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POLICY ISSUE

(NEGATIVE CONSENT)

March 8, 1994

SECY-94-058

FOR: The Commissioners

FROM: James M. Taylor
Executive Director for Operations

SUBJECT: FINANCIAL MANAGEMENT USING COST CENTER CONCEPTS

PURPOSE:

To inform the Commission of the staff's plans to establish a cost center structure for use in planning, budgeting, and license fees and to describe the method for assigning and allocating budgeted costs.

BACKGROUND:

As a result of the consideration to close the NRC's Uranium Recovery Field Office, the Commission raised questions about how the agency currently attributes budgeted costs associated with programs, overhead, and general and administrative to license fees. The Commission indicated that the current allocation and assignment of costs may not provide clear information about specific costs or cost savings and their relationship to fees paid by licensees. In a May 4, 1993, Staff Requirements Memorandum the Commission requested that the staff outline a plan to evaluate and recommend allocation approaches for budgeted costs that consider cost center concepts.

In my July 29, 1993, memorandum (Attachment 1), I provided the Commission with a plan to examine how cost center concepts could be used to improve NRC financial management. The memorandum stated that the primary focus of the plan is to define and implement the basic elements of cost centers. This will include: (1) defining the cost centers, including the programs and other components; (2) determining how to allocate certain NRC costs; and (3) ensuring that we consistently capture NRC personnel and contractual costs to support the cost center concept.

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DISCUSSION:

The NRC budgets and expends various costs in carrying out its mission. One means to gain better visibility into these costs and provide improved information on which to make decisions is to use cost centers concepts to: (1) improve the integration of budget and fee decisions; (2) more closely align budget and costs with clients and services; and (3) improve financial accountability of program managers. These benefits are achieved primarily by identifying and aligning all NRC costs with the major "business" components (cost centers) that incur costs in direct support of NRC mission.

In developing the basic infrastructure for cost centers, the staff utilized the following principles:

- Produce the most accurate information practical while avoiding investing additional time and record keeping when the added precision does not result in a corresponding increase in the value of the information.
- Use existing NRC systems. The plan should be able to be implemented using existing agency systems; the Federal Financial System (FFS), the Regulatory Information Tracking System (RITS) or existing office staff tracking system, and the Payroll System.

As indicated in my July 29, 1993, memorandum, implementing the basic cost center infrastructure would be accomplished by addressing the following questions:

1. Currently, three cost centers (reactors, materials and high level waste) have been identified. Should additional cost centers be considered?
2. What client groups within cost centers are needed to better align fixed costs?
3. What additional costs (program, overhead, and support) should be assigned directly to each [business] cost center and client group?¹
4. What expenses should be allocated to the [business] cost centers and how should these expenses be allocated?¹
5. What changes are necessary in the use of NRC existing systems to ensure that costs are traced to the cost center? What additional organizations should report to RITS?

¹As used in this paper, the term "assigned" means to directly identify costs based on the work to be performed and the term "allocate" means to distribute costs based on a predetermined formula.

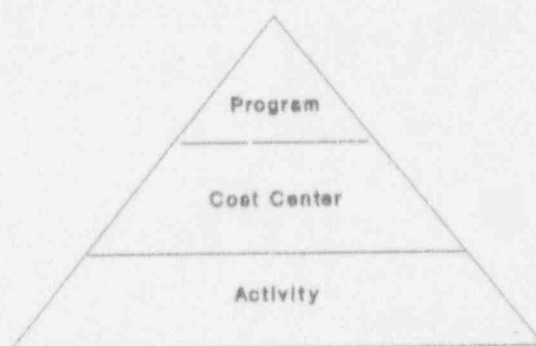
6. At what level should FTE hourly rates be established? (for example, established organizationally or by cost centers)

The following outlines the implementation plan by answering these questions, applying the above guidelines and, where appropriate, describing alternatives which were considered.

1. **Currently, three cost centers (reactors, materials and high level waste) have been identified. Should additional cost centers be considered?**
2. **What client groups within cost centers are needed to better align fixed costs?**

In determining the proposed structure, consideration was given to the various uses of the information that will be contained in the cost center. The goal was to develop one structure which will respond to a variety of information needs. The top level of the structure should summarize data which can be used to explain agency programs to external audiences and for high level management discussions. The next level of the structure should allow for homogeneous activities and their costs (i.e., business cost centers and support cost centers) to be grouped and identified in relation to the client or client groups which receive value or precipitate the cost. Finally, a third level of the structure should allow for collection of detailed information for each of the activities to be performed in each cost center.

