requirements in a timely manner. In addition, these requirements could not have been met without direct participation by many of NRC's program staff. As stated in the Arthur Andersen Report, "... progress by agency leadership to embrace outcome-based thinking is progressive relative to other government agencies. Top management is more involved in the planning phase of PBPM which includes development of strategic and performance level goals, performance measures, strategies, and determination of work priorities relative to contribution to outcomes." This paragraph should be rewritten to eliminate the implication that the CFO made major budget planning decisions without consulting with the Executive Council.

S. Dingbaum

-3-

- On page 21, the second paragraph concludes that "... the lack of coordination ..." prompted the Chairman to request "... extensive information concerning budget planning in an apparent move to facilitate that process". OIG staff advised that the basis for this conclusion was a June 13, 2000, memorandum from the Chairman to the CFO on the FY 2002-2003 Budget Proposal (copy attached). In fact, the basis for the Chairman's memorandum was that "... there are areas about which I would like to receive some additional information." The memorandum in no way indicates that budget planning was the result of a lack of coordination and this paragraph should be rewritten accordingly.
- On page 21, the last paragraph uses Arthur Andersen's October 15, 1999, Assessment of NRC's Support Activities, as the basis for supporting a conclusion that "The current organizational structure - as reflected on the EC - makes it extremely difficult for the EC to effectively ensure optimal coordination ..." In fact, the Arthur Andersen report does not make any recommendations concerning the organizational structure. As such, this paragraph should be rewritten to exclude the Arthur Andersen reference.
- Throughout the report, the OIG indicates that the decision to reorganize top management, establish an Executive Council, and have the CFO and CIO report directly to the Chairman was made by former Chairman Jackson. This is incorrect. As stated in the December 3, 1996, Announcement No. 106, these decisions were made by the Commission. The error should be corrected throughout the report.
- On page 25, the first paragraph states that, "... OMB has allowed CIO's and CFO's to report at various levels in different agencies." This is used as support for the report's assertion that for purposes of the CFOs Act, the head of the agency could be the EDO. For the agencies listed on page 36 of the report, the CFO reports to either the secretary, deputy secretary, or under secretary -- effectively the political head of the agency. Moreover, of those agencies, all but three CFO's are themselves appointed by the President, subject to Senate confirmation. Of the remaining CFO's that are not political appointees, all report to the political head of the agency or to a political appointee within the agency (e.g., Deputy Director). If the NRC CFO reported to the EDO, this would be the only outlier for this practice.

S. Dingbaum

-4-

- On page 27, the report states that, "If these offices [CIO and CFO] were accountable to the EDO in his role as AFO, it would likely result in a reduction in the expenditure of auditee and OIG resources used to defend, refute, and report on differing positions that can often be easily resolved after draft report issuance." This conclusion is not supported by any data in the report and thus should be removed.

One final observation, I note that the report has linked the effectiveness of the Executive Council, and the organizational reporting requirements of the CFO and CIO. These issues are mutually exclusive and can be presented, evaluated, and decided on independent of each other. Thus, another alternative to the 8 identified in your report, is that the Executive Council could be eliminated and the organization reporting could remain unchanged.

Thank you for the opportunity to comment on this draft report. Please contact me if you have any questions.

Attachments: As stated

cc: Chairman Meserve
Commissioner Dicus
Commissioner Diaz
Commissioner McGaffigan
Commissioner Merrifield
W. Travers, EDO
S. Reiter, (A)CIO
H. Bell, IG

OIG's Analysis of the CFO's Comments:

***** (Points addressed correlate to their location within the CFO's response, found on pages 40-43 of this report) *****

Page 1, paragraphs 2 and 3:

The CFO's description of the first two letters referenced in paragraph one is inaccurate. Both letters contain former NRC Chairman Kenneth Carr's comments pertaining to the impact of draft CFO legislation on NRC. Neither letter portrays an attempt to "persuade the House Government Operations Committee to draft a bill that would have permitted the NRC to have its CFO report to the Executive Director for Operations (EDO)." The CFO also refers to a 1991 meeting between NRC and the Office of Management and Budget (OMB), where "NRC representatives were advised that the CFO must report to the Chairman."

During the course of our review, we requested documentation from both agencies to support what took place between NRC and OMB. However, no such documentation has ever been provided. Without such documentation, we cannot assess the accuracy of the CFO's characterization of OMB's viewpoint. The two 1990 letters from Chairman Carr, coupled with the unsubstantiated description of OMB's perspective, do not support the basis for the CFO's assertion that "Congress and OMB have consistently rejected proposals. . . to have the CFO report to the EDO." Our more recent discussions with OMB and our review of documents they provided demonstrate that, since 1991, OMB has allowed alternative CFO reporting arrangements, as reflected in the report.

Page 2, bullet 1:

Based on the evidence gathered during our review — including information provided by a large number of senior NRC officials — we stand by our conclusion that the organizational alignment of the EC members impedes the EDO's ability to carry out his mandated responsibilities because two major support organizations — the Office of the Chief Information Officer and the Office of the Chief Financial Officer (OCFO) — are not accountable to him. No changes were made in the report.

Page 2, bullet 2:

The CFO's assertion that the second paragraph on page 20 of the draft report implies that (1) "the pressures and burdens of the budget process are due, in part, to the OCFO's unilateral decision making without adequate EDO influence," and (2) "the CFO made major budget planning decisions without consulting with the Executive Council" is inaccurate. The paragraph, as it appears in both the draft and final versions (page 14 of this report), states that the problems occur, in part, because the EDO does not have "adequate impact on budget planning and execution." In no way does OIG suggest that OCFO has engaged in unilateral decisionmaking or that major decisions were made without consulting with the Executive Council (EC).

Page 3, bullet 1:

When the CFO wrote that "OIG staff advised that the basis for this conclusion was a June 13, 2000, memorandum from the Chairman to the CFO," he was apparently referring to a telephone conversation held between staff members from OCFO and OIG, subsequent to the release of the draft report for review. During that conversation, OIG staff told the OCFO staff member that the June 13 memorandum was one example that led to the conclusion about the lack of coordination, along with observations of discussions involving senior NRC officials at EC meetings and interviews conducted with other NRC officials. The CFO's response neglects to mention this other relevant information which was provided during the telephone conversation. No changes were made in the report.

Page 3, bullet 2:

The wording is clear in distinguishing OIG's conclusion statement, regarding the impact of the current organizational structure, from Arthur Andersen's observations. Although Arthur Andersen did not make any recommendations concerning the organizational structure, the conditions they identified, coupled with OIG's observations, resulted in the conclusion made. No changes were made in the report.

Page 3, bullet 3:

The wording was changed, where appropriate, to distinguish between Chairman Jackson's independent actions and those of the full Commission.

Page 3, bullet 4:

The CFO's conclusion, "If the NRC CFO reported to the EDO, this would be the only outlier for this practice," is inaccurate and irrelevant. There are CFOs and CIOs at other agencies that fall under both the Chief Financial Officers Act (CFO Act) and Clinger-Cohen who report to individuals other than the politically-appointed head of the agency. Furthermore, regarding the CFO's implied assertion that the CFO should report to a political appointee, there is no provision in either of those acts, or in OMB implementing guidance, that suggests that CFOs or CIOs must report to a political appointee or the politically-appointed agency head. No changes were made in the report based on this comment.

It is also worth noting that NRC is the only Commission, i.e., not a single-headed agency, to fall under both the CFO Act and Clinger-Cohen.

Page 4, bullet 1:

The CFO's statement that OIG provides no support for its conclusion concerning the EDO's Audit Followup Official role is false. To the contrary, the report addresses how the current reporting structure impacts on both the EDO, as the Audit Followup

Official, and OIG in resolving draft audit report comments. No changes were made in the report.

Page 4, first paragraph after bullet:

OIG disagrees that EC effectiveness and organizational alignment of EC members are mutually exclusive issues. As reflected in the report, OIG believes that the two issues are closely intertwined and, therefore, cannot be "presented, evaluated, and decided on independent of each other," as the CFO suggests. No changes were made in the report.

Page left intentionally blank.

Attachment



CHAIRMAN

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

April 20, 1990

The Honorable John Conyers, Jr., Chairman
Committee on Government Operations
United States House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Thank you for the opportunity to provide our assessment of the impact that the proposed Chief Financial Officer (CFO) legislation might have upon the Nuclear Regulatory Commission (NRC). The Commission supports the CFO concept and believes that it fosters financial management efficiency and effectiveness. The basic CFO structure and the five functional areas highlighted in your letter of March 27, 1990, have been incorporated into the NRC's organization structure and process since its inception in 1975.

As NRC's CFO, the Controller has responsibility for all budget, accounting, internal control, and other financial management initiatives. NRC's CFO organization has allowed it to maintain an efficient information interface between its planning/budgeting and accounting/financial management functions.

One proposal being considered would require the CFO to report directly to the agency head. This would require a change in the NRC structure. Currently, our Office of the Controller reports directly to the agency's Executive Director for Operations, who is our chief operating and administrative officer, and is responsible for the day-to-day operation of the agency. The Executive Director for Operations in turn reports directly to the NRC Chairman. The Commission is satisfied with this reporting arrangement and would prefer that it not be altered. Day-to-day supervision of the financial functions of the agency is best handled at the Executive Director for Operations level. Of course, the Chairman and the other NRC Commissioners become involved in resolving the major financial management issues that the agency must address.

Again, thank you for the opportunity to comment on this proposed legislation.

Sincerely,

Handwritten signature of Kenneth M. Carr in black ink.
Kenneth M. Carr



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

Attachment

September 11, 1990

The Honorable John Conyers, Jr., Chairman
Committee on Government Operations
United States House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

Thank you for the opportunity to provide the Nuclear Regulatory Commission's (NRC's) comments on the draft "Financial Management Reform Act of 1990." The Commission supports many of the objectives underlying this proposal.

However, as we indicated in our April 20, 1990 letter to you on similar legislation, the NRC already has a Chief Financial Officer, the Controller, who has responsibility for all budget, accounting, internal control, and other financial management initiatives. This organizational structure has permitted the NRC to meet the major goals of this legislation and enables us to maintain an efficient information interface between our planning/budget and accounting/financial management functions.

Given the effectiveness of our current program, the NRC opposes the provision in the legislation that would require the Chief Financial Officer to report directly to the agency head. At present, the Controller is appointed by and reports directly to the agency's Executive Director for Operations (EDO), the agency's chief operating and administrative officer responsible for the day-to-day operation of the agency. The EDO in turn reports directly to the NRC Chairman. The Commission believes that day-to-day supervision of the financial functions of the agency is best handled at the EDO level. As you may know, the NRC has developed an integrated strategic planning/budget process to plan for our health and safety mission, and the Controller is an integral part of this process. The EDO has the responsibility for the planning and operation of the NRC's health and safety missions, and the effectiveness of this process could be adversely affected if the Controller did not report to the EDO. Of course, major financial management issues will continue to be resolved by the Commission itself.

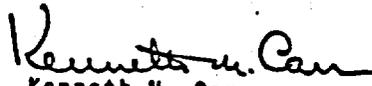
- 2 -

The Commission also opposes the provision which provides that the Chief Financial Officer shall be appointed by the President and confirmed by the Senate. As a small, independent regulatory commission, the NRC is concerned that such a provision could result in the appointment of individuals not having the desired understanding of this agency's regulatory programs and operations.

