

UNITED STATES OF AMERICA
NUCLEAR REGULATORY COMMISSION

+ + + + +

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

+ + + + +

PUBLIC MEETING

+ + + + +

Nuclear Regulatory Commission

One White Flint North

Rockville, Maryland

Tuesday

February 11, 2003

The Commission met in open session, pursuant to notice, Richard A. Meserve,
Chairman of the Commission, presiding.

COMMISSIONERS PRESENT:

GRETA J. DICUS, Member of the Commission

NILS J. DIAZ, Member of the Commission

EDWARD McGAFFIGAN, JR., Member of the Commission

JEFFREY MERRIFIELD, Member of the Commission

STAFF AND PRESENTERS SEATED AT THE COMMISSION TABLE:

JESSE FUNCHES, CFO

PETER RABIDEAU, Deputy CFO

CHARLOTTE TURNER, Director of Accounting and Finance

LESLIE BARNETT, Director of Planning, Budget and Analysis

CHAIRMAN MESERVE: GOOD MORNING. THE COMMISSION MEETS TODAY TO HEAR FROM THE CHIEF FINANCIAL OFFICER AND HIS STAFF ON THE STATUS OF THE NRC'S FINANCIAL OPERATIONS. THIS IS AN ANNUAL BRIEFING THAT IS INTENDED TO KEEP THE COMMISSION INFORMED OF ONGOING FINANCIAL ACTIVITIES THAT ARE CENTRAL TO THE OPERATIONS OF THE AGENCY AND OF EFFORTS TO ENSURE COMPLIANCE WITH THE VARIOUS LAWS AND REGULATIONS GOVERNING FINANCIAL MATTERS.

WE WILL ALSO LEARN, I'M SURE, ABOUT PROGRESS ON THE PRESIDENT'S MANAGEMENT REFORM INITIATIVES.

SO WE LOOK FORWARD TO THIS BRIEFING AS IT COVERS AN OPERATION THAT IS CENTRAL TO THE ACHIEVEMENT OF ALL OF OUR FUNCTIONS.

MR. FUNCHES, YOU MAY PROCEED.

MR. FUNCHES: THANK YOU, CHAIRMAN MESERVE, COMMISSIONER DICUS, DIAZ, MCGAFFIGAN AND MERRIFIELD. WE ARE PLEASED TO HAVE AN OPPORTUNITY TO DISCUSS WITH YOU TODAY THE AGENCY'S FINANCIAL ACTIVITIES. AT THE TABLE WITH ME ARE PETE RABIDEAU, DEPUTY CHIEF FINANCIAL OFFICER; CHARLOTTE TURNER, DIRECTOR OF DIVISION OF ACCOUNTING AND FINANCE; AND LESLIE

BARNETT, DIRECTOR OF THE DIVISION OF PLANNING, BUDGET AND ANALYSIS.

TODAY, I WILL COVER FOUR AREAS AND TALK TO YOU ABOUT THE OCFO'S ORGANIZATION COSTS. WE WILL ALSO TALK TO YOU ABOUT THE FINANCIAL OPERATIONS WITHIN THE NRC, WE WILL ADDRESS FINANCIAL AND PERFORMANCE REPORTING, AND LASTLY, WE WILL DISCUSS PLANNING, BUDGET AND PERFORMANCE MANAGEMENT.

FOR EACH AREA, WHAT I WOULD LIKE TO DO TODAY IS DISCUSS FY 2002 ACCOMPLISHMENTS AND PLACE IN CONTEXT THE CHALLENGES THAT WE WILL FACE IN THE FUTURE.

SLIDE 3.

DURING THE PAST YEAR, WE HAVE BEEN INTRODUCING COST MANAGEMENT ACROSS THE AGENCY. WE ARE IMPLEMENTING A NEW COST ACCOUNTING SYSTEM WHICH I WILL TALK TO YOU ABOUT MORE IN TERMS OF THE STATUS AND ISSUES WITH THAT SYSTEM.

AS A RESULT OF IMPLEMENTING COST ACCOUNTING, WE NOW HAVE MORE COST INFORMATION FOR MANAGERS. SOME OF THIS INFORMATION WE HAVE INCLUDED IN THE BUDGET EXECUTION REPORT IN THE FORM OF COST RATIOS.

WHAT I HAVE SHOWN ON THE CHART BEFORE YOU TODAY ARE THE COST RATIOS MY OFFICE COMPARED TO THE NRC'S AVERAGES.

IF YOU LOOK AT THE CHART IN TERMS OF DIRECT LABOR,
THAT IS DIRECT PROFESSIONAL STAFF, ABOUT 54 PERCENT OF OUR LABOR
COST GOES TO DIRECT LABOR.

THAT'S SLIGHTLY ABOVE THE AGENCY'S AVERAGES.

WE HAVE ABOUT 13 PERCENT OF OUR LABOR COSTS ARE MANAGEMENT
SUPERVISION, ABOUT 11 PERCENT IS ASSOCIATED WITH
ADMINISTRATIVE ACTIVITIES.

AND OTHER LABOR COSTS IS IN ABSENCE OF THOSE THINGS
THAT DO OCCUR AND ADDITIONAL COSTS THAT ALL OFFICES
WILL OCCUR.

IN TERMS OF TOTAL COST, BOTH LABOR AND CONTRACTS, WE
SPENT SLIGHTLY LESS THAN 5 PERCENT OF THE AGENCY'S
FY 2002 COSTS.

OUR AVERAGE COST PER HOUR IS \$44.73 WHICH IS THE
LOWEST WITHIN THE NRC.

WE WILL CONTINUE TO LOOK FOR WAYS TO IMPROVE OUR
ORGANIZATION'S EFFECTIVENESS AND EFFICIENCY AS WE GO
FORWARD.

TO THIS END, WE ARE ADDRESSING THOSE AREAS FOR
IMPROVEMENT THAT WAS IDENTIFIED IN THE OIG'S SAFETY,
CULTURE AND CLIMATE SURVEY.

I HAVE ASKED THE CONTRACTOR THAT PERFORMED THAT
SURVEY TO DO AN ANALYSIS OF MY OFFICE. THEY HAVE

COMPLETED THAT ANALYSIS.

WE HAVE MET WITH THEM TO GO OVER THE DETAILED ANALYSIS FROM MY OFFICE AND WE ARE NOW PUTTING IN PLACE A MECHANISM TO GO FORWARD TO BETTER UNDERSTAND THE ROOT CAUSES OF THE ISSUES THAT WERE IDENTIFIED AND THEN TAKE ACTION TO ELIMINATE THOSE CONCERNS.

NEXT CHART, CHART FOUR.

THE NEXT SET OF CHARTS WILL BE DISCUSSING OUR FINANCIAL OPERATIONS, THOSE KEY THINGS THAT WE DO TO HELP THE AGENCY OPERATE AND OVERSEE THE FUNDS AND MEET OUR OBLIGATIONS.

WE HAVE SET GOALS FOR TIMELINESS, ACCURACY AND ELECTRONIC PAYMENTS.

AS THE CHART WILL SHOW, OUR FIVE-YEAR PERFORMANCE HAVE BEEN CONSISTENTLY HIGH AND I APPLAUD THE STAFF FOR THE OUTSTANDING PERFORMANCE AND MAKING PAYMENTS ON TIME, MAKING PAYMENTS ACCURATELY, AND MAKING PAYMENTS ELECTRONICALLY.

LAST YEAR, IF YOU WILL NOTICE ON THE CHART TO YOUR LEFT, FOR 2002, WE DID NOT MEET ONE GOAL.

WE PAID 87 PERCENT OF THE NON-PAYROLL PAYMENTS ON TIME COMPARED TO OUR GOAL OF 95 PERCENT.

THE DECREASE RESULTS FROM THE SEVERE MAIL DISRUPTION THAT WAS CAUSED BY THE ANTHRAX CONTAMINATION OF THE

POST OFFICE THAT HANDLED NRC'S MAIL.

WE HAVE TAKEN A LOOK AT THE FIRST QUARTER THIS FISCAL YEAR AND WE ARE BACK ON TARGET.

ANOTHER AREA IN OUR FINANCIAL OPERATIONS IS THE COLLECTION OF REVENUES FROM FEES AND ALSO MAINTAINING OUR DEBT LOW.

FOR FISCAL YEAR 2002, WE COLLECTED APPROXIMATELY 100 PERCENT OF THE \$479 MILLION WE WERE REQUIRED TO COLLECT THROUGH FEES.

SO WE MET OUR GOAL AND WE MET, AS YOU CAN SEE FROM THE CHART, WE HAVE AGAIN CONSISTENTLY MET THE GOAL

OF MEETING THE STATUTORY REQUIREMENTS FOR FEE COLLECTION.

OUR GOAL FOR DEBT IS TO MAINTAIN DEBT BELOW TEN PERCENT OF THE ANNUAL BILLING FEES WHICH EQUATES TO ABOUT \$5 MILLION.

CHAIRMAN MESERVE: ONE PERCENT.

MR. FUNCHES: I'M SORRY, I SAID TEN PERCENT --

ONE PERCENT OF ANNUAL BILLINGS WHICH EQUATES TO ABOUT \$5 MILLION. WE MET THAT TARGET LAST YEAR.

OUR DELINQUENT DEBT FOR FISCAL YEAR 2002 IS \$2 MILLION.

THE NEXT AREA I WOULD LIKE TO DISCUSS IS FINANCIAL AND PERFORMANCE REPORTING.

THIS IS ONE OF THE FIVE ITEMS IN THE PRESIDENT'S

MANAGEMENT AGENDA AND SUPPORTS THE PRESIDENT'S
MANAGEMENT AGENDA ITEM ON IMPROVED FINANCIAL
MANAGEMENT.

A KEY PART OF IMPROVING FINANCIAL MANAGEMENT IS TO
PRODUCE A HIGH QUALITY AND TIMELY PERFORMANCE AND
ACCOUNTABILITY REPORT.

LAST YEAR, WE WERE AWARDED THE ASSOCIATION OF
GOVERNMENT ACCOUNTANTS CERTIFICATES OF EXCELLENCE FOR
OUR REPORT.

WE ALSO MOVED FROM 21ST TO 4TH PLACE IN THE MERCATUS
CENTER RATING.

ON JANUARY 31ST, WE ISSUED OUR FISCAL YEAR 2002
REPORT, AND AGAIN, WE BELIEVE WE HAVE MADE
IMPROVEMENTS IN THAT REPORT ALSO.

ALTHOUGH WE HAVE CONTINUED TO PRODUCE A QUALITY
REPORT ON TIME, MORE IS SUSPECTED.

