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UNITED STATES OF AMERICA
NUCLEAR REGULATORY COMMISSION

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COMMISSION MEETING

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BRIEFING ON STATUS OF OCFO
PROGRAMS, PERFORMANCE AND PLANS

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TUESDAY,

FEBRUARY 1, 2001

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ROCKVILLE, MARYLAND

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The briefing was held at 9:30 a.m. at the
Nuclear Regulatory Commission, One White Flint North,
Room 1F16, 11555 Rockville Pike, Dr. Richard A.
Meserve, Chairman, presiding.

PRESENT:

RICHARD A. MESERVE

Chairman

NILS J. DIAZ

Commissioner

GRETA J. DICUS

Commissioner

E D W A R D M C G A F F I G A N , J R .

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Commissioner

JEFFREY S. MERRIFIELD

Commissioner

KAREN D. CYR

General Counsel

A N N E T T E L . V I E T T I - C O O K

Secretary

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1 OCFO STAFF PRESENT:

2 JESSE FUNCHES

3 Chief Financial Officer

4 PETER RABIDEAU

5 JAMES TURDICI

6 RICHARD ROUGH

7 CHARLOTTE TURNER

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P-R-O-C-E-E-D-I-N-G-S

(9:30 a.m.)

CHAIRMAN MESERVE: Good morning. The Commission meets today to hear from its Chief Financial Officer and his staff on the status of the NRC's financial operations.

Obviously, the financial capabilities of the Commission are central to our functioning as an agency. We have obligations to comply with a large number of laws and regulatory requirements in the financial area, including of course the government Performance and Results Act. We have planning obligations which have been the responsibility of the Chief Financial Officer.

We have to meet various accounting and reporting standards so that this is really an activity which is central to our effective operations.

I'm very pleased to have an opportunity to meet with you this morning to get a report card on how you've been doing and get some indication of the areas in which you have some problems.

And with that, Jesse, why don't you proceed.

MR. FUNCHES: Thank you, Chairman Meserve, Commissioners Dicus, Diaz, McGaffigan and Merrifield.

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1 I'm pleased to have the opportunity to discuss with
2 you the program, plans, performance and challenges for
3 the Office of the Chief Financial Officer.

4 At the table with me today is Peter
5 Rabideau, the Deputy CFO, who's sitting to my right.
6 Sitting next to him is James Turdici, the Director of
7 the Division of Accounting and Finance. Mr. Rough,
8 who is sitting to my left, is the director of the
9 Division of Planning, Budget and Analysis, and sitting
10 next to him is Charlotte Turner, the Deputy Director
11 of that division.

12 The remainder of my management staff is
13 sitting behind me in the well here, and I'm pleased to
14 have them join me today, too. Next shot, please.

15 (Slide change)

16 MR. FUNCHES: My presentation today will
17 follow the agenda on this chart. I will first provide
18 an overview of how we plan OCFO activities. Then I
19 will discuss our primary financial operational
20 activities, followed by our performance in managing
21 the agency, financial resources.

22 This will be followed by a discussion on
23 the implementation of the Agency planning, budgeting
24 and performance management process, and then our
25 accounting and reporting activities.

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1 During my discussion, I will address what
2 we do, our goals, performance against those goals, our
3 plans and challenges for the future. I will also
4 highlight the status of challenges that I identified
5 at last year's program review.

6 On the next chart what I'd like to do is
7 address how we go about planning our activities within
8 the Office of the CFO.

9 Our planning and management began with the
10 performance goals and the strategic plan and
11 performance plan. While in most cases we do not
12 directly implement these goals, our effort indirectly
13 support the achievement of all of the goals.

14 To this end, we have developed corporate
15 management strategies, the primary strategy that guide
16 our activities is to employ innovative and sound
17 business practices to make us more effective and
18 efficient in meeting our responsibility.

19 Sustaining that high performing, diverse
20 workforce is the management strategy that guide our
21 management activities.

22 Similar to other offices that you have
23 heard from, one of our management challenges is to
24 respond to the aging workforce issue. For example,
25 within the next five years, approximately 40 percent

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1 of the existing OCFO employees will reach the
2 retirement age of 55.

3 We are responding to this challenge by
4 using the agency wide strategies to both retain and
5 hire new employees.

6 With respect to the financial operation,
7 our overall goal is to be accurate and timely and meet
8 applicable laws and regulations. I would note that
9 while it may appear that these operations are routine,
10 it takes a substantial effort and dedication from the
11 staff to make this happen.

12 The challenge for us is to maintain this
13 high level of expectation and performance in the
14 future.

15 The first area in financial operation that
16 I would discuss is the payment of salaries and awards
17 to our employees. We make approximately 150,000
18 payments annually; our goal is to make 99 percent of
19 these payments on time and accurate. We are meeting
20 these goals.

21 Our third goal is to make payments
22 electronically, which reflects a government-wide
23 effort to reduce cost for electronic payments. We are
24 currently paying approximately 100 percent through
25 electronic funds transfer.

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1 Achievement of these goals is made
2 possible by the excellent support and integration that
3 we have with the Office of Human Resources.

4 The next major activity in the financial
5 operations area involves approximately 3,500 payments
6 to commercial contractors, other government agencies
7 and employees for travel.

8 Our goals are making 94 percent of the
9 contract payments within 30 days; achieve an accuracy
10 rate of 99 percent and make 98 percent of payments
11 electronically. We are meeting these goals.

12 Another result of making these payments is
13 the avoidance of interest payment. Last year we paid
14 approximately \$6,000 dollars in interest, which is
15 about 100 percent of the total payments that we were
16 making. I would also like to acknowledge, the
17 contribution of the Division of Contracts and Property
18 Management and the numerous contracts projects
19 managers in the program office who work with us to
20 achieve these important goals.

21 We are also responsible for providing
22 travel services for approximately 14,500 trips
23 annually. The regions are delegated authority to
24 perform these services for regional employees, which
25 represent about 60 percent of the total trips.

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1 Last year I indicated that we had two
2 challenges in this area. The first one related to
3 implementation of the Travel and Transportation Reform
4 Act. This act required the use of credit cards for
5 travel and the payment of interest on any travel
6 voucher that is not paid within 30 days of submission.

7 The second challenge was the
8 implementation of the renegotiated GSA Travel
9 Management Contract. I'm pleased to report that we
10 were successful in completing in both of these items.
11 We met the requirement of the Transportation Reform
12 Act. A new Travel Service Contract incentive was
13 completed, implemented a new contract, we were able to
14 consolidate into one contract support for both
15 headquarters and region providing for improved
16 efficiency and effectiveness.

17 While the matrix on the chart that I've
18 shown focused on the back end of the process, our
19 overall objective is to provide for cost effective
20 travel service to permit the NRC employees to meet the
21 Agency mission and goals. To ensure that we timely
22 reimburse employees at the end of their travel, our
23 goal is to review and pay 95 percent of their travel
24 vouchers within five days and 100 percent within 30
25 days.

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1 If we do not pay within 30 days, we will
2 be required to pay interest in accordance with the
3 Transportation Reform Act. We have met our goal of
4 paying 95 percent within five days and we're paying no
5 interest.

6 One initiative that we have underway to
7 improve the efficiency and effectiveness of travel
8 management is to further automate the process of
9 travel authorization and vouchers, using the travel
10 manager software package.

11 We are currently pilot testing the
12 software in Regions I and IV and at the ACRS and ACNW.

13 In the next set of charts, I will address
14 the Agency financial performance. With respect to
15 resources, our goal is to provide those that are
16 necessary and sufficient to meet the NRC mission.

17 I believe we are achieving this goal. The
18 Agency has been able to meet its mission requirement
19 while, at the same time, reducing the FTE by 600
20 between FY 1993 and 2001. Likewise, the purchasing
21 power at NRC is represented by the constant dollar
22 chart line; it's down over \$140 million through FY
23 2001.

24 I would also note that we receive our
25 fiscal year 2001 salaries and expenses budget request

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1 from both OMB and Congress.

2 For the future, we will continue to use
3 the Planning, Budget and Performance management
4 process to ensure that we have the resources that are
5 necessary and sufficient to meet our goals and
6 mission.

7 However, the future challenge for us is to
8 obtain from OMB and Congress the resources to meet the
9 increasing workload demand for example in license
10 renewal, to provide for adequate research and to
11 address the human capital NRTDs that we have.

12 Another aspect of financial performance is
13 to efficiently and effectively utilize the financial
14 resources that have been appropriated. We use
15 carryover as our performance matrix in this area.
16 Carryover is the unexpended fund from prior year
17 appropriations. We have two matrix in this area. The
18 first is unobligated carryover, which is the amount of
19 prior year funds not obligated at the end of the year.
20 This is represented by the red bars on the graph.

21 But in the last four years, the NRC's
22 unobligated carryover has been between \$20 and \$26
23 million, which is consistent with our goal of
24 approximately 5 percent of the budget.

25 The second goal is for funds obligated but

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1 not yet expended, which is represented by the blue
2 bars on the graph. Our goal is to approximate four
3 months of unexpenditures for contract funds. This
4 four months recognized that on average there is a two
5 month lag in billing for work already completed and
6 provide for two months of funding continuity across
7 fiscal years.

8 We have steadily reduced unliquidated
9 carryover to the FY 2000 level of \$80 million dollars,
10 which moves us towards the goal that we have
11 established.

12 Before I leave this chart, I would like to
13 acknowledge the contribution of the region and office
14 allowance financial managers in helping us effectively
15 manage our resources.

16 The last two activities in the financial
17 performance area relate to revenues. We have two
18 primary outcome goals. The first revenue related
19 outcome goal is to meet the Omnibus Budget
20 Reconciliation Act fee recovery requirements. As the
21 chart shows, we have collected approximately 100
22 percent of the budget subject to fees each year. To
23 make sure that we meet the annual outcome goals, we
24 have established objectives to issue the annual fee
25 rule and approximately \$11,000 initial and follow up

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1 invoices on time.

2 We met the two challenges that were
3 identified last year. First, the NRC was successful
4 in working with OMB and Congress to address the
5 fairness and equity issues associated with the 100
6 percent fee recovery requirement.

7 The new requirement that was approved by
8 Congress reduces the fee recovery goal to 98 percent
9 of the budget in FY 2001, decreasing 2 percent per
10 year until it reaches 90 percent of the budget in FY
11 2005.

12 The other challenge that we had was to
13 continue to look for ways to make cost effective
14 improvements in the fee methodology and internal
15 control of fees. To this end, we have worked with the
16 Office of the Inspector General to implement the
17 recommendation from their audit of fees.

18 With respect to debt collection, our goal
19 is to maintain delinquent debt at less than one
20 percent of the annual billing, or less than
21 approximately \$4.6 million dollars for FY 2000. As
22 the chart shows, we are achieving this outcome.

23 Now I'd like to turn to a discussion of
24 the implementation of the NRC's planning, budget and
25 performance management process.

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1 Our overall goal is to meet not only the
2 specific requirements of the government Performance
3 and Results Act, but also to use the process to help
4 us meet our goal of becoming more effective and
5 efficient.

6 As you are aware, implementation of the
7 PBPM process has involved management and staff
8 throughout the Agency. The achievement to this point
9 is a reflection of the Agency management desire to
10 improve how we plan, budget and assess performance.

11 I also look forward to additional
12 integration with the EDO as we implement the
13 Commission recent organization decision.

14 I like to view the performance and
15 implementing PBPM from two inter-related perspectives.
16 The first is whether we are using PBPM to add value to
17 our internal decision making. The second perspective
18 relates to whether we are meeting the statutory
19 requirements and external expectations. I believe we
20 have made significant progress during the past year
21 f r o m b o t h p e r s p e c t i v e s .

22
23 The Commission has recently heard from
24 each of the major program office during the review of
25 the strategic arena. During these reviews, the office

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1 has demonstrated how they are using the PBPM concept
2 and the value added to their organization. Meanwhile,
3 the support organizations are looking at how best to
4 improve the application of the concept to management
5 support activity. To assist the Agency, the Office
6 of Human Resources is piloting this concept using
7 contract facilitation.

8 However, I don't want to leave the
9 impression that the support offices are not looking at
10 their activities for efficiencies and trying to make
11 them effective. They are prioritizing and they are
12 applying concepts but not in a structured way as the
13 concepts have been applied to the program office.

14 With respect to the GPRA requirements, we
15 have completed the triennial update of the strategic
16 plan. We continue to provide Congress and OMB an
17 annual budget and performance plan. We developed last
18 year our first performance report and submitted it as
19 part of the NRC's Accountability Report in March of
20 2000.

21 Although we have been able to produce
22 these reports, and I think produce quality reports, we
23 have received comments from GAO and the IG on how to
24 make further improvements. We will be integrating
25 these insights and recommendation in subsequent

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1 versions of the reports.

2 One of the areas that is a significant
3 challenge for us is addressing verification and
4 validation of data used to report on performance
5 matrix.

6 Another challenge that I see is to
7 continue to meet the evolving requirements and
8 external expectations. For example, as you know,
9 during the past year there have been new expectations
10 and statutory requirements to address management
11 challenges as part of the plans and the reports.

12 While we have adjusted our GPRA documents
13 to meet these needs, I expect a new expectation will
14 occur in the future.

15 The OCFO has responsibility for accounting
16 and reporting on financial resources of the agencies.
17 Our goal is to provide complete, reliable, timely and
18 consistent financial information for use by all our
19 stakeholders. This includes the NRC, the Executive
20 Branch and Congress.

21 Our matrix for determining whether we are
22 meeting our goal is to look at whether we are
23 complying with full accounting standards, including
24 whether our financial statements are unqualified. We
25 also measure whether we are timely.

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1 We have received an unqualified opinion on
2 our last six financial statements and the statements
3 have been issued on time. The auditors have not
4 completed the audit of the FY 2000 financial
5 statement. The exit conference with the auditor is
6 next Thursday. To date, we have not been informed of
7 any major issue.

