

POLICY ISSUE
(Information)

August 28, 2015

SECY-15-0109

FOR: The Commissioners

FROM: Mark A. Satorius
Executive Director for Operations

SUBJECT: TASKING II-1.A (SRM-SECY-15-0015): ASSESSMENT OF THE
RECOMMENDATIONS IN THE APRIL 30, 2015, ERNST AND YOUNG
OVERHEAD ASSESSMENT REPORT

PURPOSE:

The purpose of this paper is to provide the Commission with the NRC staff's assessment of the recommendations identified in the April 30, 2015, Ernst and Young (EY) Overhead Assessment Report.

SUMMARY:

NRC staff completed its assessment of the cost reduction recommendations in the EY Overhead Assessment Report and will implement those recommendations in the coming years as it works to improve the efficiency of its internal processes in efforts associated with Project Aim 2020. Overall, staff found merit in all of the cost reduction recommendations in the EY report. In Enclosure 2 of this paper, staff identified actions that are currently underway to address the cost reduction recommendations and provided a status update of those actions.

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BACKGROUND:

In June 2014, the NRC initiated Project Aim 2020 to identify ways to enhance the agency's ability to plan and execute its mission more efficiently while adapting in a timely and effective manner to a dynamic environment. This project, conducted under a charter established and overseen by the Commission, was initiated as a collaborative effort between the NRC's Executive Director for Operations and the Chief Financial Officer.

The staff submitted the Project Aim 2020 Report and Recommendations (SECY-15-0015) to the Commission to support the agency's needs through 2020. With a focus on planning, people, and processes, the staff recommended (recommendation II-1.a, SECY-15-0015) and the Commission supported a strategy to improve the planning and budget formulation process, including the need to clearly define and justify overhead. In conjunction with Project Aim, the Commission contracted with the National Academy of Public Administration to review the project and identify key challenges.

In February 2015, the NRC contracted EY to conduct a review of the agency's overhead functions in comparison to peer agency cost reduction practices, identify ways to reduce costs and adjust the agency's budget structure to align with leading practices, and identify a standard overhead definition without impacting the agency's ability to carry out its mission.

As directed by the House and Senate Appropriations Committees in the Joint Explanatory Statement that accompanied the Consolidated and Further Continuing Appropriations Act of 2015, NRC submitted a report to Congress describing the agency's efforts to reduce its overhead requirements and improve the efficiency of the Commission's internal processes. On the same day, April 30, 2015, EY provided the NRC with its Overhead Assessment Report that identified recommendations that generally align with the goals and objectives of Project AIM 2020. These recommendations have been assessed by NRC staff as part of the implementation of Project AIM 2020 and have been used to inform the NRC's reduction of corporate support requirements and improve NRC's efficiencies as committed to the House and Senate Appropriations Committees in the May 1, 2015 memorandum to the Honorable Thad Cochran, Chairman of the Senate Committee on Appropriations.

DISCUSSION:

EY assessed the five standard mission support cost elements (acquisitions, financial management, Information Technology (IT), human capital, and real property) identified in the President's Management Agenda¹ for the NRC and participating peer agencies. Discrepancies between the peer agencies' leading practices and the NRC's current practices are identified in the EY Overhead Assessment report as cost reduction recommendations.

Overall, EY suggested eight cost reduction recommendations in the Overhead Assessment Report based on the five standard mission support cost elements identified in the President's Management Agenda— two general and six that relate to specific mission-support cost elements.

¹M-14-12, Memorandum for the Heads of Executive Departments and Agencies, Management Agenda Priorities for the FY16 Budget, <https://www.whitehouse.gov/sites/default/files/omb/memoranda/2014/m-14-12.pdf>

The staff's assessment of these recommendations can be found in attachment 2. During the assessment, NRC staff evaluated current agency practices against the cost reduction recommendations to identify actions that are already being taken to address the recommendations. Staff also provided a status update to include anticipated milestones to complete those actions already underway to address the EY cost reduction recommendations.

In addition, EY recommended three changes to the NRC's budget structure to align with leading practices. The first budget structure change recommended focused on the removal of the Office Support Business Line (BL) and alignment of associated indirect product lines (PL) to all other BLs. EY identified this recommendation to highlight the inconsistency in the use of agency's use of indirect PLs within direct business lines (e.g., training and travel PL resided within direct business lines, but financial management and Information Technology PL resided in the office support business line). Additionally, EY noted that isolating the agency-wide and office-oriented mission support cost was not a common practice among peer agencies involved in the EY Overhead Assessment.

The second budget structure change recommended focused on the removal of the International Activities PL from mission support. In this recommendation, EY suggests that this PL be allocated directly to the appropriate business lines. EY highlighted this recommendation as an uncommon practice since only one of the other participating peer agencies characterized this PL as mission support for non-mission oriented international activities.

The last budget structure recommendation focused on evaluating product-level budget items for removal from mission support. This was highlighted by EY because it was self-identified by NRC stakeholders as a PL that may be eligible for removal from the overhead cost category. This PL includes the Regulatory Information Conference and the Integrated University Program among the products in the mission support PL.

The staff's proposed realignment of office and corporate support resources was provided to the Chairman by memorandum from the CFO and EDO on July 10, 2015, and then to the Commission to inform deliberations during the FY 2017 budget formulation process.

CONCLUSIONS:

As noted in the report, EY found no standard governmentwide definition of overhead costs and also determined that the NRC's overhead costs are aligned with those of the peer agencies when compared against the President's Management Agenda overhead cost categories. EY also identified critical success factors to reduce overhead costs, including initial investments to generate longer-term savings and a commitment by leaders to better understand cost drivers to implement possible changes. Additionally, EY determined that the NRC has already implemented several cost reduction leading practices identified by the peer agency assessment.

EY recommended that additional overhead cost reduction is attainable and additional efficiencies could be gained. Specifically, EY proposed three changes to the agency's mission support budget structure that the staff included in the proposed realignment of office and corporate support resources that was provided to the Chairman by memorandum from the CFO and EDO on July 10, 2015, and the Commission to inform deliberations during the FY 2017 budget formulation process. Once the Commission provides direction to staff in its final SRM, staff will

take the actions necessary to address these proposed changes to the agency's mission support budget structure.

RESOURCES:

No additional resources needed to implement recommendations.

COORDINATION:

The Office of the General Counsel has reviewed this paper and has no legal objection. The Office of the Chief Financial Officer has reviewed this paper for resource implications and has no objection.

/RA by Darren B. Ash for/

Mark A. Satorius
Executive Director for Operations Director

Enclosures:

1. Overhead Assessment, Nuclear Regulatory Commission, Final Report, dated April 30, 2015 (Ernst and Young Report for Project Aim 2020) ML15100A369
2. Assessment of the Recommendations from the Ernst and Young Report for Project Aim 2020, ML15100A369

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