A FUTURE CHALLENGE IS TO MEET THE OMB ACCELERATED DUE
DATE FOR THIS REPORT.

THE PERFORMANCE AND ACCOUNTABILITY REPORT IS ON AN
ACCELERATED SCHEDULE.

OUR LAST YEAR'S REPORT WAS THE SECOND REPORT ON A
FOUR-YEAR ACCELERATED SCHEDULE.

THE 2002 REPORT WAS DUE TO OMB ON JANUARY 31ST.

WE MADE THAT DATE.

THIS WAS A 30-DAY ACCELERATION COMPARED TO LAST YEAR. THE PERFORMANCE REPORT FOR 2003 IS CURRENTLY DUE TO OMB ON JANUARY 30, 2004, AND WE ARE LOOKING AT WAYS TO SEE WHETHER OR NOT WE WANT TO ACCELERATE THAT FASTER. BUT FOR THE FISCAL YEAR 2004 REPORT, AND THIS IS A MAJOR CHALLENGE, THE SCHEDULE IS SIGNIFICANTLY COMPRESSED REDUCED BY TWO AND A HALF MONTHS. WE WILL BE REQUIRED TO SUBMIT THE REPORT TO OMB BY NOVEMBER 15TH WHICH IS SIX WEEKS AFTER THE END OF THE FISCAL YEAR. WE ARE LOOKING AT WAYS TO MAKE THAT ACCELERATION INCLUDING WAYS TO REDUCE PREPARATION TIME. NEXT CHART.

A KEY PART OF THE PERFORMANCE AND ACCOUNTABILITY REPORT IS THE AGENCY'S FINANCIAL STATEMENT.

LAST YEAR, WE AGAIN -- FOR FISCAL YEAR 2002, WE RECEIVED A QUALIFIED AUDIT OPINION AND THIS IS THE NINTH YEAR WE RECEIVED AN UNQUALIFIED AUDIT OPINION.

WE CLOSED FOUR REPORTABLE CONDITIONS. ANOTHER REPORTABLE CONDITION WAS MOVED AND WE TRACKED IN ANOTHER OF THE IG'S AUDIT REPORTS, AND WE HAVE FIVE OPEN ITEMS.

ONE OF THE KEY OPEN ITEMS IS TO CONTINUE TO MAKE IMPROVEMENTS IN COST ACCOUNTING AND RESOLVE ISSUES THAT ARE STILL OPEN.

WE HAVE HAD OPENING DIALOGUE WITH THE IG CONSISTENT WITH

CHAIRMAN MESERVE'S REQUEST THAT WE WORK TOGETHER TO RESOLVE THIS ISSUE IN THE COMING YEAR.

WE ARE ALSO REQUIRED TO PRODUCE OUR INTERIM FINANCIAL STATEMENT THROUGHOUT THE YEAR. A CHALLENGE FOR US IS AGAIN, TO MEET THE ACCELERATION THAT IS BEING REQUIRED BY OMB.

LAST YEAR, WE PRODUCED A SEMIANNUAL STATEMENT AND THAT STATEMENT WAS DUE 60 DAYS AFTER THE END OF THE PERIOD. THIS YEAR WE ARE REQUIRED TO PRODUCE QUARTERLY STATEMENTS AND THOSE STATEMENTS WILL BE DUE 45 DAYS AFTER THE END OF THE PERIOD. IN FISCAL YEAR 2004, WE WILL BE REQUIRED TO CONTINUE TO PRODUCE QUARTERLY STATEMENTS, HOWEVER, THOSE STATEMENT WILL BE DUE 21 DAYS AFTER THE END OF THE PERIOD.

SO AGAIN, YOU KNOW, WHILE WE BELIEVE WE HAVE MET THE DEMANDS PREVIOUSLY, THERE ARE CHALLENGES THAT WE WILL CONTINUE TO HAVE TO MEET.

NEXT CHART.

THE NRC HAS SEVEN FINANCIAL SYSTEMS THAT SUPPORT ITS FINANCIAL ACTIVITIES.

ALL OF OUR SYSTEMS MEET FINANCIAL SYSTEM REQUIREMENTS EXCEPT FOR THE COST ACCOUNTING SYSTEM.

AND AGAIN, AS I INDICATED EARLIER, WE ARE WORKING

WITH THE IG ON THAT PARTICULAR SYSTEM AND OUR EXPECTATION IS THAT IT WILL FULLY MEET ALL THE COST ACCOUNTING REQUIREMENTS BEFORE THE END OF THE FISCAL YEAR.

LAST YEAR, WE BROUGHT ON THREE NEW SYSTEMS.

WE BROUGHT ON THE PAYROLL TIME AND LABOR UNDER HRMS, WE BROUGHT ON COST ACCOUNTING SYSTEM AND WE IMPLEMENTED A NEW COST SERVICE AGREEMENT FOR OUR FINANCIAL ACCOUNTING SYSTEM.

ALL OF THOSE CHANGES ASSISTED US IN IMPROVING OUR FINANCIAL MANAGEMENT AND I THINK WILL GO A LONG WAYS INTO THE FUTURE TO HELP US HAVE GOOD CONTROL OVER OUR FINANCES.

AS WE MOVE FORWARD, WE WILL NEED TO IMPLEMENT NEW SYSTEMS. I THINK MOST OF YOU HAVE HEARD THAT ONE OF THE PRESIDENT'S MANAGEMENT ISSUES IS E-GOV AND AS PART OF THAT E-PAYROLL IS A GOVERNMENT-WIDE INITIATIVE THAT WOULD REQUIRE THAT ALL AGENCIES CONSOLIDATE TO TWO PAYROLL PROVIDERS BY THE END OF FISCAL YEAR 2004.

WE HAVE SELECTED THE DEPARTMENT OF INTERIOR TO CONSOLIDATE WITH AND WE WILL BE MOVING FORWARD TO MAKE THAT CONSOLIDATION.

AS WE MOVE FORWARD, I EXPECT TO SEE SOME COST REDUCTION IN OUR OPERATION FOR PAYROLL.

ANOTHER SYSTEM THAT WE WILL HAVE TO CONVERT IN THE COMING YEARS IS OUR LICENSE FEE SYSTEMS. CURRENTLY, THAT IS A LEGACY SYSTEM AND AS WE MOVE TO THE NEW OPERATING SYSTEM FOR THE AGENCY, THOSE SYSTEMS WILL BECOME OBSOLETE.

AS I MENTIONED EARLIER, THE COST ACCOUNTING SYSTEM AND THESE OTHER SYSTEMS ALLOW US TO PROVIDE ENHANCED FINANCIAL DATA TO OUR MANAGERS.

FOR EXAMPLE, WE BROUGHT UP THE NEW FINANCIAL SYSTEM, FINANCIAL ACCOUNTING SYSTEM. WE ARE NOW ABLE TO PROVIDE MANAGERS ELECTRONIC DATA FOR THEIR USE AND WE ARE ABLE TO DO THAT QUICKER.

NEXT CHART.

THE LAST AREA I WANT TO DISCUSS TODAY WOULD BE PLANNING, BUDGETING, AND PERFORMANCE MANAGEMENT.

AS YOU KNOW, WE RECENTLY SUBMITTED OUR BUDGET TO CONGRESS.

THAT BUDGET INCLUDED \$626 MILLION TO FINANCE THE AGENCY'S OPERATION.

I THINK IF YOU LOOK OVER TIME, OUR OVERALL GOAL IS TO MAKE SURE THAT WE HAVE SUFFICIENT FINANCES SUCH THAT THE AGENCY CAN CARRY OUT ITS MISSION AND MEET ITS GOALS, BOTH STRATEGIC AND PERFORMANCE GOALS. AND WE THINK THAT IN TERMS OF RESOURCES THAT WE HAVE

OBTAINED, THE RESOURCES THAT WE ARE REQUESTING, WE WILL BE ABLE TO DO THAT.

IF YOU LOOK AT THE BUDGET AND IF YOU LOOK AT IT IN CONSTANT DOLLARS, WE HAVE SHOWN THREE PIECES HERE.

ONE IS, WE WILL CALL IT EXISTING PROGRAMS, WE HAVE SHOWN THE NEW EFFORT FOR HOMELAND SECURITY AND THE EFFORT FOR NEW REACTOR LICENSING. IF YOU LOOK AT THE EXISTING PROGRAM AND YOU LOOK AT IT IN CONSTANT DOLLARS, WE ARE ESSENTIALLY FLAT IN 2004.

IN FACT, IF YOU LOOK AT IT IN CONSTANT DOLLARS, THE EXISTING PROGRAM WOULD BE \$6 MILLION LESS THAN LAST YEAR'S. AND THAT IS AFTER WE CONSIDER GROWTH IN AREAS SUCH AS LICENSE RENEWAL.

OBVIOUSLY, THE DEMAND IN HOMELAND SECURITY HAS INCREASED SO WE HAVE RESOURCES THERE AND WE ALSO HAVE RESOURCES OF INCREASE FOR NEW LICENSING.

NEXT CHART.

WE ARE REQUIRED TO COLLECT MOST OF OUR BUDGETS FROM FEES. IN FISCAL YEAR 2004, WE ARE REQUIRED TO COLLECT 94 PERCENT OF THE BUDGET LESS THOSE FUNDS DERIVED FROM THE NUCLEAR WASTE FUND, FROM FEES AND THAT PERCENTAGE HAS BEEN DECREASING OVER THE LAST FOUR YEARS. IN 2005, WE WILL BE AT 90 PERCENT OF THE BUDGET THROUGH FEES.

AGAIN, IF YOU LOOK AT WHERE THE FEES ARE COMING FROM, ABOUT 80 PERCENT OF THE OUR REVENUES ARE COMING FROM FEES AND WE ARE GETTING ABOUT \$33 MILLION FROM THE WASTE FUND FOR OUR HIGH LEVEL WASTE REPOSITORY ACTIVITIES. AND AS A RESULT OF TAKING ACTIVITIES OFF THE FEE BASE, WE ARE REQUESTING \$47 MILLION FROM THE GENERAL FUND.

I WOULD NOTE THAT IN FISCAL YEAR 2003 WE HAVE SHOWN THE CURRENT PROPOSAL THAT'S ON THE HILL THAT IS DIFFERENT THAN THE PRESIDENT'S BUDGET FOR '03 WHICH HAD FUNDS OFF THE FEE BASE.

YOU WOULD NOTE ALSO THAT IN 2002, THE APPROPRIATION COMMITTEE DID APPROPRIATE FUNDS FOR THE HOMELAND SECURITY OFF THE FEE BASE BUT THE NEXT TWO YEARS, HOMELAND SECURITY WOULD NOT BE OFF THE FEE BASE.

