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UNITED STATES NUCLEAR REGULATORY COMMISSION
BRIEFING ON OFFICE OF THE CHIEF FINANCIAL OFFICER (CFO)
PROGRAMS, PERFORMANCE AND PLANS

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THURSDAY

FEBRUARY 15, 2007

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The Commission convened at 9:30 a.m., Dale E. Klein, Chairman presiding.

NUCLEAR REGULATORY COMMISSION:

DALE E. KLEIN, CHAIRMAN

EDWARD McGAFFIGAN, JR., COMMISSIONER

JEFFREY S. MERRIFIELD, COMMISSIONER

PETER B. LYONS, COMMISSIONER

1 PRESENTERS:

2 JESSE L. FUNCHES, CFO

3 PETE RABIDEAU, DEPUTY CHIEF FINANCIAL OFFICER

4 MARY GIVVINES, DIRECTOR, DIVISION OF FINANCE AND

5 MANAGEMENT

6 LES BARNETT, DIRECTOR, DIVISION OF BUDGET PLANNING

7 AND ANALYSIS

8 TIM PULLIAM, DIRECTOR OF FINANCIAL SERVICES

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

CHAIRMAN KLEIN: Welcome to the CFO briefing. Obviously, the nice aspect that we can start off with is good news on the '07 funding. The Senate took action yesterday and so our financial situation is greatly improved from what it would have been had we operated under an '06 CR for the entire year. So that's good news.

Obviously, today we'll have the briefing from the CFO and senior members of his office. I should point out that before we begin, we're going to highlight the career of Jesse. For some reason he indicated that after 36 years of Federal service he wants to retire. I can't image why he would want to do that having so much fun, particularly now that we have our 07 budget. Had he made a decision early on I could understand that. But you had a distinguished career and on behalf of the Commission we'd certainly like to thank you and other Commission members may make some comments at the end. Thank you for your great service.

What we'll hear today is basically how we can do sound financial planning. Dealing with budgets and confidence of the American people is very important and I think in terms of our financial situation, we sort of had our glasses both half full and half empty.

We have some good news and some areas we need to work on. I think the good news is the Association of Government Accountant's Certificate of Excellence, also the Green rating from the Department of the Treasury for both

1 accuracy and timeliness, the Green rating from OMB.

2 Those are sort of the good news. Areas that I think we need to work on is
3 the HRMS system and the license fee billing. Both are challenging. We also need
4 to work on our ability to get more information out timely. As you know, getting the
5 options for the CR, it took a lot longer than it should have. I think we need to be
6 more responsive.

7 When I've gone out to the sites and I've talked to people, I've heard a lot of
8 complaints about the number of codes we have for billing. Also, some difficulty in
9 having to guess what people work on on Friday in order to get paid timely. I think
10 there's some areas we need to improve on.

11 I think the expected volume of new work with our ongoing responsibilities
12 should make it challenging for '07 and beyond. So I think with that, I'll end my
13 comments. And would you like to make some comments?

14 COMMISSIONER McGAFFIGAN: Mr. Chairman, I do join you in
15 congratulating Jesse for his 36 year career here and at the Pentagon. I think he
16 probably figured out with 36 years he might not be making any money compared
17 to staying at home.

18 I know Pat Norry got way past that point. It's amazing, given the old CSRS
19 system that he was willing to keep coming in to work. I think it shows his
20 dedication to public service. Thank you.

21 COMMISSIONER MERRIFIELD: Mr. Chairman, I too, would like to
22 join in congratulating Jesse for the 36 years of dedicated public service he has

1 given. I won't belabor it.

2 Jesse has been very direct. We do have an opportunity to meet each
3 month and Jesse has always been very good about coming in and giving me his
4 direct news and providing the information he thinks is necessary for the
5 Commission to make its decisions.

6 We've got some challenges. I agree with you, Mr. Chairman. I think there
7 are some issues out there that we need to continue to focus on and I agree with
8 you that the decision documents that we had for making our decisions about what
9 to do with the CR did not meet the kind of timeliness I think we have. I think that's
10 one we need to focus on.

11 One last thing I think I do want to mention in opening remarks and that is,
12 and this is a kudo. I think the CFO's office has done over the time I've been here,
13 8 ½ years, a much better job of preparing some of its public documents. Most
14 notably I would mention the Information Digest, which Jesse and Pete know is one
15 that I have long encouraged them to improve.

16 I think if you look at what the information Digest was in 1998 and you look
17 at what they have today, I think it's a demonstrably different and very good product
18 that really shows off some of the best of our agency.

19 I also had a chance last night going through my mail to look at the
20 Performance and Accountability Report and the highlights they put together this
21 year. I thought that was a real snazzy document. Again, I think it's indicative of a
22 much better group of folks working on some very high-quality documents in the

1 CFO's office. I want to give my kudos for that as well. Thank you, Mr. Chairman.

2 CHAIRMAN KLEIN: Commissioner Lyons?

3 COMMISSIONER LYONS: Jesse, I'd certainly like to echo the
4 comments of my colleagues. Thank you for your 36 years of service and from a
5 personal standpoint as I started here at the NRC, I appreciate the time you took to
6 help me get up to speed, both you and Pete. I had a lot to learn as I came here.

7 I appreciate the fact that you took the time to help me get up to speed. So
8 I'll be wishing you all the success possible in retirement and whatever challenges
9 you go on to.

10 My colleagues mentioned the CR process. On the one hand it's great to
11 celebrate the success and I think we very much want to do that. I do think that in
12 the future maybe we should simply plan on there being a CR process. I think that
13 very likely it's going to be more the rule than the exception and by planning we can
14 probably avoid some of the furious last-minute work.

15 But in any case, it's been successful and I very much want to thank you for
16 helping to lead the effort in that. Thank you.

17 CHAIRMAN KLEIN: Thanks. One thing, even though you are
18 retiring, Jesse, we know how to reach you. Good luck in your retirement and we
19 look forward to hearing your briefing today.

20 COMMISSIONER LYONS: Is Greg on the line?

21 MR. FUNCHES: Thank you, Chairman Klein and Commissioners.
22 We're pleased and appreciate the opportunity today to brief you on the OCFO

1 program activities for the past year. I have with me today Pete Rabideau who is
2 the Deputy Chief Financial Officer; Mary Givvines to his right who is Director our
3 Division of Finance and Management; Les Barnett who is the Director of the
4 Division of Budget Planning and Analysis; and to his left is Tim Pulliam our
5 Director of Division of Financial Services. And they will be participating in the
6 briefing today.

7 If you go to Chart 2, what we would like to do today is consistent with the
8 SRM that we got from last year's program briefing. Basically what we would do is
9 focus on our accomplishments and successes as well as identifying gaps and
10 meeting new plans that we have and then looking to next year's activities to make
11 further improvements and indicating where future Commission decision might be
12 necessary.

13 The outline of the briefing will be first to talk about the goals we have
14 established for the Office of the CFO agency-wide.

15 Pete Rabideau will then talk about ongoing efforts related to financial
16 systems. With regard financial management, Mary Givvines will discuss that area.
17 Tim Pulliam will be discussing financial service that we provide across the agency;
18 and lastly, Les will discuss our planning budget and analysis activities.

19 We have established four goals to somewhat frame the work that we do
20 and to give us targets that we want to achieve. The first goal is that we want to
21 maintain a diverse and high-quality staff.

22 I would like to take a few minutes just to talk about some of the things we

1 are doing there. One is we are using contemporary recruitment strategies to
2 ensure that we get a good pool of diverse skilled and well qualified applicants. We
3 have begun to bring in more entry level staff.

4 We are continuing to place emphasis on internal communication,
5 information sharing, knowledge transfer, and I'd like to take the opportunity, one of
6 the areas where we are focusing on.

7 We have a high workload and I must say over the past six months that
8 workload has been higher than normal. Typically we have the typical end of the
9 fiscal year work that we do to close out the year and the work that we have to do
10 to begin the year, issuing financial statements. And then we have the end of the
11 year calendar year work we have to do. Plus, getting the money out for the
12 beginning of the year, working with OMB on one budget.

13 This year it's obviously, as Les would always say, we had a perfect storm.
14 We had a potential for a long continuing resolution as well as trying to do the
15 budget with OMB, getting the financial statements and the PAR out.

16 So we have a lot of work and I do want to say I really do appreciate the staff
17 efforts and for making all that happen and getting us through the last six months.
18 Obviously, we've got a lot of work to do as we go forward.

19 I think that we still continue to have a challenge with a lot of work we have
20 to do and we're looking at different ways to address the workload as it comes
21 about.

22 Also embedded in our goal are efforts to make sure we develop our people

1 and give them opportunity to enhance their skills and knowledge and support their
2 career goals.

