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NUCLEAR REGULATORY COMMISSION

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COMMISSION MEETING

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BRIEFING ON STATUS OF OCFO

PROGRAMS, PERFORMANCE AND PLANS

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TUESDAY, FEBRUARY 1, 2001

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ROCKVILLE, MARYLAND

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

PRESENT:

RICHARD A. MESERVE	Chairman
NILS J. DIAZ	Commissioner
GRETA J. DICUS	Commissioner
EDWARD McGAFFIGAN, JR.	Commissioner
JEFFREY S. MERRIFIELD	Commissioner
KAREN D. CYR	General Counsel
ANNETTE L. VIETTI-COOK	Secretary

OCFO STAFF PRESENT:

JESSE FUNCHES	Chief Financial Officer
PETER RABIDEAU	
JAMES TURDICI	
RICHARD ROUGH	
CHARLOTTE TURNER	

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

(9:30 a.m.)

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

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

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

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

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

MR. FUNCHES: Thank you, Chairman Meserve, Commissioners Dicus, Diaz, McGaffigan and Merrifield. I'm pleased to have the opportunity to discuss with you the program, plans, performance and challenges for the Office of the Chief Financial Officer.

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

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

(Slide change)

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

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

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

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

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

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

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

Similar to other offices that you have heard from, one of our management challenges is to respond to the aging workforce issue. For example, within the next five years, approximately 40 percent of the existing OCFO employees will reach the retirement age of 55.

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

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

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

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

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

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

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

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

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

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

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

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

While the matrix on the chart that I've shown focused on the back end of the process, our overall objective is to provide for cost effective travel service to permit the NRC employees to meet the

Agency mission and goals. To ensure that we timely reimburse employees at the end of their travel, our goal is to review and pay 95 percent of their travel vouchers within five days and 100 percent within 30 days.

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

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

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

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

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

I would also note that we receive our fiscal year 2001 salaries and expenses budget request from both OMB and Congress.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

I like to view the performance and implementing PBPM from two inter-related perspectives. The first is whether we are using PBPM to add value to our internal decision making. The second perspective relates to whether we are meeting the statutory requirements and external expectations. I believe we have made significant progress during the past year from both perspectives.

The Commission has recently heard from each of the major program office during the review of the strategic arena. During these reviews, the office has demonstrated how they are using the PBPM concept and the value added to their organization. Meanwhile, the support organizations are looking at how best to improve the application of the concept to management support activity. To assist the Agency, the Office of Human Resources is piloting this concept using contract facilitation.

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

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

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

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

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

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

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

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

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

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

(Slide Change)

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

The second part is to capture time and labor and implement cost accounting. This has been accomplished by implementing the PeopleSoft human resources, time and labor and payroll module and then cost accounting module of the original STARFIRE project.

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

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

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

In last year's audit of the financial statement, there were two additional reportable conditions involving internal control, in addition to cost accounting. I believe we have made significant progress on those and we await the results of the IG's audit.

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

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

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

I suspect we will continue to have to respond to evolving external requirements and expectation as it relates to implementation of GPRA.

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

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

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

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

Let me turn first to Commissioner Merrifield.

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

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

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

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

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

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

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

COMMISSIONER MERRIFIELD: Good. One of the concerns that has been raised, obviously we've all entered into the PBPM process and I think your staff and other members of our staff should be credited with embracing this to the extent we can. But it's a resource intensive process, no two ways about it. Are there improvements that you are pursuing at this point that may, as we have learned more about this process as we've gotten further in, that may reduce some of the burden on our own staff yet still meet the requirements as set out by Congress and PBPM?

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

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

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

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

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

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

MR. FUNCHES: I think we look at all offices and we look at all, you know, when we do the budget or do planning we look at all offices. But I think in terms of some organization, if there's two or three people it doesn't take a lot to look at that, and there's not a lot of evaluation or choices in that. So we probably don't need to spend a lot of time on those.

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

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

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

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

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

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

So I do believe that there's a sensitivity to, you know, putting into the budget those things that are needed to help us move forward with the performance goals and the mission that the Agency has included in its strategic plan and subsequently included in its performance plan.