IN CONSTANT DOLLARS, AGAIN, IF YOU LOOK AT JUST THE OFFSET IN FEES, COMPARED TO 2003, JUST GO UP ABOUT \$4 MILLION IN CONSTANT DOLLARS. SO AGAIN, NOT A BIG INCREASE IN CONSTANT DOLLARS WHEN YOU COMPARE IT TO 2003.

NEXT CHART.

ONE OF THE THINGS WE DO IS TRY TO MAINTAIN OUR LIQUIDATED CARRYOVER AND OUR UNOBLIGATED CARRYOVER AT A REASONABLE LEVEL.

OUR GOAL IS FOUR MONTHS FOR SALARY AND BENEFITS EXPENDITURES

IN TERMS OF UNLIQUIDATED CARRYOVER ABOUT 5 PERCENT OF THE BUDGET OR ROUGHLY BETWEEN \$25 AND \$30 MILLION FOR UNOBLIGATED CARRYOVER.

WE ARE OVER THAT GOAL IN TERMS OF UNLIQUIDATED OBLIGATION. WE HAVE ABOUT SIX MONTHS.

THE PRIMARY REASON FOR THAT IS THAT DURING FISCAL YEAR 2002, IF YOU RECALL, WE RECEIVED THE EMERGING SUPPLEMENTAL FUNDS FOR HOMELAND SECURITY VERY LATE IN THE -- RELATIVELY LATE IN THE YEAR. I BELIEVE IT WAS THE END OF FEBRUARY TIME FRAME, AND I GUESS THE TIME TO PUT IN PLACE CONTRACTS AND GET THE MONEY OBLIGATED AND GET GOING.

WE JUST DIDN'T HAVE THE TIME TO DO THAT. SO AS A RESULT OF THAT, WE DO HAVE SOME INCREASES IN FISCAL YEAR 2002.

IF YOU LOOK AT JUST THE UNOBLIGATED CARRYOVER WITHOUT HOMELAND SECURITY, WE WOULD BE WITHIN THE TARGET THAT WE HAVE SET FOR FISCAL YEAR 2002.

COMMISSIONER MERRIFIELD: MR. CHAIRMAN?

IF I COULD ASK THAT THEY PROVIDE A SEPARATE CHART ON THAT SO THAT'S CLEAR. IT IS NOT CLEAR HERE AND IT WOULD BE USEFUL.

CHAIRMAN MESERVE: SURE.

COMMISSIONER MERRIFIELD: THANK YOU,
MR. CHAIRMAN.

MR. FUNCHES: ANOTHER PRESIDENT'S MANAGEMENT AGENDA ITEM IS
BUDGET AND PERFORMANCE INTEGRATION.

WE HAVE IMPLEMENTED A PLANNING AND BUDGETING AND PERFORMANCE
MANAGEMENT SYSTEM THAT WE HAVE BEEN USING AND MAKING
IMPROVEMENTS TO MEET THE -- TO SUPPORT THIS INITIATIVE. AND WE WILL
CONTINUE TO DO THAT. ONE OF THE AREAS I THINK AS WE GO FORWARD
THAT WE WILL BE DEALING WITH AND OBVIOUSLY, BECOME PART OF
OUR BUDGET IS WHAT IS KNOWN AS "PART". AND WHAT PART
MEANS IS PERFORMANCE OF ASSESSMENT AND RATING TOOL.

THIS IS A TOOL THAT OMB HAS DEVELOPED TO LINK
RESOURCES WITH PERFORMANCE AND IN SUPPORT OF
DECISION-MAKING. IT IS COMPRISED OF FOUR PARTS.

THE FIRST PART IS CALLED PROGRAM PURPOSE AND
DESIGN. SECOND PART IS STRATEGIC PLANNING.

THIRD PART IS PERFORMANCE MANAGEMENT AND THE LAST
PART IS PROGRAM RESULT.

FOR THE FISCAL YEAR 2004 BUDGET THAT WAS JUST
COMPLETED, OMB APPLIED IT TO 234 FEDERAL PROGRAMS OR 20
PERCENT OF THE BUDGET. NONE OF OUR PROGRAMS WERE
PART OF THAT.

THE OVERALL PLAN IS TO ADD AN ADDITIONAL 20% OF THE

PROGRAM EACH YEAR UNTIL ALL PROGRAMS HAVE UNDERGONE A REVIEW.

AT THIS TIME, OMB IS NOT RELEASING THEIR GUIDANCE FOR FISCAL YEAR 2005. WE DON'T KNOW EXACTLY WHAT WILL BE REQUIRED OF US AS PART OF PARTICIPATING IN "PART".

WE ARE STAYING IN CONTACT WITH OMB TO MAKE SURE THAT WE UNDERSTAND THE PROGRAMS AND UNDERSTAND THE EXPECTATION.

AND WE HAVE MET WITH THEM TO GET DEBRIEFED ON HOW THEY APPLIED IT TO THE 20%, THAT THEY APPLIED IT TO LAST YEAR. THE LAST ITEM I WOULD LIKE TO MENTION IS THE STRATEGIC PLAN WHICH IS AGAIN, A KEY COMPONENT OF BUDGET AND PERFORMANCE INTEGRATION.

WE ARE IN THE PROCESS OF DOING OUR TRI-ANNUAL UPDATE. WE EXPECT TO COME TO THE COMMISSION NEXT WEEK WITH A SUBSTANCE OF THAT PLAN IN TERMS OF THE GOALS, STRATEGIES AND MEASURES SUCH THAT WE CAN GET COMMISSION DECISION ON THOSE KEY ASPECTS, OR BASICALLY THE SUBSTANCE OF THE PLAN. SO WE WILL BE LOOKING FOR EARLY GUIDANCE IN THAT AREA AND WE EXPECT TO HAVE THAT TO THE COMMISSION NEXT WEEK.

THAT CONCLUDES MY FORMAL PRESENTATION. I GUESS IN SUMMARY, WHAT I WOULD SAY IS I THINK WE HAVE MADE PROGRESS IN MANAGING THE AGENCY FINANCIAL ACTIVITIES

BUT WE HAVE CHALLENGES AS WE GO FORWARD, AND I BELIEVE THAT THE STAFF IS CAPABLE OF MEETING THOSE CHALLENGES ALSO. WITH THAT, THAT ENDS MY PRESENTATION.

CHAIRMAN MESERVE: THANK YOU FOR A LIGHTNING TOUR THROUGH YOUR ACTIVITIES. AND I WOULD ALSO LIKE TO CONGRATULATE YOU FOR RECEIVING THE CERTIFICATE OF EXCELLENCE FOR THE PREPARATION OF THE PERFORMANCE PLAN.

MR. FUNCHES: THANK YOU.

CHAIRMAN MESERVE: I THINK IT'S COMMISSIONER DIAZ'S TURN TO GO FIRST.

COMMISSIONER DIAZ: THANK YOU, MR. CHAIRMAN. GOOD MORNING AGAIN. IT WAS LIGHTNING AND I HOPE YOU HAVE A BETTER UNDERSTANDING THAN I DO OF THE ISSUES SO LET ME JUST ASK YOU A COUPLE OF QUESTIONS. I KNOW THAT THE CHAIRMAN HAS TASKED YOU TO UNDERTAKE A REVIEW OF THE COST ACCOUNTING MANAGEMENT ISSUES AND I GUESS YOU STATED THAT YOU INTEND TO RESOLVE THAT THIS YEAR. WHAT DO YOU THINK IS THE MAIN PROBLEM WITH YOUR COST MANAGEMENT ACCOUNTING?

MR. FUNCHES: I THINK COST ACCOUNTING IS ONE OF THOSE STANDARDS THAT PROBABLY HAS THE MOST ROOM FOR INTERPRETATION. IT IS NOT AS EXACT AS THE OTHER STANDARDS THAT WE HAVE.

IN FACT, YOU PROBABLY LOOK OUT IN THE COMMERCIAL WORLD, THERE IS NOT A LOT OF REQUIREMENTS IN TERMS OF FINANCIAL REPORTING AS IT RELATES TO COST ACCOUNTING. SO I THINK WE WERE ON A PATH AND WE HAVE BROUGHT IN THE SYSTEM THAT WE FELT WAS GOING TO GET US THERE AND WE LAID OUT A PLAN THAT WE THOUGHT WOULD ACTUALLY PROVIDE THE DATA TO THE MANAGERS AND WORK THERE.

I THINK THE ISSUE THAT WE ARE HAVING IS HOW FAR DO WE NEED TO GO NEXT TO MAKE SURE THAT ALL I'S ARE DOTTED AND ALL THE T'S ARE CROSSED?

AND WE WILL HAVE DIALOGUE WITH IG TO TRY TO LAY OUT EXACTLY WHAT WE NEED TO DO, AND THEN WE WILL PROCEED TO DO THAT.

WE HAD SOME ISSUES WITH THE SYSTEM TOWARDS THE END THAT WE HAVE CORRECTED IN TERMS OF SOME CERTIFICATION AND THOSE THINGS WERE TAKEN CARE IN THE OCTOBER/ NOVEMBER TIME FRAME.

SO WE HAVE TAKEN CARE OF THOSE AS IT RELATES TO THE SYSTEM. THERE ARE SOME QUESTIONS THAT RELATES TO HOW FAR DO YOU ALLOCATE COSTS AND WHERE YOU ALLOCATE THE

COSTS TO AND WE WILL WORK THOSE OUT WITH THE IG AS WE MOVE FORWARD.

COMMISSIONER DIAZ: I NOTICE THAT YOU WERE SILENT ON ONE OF OUR FAVORITE ISSUES WHICH IS STARFIRE AND THE OTHER PROGRAMS.

DO YOU EXPECT STARFIRE TO HAVE ALL ISSUES SO SILENT THIS YEAR THAT YOU DON'T HAVE TO TALK ABOUT IT?

MR. FUNCHES: IN TERMS OF STARFIRE, THEY ARE BEHIND US BECAUSE I THINK WHAT WE HAVE DONE OVER TIME WILL EVOLVE. WE HAVE AT ONE TIME, WE WANTED TO BRING IN -- LOOKING AT THE POSSIBILITY OF HAVING OUR OWN FINANCIAL ACCOUNTING SYSTEM. WE CONCLUDED THAT GIVEN THE STATE OF THE TECHNOLOGY, THAT WE WERE BETTER OFF MOVING FROM TREASURY OVER TO THE DEPARTMENT OF INTERIOR. AND WE DID THAT LAST YEAR AND WE WERE VERY PLEASED WITH THE SERVICE WE WERE GETTING FROM THE DEPARTMENT OF INTERIOR NATIONAL BUSINESS CENTER.

