UNITED STATES OF AMERICA

NUCLEAR REGULATORY COMMISSION

OFFICE OF THE SECRETARY

***

BRIEFING ON

THE STATUS OF CFO PROGRAMS, PERFORMANCE, AND PLANS

***

PUBLIC MEETING

Nuclear Regulatory Commission
One White Flint North
Rockville, Maryland
Thursday, February 10, 2000

The Commission met in open session, pursuant to notice, at 9:30 a.m., Richard A. Meserve, Chairman, presiding.

COMMISSIONERS PRESENT:

RICHARD A. MESERVE, Chairman of the Commission
GRETA J. DICUS, Commissioner
NILS J. DIAZ, Commissioner
EDWARD McGAFFIGAN, JR., Commissioner
JEFFREY S. MERRIFIELD, Commissioner



STAFF AND PRESENTERS SEATED AT THE COMMISSION TABLE:

ANNETTE L. VIETTI-COOK, Secretary of the Commission
KAREN D. CYR, General Counsel
JAMES TURDICI, Director, Division of Accounting, and Finance, OCFO
PETER RABIDEAU, Deputy CFO
JESSE FUNCHES, Director, Division of Planning, Budget and Analysis
CHARLOTTE TURNER, Deputy Director, Division of Planning, Budget and Analysis

P R O C E E D I N G S

[9:30 a.m.]

MR. MESERVE: This morning, we're hear to discuss the status of the Office of the Chief Financial Officer, in particular the programs, performance, and plans of that office.

As I'm sure everybody in the office knows, that office is responsible for the agency's financial operations and reporting. In addition to performing the judicial budget and accounting functions, it is responsible for the coordination of the agency's implementation of the government's Performance and Results Act of 1983, from the transition to a more performance based organization.

This is a very important activity for the Commission, and we very much look forward to hearing from you as to the progress you've made and as to the issues that are confronting you in the future.

Let me turn to my colleagues and see if they have any opening statements they'd like to make. If you not, you may proceed.

MR. FUNCHES: Thank you. Chairman Meserve, Commissioners Diaz, McGaffigan, and Merrifield, I'm pleased to have the opportunity to discuss with you the Office of the Chief Financial Officer of program plan, performance, and challenges of the future. If you could go to the first



chart, please.

Sorry, we're trying to fix microphone problems.

MR. FUNCHES: At the table with me today is Peter Rabideau, the Deputy Chief Financial Officer, who is sitting to my right. Sitting next to him is Mr. James Turdici, the Director of the Division of Accounting and Finance.

Mr. Richard Rough, who is sitting to my left, is the Director of our Division of Planning, Budget, and Analysis. Sitting next to him is Charlotte Turner, the Deputy Director for that division. The branch structure that we've shown on this chart is indicative of the office responsibility that I will be discussing with you today.

To carry out our responsibilities we have a budget of 108 FTE and approximately $5 million. Going into the next fiscal year, we will be reduced in the number of FTE we have from 108 to 104.

In addition to carrying out the basic responsibilities for the office, we serve as the allotment and financial manager of funds that support agency wide activities. This includes approximately $6 million for relocating employees of agencies, and all the agency's salaries and benefits. If you would put up slide three, please.

My presentation today will follow the agenda on this chart. I will first discuss our primary financial



operation activities, followed by our performance and managing agency financial resources.

This will be followed by a discussion of our efforts to implement the planning, budgeting, and performance management system, our efforts to prepare the agency's financial statement, and the implementation of Star Fire, the agency of wide financial and resource management system.

For each area, I will discuss what we do, our goals, our performance against those goals, and the plans and challenges for the future. Put up slide four please.

The first area I will discuss is related to financial operation. Our overall strategic approach to financial operation is to ensure that the use of our financial resources are in accordance with applicable law and regulations.

The area I will discuss now in operations is related to good payment of our employees. We make approximately 100,000 payments annually. Our goal is to make 99 percent of these payments on time, and accurately. We are meeting these goals.

The third goal we have is to make payments electronically. This goal reflects a government wide effort to reduce the cost of payments. We are currently paying 99 plus percent of the employees through electronic funds



transfer, compared to our goal of 100 percent.

Those employees who are not being paid through electronic funds transfer have been exempted in accordance the guidance that we have from the Department of Treasury. Slide five please.

The next major area in financial operations involve approximately 40,000 payments to commercial contractors and other government agency through interagency agreements. Our goal is to make 94 percent of these payments within 30 days, achieve an accuracy rate of 99 percent, and to make 99 percent of these payments electronically.

We are meeting these goals as indicated on the chart. As a result of meeting these goals, the cost to the agency is reduced in that we are able to avoid interest payments on certain contracts.

We were recognized by the Department of Treasury for the pace at which we have implemented a government wide initiative for electronic payment through commercial contractors, and the rate of progress that we have made.

In achieving this goal, we depend heavily on other organizations within the NRC. I would like to acknowledge the contribution of the divisional contracts and the many technical assistant department managers throughout the agency who work with us as partners to achieve payments of



our commercial vouchers within 30 days. If you would go to slide seven, please.

We are responsible for providing travel service for approximately 14,500 trips annually. We have delegated a region of authority to perform these services for our regional office employees who take about sixty percent of these trips.

On a metric, I have shown on the chart focused on the back end and the front, I want to assure you that our overall approach is to make sure that we provide cost effective travel services to all of the employees such that they can carry out their functions in a very effective and efficient way.

To make sure that we entirely reimburse employees for their travel, our goal is to review and pay 95 percent of the travel vouchers for headquarters employees within five days. We are meeting this goal. With travel, we also have a goal to make 100 percent of the payment electronically.