8 With respect to compliance, we have
9 complied with all of the Federal Accounting Standards
10 that are applicable to NRC, except for one -- that is
11 Accounting Standard No. 4 relating to cost accounting.
12 I will discuss the progress in meeting this standard
13 on the next chart.

14 (Slide Change)

15 MR. FUNCHES: With respect to cost
16 accounting, we have developed a remediation plan to
17 meet the standard. The first component of this plan
18 is to capture staff hours by program, and this was
19 implemented at the beginning of this fiscal year. We
20 used this approach in producing the fiscal year 2000
21 financial statements.

22 The second part is to capture time and
23 labor and implement cost accounting. This has been
24 accomplished by implementing the PeopleSoft human
25 resources, time and labor and payroll module and then

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1 cost accounting module of the original STARFIRE
2 project.

3 The last component is to improve the use
4 of cost in decision making, which will be subsequent
5 to having a cost accounting system in place.

6 During the past year, we have made
7 significant progress in implementing the PeopleSoft
8 modules. However, additional work must be
9 accomplished before the system is running smoothly in
10 a production environment. We are moving forward
11 cautiously, making sure that the payroll system
12 operates properly and that we fully evaluate staff
13 concerns that are identified during the test phase.

14 Our recent evaluation of where we are led
15 to the conclusion that the risk was too high to bring
16 the system up by March 25 of this year. We are
17 performing additional evaluation of where we are,
18 including looking at the competition for limited
19 resources, and I plan to provide the Commission with
20 a interim status report this month laying out how we
21 plan to move forward.

22 In last year's audit of the financial
23 statement, there were two additional reportable
24 conditions involving internal control, in addition to
25 cost accounting. I believe we have made significant

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1 progress on those and we await the results of the IG's
2 audit.

3 However, one of the reportable conditions
4 deals with an issue that cannot be corrected because
5 it relates to the core accounting system that we get
6 from the Treasury Department, and it has to do with
7 off-site recovery plans.

8 We also need to replace the provider of
9 our core accounting system. Treasury has told us that
10 they will stop providing this service by September
11 2002. We are currently assessing the desirability of
12 using the Department of Interior's National Business
13 Center to provide this service for the future. We're
14 examining this organization because they operate the
15 same software that was being operated at the
16 Department of Treasury, which we believe will minimize
17 any transition problems or issues.

18 In summary, we are meeting our financial
19 operation and financial performance goal. Our
20 challenge is to continue to maintain this performance.
21 We are using the Planning, Budget and Performance
22 Management process and have made significant progress,
23 but we are not yet where we want to be.

24 I suspect we will continue to have to
25 respond to evolving external requirements and

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1 expectation as it relates to implementation of GPRA.

2 And important and major challenge for us
3 in the coming year is to implement the cost accounting
4 standard. This includes making cost accounting and
5 the PeopleSoft human resource, time and labor and
6 payroll system operational.

7 Before I conclude my presentation, I would
8 like to acknowledge the hard work and dedication of
9 all the CFO staff in making possible the achievements
10 that I've discussed.

11 Chairman Meserve, that's the end of my
12 presentation, and we're prepared to answer questions.

13 CHAIRMAN MESERVE: Thank you very much.
14 I appreciate the presentation, you've covered a lot of
15 material and we appreciate that.

16 Let me turn first to Commissioner
17 Merrifield.

18 COMMISSIONER MERRIFIELD: Thank you very
19 much, Mr. Chairman.

20 First off, I want to start with a comment.
21 I do want to commend your travel service's staff.
22 I've found them, in my two years here, to be very
23 service oriented, to be very quick in their turnaround
24 and vouchers and I think I've very much appreciated
25 the fact that their services have meant that my travel

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1 has gone smoothly, and I appreciate that.

2 The first question I have related to the
3 issue of the workforce, which is something we've all
4 been targeting. We have somewhat of a new
5 circumstance, I think, which is facing us. The
6 Oversight Subcommittee in the Senate which is now
7 going to be chaired by Senator Voinovich and the
8 ranking member will be Senator Lieberman, both of whom
9 also serve on the Senate Governmental Affairs
10 Committee. I know Senator Voinovich has been very
11 involved in trying to see what problems are out there
12 with having a diverse, well qualified workforce and
13 making sure we retain the level of knowledge and
14 expertise that we need generically in government.

15 Presumably, that may be an issue that when
16 the Chairman and the other Commissioners testify
17 before the Environment Committee later this year may
18 rise as a question of his, or Senator Lieberman, or
19 anyone else.

20 Are we prepared at this point if we were
21 to receive questions from Congress about concerns that
22 we have about our workforce and ideas that we may have
23 in order to make sure that we are able to retain a
24 diverse, well qualified staff and attract a diverse
25 well qualified staff? Are we in a position to answer

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1 t h o s e k i n d o f q u e s t i o n s ?

2 MR. FUNCHES: I would think so,
3 and I think Paul is here. We have, I think as it
4 relates to putting together the budget, address some
5 issues in the budget, provided funds to address some
6 issues. I know the Office of Human Resources is
7 looking at other activities. For example, we have put
8 in place, and funded, an effort to offer incentives
9 for recruitment to people to come on board, to new
10 hires.

11 We have a budget and plan for additional
12 money for training, and I know last year that
13 Congressman, at that time, Voinovich's questions dealt
14 with training, how much we were spending on training.
15 We have increased training, so I think the answer
16 would be yes, and I think in addition to what is
17 already funded, there are additional things being
18 looked at.

19 COMMISSIONER MERRIFIELD: Good. One of
20 the concerns that has been raised, obviously we've all
21 entered into the PBPM process and I think your staff
22 and other members of our staff should be credited with
23 embracing this to the extent we can. But it's a
24 resource intensive process, no two ways about it. Are
25 there improvements that you are pursuing at this point

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1 that may, as we have learned more about this process
2 as we've gotten further in, that may reduce some of
3 the burden on our own staff yet still meet the
4 requirements as set out by Congress and PBPM?

5 MR. FUNCHES: I think I would answer the
6 question in two ways. One I think there was a
7 learning curve in applying the concepts and, you know,
8 any time you're starting something new there's the
9 start up costs or start up investment, and I think
10 that's behind us now.

11 I think most of the managers understand
12 the concepts and are applying the concepts. So I
13 think in terms of being able to do the basic things
14 that we need to do, I don't think it should be as
15 resource intensive as it was for the first time. I
16 think we should be able to move forward in say doing
17 the planning and budget for the coming year with a lot
18 less effort.

19 I think the other thing that's important
20 is to stabilize whatever we're going to use and
21 stabilize that process so that it becomes more
22 routine. I think the challenge for us all now is to
23 look at how we make an incremental improvement and
24 always ask the question is the next level of
25 incremental improvement worth the investment?

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1 But I would say that the investment that
2 has been made I think is paying off now and I think
3 it's resulted in people being able to go forward more
4 efficiently. I think the next time we have to update
5 our strategic plan I think we'll be able to do it more
6 efficiently because we won't have maybe some false
7 starts and we won't have to do as much to bring people
8 up to speed on what the concepts are.