IF YOU RECALL, A KEY COMPONENT OF STARFIRE WAS THE TIME AND LABOR AND PAYROLL. WE HAVE BEEN OPERATING UNDER THAT FOR OVER A YEAR NOW AND THAT HAS WORKED WELL. THE GOVERNMENT NOW IS MOVING TO A NEW

CONSOLIDATED PAYROLL, SO WE WILL END UP MOVING OUR PAYROLL AND OUR HUMAN CAPITAL -- SUPPORT OUR HUMAN RESOURCES PART THAT SUPPORT PAYROLL TO ONE OF THOSE PROVIDERS.

SO I THINK IN TERMS OF THE STARFIRE CONCEPT THAT WE WERE LOOKING AT FOUR OR FIVE YEARS AGO, I THINK WE HAVE EVOLVED TO SOMETHING DIFFERENT. WE WILL HAVE INTEGRATION. WE WANT INTEGRATION BUT I THINK WE WILL GET A LOT OF THAT NOW THROUGH CROSS SERVING WITH OTHER AGENCIES.

COMMISSIONER DIAZ: YOU DON'T EXPECT TO HAVE SOME OF THE PROBLEMS WE HAD IN THE PAST WITH SOME OF THESE CONVERSIONS I HOPE?

MR. FUNCHES: THAT'S MY EXPECTATION TOO, SIR. I THOUGHT THE CONVERSION TO FINANCIAL ACCOUNTING SYSTEM WORKED WELL. WE WERE ABLE TO DO IT ON SCHEDULE AND WITHIN COSTS AND AGAIN, WE TOOK SOME LESSONS LEARNED THAT WE HAD FROM BRINGING UP THE OTHER SYSTEM AND WE WOULD HOPE TO APPLY THOSE AS WE GO FORWARD.

COMMISSIONER DIAZ: OKAY. WE LOOK AT THE PERFORMANCE ACCOUNTABILITY REPORT, WE NOT THAT THE SALARIES AND BENEFITS ARE ABOUT \$310 MILLION AND THE CONTRACTS

ARE ABOUT \$326 MILLION WHICH IS A SIGNIFICANT SUM OF MONEY. I HAVE ALWAYS BEEN CONCERNED AND KEEP ASKING YOU EVERY YEAR, YOU KNOW, I KNOW ALL THE RESPONSIBILITIES OF CONTRACTS IS NOT IN YOUR OFFICE, BUT HAVE WE DONE ANYTHING BETTER THIS YEAR TO MAKE SURE THAT THE CONTRACTS ARE -- WE HAVE FULL ACCOUNTABILITY AND THEY ARE DONE IN THE MOST EFFECTIVE MANNER THAT WE CAN DO THEM?

MR. FUNCHES: YOU KNOW, WE WORK WITH -- AS YOU SAID, THE PROGRAM OFFICE IS RESPONSIBLE FOR MOST OF THE CONTRACT MONEY. WE HAVE SOME.

COMMISSIONER DIAZ: YOU ARE RESPONSIBLE FOR THE MONEY?

MR. FUNCHES: RIGHT. WE LOOK OVER THAT. WE IN TRYING TO DETERMINE HOW MUCH WE NEED, WE LOOK AT HISTORICAL EXPENDITURES, WE LOOK AT HOW THE MONEY IS BEING USED. AND I THINK THE OFFICE ADMINISTRATION HAS VERY GOOD CONTRACTING PROCEDURES. AND ALSO, THEY HAVE VARIOUS MEANS OF CONTRACTING OR DIFFERENT TYPES OF CONTRACTING. I GET THE FEELING THAT THOSE ARE BEING USED EFFECTIVELY. BUT I THINK OVERALL MY IMPRESSION WOULD BE

THAT WE CONTINUE TO MANAGE THOSE CONTRACTS WELL.
AND OBVIOUSLY, THERE IS ALWAYS ROOM FOR IMPROVEMENT
AND PEOPLE ARE STRIVING TO DO THAT.

COMMISSIONER DIAZ: OKAY. THE FEE ISSUE: EVERY
YEAR WE DO HAVE SOME ISSUES WITH FEES AND, OF COURSE,
WE KEEP SAYING THAT THE FEES ARE SOMETHING THAT
PEOPLE IN THIS COUNTRY PAY FOR EITHER IN THE
RATE-BASE OR TAX-BASE.
WHAT HAVE WE DONE THIS YEAR TO ADDRESS THIS
ISSUE EARLY SO WE DON'T GET CAUGHT AFTER IT GOES TO
OMB? WHAT HAVE WE DONE TO MAKE MORE EFFECTIVE OUR
MANAGEMENT OF THE FEE ISSUES SO WE DON'T GET CAUGHT
LATER IN THE PROCESS AFTER IT HAS GONE THROUGH OMB?

MR. FUNCHES: I THINK WE TRY TO IDENTIFY THE FEE
ISSUES AS WE DO THE BUDGET AND THAT'S WHAT WE DID
LAST YEAR. AND WE ARE TRYING TO IDENTIFY IF THERE ARE
POLICY ISSUES THAT WE NEED TO RAISE WITH OMB. AND AS
WE PUT THE BUDGET TOGETHER, WE TRY TO INTEGRATE, AT
LEAST AT THE HIGH LEVEL WHAT ARE THE FEE ISSUES THAT
ARE ASSOCIATED WITHIN THE BUDGET THAT WE PUT
TOGETHER.

AND I THINK LAST YEAR WE WERE ABLE TO RAISE THE
ISSUES THAT WE HAD WITH OMB FOR THEM TO MAKE

DECISIONS. AND I THINK WE WILL CONTINUE TO DO THAT.
LIKEWISE, IF THERE ARE CONCERNS RAISED BY CONGRESS
WE HAVE ALSO BEEN ABLE TO ADDRESS THOSE.

COMMISSIONER DIAZ: ANY ISSUES THAT THIS YEAR IS
DIFFERENT THAN ANY OTHER YEAR, ANYTHING THAT HAS COME
UP?

MR FUNCHES: YES. I THINK THE ISSUE THAT
OBVIOUSLY WE HAVE BEEN LOOKING AT OVER THE PAST YEAR
IS HOMELAND SECURITY FUNDING AND THE ISSUES THAT ARE
ASSOCIATED WITH THAT.
WE ARE IN THE PROCESS NOW OF FINALIZING THE
FISCAL YEAR 2003 FEES AND WE ARE LOOKING AT THOSE
NOW. AND YOU KNOW, HOMELAND SECURITY HAVING BEEN PUT
BACK ON THE FEE BASE IN 2003 WILL IMPACT THOSE FEES.

COMMISSIONER DIAZ: SEEMS LIKE EVERY YEAR WE
ALWAYS GO THROUGH THE ISSUE OF HAVING THE COMMISSION
HAVE ENOUGH TIME TO REVIEW THE BUDGET AND THE
ASSOCIATED EXHIBITS. ARE WE GOING TO BE ABLE TO
THIS YEAR HAVE A LITTLE MORE TIME SO WE CAN DO OUR
JOB?

MR. FUNCHES: WE WILL GIVE THE COMMISSION AMPLE
TIME TO REVIEW THE BUDGET. WE ARE PUTTING TOGETHER A

SCHEDULE IN RESPONSE TO THE CHAIRMAN'S REQUEST THAT WE HAVE DETAILED SCHEDULE AND OUR GOAL IS TO HAVE ALL OF THOSE ADDITIONAL EXHIBITS THAT ARE REQUIRED TO COME TO THE COMMISSION EARLIER THAN THEY HAVE IN THE PAST.

SO THE SCHEDULE WILL ADDRESS WHAT WE KNOW TODAY AS IT RELATES TO EXHIBITS. WE HAVE WHAT IS CALLED OMB CIRCULAR A-11 WHICH SAYS WHAT IS REQUIRED TO BE SUBMITTED WITH THE BUDGET. WE HAVE LAST YEAR'S. THEY DO UPDATE THAT AROUND THE JUNE TIME FRAME. WHEN THEY UPDATE THAT, IF THERE IS SOMETHING NEW, WE WILL OBVIOUSLY INFORM THE COMMISSION, BUT THE GOAL IS TO GET THE COMMISSION THE EXHIBITS AND IN THE BUDGET IN SUFFICIENT TIME TO COMPLETE THE REVIEW.

COMMISSIONER DIAZ: I KNOW THAT'S YOUR GOAL BUT SOMETIMES WE DON'T MAKE IT. EACH YEAR, YOU ARE TAKING SOME STEPS TO MAKE SURE THAT IT COMES UP WITH EXHIBITS.

MR. FUNCHES: WE WILL MEET THE SCHEDULE THAT WE WILL LAY OUT FOR THE COMMISSION TO GET THE BUDGET TO THE COMMISSION ON TIME, CONSISTENT WITH WHAT WE HAVE DONE IN THE PAST IN TERMS OF GETTING IT TO THE COMMISSION ON TIME.

COMMISSIONER DIAZ: THANK YOU, MR. CHAIRMAN.

CHAIRMAN MESERVE: COMMISSIONER MCGAFFIGAN?

COMMISSIONER MCGAFFIGAN: THANK YOU,
MR. CHAIRMAN.

IN YOUR CHARTS ON THE BUDGET -- I JUST WANT TO CLARIFY WHETHER AN ACCOUNTING CHANGE IS IN THERE OR NOT? LAST YEAR, OMB HAD A PROPOSAL AND I DON'T KNOW HOW IT FARED IN THE CONGRESS, TO HAVE AGENCIES PAY THE FULL COST OF RETIREE HEALTHCARE, ET CETERA. AND IT WAS ABOUT A \$20 MILLION ITEM IN OUR BUDGET WASN'T IT -- IN THE HIGH TEENS, WHATEVER. IS THAT IN THESE BUDGETS THAT YOU SHOW US FOR 2003, 2004? OR HAS THAT BEEN TAKEN OUT?

MR. FUNCHES: THAT HAS BEEN TAKEN OUT. YOU ARE CORRECT IN THE SENSE THAT THE BUDGET THAT WAS ORIGINALLY SUBMITTED BY THE PRESIDENT INCLUDED \$520 MILLION TO FUND 100 PERCENT OF CIVIL SERVICE RETIREMENT AND SOME HEALTH BENEFITS. THAT WAS NOT -- THAT WAS DELETED BY CONGRESS AND IT IS NOT INCLUDED.

COMMISSIONER MCGAFFIGAN: SO NONE OF THESE CHARTS INCLUDE THAT?