Again, except for a few justifiable instances, we have been able to achieve this goal. For the future, there are two new term changes that we must implement. The Travel and Transportation Reform Act requires us to use credit cards for travel and to pay the payment of interest on any travel voucher that is not paid within 30 days of submission



to the supervisor.

These requirements become effective on March 1st of this year. We are finalizing the last step to meet this date, and we expect to meet it, and be -- for compliance with the requirements.

The second year term change is to implement a renegotiated DSA travel management contract. The new contract shifts additional costs to all federal agencies for services that in the past has been cost free. Under the new contract, the agency will be required to pay transaction fees and fees for other services such as maintaining a travel management service on site.

We are currently examining the various options and expect to implement the new requirement by May 2000, the deadline that has been established. In implementing the new requirements, again, we will keep as a priority, making sure that our employees can perform the travel that they need in a cost effective manner. If you would go to slide seven, please.

The last activity that we perform related to financial operations is to manage the revenues for the agency. We have two primary outcome goals. The first is to maintain their amount of delinquent debt owed to the Nuclear Regulatory Commission at a low level.

I would note that this is another government wide



initiative that we are participating in. We are achieving this outcome in that we can reduce the amount of the delinquent debt to less than one percent of the total amount that is billed annually.

The second important outcome is to meet the requirement of the Omnibus Budget Reconciliation Act of 1990 which related to 100 percent fee recovery. As the chart shows, we have collected approximately 100 percent of the budget subject to fees each year. Over the 9 years that the law has been in effect, we have averaged about 99 percent of the budget being collected through fees.

In meeting this requirement, the Office of the General Council has worked very closely with us, and I would like to acknowledge their contribution to us in achieving this important goal for the agency. Could you move to slide eight, please?

To make sure that we meet our outcome goals in the revenue area, we have established objectives to make sure that our bills are timely, and we follow up on debt owed to the government. These objectives are shown on these charts and we use them as part of our day-to-day management throughout the year.

Turning to the future, we see two challenges. First, as I think as you know, the NRC was successful this year, working with O and B to address the fair and equity



issues associated with the 100 percent fee recovery requirement.

The budget that we submitted to Congress on Monday is based on reducing the 100 percent fee recovery margin by 2 percent per year, beginning in fiscal year 2001, reaching 90 percent by fiscal year 2005. Our next step is to work closely with Congress and to continue work with O and B on the legislation necessary to implement this proposal. The other challenge that we have is to continue to look for ways to make cost effective improvements in our fee mythology and internal controls.

We've already made provisions to document the fee development process. We are contracted with an independent contractor, Price, Waterhouse, Cooper, to review our methodology, and we expect to take the results from that contract and to determine what improvements that we can make in both the internal control and the efficiency in which we process fees.

In summary, we have and expect to continue to meet our outcome goals, but recognize the potential for cost effective improvements and how we implement our fee process. Slide ten please -- I'm sorry, slide nine.

The next two charts will discuss our financial performance. The first chart -- first set of charts will discuss our financial performance in obtaining resources to



carry out the agency mission.

Our goal in this area is to provide those resources that are necessary and sufficient to meet the requirements of the NRC. I believe we're achieving this goal in that the agency has been able to meet its mission while bringing down FTE by about 600 since fiscal year 1993. As the chart shows there have been reductions each year including the fiscal year 19 -- fiscal year 2001 budget, recently submitted to congress. Likewise, the purchasing power of the NRC, as represented by the constant dollar line on the appropriation chart, is down by over $140 million since fiscal year 1993.

For the future, we will use the plan and budget in the performing management process, that I'll be discussing later, to ensure that we continue to obtain only those resources that are necessary and sufficient to meet our goals and carry out our mission. Slide ten, please.

Another aspect of financial performance is to efficiently and effectively utilize the financial resources that have been appropriated to the Nuclear Regulatory Commission. We use carry over as our form of metrics in this area.

Carryover is defined as the unspent funds from prior year appropriations. We have two metrics. The first is unobligated carryover which is the amount of prior year



funds not obligated at the end of the year. Last year, NRC's unobligated carryover was been slightly above $20 million, which is consistent with our goal to maintain carry over at a level of approximately five percent of the agency budget.

The second goal measures how well our funds have been utilized. For this, we look at funds that are obligated but have not been expended. For FY1999, we reduced our goal in this area from five to four months of expenditures. These four months recognized that on an average case, a two month lag in billing for work already completed.

It also provides for two months of funding continuity across fiscal years. Although we reduced our liquidated carryover by $15 million in FY1999, it still came up short for the new goal. We will continual to give focus in this area and expect to achieve the goal for the next couple of years that as we identify existing contracts -- as we modify existing contracts and interagency agreement.

To accomplish what we have accomplished over the last five or six years required the coordinated effort of my staff, the office director, and their allowance financial manager. And I would like to acknowledge their contribution in working with us to make this happen. Slide 11 please.

I would like to now discuss implementation of the



NRC's plan, and budget, and performance management process. Our goal is not only to meet the specific requirements of the Government Performance and Results Act, but also be intent of that act.

I believe the PPBM process that we have depicted on this chart provides the necessary framework to manager, to outcome, which is intent of PPRA. We have made progress in implementing each of these four elements of the process that is depicted on the diagram on this chart. What I would like to do now is turn to a discussion of the progress that we have made and the challenges that we have future. Slide 11 please.

With respect to accomplishment, we are using the performance managing concept. We started with the pilot of last year and expanded the pilot to research NMSS program during the development of last year, fiscal year 2001 budget.