9 COMMISSIONER MERRIFIELD: I've had in sort
10 of anecdotal conversations I've had with various
11 program office managers, I hear the story of the
12 bigger offices complaining that they get all the
13 scrutiny and the smaller offices get a free ride. And
14 I've heard smaller offices complain that they get
15 scrutiny disproportionate to their size.

16 So you have two points and as life usually
17 in the case, truth falls somewhere in between. How
18 are you balancing off your scrutiny of the various
19 offices so that there is a sense of fairness and
20 equity in that process?

21 MR. FUNCHES: I think we look at all
22 offices and we look at all, you know, when we do the
23 budget or do planning we look at all offices. But I
24 think in terms of some organization, if there's two or
25 three people it doesn't take a lot to look at that,

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1 and there's not a lot of evaluation or choices in
2 that. So we probably don't need to spend a lot of
3 time on those.

4 On the other hand, I think there are some
5 offices or function that are more of a, you know, how
6 much you do is a policy call, that's kind of the
7 Commission, and you know trying to go and look at that
8 usually doesn't create any additional benefit.

9 But we do look at all organizations. We
10 ask questions, presumably hard questions, to all of
11 the organization. I think the amount of time that we
12 might have to spend on a more complicated area,
13 obviously we would spend more time on a complicated
14 area than we would something that's simpler. So if
15 you've got a large organization with a lot of
16 activities and programs, then we will probably spend
17 more time there and it's just because the inherent
18 nature of the work as opposed to trying to focus on
19 one organization versus another one.

20 COMMISSIONER MERRIFIELD: Final question
21 is an issue of fees. Obviously, we have a safety
22 commission that we have to meet, and so we have to do
23 what we need to do to make sure that we're convinced
24 that the reactors and materials licenses that we
25 oversee are operating safely, and fees sort of result

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1 from that. What happens happens.

2 There are other areas, and I think this is
3 the case in the material area now, where we have some
4 voluntary ideas, perhaps risk-informing some of the
5 materials areas to give an option for some of our
6 materials users to seek a risk informed regulation.

7 There is some significant fee costs
8 associated with that, which can bear heavy burdens on
9 some of the smaller materials users. Do you think,
10 for these voluntary initiatives, do you think you have
11 the right sense of sensitivity? We as an agency have
12 the right sense of sensitivity, in terms of what we're
13 doing may impact for fees on those areas which are not
14 directly related to the bottom line safety mission?

15 MR. FUNCHES: Yes, I do. I think, and as
16 part of PBPM, the idea is to say, you know, these are
17 the goals that we want to achieve as the Agency, and
18 then go through it, prioritize and not do those things
19 that are not making as effective a contribution to
20 those goals. And I think in putting together resource
21 estimates and putting together budgets, we start with
22 that premise and we go forward with that premise.

23 So I do believe that there's a sensitivity
24 to, you know, putting into the budget those things
25 that are needed to help us move forward with the

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1 performance goals and the mission that the Agency has
2 included in its strategic plan and subsequently
3 included in its performance plan.

4 And so I think the questions are being
5 asked and the decision has been made to identify those
6 things that are making the most contribution.

7 I would comment, make two other comments
8 as it relates to fees in that area. There is some
9 relief, let me back up a little bit. What we have
10 done is said those regulations and those are generic
11 activities that support both NRC licenses and
12 agreement state licenses, if you recall we have put
13 those in a surcharge. And we had put the surcharge at
14 whatever that pool was. We had to split it up based
15 on the number of licenses at the NRC and at the
16 agreement state.

17 So the result of Congress taking the 10
18 percent off the fee base, that portion that was in the
19 surcharge that would apply to all licenses, including
20 materials license and non-materials license, doesn't
21 have to be paid any more. So that effort did help
22 some.

23 But, on the other hand, there are certain
24 what I'll call non-variable costs, costs that don't
25 depend on the number of licenses that you have, that

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1 can only be addressed by how you go about doing the
2 business. And I think I'm a member of this National
3 Material Program Review and they're looking at some of
4 those alternatives there.

5 But there are some costs. There's the
6 cost of kind of running the regulatory program that
7 are there and it won't depend on the number of
8 material licenses you have.

9 COMMISSIONER MERRIFIELD: Thank you, Mr.
10 Chairman.

11 CHAIRMAN MESERVE: You indicated that we
12 are in non-compliance with, I guess it's Standard No.
13 4 of the Federal Accounting Standards advisory board,
14 and that you have a series of software modules,
15 PeopleSoft that you're testing now and have in place.

16 Will you say something about the significance that we
17 should attach to the non-compliance, and it seems to
18 me that there are some aspects of accounting that have
19 greater materiality to us, I mean vulnerability to
20 fraud and those sorts of things. And there may be
21 other standards, and obviously you want to comply with
22 all of them, but may not have the same fundamental
23 importance.

24 I'd say something about this standard and
25 its significance and what the non-compliance means.

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1 MR. FUNCHES: In terms of, I don't think
2 it in any way affects our ability to control our
3 resources with respect to fraud. I think we have good
4 controls there. The core accounting system works and
5 has been tested and we have internal controls that we
6 look at, IG look at as part of their audits, and we
7 continue to make changes.

8 So I think the vulnerability to waste,
9 fraud and abuse is not there.

10 The other thing, too I'd like to point out
11 is there's two types of resources that goes into cost
12 accounting. You have the contract cost and then
13 obviously the people cost. We are able to do cost
14 accounting and we have been as it relates to the
15 contract piece of it. We capture the cost by
16 individual items. The issue really is to capture the
17 label cost.

18 CHAIRMAN MESERVE: Is it a question of
19 allocating the labor to particular projects?

20 MR. FUNCHES: Right. We capture hours in
21 certain place, we capture hours, we watch the pay.
22 It's really you're capturing the label cost by
23 project, that's correct, as opposed to by
24 organization. We capture it today by organization for
25 pay purposes.

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So we have the costs and the control. What we don't have is the ability then to allocate those costs or to get those costs back out accurately against particular activities across the Agency.

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Jim, do you want to add anything?

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MR. TURDICI: Only that the standard requires that with cost information, managers should be able to make better informed decisions than what they're making today. We believe we've got information out to managers today. The standard says with cost information, managers should be able to make better; I agree with Jesse that in the area of fraud there's not -- but that's the purpose of the standard.

CHAIRMAN MESERVE: Is this a new standard? Is this something we've been in non-compliance with forever or is this something that's been created recently or imposed on us recently?

MR. TURDICI: I believe the standard's been in place for probably at least four years.

CHAIRMAN MESERVE: Four years?

MR. TURDICI: Four years. We've been in non-compliance with that standard for the years in which the standard was to be effective.

CHAIRMAN MESERVE: Are we unusual among

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1 federal agencies in having a problem in coming into
2 compliance with this standard?