Based upon these requirements, the staff concluded that the three cost centers (reactors, materials, and high-level waste) identified in its July 29, 1993, Plan for Applying Cost Center Concepts to NRC Financial Management were too heterogeneous and that smaller, more homogeneous centers were needed. The proposed structure has been defined by the NRC activity being conducted not by the individual organizations that make up NRC. The proposed cost center structure is a three-tiered hierarchical structure as shown below.



The proposal envisions three major NRC programs, eight business cost centers, and five support cost centers as shown in Table 1. A business cost center encompasses work performed in direct response to the mission of the agency. For the NRC, it is where work is

performed which produces direct or indirect benefits to a licensee. A support cost center encompasses work performed to maintain the administrative infrastructure for business cost centers (e.g., rent, training) and work performed which does not result in direct or indirect benefits to NRC licensees (e.g., international activities, grants). The specific business activities and support activities which make up these cost centers and the NRC organizations that carry them out are shown in Attachment 2.

Table 1

Proposed Programs and Cost Centers

<u>Program</u>	<u>Business Cost Centers</u>
Reactor Program	Reactor Regulation Standard Reactor Designs Test and Research Reactors
Nuclear Materials and Nuclear Waste Program	Fuel Facilities Materials Users Low-Level Waste and Decommissioning Other Nuclear Materials Activities High-Level Waste
Management and Support Program	<u>Support Cost Centers</u> Policy and Direction Resource and Administration Training Special Technical Programs Inspector General

The proposed cost center structure (shown Table 1 and detailed in Attachment 2 which shows the applicable activities) will be used for planning, budgeting, analysis, and license fees. Resources for the business and support cost centers will be budgeted at or below the activity level of detail. For license fee purposes, budgeted resources: (1) for business cost centers will be assigned, under 10 CFR Parts 170 and 171 to licensees as described in response to question 3; and (2) for support cost centers will be allocated back to business cost centers as described in response to question 4.

3. What additional costs (program, overhead, and support) should be assigned directly to each [business] cost center and cost group?

In implementing cost center concepts, the purpose is to directly assign all budgeted resources for each business cost center to that center for analysis and license fee purposes to the extent they can be separately distinguished. This will include all salaries and benefits, contract support, and travel that are required for each business activity. Currently only salaries and benefits for direct technical staff and contract support funds are directly assigned for these purposes. Additionally, all resources for ACRS, ACNW, OI, and OE and all program direct resources for OGC will be assigned to business activities. Previously these resources were not assigned but allocated on a prorata basis. As shown in Table 2, these changes will increase the costs directly assigned from approximately 54 percent of NRC's budget to approximately 67 percent and will present a clearer picture of the resources directly tied to the agency's business activities.

In addition to directly assigning mission direct resources to business activities for the above additional offices, other support activities in staff organizations were considered for direct assignment to business cost centers (e.g., contracting in ADM). The proposal puts in place an infrastructure and process which will allow for consideration of assignment of the costs for support functions in subsequent years. Since the changes already proposed represent a significant first step in cost assignment, the staff would like to take this first step before further expanding cost assignment.

4. What expenses should be allocated to the [business] cost centers and how should these expenses be allocated?

In doing analysis and determining licensee fees, the resources budgeted for the support cost centers must be allocated to business cost centers. There are two types of allocations. First the administrative support costs² that have a causal relationship with the cost of staff will be allocated based on budgeted salaries and benefits to create a "personnel support cost". The personnel support cost will be used for license fee purposes and for analysis (e.g., when making internal NRC decisions such as URFO). The second allocation will be the allocation of the remaining (i.e., corporate general and administrative (G&A) expenses) support cost center resources for license fee purposes. This is necessary because NRC must recover 100 percent of its budget through fees. These resources will be allocated based on "total personnel costs".³ We recognize there are exceptions to this general rule as determined by Commission policy on license fees. Examples currently include international activities and exemption for non-profit educational institutions.

In determining the basis for allocation, the staff considered three options -- continuing the current allocation by FTE, allocating based on total dollars (i.e., salaries and benefits,

²Includes all contract support for rental of space, security, supplies, materials, equipment, telecommunications, office automation and network development, and training.