Also, it appears that one of the primary reasons for a statutory Chief Financial Officer is to implement section 303 of the draft legislation. That section would require annual agency financial statements concerning an agency's "revolving funds," "trust funds," and "substantial commercial functions." These financial statements would be audited by the Inspector General of the agency, the Comptroller General, or by an independent external auditor. These provisions appear to be a recognition that government organizations with these types of funds should prepare financial reports and be audited as if they were a private sector entity. Because the NRC already has a Chief Financial Officer and does not have any of these types of funds, we question the need for the NRC to be included within the scope of this legislation.

Commission appreciates your consideration of these comments.

Sincerely,


Kenneth M. Carr

cc: Rep. Frank Horton

Attachment

JOHN GLENN OHIO CHAIRMAN
SEN
NEAR
MISSOURI
KANSAS
CONNECTICUT
JAMES H. HALE, STAFF DIRECTOR
POLE, MINORITY STAFF DIRECTOR AND CHIEF COUNSEL

WILLIAM V. ROY, JR. DELAWARE
TED STEVENS ALASKA
WILLIAM S. COCHRAN, MONTANA
WARREN E. RUDDMAN, NEW HAMPSHIRE
JOHN HENK, PENNSYLVANIA
JOHN SETHOUK, CALIFORNIA

United States Senate

COMMITTEE ON
GOVERNMENTAL AFFAIRS

WASHINGTON, DC 20510-8250

April 29, 1991

The Honorable Kenneth M. Carr
Chairman
Nuclear Regulatory Commission
One White Flint North Building
11555 Rockville Pike
Rockville, Maryland 20852

Dear Chairman Carr:

On October 27, 1990, the Congress enacted the Chief Financial Officers Act of 1990 (P.L. 101-576). Because of the compelling nature of the problem to be addressed, we want to speak to the importance of the complete and effective implementation of this Act:

The CFO Act is an important step toward the resolution of long-standing Federal financial management problems. This law represents a bi-partisan effort to effect substantive improvements in Federal financial management practices by establishing a coordinated system of financial accounting, financial reporting, and internal controls. The Act will help prevent the type of control and accounting problems that impede program operation, prevent informed policy-making, and diminish confidence in the Federal Government. The CFO structure is intended to help you by increasing the economy and efficiency of your agency.

One of the key requirements of the CFO Act is the establishment of a CFO structure in 23 departments and major agencies. The fine points of CFO Act implementation are to be worked out by you and your staff in consultation with OMB. There are, however, several observations we would like to make on the CFO structure which are essential to achieving the goals of this legislation.

April 29, 1991
Page 2

First, the agency CFO must be a highly qualified individual who has the necessary expertise to exercise his or her stated authority over all financial management operations, activities and personnel. By the terms of the Act, the CFO is to have demonstrated ability in general management of, and extensive practical experience in financial management practices in large governmental or business entities. As the Act provides new Executive Level IV positions, it represents a unique opportunity to attract to government a cadre of top level financial management executives.

As the CFOs for the sixteen largest departments and agencies are to be appointed with the advice and consent of the Senate, we have a particular interest in the qualifications and the calibre of these individuals. The Governmental Affairs Committee will be working to insure the maintenance of the highest standards for these CFO nominees. The Committee also intends to work with officials of the other seven agencies to insure that their CFO appointments reflect a serious commitment to the Act.

Second, in order to carry out his or her responsibilities, the CFO must be an integral member of the agency's management team. Simply put, the CFO and the CFO's mission must have your support. To this end, the Act requires that the CFO report directly to you as the agency head. Similarly, it is vital that the CFO be provided with sufficient resources and skilled personnel to carry out the dictates of the legislation. A most important personnel decision will be the selection of a highly-skilled Deputy CFO with the necessary hands-on financial management background to direct the agency's financial management activities on a day to day basis.

Finally, regardless of the CFO's qualifications and of your commitment to the Act, the broad goals of this legislation will most likely not be met unless the agency has a clear purposeful plan for the Act's implementation. We are pleased that OMB has been providing ongoing guidance and consultation to assist the departments and agencies in developing their reorganization plans. As the ultimate intent of the CFO act is a coordinated financial management plan for the entire federal government, OMB's active involvement at this stage is crucial.

April 29, 1991
Page 3

Nonetheless, we want to remind you that your ultimate responsibility is to statutory requirements of the CFO Act and other laws. As the organization and authorities of these offices will be the foundation on which the Act is implemented, this Committee intends to closely monitor the work of OMB and the agencies as they sort through these issues.

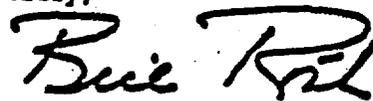
For example, the information resources management requirements of the Paperwork Reduction Act are a major concern of our Committee. While we believe it is vitally important that the CFO be aware of and have a voice in major IRM decisions, especially those involving financial management systems, the CFO Act did not envision simply enveloping the IRM function within the CFO portfolio. These functions are distinct agency management activities and must be so maintained if they are to be performed effectively.

In the coming months Committee staff will begin meeting with agency officials to discuss these and other issues regarding implementation of the CFO Act. We trust that you share our hope and commitment to this important legislation. We recognize that change is not always easy. But change is needed to move ahead toward a modern financial management structure for the Federal government; one that will be a major help to you in doing your job and in restoring the taxpayer's confidence in government's ability to safeguard assets and spend money wisely.

We look forward to working closely with you as you undertake this important endeavour. Please do not hesitate to call if we can be of any assistance.


John Glenn
Chairman

Sincerely,


William Roth, Jr.
Ranking Minority Member

Attachment



POLICY ISSUE
(Notation Vote)

February 19, 1991

SECY-91-046

For: The Commissioners

From: James M. Taylor
Executive Director for Operations

Subject: CHIEF FINANCIAL OFFICERS ACT OF 1990

Purpose: To obtain Commission approval of the proposal which must be submitted to the Office of Management and Budget to implement Section 206(b) of the Chief Financial Officers Act of 1990 (CFO Act).

Background: Congress passed the CFO Act (P.L. 101-576) to bring more effective general and financial management practices to the Federal Government. The Act amended and added a number of sections in Title 31 of the U.S. Code. A summary of all CFO Act requirements is in Enclosure 1. However, this paper only addresses those requirements of the Act which pertain to the submission of the agency proposal for establishing a Chief Financial Officer (CFO) at the NRC. Additional Commission papers will be developed in the future, as necessary, to address other requirements of the CFO Act.

31 USC 901 requires that the Cabinet Departments, EPA, and NASA have Presidentially-appointed (Senate-confirmed) chief financial officers (CFOs) who report directly to the head of the agency. The seven other agencies covered by the CFO Act (AID, FEMA, GSA, NSF, NRC, OPH, and SBA) are required to have CFOs who are appointed by and report directly to the head of the agency. Each agency is also required to have a Deputy CFO who is appointed by the head of the agency and reports to the agency CFO.

Contact:
John D. Evans, OC
492-7988

NOTE: TO BE MADE PUBLICLY AVAILABLE
WHEN THE FINAL SRM IS MADE
AVAILABLE

The Commissioners

2

Under another provision of the CFO Act (Section 206(a)), OMB is to issue requirements for each specified agency to conduct a review of its financial management activities for the purpose of consolidating its accounting, budgeting, and other financial management activities under the agency CFO. Not later than 120 days after OMB issues such requirements, the CFO Act (Section 206(b)) requires the head of each specified agency to submit to the Director of OMB a proposal for reorganizing the agency for the purposes of the CFO Act. However, in his January 15, 1991 memorandum (Enclosure 2), the Director of OMB accelerated the timetable required by the CFO Act. That memorandum provided essentially no guidance beyond that contained in the CFO Act for developing the required proposals, but it requested the submission of the agency proposals by March 1, 1991.

Discussion:

The CFO Act (Section 206(b)) requires that the proposal for the CFO organization include:

- (1) a description of all functions, powers, duties, personnel, property, or records which the agency CFO is proposed to have authority over, including those relating to functions that are not related to financial management activities; and
- (2) a detailed outline of the administrative structure of the office of the agency CFO, including a description of the responsibility and authority of financial management personnel and resources in agencies or other subdivisions as appropriate to that agency.

Enclosure 3 is the proposed response to OMB, which includes a description of the proposed organization and functions for the NRC CFO. The proposal to OMB is based on the premise that the existing NRC Office of the Controller will be absorbed into the new NRC Office of the CFO, since most of the CFO responsibilities delineated in the CFO Act are currently centralized in the NRC Office of the Controller. Thus, the questions that need to be addressed are:

- (1) Who should be considered the head of the agency for the purposes of the organizational reporting requirements of the CFO Act?
- (2) What additional functions, responsibilities, and authorities are necessary for the CFO under the Act which are not currently assigned to the NRC Controller?

The Commissioners

3

With regard to the first question, the proposed response to OMB states that the CFO will report directly to the agency Executive Director for Operations (EDO), who is the chief operating and administrative officer of the Commission¹. As such, the EDO directs the activities of the major program offices within the agency as well as those of the major administrative support offices of the agency, subject to the policy guidance provided by the Commission. I believe that this arrangement provides the proper level of access by the CFO to agency senior management for ensuring that agency financial management receives proper attention. I also recommend that the EDO have the authority to appoint and remove the CFO after consultation with the Commission.

With respect to the second question, the staff concludes that most functions, responsibilities, and authorities of the CFO as specified in the CFO Act are included in the existing NRC Office of the Controller and that the organizational structure of that office is adequate for the new Office of the CFO. Thus, the new CFO organization will assume the existing OC functions, responsibilities, and authorities for accounting, budgeting, financial management and reporting, internal control, etc. Upon OMB approval of the NRC CFO plan, the Office of the Controller will be abolished and its functions transferred to the Office of the CFO.

However, several financial functions included in the CFO Act are not included in the current delegation of authority to the Controller². Such authority should be included in the organization and functions for the Office of the NRC CFO. Areas assigned to the CFO under 31 USC 902 that require authority in addition to that currently assigned to the Office of the Controller include: (1) recruitment, selection, and training of financial management personnel, and the direction and management of financial activities and operations outside of the Office of the CFO (e.g., financial activities in the various NRC offices associated with the administration of allotments which are issued to those

¹NRC Manual Chapter 0103, Organization and Functions, Office of the Executive Director for Operations, March 28, 1990.

²NRC Manual Chapter 0135, Organization and Functions, Office of the Controller, December 11, 1989.

The Commissioners

4

offices by the CFO's Office; and allocation of FTE ceilings and FTE utilization); (2) approval and management of agency financial management systems design or enhancement projects (e.g., RITS, and office-level financial management systems which are relied upon to provide data for determining license fees); and (3) implementation of agency asset management systems, including systems for property and inventory management and control. The enclosed proposal does not contemplate the direct program management of all of these activities by the NRC CFO, but calls for direct oversight of financial management aspects. The specific methods and procedures for such oversight will need to be developed and codified in applicable NRC management directives after OMB approves the NRC proposal for the CFO organization and functions.

Implementation of the CFO organization and functions delineated in the enclosed proposal and compliance by the NRC with the other requirements in the CFO Act will require resources in addition to those already contained in the approved agency Five-Year Plan. However, it is not possible to determine the magnitude of those resource requirements until other actions are taken by OMB and the NRC to implement the Act. Thus, these future resource requirements will be addressed as part of the Five-Year Plan update process.

Recommendation: That the Commission:

1. Approve the NRC proposal, including the letter to OMB, regarding the authority, responsibilities, and administrative structure of the office of the agency CFO (Enclosure 3).
2. Note that the proposal will be implemented, including appropriate changes to NRC management directives, subsequent to OMB approval.