3 MR. TURDICI: It depends on the agency.
4 Some agencies the way they're structured and they way
5 they've set up their programs, if you will, are
6 conducive to not having the requirement to labor the
7 way we are. As one agency and the way we've developed
8 our strategic arenas and then our offices, we have the
9 problem with identification of those costs
10 specifically back to a strategic arena.

11
12 Some agencies have their strategic arena
13 set to where they're not required to, they don't have
14 the same problem that we do. I believe that those
15 that do have the split are facing similar problems, so
16 it depends on the organization.

17 CHAIRMAN MESERVE: Do you have any feel of
18 the numbers that fall into one category or the other?

19 MR. FUNCHES: As it relates to Standard 4,
20 I don't. I do recall looking at some statistics on
21 non-compliance with at least one standard. And I
22 think most agencies are non-complying with at least
23 one of the FASAB standards, except maybe one or two.
24 If I probably recall right, there's only one or two
25 agencies that didn't. But I'm not sure how many are

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1 not in compliance with Standard 4 as it relates to
2 cost accounting.

3 CHAIRMAN MESERVE: Do you have any
4 estimate as to when we will be able to be in
5 compliance?

6 MR. FUNCHES: Our goal is to bring up the,
7 once we bring up the PeopleSoft, time and labor, the
8 cost accounting module is working but we need to get
9 the feed data from the time and labor, and that would
10 bring us in compliance which would be this year.

11 CHAIRMAN MESERVE: So that depends on this
12 current project, the success of that?

13 MR. FUNCHES: Yes. Right.

14 CHAIRMAN MESERVE: Commissioner Dicus.

15 COMMISSIONER DICUS: Okay. Thank you. I
16 want to talk a little a bit about these reportable
17 conditions. On one of the IG's documents to us and
18 listing challenges that you face, this was mentioned.
19 And over the last two or three years there's been a
20 trend, it appears, of an increasing number of
21 reportable conditions. And I guess I need a little
22 bit of a feel; you addressed it, what we're doing with
23 the three that you talked about, but I'd like a little
24 bit of feel as to how serious is the reportable
25 condition, and it probably has a graded scale of

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1 seriousness, but the trend that seems that these are
2 increasing. Could you address that?

3 MR. FUNCHES: Yes. I'm sure the number
4 has increased. And maybe I'll ask Jim to give kind of
5 the gradation of it. Obviously, the more important
6 one, the non-compliance, inspection non-compliance
7 issues like the cost accounting, and that also gets
8 called a reportable condition.

9 The other ones don't necessarily rise to
10 that same level, and maybe Jim you can give this --

11 MR. TURDICI: It's kind of good news and
12 bad news. The bad news is you're correct, the
13 number's going up. The good news is each year when we
14 finish, we've just about corrected all the previous
15 reportable conditions that existed from the previous
16 one, with the exceptions obviously of the one
17 associated with FFS in terms of having disaster
18 recovery. The two that we have remaining, one is
19 material, and that is the one associated with the cost
20 accounting. The other one's associated with small
21 entity and we believe we're very, very close to
22 resolving that one right there.

23 It depends on, I guess, the severity of
24 it. Those that rise to a level of being a material
25 weakness are the ones that obviously are the big ones,

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1 and right now the biggest one that we have is
2 associated with cost accounting.

3 The others, not to say that they're not
4 important, if they don't rise to that level, our
5 ability to correct them is generally much faster and
6 I think our history shows that as we go into each
7 cycle we've just about cleaned up the ones from the
8 previous cycle.

9 COMMISSIONER DICUS: Okay. Just a quick
10 comment and then I want to go to one quick question.
11 The comment has to, and you address this a little bit,
12 with getting an unqualified audit from the IG. We've
13 worried about this for some years now and we come
14 close each year. Are you fairly comfortable with what
15 this may look like this year?

16 MR. FUNCHES: I actually have to answer it
17 this way. I obviously can't speak for the IG and
18 they'll give us a response. But they have not
19 identified any substantive issue, major issue to me or
20 my staff. I meet with them weekly, we had a weekly
21 meeting this week and there were no substantive issues
22 identified.

23 I would say the process in both
24 preparation of the statements for us and I believe
25 that the audited statement has gone a lot smoother

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1 than it was last year. So I have not seen any
2 substantive issue raised. My staff have not reported
3 any based on their frequent interaction with them, so
4 I will leave it at that.

5 COMMISSIONER DICUS: Okay. Final
6 questions on STARFIRE. We are slowly but surely, I
7 think, going down the road towards STARFIRE. Given
8 the fact there have been delays, some of which could
9 have been anticipated perhaps, some of which probably
10 could not have been anticipated. My question has to
11 go with feedback from you, from the staff on when we
12 do implement STARFIRE, when it is the program that
13 we're using, will it be a non-burden, or a reduction
14 of burden, on the staff that has to use STARFIRE? Are
15 we going to get to that point?

16 I know you've done some testing and trying
17 to see what kind of feedback you're getting. Some of
18 the feedback we get suggests that there's still some
19 improvements.

20 MR. FUNCHES: Right. I think our goal is
21 to bring a system that we can, the staff can operate
22 efficiently and be effective at doing it. The way we
23 are approaching it, and trying to approach it in the
24 pilot is to try to flush out as many issues as we can
25 and deal with those issues -- and we have staff using

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1 the system. So our goal is from the system interface
2 with the staff if you will, is to make sure that we
3 understand what the issues are, look at how we can
4 deal with the issues and if there are cases we find
5 that there are issues with the staff that we can't
6 deal with, then look at ways around it. Or at least
7 ways of how to manage that.

8 So the overall goal is to bring up a
9 system that does not put the staff at a, you know,
10 that causes them a greater amount of work.

11 One other thing I would note is that
12 sometimes we look at, today we have two systems. We
13 have a payroll system that all the staff doesn't input
14 to, but you know a lot of the secretaries and managers
15 interact with. We also capture time and a lot of the
16 organization, or have regions input and MS input and
17 a resource to some degree, so we will avoid dual
18 entry. And so, in a sense, that's going to, you know,
19 I think that would be a benefit to the staff.

20 But in terms of just the staff interface,
21 I think that is important and I think that we should
22 make sure we understand what those issues are and
23 resolve them to the best we can. There might be some
24 that we just can't get resolved but at least we ought
25 to know what those are and then figure out how to

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1 manage and communicate those.

2 COMMISSIONER DICUS: Okay. Thank you.

3 CHAIRMAN MESERVE: Commissioner Diaz.

4 COMMISSIONER DIAZ: Thank you, Mr.
5 Chairman. We are certainly pleased to know that
6 you're bringing home the bacon and spending it
7 certainly are appropriate. I'd also like to note
8 that, you know, we're also pleased that you're into
9 innovative accounting and not creative accounting.
10 That's also appropriate.

11 I also would like to add on a non-
12 political note, that the performance of the Commission
13 and the staff the last few years shows a great amount
14 of fiscal conservatism and we've been trying to make
15 Commissioner McGaffigan an honorary member of the
16 Republican Party.