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

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

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

But, on the other hand, there are certain what I'll call non-variable costs, costs that don't depend on the number of licenses that you have, that can only be addressed by how you go about doing the business. And I think I'm a member of this National Material Program Review and they're looking at some of those alternatives there.

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

COMMISSIONER MERRIFIELD: Thank you, Mr. Chairman.

CHAIRMAN MESERVE: You indicated that we are in non-compliance with, I guess it's Standard No. 4 of the Federal Accounting Standards advisory board, and that you have a series of software modules, PeopleSoft that you're testing now and have in place. Will you say something about the significance that we should attach to the non-compliance, and it seems to me that there are some aspects of accounting that have greater materiality to us, I mean vulnerability to fraud and those sorts of things. And there may be other standards, and obviously you want to comply with all of them, but may not have the same fundamental importance.

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

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

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

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

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

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

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

Jim, do you want to add anything?

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

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

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

CHAIRMAN MESERVE: Four years?

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

CHAIRMAN MESERVE: Are we unusual among federal agencies in having a problem in coming into compliance with this standard?

MR. TURDICI: It depends on the agency. Some agencies the way they're structured and they way they've set up their programs, if you will, are conducive to not having the requirement to labor the way we are. As one agency and the way we've developed our strategic arenas and then our offices, we have the problem with identification of those costs specifically back to a strategic arena. Some agencies have their strategic arena set to where they're not required to, they don't have the same problem that we do. I believe that those that do have the split are facing similar problems, so it depends on the organization.

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

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

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

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

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

MR. FUNCHES: Yes. Right.

CHAIRMAN MESERVE: Commissioner Dicus.

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

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

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

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

It depends on, I guess, the severity of it. Those that rise to a level of being a material weakness are the ones that obviously are the big ones, and right now the biggest one that we have is associated with cost accounting.

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

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

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

I would say the process in both preparation of the statements for us and I believe that the audited statement has gone a lot smoother than it was last year. So I have not seen any substantive issue raised. My staff have not reported any based on their frequent interaction with them, so I will leave it at that.

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

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

MR. FUNCHES: Right. I think our goal is to bring a system that we can, the staff can operate efficiently and be effective at doing it. The way we are approaching it, and trying to approach it in the pilot is to try to flush out as many issues as we can and deal with those issues -- and we have staff using the system. So our goal is from the system interface with the staff if you will, is to make sure that we understand what the issues are, look at how we can deal with the issues and if there are cases we find that there are issues with the staff that we can't deal with, then look at ways around it. Or at least ways of how to manage that.

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

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

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

COMMISSIONER DICUS: Okay. Thank you.

CHAIRMAN MESERVE: Commissioner Diaz.

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

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

COMMISSIONER McGAFFIGAN: A fiscally conservative Democrat.

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

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

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

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

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

COMMISSIONER DIAZ: On the issue of the delinquent debt, and I really don't know what it is, but obviously progress has been made. But what happens to licensees that do not pay?

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

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

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

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

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

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

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

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

Of that $1.1 million dollars in delinquent debt, which means it's 30 days old, the vast majority of that is actually paid a short period into the next month. So the delinquent debt is always changing and it's dependent upon when we actually take the snapshot of when we have that debt. So it's not necessarily when you look at it from year to year, the $2 million dollars from last year is not necessarily the $2 million dollars from this year. Very little of that, as Jesse mentioned, really remains on the books because of our aggressive action to go after that.

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

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

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

(Laughter.)

COMMISSIONER McGAFFIGAN: If you have to choose a Commissioner, it's Diaz.

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

COMMISSIONER McGAFFIGAN: Let's change that goal.

MR. FUNCHES: So we have to make sure the functions there are working, including you know there's a core set but we do have some what I call things that are outlying around the edges of that. And those are some of the areas that we're working on now.

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

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

And one of the things I'm finding as part of bringing up a system that touches 3,000 people is you do have a spectrum of views. You have a spectrum of capability and interacting with the system so it's more difficult than if you were working with a more confined group of people. And so you have to, I believe, have a lot more things working properly as opposed to trying to do workaround because when you're doing the workaround, even though you can fix it maybe a year from then or six months from then, it creates a management challenge for us in dealing with 3,000 people.