Scheduling:

Commission action is required in time to permit submission of the NRC proposal to OMB by March 1, 1991.

The Commissioners

5

Coordination: The Office of the General Counsel has reviewed this paper and has no legal objection. The Office of the Inspector General has reviewed a draft of this paper and has provided comments as shown in Enclosure 4. In response to the comment on the organizational chart, the staff revised the chart to reflect the IG's suggestion.


James M. Taylor
Executive Director
for Operations

Enclosures:

1. Summary of CFO Act Requirements
2. January 15, 1991 OMB Memorandum
3. Proposed Organization and Functions of the NRC CFO
4. February 14, 1991 IG Memo

NOTE: This paper contains predecisional information regarding a proposed NRC organizational matter. I recommend that this paper not be released outside of the NRC until after the proposed action has been approved by the Office of Management and Budget.

Commissioners' comments or consent should be provided directly to the Office of the Secretary by COB Monday, February 25, 1991.

Commission Staff Office comments, if any, should be submitted to the Commissioners NLT Thursday, February 21, 1991, with an information copy to the Office of the Secretary. If the paper is of such a nature that it requires additional review and comment, the Commissioners and the Secretariat should be apprised of when comments may be expected.

DISTRIBUTION:

Commissioners
OGC
OIG
GPA
EDO
SECY

Enclosure 1

Summary of Requirements
Chief Financial Officers Act of 1990
(P.L. 101-575 [November 15, 1990])

TITLE I - GENERAL PROVISIONS

SEC. 101. SHORT TITLE

This act may be cited as the "Chief Financial Officers Act of 1990".

SEC. 102. FINDINGS AND PURPOSES

(a) Findings

The Congress finds the following:

- (1) General management functions of the OMB need to be significantly enhanced to improve the efficiency and effectiveness of the Federal Government.
- (2) Financial management functions of the OMB need to be significantly enhanced to provide overall direction and leadership in the development of a modern Federal financial management structure and associated systems.
- (3) Billions of dollars are lost each year through fraud, waste, abuse, and mismanagement among the hundreds of programs in the Federal Government.
- (4) These losses could be significantly decreased by improved management, including improved central coordination of internal controls and financial accounting.
- (5) The Federal Government is in great need of fundamental reform in financial management requirements and practices as financial management systems are obsolete and inefficient, and do not provide complete, consistent, reliable, and timely information.
- (6) Current financial reporting practices of the Federal Government do not accurately disclose the current and probable future cost of operating and investment decisions, including the future need for cash or other resources, do not permit adequate comparison of actual costs among executive agencies, and do not provide the timely information required for efficient management of programs.

Summary of Requirements
Chief Financial Officers Act of 1990
(P.L. 101-576 [November 15, 1990])

(b) Purposes

The purposes of this Act are the following:

- (1) Bring more effective general and financial management practices to the Federal Government through statutory provisions which would establish in the OMB a Deputy Director for Management, establish an Office of Federal Financial Management headed by a Controller, and designate a Chief Financial Officer in each executive department and in each major executive agency in the Federal Government.
- (2) Provide for improvement, in each agency of the Federal Government, of systems of accounting, financial management, and internal controls to assure the issuance of reliable financial information and to deter fraud, waste, and abuse of Government resources.
- (3) Provide for the production of complete, reliable, timely, and consistent financial information for use by the executive branch of the Government and the Congress in the financing, management, and evaluation of Federal programs.

Summary of Requirements
Chief Financial Officers Act of 1990
(P.L. 101-576 [November 15, 1990])

TITLE II - ESTABLISHMENT OF CHIEF FINANCIAL OFFICERS

SEC. 201. DEPUTY DIRECTOR FOR MANAGEMENT

31 USC 502 is amended by adding the following subsection:

§ 502(c) The Office [OMB] has a Deputy Director for Management appointed by the President, by and with the advice and consent of the Senate. The Deputy Director for Management shall be the chief official responsible for financial management in the United States Government.

SEC. 202. FUNCTIONS OF DEPUTY DIRECTOR FOR MANAGEMENT

31 USC is amended by inserting the following new section:

§ 503. Functions of Deputy Director for Management

(a) Financial Management Functions

Subject to the direction and approval of the Director [OMB], the Deputy Director for Management shall establish government-wide financial management policies for executive agencies and shall perform the following financial management functions:

- (1) Perform all functions of the Director relating to financial management.
- (2) Provide overall direction and leadership to the executive branch on financial management matters by establishing financial management policies and requirements, and by monitoring the establishment and operation of Federal Government financial management systems.
- (3) Review agency budget requests for financial management systems and operations, and advise the Director on the resources required to develop and effectively operate and maintain Federal Government financial management systems and to correct major deficiencies in such systems.
- (4) Review and, where appropriate, recommend to the Director changes to the budget and legislative proposals of agencies to ensure that they are in accordance with financial management plans of the OMB.

**Summary of Requirements
Chief Financial Officers Act of 1990
(P.L. 101-576 [November 15, 1990])**

- (5) Monitor the financial execution of the budget in relation to actual expenditures, including timely performance reports.
 - (6) Oversee, periodically review, and make recommendations to heads of agencies on the administrative structure of agencies with respect to their financial management activities.
 - (7) Develop and maintain qualification standards for agency Chief financial Officers and for agency Deputy Chief Financial Officers.
 - (8) Provide advice to agency heads with respect to the selection of agency Chief Financial Officers and Deputy Chief Financial Officers.
 - (9) Provide advice to agencies regarding the qualifications, recruitment, performance, and retention of other financial management personnel.
 - (10) Assess the overall adequacy of the professional qualifications and capabilities of financial management staffs throughout the Government and make recommendations on ways to correct problems which impair the capacity of those staffs.
 - (11) Settle differences that arise among agencies regarding the implementation of financial management policies.
 - (12) Chair the Chief Financial Officers Council.
 - (13) Communicate with the financial officers of State and local governments, and foster the exchange with those officers of information concerning financial management standards, techniques, and processes.
 - (14) Issue such other policies and directives as may be necessary to carry out this section, and perform any other function prescribed by the Director.
- (b) General Management Functions

Subject to the direction and approval of the Director [OMB], the Deputy Director for Management shall establish general management policies for executive agencies and shall perform the following general management functions:

Summary of Requirements
Chief Financial Officers Act of 1990
(P.L. 101-576 [November 15, 1990])

- (1) Coordinate and supervise the general management functions of the OMB.
- (2) Perform all functions of the Director relating to:
 - (A) managerial systems, including systematic measurement of performance;
 - (B) procurement policy;
 - (C) grant, cooperative agreement, and assistance management;
 - (D) information and statistical policy;
 - (E) property management;
 - (F) human resources management;
 - (G) regulatory affairs; and
 - (H) other management functions, including organizational studies, long-range planning, program evaluation, productivity improvement, and experimentation and demonstration programs.
- (3) Provide complete, reliable, and timely information to the President, the Congress, and the public regarding the management activities of the executive branch.
- (4) Facilitate actions by the Congress and the executive branch to improve the management of Federal Government operations and to remove impediments to effective administration.
- (5) Provide leadership in management innovation, through:
 - (A) experimentation, testing, and demonstration programs; and
 - (B) the adoption of modern management concepts and technologies.
- (6) Work with State and local governments to improve and strengthen intergovernmental relations, and provide assistance to such governments with respect to intergovernmental programs and cooperative arrangements.

**Summary of Requirements
Chief Financial Officers Act of 1990
(P.L. 101-576 [November 15, 1990])**

- (7) Review and, where appropriate, recommend to the Director changes to the budget and legislative proposals of agencies to ensure that they respond to program evaluations by, and are in accordance with general management plans of, the OMB.
- (8) Provide advice to agencies on the qualification, recruitment, performance, and retention of managerial personnel.
- (9) Perform any other functions prescribed by the Director.

SEC. 203. OFFICE OF FEDERAL FINANCIAL MANAGEMENT

203(a) Add a new section to 31 USC:

§ 504. Office of Federal Financial Management

- (a) A new Office of Federal Financial Management (OFFM) is established within OMB under the direction and control of the Deputy Director for Management to carry out the financial management functions of 31 USC 503(a).
- (b) The OFFM is to be headed by a Controller. Qualifications are specified.
- (c) The Controller of the OFFM is to be the deputy and principal advisor to the Deputy Director for Management in the performance of the functions described in 31 USC 503(a).

SEC. 204. DUTIES AND FUNCTIONS OF THE DEPARTMENT OF THE TREASURY

Nothing in this Act shall be construed to interfere with the exercise of the functions, duties, and responsibilities of the Department of the Treasury, as in effect immediately before the enactment of this Act.

Summary of Requirements
Chief Financial Officers Act of 1990
(P.L. 101-576 [November 15, 1990])

SEC. 205. AGENCY CHIEF FINANCIAL OFFICERS

205(a) Add a new chapter to subtitle I of title 31:

CHAPTER 9 - AGENCY CHIEF FINANCIAL OFFICERS

§ 901. Establishment of Agency Chief Financial Officers

- (a) Each agency described in subsection (b) is to have an agency Chief Financial Officer (CFO).
- (1) For the agencies described in subsection (b)(1), the CFO:
- (A) is to be appointed by the President, with the consent of the Senate; or
- (B) is to be designated by the President, in consultation with the head of the agency, from among officials of the agency who are required by law to be so appointed.
- (2) For the agencies described in subsection (b)(2), the CFO:
- (A) is to be appointed by the head of the agency;
- (B) is to be in the competitive service or the senior executive service; and
- (C) is to be a career appointee.
- (3) All CFOs are to be appointed or designated, as applicable, from among individuals who possess demonstrated ability in general management of, and knowledge of and extensive practical experience in financial management practices in large government or business entities.
- (b) Delineation of Agencies Requiring CFOs
- (1) The agencies referred to in subsection (a)(1) are: The Departments of Agriculture, Commerce, Defense, Education, Energy, Health and Human Services, Housing and Urban Development, Interior, Justice, Labor, State, Transportation, Treasury, Veterans Affairs, the EPA, and the NASA.
- (2) The agencies referred to in subsection (a)(2) are: AID, FEMA, GSA, NSF, NRC, OPM, and SBA.