3 In that regard, we've been a very strong supporter of the SES candidate
4 development program, not only to develop our own staff, but also to support the
5 agency wide effort to develop people by providing rotational assignments to the
6 current class of SES candidates as well as future classes.

7 We're continuing to provide rotational assignments both internally within the
8 office so that the staff can get a broader feel for the work within the office as well
9 as outside the office. Knowledge Management is important to us as well.

10 We have about a 5% attrition due to retirement and we are working as part
11 of the agency overall effort for Knowledge Management as well as looking at what
12 we can do internally, such as documenting our processes, doing early
13 replacement, hiring double incumbent positions, as well as utilizing rehired
14 annuitants where possible. We have an active program to mentor our employees.

15 The other goals that we have, one is protecting financial assets and these
16 will be discussed more in detail by my senior managers. One is to protect financial
17 assets consistent with risk.

18 I want to emphasize that we do bring risk into play when we look at how
19 much and how much effort we want to put on protecting the financial assets.

20 We want to integrate. We also have a goal to integrate financial
21 performance information into decision-making and the Performance and
22 Accountability Report is one of the outcomes of that.

1 And lastly, and I know Chairman Klein and the rest of the Commission, you
2 all have an interest, we want to make sure we provide very good and high-quality
3 financial service to the employees across the agency, such that they're able to do
4 their job and do it well, not having to worry about the service that we provide.
5 Those are the goals that we have.

6 We will continue to implement these goals and focus on these goals as we
7 go forward into next year, as well as what we have used in the past year. With
8 that, I'd like to turn it over to Pete Rabideau to talk about our efforts related to
9 financial systems.

10 MR. RABIDEAU: Thank you, Jesse. Good morning. We'll turn to
11 Slide 9, please, for a moment. The NRC uses eight financial systems to carry out
12 its financial management responsibilities. Six of these financial systems are
13 operated by the NRC either using in-house or NIH information technology
14 equipment.

15 Our two primary financial systems are e-Government Systems, that's
16 Federal Payroll System and the Core Accounting System. We use the
17 Department of Interior National Business Center as our shared service provider in
18 providing these systems.

19 The Core Accounting System, the Time and Labor System, and the License
20 Fee Billing System are all at the end of their life cycles.

21 We're following a replacement strategy on these systems and that consists
22 of the following. We are developing a Financial Systems Enterprise Architecture

1 to guide our financial systems replacement. Our existing financial systems have
2 evolved over several years, one at a time and they never had the benefit of such a
3 holistic view or evaluation.

4 Enterprise architecture will describe the systems, its interfaces, its data, and
5 its flow of information. This will improve the data structure, data usage, and data
6 standardization. We expect that project to be complete next month.

7 We are also conducting a Business Process Improvement Study for the
8 agency's license fee and time and labor processes. We will use the results to
9 simplify the labor reporting and license fee billing processes and to help define the
10 system requirements. This project is also nearing completion and we expect it to
11 be completed in April.

12 Doing these process improvements are key to allowing us the capability to
13 use off-the-shelf software in order to replace or upgrade existing systems.

14 That is our next strategy and that is that we do want to use off-the-shelf
15 products that meet Federal financial standards. We want to place our focus on
16 system deployment, rather than on system development. We will have a
17 preference for software that has a demonstrated performance inside the Federal
18 sector.

19 We also want to reduce the number of stand-alone systems that we
20 currently have. This will reduce the number of interfaces that we're forced to have,
21 it will improve security, and it will also improve internal control.

22 We also want to move toward a single shared service and provider. We

1 want to move the CFO out of the IT business and stay on the financial aspects of
2 it.

3 We'll also continue to support the e-Government initiatives as they apply in
4 the systems that we have to replace.

5 Turning back to Chart 4, our shared service provider, the National Business
6 Center, is replacing its mainframe batch process legacy core accounting system
7 that's currently in use. They're replacing it with two contemporary web-based
8 financial systems.

9 We are working with the National Business Center to migrate our core
10 accounting system to one of these two products. We expect the new financial
11 system to be able to replace not only our core accounting system but also to be
12 capable of handling our license fee billing system requirements, our cost
13 accounting requirements, our capitalized property, and our allotment and financial
14 plan system requirements.

15 At this time, we're on a schedule where we expect the business case to be
16 approved and to be in the position to make a software selection by the June time
17 frame.

18 Over the next two years, we will work at configuring the software that's
19 selected to replace the five systems that I just mentioned, complete the necessary
20 requirements to have certified and accredit the system to receive an approval to
21 operate, convert all of the agency's financial data, resolve any gaps that may exist
22 between our license fee billing requirements and the software capability, and to

1 conduct parallel testing, security testing, and user training. We have a target
2 implementation of October of '09.

3 With respect to upgrading the Time and Labor System software, we plan on
4 upgrading that software to what's known as PeopleSoft Version 9.0. This release
5 offers significant improvements in security, accessibility, usability, performance
6 and work flow over the current version of the software that we're now operating.

7 The acquisition of the software and replacement of the software will begin
8 once the business case is completed and approved. Once that is done, we will
9 spend about 18 months, again configuring the software, using the results of the
10 process improvement study, completing the necessary requirements to certify and
11 accredit the system to receive an approval to operate, conduct parallel testing,
12 security testing and user training.

13 We are also implementing an e-Travel system. Federal travel regulations
14 now require that all Federal agencies move to an e-Travel system. The NRC is
15 moving forward with transitioning to an e-Travel system utilizing its shared service
16 provider.

17 The National Business Center has already successfully migrated other
18 agencies to e-Travel and their experience will assist us in our efforts. We expect
19 to receive approval to operate e-Travel in the spring of this year.

20 Subsequently, we plan on conducting a six month test or pilot with
21 approximately 200 NRC travelers to test the new system and to evaluate the new
22 travel process that will be used under the system.

1 We will begin a phased deployment of the system to the entire agency
2 about three months after the pilot has been completed. We expect a number of
3 replacement benefits as a result of these changes.

4 We expect that it will result in improved internal control; in other words,
5 there'll be fewer manual interventions and fewer system interfaces that will be
6 necessary. Improved information security, more contemporary security will
7 already be built into the software, fewer manual processes and interventions will
8 be necessary, and it will be operated in a shared service environment with
9 dedicated, encrypted communications. May I have Slide 10, please?

10 We would expect that once complete, our future financial systems will look
11 more like Chart 10 where we are operating fewer systems, more in a shared
12 service provider environment and likely at a reduced cost to the agency. That's it
13 for my presentation. We'll move on to Ms. Givvines.

14 MS. GIVVINES: Good morning. We're on Slide 5, Financial
15 Management. We met all of our financial reporting requirements in 2006. We
16 continue to be dedicated to ensuring the highest levels of financial integrity,
17 compliance with laws and regulations, and ensuring that we have effective
18 controls.

19 Our agency's overall condition at the end of '06 reflects our serious
20 commitment to that. We had sufficient funds to meet our program needs and
21 ensure that adequate controls were in place to account for them. We did receive
22 another clean opinion on our '06 financial statements. This is our 11th unqualified

1 opinion.

2 The auditors, however, do continue to cite one material weakness
3 associated with the fee billing system and I'll the elaborate on that a little bit more
4 later. There was one additional new material weakness this year and that was the
5 result of the agency wide FISMA program audit that was conducted.

6 There were two total instances of noncompliance; one was substantial
7 noncompliance and that also has to do with the fee billing system, and the other
8 noncompliance has to do with us using cost data to support our hourly rates. That
9 has been resolved and we hope that the IG will close that this year.

10 In addition, we did close two reportable conditions from last year and one
11 instance of noncompliance. There's more information in Tab B on this.

12 If we move over to the Performance and Accountability Report, also
13 referred to as the PAR that was completed on time, November 15th. It was
14 accurate and it contains information that's useful to Congress, OMB, and the
15 public.

16 As was mentioned earlier, we also published our first highlights brochure
17 this year. We think this is a useful document that simplifies our financial
18 performance, financial reporting. Although this is not required, it was highly
19 encouraged by OMB.

20 We are proud to report as also was said earlier that we did receive a CEAR
21 award for our '05 PAR and we have submitted an application for our '06. This is a
22 high honor. We were one of nine agencies to receive the award; 17 agencies had

1 actually applied for it. This was our fifth consecutive award.

2 In addition to financial statements to the PAR, there's a number of monthly,
3 quarterly and other annual reports that we submit both to Treasury and OMB. We
4 did receive Green scores on the majority of those both from Treasury and OMB for
5 our timely and accurate reporting.

6 Again, there's more detail in Tab 5 on that. If we could move on to Internal
7 Controls. We performed -

8 CHAIRMAN KLEIN: I'm not sure exactly where this is - I just have a
9 clarifying question. On your fee collection requirements, could you tell me what a
10 delinquent debt is?