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

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

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

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

MR. FUNCHES: Obviously, any date we give you would have some risk, but we'll try to give you a date that has limited risk and that we won't, that we won't meet Commissioner Diaz. There's always risk because there are I guess what I call the unknown uknowns out there, you know, things we know we can deal with but there are some things that could crop up as we go forward, either through a test that might come in from the people that give us some input.

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

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

CHAIRMAN MESERVE: Commissioner McGaffigan.

COMMISSIONER McGAFFIGAN: Thank you, Mr. Chairman. Let me just say a few things. I want to commend the staff at the outset for the carryover slide, Slide 8. When I first came here we were getting grief from the Appropriations clerks about the amount of our carryover and I think we've done a good job. I mean what this chart now shows is that we're a pretty lean organization and I think it's an impressive way we've moved in recent years. There's probably a little bit more to go on the blue side, but not much, to achieve your goal and so I think that's a real step forward.

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

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

And we need to encourage, as we've done in other meetings, the staff to think outside the box, think about legislative relief. Mr. Walker at the General Accounting Office is practically challenging all of us and cheering us on to ask for whatever relief we need to start conducting some experiments. And we've been identified by GAO as an agency that really does face challenges, and we know it. So that's just in passing.

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

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

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

MR. TURDICI: That's correct. For bankruptcies, we'd be taking that debt off, but not only do we issue them the appropriate forms but in addition, if indeed when they're in bankruptcy, we can put our claim against that, which we do. And then depending on whether or not they have any funds, we may get --

COMMISSIONER McGAFFIGAN: A penny on the dollar?

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

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

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

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

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

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

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

COMMISSIONER McGAFFIGAN: Okay. I'm also going to hit STARFIRE just briefly as Commissioner Dicus and Commissioner Diaz did. The IG gave us a report last July that basically the bottom line of it was we believe the Agency runs considerable risk of repeating its own history of spending far more than anticipated on the project over an extended period of time, and not getting what it intends from the effort.

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

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

But do you have any thoughts? I think your answer to Commissioner Diaz I would say was artful because it was really only about the first module. And if he had been pressing harder he would have wanted to know your time scale for all the modules.

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

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

COMMISSIONER McGAFFIGAN: Right.

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

We have done that and we have issued that. We issued that to the CIO and to the EDOs such that they have it for future projects. In terms of lesson learned there's a couple of things. If I was, you know, doing it over again I think I would spend a lot more time up front, and might even bring in you know maybe two bidders and do like they used to do over at Department of Defense. This isn't aircraft but do some pilots and even if that required us to invest some money up front to do that. Maybe have them to go to a certain point and then make the decision, because I think that would give you some additional indication of just how right the software is.

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

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

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

COMMISSIONER McGAFFIGAN: Nobody should ever be optimistic about IT.

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

MR. TURDICI: Payroll.

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

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

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

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

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

Well, in doing so we start to go into some uncharted water and when we start to get into that uncharted water, then we potentially are starting to use the software not necessarily how it was originally designed as kind of like a generic box.

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

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

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

COMMISSIONER McGAFFIGAN: The original.

MR. TURDICI: The core accounting original in which it was JMFIP-certified, and we have since terminated that part of it. And that's our gleam in the eye for the future that you mentioned earlier.

COMMISSIONER McGAFFFIGAN: The JMFIP process, certification process, that certification wasn't worth much to us. Are they embarrassed by their certification?

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

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

COMMISSIONER McGAFFIGAN: So we were the guinea pig for --

MR. FUNCHES: More than --

MR. RABIDEAU: We were one of several.

COMMISSIONER McGAFFIGAN: One of several, right.

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

COMMISSIONER McGAFFIGAN: Well, I've had --

MR. RABIDEAU: When you see systems being implemented across the government in the financial area, you're seeing systems that are costing tens of millions of dollars and experiencing tens of millions of dollars of cost overruns.

COMMISSIONER McGAFFIGAN: Right. I understand, its not a pretty picture. Thank you, Mr. Chairman.

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

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

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

CHAIRMAN MESERVE: Thank you. We're adjourned.

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