**Summary of Requirements
Chief Financial Officers Act of 1990
(P.L. 101-576 [November 15, 1990])**

§ 902. Authority and Functions of Agency Chief Financial Officers

(a) An agency CFO shall:

- (1) report directly to the head of the agency regarding financial management matters;**
- (2) oversee all financial management activities relating to the programs and operations of the agency;**
- (3) develop and maintain an integrated agency accounting and financial management system, including financial reporting and internal controls, which:**
 - (A) complies with applicable accounting principles, standards, and requirements, and internal control standards;**
 - (B) complies with such policies and requirements as may be prescribed by the Director of OMB;**
 - (C) complies with any other requirements applicable to such systems; and**
 - (D) provides for:**
 - (i) complete, reliable, consistent, and timely information which is prepared on a uniform basis and which is responsive to the financial information needs of agency management;**
 - (ii) the development and reporting of cost information;**
 - (iii) the integration of accounting and budgeting information; and**
 - (iv) the systematic measurement of performance;**
- (4) make recommendations to the head of the agency regarding the selection of the Deputy CFO of the agency;**

Summary of Requirements
Chief Financial Officers Act of 1990
(P.L. 101-576 [November 15, 1990])

- (5) direct, manage, and provide policy guidance and oversight of agency financial management personnel, activities, and operations, including:
 - (A) the preparation and annual revision of an agency plan to:
 - (i) implement the 5-year financial management plan prepared by OMB under 31 USC 3512(a)(3); and
 - (ii) comply with the requirements established under 31 USC 3515 and subsections (e) and (f) of 31 USC 3521;
 - (B) the development of agency financial management budgets;
 - (C) the recruitment, selection, and training of personnel to carry out agency financial management functions;
 - (D) the approval and management of agency financial management systems design or enhancement projects;
 - (E) the implementation of agency asset management systems, including systems for cash management, credit management, debt collection, and property and inventory management and control;
- (6) prepare and transmit, by not later than 60 days after the submission of the audit report required by 31 USC 3521(f) [NLT August 31], an annual report to the agency head and the Director of OMB, which includes:
 - (A) a description and analysis of the status of financial management of the agency;
 - (B) the annual financial statements prepared under 31 USC 3515;
 - (C) the audit report transmitted to the head of the agency under 31 USC 3521(f);
 - (D) a summary of the reports on internal accounting and administrative control systems submitted to the President and the Congress under the amendments made by the Federal Manager's Financial Integrity Act of 1982 (P. L. 97-255); and

**Summary of Requirements
Chief Financial Officers Act of 1990
(P.L. 101-576 [November 15, 1990])**

- (E) other information the head of the agency considers appropriate to fully inform the President and the Congress concerning the financial management of the agency;
 - (7) monitor the financial execution of the budget of the agency in relation to actual expenditures, and prepare and submit to the head of the agency timely performance reports; and
 - (8) review, on a biennial basis, the fees, royalties, rents, and other charges imposed by the agency for services and things of value it provides, and make recommendations on revising those charges to reflect costs incurred by it in providing those services and things of value.
- (b) Further authority of the agency CFOs:
- (1) In addition to the authority otherwise provided by this section, the CFO:
 - (A) subject to paragraph (2), shall have access to all records, reports, audits, reviews, documents, papers, recommendations, or other material which are the property of the agency or which are available to the agency, and which relate to programs and operations with respect to which that agency CFO has responsibilities under this section;
 - (B) may request such information or assistance as may be necessary for carrying out the duties and responsibilities provided by this section from any Federal, State, or local governmental entity; and
 - (C) to the extent and in such amounts as may be provided in advance by appropriations Acts, may:
 - (i) enter into contracts and other arrangements with public agencies and with private persons for the preparation of financial statements, studies, analyses, and other services; and
 - (ii) make such payments as may be necessary to carry out the provisions of this section.

Summary of Requirements
Chief Financial Officers Act of 1990
(P.L. 101-576 [November 15, 1990])

- (2) Except as provided in paragraph (1)(B), this subsection does not provide to an agency CFO any access greater than permitted under any other law to records, reports, audits, reviews, documents, papers, recommendations, or other material of any Office of Inspector General established under the Inspector General Act of 1978.

§ 903. Establishment of Agency Deputy Chief Financial Officers

- (a) There shall be within each agency described in 31 USC 901(b) an agency Deputy Chief Financial Officer, who shall report directly to the agency CFO on financial management matters. The position of agency Deputy CFO shall be a career reserved position in the Senior Executive Service.
- (b) Consistent with qualification standards developed by, and in consultation with, the agency CFO and the Director of OMB, the head of each agency shall appoint as Deputy CFO an individual with demonstrated ability and experience in accounting, budget execution, financial and management analysis, and systems development, and not less than 6 years practical experience in financial management at large governmental entities.

205(b) Clerical Amendment

205(c) Applies to Departments of Veterans Affairs and HUD.

SEC. 206. TRANSFER OF FUNCTIONS AND PERSONNEL OF AGENCY CHIEF FINANCIAL OFFICERS

206(a) Agency Reviews of Financial Management Activities

Not later than 120 days after the date of enactment of this Act [NLT 3/15/91], the Director of OMB shall require each agency listed in 31 USC 901(b) to conduct a review of its financial management activities for the purpose of consolidating its accounting, budgeting, and other financial management activities under the agency CFO.

206(b) Reorganization Proposal

Not later than 120 days after the issuance of requirements under subsection 206(a) and subject to all laws vesting functions in particular officers and employees of the United States, the head of each agency shall submit to the Director of OMB a proposal for reorganizing the agency for the purposes of this Act. Such proposal shall include:

**Summary of Requirements
Chief Financial Officers Act of 1990
(P.L. 101-576 [November 15, 1990])**

- (1) a description of all functions, powers, duties, personnel, property, or records which the agency CFO is proposed to have authority over, including those relating to functions that are not related to financial management activities; and
- (2) a detailed outline of the administrative structure of the office of the agency CFO, including a description of the responsibility and authority of financial management personnel and resources in agencies or other subdivisions as appropriate to that agency.

206(c) Review and Approval of Proposal

Not later than 60 days after receiving a proposal from the head of an agency under subsection 206(b), the Director of OMB shall approve or disapprove the proposal and notify the head of the agency of that approval or disapproval. The Director shall approve each proposal which establishes an agency CFO in conformance with 31 USC 901 and which establishes a financial management structure reasonably tailored to the functions of the agency. Upon approving or disapproving a proposal of an agency under this section, the Director shall transmit to the head of the agency a written notice of that approval or disapproval.

206(d) Implementation of Proposal

Upon receiving written notice of approval of a proposal under this section from the Director of OMB, the head of the agency shall implement that proposal.

SEC. 207. COMPENSATION

This section establishes the compensation levels for the OMB Deputy Director for Management, the OMB Controller, and Department Level CFOs.

Summary of Requirements
Chief Financial Officers Act of 1990
(P.L. 101-576 [November 15, 1990])

TITLE III - ENHANCEMENT OF FEDERAL FINANCIAL MANAGEMENT ACTIVITIES

SEC. 301. FINANCIAL MANAGEMENT STATUS REPORT: 5-YEAR PLAN OF DIRECTOR OF OMB

301(a) Revise the title of 31 USC 3512 and add a new subsection (a) as follows [existing subsections (a) - (f) are renumbered as (b) - (g)]:

§ 3512. Executive Agency Accounting and Other Financial Management Reports and Plans

(a) Requirements for 5-Year Plan and Status Report

(1) The Director of OMB shall prepare and submit to the appropriate committees of the Congress a financial management status report and a governmentwide 5-year financial management plan.

(2) The required financial management status report shall include:

(A) a description and analysis of the status of financial management in the executive branch;

(B) a summary of the most recently completed financial statements:

(i) of Federal agencies under 31 USC 3515; and

(ii) of Government corporations;

(C) a summary of the most recently completed financial statement audits and reports:

(i) of Federal agencies under 31 USC 3521 (e) and (f); and

(ii) of Government corporations;

(D) a summary of reports on internal accounting and administrative control systems submitted to the President and the Congress under the amendments made by the Federal Managers' Financial Integrity Act of 1982 (P. L. 97-255); and

**Summary of Requirements
Chief Financial Officers Act of 1990
(P.L. 101-576 [November 15, 1990])**

- (E) any other information the Director considers appropriate to fully inform the Congress regarding the financial management of the Federal Government.
- (3) **5-Year Financial Management Plan**
 - (A) A governmentwide 5-year financial management plan prepared under this subsection shall describe the activities the Director, the Deputy Director for Management, the Controller of the OMB Office of Federal Financial Management, and agency CFOs shall conduct over the next 5 fiscal years to improve the financial management of the Federal Government.
 - (B) Each governmentwide 5-year financial plan shall:
 - (i) describe the existing financial management structure and any changes needed to establish an integrated financial management system;
 - (ii) be consistent with applicable accounting principles, standards, and requirements;
 - (iii) provide a strategy for developing and integrating individual agency accounting, financial information, and other financial management systems to ensure adequacy, consistency, and timeliness of financial information;
 - (iv) identify and make proposals to eliminate duplicative and unnecessary systems, including encouraging agencies to share systems which have sufficient capacity to perform the functions needed;
 - (v) identify projects to bring existing systems into compliance with the applicable standards and requirements;
 - (vi) contain milestones for equipment acquisitions and other actions necessary to implement the 5-year plan consistent with the requirements of this section;
 - (vii) identify financial management personnel needs and actions to ensure those needs are met;

**Summary of Requirements
Chief Financial Officers Act of 1990
(P.L. 101-576 [November 15, 1990])**

- (viii) include a plan for ensuring the annual audit of financial statements of executive agencies pursuant to 31 USC 3521(h); and
 - (ix) estimate the costs of implementing the governmentwide 5-year plan.
- (4) **Submission of Financial Management Status Report and 5-Year Financial Management Plan to Congress**
- (A) Not later than 15 months after the date of enactment of this subsection [NLT 2/15/92], the Director of OMB shall submit the first financial management status report and governmentwide 5-year financial management plan to the appropriate committees of the Congress.
 - (B) **Annual Updates**
 - (i) Not later than January 31 of each year thereafter, the Director of OMB shall submit to the appropriate committees of the Congress a financial management status report and a revised governmentwide 5-year financial management plan to cover the succeeding 5 fiscal years, including a report on the accomplishments of the executive branch in implementing the plan during the preceding fiscal year.
 - (ii) The Director shall include with each revised plan a description of any substantive changes in the financial statement audit plan required by paragraph (3)(B)(viii), progress made by executive agencies in implementing the audit plan, and any improvements in Federal Government financial management related to preparation and audit of financial statements of executive agencies.
- (5) Not later than 30 days after receiving each annual report under 31 USC 902(a)(5), the Director shall transmit to the Chairman of the Committee on Government Operations of the House of Representatives and the Chairman of the Committee on Governmental Affairs of the Senate a final copy of that report and any comments on the report by the Director.

301(b) Clerical Amendment.

**Summary of Requirements
Chief Financial Officers Act of 1990
(P.L. 101-576 [November 15, 1990])**

SEC. 302. CHIEF FINANCIAL OFFICERS COUNCIL

302(a) Establishment

There is established a Chief Financial Officers Council, consisting of:

- (1) the Deputy Director for Management, OMB, who shall act as chairperson of the council;
- (2) the Controller of the OMB Office of Federal Financial Management;
- (3) the Fiscal Assistant Secretary of Treasury; and
- (4) each of the agency Chief Financial Officers.

302(b) Functions

The CFO Council shall meet periodically to advise and coordinate the activities of the agencies of its members on such matters as consolidation and modernization of financial systems, improved quality of financial information, financial data and information standards, internal controls, legislation affecting financial operations and organizations, and any other financial management matter.

Summary of Requirements
Chief Financial Officers Act of 1990
(P.L. 101-576 [November 15, 1990])

SEC. 303. FINANCIAL STATEMENTS OF AGENCIES

303(a) Preparation of Financial Statements

(1) Add a new section to 31 USC:

§3515. Financial Statements of Agencies

- (a) *Not later than 3/31/92 and each year thereafter, the head of each agency listed in 31 USC 901(b) shall prepare and submit to the Director of OMB a financial statement for the preceding fiscal year covering:***
- (1) *each revolving fund and trust fund of the agency; and***
 - (2) *to the extent practicable, the accounts of each office, bureau, and activity of the agency which performed substantial commercial functions during the preceding fiscal year.***
- (b) *Each financial statement shall reflect:***
- (1) *the overall financial position of the revolving funds, trust funds, offices, bureaus, and activities covered by the statement, including assets and liabilities thereof;***
 - (2) *results of operations of those revolving funds, trust funds, offices, bureaus, and activities;***
 - (3) *cash flows or changes in financial position of those revolving funds, trust funds, offices, bureaus, and activities; and***
 - (4) *a reconciliation to budget reports of the executive agency for those revolving funds, trust funds, offices, bureaus, and activities.***
- (c) *The Director of OMB shall prescribe the form and content of the financial statements, consistent with applicable accounting principles, standards, and requirements.***

Summary of Requirements
Chief Financial Officers Act of 1990
(P.L. 101-576 [November 15, 1990])

(d) *The term commercial functions includes:*

- > buying and leasing of real estate, providing insurance, making loans and loan guarantees, and other credit programs; and
- > any activity involving the provision of a service or thing of value for which a fee, royalty, rent, or other charge is imposed by an agency for services and things of value it provides¹.