11 MS. GIVVINES: It's a debt that's over 30 days old that's owed to the
12 NRC.

13 CHAIRMAN KLEIN: Is this from our licensees?

14 MS. GIVVINES: It could be from licensees, from employees, from
15 Agreement States; mostly from licensees.

16 CHAIRMAN KLEIN: Can you tell me what order magnitude that is
17 and how often that occurs?

18 MS. GIVVINES: Well, we have a debt collection strategy that we
19 have in place. Right now, actually our delinquency is very low. Our target is 1%
20 and its way below that. It's actually less than one-tenth of 1%. It's really very
21 small. We do very well in that area.

22 MR. RABIDEAU: Can we have Chart 12, please? Here's a snapshot

1 of the last 5 years of the delinquent debt owed to the NRC at the end of the fiscal
2 year.

3 MS. GIVVINES: And again, we have the strategy shown at the back.
4 I'll show you the process we go through. We're really in pretty good shape with
5 that.

6 CHAIRMAN KLEIN: Thanks.

7 MS. GIVVINES: Okay, so back to Internal Controls.
8 We performed numerous activities in strengthening our internal controls in '06.
9 First as you may recall, OMB revised its internal control circular in late '04
10 beginning fiscal year '05 to update its standards in strength and management
11 assessment over internal controls.

12 One of the major revisions to that was actually to conduct a separate
13 assessment of internal controls over financial reporting which required a separate
14 assurance statement by the head of the agency. We were one of 16 agencies that
15 fully met that requirement in the time, which was June 30th.

16 We did receive a Green rating from OMB as well on that for our strategy
17 and our plan going forward. Based on results of the assessment, we believe we
18 have reasonable assurance to believe that our internal controls were effective and
19 there were no material weaknesses over the design or operation of our internal
20 controls.

21 We also made noticeable internal control improvements in the fee billing
22 area. As mentioned earlier, the auditors do continue to cite this as a material

1 weakness. In way of background, this is an antiquated system. It's made up of
2 nine different systems that sit on different platforms and there's 14 interfaces.

3 The IG continues to report this as a material weakness because of the
4 extensive manual processes and the quality and assurance procedures over those
5 processes.

6 However, the auditors did recognize the significant improvements we made
7 in '06 and noted that the improvements had just not been in place long enough for
8 them to evaluate their effectiveness.

9 Some of the improvements we did make in '06 included – we conducted our
10 own assessment to see what areas we could improve. We actually had an
11 independent contractor come in and test our internal controls. We automated
12 processes. We improved interfaces. We worked with offices to improve
13 procedures. We did statistical sampling, lots of reconciliation and there still a lot of
14 activity underway.

15 We believe in '07 going forward working with the auditors closely that we
16 believe this could be downgraded to a reportable condition. Let's just say we're
17 hopeful in '07 for the '07 audit.

18 Next, I want to talk briefly about our fee collections. I'll start with the fee
19 rule. In 2006, both the proposed and final fee rules were actually published ahead
20 of schedule. And as you know for '07 we did publish our proposed fee rule and we
21 had to do that prior to receiving our final appropriation.

22 We based it on the House appropriation approval and we did make a note

1 in the proposed rule that we will adjust rates as needed if the fiscal year '07 final
2 appropriation differs. Collections are on Slide 11.

3 As you know, we have to collect 90% of our budget. We did collect 100%
4 of what we are required to by law and that equates to \$624.5 million. Those
5 collections come from seven categories and there is more detail for you in Tab G
6 on that. But the majority of collections do come from the reactor area, that's 88%.

7 Looked at it a different way, 70% of the collections come from annual fees
8 and the 30% come from the license specific activities. We did issue over 5,000
9 invoices for the annual fees and close to 1,700 invoices for licensing and
10 inspection activities. Slide 12, please.

11 This is on Delinquent Debt. We discussed that earlier. We also continue to
12 keep our delinquent debt well below our target of 1%. And that concludes my
13 portion and I'll turn over to Tim Pulliam. Thank you.

14 MR. PULLIAM: Thank you very much, Mary. Good morning. The
15 Division of Financial Services continues to serve the NRC staff effectively and
16 efficiently to support the mission of the agency.

17 Some of our services include travel services, obtaining airline tickets, rental
18 cars, assisting travelers in airline reservations, obtaining passports, and training
19 our staff in travel and travel card regulations.

20 In August, the CFO wrote a letter to the Administrator of GSA asking for a
21 waiver to the Federal travel regulations requiring all travelers to have their lodging
22 through the Travel Management Center. The basis for that request was that the

1 employees could find cheaper rates by themselves or through calling the hotel in
2 some cases than going through our Travel Management Center.

3 In November, the GSA approved our waiver. We're very appreciative and
4 thank our employees for all the background that they gave us for that.

5 We also provide relocation services, obtaining movers, and managing the
6 guaranteed home sale program. We provide central allowance services,
7 managing salaries and benefits, authorizing and certifying funds for headquarters
8 travel, and maintaining funds contracts for fifteen of our smaller offices.

9 We provide time and labor services, conducting time and attendance
10 reviews, timekeeper training, and most importantly overseeing the biweekly pay.

11 In January, the staff participated in a survey. Fifty-three percent of our
12 employees participated in the survey and we're still evaluating all the results. We
13 hope have similar or better results when we send out our Travel Services Survey
14 sometime this month.

15 As a result of working with the Parking Task Force Group we were able to
16 in a short time implement payroll deductible parking fees. As of December, we
17 had 411 people participating in this program.

18 We also are now providing pay notices e-mails to our employees prior to
19 the pay period ending or prior to being paid.

20 In another area, we just recently issued new personal cellular device
21 reimbursement policy and procedures. It allows our employees that are required
22 to carry cellular phones to use their personal cellular devices for government

1 purposes and to be reimbursed at a fair rate.

2 In the area of accurate and timely payments, the Division has made over
3 31,000 travel and vendor payments this year at approximately 100% accuracy and
4 97% timeliness. In addition, 100% of our payments were made electronically.

5 The Division also processed approximately 3,400 interagency payments.
6 We continue to strive for 100% in all areas and are reviewing our processes to
7 improve further.

8 In implementing new travel card requirements, one of the things that Mary
9 said we have a very low delinquency rate. The NRC received a special kudos
10 from the GSA Smart Pay Program Office. The NRC's 61+ day delinquency
11 payment balance for November's airline tickets, purchase cards, and payments
12 made by our employees to the Travel Card totaled only \$2.

13 The total payment for purchases at that time was \$2.1 million. This \$2 is
14 the lowest balance GSA has seen in three years of using Citibank purchase and
15 travel cards.

16 Because of congressional concerns about reporting misuse to travel and
17 purchase cards of Federal employees government-wide, not necessarily here,
18 OMB issued guidance regarding the following. All new card applicants must
19 undergo a credit worthiness evaluation before being issued a card and all existing
20 travel card holders must take training every three years.

21 The NRC has started to conduct credit checks on our new employees and
22 has a plan for this year to have all of our employees trained.

1 In the area of replacing time and labor systems hardware, while the CFO
2 moves forward with the HRMS upgrade project that Mr. Rabideau spoke about
3 earlier, actions have been initiated to address the aging hardware component of
4 the current HRMS system.

5 With the assistance of OIS, the production hardware is being replaced with
6 newer components to extend the existing life cycle. This interim measure reduces
7 the risk of equipment failure until we're able to upgrade the system.

8 In the area of strengthening our continuity of operations, this Division's
9 purpose is customer service, a function that should continue even in the wake of a
10 natural disaster or pandemic.

11 Over the last eight months, we have reviewed our continuity of operations
12 which included conducting our own COOP exercise in conjunction with NSIR and
13 participating in the agency's exercises. These exercises revealed that some areas
14 require further development to support our long term COOP needs.

15 We are working internally within CFO as well as with other offices to
16 enhance our services in the time of crisis. With that, I would thank you for your
17 time and pass this on to Mr. Barnett.

18 MR. BARNETT: Thank you, Tim. Good morning. I'd like to cover the
19 plans and accomplishments in the area of planning budget and analysis. We have
20 worked to obtain the resources - if you please cover Slide 7.

21 We have worked to obtain resources the agency requires to meet the NRC
22 mission and expanded workload. As Chairman Klein mentioned this morning, the

1 Senate has passed H.J. Resolution 20, continuing appropriations resolution for
2 2007 which does provide \$822 million appropriations for the NRC.

3 We have taken preparatory steps so that we promptly get the funding out to
4 the offices, including coordinating with OMB on the necessary apportionment of
5 funds. Please turn to Slide 14.

6 As indicated on this slide, NRC budget has grown from \$626 million in 2004
7 to \$916 million in 2008 President's budget. The driver for the increase is primarily
8 to support the review of combined construction and operating licenses for new
9 reactors.