For the past six months or so, we have used the process to develop the goals, measures, strategies for the agency's strategic plan. We will continue to use these concepts in developing the fiscal year 2002 budget and performance plan, and management of -- day-to-day management of agency activities.

To meet the explicit requirements of GIPPER, we will complete our tri-annual update of the strategic plan by



September 30, 2000. To this end, we are provided -- we are providing a proposed plan to the Commission this week, and expect to provide it to stakeholders for comments this month.

On Monday, we provided Congress the agency's second integrated budget and performance plan. Our first performance report covering fiscal year 1999 is currently undergoing Commissioner review, and will be submitted to Congress as part of the accountability report by March the 31st of this year. For the future, we will focus on continuing to apply the concept of managing to outcome that we have developed over the past year or so. I will also be looking to stabilize a plan and budget, performance management process by refining what we have instituted as opposed to making further major changes. Slide seven please. I mean, slide 13, I'm sorry.

The CFO Act that was passed several years ago has several key features. It created a position of chief financial officer reporting to the head of the agency and specified qualification requirements for that position. The CFO counsel, government wide counsel was also created. Additionally, each agency covered by the CFO Act was required to produce and order the financial statement.

The primary purpose of the financial statements which we have adopted as our goal is to provide complete



reliable, timely, and consistent financial information for use by the NRC, the Executive Branch, and Congress.

We measure whether we are meeting this goal by looking at where our financial statements are in qualified. We look at whether we comply with the federal accounting standards, and whether or not the standards are -- the statements are produced timely. We have received an unqualified financial statement for fiscal year 1994 through 1998.

The IG recently informed me in a briefing that the fiscal year 1999 financial statements will also be unqualified. Achievement of this outcome for fiscal year 1999 requires substantial effort on the part of my staff and the IG.

And I would like to acknowledge the contribution of the IG who are working with us to use various methods to produce one of the more difficult statements this year, the statement of net cost. We have complied with all of the accounting standards which are applicable to the NRC except one, and this standard is the standard related to cost accounting.

Our financial statements have been issued on time except for one year, fiscal year 1996, in which during that year, the statement was a couple of days late. While we have made substantial achievements, there are significant



shortcomings that we need to address.

First, we need to comply with the cost accounting standard. For as this end, we have developed a remediation plan. First component of that plan is to capture staff hour program, was implemented at the beginning of this fiscal through modification through our existing payroll system.

The second part is to implement a time in labor and cost accounting. This is being accomplished by the Star Fire project, which I will be discussing later. The last component of cost accounting is to improve the use of cost in decision making.

We have the majority of this effort planned for fiscal year 2001, after the cost accounting system is in place. We will re-look at our remediation plan to see if changes are needed based on the recent IG audit. In addition to the cost accounting standard, the IG has identified other reportable conditions involving account controls that we will resolve.

Lastly, we must be prepared to implement new standards. At this time, we know of one new standard and that is the standard on capitalization of internal use of software that must be implemented in fiscal year 2001. And we expect to have the system policy and procedures in place for this new standard. Slide 14 please.

We are pursuing an integrated financial and



resource management system that is known Star Fire. The purpose of that system is to provide the capability to meet accounting standards, reduce our cost for accounting, and improve reporting capabilities, including providing improved information to our NRC managers.

On this chart, the left hand column shows our original approach to the Star Fire project, and the other column shows our current plan. Before I discuss our current plan, I would like to provide a little background of how we got to where we are. We were required to select our core accounting system from a GSA schedule which was comprised of contractors that had been certified by the John Financial Management Improvement Project.

After selecting the contractor, we managed the project in accordance with a good IT management principal that had been put in place in response to the ITMRA. Based on monies and progress that we were making and the resources in time invested, and those resources in time expected to complete the project given the capabilities that, again, were provided in the system, we made a determination to terminate the effort with one of our contractor, ICF Kaiser.

We had deferred implementation of three of the modules that were in that contract until after we can get additional federal experience. Our current plan now is to proceed with the human resources, time and labor, and



payroll modules, or the People Soft effort, and to implement our cost accounting modules in fiscal year 2000.

We expect to have all of those efforts completed by the beginning of 2001. Currently, we are training people to perform parallel tests on the labor cost distribution, time and labor, and payroll, and HR modules, and in the process of making the final selection of the cost accounting module. Following the implementation of those modules, we will then proceed to implement a travel manager module and then an executive information system. We expect to have both of those completed in fiscal year 2001. Slide 15, please.

For the future, our plan and focus will continue to be on one, making sure that we protect the agency financial assets consistent with the risk of adverse action on those assets. We plan to continue to use good business practices, and we plan to implement that through our plan, and budget, and performance management process.

We are looking to integrate our agency account and budgeting and program system to insure that we have integrated information for management and for external reporting. We want to integrate cost into decision making. And lastly, we want to continue to provide high quality services to our employees at a reasonable cost.

In summary, I believe we are meeting the financial



operation and financial performance goals that we have established. We are making progress in implementing our plan, and budget, and performance management process to transition to agency's to an outcome approach to management.

However, we do believe additional improvements are needed in that area. We have a made significant accomplishments in the production of financial statements and reporting on our finances. Again, there are improvements that are needed, and we plan to make those improvements. And we are proceeding expeditiously to implement our Star Fire system on a modified plan.

That concludes my presentation. I would like to express my appreciation to the Commission for the support of our activities in the past. And with that, I would -- my staff and I are available to answer any questions that you might have.

MR. MESERVE: Thank you very much. Very much appreciate the briefing. I have a question about your slide 13, which has to do with financial statement. You indicate there that we're not currently in compliance with the federal accounting standards, standard advisory board, standard number four, for cost accounting it indicates there.