(e) *Not later than March 31 of each year, the head of each executive agency designated by the President may prepare and submit to the Director of OMB a financial statement for the preceding fiscal year, covering accounts of offices, bureaus, and activities of the agency in addition to those described in 31 USC 3515(a) above. [This provision is only effective after the President's designation is approved by Congress as described in 303(b) below.]²*

303(a)(3) *The Director of OMB may waive the requirement for FY 1991 financial statements.*

303(b) Resolution Approving Designation of Agencies

Specific procedures are delineated for passage of a joint resolution approving the President's designation of agencies which may prepare and submit to the Director of OMB a financial statement for the preceding fiscal year, covering accounts of offices, bureaus, and activities of the agency in addition to those involving revolving funds, trust funds, or commercial activities.

¹This provision was not in H.R. 5687 as reported in House Report 101-818, Pt. 1. It was added in a Senate amendment discussed in the October 26, 1990 *Congressional Record*, pages S17259-S17262.

²House Report 101-818, Pt. 1, page 26 and the October 27, 1990 *Congressional Record*, page H13340, seem to indicate that the House Government Operations Committee (which originated H.R. 5687) did not intend for this provision to be effective until after receipt by Congress of the report required by Section 303(e) of the CFO Act. That is, this provision was not to be effective until after completion and evaluation of the pilot project required by Section 303(d) of the CFO Act.

Summary of Requirements
Chief Financial Officers Act of 1990
(P.L. 101-576 [November 15, 1990])

303(c) Report on Substantial Commercial Functions

Not later than 180 days after the date of enactment of this Act [NLT May 15, 1991], the Director of OMB shall determine and report to the Congress on which executive agencies or parts thereof perform substantial³ commercial functions for which financial statements can be prepared practicably.

303(d) Pilot Project

- (1) Not later than March 31 of each of 1991, 1992, and 1993 the head of the Departments of Agriculture, Labor, and Veterans Affairs, the GSA, and the SSA shall each prepare and submit to the Director of OMB financial statements for the preceding fiscal year for the accounts of all of the offices, bureaus, and activities of that department or administration.
- (2) Not later than March 31 of each of 1992, and 1993 the head of the Departments of Housing and Urban Development, and the Army shall prepare and submit to the Director of OMB financial statements for the preceding fiscal year for the accounts of all of the offices, bureaus, and activities of that department.
- (3) Not later than March 31 of 1993 the head of the Department of the Air Force, the Internal Revenue Service, and the U.S. Customs Service shall each prepare and submit to the Director of OMB financial statements for the preceding fiscal year for the accounts of all of the offices, bureaus, and activities of that department or service.
- (4) Each financial statement prepared under the pilot project shall be audited.

303(e) Report on Initial Financial Statements

Not later than 6/30/93, the Director of OMB shall report to the Congress on the financial statements prepared for fiscal years 1990, 1991, and 1992. The report shall include an analysis of:

- (1) the accuracy of the data included in the financial statements;
- (2) the difficulties each department and agency encountered in preparing the data included in the financial statements;

³As discussed in House Report 101-818, Pt. 1, page 25: "the word *substantial* connotes a majority".

Summary of Requirements
Chief Financial Officers Act of 1990
(P.L. 101-576 [November 15, 1990])

- (3) the benefits derived from the preparation of the financial statements; and
- (4) the cost associated with preparing and auditing the financial statements, including a description of any activities that were foregone as a result of that preparation and auditing.

SEC. 304. FINANCIAL AUDITS OF AGENCIES

304(a) Add the following new subsections to 31 USC 3521:

- (e) Each financial statement prepared by an agency as described above shall be audited in accordance with applicable generally accepted government auditing standards.
 - (1) *For agencies with an IG, the audit shall be conducted by the IG or by an independent external auditor, as determined by the IG.*
 - (2) For other agencies, the audit shall be conducted by an independent external auditor, as determined by the head of the agency.
- (f) *Not later than June 30 following the fiscal year for which a financial statement is submitted by an agency, the person who audits the statement shall submit a report to the head of the agency. The report shall be prepared in accordance with generally accepted government auditing standards.*
- (g) The Comptroller General of the United States:
 - (1) may review any audit of a financial statement;
 - (2) shall report to the Congress, the Director of OMB, and the head of the agency which prepared the statement, regarding the results of the review and make any recommendation the Comptroller General considers appropriate; and
 - (3) may audit a financial statement prepared IAW this Act at the discretion of the Comptroller General or at the request of a committee of the Congress. Such an audit would be in lieu of the audit required by 31 USC 3521(e).

304(b) *The Director of OMB may waive the requirements for an audit and report of audit of the financial statements for fiscal years 1990 and 1991.*

SEC. 305. FINANCIAL AUDITS OF GOVERNMENT CORPORATIONS

Summary of Requirements
Chief Financial Officers Act of 1990
(P.L. 101-576 [November 15, 1990])

SEC. 306. MANAGEMENT REPORTS OF GOVERNMENT CORPORATIONS

SEC. 307. ADOPTION OF CAPITAL ACCOUNTING STANDARDS

No capital accounting standard or principle, including any human capital standard or principle, shall be adopted for use in an executive department or agency until such standard has been reported to the Congress and a period of 45 days of continuous session of the Congress has expired.

Enclosure 2



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

THE DIRECTOR

January 15, 1991

M-91-06

MEMORANDUM FOR THE HEADS OF SELECTED EXECUTIVE DEPARTMENTS
AND AGENCIES

FROM: Richard G. Darman *Richard G. Darman*

SUBJECT: Chief Financial Officers Act of 1990

The President signed the Chief Financial Officers Act of 1990 (CFOs Act) on November 15, 1990. At that time, he said: "Improving the Government's stewardship over public funds is critically important. The Act will help us to strengthen the systems that provide the President, the Congress, and the American people with the information necessary to make informed decisions on how public funds are spent. It will also help ensure that these data are timely and reflect more accurately the true costs of running the Federal government."

The CFOs Act requires that the Cabinet Departments, EPA and NASA have Presidentially-appointed (Senate-confirmed) chief financial officers (CFOs). The nine other agencies covered by the CFOs Act are required to have CFOs who are career SES appointees. In both cases, the CFOs are to "...possess demonstrated ability in general management of, and knowledge of and extensive practical experience in financial management practices in large governmental or business entities."

The CFOs Act also requires that each of you undertake a review of your agency's financial management activities "...for the purpose of consolidating [the agency's] accounting, budgeting, and other financial management activities under the agency Chief Financial Officer...." This review is to result in your submitting to OMB an organizational proposal which describes (i) the functions, powers, duties, personnel, property, and records over which the CFO is to have authority and (ii) the administrative structure of the office of the agency CFO (including a description of the responsibility and authority of financial management personnel in agencies or subdivisions of agencies). The CFOs Act also requires OMB approval of your organization proposals and OMB qualification standards for agency CFOs and their deputies.

In order to allow the Administration to move forward as rapidly as possible with organizational approvals and CFO appointments (financial management plans and audited financial statements are due in the Fall of 1991), I would be grateful if you would submit your CFO organization proposals by March 1, 1991. We will provide you with our reactions to these proposals by March 15. We will also work with Presidential Personnel on CFO appointments so that the President might be in a position to make his selections as soon as possible.

Because of the importance of this effort and the need to work out a mutually satisfactory approach to improved financial management, I am asking Frank Hodson, OMB's Executive Associate Director, to meet with you personally within the next two weeks to discuss these issues.

Thank you very much.

Enclosure 3

DRAFT 2/15/91

The Honorable Richard G. Darman, Director
Office of Management and Budget
Washington, D.C. 20503

Dear Mr. Darman:

As required by Section 206 of the Chief Financial Officers Act of 1990 (CFO Act) and as requested in your memorandum of January 15, 1991, the U.S. Nuclear Regulatory Commission (NRC) has conducted a review of its financial management activities for the purpose of ensuring that all of its accounting, budgeting, and other financial management activities are consolidated under the agency Chief Financial Officer (CFO). The enclosed proposal for the organization and functions of the NRC CFO is the result of that review.

Section 205(a) of the CFO Act requires that the agency CFO be appointed by and report directly to the head of the agency regarding financial management matters. To satisfy this requirement, the Commission plans to have the NRC CFO appointed by and report directly to the agency Executive Director for Operations (EDO). The EDO is the chief operating and administrative officer of the Commission. As such, the EDO directs the activities of the major program offices within the agency as well as those of the major administrative support offices of the agency, subject to the policy guidance provided by the Commission. The Commission believes that this arrangement provides the proper level of access by the CFO to agency senior management for ensuring that agency financial management issues receive proper attention.

I recommend that you approve the enclosed proposal. Once the Commission receives written approval from you, it will implement the proposal.

Sincerely,

Kenneth M. Carr

Enclosure:
Proposed Organization and
Functions of the NRC CFO

Proposed
Organization and Functions
of the
Chief Financial Officer
of the
U. S. Nuclear Regulatory Commission



DRAFT February 19, 1991

*Proposed Organization and Functions of the
Chief Financial Officer of the U.S. Nuclear Regulatory Commission*

I. INTRODUCTION

As required by Section 206 of the Chief Financial Officers Act of 1990 (CFO Act), the U.S. Nuclear Regulatory Commission (NRC) has conducted a review of its financial management activities for the purpose of ensuring that all of its accounting, budgeting, and other financial management activities are consolidated under the agency Chief Financial Officer (CFO). The overall objective of the proposed NRC CFO organization is to ensure that all NRC financial management responsibilities are consolidated and managed so as to enhance the quality and timeliness of the financial information that is used by the NRC, the President, and the Congress. Further, the NRC proposal will help to ensure that the NRC gives appropriate consideration to financial information in its decisions and day-to-day operations and will enhance the agency's efforts to ensure that resources are properly used and safeguarded.

The following sections describe the proposed organization and functions of the NRC CFO.

II. ORGANIZATIONAL REPORTING REQUIREMENTS

Section 205(a) of the CFO Act requires that the agency CFO be appointed by and report directly to the head of the agency regarding financial management matters. To satisfy this requirement, the Commission plans to have the NRC CFO report directly to the agency Executive Director for Operations (EDO). The NRC is a five member Commission. Under Presidential Reorganization Plan #1 of 1980, the EDO reports directly to the Commission Chairman but receives policy guidance (including guidance on budgetary and financial matters) from the full Commission. The EDO is the chief operating and administrative officer of the Commission and under the Reorganization Plan has been delegated the responsibility for the day to day financial management of the agency. The EDO directs the activities of the major program offices within the agency as well as those of the major administrative support offices of the agency, subject to the policy guidance provided by the Commission. The CFO and Deputy CFO will be appointed by the EDO after consultation with the Commission. The Deputy CFO will report directly to the CFO and will assist the CFO in his duties.

The Commission believes that the proposed arrangement provides for the proper level of access by the CFO to agency senior management for ensuring financial management is given appropriate consideration, emphasis, and priority. The administrative structure of the NRC Office of the CFO is depicted in the attached chart.