17 COMMISSIONER MCGAFFIGAN: A fiscally
18 conservative Democrat.

19 COMMISSIONER DIAZ: On a more serious
20 tone, we do appreciate your efforts. When we look at
21 the goals we are pleased that you are meeting or
22 exceeding the goals, there's always the question that
23 comes around is, are the goals realistic or are they
24 too easy to meet?

25 MR. FUNCHES: I don't think so. I think

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1 a lot of the goals we have set are very high and some
2 of them are just, for example, how fast and how
3 accurate you pay people, you can't have zero risk.
4 There's some risk, as you know, in those things. So
5 I think we've set them as high as we have and they're
6 probably as high as we can get without, you know, the
7 margin of return if you will, so adding a lot more
8 resources or whatever to increase those I think
9 wouldn't be worth it.

10 So I think they are challenging goals, and
11 in fact I believe that we have set high expectations
12 that our challenge and the staff challenge, which I
13 believe they will meet, is to continue to meet those
14 high goals. I do think they are stretch goals to a
15 large degree.

16 COMMISSIONER DIAZ: Okay. I do notice
17 that, contrary to the four significant figures of the
18 CIO, you're sticking with accounting, the figures of
19 two significant figures. So you don't want to go to
20 99.5?

21 MR. FUNCHES: I'm not sure that -- the
22 uncertainty would be that I might not be able to
23 measure.

24 COMMISSIONER DIAZ: On the issue of the
25 delinquent debt, and I really don't know what it is,

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1 but obviously progress has been made. But what
2 happens to licensees that do not pay?

3 MR. FUNCHES: We have a process and I'll
4 let Jim add to it. Basically, we have a debt
5 collection process. We bill and if they don't pay we
6 can change it to go after them. If they don't pay
7 after we have gone to them, and if they're not in
8 bankruptcy, we have the option to issue an order to
9 revoke their license for non-payment of fees. And we
10 do do that. We will issue an order to revoke license
11 for non-payment of fees.

12 If they are in bankruptcy we are not
13 permitted to do that.

14 Once that happens, we turn the debt over
15 to the Department of Treasury which runs basically a
16 debt collection agency. They will go after the debt.

17 And the third option we have, which we
18 don't utilize that often, would be to go to the
19 Department of Justice.

20 COMMISSIONER DIAZ: I see. And going back
21 to the question of Commissioner Merrifield, some of
22 this might be small entities and they might think that
23 our fees are too high. Do we get into any litigation
24 with some small entities for user fees and they're not
25 paying?

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1 MR. FUNCHES: No. Usually it is not a
2 legal issue. It usually is a question of why is it so
3 high? And once we get past that they understand, it
4 never gets to be a legal issue. I don't think we ever
5 had a court issue about that.

6 MR. TURDICI: No. And two points on that.
7 First off as a small entity, they pay a much lower fee
8 than that of a larger entity, if you will. We have
9 two tiers and we've significantly reduced the fees to
10 those so they generally do pay.

11 In terms of the delinquent debt, the \$2
12 million that's shown on the chart, that's actually
13 rounded from a little over a million and a half.
14 Okay. Of that million and a half, \$1.1 million is
15 associated with licensee debt, \$300,000 of it is
16 associated with federal debt from other federal
17 agencies.

18 Of that \$1.1 million dollars in delinquent
19 debt, which means it's 30 days old, the vast majority
20 of that is actually paid a short period into the next
21 month. So the delinquent debt is always changing and
22 it's dependent upon when we actually take the snapshot
23 of when we have that debt. So it's not necessarily
24 when you look at it from year to year, the \$2 million
25 dollars from last year is not necessarily the \$2

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1 million dollars from this year. Very little of that,
2 as Jesse mentioned, really remains on the books
3 because of our aggressive action to go after that.

4 COMMISSIONER DIAZ: Okay. All right. And
5 a very quick last question following on Commissioner
6 Dicus' question on STARFIRE, and it's a similar
7 question to what I asked yesterday on ADAMS. When are
8 we going to have 90 percent of the intended
9 capabilities of STARFIRE available for this agency to
10 rely upon for the proper accounting processes?

11 MR. FUNCHES: We have two goals as we
12 bring up, the PeopleSoft, time and labor and human
13 resources. One is, it is to pay people so it can't be
14 90 percent of that capability.

15 COMMISSIONER DIAZ: I would like to have
16 100 percent. One hundred percent on that one.

17 (Laughter.)

18 COMMISSIONER MCGAFFIGAN: If you have to
19 choose a Commissioner, it's Diaz.

20 CHAIRMAN MESERVE: Some of us might like
21 100 percent for some people.

22 COMMISSIONER MCGAFFIGAN: Let's change
23 that goal.

24 MR. FUNCHES: So we have to make sure the
25 functions there are working, including you know

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1 there's a core set but we do have some what I call
2 things that are outlying around the edges of that.
3 And those are some of the areas that we're working on
4 now.

5 The second thing is that we want people to
6 be able to interface, they have to be able to
7 interface with us, they put their time in and go ahead
8 and time in and we can process the payrolls. So those
9 factors says that when we come up we have to have the
10 capability or a system function that we can't, you
11 know, defer some.

12 Now, we can have some workarounds, we call
13 them, that we might have to do -- some manual things.
14 We don't like to do that. And we definitely would not
15 want to do it for 3,000 people, it makes it more
16 difficult. We might figure some different ways to do
17 it for a while as we bring it up, but we need the
18 entire capability to work in.

19 And one of the things I'm finding as part
20 of bringing up a system that touches 3,000 people is
21 you do have a spectrum of views. You have a spectrum
22 of capability and interacting with the system so it's
23 more difficult than if you were working with a more
24 confined group of people. And so you have to, I
25 believe, have a lot more things working properly as

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1 opposed to trying to do workaround because when you're
2 doing the workaround, even though you can fix it maybe
3 a year from then or six months from then, it creates
4 a management challenge for us in dealing with 3,000
5 people.

6 COMMISSIONER DIAZ: Okay. So you'd like
7 me to rephrase the question. When are you going to
8 have 100 percent? I'd be happy to do that.

9 MR. FUNCHES: Basically, what I like to do
10 is in the, and we issue a quarterly status report but,
11 given where we are we will issue an interim standards
12 report and we will give you a date of when we think
13 the system will be operational. And when we say
14 operational we believe that that means that the system
15 is functioning to meet its intended purpose and the
16 staff can interact with it.

17 COMMISSIONER DIAZ: And this time you're
18 going to give us a date that is really going to be an
19 accounting drop-dead date, right?

20

21

22 CHAIRMAN MESERVE: An April 15 kind of
23 date are you talking about?

24 MR. FUNCHES: Obviously, any date we give
25 you would have some risk, but we'll try to give you a

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1 date that has limited risk and that we won't, that we
2 won't meet Commissioner Diaz. There's always risk
3 because there are I guess what I call the unknown
4 unknowns out there, you know, things we know we can
5 deal with but there are some things that could crop up
6 as we go forward, either through a test that might
7 come in from the people that give us some input.

