

---

**OFFICE OF  
THE INSPECTOR GENERAL  
U.S. NUCLEAR  
REGULATORY COMMISSION**

---

Audit of the Budget Formulation Process

OIG-05-A-09 January 31, 2005

---

**AUDIT REPORT**

---



All publicly available OIG reports (including this report) are accessible through  
NRC's Web site at:

<http://www.nrc.gov/reading-rm/doc-collections/insp-gen/>

January 31, 2005

MEMORANDUM TO: Luis A. Reyes  
Executive Director for Operations

Jesse L. Funches  
Chief Financial Officer

FROM: Stephen D. Dingbaum/**RA**/  
Assistant Inspector General for Audits

SUBJECT: AUDIT OF THE BUDGET FORMULATION PROCESS  
(OIG-05-A-09)

Attached is the Office of the Inspector General's (OIG) audit report titled, *Audit of the Budget Formulation Process*. The report incorporates comments provided by your offices, as appropriate.

This report reflects the results of our audit to determine whether the budget formulation portion of the Planning, Budgeting, and Performance Management process is (1) effectively used to develop and collect data to align resources with strategic goals, and (2) efficiently and effectively coordinated with program and support offices.

Overall, the audit disclosed that the agency effectively develops and collects data to align resources with strategic goals and the budget is prepared in alignment with the Strategic Plan. Further, as required by the Office of Management and Budget, the agency successfully conducted Program Assessment Rating Tool evaluations. NRC continued to improve the internal coordination of the budget formulation portion of the Planning, Budgeting, and Performance Management process with program and support offices. Additionally, the major program offices continued to develop and refine the common prioritization process. However, OIG identified several weaknesses where additional efforts are needed in the area of internal coordination and communication. Specifically, the roles and responsibilities of the Chief Financial Officer and the Executive Director for Operations in the budget formulation process require clarification; common prioritization needs definition and methodology; the decision-making process and roles and responsibilities of the Program Review Committee need to be documented; and the budget formulation process needs to be further documented.

If you have any questions, please call me at 415-5915 or Steven Zane at 415-5912.

Attachment: As stated

## Distribution List

B. John Garrick, Chairman, Advisory Committee on Nuclear Waste  
Mario V. Bonaca, Chairman, Advisory Committee on Reactor Safeguards  
John T. Larkins, Executive Director, Advisory Committee on Reactor Safeguards/Advisory Committee on Nuclear Waste  
G. Paul Bollwerk, III, Chief Administrative Judge, Atomic Safety and Licensing Board Panel  
Karen D. Cyr, General Counsel  
John F. Cordes, Jr., Director, Office of Commission Appellate Adjudication  
Janice Dunn Lee, Director, Office of International Programs  
William N. Outlaw, Director of Communications  
Dennis K. Rathbun, Director, Office of Congressional Affairs  
Eliot B. Brenner, Director, Office of Public Affairs  
Annette Vietti-Cook, Secretary of the Commission  
William F. Kane, Deputy Executive Director for Homeland Protection and Preparedness, OEDO  
Martin J. Virgilio, Deputy Executive Director for Materials, Research and State Programs, OEDO  
Ellis W. Merschoff, Deputy Executive Director for Reactor Programs, OEDO  
William M. Dean, Assistant for Operations, OEDO  
Jacqueline E. Silber, Chief Information Officer  
Timothy F. Hagan, Director, Office of Administration  
Frank J. Congel, Director, Office of Enforcement  
Guy P. Caputo, Director, Office of Investigations  
Paul E. Bird, Director, Office of Human Resources  
Corenthis B. Kelley, Director, Office of Small Business and Civil Rights  
Jack R. Strosnider, Director, Office of Nuclear Material Safety and Safeguards  
James E. Dyer, Director, Office of Nuclear Reactor Regulation  
Carl J. Paperiello, Director, Office of Nuclear Regulatory Research  
Paul H. Lohaus, