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UNITED STATES OF AMERICA
NUCLEAR REGULATORY COMMISSION

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BRIEFING ON OFFICE OF CHIEF FINANCIAL OFFICER (OCFO)
PROGRAMS, PERFORMANCE, AND PLANS

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WEDNESDAY

FEBRUARY 15, 2006

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9:30 a.m.

The Commission convened at 9:30 a.m., Nils J. Diaz,
Chairman, presiding.

NUCLEAR REGULATORY COMMISSION:

NILS. J. DIAZ, Chairman

EDWARD McGAFFIGAN, JR., Commissioner

JEFFREY S. MERRIFIELD, Commissioner

GREGORY B. JACZKO, Commissioner

PETER B. LYONS, Commissioner

1 **PRESENT:**

2 **JESSE FUNCHES, CFO**

3 **PETER RABIDEAU, Deputy CFO**

4 **MARY GIVVINES, Director, Financial Management**

5 **LESLIE BARNETT, Director, Planning, Budget, & Analysis**

6 **TIMOTHY PULLIAM, Director, Financial Services**

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

CHAIRMANDIAZ: Good morning, welcome everybody to the briefing by the Chief Financial Officer and the Senior Members of his office. I recall the other meetings we conduct during the spring, I don't know this is winter or spring. One of the key purposes is to insure that the Commission and interested stakeholders are updated on the initiatives, programs and accomplishments of the CFO whose main obligation is to provide high quality financial services so our programs are properly funded and controls are maintained. In other words, you need to keep the money flowing in the right amounts all the time.

Some financial planning and asset management is essential in fulfilling the Agency missions and objective and those we need to perform well and we need to use the money that is entrusted to us in a very, very accountable manner. Expected number of potential applications for new nuclear power plants and our additional responsibilities as a result of the Energy Policy Act place increasing importance on the role and responsibilities of the CFOs because times are changing and you guys need to be ahead of it all. So you need to really help the agency to prepare and plan the spending of funds for the requisite infrastructure as well as the staff resources so we can do our job well.

We are going to be very pleased to hear your accomplishments, how you're preparing for all of these changes that are coming ahead of us, where is your key initiative to strengthen accountability and financial practices. My fellow Commissioners have anything?

1 COMMISSIONER MERRIFIELD: No, Mr. Chairman.

2 CHAIRMAN DIAZ: With that, Mr. Funches.

3 MR. FUNCHES: Thank you, Chairman. Good morning,
4 Chairman and Commissioners. We do appreciate the opportunity to brief
5 you today on the Office of the Chief Financial Officer, OCFO's program
6 and activities. I have with me today the Senior Managers from the Office.
7 To my right is Peter Rabideau, the Deputy CFO. To his right is Mary
8 Givvines, the Director of our Division of Financial Management. To my
9 immediate left is Leslie Barnett, who is the Director of the Division of
10 Planning, Budget and Analysis. And to his left is Timothy Pulliam, who is
11 the Director of our Division of Financial Services.

12 If you go to Chart 2, our briefing today will cover our office
13 goals. We will also discuss our progress and improvement of our work
14 environment as measured by the OIG's cultural survey. Then we'll talk
15 about our financial system, then look at our financial management
16 activities and initiatives, financial service and then talk about planning,
17 budget and analysis.

18 If you would go to Chart 3, these are the same goals that
19 we had established for ourselves last year. We'll continue the same goals.
20 These goals set the framework for what we try to accomplish within the
21 office. Our overarching and primary goal is to maintain a diverse and high
22 quality staff. Our staff is very important to what we do. A lot of our work
23 is done by staff and maintaining a diverse and high quality work staff is
24 very important to us.

25 Next, our goal is to work on protecting the Agency's

1 financial assets, you mentioned Mr. Chairman. Consistent with risk, we
2 want to make sure that we look at the highest risk things first and make
3 sure that we put emphasis on those, but overall to have a risk-based
4 approach to protecting the Agency's financial assets. And again, we look
5 at risk similar to the way the Agency looks at risk from both a consequence
6 and the probability of something happening, a waste or an abuse.

7 The third goal we have is to provide the leadership to
8 integrate financial and performance information to decision-making and
9 again, this is important to our budget decision-making and how we go
10 forward there and lastly, we have a service responsibility to the staff and
11 from a financial perspective, both for example, travel and payroll and we
12 want to make sure that we provide high quality services at a reasonable
13 cost.

14 If you go to Chart 4, as I mentioned earlier, one of our
15 goals is to maintain a diverse high quality staff. To help accomplish this
16 we established and will continue a key initiative to implement action to
17 further improve the OCFO work environment. We used the 2002 OIG's
18 cultural survey to help identify areas for management focus and we are
19 using the 2005 survey as a measure of our progress in implementing this
20 important OCFO management initiative.

21 We've been implementing action in the following areas;
22 improving communications, providing training opportunities for the staff,
23 improving workload management and team building. In 2005 our safety
24 cultural and climate survey has been completed and the results are
25 summarized in back of slide number one. This slide is a summary of the

1 category and scores for the office comparing the results of the 2005 IG
2 safety cultural and climate survey to the 2002 survey. Overall the results
3 indicate improvement from the last survey as well as areas that need
4 further improvement. For example, this slide shows that we improved in
5 13 of the 19 categories, including communication, supervision and training
6 empowerment, quality focus, workload and management leadership.

7 While we have improved compared to our scores, the
8 OCFO scores in the 2000 survey, there are categories where we did not
9 improve at the pace the Agency overall achieved and further work remains
10 to be done. The latest result of the survey shows that we are below the
11 NRC-wide and the US national norm benchmark with several categories
12 being statistically significant.

13 Following the Commission briefing of the survey, the
14 survey contractor ISR, provided training to me and two of my staff on using
15 the results of this survey. We have also, based on that training, completed
16 a detailed review and analysis of office level results and are evaluating
17 Division specific results. I briefed all OCFO employees in management as
18 a result of the survey on January 26th in our all employees meeting. The
19 OCFO management team has recently completed an offsite session in
20 which areas to focus our further efforts and actions were identified. Based
21 on our meeting, we decided to continue the team-building effort that we
22 had previously and we would place emphasis on three areas; workload
23 and support, management leadership and empowerment.

24 With respect to workload and support, the OCFO workload
25 continues to increase primarily as a result of external requirements.

1 FISMA and OMB Circle A-123 on management control requirements are
2 recent examples. Additionally, we have limited backup on some of our
3 teams. The staff, in responding to the survey, indicated that their workload
4 caused stress that reduces their effectiveness. To address this concern,
5 we will focus attention on assuring that our budget request includes an
6 adequate number of staff to meet the workload demands. We are looking
7 at developing and implementing strategies to fill staff vacancies quickly,
8 looking at eliminating low value work and improving our management of
9 priorities.

10 In the management leadership area, we will continue our
11 team-building efforts and focus additional actions on further improvement
12 in management communication, provide feedback on work product,
13 improving communication regarding changing expectations, priorities and
14 requirements. And lastly on the area of empowerment, our action will
15 focus on management communication by providing clear direction and
16 further clarifying roles and responsibility and expectation.

17 The next step is to meet again with the OCFO staff on
18 February 23rd. Based on this meeting, we will make adjustments and
19 modifications as necessary to the focus area. We will also use the
20 technique provided to us by ISR to further refine our actions. Although not
21 a direct outcome from the OIG's survey, at our senior management
22 meeting, we also identified knowledge management as a key human
23 capital initiative for the OCFO. I believe the focus on knowledge
24 management and knowledge transfer will also help us to improve the
25 OCFO work environment especially in the area of workload support.

1 Our focus as it relates to knowledge management will be
2 obviously, to work with the Agency effort on knowledge management. We
3 will also put some additional effort on insuring that our processes are well-
4 documented. We would look into support rotation of assignment to identify
5 backups to specific positions and functions and we would like to double
6 encumber a position when feasible.

7 In summary, our highest priority goal continues to be to
8 provide a workplace environment that is conducive to a high performing
9 organization and we will continue to place emphasis on that. The next
10 major office-wide initiative involves system modernization which I will ask
11 Pete Rabideau to discuss.

12 MR. RABIDEAU: Thank you, Jesse. On Chart 5, the
13 NRC uses the eight financials systems shown on Slide 5 to carry out its
14 financial management responsibilities. Six of the financial systems are
15 operated by the NRC using in-house or NIH information technology
16 equipment. These are shown in green on Slide 5. Two of the financial
17 systems are e-government systems operated by the Department of
18 Interior, National Business Center. The DOI National Business Center has
19 been designated by the Office of Management and Budget and by the
20 Office of Personnel Management as an e-government financial systems
21 provider.

22 The e-travel system is also an e-government financial
23 system, one that we hope to use in the future. The goal of e-travel is to
24 provide a government-wide web-based service that applies world class
25 travel management practices from travel planning and travel authorization

1 to travel reimbursement.

2 The General Services Administration is the lead federal
3 agency for e-travel. GSA has certified three e-travel systems from three
4 separate vendors. Each federal agency is required to use one of these e-
5 travel systems. The DOI National Business Center plans to interface the
6 e-travel system that the NRC selected to implement with the e-government
7 financial systems that it makes available to Federal agencies. The
8 National Business Center, together with their user community, has been
9 testing the system's functionality for the past several months.

10 As a result of that testing, we have postponed
11 implementation of e-travel at the NRC by at least one year, while the
12 vendor resolves certain functionality concerns with their system. We do
13 not plan to implement e-travel until the functionality concerns are resolved
14 and until e-travel is certified and accredited to the necessary IT security
15 requirements.

16 Move to Slide 6. We are pursuing two substantial
17 initiatives for NRC's financial systems. First, we have been working with
18 the Office of Information Services to certify and accredit based upon the
19 most recent National Institute of Standards Technology IT security
20 standards for NRC operated financial systems; a licensee building system
21 which has an authority to operate, a cost accounting system and the time
22 and labor system which each have an interim authority to operate, and the
23 budget formulation system which is currently in development.

24 We have recently learned that we must also certify and
25 accredit and have an NRC issued approval to operate for the two e-

1 government systems that we currently use. We are also learning that it is
2 costing more and taking longer than originally anticipated to conduct the
3 FISMA assessments using the new NIST standards. These assessments
4 will reoccur tri-annually with less intensive assessments required annually.
5 Based on the work completed to date, it's likely that there will be additional
6 costs to upgrade security for the existing financial systems.

7 Our second initiative on Chart 6 we are planning to
8 modernize four of the Agency's financial management systems; the
9 Agency's budget formulation system, its time and labor system, its license
10 fee billing system and its core accounting system. Modernization in
11 necessary because of the system's age and the lack of vendor support of
12 the software. Modernization will improve the financial system's
13 functionality and efficiency and strengthen the system's internal control.

14 Our modernization strategy is focused first to use e-
15 government systems operated by approved cross-service providers when
16 such systems are available, have demonstrated their functionality, are cost
17 effective and meet the requirements that the NRC has. Second to use off
18 the shelf software that would be operated by the NRC. And finally, to use
19 customized software only if absolutely necessary. We have been working
20 to replace the Agency's budget formulation system. The capital planning
21 and investment control business case was approved in May of 2005 and
22 a fixed price contract for off the shelf software was awarded in September
23 of 2005. We expect the system to be operational by September of this
24 year. This is contingent upon receiving the authority to operate from the
25 Office of Information Services.

1 Currently the system is not on the OIS priority list for
2 performing the certification and accreditation which is needed for the
3 approval of an ATO. We are working with OIS to obtain the necessary
4 ATO approval without delaying the implementation schedule. At our last
5 program review, we indicated that we were seeking a long-term solution
6 to replace the Agency's time and labor system. Since then, we have
7 completed an analysis of available off the shelf software and have
8 concluded that the available products would require extensive
9 customization to meet the Agency's current time and labor requirements.
10 As a result of that, we are continuing to use the current time and labor
11 system. It will require some additional contracts to support because of the
12 age of the system but that's what we're proceeding with.

13 At the same time, we have initiated an improvement
14 project to define a more efficient and better integrated business process
15 for labor reporting, and for license fee billing. The improved business
16 process will be an integral part of the new license fee billing system as well
17 as a future time and labor system. We are working to replace the
18 Agency's license fee billing system. A new license fee billing system will
19 streamline the fee billing process, improve the system functionality and
20 improve the Agency's internal controls on fee billing.

21 The license fee billing replacement project consists of two
22 phases. The first phase being the planning phase, is expected to be
23 completed by October of 2006 and will result in an approved capital
24 planning and investment control business case. Phase two is the
25 implementation of the chosen alternative in a schedule to be completed by

1 December 2007. As I mentioned earlier, the NRC uses the Federal
2 financial system provided by the DOI National Business Center as its core
3 accounting system. The DOI National Business Center will stop
4 supporting this system by the end of fiscal year 2008. Consistent with our
5 modernization strategy, we will be working with the National Business
6 Center to migrate to a new core accounting system prior to the end of
7 fiscal 2008.

8 As shown on Slide 5, the Agency's financial systems are
9 inter-related. As we modernize the Agency's financial systems, we will
10 insure continued systems integration as we proceed. Thank you. I'd like
11 to turn this over to Ms. Givvines, who will talk about financial management.

12 MS. GIVVINES: Thanks, Pete. Good morning. We're on
13 Slide 7. I want to start with the major accomplishments in the financial
14 management area. The IG auditors did render us another clean opinion
15 this year on our `05 statements. NRC's overall financial condition as of the
16 end of `05, reflects the Agency's serious commitment to our role as
17 stewards of the American taxpayers' dollars. We had sufficient funds to
18 meet our program needs and had adequate controls to make sure that we
19 were properly accounting for those funds.

20 In their report, however, they did identify one material
21 weakness. This is the same material weakness as identified last year on
22 fee billing and three reportable conditions two of which were new
23 reportable conditions. We did close one reportable condition from the
24 prior year. We'd had three instances of non-compliance, two were
25 substantial non-compliance. We also issued the performance and

1 accountability report that was issued November 15th. It was timely,
2 accurate and had useful information that went to OMB, Congress and the
3 public. This report represents the culmination of our program and financial
4 management processes. It began with the mission and program planning.
5 It took us through the formulation and justification of our budget that went
6 to Congress and the President, through our budget execution and finally
7 ended up with our program performance and use of those resources.

8 We are proud to report that we, once again, received what
9 we refer to as the CEAR award. This is the Association of Government
10 Accountants Certificate of Excellence and Accountability Reporting for our
11 2004 report. Twenty-one agencies did submit. We were one of 10 to
12 receive that and this is our fourth consecutive award.

13 We also met other financial reporting requirements. We
14 submit monthly, quarterly and annual reports to both OMB and Treasury.
15 These reports were submitted accurately, on time and in some cases
16 ahead of schedule. We believe these reports validate the integrity of our
17 efforts to manage our assets, liabilities and our budgetary resources. We
18 also received a number of green ratings from OMB as well as Treasury for
19 a couple of our financial indicators and we're proud of that.

20 Moving on to our fee collection requirements; in 2005 both
21 the proposed and final fee rule were completed and published in advance
22 of the target dates. We believe this contributed to our expedited fee
23 collections during the year. If you could move to backup Slide 2, please.
24 You can see that we collected 99 percent of the amount required by law
25 which equated to 534.1 million. The collections did come from seven

1 categories and we have more information in Tab 4 for you, the breakdown.
2 The bulk of the collections came from the reactor program. The reactors
3 represent approximately 87 percent of the collections. And looking at it a
4 different way, from annual fees, we collected 71 percent and from the
5 hourly rates, the Part 170, we collected approximately 29 percent. We
6 issued 5200 invoices for annual fees and approximately 1800 invoices for
7 inspection and licensing activities.

8 Back up Slide 3, please. Our final accomplishment deals
9 with our delinquent debt. We not only met our goal of keeping it below 1
10 percent of our billings, we were actually at a historical low. It was at
11 400,000 at the end of the year. This is a 50 percent decrease from last
12 year and last year had been a 50 percent decrease from the year before.
13 This figure actually represents less than one-tenth of one percent of the
14 annual billings. And again, we feel this is as a result of our continued use
15 of aggressive debt collection strategies and we have more information in
16 Tab 5 on that.

17 COMMISSIONER MERRIFIELD: Yesterday,
18 Commissioner McGaffigan in a meeting pointed out that there may be
19 some areas where we need to think about changing the goal and it's only
20 a credit to the accomplishment but I think this is clearly one that we can
21 tinker with a little bit.

22 MS. GIVVINES: If you could move to Slide 8, please.
23 Now, I would like to report on our two key initiatives in the financial
24 management area. The first one is our need to continue to strengthen
25 internal controls in the fee billing area. The result of the audit in '05

1 expanded the scope of the material weakness mainly to include the lack
2 of internal controls over our -- what they refer to as our feeder system
3 processes. While we need to continue to strengthen our controls, we have
4 implemented a number of actions in '05 and most of these actions actually
5 address specific recommendations made by the auditors. Some of the
6 actions included: we documented and updated our operational
7 procedures, we achieved additional separation of duties, we improved or
8 modified our software to help us the reconciliation efforts, we implemented
9 additional reconciliation processes, we expanded our testing to include all
10 interfaces and we also hired a contractor to help us perform independent
11 validation and verification of our testing.

12 As a result of the actions we took, the auditors did
13 manage to close one recommendation. We know that there's a lot to be
14 done and we have some specific additional actions we're planning this
15 year. We're going to conduct a comprehensive internal control review to
16 identify any weaknesses. We're going to identify and where feasible,
17 correct any control deficiencies that we find when we look at these feeder
18 interface systems. We're going to develop and implement some additional
19 reconciliation -- sorry, procedures to validate our contract cost and we're
20 going to develop and implement additional internal controls with other fee
21 billing areas to include the general license registration, small entity and
22 material invoice processes.

23 Our ultimate goal, of course, is to replace the license fee
24 billing system. We think this is where we're going to achieve the most
25 improvement over internal controls. Our last initiative is meeting the

1 internal control requirements. We talked about this the last time we met.
2 As you know, the result of the Sarbanes-Oxley Act which came about after
3 the Enron scandals, OMB revised, significantly revised its Circular A-123
4 which has to do with management's responsibility over internal controls.
5 This became effective in '06. The Circular stresses internal control
6 standards and discusses how agencies need to conduct assessments and
7 the effectiveness of those internal controls.

8 It stresses the added importance of internal controls, the
9 documentation of those controls and our responsibility as managers to
10 establish and assess effectiveness. It essentially has two components.
11 There's a financial piece and a programmatic piece, which the financial
12 piece we refer to as Appendix A and that seems to be the focus of OMB.
13 The revised Circular does set higher expectations. It's more prescriptive,
14 especially in the financial reporting area and it does require a separate
15 assurance statement by the head of the agency, the Chairman, as of June
16 30th, so this is clearly something new.

17 OMB is watching us closely with the progress of this effort.
18 They've already asked us to submit several plans. We have completed a
19 number of actions. We have conducted training to all our OCFO
20 managers. We procured a contractor that is helping us with the internal
21 control reviews. We've developed our overall financial framework. We
22 have formed a senior assessment team that will be responsible for making
23 the key decisions and all these decisions have to be well-documented.
24 And we have submitted our plan to OMB. We will begin our internal
25 control reviews in April.

1 We are working under an aggressive schedule. Overall
2 we feel we are on track with our implementation efforts. We hope to gain
3 some lessons learned this year that we can carry forward. For the internal
4 controls dealing with the program offices, we have worked closely with the
5 EDO office. We established an implementation team that was tasked to
6 look at the gaps in our current controls, internal control program and they
7 did come up with some recommendations and we're in the process of
8 working with the EDO to implement those recommendations.

9 We do anticipate that the Circular will continue to expand.
10 OMB has already added an Appendix B which deals with the Government
11 Charge Program and they've already added an Appendix C which is in
12 draft form that deals with improper payments. That concludes my piece
13 and I will turn it over to Tim Pulliam.

14 MR. PULLIAM: Thank you very much, Mary. Good
15 morning, Chairman and Commissioners. It's my pleasure to give you the
16 accomplishments for the Financial Services Division. The Division of
17 Financial Services provides services to the NRC staff effectively and
18 efficiently to support the mission of the Agency. We provide travel
19 services, including airline tickets, reservations, rental cars, passport and
20 training to all staff on travel and credit card regulations. We provide
21 relocation service to anybody who's moving within the Agency. We
22 provide a central allowance which certifies funds for all the headquarters
23 travel and maintains the financial aspects for some of the smaller offices.
24 We also pay everybody every other week on time and accurately. And we
25 also -- the last thing is we pay all of the Agency's bills.

1 We have done a very good job this year in making
2 accurate and timely payments. Back up Slide 4, please. The Division has
3 made approximately 29,300 travel and vendor payments with
4 approximately 100 percent accuracy and 99 percent timeliness. In
5 addition, 99 percent of our payments were made electronically. The
6 Division also provides a process to approximately 2500 inter-agency
7 agreement payments. Additionally, we paid over 87,000 salary and award
8 payments on time and electronically with an accuracy rate of 99 percent.

9 Slide 9, please. In addition, this year we put special
10 emphasis on implementing cost effective travel policies. We wanted to
11 emphasize to the offices that there are ways out there that we can look at
12 not effecting the mission but also expanding what we are doing in travel
13 and relocation services. One memo went out in March of 2005 from the
14 CFO and EDO where we had them looking at the time that it's taking for
15 a person to be able to move or relocate. Our relocation says that we're to
16 allow them to have 120 days to move and 60 days to sell their house
17 before they enter our program. What we've found is after the memo went
18 out, we've had a change in the way we're looking at things.

19 The Agency, for the six months after that went down from
20 23 percent to zero in the time from marketing their houses, so everyone
21 was able to market their house 60 days before entering the program. We
22 also noticed that we had a decrease in the number of people that were
23 entering our relocation program early, from 20 percent, down to 13
24 percent, so we've seen some improvements there. In June the EDO and
25 CFO also sent out a memo on managing the cost of travel. This gave the

1 offices some cost conscious travel decisions so they can take a look at
2 them and make sure that they are making cost conscious decisions with
3 their travel. Some of the things that were in there, we're looking at
4 alternate airports when you're flying into Washington, DC. There is
5 sometimes a difference of cost from BWI, from National and from Dulles.
6 So they're looking at that.

7 Also, looking at fly and drive options, if you have to make
8 a stop on your way to a particular spot. Paducah is one that we are
9 looking at and we also looked at flying into Atlanta and driving to
10 Chattanooga. So looking at the cost of that and the time effect of that.
11 And one of the larger ones that we did was we authorized restrictive air
12 fares for the first time. All of these programs are working pretty well.

13 The next thing that we're also involved in is the
14 implementing of travel card regulations and that's one of the things that
15 Mary was talking about earlier. It's Appendix B of A-123. What it told us
16 to do is to make sure that before we issue a travel card, we have a credit
17 check on all of our employees and to make sure that they have training
18 and their supervisors have training before we implement those cards. We
19 went through the federal notice process of telling them how we are going
20 to manage the Privacy Act information. We had no comments received
21 from the Federal Register notice. We have worked it internally with all of
22 the major offices, ADM and HR to make sure that we have our security
23 correct in the way we're going to handle that. And right now, we are
24 currently working with NTEU on the implementation of the plan.

25 This concludes my portion of the briefing and I'd like to

1 pass it to Less Barnett, Division of Planning, Budget and Analysis.

2 MR. BARNETT: Thank you, Tim. Good morning,
3 Chairman, and fellow Commissioners. It is my pleasure to brief you today
4 on the key accomplishments and initiatives in the area of planning, budget
5 and analysis. Would you please turn to Slide 10? Our first key
6 accomplishment is that we have obtained the resources to meet NRC's
7 mission. The Agency's workload has expanded significantly over the last
8 five years, resulting in increased resource needs. Examples are
9 Homeland Security, new reactor licensing. Funding for new reactor
10 licensing has increased from 32 million in 2005 to approximately 86 million
11 in the 2007 President's budget request to Congress.

12 Would you please turn to backup Slide 5? The NCR
13 budget has grown from 585 million in fiscal year 2003 to 777 million in
14 fiscal year 2007. The growth in the President's 2007 budget request to
15 Congress is primarily to prepare for anticipated combined license
16 applications for new reactors while insuring we maintain the ongoing safety
17 and security of our existing plants.

18 NRC budgets have been supported by OMB on behalf of
19 the President and the Congress. As you know, Congress has recognized
20 the need for and provided additional funding of 20 million for new reactor
21 licensing and 21 million for security activities above the NRC's budget
22 request. We will continue to insure sufficient resources for the Agency
23 and we are keeping a close eye and working closely with offices in those
24 areas of increased workload, looking forward into the future.

25 Returning back to Slide 10, our second key

1 accomplishment is meeting the budget execution requirements. We have
2 consistently stayed within the guidelines mandated in the Anti-Deficiency
3 Act, Budget Empowerment Act and Appropriations Act. We have worked
4 closely with financial managers and allowance holders to insure their
5 awareness of the mandated guidelines and processed approximately 330
6 advice of allowances insuring the availability of funding throughout the
7 Agency while at the same time providing effective control of funds.

8 We have continued to monitor financial performance
9 through the Budget Execution Report which is issued quarterly to the
10 Commission and have expanded the coverage to include full time
11 equivalent utilization. We have implemented the thresholds for reporting
12 resource reallocations to the Commission that established procedures for
13 reporting significant reallocation actions.

14 We have implemented Nuclear Waste Fund policies and
15 procedures that establish more effective internal controls over charges to
16 the Nuclear Waste Fund. If you can please turn to backup Slide 6, we
17 have met unobligated carry-over targets excluding the Nuclear Waste
18 Fund with approximately 44.3 percent. We have exceeded unliquidated
19 carry-over targets with eight months of actual. The increased trend in
20 carry-over between 2004 and 2005 is due to the approximately 24 million
21 carryover in the Nuclear Waste Fund. In addition, the overall trend is also
22 effected by the growth of our appropriation and the fact that in the last four
23 consecutive years we have had continuing resolutions.

24 If we can turn back to Slide 10; our third accomplishment
25 deals with improvement of the effectiveness and efficiency in the budget

1 process. This year we've implemented several actions to improve the
2 effectiveness and efficiency of the budget process as further described.
3 We are providing the Commission for the first time program priorities in
4 forming the 2008 budget process. A memorandum to the Commission is
5 being prepared and will be submitted shortly. These program priorities will
6 facilitate the Commission in providing specific comments on the fiscal year
7 2008 budget assumptions consistent with Commission direction in
8 COMSECY-05-0005. We have made progress in improving our
9 performance measures which has been an area of key interest not only to
10 the Commission but to OMB.

11 With this regard, the fiscal year 2007 performance budget
12 that we submitted to Congress on February 6th clarifies the linkage
13 between performance measures, output measures and the Agency's
14 strategic outcomes and also identifies the performance measures
15 supported by each of the seven activities under the Agency's major
16 programs. The staff priority this coming year in 2008 in the budget cycle
17 is to make the Agency's existing performance measures more challenging,
18 consistent with Commission direction and we expect these revised draft
19 performance measures, key planning assumptions and major program
20 outputs to be submitted to the Commission some time between the middle
21 and towards the end of February.

22 We have pursued system and data improvements
23 including initiating replacement of the NRC's budget system which has
24 already been addressed by Mr. Rabideau as part of modernizing our
25 financial systems. Our fourth key accomplishment was completion of two

1 Program Assessment Rating Tool evaluations. I would like to
2 acknowledge that this accomplishment is in partnership with lead offices
3 for PART reviews such as NRR and NMSS. And we work very closely in
4 partnership with them to insure an effective performance in this area.

5 Together with these two assessments we've completed
6 this year, NRC has completed five PART reviews since the OMB PART
7 assessment process was initiated. Of the five PARTs conducted, four
8 have received OMB's highest rating of effective government-wide. A
9 cumulative total of nearly 800 programs have been assessed by OMB's
10 PART. Only 15 percent have received an effective rating. We are
11 particularly proud of this achievement.

12 OMB requires that programs subject to PART assessment
13 secure regularly scheduled independent assessments. The NRC is
14 exploring how other Federal agencies address independent program
15 evaluations at this point to determine an approach for conducting regularly
16 scheduled independent assessments for PART. The staff will be
17 submitting to the Commission a paper addressing various options and
18 providing a recommendation in this area.

19 Our fifth key accomplishment is publishing the Information
20 Digest. This year we are continuing our efforts to improve the Digest by
21 looking at ways to enhance the layout and design and to update it to
22 reflect current topics of interest. Turning to the key initiatives on Slide 11,
23 we have one initiative this year which is to continue the documentation
24 efforts on planning budget and performance management process.
25 Management Directive 4.7, Planning Budget and Performance

1 Management Process is being updated to clarify the roles and
2 responsibilities in the PBPM process. The updated directive will also
3 document the budget formulation process. A draft of this directive is
4 expected to be issued for comment in March 2006 and finalized in
5 September 2006.

6 This concludes my presentation.

7 MR. FUNCHES: This concludes our presentation. As you
8 can see, we've had I think some significant accomplishments during the
9 year. We have a lot of work ahead of us and a lot of challenges as we
10 move forward and we're prepared to deal with those. With that, that
11 concludes our presentation and we'll turn it back to you, Mr. Chairman.

12 CHAIRMAN DIAZ: Thank you, Jesse and thank all of you
13 for your presentation. Now, it's time for the Commission to take charge of
14 the tale and provide you with a few questions. Commissioner Jaczko.

15 COMMISSIONER JACZKO: Thank you, Mr. Chairman.
16 The first question I wanted to ask, this is something, I think you talked a
17 little bit about the 2005 -- there was the performance report and I think we
18 get a score card on that report from the Mercatus Center.

19 MR. FUNCHES: Yes.

20 COMMISSIONER JACZKO: Apparently we've done fairly
21 well in that report and about 24 agencies submitted. We came in about
22 tenth in that. One of the areas though, where the Agency didn't receive
23 one of the higher scores or received an acceptable score was in the area
24 of transparency. And maybe one of you could talk a little bit about how
25 you see that and what you might be able to do to improve that to one of

1 the good or excellent ratings, a little bit higher.

2 MR. FUNCHES: Well, we typically get two reviews. The
3 Mercatus Review and we get one from the Association of Government
4 Accounting, and as Mary mentioned, from the Association of Government
5 Accounting they have rated us excellent in accountability reporting. They
6 don't necessarily rate how well you perform our mission or whatever, how
7 well you communicate. They see it as communicating very well.

8 One of the areas that we've had an issue, one of the
9 concerns that we've had with Mercatus in the past is they have pushed for
10 a more definitive statement of what the risk is and how you categorize the
11 risk and we have basically said we would use the goals and things that we
12 have set.

13 COMMISSIONER JACZKO: And is that what -- is that
14 falling into the category of transparency?

15 MR. FUNCHES: That's my recollection of it and I can go
16 back and double-check. I don't know if you remember, Pete if there was
17 anything? The biggest issue, I thought with us was our goal, we have
18 binary goals, and they would like to see some more gradation of that and
19 so it's kind of a fundamental difference in how we approach doing our
20 Strategic Plan.

21 MS. GIVVINES: And I would also like to add that there is
22 a committee established that reviews the Performance Accountability
23 Report and provides recommendations and suggestions. We take those
24 suggestions and recommendations every year and try to incorporate them
25 into the next year's process. And I also want to mention that we are

1 working or hoping to develop a highlights brochure this year that we think
2 would help greatly with the transparency as well, make it more useful for
3 the general public.

4 COMMISSIONER JACZKO: Thank you. A series of
5 questions, this year, I've been here just a little bit over a year and as I
6 came in last year, we were right in the middle of beginning the FY-07
7 budget process and little did I know what that would entail. But I now have
8 a year under my belt and I guess I'm happy to say we're changing the
9 process a little bit in an attempt, I think, to early on in the process get a
10 better handle for how to make the right decisions from the Commission's
11 perspective in terms of how we assign budget priorities. So I was
12 wondering, I know there's a paper in the works and it's on its way up, to
13 talk a little bit about the prioritization scheme. Maybe you could talk a little
14 bit about what the thinking is and how you went about getting feedback
15 from the various program offices about prioritization for that document.

16 MR. FUNCHES: Maybe I can start and then you can add
17 a little bit. As you recall, in the past we had submitted -- you wouldn't
18 recall but last year we had used program assumptions -- I mean,
19 assumptions on the external environment, as well as some kind of
20 program drivers, if you will, and you all asked that we take a look and see
21 if we could look at priorities. What we have tried to do is try to look and
22 not necessarily take everything that we do because you know, some of
23 those are -- but areas where there might be changes, might be new things,
24 that identify kind of the direction and the priorities of those areas such that
25 we can get feedback from the Commission early.

1 We have involved the EDO, the Deputy Executive
2 Directors and the Offices in doing that. We're in the final process now of
3 trying to finalize those. Luiz has a draft memo that he's looking at now and
4 then we'll get back together if there are any issues and we'll provide that
5 to the Commission for review. We are still doing the assumptions because
6 we think those are very important to the Offices in trying to decide what
7 their budgets will be and helping them frame their budget. And again, we'll
8 work with input from the Offices as well. We're working very closely with
9 the EDO's office, the Deputy EDOs and Luiz himself to make sure that we
10 got the right assumptions and the right ball park.

11 COMMISSIONER JACZKO: One of the -- I do remember
12 the assumptions document from last year and I think that was one of the
13 very first meetings I think I had. I think it was Commissioner Merrifield and
14 I, we sat down and you went through the budget assumptions, I think and
15 one of the things is the historical note we had back then was, I think we
16 were looking at budgeting for one COL application in 2007/2008 time
17 frame.

18 So I think certainly it's one of the difficulties obviously with
19 budgeting so far in advance that the outside world doesn't always provide
20 us with all the information we need and I think we're seeing that. So I think
21 I'll certainly look forward to seeing how this approach will work.

22 One of the things that you talked about, let me just go
23 back, it was on Slide Number 6, was an issue with the -- let me find the
24 exact indication but you mentioned with the fee billing system that in order
25 for that to get the authority to operate that you're working with the Office

1 of Information Services right now. I think you indicated that that would
2 need to be on their priority list. Is that currently on their priority list and if
3 it's not on their priority list, will it not get the authority to operate in time?

4 MR. RABIDEAU: The license fee billing system is on the
5 OIS priority list for certification and accreditation. The system is currently
6 -- holds an authority to operate under the old NIST standards. This would
7 be changing over to the new NIST standards. The budget formulation
8 system which is in development is --

9 COMMISSIONER JACZKO: Oh, I'm sorry, that was the
10 budget formulation -- I had BFS written down, but that was the budget
11 formulation system.

12 MR. RABIDEAU: It is and we're working with them to
13 insure that we can get through the certification and accreditation process,
14 get the authority to operate such that it does not impact the September
15 2006 implementation.

16 COMMISSIONER JACZKO: Okay, but it's currently not
17 on their priority list and you think you can accomplish that without it being
18 on their priority list.

19 MR. RABIDEAU: It will take work on our part, on the
20 contractor's part and on the part of OIS to get through the certification and
21 accreditation process. So we're talking to them about giving it sufficient
22 priority such that it doesn't impact the implementation schedule.

23 COMMISSIONER JACZKO: Okay, and the last question
24 I wanted to talk about just briefly, you touched on some of the
25 improvements that have been made in the culture survey since 2002. I

1 mean, in particular, I think your office has made some noticeable
2 improvements in a variety of areas and I'm wondering, I know certainly I
3 think the Human Resources office has a program to try and get best
4 practices. Have you shared any of the best practices in the areas that
5 you've made significant improvement in to be able to help in general with
6 other offices if there's areas of improvement there?

7 MR. FUNCHES: We do. I think more probably more in
8 the other way, we would talk to other offices and the regions and get their
9 best practices and we'd try to bring some of those into play but we do, you
10 know, periodically, at Senior Management Meetings, try to find out things
11 out there, you know, things that they're doing. Now for each organization,
12 as we go forward, obviously, to look at actions that are being taken that
13 Luiz has underway and we would obviously share what we were planning
14 to do and that way going forward.

15 But I think kind of in the past we've probably been more
16 on the receiving end than the giving end and I think we've got good ideas
17 from other Offices but we'll clearly share the approach that we have taken
18 and the consultants that we've used with HR.

19 COMMISSIONER JACZKO: Thank you.

20 COMMISSIONER LYONS: Thank you. Let me start by
21 congratulating all of you, Jessie and your team on a number of impressive
22 achievements, certainly the low delinquent debt, the fourth consecutive
23 CEAR award, the consistently accurate and timely payments, and also the
24 Information Digest which I find myself using on almost a daily basis. It's
25 just a very, very useful compilation of handy facts and figures. Maybe by

1 now I'm supposed to have it memorized, but I don't have it memorized. A
2 comment. You mentioned your interest in changing -- or you mentioned
3 your priority in improving some of the performance measures and making
4 them still more challenging. Commissioner Merrifield I think already
5 flagged that as you were going through your presentation and that's an
6 area where I, too, would be very, very interested in seeing somewhat more
7 challenging goals being set since you're clearly meeting the ones you have
8 very well.

9 A question on travel requirements and the new travel
10 policy, Tim, I think you mentioned the availability now of non-refundable
11 tickets as a cost saving mechanism. When we've tried to use that
12 mechanism, we've had some difficulty using it. Are you finding -- are folks
13 finding that they can use the non-refundable ticket mechanism?

14 MR. PULLIAM: Yes, they're finding that they can use it.
15 They can go through Carlson and ask for a restricted air fare ticket. On
16 their orders it would say that this is a restricted air fare ticket but when we
17 first started the program, it wasn't well-known that you could have Carlson
18 book a restricted air fare ticket. We're not having any problems at this
19 time.

20 COMMISSIONER LYONS: Okay, we'll keep pursuing that
21 then, but personally, I think that's a very, very good idea. I'm sometimes
22 dismayed by the cost of the government fares, even in cases where -- in
23 my own case, I know my travel isn't going to change and it's -- I will
24 certainly be one of the users of the non-refundable but when we've tried
25 it, we've had some difficulties. So we'll keep trying.

1 MR. PULLIAM: Okay, I'll follow up with your staff.

2 MR. RABIDEAU: One thing I'd add to that, Commissioner
3 is right now some of the lowest fares that you can find available through
4 the Internet are not available to Carlson; is that correct, Tim?

5 MR. PULLIAM: Correct.

6 MR. RABIDEAU: So while we have some restricted fares,
7 at lower rates, you know the absolute lowest rates that are available on the
8 Internet we cannot get to yet. We are looking further into that to see if we
9 can get Carlson to proceed and have access to Internet fares as being a
10 travel management center. So there's further work for us to do.

11 COMMISSIONER LYONS: I gather it's still the policy that
12 we have to go through Carlson as opposed to just buying them ourselves.