Could you be a little bit more specific about what exactly the nature of the non-compliance is, and perhaps



more importantly, whether that non-compliance reflects any problems as to whether funds have been appropriately expended?

MR. FUNCHES: There are two general area -- and Jim maybe you could just add -- one is the standard requires the use of cost information, improving the use of cost information throughout the agencies and decision making. The second one, it requires that you be able to report cost and revenues -- in this case, we're focusing on cost -- by the programs that you carry out.

In terms of shortcomings, I want to make sure that there's two pieces to cost. One is the people cost, the labor cost, and then there's the contract cost. We are currently reporting and capturing all of our contract cost by program and that represents at least a forty percent of the cost for the agency.

The area where we don't have a system today to capture those costs is in the people area. And what we did this year, we were able to use cost finding techniques. In answer to your second question, that shortcoming has not, in my opinion, led us to any fatal flaw in the utilization of our resources. I think we are efficiently utilizing resources.

I think people -- we have controls on FTEs to make sure that we know where the FTEs have been going spending.



We also have adequate controls on the time that people have spent. So, I don't think that has led to any misuse of funds allocated to the agency. I'll ask Jim to maybe elaborate on anything else in terms of the requirements.

MR. TURDICI: The only thing that I would add is that one of the requirements is that we capture what they call full cost, and that's taking for a specific programmatic area and applying necessary overhead or indirect cost to that. Those costs then are fed to agency managers so that they can then review those costs in order to make better financial decisions. We have not been able to do as yet.

With the implementation of time and labor, we'll be able to capture that data through a cost accounting system, apply that overhead in direct cost, and then send the necessary reports down to the internal managers.

MR. MESERVE: When do you anticipate that you will be able to come into compliance with that?

MR. FUNCHES: The steps we're taking -- we will be able to report this fiscal year by a strategic arena, which is the program that we have. We modified our payroll system at the beginning of the fiscal to capture those costs so that we don't have to use cost finding, or other techniques, to make those reports.

At the end of this year, we will have the systems

22

in place that we talked about, the time and labor, and cost accounting. So now it is a lot easier to produce the reports and information from managers. And then we will begin to work our appropriate managers in the fiscal year 2001 on utilizing that information.

One of the things that I'm thinking about relooking at is part of the remediation plan that we have completed and provided to the IG would be whether there are some things that we might be able do this fiscal year in terms of getting managers some additional cost information that might be useful to them, or maybe begin to work with them a little bit earlier on that particular issue.

MR. MESERVE: Is the problem of bringing yourself into compliance related to your difficulties with Star Fire?

MR. FUNCHES: To some degree, we had some delays as a result of the difficulty we had with Star Fire. We would not have been this fiscal year. We were still having to use cost finding techniques, but we would have had a system in place slightly earlier on if we had not had difficulties with Star Fire.

MR. MESERVE: You indicated at the moment you were in the process of making the final selection of the vendor for a cost accounting, right?

MR. FUNCHES: Right.

MR. MESERVE: Is that, again, a vendor that has to

23

be selected from a GSA schedule?

MR. FUNCHES: We are using the GSA schedule as a means to do that, but it's not one of these where they have previous "been certified." So we have the flexibility -- a little bit more flexibility in who we select.

MR.TURDICI: For cost -- our accounting system itself, we were required to use vendors that had passed through the certification process by JMFIP. To go out and select a cost accounting vendor, there is no requirement to use that selected list. While we did use a GSA schedule to go out to vendors, it was similar to general agency procurement practices. It was not something special in which we had that restriction.

MR: What steps have you taken to avoid the problem you had in your previous selection?

MR. FUNCHES: One of the things -- what we will do is we will look very carefully at the proposals that are coming in. We will look at -- the other thing we are going to do is bring in the people to make sure that they are here with us, not only for the system to bring up, but also to make sure that they are here to work with us as we go forward in implementing the system, including all the procedures that go around it.

You know, we'll put in the best people that we have, both people from IT and from the business side, on



looking at the proposals that we have, and then from that, we will make the best judgement that we can in terms of who the best qualified contractor would be, you know, the best cost.

MR. MESERVE: Are you looking at experience with other federal -- of other federal agencies in this kind of a module?

MR. FUNCHES: We -- I know that the group has done some, what we call reference checks, with other agencies who had used the vendors that are making a proposal. We are in the, I guess, very close to reaching a decision now. And they have made, I think I would call it reference checks, with other agencies and other people that have used the vendor.

MR. ROUGH: I think one major difference is in this case, we are bringing on a vendor who's going to assist us, not only in recommending what package to buy, what software package to buy itself, but also that same vendor will help us implement that package.

So, on the front end in this case, we're actually having a firm come in, help guide us, help review those requirements, make sure that the requirements that we have are tight, and then recommend packages out there for potential use.

Whether or not they procure the software, we



procure the software is an option we have today within that procurement package. And then, eventually, that same vendor that we selected to help us will also do the implementation in assisting with the set-up. So it's a slightly different approach that we have than what we have with the cost accounting -- I mean with the general accounting.

MR. MESERVE: Let me turn to Commissioner Dicus.

MS. DICUS: Thank you, Mr. Chairman. I've got four questions. Hopefully, I think a couple of them are yes or no answers --

MR. FUNCHES: Okay.

MS. DICUS: -- which should go pretty easily so I don't take up more than my fair share of time, but I would like a couple of issues to get into. One of them, the first thing is the carryover fund. Somewhere between $16 and $20 million -- I think, in part of your budget execution report, you mentioned $16 million, and then in your presentation, there was like $20 million unobligated.

Are you comfortable with that figure to be able to give us this cushion if we have unanticipated expenses, and are we within guidelines of what Congress tends to want us to be at with carryover fund?