*Proposed Organization and Functions of the
Chief Financial Officer of the U.S. Nuclear Regulatory Commission*

III. AUTHORITY AND FUNCTIONS OF THE NRC CHIEF FINANCIAL OFFICER

The NRC CFO will be responsible for and oversee all financial management activities relating to the programs and operations of the agency. Since most of these responsibilities are currently centralized in the existing NRC Office of the Controller, that office will be absorbed into the NRC Office of the CFO, the Office of the Controller will be abolished, and the functions will be assumed by the Office of the CFO. Additional responsibilities will be added to meet the requirements of the CFO Act. Specifically, the CFO will be responsible for

- (1) developing, maintaining, and implementing policies, procedures, and standards for carrying out the agency's financial management activities, including requirements for the oversight of full-time equivalent (FTE) staff utilization and for the selection and training of personnel involved in carrying out agency financial management functions;
- (2) managing the agency's internal control program to assess the adequacy of agency management controls in accordance with the Federal Managers' Financial Integrity Act;
- (3) developing the agency's Five-Year Plan, Five-Year Financial Management Plan, budget submitted to the Office of Management and Budget, and budget submitted to the Congress;
- (4) controlling the use of agency funds to ensure that they are expended in accordance with applicable laws and financial management principles (e.g., issuing allotments and associated financial plans to all agency allottees);
- (5) developing and maintaining an integrated agency accounting and financial management system that complies with the requirements of 31 USC 902(a)(3) and issuing financial status reports from that system;
- (6) monitoring the financial execution of the budget of the agency and submitting timely performance reports to the Executive Director for Operations;
- (7) preparing agency financial statements as required by 31 USC 3515;
- (8) preparing the annual report required by 31 USC 902(a)(5);
- (9) administering the agency's license fee program, including reviewing, on a biennial basis the fees and other charges imposed by the agency, and making recommendations on revising those charges;
- (10) concurring in and providing oversight of the design or enhancement of all agency financial management systems;

*Proposed Organization and Functions of the
Chief Financial Officer of the U.S. Nuclear Regulatory Commission*

- (11) providing travel services for all headquarters employees;
- (12) managing the agency's billing and debt collection activities;
- (13) providing oversight of and financial reporting guidance for agency property and inventory management and control activities;
- (14) providing statistical support services to all agency offices; and
- (15) advising the EDO on the appointment of the Deputy CFO.

IV. ADMINISTRATIVE STRUCTURE OF THE NRC OFFICE OF THE NRC CFO

The administrative structure of the NRC Office of the CFO is depicted in the attached chart. To complement that chart, the following paragraphs describe the interrelationship between the major CFO responsibilities and authorities and those of personnel engaged in financial management activities outside the Office of the CFO.

A. Agency Planning and Budgeting

The Division of Budget and Analysis (DBA) is responsible for developing the agency's Five-Year Plan (FYP) and the budgets submitted to OMB and to Congress. DBA prepares the initial drafts of these documents and, in conjunction with the NRC offices responsible for the various programmatic activities, develops the final drafts for approval by agency senior management. DBA analyzes the inputs from the various agency offices, resolves identified issues, and prepares the final draft for approval by the Executive Director for Operations (EDO) and the Commission. DBA will continue to have these responsibilities when it becomes a part of the Office of the CFO under this proposal.

B. Controlling the Use of Agency Funds During Budget Execution

DBA issues allotments of funds and associated financial plans to each of the major agency program offices, each of the agency regional offices, and each of the major agency support offices, as well as to the Commission and to the EDO. All initial agency financial plans and allotments of funds for a given fiscal year are based on the allocation of resources in the approved agency FYP and budget. Before DBA approves changes to such financial plans and allotments, allottees must explain the reasons for such reallocations and the effects of such reallocations on the agency's FYP.

DBA administers the allotments and financial plans for the Commission and the EDO. All other allotments and financial plans are administered by the allottee offices. DBA is responsible for developing and maintaining policies, procedures, and standards for carrying out such allottee responsibilities, including appropriate financial status reporting requirements. When DBA becomes a part of the Office of the CFO under this proposal, the CFO will

*Proposed Organization and Functions of the
Chief Financial Officer of the U.S. Nuclear Regulatory Commission*

assess the need for any enhancements of the existing agency guidance for these functions in light of the CFO Act (e.g., requirements for the selection and training of the personnel involved in such activities and requirements for the periodic evaluation by the CFO of the conduct of such activities).

C. Controlling the Use of Agency Full-Time Equivalent (FTE) Staff During Budget Execution

The Office of the Controller issues the authorization of staffing levels for the various NRC offices to the Office of Personnel. These allocations are consistent with the approved agency FYP and budget. Each agency office is responsible for ensuring that it does not exceed its FTE allocation for a given fiscal year as allocated by the Office of Personnel. Once this proposal is implemented, the agency CFO will be responsible for developing and maintaining policies, procedures, and standards for allocating FTE ceilings and for the oversight of the financial management aspects of FTE utilization, including appropriate FTE status reporting requirements. In doing so, the CFO will assess the need for any enhancements of the existing agency guidance for these functions.

D. Monitoring the Financial Execution of the Budget

The CFO will be responsible for maintaining a continual oversight of the financial activities of the agency during budget execution. Examples of existing procedures that facilitate that oversight are given in the following paragraphs.

Commission papers constitute the principal instrument by which the Commission receives information needed for making decisions. Current agency procedures provide for the Office of the Controller to independently review resource estimates contained in such papers to ensure that all resource-related considerations have been fully and properly addressed. Once this proposal is implemented, that responsibility will be assumed by the Office of the CFO:

The Executive Director for Operations (EDO) periodically reviews the programs of all major offices reporting to him. The Controller currently participates in each of these program reviews and provides advice to the EDO regarding any financial issues. Once this proposal is implemented, the Controller's responsibility will be assumed by the CFO.

The agency Senior Contract Review Board (SCRB) reviews all proposed major agency procurements (those in excess of \$750,000 per year or \$2 million over a three-year period) before procurement action is taken. The Controller is currently a member of the SCRB. Once this proposal is implemented, the Controller's responsibility will be assumed by the Office of the CFO. In any case where the CFO does not support the conclusions of the SCRB, the CFO shall report his conclusions and reasons therefore to the EDO.

***Proposed Organization and Functions of the
Chief Financial Officer of the U.S. Nuclear Regulatory Commission***

Around the middle of each fiscal year, the Office of the Controller conducts a review of the financial status of the agency, including the identification of any unfunded requirements. Based on that review, the Controller recommends reallocations of available agency funds as necessary to best achieve the agency's objectives as delineated in the FYP. Once this proposal is implemented, responsibility for the mid-year review will be assumed by the Office of the CFO.

Once this proposal is implemented, the CFO will assess the need for any refinements to the existing agency procedures for oversight of the financial activities of the agency during budget execution. If such changes are necessary, the CFO will ensure that they are implemented.

E. License Fees Activities

The Office of the Controller administers the agency's license fee program within the guidelines approved by the Commission. In order to prepare bills to collect license and user fees, the Office of the Controller requires information from the NRC offices that conduct the licensing and inspection activities. Specifically, those offices must delineate what staff time was expended and what contract assistance was provided to accomplish each licensing activity. That information is provided to the Office of the Controller in accordance with the reporting guidelines established by the Controller. Once this proposal is implemented, the CFO will assume responsibility for administering the NRC license fee program. In doing so, the CFO will assess the need for any revisions to the existing agency procedures for administration of license fee activities or to the existing resource tracking systems used to provide billing information.

F. Financial Systems Design and Development

The Office of Information Resources Management is responsible for the design, development, and modification of all agency automated information systems. This includes systems used for financial management. Once this proposal is implemented, the CFO will assess existing agency guidance pertaining to the design, development, and modification of these automated information systems, and will recommend any changes in this guidance that are necessary to be consistent with the requirements of 31 USC 902(a)(5)(D). In implementing that provision, the agency's intention will be to ensure that the CFO has concurrence authority over the specifications for the automated financial systems. The objective is to ensure that the systems comply with applicable laws, regulations, and other financial requirements and that they provide the financial information required by decision makers. The CFO will not necessarily have direct management (operating) responsibility for all of the agency automated information systems that process financial data. The CFO will, however, have the responsibility for ensuring that appropriate requirements are specified for the operation of and reporting from these systems.

*Proposed Organization and Functions of the
Chief Financial Officer of the U.S. Nuclear Regulatory Commission*

G. Property and Inventory Management and Control

The Office of Administration is responsible for property and inventory management and control. Once this proposal is implemented, the CFO will assess existing agency guidance pertaining to these activities and will ensure the implementation of any changes in this guidance that are necessary to be consistent with the requirements of 31 USC 902(a)(5)(E). In implementing that provision, the intention is not for the CFO to have direct management (operating) responsibility for these activities. Rather, the CFO will have the responsibility for ensuring that appropriate requirements are specified for the conduct of and reporting on these activities.

H. Implementation of the Federal Managers' Financial Integrity Act

The Office of the Controller is currently responsible for coordinating the agency's internal control program in accordance with the Federal Managers' Financial Integrity Act (FMFIA). This responsibility is carried out through the agency's Internal Control Committee, which is chaired by the Deputy Controller. Once this proposal is implemented, the CFO will assume responsibility for managing the NRC internal control program. In doing so, the CFO will assess the need for any revisions to the existing agency guidance for conducting the evaluations required by the FMFIA. If such changes are necessary, the CFO will ensure that they are implemented.

V. CONCLUSION

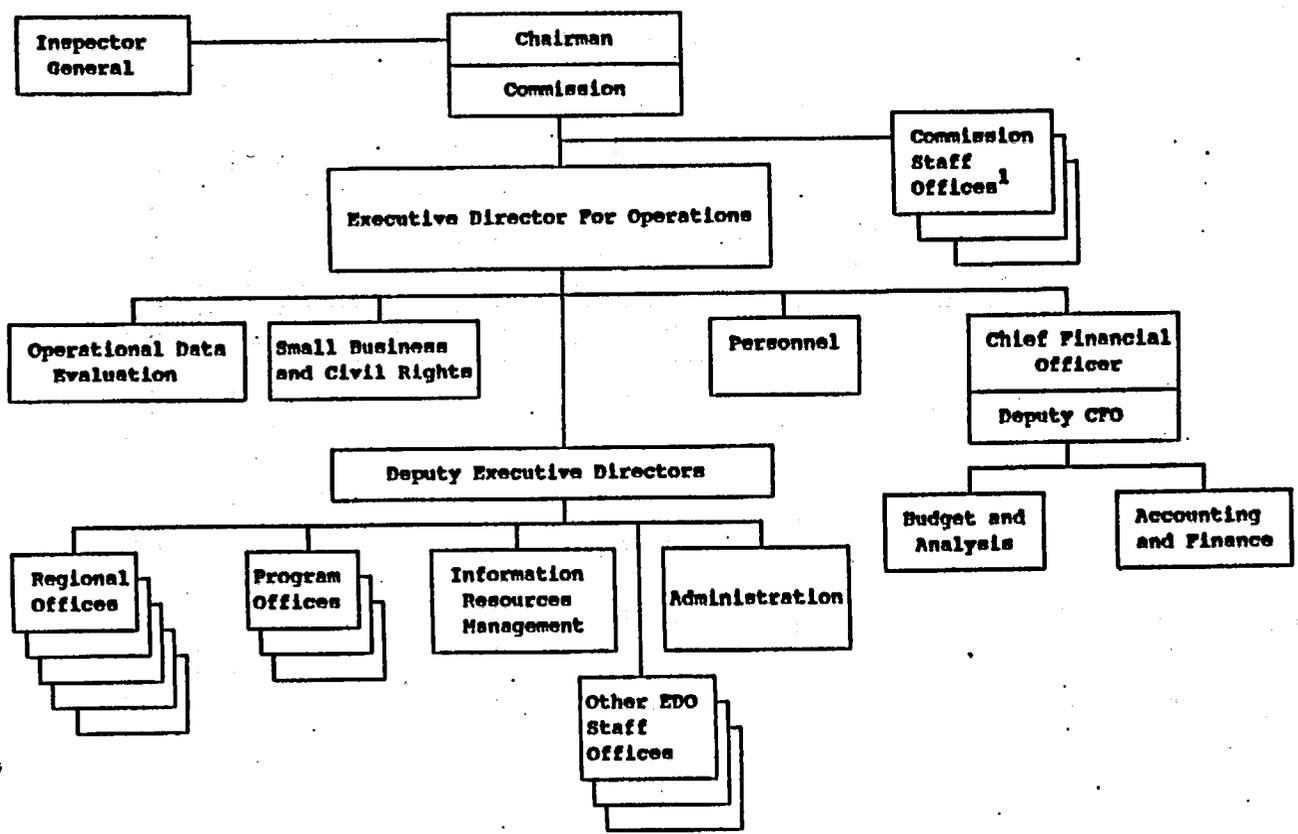
The Commission believes that by implementing this proposal the NRC will have a Chief Financial Officer who has the necessary access to agency senior management and the necessary authority to ensure that proper financial management is an integral part of agency decisions and operations. Once the Commission receives written notice of approval by the Director of OMB, it will implement this proposal. Specific changes needed to implement the creation of the Office of the CFO will be implemented through NRC's Management Directives System.

The NRC will continue to assess the requirements of the CFO Act, and the associated OMB guidance as it becomes available, to determine if any revisions are needed in current NRC policies, procedures, automated financial systems, and training programs. If necessary, such revisions will be made as soon as is practical after they are identified.

Attachment:
Administrative Structure of the Office of the Chief Financial Officer of the NRC.

ALC/AV

**Proposed Administrative Structure for the NRC
Office of the Chief Financial Officer**



-96-

¹ Secretary of the Commission, General Counsel, Government and Public Affairs, Licensing Support System Administrator, Atomic Safety and Licensing Board Panel, Atomic Safety and Licensing Appeal Panel, Advisory Committee on Reactor Safeguards, and Advisory Committee on Nuclear Waste.

Special Evaluation of the Role and Structure of NRC's Executive Council
Appendix V



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

Enclosure 4

February 14, 1991

OFFICE OF THE
INSPECTOR GENERAL

MEMORANDUM FOR: Ronald M. Scroggins
Controller

FROM:

David C. Williams sr
David C. Williams
Inspector General

SUBJECT: DRAFT COMMISSION POLICY PAPER - NRC CFO

We have reviewed the draft Commission policy paper and offer the following comments.

There is no mention in the reorganization plan of the relationship between the Chief Financial Officer (CFO) and the Chairman vis-a-vis the Executive Director for Operations (EDO). It is our opinion that this relationship needs to be clearly delineated. If this relationship is not defined in the reorganization plan, it needs to be identified when the Chairman sets the specific policy guidance for the CFO.

The organizational chart shows that the CFO reports to the EDO in the same manner as other offices in the EDO chain. However, the program offices and the regional offices have intermediate reporting responsibilities. The proposed organizational structure should be changed to reflect these requirements.

We recognize that the policy guidance and procedures could not be developed prior to obtaining OMB's approval for the proposed organizational structure. We agree with your conclusion that there are certain areas that will need to be addressed in more detail. For example, how will the CFO interact with the Office of Personnel concerning the identification and allocation of staff resources between NRC offices?

We appreciate the opportunity to comment on this proposal. If you have any questions, please contact Tom Barchi or Bill Glenn on extension 27301.



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

MAR 18 1991

MEMORANDUM FOR: Chairman Carr
 FROM: James M. Taylor
 Executive Director for Operations
 SUBJECT: CHIEF FINANCIAL OFFICER (CFO)

In response to requirements in the Chief Financial Officers Act of 1990 (P.L. 101-576)), SECY 91-046 forwarded the staff proposal for creating a CFO at the NRC. Subsequent to my submission of that paper to the Commission on February 19, 1991, OMB issued written guidance pertaining to the content of the CFO proposal. Thus, I withdrew SECY-91-046 from Commission consideration on March 1, 1991.

The current OMB schedule requires that the NRC submit its CFO proposal to OMB by April 1, 1991, and the staff has been revising the proposal to comply with the written OMB guidance. However, as a result of reviewing the new OMB guidance and discussing that guidance with OMB staff, it has become clear that one of the organizational aspects of the previous proposal is unlikely to be approved by OMB. Specifically, the previous proposal envisioned the CFO being appointed by and reporting to the EDO. OMB has indicated that the CFO must be appointed by and report to the Chairman as the head of the agency. Under this principle, they view three alternatives as acceptable.

One acceptable alternative to OMB is to have the CFO and the entire CFO organization structure report directly to the Chairman. I do not believe this to be the preferred alternative because it will remove this important function from its close relationship to the program mission and day-to-day resource management decisions. I would further emphasize that our program office safety priorities are closely coupled to our budget/financial decisions.

Another acceptable alternative to OMB is to separate the budget development function from the budget execution and accounting functions. The budget development function could report to the EDO, but financial management and accounting would be under the CFO who would report to the Chairman. While this alternative is slightly better than the first alternative, it is not an efficient structure and it suffers from the same problems as alternative 1.

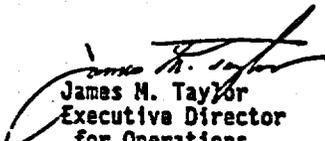
The third alternative acceptable to OMB was to designate the EDO as CFO. This approach is consistent with the concept embodied in the legislation which requires the CFO to have ability in general management of and practical experience in financial management practices. The Deputy CFO on the other hand is to have experience in accounting, budget execution, financial and

Chairman Carr

- 2 -

management analysis and systems development. This alternative will require the EDO to spend more time on the financial management responsibilities assigned to the CFO. On balance, however, I believe this alternative to be preferable to the others for effective NRC operations and the continuity of our priority safety missions. Therefore, I recommend the EDO be designated CFO for NRC. The Deputy CFO will have extensive financial management experience and direct the day-to-day operations of what is now the Office of the Controller.

In my March 1, 1991 memorandum recalling SECY 91-046, I indicated that I expected to forward a revised proposal to the Commission by March 20, 1990. While the staff is still trying to meet that date, it may not be possible to do so in light of the revisions to that proposal which will be required in connection with this organizational issue.


James M. Taylor
Executive Director
for Operations

cc: Commissioner Rogers
Commissioner Curtiss
Commissioner Remick

SECY
OGC
OIG

Attachment

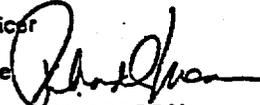


CHAIRMAN

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

June 13, 2000

MEMORANDUM TO: Jesse L. Funches
Chief Financial Officer

FROM: Richard A. Meserve 

SUBJECT: FY 2002-2003 BUDGET PROPOSAL

I have reviewed preliminarily your budget proposal for FY 2002-2003 as endorsed by the Executive Council (EC). I am looking forward to receiving your Scenario Planning Section of the Budget, and will review that material as well, when received. However, based upon the EC/Program Review Committee (PRC) briefing of June 12, 2000, there are areas about which I would like to receive some additional information. I regret if there is overlap between these issues and questions, and that the information which may be in the Scenario Planning document.

As I indicated in our session of yesterday, I am particularly interested in resource decisions made by the EC/PRC at the margin -- that is, the last programs to be funded, and the first to be excluded. In any event, the briefing presents a variety of questions:

- If the NRC were given an additional \$20 million, what projects would you propose in addition to the ones already in the budget? Similarly, if the NRC were forced to reduce its budget by \$20 million, what projects currently included in the budget would be dropped? The priority order for additions and deletions is of interest.
- If research were increased by \$4 million in FY 2002 and FY 2003, what activities does the EC/PRC believe would most productively utilize increased resources? Again, I would appreciate some notion of relative priorities in making these recommendations.
- Resource budgeting for Management and Support for FY 2002 is \$149.6 million and \$157.6 million for FY 2003. If this budget request was reduced by \$4 million for FY 2002 and FY 2003, respectively, what activities on a relative priorities basis would the EC/PRC recommend for elimination?
- Overhead costs: Would you please have your staff survey, to the extent practicable, Management and Support as a fraction of agency budget for the following agencies: Federal Aviation Administration, Food and Drug Administration, Environmental Protection Agency, and the Department of Energy.
- Information Technology (IT) budget: The IT budget seems to be one which could be subject to the most uncertainty for future resource planning. Is it reasonable to undertake deferrals of IT related activities? What are the consequences of these

deferrals? Is there enough contingency in the IT area given the current difficulties which are being encountered with the NRC's investment in the ADAMS system?

- Can you disaggregate the NMSS budget into components that deal with resource workload for fuel cycle facilities as distinct from the other materials licensees (for which there is expected to be a decline in caseload from 5300 to around 4000)? Also, can you create a separate component for NRC work to support generic requirements for the Agreement States program?
- The "FTE by Location" slide indicated that from FY 2000 to FY 2003 headquarters FTE is projected to drop from 1984 to 1952 (0.6%), while regional FTE is projected to drop from 793 to 766 (3.4%). Why is the FTE level assigned to the regions being reduced at a greater rate than in headquarters?
- The FY 2002 proposed budget indicates that a 30 percent labor rate efficiency is incorporated beginning in FY 2002 for license renewal application reviews based on lessons learned and insights gained from the Generic Aging Lessons Learned review. The FY 2002 proposed budget also indicates a resource reduction of 11 FTE in FY2002 to support licensing actions as a result of efficiencies identified through the work planning process and planned improvements of improved standard technical applications. Finally, the FY 2002 proposed budget indicates a resource reduction of 3 FTE in FY 2002 to support project management and licensing assistant activities for 103 nuclear power reactors as a result of expected efficiencies gained through process improvements. What are the uncertainties associated with each of these assumptions?
- The FY 2002 proposed budget indicates that the budget provides an average of 1900 onsite inspection hours per reactor annually. The regions' annual model for the reactor baseline inspection program consists of 2572 hours for a single unit facility, 2865 hours for a dual unit facility, and 3173 hours for a three unit facility. How do you justify this inconsistency?
- Appendix V of the FY 2002 proposed budget indicates that the number of noncompliances which must be dispositioned is expected to increase slightly. Why does the proposed budget include a reduction in reactor enforcement?

cc: W. Travers, EDO
S. Reiter, (A)CIO
K. Cyr, OGC
F. Goldberg, OCIO
F. Miraglia, DEDR
P. Norry, DEDM
C. Paperiello, DEDMRS
P. Rabideau, DCFO
L. Reyes, RII
J. Dyer, RIII

ACTING CIO COMMENTS AND OIG ANALYSIS

The Acting Chief Information Officer's (CIO) Comments:

August 18, 2000

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

FROM: Stuart Reiter /RA/
Acting Chief Information Officer

SUBJECT: COMMENTS ON DRAFT OIG AUDIT REPORT-SPECIAL
EVALUATION OF THE ROLE AND STRUCTURE OF NRC'S
EXECUTIVE COUNCIL

We appreciate the opportunity to review the draft OIG report "Special Evaluation of the Role and Structure of NRC's Executive Council." While we are continuing our review and analysis of the draft report, we have identified several points where clarification or additional analysis is needed.

In summary, we found that the report, as currently drafted, does not accurately describe the operations or effectiveness of the Executive Council (EC), does not give data sufficient to make the case that any of the options presented under "Matters for Consideration" would be an improvement over the status quo, and flows counter to best practice "lessons learned" regarding the optimum delivery of support services to further an organization's efficiency and effectiveness.

Points for Clarification or Additional Analysis

1. The report implies that the Office of the Chief Information Officer (OCIO) made a unilateral decision that ADAMS would become NRC's official record keeping system on April 1, 2000.

The report should note that the EC served as the vehicle by which OCIO obtained endorsement to move forward with ADAMS. On March 8, 2000, OCIO recommended to the Executive Council that, effective April 1, 2000, ADAMS be declared NRC's official record keeping system. All the offices represented by the EC and affected by ADAMS endorsed this recommendation. The recommendation and endorsement by the EC was informed and considered 5 months of operating experience by NRC's offices and regions with ADAMS.

The report should be clarified to reflect these facts.

Stephen Dingbaum

- 2 -

2. The report suggests that the Arthur Andersen "Assessment of NRC Support Activities," issued October 1999, supports your findings that "...the equal status of the EDO, CIO, and CFO are largely responsible for many of the conditions noted above"

The Arthur Andersen report makes no recommendation to modify the structure of the EC or the direct reporting relationships that exist between the Chairman and the EDO, CIO, and CFO.

The report should be clarified to reflect these facts.

3. The report states "the organizational alignment of the EC members impedes the EDO's ability to carry out his mandated responsibilities because two major support organizations-- OCIO and OCFO --are not accountable to him". The only example provided is the EDO's role as Audit Follow-Up Official (AFO).

The report should elaborate on its assertion that "the EDO cannot conduct his role as the agency's AFO in an optimum manner."

4. Further to "3." above, the CIO and CFO have an accountability relationship to the EDO as service providers. From this perspective, the Arthur Andersen Study found:

- Most of the people interviewed (who are internal customers) believe that most support functions work relatively well.
- Functions that have taken aggressive self-assessments have improved their performance.
- Where there are service or support concerns, most believe that the support function is responsive and takes action.
- The internal customer satisfaction survey results show that, in most areas, support services have improved within the last two years.
- There are a number of systems under development that show potential for supporting the NRC in becoming more efficient. STARFIRE and ADAMS are two of the more significant system implementations currently underway.

The report should further explore the findings, conclusions and recommendations of the Arthur Andersen Study, or drop reference to it.

5. The report does not describe the method used to select the "sample" of agencies listed in Appendix II, "Alternative Reporting Arrangements for CFOs and CIOs in 13 Federal Agencies." The table includes approximately one-half of the agencies listed in both laws.

A number of corrections are needed to Table II:

- The CIO of NASA reports directly to its Administrator.

Stephen Dingbaum

- 3 -

- The CIO of GSA reports directly to its Administrator.
- The CIO of the Department of Labor reports directly to the Secretary.

In addition, the three cases in which the Assistant Secretary is also the CFO are incorrectly categorized as dual-reporting positions when the assistant secretary reports to the secretary directly.

The report should be clarified to reflect these facts.

6. The report notes that a dotted-line reporting relationship between the CIO, CFO, and the Chairman may facilitate OMB approval. In the Alternative Management Strategies presented in Appendix III, the report shows "Requires OMB approval prior to change" as a "drawback" to associated alternatives.

Further elaboration on these points is required.

7. The report suggests that the "voting style" in effect for the EC does not produce desired results. The report notes that the EC chairman does not have greater voting authority than the other EC members and that "in fact, 'voting'" in the strict sense does not occur. The report also notes "...our observations suggest that the non-voting EC members have a strong presence at EC meetings and that EC 'voting' is more of a consensus by head-nodding of all members, voting and non-voting members alike."

As reported, the EDO's office conducted a study of Federal and private sector organizations to review experiences with councils and boards equivalent to the EC. The discussions with Dupont reported that their Office of Chief Executive (OCE) is equivalent to our Chairman and EC. In resolving conflicts, it is reported that "The majority rules although there is no formal vote. There are minutes for the OCE meetings. There is no rigorous agenda and no formal voting. They issue resolutions when they make decisions. They develop strategies and policy from a group standpoint, not on an individual basis."

Further discussion of how contrasting "Executive Council" structures and styles affect their effectiveness is needed (which we suggest include a discussion of the effectiveness of dotted-line relationships).

8. The report ignores the extensive work that is done by the Program Review Committee (PRC) and the Information Technology (IT) Business Council before EC involvement in an IT proposal or in budgetary matters. The effective work of these organizations weeds out flawed proposals so that the EC seldom needs to reach a "no-go" conclusion. The EC has, however, registered a 'no-go' decision when it approved the CFO's proposal to terminate the ICF Kaiser contract to develop a core accounting system and in other instances when initial presentations were turned back for further "work." The report comments that on budgetary matters, the CFO sends formal communications to the Chairman and the Commission, but does not state that there are Program Review Committee and Executive Council reviews that precede these CFO actions.

The report should be clarified to include these facts.

Stephen Dingbaum

- 4 -

We appreciate the time and effort put into this special evaluation by the OIG. We are disappointed that the report does not more fully explore the drivers behind more recent legislation and that the recommended alternatives do not build on progress made. We are concerned that the report, as currently drafted, may leave the impression that the recommendation to make change is based largely on the judged ability to do so.

Again, thank you for the opportunity to comment on the draft report and, if you wish, we are available to discuss our comments with your office.

cc: Chairman Meserve
Commissioner Dicus
Commissioner Diaz
Commissioner McGaffigan
Commissioner Merrifield
EDO
CFO

OIG's Analysis of the CIO's Comments:

***** (Points addressed correlate to their location within the CIO's response, found on pages 96-99 of this report) *****

Page 1, paragraph 2:

The CIO's comment that the draft report "...flows counter to best practice 'lessons learned'..." is unclear and no support for this contention is provided. No changes were made in the report.

Page 1, point 1:

OIG did not intend to imply that the CIO made a unilateral decision that the Agencywide Documents Access and Management System (ADAMS) would become NRC's official record keeping system. The language in the report has been changed to reflect the Executive Council's (EC) involvement.

Page 2, point 2:

The wording is clear in distinguishing OIG's conclusion statement, regarding the impact of the current organizational structure, from Arthur Andersen's observations. Although Arthur Andersen did not make any recommendations concerning the organizational structure, the conditions they identified, coupled with OIG's observations, resulted in the conclusion made. No changes were made in the report.

Page 2, point 3:

OIG disagrees with the CIO's comment that only one example was provided to support the statement in the report regarding how the organizational alignment of the EC members impedes the Executive Director for Operations' (EDO) ability to carry out his mandated responsibilities. A number of examples were provided throughout the report, including the impact on the EDO's mandated budget responsibilities. No changes were made in the report.

Page 2, point 4:

OIG disagrees with the CIO's assertion that "the CIO and CFO have an accountability relationship to the EDO as service providers." Information provided repeatedly throughout the review supports the need for the CIO and the Chief Financial Officer (CFO), as the heads of support organizations, to be accountable to the EDO. However, the CIO and CFO are not currently accountable to the EDO. No changes were made in the report.

Page 2, point 5:

The "method used to select the 'sample'" of agencies for OIG's review of reporting arrangements is irrelevant. The purpose of the table in Appendix II is to demonstrate that alternative reporting arrangements exist in other Federal agencies. OIG acknowledges that the CIO of the National Aeronautics and Space Administration does report directly to its Administrator and the table has been revised accordingly. However, based on documents received from the Office of Management and Budget (OMB) staff, and subsequent discussions with staff from OMB and the

referenced agencies, the remaining data reflected in the table is accurate. This includes the reporting arrangements of the CIOs at the General Services Administration and the Department of Labor.

The CIO's reference to three cases in which the Assistant Secretary is also the CFO is an incorrect characterization of our data. The table identifies footnote 4 in several locations to signify that these Officers carry dual roles. However, the example provided identified only one of the possible dual roles. In addition, Assistant Secretaries generally report to the Secretaries through the Deputy Secretaries, which is consistent with OIG's definition of dual reporting.

Page 3, point 6:

OIG agrees that the statement, "Requires OMB approval prior to change" as a "drawback" associated with Alternative Management Strategies, requires elaboration. OIG is not implying that OMB's involvement in the change process is, in and of itself, a drawback. Rather, the potential length of time to achieve OMB approval may be a drawback. The report has been revised to provide the appropriate elaboration.

Page 3, point 7:

The CIO's assertion that the report suggests the "voting style" in effect for the EC does not produce desired results is misinterpreted. The report simply describes the observations of the voting process, or lack thereof, and information about the voting process collected throughout OIG's review. The report only addresses the structure and membership, and not the voting styles, of the executive councils benchmarked in the study conducted by the Office of the Executive Director for Operations. Therefore, the information presented in paragraph two, specific to voting styles in the Dupont Corporation's Office of the Chief Executive, is irrelevant. No changes were made in the report.

Page 3, point 8:

The work performed by the Program Review Committee and the Information Technology Business Council falls outside the scope of this report, and the CIO's comment that "The EC has, however, registered a 'no-go' decision..." is contrary to the information OIG gathered during the review. In addition, OIG believes the characterization of a contract termination as a 'no-go' decision is inaccurate in the context of a Capital Planning and Investment Control 'no-go' decision. In fact, the EC did not make a 'no-go' decision on the project, as a whole. No changes were made in the report.

Page 4, paragraph 1:

In the CIO's concluding remarks, he expressed disappointment that OIG's report "does not more fully explore the drivers behind more recent legislation...". In a follow up conversation with the CIO, OIG staff determined the reference to "more recent legislation" actually related to the Clinger-Cohen law. As such, OIG believes it sufficiently covers the intent of this legislation in the background section of this report.

ABBREVIATIONS AND ACRONYMS

ADAMS	Agencywide Documents Access and Management System
AFO	Audit Followup Official
CFO	Chief Financial Officer
CIO	Chief Information Officer
DEDO	Deputy Executive Director for Operations
DEDM	Deputy Executive Director for Management Services
EC	Executive Council
EDO	Executive Director for Operations
FAR	Federal Acquisition Regulation
IT	Information Technology
MD	Management Directive
NMSS	Office of Nuclear Materials Safety and Safeguards
NRC	U.S. Nuclear Regulatory Commission
NRCAR	Nuclear Regulatory Commission Acquisition Regulation
NRR	Office of Nuclear Reactor Regulation
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OGC	Office of the General Counsel
OIG	Office of the Inspector General
OMB	Office of Management and Budget
PBPM	Planning, Budgeting, and Performance Management
PRA	Paperwork Reduction Act of 1995
RES	Office of Nuclear Regulatory Research
SBA	Small Business Act, as amended
SBCR	Office of Small Business and Civil Rights
STARFIRE	Standard Financial and Integrated Resource Enterprise system

MAJOR CONTRIBUTORS TO THIS REPORT

Russell Irish
Staff Assistant for Planning and Reporting

Steven Zane
Audit Manager

Catherine Colleli
Senior Management Analyst

Judy Gordon
Senior Management Analyst

Debra Lipkey
Management Analyst