ON THE HOMELAND SECURITY ISSUE, I DO WANT TO

MAKE IT CLEAR THAT THE COMMISSION DID ASK THE CONGRESS TO PUT MOST OF THE FEES FOR HOMELAND SECURITY OFF THE FEE BASE AND UNFORTUNATELY, WHEN THE SITUATION, THE TAX AND SPENDING SITUATION IS SUCH THAT WE HAVE LARGE DEFICITS AGAIN, IT IS HARD PROBABLY TO DO THAT. I UNDERSTAND WHY THE CONGRESS DIDN'T DO IT.

BUT IT IS -- EVERY OTHER INDUSTRY ALMOST IS HAVING THEIR ADDITIONAL COSTS BORNE IN THE GENERAL FUND. AND THIS INDUSTRY IS FAIRLY UNIQUE IN HAVING TO BEAR THESE ADDITIONAL COSTS FOR VULNERABILITY ASSESSMENTS AND ALL THAT. IN THE 94 PERCENT LAST YEAR AND 92 PERCENT IN 2004, THEY ARE GOING TO HAVE TO BEAR THOSE COSTS THROUGH TAXATION AND THROUGH OUR FEE BASE.

I HOPE SOME DAY WE CAN ADDRESS THAT.

IT IS PROBABLY THE NEXT TIME WE HAVE BUDGET SURPLUS, THE LEGISLATION TO GET 10 PERCENT OF THE BUDGET OFF THE FEE BASE FOR FAIRNESS AND EQUITIES GOT PASSED WHEN WE HAD \$200 BILLION BUDGET SURPLUSES.

SO MAYBE WE JUST HAVE TO BE READY LATER IN THIS DECADE IF SURPLUS IS RETURNED, TO TRY TO MAKE THE CASE THAT A GOOD CHUNK OF THIS HOMELAND SECURITY MONEY SHOULD BE OFF THE FEE BASE. YOUR CHARTS TEND TO SHOW AND I THINK IT'S JUST THAT WE WERE DOING

NOTHING IN HOMELAND SECURITY PRIOR TO FY 2001 OR 2002.

CLEARLY, WE HAD BASE BACK IN NRR AND NMSS, \$2 OR \$3 MILLION WORTH OF FUNDING. THAT IS PROBABLY AN EIGHTH OR A TENTH OF WHAT WE ARE DOING TODAY AND EVEN LESS THAN WHAT WE PROPOSED IN 2004 BUT IT WAS THERE. I HOPE ON THESE CHARTS WHEN YOU SHOW THEM ON THE HILL, I THINK YOU NEED TO FOOTNOTE THEM OR SOMETHING THAT CLEARLY, WE WERE DOING SOMETHING IN SECURITY PRIOR TO SEPTEMBER 11TH AND IT DIDN'T ALL START THEN.

MR. FUNCHES: THAT IS CORRECT. WE HAD SAFEGUARDS AND SECURITY, CERTAIN ACTIVITIES AND IT WAS ON THE ORDER OF \$5 PLUS MILLION IN THE PAST YEARS IF YOU LOOK AT SAFEGUARDS AND SECURITY.

COMMISSIONER MCGAFFIGAN: BOTH NMSS AND NRR?

MR. FUNCHES: RIGHT.

COMMISSIONER MCGAFFIGAN: THE CONTINUING RESOLUTION, YOU MENTIONED EARLIER THAT GETTING THE HOMELAND SECURITY FUNDS LATE LARGELY IS THE REASON WHY THE CARRYOVER BALANCE HAS GOTTEN A LOT HIGHER THIS YEAR.

PRESUMABLY, WE ARE FIVE MONTHS INTO THE FISCAL YEAR ALMOST AND HOPEFULLY, WILL SEE A CR PASSED AND GET A FINAL APPROPRIATION. ISN'T THAT SETTING US UP AGAIN THIS YEAR FOR CONTINUATION OR MAYBE EVEN EXACERBATION OF CARRYOVER BALANCE UNLESS WE ARE READY TO EXECUTE LIKE HECK, ONCE WE GET THE BUDGET?

MR. FUNCHES: IT'S NO DOUBT THAT WE HAVE EIGHT CONTINUING RESOLUTIONS, I BELIEVE. AND THAT IS THE -- THAT IS NOT VERY EFFICIENT FOR YOU TO MANAGE THE AGENCY FINANCES. WE HAVE TO DO IT INCREMENTALLY AND WE HAVE DONE EVERYTHING WE CAN TO MAKE SURE THAT MONEY IS OUT THERE, THAT WE CAN CARRY OUT THE PROGRAMS THAT WE GOT.

BUT, YOU ARE RIGHT, WHEN WE GET THE MONEY LATE, WE TRY TO PREPARE AS WELL AS WE CAN, BE READY TO GO AND WE HAVE BEEN TRYING TO DO THAT THROUGHOUT THE YEAR.

BUT IT WILL HAVE SOME IMPACT ON US. THE EXACT IMPACT RIGHT NOW IS I DON'T KNOW BECAUSE RIGHT NOW, WE JUST OPERATING ON CONTINUING RESOLUTION AND PRIOR CARRYOVER MONEY AS WE GO FORWARD.

BUT THERE WILL BE -- THERE'S INEFFICIENCIES WHEN YOU HAVE TO OPERATE ON A CONTINUING RESOLUTION. YOU COULD TRY TO MINIMIZE BUT YOU CAN'T ELIMINATE.

COMMISSIONER MCGAFFIGAN: ONE LAST QUESTION.

THE IG SAFETY CULTURE SURVEY OF NRC IDENTIFIED SOME ISSUES IN YOUR ORGANIZATION. WHAT ARE YOU DOING TO ADDRESS THOSE ISSUES? HOW ARE YOU PLANNING TO GO FORWARD?

MR. FUNCHES: WHAT WE HAVE DONE IS I HAVE ASKED THE CONTRACTOR WHO DID THE SURVEY TO TAKE OUR DATA AND DO A DETAILED ANALYSIS OF THAT DATA SIMILAR TO WHAT HE DID AT THE COMMISSION LEVEL. THEY HAVE DONE THAT.

WE ASKED THEM TO LOOK AT SOME COST CUTS FOR US. FOR EXAMPLE, IF YOU PULL OUT SOME OF THE SAFETY QUESTIONS, HOW DOES THAT IMPACT DATA. THEY HAVE BRIEFED THE MANAGEMENT ON THAT. WE HAVE THAT. WE ARE PLANNING TO HAVE THEM ASSIST US TO -- WE ARE GOING TO SET UP A TEAM FOR EACH OF THE -- WE GOT THREE AREAS WE WANT TO LOOK AT.

WE LOOKED AT THE QUESTIONS TO TRY TO UNDERSTAND WHAT QUESTIONS WAS DRIVING THE ISSUES. AND WE ARE GOING TO SET UP SOME TEAMS THAT WILL INVOLVE THE STAFF. AND THEN, BASED ON THAT, WE ARE GOING TO HAVE SOME SPECIFIC ACTION THAT WE WANT TO TAKE.

I THINK ONE OF THE THINGS WE ARE LOOKING AT NOW IS

MODIFYING OUR ORGANIZATION TO MAKE IT MORE
FLATTER AND HOPEFULLY, THAT WILL ADDRESS SOME OF THE
EMPOWERMENT ISSUES AND THOSE TYPES OF THINGS.

COMMISSIONER MCGAFFIGAN: ARE YOU GOING TO GIVE
US A PROGRESS REPORT OF SOME SORT AT SOME POINT?

MR. FUNCHES: I WILL BE GLAD TO DO THAT.

COMMISSIONER MCGAFFIGAN: BECAUSE THE EDO, I THINK, IS PLANNING
TO DO SOMETHING. THE ORGANIZATION IS UNDER HIS CONTROL.

MR. FUNCHES: YES, I WILL BE GLAD TO EITHER IN MEETING WITH
YOU AT PERIODIC OR GIVE YOU A WRITTEN REPORT.

COMMISSIONER MCGAFFIGAN: THANK YOU.

CHAIRMAN MESERVE: COMMISSIONER MERRIFIELD.

COMMISSIONER MERRIFIELD: THANK YOU, MR. CHAIRMAN.
FIRST, I WANT TO -- YOU DIDN'T MENTION IT TODAY --
THERE IS A DOCUMENT AND UNFORTUNATELY I CAN'T
REMEMBER THE TITLE OF IT, BUT A DOCUMENT THAT YOU
PREPARE ON A YEARLY BASIS. I CALL IT THE BLUE BOOK.
IT IS AN INFORMATION GUIDE PUT OUT UNDER THE
AUSPICES OF CFO.

I DO WANT TO RECOGNIZE THAT IS A VERY GOOD TOOL
FOR PUBLIC COMMUNICATION AND ONE THAT I FREQUENTLY

PROVIDE TO MEMBERS OF CONGRESS AND OUR COUNTERPARTS INTERNATIONALLY. SO I DO WANT TO USE THE OCCASION TO THANK YOUR STAFF WHO WERE INVOLVED IN THE PREPARATION OF THAT BOOK. I THINK IT IS A VALUABLE PIECE OF INFORMATION FOR THE PUBLIC.

AS YOU KNOW, DURING THE TIME I'VE BEEN ON THE COMMISSION, I HAVE BEEN AN ADVOCATE NOT ONLY OF FOCUSING ON SAVINGS IN OUR MAJOR PROGRAM OFFICES, BUT ALSO ON OFFICES SUCH AS THE CFO AND FOCUS ON USING MORE DISCIPLINED EFFORTS TO TRY TO IDENTIFY EFFICIENCIES WHERE THEY CAN BE MADE.

THIS PAST FISCAL YEAR WAS NO EXCEPTION IN THE FOCUS THAT I PLACED ON THE CFO.

AND I'M WONDERING IN LIGHT OF THAT, IF YOU CAN DESCRIBE SOME SPECIFIC EFFORTS YOU HAVE MADE THIS YEAR IN REGARD TO PROVIDING PROCESS IMPROVEMENTS AND EFFICIENCIES YOU MAY HAVE REALIZED?

MR. FUNCHES: YES. I MENTIONED THAT WE BROUGHT UP LAST YEAR THE NEW ACCOUNTING SYSTEM. WE BROUGHT THAT UP. THAT REDUCED OUR COSTS FOR OPERATION THERE, AND JUST THE DIRECT EXPENDITURES OF OPERATING THE SYSTEM. AND I THINK THE OTHER THING IT DID WAS IT MADE US PROBABLY MORE EFFICIENT BECAUSE WE WERE GETTING THE DATA ELECTRONICALLY AS

OPPOSED TO HANDLING HARD COPY. THAT IS AN EXAMPLE.