MR. FUNCHES: Let me start with your last question first. We have had discussion with Congress about the level and the about five percent level, at least the current



appropriations committee staff were comfortable with that level. You know, based -- as you know we had had somebody do --

MS. DICUS: Right.

MR. FUNCHES: -- and they are comfortable with that level. In terms of whether I'm comfortable with the amount that we have, you know, I think when you get down into the lower ranges, $16/17 million total, that -- based on history, is kind of the low end of the pole. We like to stay around $20 million. I think, that based on the type of emergent demands that have come up during the year, you know, issues associated with transition of cost to you, I feel comfortable with that level. I don't know, Pete, if you had any other comments.

MR. RABIDEAU: No.

MR. FUNCHES: No. We feel comfortable in that range. If we start getting down into the low teens, then, you know, based on history and what we've seen in the past --

MS. DICUS: Right.

MR. FUNCHES: -- it starts to create a more difficult choices.

MS. DICUS: Okay. So we're comfortable where we are in carryover --

MR. FUNCHES: We're comfortable of where we are



this year.

MS. DICUS: -- and Congress is probably comfortable, and the budget people as well.

MR. FUNCHES: Yes.

MS. DICUS: Okay. Second question has to do with the metric that you had in your budget execution report. And what you said that you wanted each organization to have no more than 13 months of funding available at the end of December 1999. And everybody within the agency met it, except NRR, and I understand they have like 17 months. And part of the problems there were delays in the funding for Risk Informing, Part 50 and perhaps the delays were in awarding contracts. Is this metric really -- I mean, tell me about this metric. Do we need to worry about this, or is this not a metric that --

MR. FUNCHES: Let me answer the question that relates to NRR and then maybe a little bit of general discussion of how we use the metrics. One is, NRR has been very effective in this area. I think what you see there is a spike on the screen.

I know NRR's aware of that issue, and they're working on it. But, over the past, they have done a very, very, very good job actually, probably been one of the most effective offices in this area.

We use that -- and the reason we produced that



report because of the budget execution -- we produce it monthly and we circulate it. Again, for information for use in management. And what we use that is as an indicator, or if it were a flag, such that we don't trend in the wrong direction.

I think that in this case it is a flag, and we will use it that way to draw attention to it. And I know for a fact that NRR is looking at this, and there will be because of things that don't go as you expected them, and in this case, I think it's understood what the issues were. But there are indicators that we like to use such that we don't look at the end of the year, and then say, "Oops," you know, and then you can't do anything about it. So it is a blip for NRR that I --

MS. DICUS: So you're monitoring it. That's the point I wanted to get to. The next question has to do with the fact that we did get an unqualified financial statement. I want to congratulate you, and your staff, and the IG, and the IG staff for working on this issue, but this has been -- this came up last year, the possibility that we would have a qualified financial statement.

And this year, it was even more of a possibility, and I know I had discussions with you about it, as you recall, and also with the IG because that's not something that we want to get.

And, again, I congratulate both organizations for working on this. But, are we resolving the issues so that we're not in the same boat next year, that we're worried about getting a qualified financial statement?

MR. FUNCHES: My goal is to do that, and I think we have identified at least the basic issue that we need to work on in terms of being able to produce the -- let me just step back just a little bit. We produce a lot of other statements, and those statements are being produced without any significant issues or grudges. The one statement which is one of the newer statements is the statement of net cost, and that statement has given us some concern last -- not as much last year as this year.

We have put in place a mechanism that captures the data such that we can produce that statement. We know how to do out a cost allocation across the arena. Even though we won't have an automatic system to do it, we are able to do it based on the methods that we -- we know the methods and we're able to do that.

I think the thing that we focus a lot attention on over the next week or so, and the next month, is just stepping back and looking at how we approach the production of the financial statement, looking at the strategies that we use to produce the financial statement.

I plan to talk some more with the contract



auditor, the IG agreed to allow me to do that, to understand what other strategies, say, commercial funds use, or other government agencies use, as part of their financial statement production.

We also maybe will talk to some other federal agencies such as Social Security Office, they're a whole lot bigger, but see if they have some techniques and strategies that we can use during the year to somewhat reduce how we -- what we need to do, you know, during the actual production of this statement that may flush out some issues early. So, we have some work to do, but I'm confident that we can do that, and my belief is that the coming year shouldn't be as difficult as last year.

MS. DICUS: Okay. So I can have this comfort level that when we have this briefing this time next year, we will have an unqualified financial statement. There's where I'm heading.

MR. FUNCHES: Well, I believe that we can --

MS. DICUS: I think that should be a goal. I mean, it has to be --

MR. FUNCHES: It's no doubt that is one of our goals. It's no doubt that not only -- let me step back.

It's not only our goal to produce an unqualified statement, but our goal is to do good accounting and financial management of the resources. And I think that if we do



that, the production of the financial statement --

MS. DICUS: I see an IG person standing there. I don't know if he wants to come to the microphone or not.

MR. FUNCHES: Our goal is to eliminate all the uncertainty, but the bigger focus is to focus on doing good accounting. And I think that if we can do that and get that done -- I don't know, Jim, do you --

MS. DICUS: Okay. Mr. Chairman, one more question, please? Quickly, the other thing is, and this is really going to slide 12, but the number of meetings that are required for strategic planning updates, budget preparations, development of performance plans, and all the activities that surround them, I know, I hear a lot from various parts of the staff that this is so very time consuming and even frustrations on this.

Are we reaching a point where we are beginning to channel, and we can focus, and there be a lot less time spent on this, and still get the product that we need?

MR. FUNCHES: I believe so. I think that in the beginning there was a need to invest for a couple of reasons. One is to invest management time for them to understand the concept. I think understanding the concept -- I think you heard from NRR and research -- I think we're to that point where we understand the concept. Having understood the concept, I think now the investment -- we



don't need to make that investment in future years. The other thing we want to do is, I mentioned in my briefing, is to try to stay locked in on the process and not have the process, you know, be in flux.

And I think that stabilizes that and people can focus in on the direction that we are trying to move, and the amount of time that we would need to spend would be less. I think this trying up date of the strategic plan, we obviously won't have to do again for the next three years, and I think that by that time we should -- the concept will be there and we won't have to spend as much time coming up to speed.

MS. DICUS: Because it has been time consuming and taking the staff away from some other issues they deal with. No further questions, Mr. Chairman. Thank you.

MR. MESERVE: Mr. Diaz.

MR. DIAZ: Yes, I think Commissioner Dicus has made my job very easy. I like to join her in being pleased with the fact that we don't have qualifications in our financial statement, and I think the goal is next year, don't even think about it.

MS. DICUS: He stated it much better than I did.

MR. DIAZ: Not even bring it to the table. And on the issue of the strategic plan, we continue to be concerned that the strategic plan doesn't grow by itself because then



it becomes non-strategic, it's not an operating plan. I think it's time to reduce it to what it is.

We know we need to comply with GPAR and congressional expectations, and it's your job to make thing that it fits. Having said that, and although unsolicited, I'd like to yield the remaining of my time to the incisive fiscal conservative expertise of Commissioner McGaffigan.

MS. DICUS: You're on, Ed.

MR. MCGAFFIGAN: Yes, thanks for the seeding of time. I'll start by also complimenting you on a lot of things. I think there are a lot of good measures that you are achieving here. One question. We recently had a meeting with NRR, and the SRM, I think on that, said next year we should do it by arena.

If we, next year, organize these program briefings by arena, where would you fit? Is there an arena that fits your -- you're not safety. You're not international. You're not reactors, and you're not -- do we need a fifth -- we had a fifth arena once.

Is there -- I mean, management and support isn't an arena, but would we need -- if we organize these things differently next year, would you guys be in, you know, sort of a cats and dogs management support arena?

[Laughter.]

MR. FUNCHES: Let me answer it in two ways. We



will continue to have what we call a management support arena. I like to look at it more as corporate support because it covers a lot of things. It covers corporate level support for General Counsel. It covers my office. It covers human resources.

MR. MCGAFFIGAN: But if we do it, I mean, we sort of said we're going to do it. The reason we did it for reactors is we wanted to bring in the regions.

MR. FUNCHES: Right.

MR. MCGAFFIGAN: They were missing from the reactor one, and I think that would be useful for some of the others. But maybe, in terms of your office, would you suggest rather than lumping you all together in a management and support, that we treat the different pieces of management and support separately?

MR. FUNCHES: I would think that, you know, the financial management would be treated separately. You know, I think there are some, you know, obviously some financial aspect and planning aspect that goes with the arenas, but I would suggest that it would be treated separately.

MR. MCGAFFIGAN: Okay. Let me get to something more along the lines of a question you guys may be have expected. The ICF Kaiser contract, is that terminated? Are there no further discussions about compensation between us and the contractee?



MR. FUNCHES: Right. We have completed our negotiations with them and that effort is terminated.

MR. MCGAFFIGAN: And they were terminated for not convenience, or not for cause, right?

MR. FUNCHES: The termination was for convenience.

MR. MCGAFFIGAN: Okay. What could they not deliver? What -- I mean, this was supposed to be commercial, off-the-shelf technology. You were buying it. It was certified by the JFMIP group. This was supposed to be a straight-forward software purchase with relatively low risk, I think, when we started it. How did we get so off track?

MR. FUNCHES: I think there's a couple of things. One is, as you said, I think the expectation were as you defined them. I think those expectations were not what the software was able to do.

I think my view was that this software did not do all of the core accounting activities that were -- it was required to do or was expected to do. So, therefore, there was time and effort necessary to make modifications to the software to make it perform in basic accounting. And it was not renew requirement that we were be known to software.

MR. MCGAFFIGAN: Was that a failure of the JFMIP process, or was that a failure of us in our contracting, or where was the disconnect between the fact that we thought



that this was straight-forward, and then -- once you start making any changes in software, you go down a slippery slope to hell pretty quick.

MR. FUNCHES: Absolutely, and that's where we signed, so that's the reason we made the decision to pull back. I think it's just not this vendor's software. The information we're getting from other agencies that started efforts something similar to this, is that their parts are not working as well either. I think there was -- some of this was premature. The JFMIP had basically withdrew their certification of all the software, their certification program, and recently in the past year, went through a recertification process for all their software they had previously certified.

So, I think there was some -- I won't say failure, but the process of certifying the software wasn't as robust as it needed to be to kind of flush out to make sure the software was working.

MR. MCGAFFIGAN: In working with the software that you are now going to purchase, is this typical software, or you know, Norton Utilities, or whatever, where there will be version X one year, and version X plus one the next year, and are you guaranteed in your contracting to have access to the updated versions and be able to have those implemented relatively straight-forwardly?



I know in Adams, the writer says that they're eventually get something that's more web like, and that's something that will be a version added on to -- a later version of what we have today. But, how are you dealing with making sure your software stays up to date?

MR. FUNCHES: There will be new versions. We will have access to those new versions. We will know how to implement those new versions, so we will keep up to date. They will make changes to meet, you know, new federal requirements. We will expect them to do that. They will make changes.

MR. MCGAFFIGAN: You will keep -- you will implement new versions or you will make a choice each time?