10 Overall, OMB and Congress have been supported of NRC's budget
11 request. This year has been unusually challenging to manage due to an
12 abnormally long continuing resolution lasting four and a half months and also the
13 lack of assurance on the availability of approximately \$94 million planned in the
14 2007 budget.

15 We have worked with the staff to determine early funding needs for three
16 months and six months CR. We have also worked with the staff to develop an
17 impact analysis to deal with the possibility of a year long continuing resolution and
18 supported the justification for exception for NRC contained in H.J. Resolution 20.

19 In addition, we have worked with OMB to ensure adequate resources in
20 fiscal year 2008. We will continue to work to ensure sufficient resources for the
21 agency.

22 This year we are continuing to improve the effectiveness and efficiency of

1 the 2009 budget process, primarily through the use of new budget formulation
2 application on a pilot basis. This system will modernize our approach to budget
3 information, collection and reporting by providing a three-dimensional look at the
4 data.

5 In addition, we have provided the Commission with program priorities for
6 decision on February 6th. The specific high level direction for the agency sorted by
7 high, medium and low priority serves as a critical guide to staff in formulating the
8 budget, including common prioritization of activities.

9 In developing performance measures for the 2008 budget cycle, the staff
10 focused primarily on making agency performance measures more challenging.
11 We're continuing to work with the EDO and will continue to do so in the 2009
12 PBPM to continue progress towards this area.

13 In addition, we are focusing to determine whether agency programs
14 developed improved efficiency measures, to determine whether agency programs
15 have effective management procedures and measures in place to ensure the most
16 efficient use of each dollar spent on program execution.

17 In SRM SECY-06-0181, the Commission has directed the staff actively
18 engage the Office of Inspector General on planned PART reviews so that OIG can
19 fully consider scheduling beneficial evaluations in formulating of the OIG annual
20 audit plans.

21 In addition, the Commission has directed the staff to contract with outside
22 organizations to conduct independent program evaluations. The NRC is working

1 with the EDO on implementing this endeavor. With respect to PART, since fiscal
2 year 2003, OMB has assessed the NRC on five NRC programs and four of these
3 programs have been found to be effective.

4 OMB will be conducting PART reviews of two NRC programs in fiscal year
5 2007; the decommissioning and low-level waste program as well as the high-level
6 waste program. The reviews are scheduled to be completed around April of 2007.

7 We have met all budget execution requirements; consistently have stayed
8 within the guidelines mandated in the Antideficiency Act, Budget Impoundment Act
9 and Appropriations Act. We have worked closely with financial managers and
10 allowance holders to ensure their awareness of mandated guidance and
11 processed approximately 260 advice allowances and financial plans in 2006
12 ensuring the availability of funds.

13 We monitored financial performance through the Budget Execution Report
14 which is issued quarterly to the Commission and we have re-evaluated the
15 thresholds for reporting resource reallocation to the Commission policy procedures
16 to ensure that it was meeting the intended objectives.

17 On May 26, 2006, we informed the Commission that the reallocation
18 progress is working as intended. We implemented the policies and procedures
19 that established effective internal controls over general funds in WIR and we have
20 managed the agency's 2006 mid-year resource review which we started a month
21 earlier than the normal order to facilitate distribution of required funding
22 allowances. Managed the funding of agency salary and benefit costs and

1 essential activities within the limited amount available under the continuing
2 resolution.

3 In coordination with the EDO, we have worked closely with offices in the
4 regions to develop a number of scenarios and continuing resolution which we have
5 informed the Commission.

6 We have issued the 2006/2007 edition of the Information Digest in
7 August 2006. As Commissioner Merrifield mentioned, the Digest contains
8 up-to-date information about the agency in a better publication and domestic
9 worldwide nuclear energy, materials safety and radioactive waste in easy-to-use
10 format this year.

11 The current edition provides an extended discussion about U.S. commercial
12 nuclear power reactor licensing. It also features updated design graphics and
13 illustrations as well as visual cues for easier reference.

14 As you are aware, we are updating the agency's Strategic Plan. GPRA
15 requires a strategic plan to be updated every three years. Our current Strategic
16 Plan covers 2004 to 2009. The updated Strategic Plan will cover the strategic
17 direction for the agency for 2007 through 2012.

18 We believe the agency's mission statement, vision, and strategic objective
19 remain sound and made only minor verifications. The Commission approved the
20 revised Strategic Plan framework and the staff is in the process of developing the
21 draft text in supporting the framework.

22 The EDO and the CFO plan to submit the draft Strategic Plan to the

1 Commission for approval in March 2007. Once we receive Commission approval
2 of the draft plan, we will publish the draft for internal and external stakeholder
3 comment. Our schedule calls for publishing the new Strategic Plan in
4 December 2007.

5 This concludes my presentation. I will turn to Mr. Jesse Funches for his
6 concluding remarks.

7 MR. FUNCHES: Thanks, Les. As you can see, we continue - I think
8 we had some very good successes during the past year. We have some
9 challenges as we go forward. I think we're up to addressing those challenges. We
10 have good plans to do that.

11 In concluding - I think I got eight minutes left - I would like to say -

12 CHAIRMAN KLEIN: But you don't have to use them.

13 COMMISSIONER MERRIFIELD: You can give those back.

14 MR. FUNCHES: I would like to say as you all have mentioned, this is
15 my last Program Review with the Commission and I would like to thank each of
16 you individually and collectively for your leadership and support of the office and
17 me in trying to improve financial management and do the things we need to do to
18 support the agency.

19 I really do appreciate the support that you've given me individually and
20 collectively over my career here at the NRC. I really do thank you for that.

21 It has also been a great opportunity to work with other senior managers to
22 address the issues that confront the agency, some very important issues, to

1 ensure that as we go forward we are able to carry out the mission of the agency.

2 I guess the last thing I'd like to say is I have a great group of managers who
3 made my job easier. To work with the people sitting at this table, Pete, Mary, Les,
4 and Tim, plus their supervisors and managers that work directly for them. They
5 have been great.

6 I know they will continue to be great managers and great leaders in making
7 sure that the agency is able to move forward financially in the financial area in a
8 very positive way and I think an outstanding way.

9 Obviously, the many people that work within the office, the 100+, have been
10 great to work with and I know they're very dedicated and very professional and
11 have the highest integrity that I think you can find in the staff.

12 So, again, it has been my pleasure to serve the NRC and again, thank you
13 very much.

14 CHAIRMAN KLEIN: Thanks, Jesse. I think it is certainly admirable
15 that you spent 36 years in public service. So thanks for your contribution.
16 Certainly, for the time at the NRC which certainly is near and dear to all of us here.
17 As I've often said, sometimes it's the little things in life that make things go well.

18 I should acknowledge Tim for commenting about three things that I think
19 really will make our life easier. One was the parking. I was stunned when I came
20 here that I wrote a check every month for parking. That was little bit unusual. I
21 hadn't done that for decades. So I'm glad that that's changed.

22 The cell phones and also reminding people when the payroll is coming;

1 that's something that I hadn't been aware of, what the schedule is. So I think
2 those are little improvements that really send a signal to all our employees that
3 we're making changes.

4 One thing, Jesse, I'd like to talk a little bit about your planning. Obviously,
5 we've gone through a step function of two options. One option is if we had to do a
6 year-long '06, now we have an '07. Could you talk a little bit about your plans so
7 that we don't have a large carryover at the end of this fiscal year?

8 MR. FUNCHES: If you recall, we had put together first in terms of
9 programming a plan that we're carrying out in '07. We have put together a plan
10 based on the amount of money we get out of the continuing resolution. We had a
11 plan that was put together based on that.

12 And obviously, with the continuing resolution, there's a lot of uncertainty
13 whether we'd be able to execute that plan and what we would need to do as a
14 result of that. Once we got information that the House was going to pass and then
15 subsequently passed that, we began to put in motion the steps to put us back on
16 the original plan that we had.

17 We have asked the offices to start looking at their contracts, start moving
18 those forward. HR is again looking at what they need to do in terms of bringing
19 people on board. We obviously want to make sure that we got the money to pay
20 for those.

21 We have taken action, as Les mentioned, to make sure that the money is
22 available to us soon. So we are re-shifting back to the original plan that we had.

1 Obviously, any time you've got a perturbation as big as we had where uncertainly
2 was so large, you do get some stops and starts.

3 As a result of that, there's going to be some inefficiency. We've put in place
4 the things that we can to ensure that the money that we have available to us will
5 be put to work as soon as possible. By putting it to work very soon, that means
6 that will impact the magnitude of the carryover that one would have.

7 I think working with Luis and we're trying to keep constant communication
8 with the Program Office also, such that they got their up-to-date information and
9 they can start moving projects that they might have been holding back, forward to
10 contracts and getting those contracts or interagency agreements out.