13 MR. PULLIAM: That is correct.

14 MR. RABIDEAU: It's a federal travel regulation policy.

15 COMMISSIONER LYONS: A question on the fee billing
16 system, that was cited as a material weakness and I assume it will
17 continue to be cited until it's fixed in 2008, I was just curious whether you
18 see any mechanisms by which we could accelerate the improvements in
19 that system or is 2008 really as fast as we're going to succeed in changing
20 it?

21 MR. RABIDEAU: We would like to implement a new fee
22 billing system as quickly as we can. If we can improve the schedule that
23 we're operating on, we would like to be able to do that but we think that's
24 a pretty optimistic schedule. It's less than two years from where we are
25 right now in order to finish the planning process, get the capital planning

1 and investment control business case approved, make a final selection on
2 vendor and then implementation. We would like to be able to improve it,
3 but I think we're looking right now at the best.

4 COMMISSIONER LYONS: So in the meantime we'll
5 continue to rely -- I believe the report said relying on a small team to check
6 and double check these entries.

7 MR. RABIDEAU: We are working to reduce the material
8 weakness in license fee billing and I'm going to let Mary talk to you about
9 some of the details of what we're doing to a reportable condition. We
10 hope that we will have success in doing that but until such time that we
11 finally have a new system available, we are going to rely on the existing
12 system and the fact that there are a lot of manual processes that go along
13 with that. Mary, if you could just take a minute or so and talk about some
14 of the improvements that have been made.

15 MS. GIVVINES: Sure, I covered them in the presentation.
16 The improvements, the additional improvements we're planning to make
17 deal with additional reconciliation, deal with -- let's see, we've got the
18 additional reconciliation. We're going to do a comprehensive internal
19 control review. We're going to look at all the processes. Remember this
20 is a system that's made up of nine different systems, 14 interfaces and lots
21 of processes. So we're going to do a comprehensive look at all of those
22 and look to see where we see major control deficiencies and where we
23 can, we're going to try to fix them as quickly as we can.

24 That's sort of the bulk of it and a lot of this is also coming
25 under the new Circular A-123 with internal control reviews that are taking

1 place. So we're hoping that we will be able to identify and address a good
2 number of these deficiencies. The scope of the audit increased this year
3 to go to these feeder systems. The audit folks before the part that we
4 were mainly responsible for between the invoices and the billing and so
5 forth, but what the auditors did this year is said, "Okay, you're getting all
6 these information from these feeder systems, how accurate is that and
7 how are you validating that data?" And so we're hoping that this will get
8 to that and we're going to improve our validations. And we are targeting
9 to at least reduce it to a reportable condition.

10 And your question about the over-reliance on a small
11 team, we have taken some measures there. We have cross-trained staff.
12 We have added staff to that area and the cross-training is also part of the
13 knowledge transfer and we're looking to even add more staff and we're
14 also looking to double encumber where we can. So that's going to help
15 with the small reliance. But the bottom line is, as you said, is there is a lot
16 of manual processes and that's why the team gets so involved at this
17 point.

18 CHAIRMAN DIAZ: Thank you Commissioner Lyons. Let
19 me just start with a comment first. I do realize that I see Jesse a little bit
20 more often than the members of the Commission but I think we have
21 made progress. I am pleased that we are addressing areas that need to
22 be addressed and hopefully we will continue to do so. I noticed Jesse was
23 smiling when Commissioner Lyons was talking about travel. I got a two by
24 four a couple years ago and looked at travel relocation and I'm pleased to
25 say that the EDO and the CFO made significant improvement. These

1 were areas that were escalating in cost and really it took a lot of common
2 sense and discipline to go back and take a look at them, and I think we're
3 maintaining the benefits to our employees but at the same time we are
4 having good cost saving features that brought those issues under control.

5 I just mentioned the EDO and the CFO. And this is an
6 area in which I am also pleased to say that there is significant
7 improvement in the communications and the connectivity between these
8 two offices and Jesse, this is your chance, if the EDO is not doing all he
9 needs to do, you need to now speak.

10 COMMISSION JACZKO: You know he's sitting –

11 MR. FUNCHES: I think we're working very well together.
12 We recognize that if we, especially if we go forward On an issue that we've
13 dealt with, that we have to stay connected because the program is what
14 the Agency is about and as you mentioned earlier our job is to make sure
15 that we have the finances to make that happen. And I think we can't do
16 that without working very closely together and I think our connectivity and
17 our communication is the best that I've seen since I've been here.

18 CHAIRMAN DIAZ: It is, it is. I don't want to turn this into
19 a love affair or feast.

20 (Laughter)

21 CHAIRMAN DIAZ: No, I think it's an important issue, I
22 think my fellow Commissioners and I appreciate that you both have
23 realized that this was an area that needed to be improved and we are very
24 pleased that you're going on the right way.

25 Let me go back to an area that the CFO has had couple

1 of little problems although improvements are there which is the safety and
2 culture survey. We need to make sure that continuous improvements are
3 made in this area. Is there any particular issue, I know you went through
4 them, that you believe you need to provide significant attention to. You
5 know, I always stress communications because I know that many times
6 many of these issues are communications issues but you might have a
7 different perspective.

8 MR. FUNCHES: Right, communication is clearly
9 something that cuts across all of the areas that we deal with and that was
10 one of the areas that we had last time and we will continue to have. I think
11 when we look at the survey and we look down the line responses to the
12 survey there, communication has improved quite a bit across the board but
13 it's clearly something that we want to keep a focus on. The other area is
14 that you know, when I look at the survey and I look at -- and based on the
15 discussion that we had and I mentioned here is, we have a lot of demands
16 on us and they're demands not only in terms of amount of work but the
17 deadlines are deadlines, you know, November the 15th the PAR has to go,
18 February 6th the budget has to go to Congress, September it has to go to
19 OMB, June it has to come to the Chairman, July to the Commission, but
20 we have a lot of fixed deadlines that we don't have a lot of flexibility in
21 trying to meet and so we put emphasis on planning there, but I think the
22 workload and the stress that it puts on the staff that is something that we
23 clearly got from the survey and it's something that we really do need to
24 work on and it has to be kind of high on the priority list.

25 Communication is clearly there. I think the team building

1 that we did, we did the team building. We started from the group at this
2 table working together, then each division worked using the same
3 consultant and then each team chief, they worked with that group and we
4 got some good feedback on that and we're going to continue that, working
5 as a team.

6 So and that's going to help us with, I think, our overall
7 management and leadership area. But I do think that there is a lot of
8 stress on the staff in trying to meet the new work because the operation
9 has to continue and the other things we have and some of the operational
10 areas, because, if you just look at the workload, there's no depth there and
11 so if somebody goes on leave for a short two weeks or gets sick, the work
12 piles up. So that's the area we'll be working on and we'll be looking for the
13 Commission's support as we work that particular issue.

14 CHAIRMAN DIAZ: Okay, let me go quickly to the new
15 reactor licensing and the number of changes we have seen in the last
16 year, and I would have the expectation that since we know that changes
17 have occurred and will occur, that we are developing a system between
18 you and the EDO to actually keep accommodating the changes, because,
19 there will be a time, of course, we will not be able to accommodate any
20 more but we think the flexibility we have or the potential for new funding
21 if it's necessary, which we don't know whether we will get it or not, but
22 certainly we need to be on top of that, it is do we have now a reasonable
23 way of formulating what another COL will represent in the budget? Of
24 course, it's not proportional, especially with the systems that we're putting
25 in place. Are we where we should be to you know, rapidly in a period of

1 two to three months, come with the proper answers to changes in the --

2 MR. FUNCHES: Yeah, I think we have good models to
3 work within NRR. We are working very closely together looking at various
4 review type concepts. So I think we have the models and the information
5 flow to keep up to speed and make adjustments as we go. Obviously,
6 there's always some level of uncertainty because it's -- you know, both in
7 the numbers and the types and how they might come in, you know, COL,
8 and all those things. So we're keeping track and what we're trying to do
9 is make sure we have a way to kind of bound the issues such that we can
10 deal with fluctuation within those bounds. So that's the approach we're
11 taking but we do have I think models that -- Les has been working very
12 closely with NRR.