³Total personnel costs is the sum of salaries and benefits plus personnel support costs.

contract support, and travel) budgeted by business cost center, and allocating based on "total personnel cost". Continuing the current FTE allocation method fails to recognize the differing demands on support services resulting from differing grade mix within mission-direct and support organizations. Allocating based on total dollars budgeted was also rejected primarily because at NRC, the functions which make up the support cost centers are generally fixed costs for the agency and its organization (e.g., Office of Commissioners; EDO), or more a function of the number of staff in the agency. As such, an allocation based on total costs may skew the distribution of costs because of significant contract support work in some areas (e.g., research).

The allocation based on total personnel costs, coupled with the development of salary and benefit costs by organization (see response to question 6), will provide more accurate data on cost demands by business cost centers.

For comparison, the example shown in Table 2 on the next page, assigns and allocates the FY 1993 budget using the concepts discussed in this paper and the current license fee methods. The assigned resources increase 13 percent using the Cost Center Concept thereby providing better assigned direct costs for program evaluation and budgeting purposes. However, the comparison does not result in a significant change in total fees for reactors or for materials and waste.

Table 2

Assignment and Allocation of Costs¹
(Dollars in Millions)

<u>Using Cost Centers Concepts</u>				
<u>Assigned</u>				
	<u>Direct</u>	<u>Surcharge</u>	<u>Allocated</u>	<u>Total</u>
Reactors	\$284.7	\$20.4	\$143.8	\$448.9
Materials and Waste	38.9	3.1	28.0	70.0
TOTAL	\$323.6	\$23.5	\$171.8	\$518.9
Percent	62%	5%	33%	
<u>Using Current License Fee Methods</u>				
<u>Assigned</u>				
	<u>Direct</u>	<u>Surcharge</u>	<u>Allocated</u>	<u>Total</u>
Reactors	\$225.5	\$18.6	\$205.1	\$449.2
Materials and Waste	33.9	2.5	33.3	69.7
TOTAL	\$259.4	\$21.1	\$238.4	\$518.9
Percent	50%	4%	46%	

¹For license fee purposes.

²Cost factor for allocating personnel support cost is 23 percent of total salary and benefits and the cost factor for allocating G&A is 63 percent of total Reactor and Materials and Waste personnel costs.

5. **What changes are necessary in the use of NRC existing systems to ensure that costs are traced to the cost center? What additional organizations should report to RITS?**

The NRC's existing systems are sufficient to support the above structure and reporting requirements. The FFS, the agency's new accounting system, can be used to track contract and travel cost to business and support centers. RITS can capture staff hours by individual and by each of the three levels described in response to questions 1 and 2 for NRR, NMSS, AEOD, RES, SP, OC, RI, RII, RIII, RIV, and RV. The existing Payroll System captures staff hours and personnel costs by individual and by organization. To implement the proposed cost center structure, the following offices are planning to go on RITS or modify existing office systems, ACRS, ACNW, OI, OE, and OGC.

6. **At what level should FTE hourly rates be established? (for example, established organizationally or by cost centers)**

Salary and benefit hourly rates will be established by office and by groups of offices within the NRC. Offices will be grouped and an average hourly rate will be established where it is determined that an office hourly rate will not produce more significant or material information for decision making or fee development (i.e., offices comprising the Policy and Direction Support Center as detailed in Attachment 2).

SUMMARY:

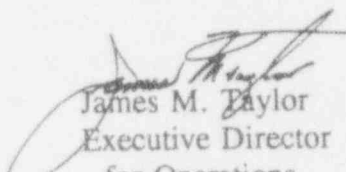
The proposed structure:

- will have three major NRC programs, eight business cost centers, and five support cost centers. Each cost center will be further divided into activities.
- increases the costs directly assigned to business cost centers from approximately 56 percent to approximately 68 percent of NRC's budget.
- allocates support center costs based on: (1) salaries and benefits for those support activities that have a causal relationship with the cost of staff; and (2) "total personnel cost" for remaining support center costs (e.g., G&A expenses).
- uses existing systems but provides for more discipline and control over implementation.
- will establish hourly rates that discriminate between major programs.

This cost center approach for the NRC, in comparison with the current structure and resource distribution, contributes to two significant improvements. The first is that more of the costs that have historically been spread will be directly assigned. The second improvement is that resources which are not assignable to a specific client group will be clearly identified as overhead. The methodology for allocation of that overhead will also be clearly defined.

RECOMMENDATION:

Absent objection from the Commission, the staff plans to use the cost center structure, as detailed in Attachment 2, for the FY 1996 planning and budgeting process beginning with strategic planning and the Internal Program/Budget Review and this structure and methodology beginning in FY 1995 for budget execution and for determining license fees.