11 CHAIRMAN KLEIN: Thanks. One of the - I think you heard of the
12 frustrations we had on options with the CR, not knowing when it would get
13 resolved. What will it take to be more timely? As my fellow Commissioners have
14 indicated, we might as well plan on CRs.

15 It looks like its different here than what I was accustomed to at DOD where
16 typically we had budgets on time. Here, it looks like it's the exception. I guess
17 what will it take to be able to quickly respond to "what ifs"? What if the CR is one
18 month, two months, three months? What will it take to make that more timely?

19 MR. FUNCHES: I think there's two scenarios you have to plan for. I
20 think the first thing you have to decide is what scenario you want to plan for;
21 maybe options that you can push the button and you can go either way.

22 I think in terms of one month, two months, three months CR; with the

1 money that we have based on no-year appropriation, we have dealt with those and
2 you can continue to deal with those if you make the assumption that you get well,
3 that there will be an appropriation for the full amount that you plan to have.

4 Therefore, you're trying to manage the interim and you basically borrow
5 here and borrow there, and you operate on the assumption that you're going to get
6 a full appropriation.

7 The other scenario is that if you have to go, and there's a likelihood or high
8 likelihood that you won't get the full appropriation, that calls for a different set of
9 planning parameters.

10 I think looking back, if I was doing it - because we were originally saying
11 that something could happen by maybe in December, like it typically has
12 happened in the past. If you plan on a scenario like that that you are going to get
13 a full year's amount of money, you can use the carry over to kind of bridge the gap
14 and then you plan one way.

15 If you're going to plan the worst case that you're going to get a flat line for a
16 full year then you have to plan another way.

17 I think the first thing you do, you need to make a decision on which of those
18 scenarios we want to plan towards; the key being what's the assumption about -
19 whether you get something in a reasonable time in terms of a final appropriation.

20 The other thing you can do is you can create some scenarios that says,
21 "Okay, if it happens, this is what we would do." You can create those scenarios.
22 You can even put them in your drawer.

1 You can actually create them as you're going through the budget process.
2 That allows you to create those as opposed to creating them at the last minute.
3 That will require you - again, the real issue is make an assumption that you're not
4 going to get a full-year appropriation or you're not going to get it for some time into
5 the calendar year.

6 I think those are the two key things that I would suggest that we do. One is
7 try to think about that and make some decision on that and the second one you
8 can do is you can create some scenarios that says if you have one, kind of a "what
9 if" scenario, do that earlier..

10 CHAIRMAN KLEIN: Commissioner McGaffigan?

11 COMMISSIONER McGAFFIGAN: Thank you, Mr. Chairman. I'll join
12 my colleagues in expressing dissatisfaction with the process which we are putting
13 together a full year CR. I guess the world will only know this because I'm about to
14 say it, but the Commission rejected the staff's proposal before Christmas, just
15 about across the board.

16 The staff in making its proposal assumed a bunch of things that were
17 universally rejected by the Commission; the notion that we would hurt the rest of
18 the agency in order to throw money at NRO and be ready for four applications.

19 We weren't even getting the amount of money - four applications is what we
20 were going to aim for at the original NRC budget request and we were getting
21 \$45 million less than the original budget request because we're getting 95 less
22 than what we were expecting.

1 So staff presumed to make a bunch of decisions for us in the PRC process
2 that were not acceptable and it was the Commission that came up with the
3 strategy that resulted in our being able to get an exception to the CR.

4 Also, if we had had to execute it, we would not have done damage to the
5 existing licensees and the existing programs simply to try to handle some COL
6 applications. We would have assumed that that was a conscious decision by
7 Congress not to do it. I was very dissatisfied with the process.

8 I had been asking since late September - it was not rocket science to figure
9 out that if the Democrats took the Congress, Republicans probably were not going
10 to be deeply motivated to come up with continuing resolutions in December.

11 And so, I was asking - my recollection by late September - I was asking
12 what happens if we're through March. I didn't know how bad it could get.
13 Suddenly, mid-December we found out we might be through the end of the year.
14 It was not a good process.

15 And luckily, as I said, the Commission largely came up with the process that
16 worked. I think the PRC process is pretty broken in many respects. I think there's
17 a lot of this decision-making for the Commission that occurred over my tenure and
18 over Jeff's tenure.

19 I remember the year that Sam Collins canceled the OSRE program. And
20 that didn't even get to the Commission until we had DPO's flowing at us and
21 instantly Shirley Jackson fixed that.

22 COMMISSIONER MERRIFIELD: With unanimous Commission

1 support.

2 COMMISSIONER McGAFFIGAN: With the whole Commission.

3 There seems to be a bias in the PRC process against infrastructure. When our
4 budgets have been growing, we seem to neglect infrastructure even when we
5 really could ask for the extra money.

6 I've been here long enough, I think it happens even in your own office, the
7 Starfire of the late '90s didn't deliver what was supposed to be delivered. It was
8 supposed to be off the shelf, commercial off the shelf, all that. It turned out to be a
9 disaster except for I guess we got one module out of it. And so today we have a
10 policy or strategy of relying on the Department of Interior to save as.

11 I think that's maybe a good idea because we've obviously proven ourselves
12 to be pretty awful at IT development over the decade I've been here. That isn't
13 just you. That's almost everywhere within NRC's information technology
14 programs. They don't get fixed.

15 ERDS, I'm told, was on the radar in 2000; the Emergency Response Data
16 System. I didn't know we were in deep trouble using software that was obsolete,
17 hardware that was obsolete, for a pretty important function until about six months
18 ago. Because it just didn't filter up.

19 I think getting bad news up seems to be one of the problems and focusing
20 on infrastructure seems to be one of the problems.

21 I don't know whether there's a question there, there probably isn't. It's just
22 frustration. You've got to find ways to get bad news forward.

1 You've got to get ways to figure out how to get infrastructure fixed and we
2 need to make plans based on reality, not wishes. Okay?

3 I'll divert to just a comment here. I've been subsidizing NRC for a decade
4 on my cell phone. They briefly gave me one then I found out every month I had to
5 go through every call and I said, "to hell with that, I'll continue to subsidize." I'm
6 glad that as I'm leaving I think I'll charge you \$9.99 a month, which is the cost of
7 my phone. I think I have been subsidizing you at least that much for a decade.
8 I'm glad that one got fixed.

9 I'll ask a question. The systems that we're not going to rely on for very long,
10 is there any effort being made to do accreditation and certification of those? Does
11 that make any sense whatsoever given your plans? If we're going to replace them
12 all, and legacy systems are the hardest to deal with because you didn't handle the
13 security right from today's perspective when they were originally put in place, why
14 does it make any sense to spend money on accreditation and certification and
15 authorities to operate as opposed to just saying we got a bunch of things to say
16 grace over, forty systems, we'll just put yours aside and work on the ones that
17 aren't going to be replaced in a couple years?

18 MR. RABIDEAU: I think that's been recognized now at this point in
19 time; the EDO's memo that was sent up to the Commission asking for a change in
20 the process that the agency is using. I think we have a couple of legacy systems
21 there that will be looked at by us and OIS, if the Commission approves that
22 change in policy.

1 COMMISSIONER McGAFFIGAN: So the answer is it doesn't make
2 sense to spend a lot of money on a couple of them at least?

3 MR. RABIDEAU: I would personally think so, sir.

4 MR. FUNCHES: They were in the original group and we moved them
5 up to a certain point and then we'll make a decision on whether we go forward on
6 that.

7 COMMISSIONER McGAFFIGAN: Okay. Thank you.

8 MR. FUNCHES: Can I just make a couple comments?

9 COMMISSIONER McGAFFIGAN: Sure. I launched the diatribe at
10 you.

11 MR. FUNCHES: I think first, one is we did make the projection on
12 what we could do for the first month, first two months, first three months and
13 actually made the projection out through March. The projection was based on the
14 assumption that everything would get well. As I told you before, that was the
15 difference.

16 We did make those projections; what would it take and could we operate
17 through the end of March. First we did through the end of December and then we
18 did one month through February then to the middle of February. They were based
19 on the assumption that at the end of the day you would get a full CR.

20 The second thing, we started down the Starfire path and we made some
21 decision as an agency and we made a decision early on to cut our losses. I think
22 that was the right decision. Inevitably that was the right decision. So we did not

1 invest except for a small amount of money in the startup of the core accounting
2 system, not the rest of the Starfire.

3 CHAIRMAN McGAFFIGAN: Because you guys were basing your
4 policy on hopes rather than delivery, once you saw bad delivery, you cut it off. But
5 here we are in 2007 and we're still working on the problem.

6 MR. FUNCHES: I think as it relates to Starfire, we made a conscious
7 decision at that point that we wanted to go to shared service and that's what we
8 did. We went to a shared service provider.