13 MR. BARNETT: We've been working very close with NRR
14 and the other support contributing offices that COLs affect, so this
15 connectivity has helped us stay abreast of the work load and the additional
16 requirements that come with it.

17 CHAIRMAN DIAZ: Are we taking care of OGC?

18 MR. BARNETT: Yes, we are.

19 MR. FUNCHES: Actually, we have been talking to Karen
20 and we're also bringing in ASLBP, so we're trying to make sure that we
21 stay very close with ADM and OIS because, obviously, again, they're just
22 like us, the support is necessary to make the staff effective.

23 CHAIRMAN DIAZ: All right, okay, thank you.
24 Commissioner McGaffigan.

25 COMMISSIONER McGAFFIGAN: Thank you. I'll just

1 follow up. I hope OCAA is considered either part of OGC, or you're
2 dealing with them because a pacing item in the ultimate disposition of
3 peerings is going to be how quickly we can write Commission decisions on
4 contested matters and I see a need for a significant increase in OCAA
5 staff by 2009.

6 PART reviews, the one PART review that we did not
7 received the highest score on was the reactor licensing area where we
8 were a second tier. Why were we marked down in reactor licensing in
9 OMB's view?

10 MR. BARNETT: Commissioner, I think part of it was
11 efficiency measures in the program. Part of it was trying to get OMB
12 acknowledgment that some of the efficiencies that we have taken in the
13 program that are truly not captured in the actual performance budget were
14 really not credited. We're taking every step to try to include efficient
15 measures in the future reviews.

16 The other area --

17 COMMISSIONER McGAFFIGAN: In efficiencies -- let me
18 just try to understand -- an efficiency, is this, you know, having so many
19 less than two years, so many less than one year, getting license renewals
20 done within X period of time? Timeliness measures?

21 MR. BARNETT: It's both a timeliness measure and a
22 resource measure. Both of those have play into the results.

23 MR. FUNCHES: Then they want to also go back and look
24 at history. You know, we had obviously taken some things early on that
25 was not part of that necessarily particular year.

1 MR. BARNETT: The second aspect of it, Commissioner,
2 was clearly they had a very strong view on independent evaluations as we
3 have discussed and the combination of those is --

4 COMMISSIONER McGAFFIGAN: Well, let me go to that
5 then. But they didn't mark down the spent fuel transport folks on the
6 independent evaluations.

7 MR. BARNETT: We got partial.

8 COMMISSIONER McGAFFIGAN: So they marked them
9 down but it wasn't enough to keep them from being effective.

10 MR. BARNETT: That's correct.

11 COMMISSIONER McGAFFIGAN: Okay. Well, on these
12 independent evaluations, you told us we were going to get a paper.
13 Whatever your preferred approach is, are we going to have it in place for
14 the PART reviews that are going to occur this year, that are going to get
15 graded next November, this November?

16 MR. BARNETT: Right, there's -- we already have an IG
17 review for the decommissioning program and OMB does consider the OIG
18 review as an independent evaluation.

19 COMMISSIONER McGAFFIGAN: Is that one that's being
20 evaluated this year?

21 MR. BARNETT: That is one of them that is going to be
22 evaluated in 2006 as part of the 2008 budget process. Now, where the --

23 COMMISSIONER McGAFFIGAN: Okay. Well, I would
24 hope that that would score very well. I mean, Commissioner Merrifield
25 said yesterday, I mean, that their accomplishments are stunning compared

1 to our past performance and you know, in the last couple of years.

2 MR. BARNETT: Yes, sir, there is --

3 COMMISSIONER MERRIFIELD: Just let me clarify. You
4 said, we were going to get credit for the IG. Will we get full credit or partial
5 credit?

6 MR. BARNETT: We don't know at this point in time. We
7 probably will get partial credit regarding the breadth of the review. From
8 OMB standards, the independent evaluation has to meet the independent
9 aspect of it, but it also has to be of sufficient breadth and scope to cover
10 the entire program.

11 COMMISSIONER McGAFFIGAN: Is the IG report you're
12 talking about the one we just got, that I personally think is a pretty lousy
13 report or is it something else?

14 MR. BARNETT: I believe that's --

15 COMMISSIONER McGAFFIGAN: I mean, that report
16 mistakenly said that there was \$23.2 billion at risk in decommissioning
17 funds. It used 2002 data. It acknowledged that in 2002 there had been
18 eight license renewals instead of the 35 we have today and 40, very
19 shortly in all likelihood. I mean, so I'm not sure we want a lot of credit for
20 a truly lousy IG report. You know, that will, says essentially we've been
21 investing in river boat casinos or something with our decommissioning
22 funds, when, in fact, they're enormously over-funded if anything.

23 MR. FUNCHES: Let me just add a little bit to what Les
24 said. One of the options we have looked at was to use the IG reviews as
25 as part of the independent evaluation and OMB had talked to us as that

1 being an alternative. On of the issues there is trying to make sure that you
2 have firm fixed schedules on those but I think that was an alternative.
3 We're putting together now several alternatives that –

4 COMMISSIONER McGAFFIGAN: Is there an alternative
5 other -- I mean, back to my original question; whatever alternative you're
6 about to put forward to us, is that implementable in time for this year's
7 reviews?

8 MR. BARNETT: I don't believe it will, sir.

9 COMMISSIONER McGAFFIGAN: So we're going to
10 continue to get graded down. Is there anything else besides
11 decommissioning being graded this year?

12 MR. BARNETT: Okay, decommissioning is this year and
13 then following this year will be high level waste.

14 COMMISSIONER McGAFFIGAN: But then you're
15 supposed to also look back at the previous five.

16 MR. BARNETT: You do look back at the previous five as
17 well.

18 COMMISSIONER McGAFFIGAN: And so whatever
19 mechanism you're going to come up with is going to cover the previous
20 five, decommissioning and high level waste.

21 MR. BARNETT: And we're working with OMB on the
22 sequence of those review, those independent evaluations once we put
23 them in place.

24 COMMISSIONER McGAFFIGAN: I look forward to that
25 paper, is it going to be fairly soon we're going to receive it?

1 MR. BARNETT: Say within the next month or two.

2 MR. FUNCHES: Next month. In terms of this year, it's
3 really not November that they do the PART. They do the PART during the
4 -- when did they start last year?

5 MR. RABIDEAU: In March.

6 Mr. FARRINGTON: They start in March so even though
7 you see the results as part of the pass back in the budget process, they are
8 here and they're going the review and there's a process that they go
9 through during the summer to wrap that up, so it would be impossible to
10 put that in place by then. We have had conversations with NMSS about
11 going forward with high level waste and how we might do that for next year,
12 but the paper that will come forward will have some options in it of ways we
13 can do it that we've gone on with best practice in other agencies.

14 We looked at the possibility of having maybe somebody
15 that can do it for us, maybe a university consortium or something like that,
16 that might be able to do it for us. So we're looking --

17 COMMISSIONER McGAFFIGAN: I just look forward to
18 having it in place because I think this has been a lingering issue between
19 us and OMB and we just need to get it resolved and I hate to hear that
20 reactor licensing was downgraded because they didn't have an
21 independent review. But we'll -- because I think they've done -- again, we
22 haven't NRR's brief yet, but I think they've done extraordinarily well in
23 recent years.

24 MR. FUNCHES: Well, I was going to say the same thing.
25 I think you know, if you look at the rating of that program, it just wasn't in

1 the top. Everything else had been in the top, it's just one notch below the
2 top and we pushed back very hard with OMB and you know, you get to the
3 point of diminishing --

4 COMMISSIONER McGAFFIGAN: Yeah, I know but during
5 the year that they're looking at, is the year that they -- what was it, 200
6 reactor security licensing actions that had to be done and they did them on
7 time with extraordinary effort and extraordinary efficiency and lots of other
8 things that went well that year. If it's the independent review I understand
9 why it got marked down. Thank you.