MR. FUNCHES: One of the issues is that if you don't implement new versions, you'll get to a point where they --

MR. MCGAFFIGAN: Won't support it.

MR. FUNCHES: Won't support it, right. So that is something we recognize in going to cost is that you -- but you know, you can't skip a version -- but, you know, if you get too far behind, then you're not supported and you're not doing cost, you're back to trying to support some other kind of way. I don't know, Jim? I think I'm going to get out --

MR. TURDICI: Yes, plus there's always changes going on. Thrift Savings is an example of a recent change.



Unless we adapt quickly, and we're not sure how quickly the vendor will adapt, but we've got to put that in place as required by law and when they're going to make those things happen. So we may be forced to put something in place now, and then when the version finally comes out that adapts that --

MR. MCGAFFIGAN: How much is -- I don't want to proceed too much longer, but Thrift Savings is something that was mandated by law, right? These are the additional options, you're saying, under Thrift Savings.

MR. FUNCHES: Not only additional options, but how an individual interplays with Thrift. It's much different than what it is today.

MR. MCGAFFIGAN: But you might have to add that on your own as an adjunct to the software?

MR. FUNCHES: We've already contacted People Soft to find out what their schedule is. If their schedule goes beyond the implementation date, we very well may have to put a fix in ourselves to be in compliance.

MR. MCGAFFIGAN: Congress should think about these things. It sounds like you're -- at least this time, you're not from Missouri with regard to whoever is filling in the stuff. That's good. You are from Missouri, sorry.

MR. FUNCHES: Right. The other thing we -- based on what we see happening out there government wide, we will



not jump in on the Core Account again until we see progress made and that experience has been gained on the minute business out there and make sure that there's been progress, and then we would -- you know, we would then go back and bring in a cost because it is less costly for us to operate.

MR. MCGAFFIGAN: Okay. One last real quick question. I think it's -- the delinquent debt, is that largely a single contractor, too, where it is going from -- you know, up a bid, or is it a bunch of -- I know Atlas was behind because it was bankrupt and all that. Is there a single contractor that is accounting for the flip up there or --

MR. FUNCHES: No, it's about -- I guess it's a little over 300 --

MR. MCGAFFIGAN: Three hundred different people.

MR. FUNCHES: Three hundred different people --

MR. MCGAFFIGAN: Licensees, sorry.

MR. FUNCHES: Right, Licensees. Right. So it's not one big debt. Every once in a while, we'll get a big debt either for a contract where there's a debt owed to us, but typically, the larger firms don't have delinquent debt.

MR. MCGAFFIGAN: So what's the largest of the debt that's out there at the moment, and who is it -- is there anybody that is owing us several hundred thousands dollars?

MR. FUNCHES: I don't --



MR. TURDICI: We'd have to get back to you on that, Mr. Commissioner.

MR. MESERVE: Commissioner Merrifield.

MR. MERRIFIELD: Thank you, Chairman. I'd like to join Chairman Dicus and Commissioner Diaz in -- Commissioner Dicus, sorry. Join you for -- in their compliments of getting an unqualified opinion. That's a lot of hard work, and your employees certainly put a lot into that. On the Star Fire, we beat that one to death pretty well today, but I've got a couple more that I just want to say. One of the issues we had with the original ICF Kaiser issues were company related.

It was a company that had a lot of troubles, not just Star Fire. How in our selection of a contractor are we going to be able to have the confidence that we're selecting a company that has its act together and is going to be able to deliver?

MR. FUNCHES: I think the short answer is yes, and the firms we're looking at are --

MR. MERRIFIELD: Do they have their own fiscal house in order as well?

MR. FUNCHES: Big six type firms.

MR. MERRIFIELD: Right. Okay.

MR. FUNCHES: Right. Yes, they're large firms. They're stable firms, but I guess I can't predict, but they



are stable firms. And we're looking at the larger firms --

MR. MERRIFIELD: And I presume, we really haven't talked to it, but I presume there is a strong interaction between your office and the CIO's office in this regard, in terms, or not?

MR. FUNCHES: I think that is a very good question. We have -- on the people soft, if you notice, there were time and labor fees, there were HR fees, and cost accounting fees. We have kind of a management oversight group that is comprised of myself, Stu Rider, and Paul Berg, that we meet weekly and we all -- and Bob Bennett.

The team that is working on the project is comprised of the business partners from both HR and my staff, plus we have people from the CIO's organization. So we are working as a team because of all the components that we need to integrate together.

MR. MERRIFIELD: As you know, I and other commissioners have raised concerns in the past regarding the fact as more states are becoming agreement states, we're placing a greater and greater financial burden of a materials program under a remaining material licensees. Can you describe for me the planning of your undertaking with NMSS to identify some long range solutions to this potential issue for us?

MR. FUNCHES: In terms of -- I think there are two



things that we can look at. Obviously, the first area we're looking at, the kind of agency and why there is this issue, the fairness in equities issue which I think we now have a proposal for Congress, we did have a look, again, this year to see whether there was what I call fee options available to us to somewhat address the issue of increasing number of materials licensed. I think in terms of just a plain fee option, where we are is without, you know, taking the fees and redistributing them some other type of way to the licensee, it's not there. We looked at fixing the fees, but then it creates the fairness and equity that we're dealing with through the proposal that we just submitted to Congress.

So in terms of fee options, you know, it gets down to basically you have to reduce the cost in some type of way. And what we don't want to do is create unfair inequity options. My belief is the way that you address the problem is you address it through the budget and process. You look at it and evaluate those costs that are associated with the program.