9 That shared service provider is now getting to a point where we are going to
10 stay with the shared service provider but the software that we are on is becoming
11 obsolete and we'll go to one of the two that has been approved by the government
12 to make that conversion.

13 I think it's fair to say kind of what that history was and where we are today.
14 I think that's the only two I would say.

15 COMMISSIONER McGAFFIGAN: One of the things that Peter said
16 was we're trying to get the CFO out of the IT business. I think you're always going
17 to be in the IT business because part of the authorization to operate and
18 philosophy of the OIS and government as a whole is that the programs have to
19 take responsibility for their systems, even if they are over at DOI and getting those
20 systems interfaced with the rest of our system and meta system is non-trivial. You
21 guys have to be involved.

22 MR. RABIDEAU: We do have to be involved. We're looking at it

1 more from who's providing the service. Right now, we're operating and
2 maintaining these systems, six of the eight that we have, and I think that what we
3 want to get out of is the operations and maintenance contingency testing process,
4 ensuring adequate backups at different locations. We want to work that through a
5 shared service provider.

6 We recognize that we have a responsibility to contract and make sure that
7 they provide the services that are needed and meet the requirements that are in
8 place for the agency with respect to IT.

9 CHAIRMAN KLEIN: Commissioner Merrifield?

10 COMMISSIONER MERRIFIELD: Mr. Chairman, I appreciate
11 Commissioner McGaffigan reminding me of Starfire. I remember that one. We've
12 had some challenges. Mr. Chairman, you think we've had challenges recently on
13 IT? I agree with Ed. We've always had challenges with IT. Hopefully you all can
14 get this fixed after Ed and I move on.

15 Listening to some of the discussion this morning about the CR and the
16 timing, I was thinking about this earlier in preparation for the meeting. I went to my
17 office and pulled out the Management Directives. There's a management directive
18 on policies and practices governing the long range planning budget formulation
19 and resource management.

20 The last time we changed that it was transmitted to the Commission on
21 January 28th, 1989. I don't have it here. The transmittal letter was signed by Pete
22 back when he had a much different position all those many years ago.

1 That was a time when we used to have a Comptroller. We didn't have a
2 CFO, we had a Comptroller. We had a couple other positions that no longer exist;
3 AEOD, and we used to have two general counsels, one of which had a different
4 title of which I don't remember. It was a much different Commission.

5 It strikes me that what we have is the policies that go forward in helping to
6 establish how we're going to spend our money may in fact be quite different than
7 what's in our Management Directive. It also strikes me that the Program Review
8 Committee is something I think we ought to take a look at.

9 That was a creation during the time when Shirley Jackson was Chairman of
10 the agency. The format currently is made up of the Deputy Executive Directors
11 and the Program Review Committee is chaired by the CFO. I think we need to
12 take a look at that.

13 With no lack of credit to the CFO, at the end of the day the Commission
14 takes its recommendations on what we ought to do for policies and what we ought
15 to do for priorities from the EDO. I wonder whether the format of the Program
16 Review Committee equates to what the Commission's expectation is.

17 I don't think there's necessarily any question coming out of this either. It
18 does seem to me that we have some antiquated Management Directives relative
19 to the work that these folks ought to be doing that may not at all equate to what is
20 actually going on.

21 I think the Commission needs to take a fresh look. I think the CR certainly
22 underscored the reason why we need to do that. On the issues of the CR, I agree

1 with Pete. I think we do have to plan on CR's.

2 We've had a number of them over the years that I've been on the
3 Commission. That's just the way it is. Three of the four was worked up on Capitol
4 Hill and we're used to the CR's. I think this was a unique year.

5 Hopefully, Congress will not get itself into the "wrap around the axle" that
6 they had this year, but it does happen on occasion. I think that again goes to the
7 issue of what is the strategy we're going to use for planning.

8 I don't think we need to spend the resources to put together an expectation
9 for a full year CR every year, because we're not going to have a full year CR every
10 year.

11 On the other hand, we ought to have the procedures in place so that if we
12 are confronted with a full year CR, we don't have to go through what we went
13 through this year. I don't think that's what the CFO's office wants and it's clearly
14 it's not what we want on this side of the table either.

15 I think coming out of this meeting, I think there's some things that the
16 Commission really needs to think about in terms of instructions to give to our staff
17 going forward as we plan through some of these things and I think we need to look
18 at some of these things a fresh.

19 On the matter of alignment of our computer structures, I won't quibble with
20 the strategy that the Office of the CFO has come up with to try and move more of
21 this activity externally. That seems to make sense given what has happened in
22 the past.

1 I am particularly curious about where we're going with e-Travel. We got an
2 exception relative to our ability for our workforce to go out and get hotels, not
3 necessarily through the typical way GSA wants us to do it. What I am curious
4 about is how this is going to impact what we do. It strikes me that this is an
5 agency that does a fair amount of traveling and the folks here know how to do it.

6 I think we've been financially responsible overall in accomplishing that. I
7 think the CFO can certainly take a lot of credit for guiding us through that. I worry
8 that in an effort to sort of meet this government-wide initiative we may be putting
9 ourselves at some disadvantage.

10 I'm wondering if you can make me feel better about whether e-Travel is
11 really in our best interest or whether we may have more problems down the road.

12 MR. PULLIAM: I would say I want to make you feel better. The main
13 thing with e-Travel is it's an electronic system. It allows a person to go on just like
14 if you were going on to Travelocity or whatever, to make your own reservations, to
15 have your own airline ticket, your own rental car. It allows your boss to approve it
16 online.

17 It speeds up the access to move toward the authority, the authorizations
18 within headquarters and also on the back end as people are paying their bills, it
19 allows them to pay their bills or to get their bills paid quicker.

20 We'll be able to review it online and to go out and send the payment out
21 quicker. I think that is a change management. I think that a lot of our folks want to
22 have it. There's a lot of folks that are the younger generation, they're saying, "Yes,

1 let's do this."

2 There's a lot of folks that have never done this. It's a matter of how we're
3 going to send it out, how we're going to communicate it to our employees to make
4 sure that they understand what they're getting with this process. I think overall is
5 going to be a plus for the agency in speed and timeliness and accuracy of the
6 payments.

7 MR. RABIDEAU: It's also going to eliminate a lot of paper that the
8 agency currently has with respect to travel authorizations and travel vouchers.
9 There's still some uncertainty to it, just as you point out. That's one of the reasons
10 why we've decided to run a six month pilot with 200 travelers across the agency.

11 All of the principal offices that do travel were interested in participating in
12 this pilot. We're going to run that, see what it does and see if there are any major
13 problems that come out of it.

14 CHAIRMAN KLEIN: One thing that I would just comment on. I think
15 everyone agrees on the goals. Watch the implementation because at DOD they
16 had DTS, Defense Travel System, and that was a nightmare. You talked to the
17 people that had to implement it. The goals were good but the implementation was
18 very, very difficult.

19 MR. PULLIAM: One of the things that we had always said is we
20 weren't going to implement it until it was right and that's why we're one of the last
21 ones to move forward with it. DOI has been through this process with other
22 agencies and we're going to be working with them in our implementation. But if it's

1 not right, we will not implement it.

2 COMMISSIONER MERRIFIELD: Are you planning - when you are
3 evaluating that pilot with the 200 individuals, is there going to be an intermediate
4 step where you're going to be briefing and/or providing a paper to the Commission
5 to get a final blessing and move it to the final implementation?

6 MR. FUNCHES: We can do that.

7 COMMISSIONER MERRIFIELD: I may not be here at that point, but
8 if I were I would want to have that information. What may be efficient and effective
9 at the CFO's office may or may not be efficient and effective for the rest of the
10 folks who actually have to travel. On behalf of the many people in the other offices
11 who travel, this is one I think we really need to keep a close eye on.

12 MR. FUNCHES: As Pete mentioned, we are bringing them in and
13 running tests with the region's, headquarters, and everybody else who is part of
14 the pilot and get that feedback. With that feedback, as the Chairman said
15 implement it differently and build some other things, obviously we would do that. If
16 the Commission wanted to know what the results of the pilot was, we'll be more
17 than glad to communicate that to the Commission.

18 COMMISSIONER MERRIFIELD: The purpose of the program is to
19 make it easier for our people to do the job they really need to do, which is getting
20 out and inspecting and carrying on our functions. That is ultimately the bottom line
21 evaluation. I think the Commission needs to be involved in understanding that.
22 Thank you, Mr. Chairman.

1 CHAIRMAN KLEIN: Commissioner Lyons?

2 COMMISSIONER LYONS: Thank you, Mr. Chairman. In my opening
3 comments I passed out a number of kudos, but one I forgot to mention was the
4 Information Digests, which I'm always very, very impressed with. Each year I have
5 found it to be very, very useful, very professionally done and I think it's a great way
6 of representing our agency to the outside world. So, my compliments on that.