10 CHAIRMAN DIAZ: Thank you. Commissioner Merrifield?

11 COMMISSIONER MERRIFIELD: Thank you, Mr.
12 Chairman. First, I want to add to Commissioner's Lyon's comments about
13 the Information Digest. As the CFO and the Deputy CFO are well aware,
14 this is one that I for years have been meeting with them about. I agree with
15 the improvement. If you went back and looked at what that document
16 looked like 10 years ago, it was still a decent document for its time but I
17 think we've made a lot of progress and I'm certain Pete Rabideau will have
18 yet another series of mentoring sessions with me on the upcoming
19 versions.

20 Getting back to Commissioner McGaffigan's questions on
21 the PART assessment, I guess, you know, looking at it from an OMB
22 perspective, I mean, they want, it strikes me an audit like function to occur.
23 You know they want an independent audit of a broad-ranging, independent
24 audit of what we do to get a broad sense of the program.

25 One of the dangers when we hire auditors around here

1 and others have, one of the dangers is that the audit report always has at
2 its end, you know, more study is needed and we'll be glad to put in place
3 a plan that will help fix all the problems we, as an auditor, have identified.
4 So, I guess, part of, I presume, what you're going to be looking at is how
5 you create some type of a function like that where we get the opinion of
6 that entity but not necessarily be in a position where they're going to want
7 to try to sell us services to improve all of the terrible things that they've
8 found about us.

9 I also wonder whether that could include, perhaps bringing
10 in some folks who have a greater familiarity with our agency, retired
11 annuitants, for example, who may know what we do and may be able to
12 give us some independent thoughts about how we might improve. Any
13 comments on either one of those?

14 MR. BARNETT: That is one of the options we're possibly
15 taking a look at to see if we could explore that or maybe we could evaluate
16 and put that forward.

17 MR. FUNCHES: The idea would be if you, you know, you
18 try to do something that we would want to continue something long-term,
19 so you've got somebody that understands what we do and that not each
20 time you do it, you're going to have to come in and kind of come up to
21 speed on basically what we do, so we would hopefully have some type of
22 long-term relationship. When it's done, you know, you can get them done,
23 then you can get them done periodically and at a reasonable cost and
24 you're right, I think the idea would be to, you know, give us some feedback
25 such that the Commission can decide if they want to make any changes

1 based on the results.

2 COMMISSIONER MERRIFIELD: We had questions
3 earlier on e-travel and I'm going to take it a little bit of a different way. E-
4 travel, obviously, has been delayed because of issues in some part outside
5 of our control. We've got a number of financial system modernizations.
6 You talked about time and labor as a system obviously, we have a lot of
7 interaction with the Department of Interior. Our core accounting system,
8 again, the Department of Interior. They're moving on. We're not certain
9 where they're going to go. We've gotten a lot of encouragement from OMB
10 to go to these government-wide programs and lump us in with all kinds of
11 much larger departments and agencies.

12 That's all good and I think on the positive side, one can list
13 all the potentials. What it does, however on the negative side is increase
14 the amount of risk for us because more of those issues, it would seem to
15 me, are outside of our control. And rather than contracting for our own
16 services, we're relying on DOI or some big department or agency to get it
17 right and in the case of e-travel, there's been a big delay as someone
18 already mentioned. So how do we balance it? Do we have a choice or are
19 we stuck with the system we've got?

20 MR. FUNCHESS: I think on the e-government ones, first we
21 won't go to a new system unless we feel that, as Pete said, it has the
22 functionality. For example, we made a conscious decision we were not
23 going to be the first one to use e-travel and we won't bring up e-travel
24 unless we're comfortable that it can meet our needs and we'll do all the
25 testing and we'll do all that. So in the first instance we won't bring up the

1 system or, you know, replace something that won't meet our needs, that
2 we're not comfortable with.

3 As it relates to e-government, I think, you know, the
4 government-wide initiatives there's a lot of, I think OMB basically, for
5 example, have gone, basically like the financial or the core accounting
6 system, they have what they call a financial management line of business
7 and they've basically gone to three providers and if you want to invest
8 money to develop a system, they will see it on the IT sheet that we have
9 to submit as part of the budget and they have said they would not approve
10 money to develop a system without substantial justification and obviously,
11 if we felt that we needed to develop and for a reason we would be
12 prepared to go and make those justifications.

13 COMMISSIONER MERRIFIELD: Let me -- I've got one
14 other thing I want to explore. I would just say as a general comment, you
15 know, using our -- and this doesn't fall directly in your authority, but using
16 our telecommunication system as an example. I mean, we're held hostage
17 by a government system. We end up having -- you know, we're a first
18 world government with a second-world telephone system and, you know,
19 we have a circumstance where we're lumped in with the Department of
20 Interior, the Department of Defense, the Department of State, which are
21 much bigger and have a much different profile of things that they need. I
22 just hope you do look at these things independently. We're an independent
23 agency, where we need to beat the drum and we should. So that's my
24 personal view.

25 MR. FUNCHES: And we will, Commissioner, we will.

1 COMMISSIONER MERRIFIELD: Okay, the last issue and
2 briefly, looking at some of the challenges you have with the culture survey
3 and how you've attempted to address it and have made improvements
4 which I want to acknowledge. It strikes me that yours is a service
5 organization. And a lot of the core issues that we deal with as an agency,
6 while your folks are informed about them, I mean, they don't have the day
7 to day involvement with reactor inspections or material inspections or even
8 our program for differing professional opinions.

9 So in some cases, I think that effects your survey.
10 However, that function that you have is similar to other federal CFOs and
11 I'm wondering to the extent to which within the CFO Council, you've tried
12 to tap into strategies used by other Federal agencies to address some of
13 the gaps in your culture survey that we've seen over the course of the
14 years.

15 MR. FUNCHES: We do, we do talk about human capital
16 issues as it relates to the CFO organization. Actually, there's a retreat off-
17 site for two half days this week where the CFO Council are coming
18 together. You know, we'll talk about like A123 implementation, that's a new
19 thing and what the lessons learned. We also have an area there on
20 human capital and how you deal with human capital, some of the human
21 capital issues that CFOs have to deal with.

22 And we also are now looking at the – we obviously look
23 at the U.S. norm, but the human capital is one aspect of it both in terms of
24 hiring and retention of people right now because of the high demand for
25 say accountants because of Sarbanes-Oxley, how do you do that? You

1 know, should we create some programs to bring people in and how do you
2 deal with the workload and making sure that you communicate and interact
3 across the organization.

4 But I think the suggestion of maybe bringing up some
5 specific issues that we have with the CFO Council is a good one because
6 they are not that -- they haven't been that specific. I think that's a good
7 suggestion to get input. We do have a smaller group within the CFO
8 Council that the new controller has done. They have a little group they call
9 Getting to Green and five CFOs each. The encouragement there is that
10 the five CFOs get together and talk about common issues as opposed to
11 try to do it as part of Council, and I think that would be a good means to do
12 that also.

13 COMMISSIONER MERRIFIELD: Well, it just strikes me
14 that the challenges you have are probably similar to other --

15 MR. FUNCHES: Right.

16 COMMISSIONER MERRIFIELD: -- departments and
17 agencies and there may be some best practices out there that we should
18 try to identify and help us out.

19 MR. FUNCHES: Right.

20 COMMISSIONER MERRIFIELD: Thank you.

21 CHAIRMAN DIAZ: All right, thank you very much. Do we
22 have one final comment or question? No? Okay, all right, with that then,
23 I want to thank Jesse and all of your managers for bringing us up to date
24 and I know that handling the money is not easy but we look forward for you
25 to keep increasing the amount of money that's coming in, you know,

1 controlling the expenditures and giving us the budget on time so that we
2 can make the right decisions. With that, we are adjourned. Thank you.

3 (Whereupon, the above-entitled matter concluded.)

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