We're obviously looking at how we allocate overhead cost across all programs. But you look at the cost of the programs and how those programs are carried out -- you know, if you get to a very small number of licensed, there might be some options there and how you go about



carrying out the program.

And what we will do as part of the PPBM process is look at those types of issues. I know the recent SRM we had -- you know, back when the Commission asked us to take maybe a more expedited look at those, and we do plan to do that. We have not had a chance to sit down with NMSS and the other staff to look at, you know, whether we want to pull something off on the side and look at it. One of the things -- one of the options could be to have maybe a separate program for evaluation and look at that part of the PPBM process. The process provides for that if we see an issue that we want to look at.

But we have not sat down and taken a look at the recent SRM and see how we want to approach that, but as part of the PPBM process, we should be -- we will continue to look at how we do our business and make sure that we are doing it in the most efficient way to achieve the outcomes we have set.

MR. MERRIFIELD: Right. Yes. I think, for my own personal perspective, I know, irrespective of how many agreement states we're going to end up down the line, we're going to need -- I believe we will need to have an ongoing materials program and how we get there is certainly something we all need to consider.

On a different notion, I'd like you to discuss a



little bit the role that you and your staff play in auditing or scrutinizing individual office budgets and planning and performance documents.

In my review of the green book and some of the strategic plan chapters, I was somewhat surprised by the degree of variation coming out of different offices. Who serves as a gate keeper, sort of an editor to ensure that our budget requests are consistent, reasonable, planning documents of high quality? Is that a function that falls within your area? Is it an AC function? Is it an office structure function? How do we get there?

MR. FUNCHES: That function falls to us. That is our responsibility. Obviously, we work with the offices to generate the data, but the final analysis, it is our responsibility to look at the full document to make sure it is consistent, it communicates the message for the agency, and that it is of high quality. And the comments you raise, we would definitely take back, but that responsibility falls on us, and we will take back and take that as a challenge to make sure that doesn't happen.

MR. MERRIFIELD: I'm certain my review next year will be more positive in that regard. Last question. In an August 13th SRM, we -- Commission stated, "Given the magnitude of the CIO and CFO budget, this Commission is particular interested in ensuring that their organizations



are aggressively seeking organizational efficiencies, process improvements, and resource in savings."

Can you discuss what you have done in your office in response to this SRM relative to efficiencies improvements and resource savings?

MR. FUNCHES: Let me just go back. Just a couple of things. One is that I mentioned to you before at the beginning, we do -- our budget for next year will decrease. We have a decrease in our budget. We expect to see some deficiency in how we carry out the plan -- PPBM process. We're looking at to see how we can be more efficient.

I would like to go back and -- because I think it might be misleading in a sense that we haven't achieved efficiencies in the past. We have looked at how we have carried out our vendors. We have looked at how we carry out travel.

We've gone to an auditing of the vouchers as opposed to a full review of travel. We have looked at our fee systems to try to make them more efficient to help us reduce the amount of time that we have to put in. We have a lot of new initiative that has been added to us over the last five or so years.

And as we implement new initiatives, the operation has to continue. And one of the difficulties that we have is -- especially when we get -- try to make that

46

implementation at the same time carry out a high quality operation until the new incoming one can be put into play because we just can't stop at that point.

So, that's the struggle that we are having now, but we are continuing to look at trying to make our own PPBM process efficient. We are trying to look at ways within the operation of that area to be more efficient. We have come down to a one day ratio. We have done that over the past year. So I think we have taken some steps. We obviously will continue to look and as we go into the budget of 2001, we can assume that we can come down in people.

MR. MERRIFIELD: Thank you, Mr. Chairman.

MR. MESERVE: Let me turn to my colleagues and see if they have any other questions they'd like to ask?

MR. MCGAFFIGAN: I could ask one that's really just a follow on to one Commissioner Merrifield just asked. We have said get more efficient, but if I look at the agency I know best, other then Section C, Department of Defense, the Comptroller office under which the chief financial officer has a program analysis evaluation office, has the comptroller shop, and they provide a significant check on the program offices, not just making sure the paperwork is right, but saying, you know, this weapon system won't work, or is pre-mature, or isn't needed, or whatever. You have a little program office today.

47

Is it a dream of the CFO office that at least you would have some analysts who would be monitoring the program offices and their programs, individual programs, and providing a check on the system as to -- not that I'm saying that there is any problem today, but what you don't know, you don't know. Is that a -- do other CFOs across government try to develop those capabilities that have been existent in the Pentagon since the 1960s?

MR. FUNCHES: I think -- you know many agencies I'm familiar with, you have varying levels of program evaluation capability. And we think that is important at NRC in a sense and we have built that into the PVM process, as a program evaluation component there. I think --

MR. MCGAFFIGAN: Are you staffed to do that today, though?

MR. FUNCHES: We're not staffed to do a Pentagon type approach. I think the approach we were looking at is to identify say fraud areas that we want to look at and then to the extent necessary, we would bring -- if we had to, we would bring a contractor in to assist us in doing that. But, I think an evaluation function to make sure that we're putting together a very good program and budget, I think, is something that we do. I don't believe that it should reach the level, say of --

MR. MCGAFFIGAN: I'm not advocating the Pentagon



motto entirely, but a program evaluation function separate from the office self evaluations may be some day a useful thing for us to have. But, not that I'm trying to build our budget to -- lose my fiscal conservative reputation that Commissioner Diaz gave me earlier.

MR. MESERVE: I'd like to thank you very much. This was a very informative and helpful briefing for us. You obviously have a crucial function here at the agency and we appreciate your efforts. Let me turn to my colleagues and see if they have any final statements, and if not, we stand adjoined. Thank you.

[Whereupon, the briefing was concluded.]