8 COMMISSIONER DIAZ: But the Commission is
9 expecting you to keep reducing those risks in a
10 systematic and expedient manner.

11 MR. FUNCHES: And I think that's what I
12 was saying when I said we had made progress. I think
13 we have eliminated risk and we have eliminated
14 problems and we have made progress in doing that.

15 CHAIRMAN MESERVE: Commissioner McGaffigan.

16 COMMISSIONER MCGAFFIGAN: Thank you, Mr.
17 Chairman. Let me just say a few things. I want to
18 commend the staff at the outset for the carryover
19 slide, Slide 8. When I first came here we were
20 getting grief from the Appropriations clerks about the
21 amount of our carryover and I think we've done a good
22 job. I mean what this chart now shows is that we're
23 a pretty lean organization and I think it's an
24 impressive way we've moved in recent years. There's
25 probably a little bit more to go on the blue side, but

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1 not much, to achieve your goal and so I think that's
2 a real step forward.

3
4 Following up on a question or a comment
5 that Commissioner Merrifield made about quality force,
6 this is just an idea, this may not be the forum but
7 I'll just throw it out now. This issue of a quality
8 workforce is something that I think we may want to
9 have a Commission briefing on when we get the response
10 to the Chairman's memo from November, I think it was
11 in November. It comes up all the time. It really is
12 the most important issue that threatens the Agency.
13 I've talked to some of the senior program officers and
14 you look at the other things, the GAO and IG and
15 whatever, identify Agency challenges -- risk-informed
16 regulation, for example.

17 And while it's dear to our hearts, if we
18 didn't do it, the Agency wouldn't be at risk. But if
19 we don't figure out how to replace and retain our
20 workforce, our high quality workforce, the Agency five
21 or ten years from now could be at real risk.

22 And we need to encourage, as we've done in
23 other meetings, the staff to think outside the box,
24 think about legislative relief. Mr. Walker at the
25 General Accounting Office is practically challenging

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1 all of us and cheering us on to ask for whatever
2 relief we need to start conducting some experiments.
3 And we've been identified by GAO as an agency that
4 really does face challenges, and we know it. So
5 that's just in passing.

6 The debt issue, I just wanted to follow
7 up, Atlas wasn't paying debt when they were in
8 bankruptcy, for example. They weren't paying their
9 fees. How do we write that off, do we just write that
10 off or in that chart on bad debt is that just in there
11 as something we obviously can't collect from somebody
12 who's in bankruptcy. It just is carried in the chart
13 and we never recover it?

14 MR. FUNCHES: There are two things that
15 happen. One in terms of -- we carried a debt so long
16 and we go through all of the process and we can't
17 recover it, we do write off debt. So we will write
18 it off and then we issue a 1099.

19 COMMISSIONER McGAFFIGAN: So it's not
20 delinquent any more? It's written off debt is it, so
21 it wouldn't be in this chart?

22 MR. TURDICI: That's correct. For
23 bankruptcies, we'd be taking that debt off, but not
24 only do we issue them the appropriate forms but in
25 addition, if indeed when they're in bankruptcy, we can

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1 put our claim against that, which we do. And then
2 depending on whether or not they have any funds, we
3 may get --

4 COMMISSIONER MCGAFFIGAN: A penny on the
5 dollar?

6 MR. TURDICI: A dime on a dollar. But we
7 do go through that process but their debt would not
8 show up in that number.

9 COMMISSIONER MCGAFFIGAN: If, God forbid,
10 and we don't really look forward to it, the two
11 California utilities that pay something in the order
12 of \$12 to \$15 million or more a year of fees to us,
13 were to slip into bankruptcy because California
14 couldn't sort out its difficulties, would that show up
15 in this chart? Because that would skew all the fee
16 stuff pretty severely. We'd suddenly not be
17 collecting 98 percent this year. We'd be collecting
18 a lot less.

19 MR. TURDICI: It depends. And that is
20 when they don't pay us, obviously it affects our fee
21 collection number. At the same time, if they don't
22 pay us say for 30 days and they don't declare
23 bankruptcy, and that hits the end of the fiscal year
24 and we take a snapshot at that time, potentially that
25 will show up as our delinquent debt for that year.

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1 If the next year then they do declare
2 bankruptcy, obviously we'd write off that debt. But,
3 depending on when the timing of these things would
4 actually be reflected then in the numbers. So you'd
5 have to give me a scenario and then I'd tell you how
6 it would play out.

7 COMMISSIONER MCGAFFIGAN: There's a
8 certain outcome that we don't want this year that
9 would result in skewing some of these numbers next
10 year. And it's out of our control really.

11 MR. FUNCHES: Yes, and the other thing I
12 would say is, you know, in calculating the fee we do
13 make an allowance for bad debt, if you will, in going
14 forward and trying to determine what we'd need to bill
15 and collect for 100 percent.

16 If we knew and, in fact, if knew of such
17 a liability if you will, then we would address that,
18 if there was concern to it we would address it as part
19 of calculating the fees -- if it occurred prior to
20 that year. The other option we always have also is
21 installment payments and that we do use from time to
22 time with people who can't pay their debt. They pay
23 interest in addition to the debt.

24 COMMISSIONER MCGAFFIGAN: Okay. I'm also
25 going to hit STARFIRE just briefly as Commissioner

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1 Dicus and Commissioner Diaz did. The IG gave us a
2 report last July that basically the bottom line of it
3 was we believe the Agency runs considerable risk of
4 repeating its own history of spending far more than
5 anticipated on the project over an extended period of
6 time, and not getting what it intends from the effort.

7 And since they gave us this report we've
8 twice, and I agree we need to do it, we've twice had
9 to delay the first modules and, as I understand it,
10 the core cost accounting module is still a gleam in
11 the eye. We're trying to get these pay modules up and
12 then Phase 2 is to bring these other modules up. And
13 we have to do it perfectly. I agree we have to do it
14 perfectly, so we have to delay it till the point where
15 all Commissioners and all staff get paid.

16 But it isn't a very pretty story. I mean
17 you've been doing what you need to do and I know that
18 yesterday we talked about an ADAMS lesson learned
19 effort and we talked about some of the general
20 problems in managing IT projects, and it's when you
21 have complex projects, they said yesterday, where
22 you're pushing things and where you're sometimes
23 working to unreasonable timetables, where you get into
24 the most trouble.

25 But do you have any thoughts? I think

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1 your answer to Commissioner Diaz I would say was
2 artful because it was really only about the first
3 module. And if he had been pressing harder he would
4 have wanted to know your time scale for all the
5 modules.

6 But it really is, we are going to end up
7 spending a lot more money on this. The good thing
8 you're doing is that we're not imposing costs on the
9 staff, that we did in the case of ADAMS. But we're
10 going to spend a lot more money, we're going to get
11 something that's perhaps short of what we intended and
12 the CPIC analysis I guess has been redone a couple of
13 times, has it? Effectively to try to update what it
14 is that we think we're going to get.

15 MR. FUNCHES: Right. We did. We did that
16 going to OMB. We updated it's a base line, you know
17 what the project is with core accounting modules not
18 being there. You know, the old ICF-Kaiser module.