AS WE GO FORWARD I SEE AT LEAST COST SAVINGS IN
PAYROLL AS WE GO FORWARD AND OPERATE THE NEW PAYROLL
SYSTEM.

WE ALSO TOOK A THOROUGH LOOK AT OUR GOAL STRATEGIES AND
OUR METRICS THAT WE HAVE THAT WE ARE TRYING TO MEET.

WE ARE DOING THAT NOW. WE HAVE INTERNAL REVIEW
LOOKING AT WHAT OUR GOALS OUGHT TO BE, WHAT OUR
METRICS OUGHT TO BE, BOTH LONG TERM. AND WE ARE
GOING TO LOOK AT OUR GOALS AND SEE IF THEY SHOULD STAY OR
SHOULD THERE BE DIFFERENT GOALS. AND IF SO, CAN WE CHANGE
PROCESSES TO MAKE THOSE MORE EFFICIENT. BUT I THINK OVER TIME,
WE HAVE CUT COSTS OF OUR OPERATION. WE ARE NOT THAT BIG.
SO IT'S IN THE HUNDREDS OF THOUSANDS OF DOLLARS, NOT
IN MILLIONS BUT WE HAVE DONE THAT.

AND I THINK IN PARTICULAR AS WE GO FORWARD WITH OUR
PAYROLL PART, WE GO FORWARD WITH THAT OPERATION, I
WOULD EXPECT TO SEE SOME COSTS REDUCED.

COMMISSIONER MERRIFIELD: I APPRECIATE THAT. I

THINK AS WE GO FORWARD IN LOOKING AS WE DO NOW TOWARD
TRYING TO FIGURE OUT A BUDGET FOR THE NEXT FISCAL
YEAR, CERTAINLY TO THE EXTENT THAT YOU CAN PROVIDE
MEASUREMENTS OF THAT PERFORMANCE AND ACHIEVEMENT OF
THOSE EFFICIENCIES AND DEMONSTRATING THAT WILL BE

HELPFUL FOR ME.

THERE HAVE BEEN A SERIES OF ARTICLES THAT HAVE APPEARED IN THE PRESS IN THE COURSE OF THE LAST FEW WEEKS RELATIVE TO THE DAVID-BESSE ISSUE.

SOME HAVE TRIED TO TIE IN THE DIFFICULTIES AT DAVIS-BESSE WITH THE AMOUNT OF MONEY THAT THE AGENCY IS SPENDING ON INSPECTION ON DOLLARS IN NRR.

I'M WONDERING IF YOU MIGHT HAVE ANY INSIGHT ON THE TERMS OF THAT PARTICULAR ISSUE IN TERMS OF HOW WE ARE MOVING FORWARD WITH INSPECTION?

MR. FUNCHES: WELL, THE ARTICLES THAT HAVE BEEN WRITTEN, WHAT WE HAVE IS A LINE ITEM IN THE BUDGET CALLED INSPECTION AND PERFORMANCE ASSESSMENT. THAT LINE ITEM WENT DOWN ABOUT 60 FTE AND SIX-TENTHS OF A PERCENT BETWEEN THE FISCAL YEAR '04 BUDGET AND FISCAL YEAR '03. THAT REDUCTION WAS NOT A REDUCTION IN THE INSPECTION THAT WOULD BE PERFORMED, BUT IT WAS RECOGNITION OF THE EFFICIENCIES THAT WE GAINED BECAUSE DEFICIENCIES THAT WAS EXPECTED AS A RESULT OF HAVING IMPLEMENTED A PROGRAM FOR FOUR YEARS AND GOTTEN THROUGH THE LEARNING SO YOU NEED TO DO AS MUCH ON REACTOR OVERSITE PROGRAM IN TERMS OF GENERIC ACTIVITY, NOR WOULD THE INSPECTORS THEMSELVES NEED TO SPEND QUITE AS MUCH TIME IN TERMS OF THE PAPERWORK PART OF

IT BECAUSE THEY WOULD HAVE LEARNED OVER TIME.

IT WAS NOT A REDUCTION IN INSPECTION BUT MERELY AN EFFICIENCY THAT WE SAW JUST BASED ON HAVING A PROGRAM THAT'S BEEN IN OPERATION ABOUT FOUR YEARS AND EFFICIENCY THAT CAN BE GAINED.

COMMISSIONER MERRIFIELD: SO THE CHARACTERIZATION THAT THE AGENCY HAS REDUCED ITS INSPECTION HOURS IS INCORRECT?

MR. FUNCHES: CORRECT.

COMMISSIONER MERRIFIELD: AND INDEED, THE SAVINGS IF FTS IS THE RESULT OF BETTER PLANNING, LESS AMOUNT OF TIME BEFORE THE INSPECTIONS OCCUR AND THAT'S WHERE SAVINGS ARE OCCURRING?

MR. FUNCHES: RIGHT.

COMMISSIONER MERRIFIELD: AND THE FACT THAT THE REACTOR OVERSIGHT PROGRAM HAS MATURED AND SO THE PLANNING DOLLARS NECESSARY TO REPAIR THAT PROGRAM ARE NOT NEEDED TO BE INVESTED AT THIS TIME?

MR. FUNCHES: RIGHT.

COMMISSIONER MERRIFIELD: THANK YOU.

FOR AT LEAST THE LAST COUPLE OF YEARS I HAVE BEEN ASKING YOUR STAFF AND THE STAFF AT NMSS TO PROVIDE A BETTER UNDERSTANDING OF WHAT IT COSTS TO OPERATE A BASELINE NATIONAL MATERIALS PROGRAM. BY THAT WHAT I MEAN, IF WE WERE TO ASSUME THAT EVERY STATE WOULD CHOOSE TO BECOME AN AGREEMENT STATE, WHAT WOULD IT COST US TO OPERATE THE MATERIALS PROGRAM, LICENSING, INSPECTION OF FEDERAL LICENSEES, RULE DEVELOPMENT, ET CETERA? IS IT POSSIBLE TO DETERMINE SUCH A COST AND IF SO, DO WE HAVE SOME SENSE OF WHAT IT IS AND IF WE CAN'T, WHY CAN'T WE?

MR. FUNCHES: I THINK IN ANSWER TO YOUR QUESTION, IT IS POSSIBLE TO DETERMINE THE COST SUCH AS COST. I THINK THE QUESTION YOU ARE -- YOUR FIRST QUESTION, OBVIOUSLY IF YOU HAD NO MATERIAL LICENSE, YOU HAVE TO MAKE CERTAIN ASSUMPTIONS. IF YOU MAKE THE ASSUMPTION THAT I WILL CARRY OUT THE SAME RULEMAKING, SAME INSPECTION OF LICENSES, OVER THE REMAINING FACILITY, FEDERAL FACILITY, PRIMARILY, YOU COULD ESTIMATE THAT. ONE OF THE QUESTIONS, OBVIOUSLY, YOU WOULD HAVE TO ADDRESS IS WHEN YOU SIZE THAT UP, DO YOU HAVE A CRITICAL MATH IN ALL OF THE SKILLS THAT YOU NEED.

YOU HAVE TO DEAL WITH ALL THOSE TYPE OF QUESTIONS.

BUT ONCE YOU MAKE THE ASSUMPTION ABOUT WHAT THAT PROGRAM WILL LOOK LIKE ABSENT -- WITH A 100 PERCENT AGREEMENT STATE, IT'S POSSIBLE TO PRICE THAT OUT.

COMMISSIONER MERRIFIELD: AS WE PREPARE FOR OUR ANNUAL SUMMER BUDGETARY SESSION, I WOULD LIKE THE STAFF TO PROVIDE ME WITH A BETTER UNDERSTANDING OF THAT. IT STRIKES ME WE ARE BEING CHALLENGED ON TWO ENDS.

ONE, WE ARE REQUIRED TO IMPOSE THE COSTS OF MUCH OF OUR PROGRAMS ON LICENSEES AND AT THE SAME TIME, WE ARE REDUCING THE NUMBER OF LICENSEES FOR WHOM WE CAN PLACE THOSE FEES ON.

THAT CONJUNCTION OF ISSUES RAISES ARGUABLY FURTHER INEQUITIES. AND I THINK HAVING A BETTER UNDERSTANDING OF THAT, WHETHER WE HAVE TO WAIT UNTIL WE HAVE THE SURPLUSES THAT COMMISSIONER MCGAFFIGAN IS HOPING FOR OR NOT, I THINK IT DOES RAISE A QUESTION ABOUT WHETHER WE NEED TO APPROACH CONGRESS TO GIVE THEM SOME BETTER UNDERSTANDING OF THAT CONJUNCTION AND DIFFICULTY OF OPERATING A PROGRAM WITH INSUFFICIENT FEES OR INSUFFICIENT BASIS TO PAY FOR IT.

THE LAST POINT I WANT TO MAKE BEFORE I TURN BACK, I WOULD FURTHER UNDERSCORE COMMENTS MADE BY COMMISSIONER DIAZ RELATED TO ANTICIPATING WHAT THE -- WHERE WE ARE GOING WITH THE BUDGET. I GUESS TO A CERTAIN EXTENT, I GUESS -- WELL, ALSO, I GUESS IT RELATES TO THE STRATEGIC PLAN AS WELL.

I THINK THE COMMISSION NEEDS A SUFFICIENT AMOUNT OF TIME TO WEIGH ITS DECISIONS.

AND RECOGNIZING THAT YOU ARE GETTING PUSHED ON ALL ENDS TO REDUCE THE AMOUNT OF TIME THAT THINGS HAPPEN, I THINK FROM MY PERSONAL STANDPOINT, THE DEGREE TO WHICH OUR TIME FOR CONSIDERATION IS NARROWED, THE MORE LIKELY IT WILL BE THAT WE ARE NOT NECESSARILY -- AT LEAST I WON'T NECESSARILY ACCEPT THE RECOMMENDATIONS.

BUDGETING IS ONE OF THE MOST IMPORTANT THINGS THAT I THINK I DO HERE AS A COMMISSIONER AND I NEED THE TIME TO GO THROUGH THE BUDGET WITH A FINE TOOTH COMB TO MAKE SURE WE ARE SPENDING MONEY IN THE APPROPRIATE WAYS. I HOPE YOU AND YOUR STAFF DO PLAN ON GIVING US A SUFFICIENT AMOUNT OF TIME.

FROM MY STANDPOINT, CERTAINLY, I WILL BE USING THAT AS A METRIC OF A PERFORMANCE INDICATOR ON THE CFO'S OFFICE.