James M. Taylor
Executive Director
for Operations

Enclosures:
As stated

SECY NOTE: In the absence of instructions to the contrary, SECY will notify the staff on Wednesday, March 23, 1994, that the Commission, by negative consent, assents to the action proposed in this paper.

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July 29, 1993

MEMORANDUM FOR: The Chairman
Commissioner Rogers
Commissioner Remick
Commissioner de Planque

FROM: James M. Taylor
Executive Director
for Operations

SUBJECT: FINANCIAL MANAGEMENT USING COST CENTERS

In a May 4, 1993 Staff Requirement Memorandum, the Commission directed the staff to outline a plan for evaluating and recommending the use of cost center concepts for fee allocation. In response to the Commission request, enclosed is the staff's plan for evaluating and implementing cost center concepts.

As noted in the enclosed plan, we will examine how cost center concepts can be use to improve NRC financial management. The primary focus of the plan is to define and implement the basic elements of cost centers. This will include: (1) defining the cost centers, including the programs and other components; (2) determining how to allocate certain NRC costs; and (3) ensuring that we consistently capture NRC personnel, and contractual costs to support the cost center concept. I expect to report to the Commission on the results of this effort in November 1993.

Original signed by
James M. Taylor
James M. Taylor
Executive Director
for Operations

Attachment:
As stated

cc: OGC
SECY

PLAN FOR APPLYING COST CENTER
CONCEPTS TO NRC FINANCIAL MANAGEMENT

CONCEPTUAL FRAMEWORK FOR
COST CENTERS AT NRC

The NRC budgets and expends various costs in carrying out its mission. One means to gain better visibility into these costs and provide improved information on which to make decisions is to use financial management concepts associated with cost centers. Specifically, the benefits resulting from using cost centers are: (1) more closely aligning budget and costs with clients and services; (2) the provision of a framework for enhanced financial accountability; and (3) improvement to the integration of budget and fee decisions. These benefits are achieved primarily by identifying and aligning all NRC costs with the major "business" components (cost centers), that incur costs in direct support of NRC mission.

To implement cost center concepts, all NRC costs must be either assigned directly or allocated to the cost centers. The costs for all activities directly associated with a particular center would be assigned to that center. This includes direct program (e.g. licensing, inspection, research, and rulemaking as well as overhead), costs that are traceable to the center's activities. Thus, the NRC would need to trace the cost to the center in developing the budget and in expending the budgeted resources. In addition to those costs that are assigned and traced directly to the cost centers, there are agency costs that cannot or should not be assigned directly. These cost must be allocated to the centers based on a consistently used allocation method. The allocated costs are those typically associated with agency-wide general and administrative (G&A) expenses (e.g. supplies, phones, and rent) and agency-level overhead (e.g. Commission, PA, OCA, etc.).

For NRC, costs are typically traceable to the various regulated uses of nuclear materials. Thus, the cost centers should be consistent with the various uses of nuclear materials (i.e. industries regulated by the NRC). Using the current budget and fee structures as a starting point, an example of three major cost centers would be: (1) reactors, (2) high-level waste, and (3) nuclear materials. Within each cost center additional subgroups may be necessary to gain additional visibility into NRC costs. For example, these client groups may include licensees covered by the same regulations or that share other common fixed costs. For example within a materials cost center, separate client groups could be established for medical, fuel facilities and uranium recovery. Within the reactor cost center client groups could be established for non-power reactors and advanced reactors, for example.

In addition to defining the cost center structure, the conceptual framework should provide for assigning costs to the specific services for which licensing and inspection fees are assessed. For example, it is necessary to assign costs for application approvals, inspections and other services for which fees are assessed directly to the applicant or licensee.

EXISTING SYSTEMS TO SUPPORT COST CENTERS

As indicated above, to implement cost centers, the NRC must be able to trace its various costs to the cost centers. Currently, there are three systems capable of supporting the cost center concept. These systems are the Federal Financial System (FFS), Regulatory Information Tracking System (RITS) and the Payroll system. FFS, the new accounting system, can be used to assign contract and travel cost to cost centers. RITS can capture staff hours sufficient to support cost center concepts, but the use of RITS is not mandatory or uniform in the NRC. Currently, only NRR, NMSS, AEOD and the regions report staff hours through RITS. Hourly rates for specific individuals are not included in the RITS system. The existing Payroll System captures staff hours and personnel costs by individual and organization.