7 Since I'm bringing up the rear on questions today, there's been a number of
8 non questions and comments from my colleagues, all which I agree with. As well
9 as some very good questions, all of which I've found very interesting.

10 By way of just a few questions, this first one may go to Pete. On Slide 9,
11 you reference some of the systems as being in-house and mention that they were
12 derived from NIH; then the shared service provider from DOI, from Interior.

13 I'm just curious what distinction is being made between the NIH and the
14 DOI here? Is this the extent of involvement of the two agencies?

15 MR. RABIDEAU: In the case of NIH, we use their systems from a
16 time sharing standpoint that's running software owned and operated by the NRC.
17 In the case of a shared service provider, they are providing the computing
18 environment, they're providing the software, they're maintaining the software, and
19 what we have is simply our data.

20 COMMISSIONER LYONS: In those two different situations then, how
21 do we handle FISMA requirements or who even handles them? I'm not sure I
22 understand who's doing the FISMA accreditation for these two systems. Are we

1 accrediting and they're accrediting? Or do we rely on their accreditation? Do we
2 agree with someone else's accreditation? I guess several things I'm just not sure
3 of here.

4 MR. RABIDEAU: In the case of the shared service provider with
5 respect to the Department of Interior National Business Center, since they are also
6 a Federal agency they need to meet the requirements of FISMA.

7 They have an authority to operate those systems that's issued by whoever
8 in their IT organization issues it. We're also required to take certain actions with
9 respect to having an authority to operate those systems for the NRC.

10 In the case of Federal Personnel and Payroll System and Core Accounting
11 System, we have an authority to operate from the Director of OIS on both of those
12 systems.

13 With respect to anything that's in green on Slide 9, all of that work
14 associated with the authority to operate those systems is something the NRC
15 would have to do.

16 COMMISSIONER LYONS: I guess what I'm leading up to here is
17 when we've had briefings on FISMA in the past there seems to be at least the hint
18 that there are different standards of accountability and accreditation among
19 different agencies. I'm just curious if we have applied our standards to the DOI
20 based codes and if we get the same answer as they do?

21 MR. RABIDEAU: The short answer to that is "no, we have not".
22 They have an authority to operate based upon whatever standards that DOI has in

1 place for certifying and accrediting systems. Now, they also do other evaluations
2 of financial systems that are done by outside auditors, both with respect to the
3 Federal Personnel and Payroll System and the Core Accounting System. Those
4 have been done for those two systems by the Department of Interior.

5 MR. FUNCHES: They do share with us and OIS all of that
6 documentation on which they made that decision.

7 COMMISSIONER LYONS: That was going to be my last question.

8 MR. FUNCHES: We're getting that documentation from DOI. They
9 share that with us to take a look, to do our due diligence and as Pete mentioned,
10 they make the finding within their agency because they support another agency for
11 the system and they come to a conclusion of the ATO.

12 They give us the documentation. We look at our interfaces and other
13 aspects of it and, as Pete mentioned, we then come to an agreement, to a
14 conclusion with OIS, that for these two systems, they have a ATO. We have
15 access to the documentation of what they do. They don't like to let it go because
16 of the security reasons. But we have access to it.

17 MS. GIVVINES: In addition to receiving their documentation, we also
18 did have to prepare a number of documents in-house ourselves. We did rely on
19 theirs as well as we had a number of things we had to do and it was all approved
20 by the SITSO. Not as much as a normal system, though.

21 COMMISSIONER LYONS: Thank you. I was hoping the answer was
22 going to be that DOI was forthcoming in sharing their information so that we could

1 make our own assessment. I gathered in some of the previous briefings, perhaps
2 from OIS, that some other agencies have been reluctant to share data.

3 MS. GIVVINES: The Department of Treasury was reluctant. It took
4 us awhile to get that from them.

5 COMMISSIONER LYONS: Maybe I have one other question for Tim
6 which follows up on what Jeff was asking on the e-Travel system. I've made
7 comments to Jesse in some of our periodic meetings and I think I've made
8 comments here that I find it amazing how much some of our airfares are compared
9 to what any of us can get going online and getting in non-refundable tickets.

10 Personally, I think it makes great sense for the agency to use non-
11 refundable tickets and to reimburse employees where it is the agency's
12 responsibility for a change in their travel plans.

13 I was just curious if you could comment Tim or Jesse perhaps, on the
14 extent to which we are making use of non-refundable tickets, and I gather that has
15 been increasing. And then I was hoping that under the e-Travel system, we would
16 certainly maintain that flexibility to use non-refundable tickets and hopefully even
17 expand it. To me they just make great sense.

18 MR. PULLIAM: There is flexibility in the system to use
19 non-refundable tickets. That will continue. I'll have to get back to you with the
20 number that were using for non-refundable at this time.

21 COMMISSIONER LYONS: Are we reimbursing employees if the
22 agency forces a change in plans?

1 MR. PULLIAM: Yes.

2 MR. FUNCHES: How long has that policy been in place?

3 MR. PULLIAM: About a year-and-a-half.

4 MR. FUNCHES: We can provide you the statistics on how many
5 have been used. You're right, if there are situations where you got reasonable
6 assurance that the plane is there and obviously something can come up, there's
7 some savings to be had and I think that's one reason we went to that approach.

8 MR. PULLIAM: We haven't had a lot of change from what I
9 understand. People coming in are pretty diligent in making sure they are not going
10 to have a change in travel plans. But if there is, we do pay for it.

11 COMMISSIONER LYONS: There certainly are different kinds of
12 travel. There's a fair bit of it that can be planned with accuracy in advance. I'm
13 just hoping that we take advantage of the lowest cost tickets for whatever situation
14 that we have. But, thank you.

15 CHAIRMAN KLEIN: Thanks. Just a general question. I think our
16 CFO system should be second to none. I think that should be our goal. My
17 question is, "Who do you benchmark against in Federal agencies and the private
18 sector for which we should strive for excellence?"

19 MR. FUNCHES: I think there's two things. OMB, the management
20 side of OMB, sets certain goals and standards for financial management and
21 timeliness. Typically those benchmarks -

22 CHAIRMAN KLEIN: This is the same agency that we're dealing with

1 on space?

2 MR. FUNCHES: The other side of the House. It's a different side; it's
3 the management side as opposed to the budget side. What they have typically
4 done is start to benchmark against the private sector.

5 For example, when we first started producing financial statements for the
6 government the standard was get it done in February time frame.

7 They moved that standard back to November 15, which is within the same
8 range that private firms have to produce their standards and their annual report.

9 So, I think internally and at the CFO Council, for example, we also have
10 CFO's from private firms come in and talk about some of the issues they are
11 dealing with and how they're dealing with them.

12 I think through the CFO Council the benchmarks and the metrics that we're
13 trying to develop are used, really try to benchmark against private to some degree.
14 I think when we get to the system, what the concept that the government has been
15 trying to use, the term e-Government.

16 The concept there is to try to do the best, not have NRC develop its own
17 Financial Accounting System, have GSA do the same thing, have DOI do the
18 same thing, but have one for the government, or a couple for the government that
19 you can use. That's the concept they're using.

20 Right now, they have approved two financial accounting systems that can
21 be used and both of them; actually, there's three that are being provided through
22 cross services. The idea is to prove it once and make sure you get all of the fixes

1 there. Try to operate the government like a large corporation where we become a
2 subsidiary of when it comes to financial statement.

3 I think the benchmark indirectly is against the private sector and we try to
4 get information through the CFO Council and also in other discussions in relation
5 to the private sector. Obviously, there's some differences that you have to worry
6 about.

7 CHAIRMAN KLEIN: Thanks. Commissioner McGaffigan?

8 COMMISSIONER McGAFFIGAN: Thank you, Mr. Chairman. I
9 endorse Commissioner Merrifield's notion that we might want to take a look at that
10 1989 Management Directive; the CFO Acts and other things that have passed
11 since then. It might be also a way to think a little bit about the problems that we
12 have encountered with the PRC process over the years.

13 I should also make clear that my comments at the outset were not just
14 directed at the CFO. The three Deputy EDO's sitting over there are equally
15 responsible for the document we got in late December. I think Mr. Rabideau
16 chairs the group, but there's a lot of other people in the group and they collectively
17 gave us a pretty bad product. It's a shared responsibility.

18 I do think there's an opportunity to look at our process, look at why we
19 consistently neglected infrastructure and look at why bad news doesn't always
20 come forward, at least to the Commission. It may come forward to you guys. You
21 may be making conscious decisions. The Emergency Response Data System
22 really isn't needed, we can wait till the 21st, 22nd century to fix it, but we weren't

1 aware that those decisions were being made.

2 I'm not sure that the PRC was aware that those decisions were being made
3 back in 2000, 2001, 2002, 2003. We had a lot to say grace over. It was post-TMI,
4 excuse me, post 9/11, but I think fixing that Management Directive would be a
5 good thing. I think I'll leave it at that.