THANK YOU, MR. CHAIRMAN.

CHAIRMAN MESERVE: YOU CAUGHT ME DRINKING A GLASS OF WATER. I HAVE JUST A FEW QUESTIONS. ON SLIDE NINE, YOU'VE INDICATED AS TO THE 2002 FINANCIAL STATEMENTS WE HAVE AN UNQUALIFIED AUDIT OPINION. THAT IS A VERY GOOD THING THAT OUR AUDITOR TELLS US THAT. BUT YOU ALSO INDICATED THAT THERE ARE FIVE REPORTABLE CONDITIONS. COULD YOU GIVE US SOMETHING MORE OF A SENSE OF THE CONTEXT FOR THOSE AND THEIR SIGNIFICANCE?

MR. FUNCHES: WE CAN GO THROUGH EACH ONE OF THEM THAT'S OPEN. WE HAVE ONE AND THIS IS A REPORTABLE CONDITION, IT RELATES TO THE 10 CFR PART 170 HOURLY RATE. AND THE ISSUE, I GUESS, CAN BE SUMMARIZED AS FOLLOWS: UTILIZE COST ACCOUNTING INFORMATION AS INPUT IN LOOKING AT THE HOURLY RATE. LAST YEAR WE DID ONE ANALYSIS THAT LOOKED AT THAT AND MADE A COMPARISON. THE IG HAS REQUESTED THAT WE DO FURTHER ANALYSIS AND TO ADDRESS THAT ISSUE. SO IT'S REALLY ONE OF HOW YOU USE COST ACCOUNTING AS AN INPUT TO SETTING THE HOURLY RATE. AND THAT IS NOT A MATERIAL WEAKNESS, NOR IS IT A

COMPLIANCE -- IT'S NOT A SUBSTANTIAL NONCOMPLIANCE WITH FFMIA. SO WE ARE WORKING THAT -- IT IS A QUESTION OF DOING SOME MORE ANALYSIS, UTILIZING THE DATA FROM THE COST ACCOUNTING SYSTEM. WE TOOK EARLY DATA. WE DID THAT.

WE MADE AN ANALYSIS BASED ON ONE RATE AND THEY HAVE ASKED US TO LOOK AT IT BASED ON TWO RATES.

CHAIRMAN MESERVE: I'M NOT ASKING SO MUCH THE DETAILS OF EACH OF THE REPORTABLE CONDITIONS. THAT'S THE WAY THE RECORD STANDS HERE AND THE PUBLIC THINKING IS THAT WE GOT FIVE CLAIMS HERE THAT WE GOT SOMETHING GOING WRONG WITH OUR ACCOUNTING SYSTEM. DOES THIS MEAN THERE IS MONEY LEAVING THE BUILDING THAT WE DON'T KNOW ABOUT?

MR. FUNCHES: ONLY ONE OF THOSE IS WHAT THEY WOULD CLASSIFY AS MATERIAL AND THAT'S COST ACCOUNTING. THE OTHER ONES ARE NOT LABELED AS MATERIAL. ONE HAS TO DO WITH EXTERNAL FINANCIAL REPORT, INTERNAL SOFTWARE MONITORING BUT THEY ARE NOT MATERIAL WEAKNESS OR SIGNIFICANTLY REPORTABLE CONDITION WHICH IS THE LOWEST LEVEL THAT THEY WOULD REPORT ON IN THE AUDIT REPORT.

CHAIRMAN MESERVE: SO OUR REACTION TO ALL THIS

SHOULD NOT BE THAT THIS IS ANY DEMONSTRATION THAT WE HAVE A HUGE ACCOUNTING PROBLEM, SOMETHING WE CAN WORK? IT DOES NOT MEAN THERE IS MONEY BEING LOST OR SQUANDERED?

MR. FUNCHES: ABSOLUTELY CORRECT. WE HAVE INTERNAL CONTROLS THAT ARE WORKING. THIS SHOULD NOT BE VIEWED FROM THE PERSPECTIVE THAT WE DON'T HAVE CONTROL OVER THE FINANCES.

CHAIRMAN MESERVE: YOU HAD MENTIONED AS WELL A COUPLE OF TIMES ABOUT THE FACT THAT THE DEADLINES WITHIN WHICH THE FINANCIAL, THE VARIOUS FINANCIAL STATEMENTS HAVE TO BE PREPARED INCLUDING THE QUARTERLY STATEMENTS HAS BEEN REDUCED.

IN ORDER TO HELP US UNDERSTAND THAT PROBLEM, YOU MIGHT INDICATE THE EXACT NATURE OF THE CHALLENGES. IS IT A PROBLEM YOU HAVE IN GETTING INFORMATION TO COME INTO YOUR OFFICE, THAT YOU CAN DISTILL AND SUMMARIZE? IS IT PROBLEM ON JUST THE DATA CRUNCHING? EXACTLY WHAT IS THE NATURE OF THE PROBLEM YOU HAVE TO OVERCOME IN ORDER TO MEET THE NEW DEADLINES?

MR. FUNCHES: IN TERMS OF PERFORMANCE ACCOUNTABILITY REPORTING WHICH WOULD BE REDUCED, SAY,

TO 45 DAYS AFTER THE END OF THE FISCAL YEAR, THAT INCLUDE TWO TYPES OF DATA. THEY INCLUDE THE FINANCIAL STATEMENTS THEMSELVES AND IT ALSO INCLUDES THE PERFORMANCE REPORT DATA IN TERMS OF HOW WELL WE PERFORM.

I PERSONALLY THINK GETTING THE PERFORMANCE REPORT DATA COMPLETED WILL BE A BIGGER CHALLENGE MAYBE THAN THE FINANCIAL STATEMENT BUT THEY BOTH WILL BE A CHALLENGE FOR US.

IT'S TRYING TO GET DATA AT THE END OF THE FISCAL YEAR OR MAYBE SLIGHTLY BEFORE THE END OF THE FISCAL YEAR AND GETTING THAT THROUGH A REVIEW PROCESS AND APPROVAL PROCESS IN 45 DAYS WHICH WE WILL BE TIGHT

MS. TURNER: AS FAR AS THE FINANCIAL STATEMENT END OF IT, WE DON'T BELIEVE IT WILL BE TOO DIFFICULT TO DO BUT WE ARE GOING TO NEED TO WORK CLOSELY WITH THE AUDITORS ON THE SCHEDULE BECAUSE WE WORK BACK AND FORTH WITH THEM ON THEIR FINDINGS. WE ARE HOPING THAT THE QUARTERLY FINANCIAL STATEMENTS THAT THEY WILL BE LOOKING AT THAT THROUGHOUT THE YEAR AND THAT THAT WILL STREAMLINE THE PROCESS AT THE END OF THE YEAR.

CHAIRMAN MESERVE: SO THE PERFORMANCE REPORT

WHERE YOU DEPEND ON DATA FROM OTHERS IS ONE THAT IS GOING TO BE A BIGGER CHALLENGE AND WE ARE GOING TO HAVE TO OBVIOUSLY HELP YOU IN WORKING WITH OTHER OFFICES TO GET THAT INFORMATION IN A TIMELY WAY?

MR. FUNCHES: AND SOME OF IT MIGHT NOT BE AVAILABLE IN THAT TIME FRAME IN WHICH WE MIGHT HAVE TO BE LOOKING AT REPORTING AN ESTIMATE AND OBVIOUSLY, CALL IT AN ESTIMATE AT THAT POINT IN TIME. SO WE WILL LOOK AT THOSE TECHNIQUES TO GET AROUND. THAT ISSUE HAS BEEN BROUGHT TO OMB NOT JUST BY US BUT OTHER AGENCIES, HOW DO YOU CHARACTERIZE THAT DATA AND WHAT CAN YOU DO? YOU MIGHT NOT HAVE ACTUAL DATA AND MIGHT NOT BE ABLE TO GET IT IN TIME. FOR EXAMPLE WE USE SOME OF THE PRECURSOR DATA IN REPORTING.

CHAIRMAN MESERVE: I'M PUZZLED. IT SEEMS TO ME THAT EVERY AGENCY HAS TO CONFRONT EXACTLY THE SAME PROBLEM WE DO. AND BY CONSTRAINING THESE DEADLINES, THE GOVERNMENT IS FORCING THE REPORT SEEMS TO ME TO BE BASED MORE AND MORE ON ESTIMATED INFORMATION RATHER THAN ACTUAL DATA WHICH SEEMS TO BE CONTRARY TO THE PURPOSE OF THE REPORTS.

IS THERE ANY SORT OF UPRISING OCCURRING ACROSS

THE GOVERNMENT THAT PEOPLE WORRY ABOUT THESE THINGS?

MR. FUNCHES: I THINK -- WE MET WITH THEM AND WE POINTED OUT TO THEM THAT WE THOUGHT THAT -- WE MET WITH OMB AND OTHER AGENCIES MET WITH OMB AND THEY ALL ACKNOWLEDGED THAT OTHER AGENCIES HAVE BROUGHT THAT CHALLENGE TO THEM. AND THEY WILL SAY THEY ARE LOOKING AT WAYS TO TRY TO DEAL WITH THAT. BUT I THINK THE PUSH RIGHT NOW IS TO COMPLETE THEM BY IN THAT TIME PERIOD. AND YOU KNOW, I THINK THEY HAD TWO EXAMPLES THIS YEAR, TREASURY AND SOCIAL SECURITY. AGAIN, THEIR REPORTS ARE A LOT MORE FINANCIAL THAN THEY ARE KIND OF PROGRAMMATIC TYPE THINGS THAT OTHER AGENCIES MIGHT HAVE SUCH AS RCPA OR DOD OR DOE. SO IT IS ONE THAT WE ARE WORKING WITH THEM ON. I DON'T KNOW, PETE, ANYBODY ELSE HAVE COMMENTS? BUT THAT'S THE FEEDBACK WE HAVE GOTTEN FROM THEM.

MR. RABIDEAU: THEY ARE NOT LOOKING AT MOVING THAT SCHEDULE RIGHT NOW. THERE HAS BEEN A LOT OF DIFFERENT AGENCIES THAT HAVE COMMENTED IN THE SENSE THAT IT'S GOING TO BE A PROBLEM FOR THEM. A LOT OF OUR PERFORMANCE REPORT INFORMATION IS OUTCOME RELATED INFORMATION WHERE WE RELY ON MANY FROM OUTSIDE OF THE AGENCY TO PROVIDE US WITH THAT

INFORMATION. IT IS NOT OUTPUT RELATED WHERE WE CAN GENERATE THE INFORMATION OURSELVES.

SO THAT WILL BE A PARTICULAR CHALLENGE.

THERE IS ALSO REVIEW TIME ON THE PERFORMANCE REPORT THAT WE HAVE TOO.

COMMISSIONER MERRIFIELD: MR. CHAIRMAN? I WAS GOING TO SAY, MANY TIMES DURING YOUR TENURE AS CHAIRMAN, I HAVE TAKEN THE OCCASION TO ASK TO BE ASSOCIATED WITH YOUR REMARKS.

I'M NOT SO CERTAIN IN TERMS OF REMARKS ABOUT AN UPRISING OR LEADING SOME SORT OF OMB INSURRECTION WOULD BE NECESSARILY SOMETHING I WANT TO NECESSARILY BE ASSOCIATED WITH, BUT I'M PULLING THE CHAIRMAN'S CHAIN.

CHAIRMAN MESERVE: SINCE I'M LEAVING -- JUST ONE FINAL QUESTION THAT YOU HAVE INDICATED THAT YOU'RE GOING TO THE E-PAYROLL AND E-TRAVEL AND THESE VARIOUS OTHER E GOVERNMENT INITIATIVES.

COULD YOU SAY SOMETHING ABOUT THE IMPACT ON EMPLOYEES OF THESE CHANGES? IS THIS ALL GOING TO BE TRANSPARENT TO EMPLOYEES OR ARE THEY GOING TO EXPECT CHANGES IN SERVICES THAT THEY HAVE GROWN ACCUSTOMED TO?

MR. FUNCHES: LET ME ANSWER IT IN TWO WAYS AND, CHARLOTTE OR PETER, IF YOU WANT TO ADD TO THAT. FIRST, IN TERMS OF PAYMENT AND THOSE TYPE OF SERVICES, WE WOULD EXPECT NOTHING TO CHANGE, ACTUALLY. THE ORGANIZATION WILL GO ON, PRODUCING THE CHECK AND HAVE IT --

CHAIRMAN MESERVE: SO, WE ARE NOT GOING TO GET BIGGER CHECKS?

MR. FUNCHES: NO YOU WON'T GET BIGGER CHECKS, BUT YOU WILL GET MORE TIMELY CHECKS. SO THEY HAVE THE CAPABILITY TO TRACK THE TYPE OF STUFF THAT WE TRACK. THEY HAVE SOME OTHER FEATURES THAT WE ALSO SEE AS BENEFICIAL. IN TERMS OF OUR IMPLEMENTATION OF E-PAYROLL, WE WILL STAY WITH THE SAME FRONT END THAT WE HAVE TODAY SO WE DON'T HAVE TO CHANGE THAT SO THE EMPLOYEE WILL BE SEEING THE SAME TIME AND LABOR SCREEN AND WILL BE TAKING THAT DATA AND PASSING IT ON. WE WILL LOOK AS WE GET MORE EXPERIENCE AND MORE KNOWLEDGE AT WHETHER OR NOT WE WANT TO GO TO THEIR TIME AND LABOR SCREEN. BUT FOR THE TRANSITION TO THE PAYROLL, WE ARE NOT LOOKING AT CHANGING THAT SCREEN. SO FROM THAT PERSPECTIVE, THAT WOULD BE OPAQUE TO THE

EMPLOYEES ALSO.

MS. TURNER: JUST AS WE LOOKED AT THE DIFFERENT PROVIDERS, ONE OF THE THINGS WE LOOKED AT VERY CLOSELY WAS TO TRY TO MAKE IT AS PAINLESS AS POSSIBLE FOR THE STAFF AND THE AGENCY. ONE OF THE REASONS WE SELECTED DOI IS BECAUSE THEY HAVE SUCH A STRONG HISTORY, THEY HAVE OVER 30 YEARS EXPERIENCE PROVIDING PAYROLL AND H.R. SERVICES TO OTHER AGENCIES. THEY CURRENTLY HAVE 28 AGENCIES THAT THEY PROVIDE THE SERVICE FOR.

SO WE THOUGHT THEY HAD A REALLY GOOD TRACK RECORD. AS JESSE MENTIONED, THE FRONT END THAT YOU SEE ON THE SCREEN THAT YOU INPUT YOUR TIME ON, THAT WILL NOT CHANGE. WE ARE GOING TO KEEP FOR RIGHT NOW THE HR TIME AND LABOR DATA ENTRY SCREEN. SO THAT PART WILL BE TRANSPARENT TO THE USER AND WE WILL INTERFACE THAT WITH THE PAYROLL AND THE HR DATA.

CHAIRMAN MESERVE: THANK YOU.

COMMISSIONER DICUS?

COMMISSIONER DICUS: THANK YOU, MR. CHAIRMAN. I SAID THIS BEFORE. ONE OF THE GREAT ADVANTAGES OF

BEING LAST IS THAT YOUR QUESTIONS HAVE GENERALLY BEEN ASKED AND PARTIALLY ANSWERED OR ANSWERED.

WITH REGARD TO THESE REPORTABLE CONDITIONS, I DO WANT TO FOLLOW-UP A LITTLE BIT: THE FIVE THAT ARE OPEN, ARE THEY ALL NEW OR IS THERE A CARRYOVER FROM PREVIOUS YEARS?

MS. TURNER: YES, TWO OF THEM ARE CARRYOVER FROM PREVIOUS YEARS, AND THREE OF THEM ARE NEW.

COMMISSIONER DICUS: WHAT ARE THE CARRYOVERS?

MS. TURNER: THE CARRYOVERS ARE THE CFR PART 170 HOURLY FEES THAT HE TOLD YOU WE HAD DONE THE STUDY ON. AND THE OTHER ONE WAS ON CONTRACT CLOSE OUT PROCESSING PROCEDURES. WHILE WE HAVE PUT PROCEDURES IN PLACE TO CORRECT THE FINDING, THERE WERE A FEW ENTRIES THAT HADN'T BEEN CORRECTED THAT WERE SITTING OUT IN THE SYSTEM. SO WE JUST NEED TO CLEAN THOSE UP. THOSE SHOULD BE DONE BY MARCH.

COMMISSIONER DICUS: SO YOU THINK THESE TWO CARRYOVERS WILL NOT BE A PROBLEM?

I'M NOT SO SURE ABOUT THE 170 HOURS BUT THAT WE CAN GET THAT ONE CLEARED UP. THAT WOULD BE A GOAL TO DO THAT.

MS. TURNER: OUR GOAL IS DEFINITELY TO TRY TO COME TO AGREEMENT WITH THE IG ON HOW WE CAN GET THAT CLEARED UP.

COMMISSIONER DICUS: ONE FINAL QUICK QUESTION HAS TO DO AGAIN WITH THE PAR, THE PERFORMANCE AND ACCOUNTING REPORT.

THIS QUESTION HAS BEEN PARTIALLY ANSWERED BECAUSE WHAT YOU HAD TALKED ABOUT IS YOUR CHALLENGE IN DOING THE ACCELERATION OF THE PAR AND THAT THAT WOULD BE A CHALLENGE.

AND YOU EXPLAINED AT LEAST IN PART, THAT PART OF YOUR PROBLEM IN DOING THIS IS GETTING THE INFORMATION IN FROM OTHER ENTITIES AND THAT YOU MIGHT HAVE TO DO ESTIMATES BASED UPON PRIOR KNOWLEDGE, ET CETERA. YOU ALSO INDICATED YOU WERE LOOKING AT PLANS TO BE ABLE TO MEET THIS.

DO YOU HAVE PLANS OTHER THAN THE ESTIMATIONS?
WHAT ARE YOU TRYING TO DO?

MR. FUNCHES: I THINK AS CHARLOTTE MENTIONED EARLIER, ONE OF THE THINGS WE ARE LOOKING AT AND WE ARE GOING TO LOOK THIS YEAR TO SEE IF WE CAN, WHETHER IT'S POSSIBLE TO MAYBE IN 2003, LOOK AND SEE IF IT IS

POSSIBLE TO TAKE ANOTHER STEP FORWARD IN TERMS OF SHORTENING THE TIME.

WE HAVE TO WAIT UNTIL WE CAN SIT DOWN WITH THE IG AND OTHERS TO SEE IF WE CAN DO THAT. WE ARE LOOKING AT AND HAVE DONE THE QUARTERLY REPORTS. WE ARE LOOKING AT HOW WE CAN USE THOSE QUARTERLY REPORTS AND THEREFORE, REDUCE THE AMOUNT OF AUDIT AT THE BACK END. WE ARE GOING TO PUT TOGETHER A TEAM TO TRY TO LOOK AT HOW WE CAN ACCELERATE THE FINANCIAL STATEMENT.

THERE IS A GOVERNMENT-WIDE TEAM OUT THERE LOOKING AT ACCELERATION, THEY ARE SUPPOSED TO BE BRINGING LESSONS LEARNED. WE OBVIOUSLY WILL PARTICIPATE IN THAT, WHAT LESSONS LEARNED, WHAT OTHER AGENCIES ARE HAVING AND THERE IS A GOVERNMENT-WIDE EFFORT THAT WE ARE STAYING IN TOUCH WITH.

SO WE TRY TO TOUCH ALL BASES AND TRY TO ASSESS KIND OF WHERE THE TOUGHER SPOTS ARE AND IT IS -- WE USE THAT DATA, FOR EXAMPLE, FROM THAT ABNORMAL CRUNCH REPORT AS PART OF REPORTING THE MATERIALS IN TERMS OF THE OUTCOME METRICS. AND WE HAVE TO SEE WHAT WE CAN DO THERE. THE DATA IS AVAILABLE, AND IT COVERS MISTAKES ALSO.

MR. RABIDEAU: THE TEAM JESSE WAS TALKING ABOUT IN

ADDITION TO ACCELERATING THE FINANCIAL STATEMENT,
ALSO ADDRESSING WHAT YOU CAN DO TO ACCELERATE THE
PERFORMANCE REPORTS.

COMMISSIONER DICUS: I THINK I AGREE WITH THE CHAIRMAN
THOUGH, THAT MAYBE AN UPRISING IS ALSO PART OF THE
PLAN.

CHAIRMAN MESERVE: WE WON'T TAKE A VOTE ON IT.

ON BEHALF OF THE COMMISSION,
I WOULD LIKE TO THANK YOU FOR YOUR PRESENTATION THIS
MORNING.

THE OFFICE OF THE CHIEF FINANCIAL OFFICER IS
IMPORTANT TO THE AGENCY AND THE ACHIEVEMENT OF ITS
MISSION AND ITS PROGRAMS. SO THANK YOU VERY MUCH.
WE ARE ADJOURNED.