PLAN FOR IMPLEMENTING COST CENTER CONCEPTS

To implement cost center concepts, the staff will focus first on determining and implementing the basic infrastructure for the cost centers. This will be accomplished by addressing the following questions:

- Currently, three cost centers (reactors, materials and HLW) have been identified. Should additional cost centers be considered?
- What clients groups within cost centers are needed to better align fixed discretionary costs?
- What additional costs (program, overhead and support) should be assigned directly to each cost centers and client groups?
- What expenses should be allocated to the cost centers and how should these expenses be allocated?

- What changes are necessary in the use of NRC existing systems to ensure that costs are traced to the cost centers? What additional organizations should report to RITS?
- At what level should FTE hourly rates be established? (for example, established organizationally or by cost centers)

Recommended answers to the above questions will be developed and any long term changes will be identified to more fully realize the financial management benefits of cost centers. Recommendations will be submitted to the Commission in late November 1993.

REACTOR PROGRAM

BUSINESS COST CENTERSBUSINESS ACTIVITIESORGANIZATION

Reactor Regulation

Reactor Inspection
 Reactor Oversight
 Reactor and Site Licensing
 Reactor Aging & Renewal
 Reactor Safety Assessment and
 Regulation Development
 Analysis and Evaluation of
 Operational Data
 Investigations, Enforcement, and
 Legal Advice
 Independent Review
 Management and Support

NRR, Regions
 NRR, Regions
 NRR, Regions
 NRR, RES

 RES

 AEOD

 OI, OE, OGC, Regions
 ASLBP, ACRS
 NRR, RES, Regions

Standard Reactor
Designs

Standard Reactor Licensing
 Standard Reactor Safety Assessment
 Legal Advice
 Independent Review
 Management and Support

NRR
 RES
 OGC
 ASLBP, ACRS
 NRR, RES

Test and Research
Reactors

Test and Research Reactors

NRR, Regions

NUCLEAR MATERIALS AND NUCLEAR WASTE PROGRAM

<u>BUSINESS COST CENTERS</u>	<u>BUSINESS ACTIVITIES</u>	<u>ORGANIZATION</u>
Fuel Facilities	Fuel Fabricators Oversight & Inspections	NMSS, Regions
	U.S.E.C. Oversight & Inspections	NMSS, RES, ADM, Regions
	Other Uranium Enrichment Oversight & Inspections Management and Support	NMSS, RES NMSS, RES, Regions
Materials Users	Transportation & Spent Fuel Storage Licensing & Inspection	NMSS, Regions
	Licensing & Inspecting Industrial Users of Nuclear Materials	NMSS, Regions
	Licensing & Inspecting Medical Users of Nuclear Materials	NMSS, Regions
	Nuclear Materials Research and Regulation Development	RES
	Management and Support	NMSS, Regions
Low-Level Waste & Decommissioning	Low-Level Waste Oversight & Inspections	NMSS, RES, ACNW
	Decommissioning	NMSS, RES, Regions
	Uranium Recovery	NMSS, Regions
	Management and Support	NMSS, RES, Regions
Other Nuclear Materials and Waste Activities	Analysis & Evaluation of Operational Data	AEOD
	Adjudicatory Reviews	ASLBP
	Investigation & Enforcement	OI, OE
	Legal Advice	OGC
	Event Evaluation	NMSS, Regions
High-Level Waste	High-Level Waste Licensing	NMSS
	High-Level Waste Research and Regulation Development	RES
	Other High-Level Waste Activities	ASLBP, ACNW, OGC, IRM

MANAGEMENT AND SUPPORT PROGRAM

<u>SUPPORT COST CENTERS</u>	<u>SUPPORT ACTIVITIES</u>	<u>ORGANIZATION</u>	
Policy and Direction	Commission	OCM	
	Commission Appellate Adjudication	OCAA	
	Congressional Affairs	OCA	
	General Counsel	OGC	
	Public Affairs	OPA	
	Secretariat	SECY	
	Executive Director for Operations	OEDO	
	Policy Planning	OPP	
	Resource and Administration	Controller	OC
		Administration	ADMIN, Regions
Information Resources Management		IRM, Regions	
Personnel		OP	
Small and Disadvantaged Business Utilization and Civil Rights		SBCR	
Training	Training	AEOD, OP	
Special Technical Programs	International Programs	IP, NMSS, RES, NRR, AEOD, OEDO, OGC	
	State Programs	SP, NMSS	
	DOE/DOD Projects	NRR	
	Grants	RES	
	SBIR	RES	
	NMMSS	NMSS	
Inspector General		OIG	