6 CHAIRMAN KLEIN: Commissioner Merrifield?

7 COMMISSIONER MERRIFIELD: Mr. Chairman, the only additional
8 comment I would make sort of layering on what Ed just said. There's a constant
9 struggle we have and every Commission has to deal with it. I think Ed and I had a
10 tendency of getting pretty far down in the details when it came to budget issues
11 over the years that we've been here.

12 Other Commissioners have different views in terms of what level of depth
13 they want to get into some of those details. Like Ed, I want to know about things
14 about ERDS. I think there's been in all the time that I've been here, and all the
15 budgets that we've gone over, there's been a struggle to try to get information
16 about what's going on.

17 I don't accuse anybody of hiding the ball, but I think there has been at least
18 for me, a disjunct between what's being provided for information on making
19 budgetary decisions and the desire of the level of depth and detail that I would like
20 to have.

21 I think overall, if we were taking a look at budget formulation, and I
22 appreciate Ed jumping on board on that. I think if we're going to take a look at

1 that, I think the Commission and since I'm going to be leaving and Ed's going to be
2 moving on, needs to think about what level of depth you really want because the
3 Commission can make a lot of changes in this agency in a lot of areas that don't
4 necessarily fall at the million dollar level or the hundred thousand dollar level.

5 It can sometimes get below that and I don't know how much ERDS was, but
6 I bet there's some things that probably was above that \$100,000, certainly was
7 above that \$100,000 level.

8 COMMISSIONER McGAFFIGAN: Probably early on it wasn't.
9 Probably it was a very small amount of money that was needed for planning and
10 getting on with things and figuring out what to do. I think when it hits a threshold -
11 it apparently didn't threshold until FY-2007.

12 COMMISSIONER MERRIFIELD: The point being, I think that's one
13 of the things the Commission has got to think about. What kind of information
14 does it need to make budgetary decisions in the summer time frame, and I think
15 that's something worth an assessment.

16 MR. FUNCHES: I think Commissioner Merrifield and Commissioner
17 McGaffigan will say the amount of information that has come forward has
18 increased. As Les mentioned, we put in place the reallocation of dollars and FTE
19 to a certain level to inform the Commission and I think that's been working well.

20 We did an assessment. We sent a memo up to the Commission on that.
21 We obviously were prepared to give the Commission whatever information that is
22 necessary to make the decision.

1 I do think over time we have increased the amount of information that has
2 been coming forward and hopefully the quality of that information in support of
3 that. In fact, we put in something that tries to explain to you what is not getting
4 done as well as what is getting done; some of the documentation that we do send
5 forward.

6 Now, we might miss one here and there. There's no doubt that there might
7 be some not highlighted, but I do believe that in the past that we have increased,
8 we have added some stuff.

9 We have as a result of the OSRE situation, we were asked to include some
10 things that had not been done. I think those things are included, maybe not to the
11 total degree that is needed but we are willing to adjust that, also.

12 COMMISSIONER MERRIFIELD: Mr. Chairman, not to belabor this. I
13 certainly want to credit, we do get more information than before, so I will tip my
14 hat, that is the case. It will doesn't meet my personal thresholds of what I would
15 like to have. It also strikes me, now that you mentioned it, we're celebrating the
16 fact that we've got a CR and Mr. Chairman, I congratulate you. You really did
17 yeoman's work to help us get there.

18 It strikes me that now I guess the CFO's office has to give us a mid-year
19 review as to how we're going to reallocate some of this money since we have
20 some new money available to us. I guess that's going to be something in another
21 month or two, perhaps?

22 MR. FUNCHES: The budget that we have submitted to the

1 Commission for '08 and the '07 column, we had talked about how we would
2 allocate the \$800 million that we got for '07. We had indicated that that was how
3 we plan to go forward when we did '08.

4 As you all know, we do any reallocation for the prior year as part of the
5 budget year coming forward. I think I would recommend that if the program is
6 moving according to that allocation that came forward, except for any substantive
7 deviation that we move forward with that allocation.

8 The allocation was based - the original one that the Commission approved
9 as part of the '08 budget in the summer - was based on that concept. The
10 decision that the Commission was making that Commissioner McGaffigan
11 referenced was different than what the \$800,000,000 -

12 COMMISSIONER McGAFFIGAN: There were things in the list that
13 you gave us in late December that were fact of life changes that probably should
14 be done in any case. You're going to scarf up that money as some point. There
15 may be some new opportunities that the offices have that we need to consider.

16 If you look at MOX, it isn't clear to me, given where DOE is for example,
17 that they want us to be working on their license application or they just as soon we
18 back off. Somebody better check with them. If they want us to continue to spend
19 money and bill them, I think that's probably allowed. They can use their carryover
20 funds. But their new funds are tied up.

21 They can't construct until August under the CR and they can't spend any of
22 their money until August under the CR. The House authorization bill had similar

1 language, so there's fact of life things that you guys presumably want to scarf up
2 at this point. Then there are probably some priorities that people have that need
3 to be addressed.

4 COMMISSIONER MERRIFIELD: Mr. Chairman, I couldn't agree
5 more. I'm glad I asked the question. The fact of the matter is the Commission
6 works very hard in the summertime to go through the budgetary documents. We
7 make decisions down to the five-figure level.

8 It has always troubled me sometimes when we get into these mid-year
9 situations where the notion that you guys may have I don't know what amount of
10 money it's going to be, but it's millions of dollars you may end up reallocating; and
11 the notion that we're not going to have any input on that is unacceptable to me.

12 So I guess this will be further dialogue, but if there's reprogramming in my
13 view anything over \$100,000, I think the Commission ought to know about it. It's
14 our responsibility to oversee what you all are doing and the notion that we're
15 somehow not going to have the say there, to me does not fulfill our obligation to
16 Congress.

17 MR. FUNCHES: I didn't mean to say that. What I was trying to say is
18 if we have a baseline that we were going to start from for looking at the \$100,000
19 and the requirement that we have from the Commission to report any reallocations
20 up to \$100,000 dollars, including their fees also.

21 What I was trying to say is if we have a base that we have created and that
22 base was the '07 column that we had created at the time we put the budget

1 together. It's similar to what we have always done. Yes, if we're doing
2 reallocations, we would adhere to the Commission memo on reallocation, but we
3 would use as a starting base the '07 allocation that the Commission approved as
4 part of the 2008 budget process.

5 That's all I was saying, as opposed to we were going to start at a lower level
6 budget and try to build up another budget. We use that as our base to do
7 reallocation from, if you will. We will clearly follow the direction from the
8 Commission on the reallocation of \$100,000, etc. etc. etc.

9 CHAIRMAN KLEIN: Commissioner Lyons?

10 COMMISSIONER LYONS: I appreciate the discussion we've just
11 had, if you will establishing the balance of the information flow to the Commission,
12 and I'm sure that's a real challenge, Jesse and Pete, at your level and I think it
13 should be a real challenge for us, too.

14 On the one hand, I feel very strongly that the Commission should not get
15 involved too much in detail and be far more involved in policy, but I also appreciate
16 that there are differences of opinion about what is detail and what isn't detail.

17 The ERDS system doesn't strike me as a detail. I would prefer to stay out
18 of \$100K decisions and anticipate that the staff knows far better than I do, but if we
19 say five figures in general, five figures can be much larger than \$100K perhaps.
20 Actually, that's not true. Let me strike that.

21 At least \$100K strikes me as too low a level for the Commission to have
22 extensive involvement. I do very much share my colleague's interests in having

1 knowledge on emerging issues and having the knowledge and the information at
2 the time that the issue is still emerging.

3 I've gathered that the ERDS system is an example of one that went well
4 past the emerging stage before we put the emphasis on fixing it.

5 In any case, I appreciate the discussion. I appreciate the challenge in
6 balancing the information flow to the Commission and at least from my
7 perspective, I'd like to keep the Commission at a pretty high policy level, but be
8 sure that we're aware of emerging issues. With that, I'll stop. Thank you.

9 CHAIRMAN KLEIN: Thank you for the presentation today. It's very
10 helpful. As you can tell, we have a lot of interest in financial matters before the
11 Commission. As I said earlier, I think the glass is both half full and half empty. I
12 think you had some really good successes through the last year; a lot of
13 recognitions of timeliness.

14 There are things we need to work on. I'm concerned about the time lines
15 that Pete said in terms of getting some of these new software systems. I'd like for
16 you to take a hard look and make sure that there's not some efficiencies that can
17 be gained. Those systems that were not supported any more and the complicated
18 time and cost system.

19 I'd like to see those increase to the extent that they can. The good news is
20 now we have a budget we can deal with, we can look at those. Thank you for your
21 presentation and we'll strive for excellence. Thank you.