19 COMMISSIONER MCGAFFIGAN: Right.

20 MR. FUNCHES: One of the things that the
21 IG report actually was for us to go back and do a
22 lesson learned kind of, you know, how we got to --

23 We have done that and we have issued that.
24 We issued that to the CIO and to the EDOs such that
25 they have it for future projects. In terms of lesson

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1 learned there's a couple of things. If I was, you
2 know, doing it over again I think I would spend a lot
3 more time up front, and might even bring in you know
4 maybe two bidders and do like they used to do over at
5 Department of Defense. This isn't aircraft but do
6 some pilots and even if that required us to invest
7 some money up front to do that. Maybe have them to
8 go to a certain point and then make the decision,
9 because I think that would give you some additional
10 indication of just how right the software is.

11 COMMISSIONER MCGAFFIGAN: So you'd
12 maintain the competition further into the effort
13 rather than choosing a single vendor early?

14 MR. FUNCHES: Right. Right. Because
15 you're doing a paper, you know, we try to do as much
16 test and as much demonstration as you can, but you
17 don't get a chance to run it through as many paces as
18 we wanted. And so I would spend a lot more time up
19 front on planning.

20 And I think the other thing we don't do,
21 we might not do as well as we could do, is trying to
22 understand what the risks are and then what the
23 uncertainties are, and then try to build into the
24 schedule time to deal with those. I think there's a
25 tendency to maybe more optimistic.

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COMMISSIONER MCGAFFIGAN: Nobody should ever be optimistic about IT.

MR. FUNCHES: And bill it into the schedule and into the expectation, and Jim might want to comment on that. There was kind of a government-wide look at bringing up systems that Jim participated in, to try to look at the types of thing that I think you were focused on payroll.

MR. TURDICI: Payroll.

MR. FUNCHES: Payroll system and he might just give you a feel for just kind of what that panel was.

MR. TURDICI: Well, addressing CPIC, CPIC is done in advance, it's done prior to the project being approved. At that time the crystal ball, if you will, is not that good in terms of being able to forecast the cost necessary. Even if you had discussions with vendors about what their product could produce and about what the cost would be, there's an excitement at that time and there's probably, if you will, also this desire to give you the lowest cost potentially to make it a very good looking project if you will from their standpoint.

Some time later you finally get into the

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1 contract negotiations and you finally start actually
2 figuring out exactly what it's going to cost. As
3 Jesse mentioned, and it appears in one of our lessons
4 learned associated with STARFIRE, the concept of
5 perhaps what we ought to do is have this competition
6 and then we would know whether their software would
7 really work in our environment. Then we would know
8 really the functionality of their software before we
9 make that selection.

10 In addition, we all go into projects with
11 the outlook that we will not change the product, we
12 will take it as delivered and we will change our
13 processes to adapt to that project.

14 Unfortunately, while we all go into that
15 optimistically, what we run into is well the system
16 does this but it really should do this. And you
17 really shouldn't bring it up unless it does this. And
18 so we take on that. And then we start taking on
19 potentially more and more because we want to through
20 parallel and through discussion with the people, find
21 out exactly what they would like it to do.

22 Well, in doing so we start to go into some
23 uncharted water and when we start to get into that
24 uncharted water, then we potentially are starting to
25 use the software not necessarily how it was originally

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1 designed as kind of like a generic box.

2 So we are somewhat at fault. I think the
3 process, especially one in which you are going to new
4 technology, you are entering into an area where you do
5 need that wedge factor you mentioned yesterday, sir,
6 and whether it's a 2x or a 3x. But our crystal ball
7 is just not clear, and the closer you get the clearer
8 it is but by then potentially you've overrun your
9 earlier estimates.

10 COMMISSIONER MCGAFFIGAN: It strikes me
11 that you have said something important. It is worth
12 spending a little bit more money up front and taking
13 a little bit more time up front on these conflicts
14 projects, otherwise you get blood at the end of the
15 process. I know one thing that caught you on this one
16 was the software you chose was certified or something
17 by some group, Treasury or something, and so it
18 allegedly was good to go and it turned out that it
19 really wasn't good to go.

20 MR. TURDICI: The software we're bringing
21 up now, the PeopleSoft, didn't have to go through that
22 rigor. What you're referring to is the --

23 COMMISSIONER MCGAFFIGAN: The original.

24 MR. TURDICI: The core accounting original
25 in which it was JMFIP-certified, and we have since

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1 terminated that part of it. And that's our gleam in
2 the eye for the future that you mentioned earlier.

3 COMMISSIONER MCGAFFIGAN: The JMFIP
4 process, certification process, that certification
5 wasn't worth much to us. Are they embarrassed by
6 their certification?

7 MR. FUNCHES: Actually, they went back I
8 think.

9 MR. RABIDEAU: Actually, it was a self-
10 certification process where the contractor was
11 permitted to come in and say whether or not they met
12 their criteria. But what JFMIP has done is they've
13 gone back and they have changed all of that now.

14 COMMISSIONER MCGAFFIGAN: So we were the
15 guinea pig for --

16 MR. FUNCHES: More than --

17 MR. RABIDEAU: We were one of several.

18 COMMISSIONER MCGAFFIGAN: One of several,
19 right.

20 MR. FUNCHES: One of several, right. But
21 it did change their process to make it a more rigorous
22 certification as opposed to --

23 COMMISSIONER MCGAFFIGAN: Well, I've had
24 --

25 MR. RABIDEAU: When you see systems being

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1 implemented across the government in the financial
2 area, you're seeing systems that are costing tens of
3 millions of dollars and experiencing tens of millions
4 of dollars of cost overruns.

5 COMMISSIONER MCGAFFIGAN: Right. I
6 understand, its not a pretty picture. Thank you, Mr.
7 Chairman.

8 CHAIRMAN MESERVE: Thank you. On behalf of
9 the Commission I'd like to express my appreciation to
10 you for a very informative and comprehensive week.
11 The role in the agency is critically important to all
12 of our activities and we appreciate your efforts over
13 the year. With that, we're adjourned.

14 COMMISSIONER MERRIFIELD: Mr. Chairman.
15 I'm sorry, I did have one thing. I thought the
16 question you asked about the Financial Accounting
17 Standard Advisory Board No. 4 was very good, I hadn't
18 gone quite where you'd gone. It may be worthwhile to
19 have the CFO provide for us where we stand vis a vis
20 other agencies. You know, who else isn't meeting
21 Standard No. 4, or what other agencies aren't meeting
22 other standards. Are we in the top decile or are we
23 in the bottom decile, or are we somewhere in-between.
24 And I think that might be helpful as a follow up to
25 your question.

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1 MR. FUNCHES: Yes, we can provide you last
2 year's data. I think most agencies have come in
3 probably for this year and we can do that.

4 CHAIRMAN MESERVE: Thank you. We're
5 adjourned.

6 (Whereupon, the above-entitled matter went
7 off the record at 10:42 a.m.)

8

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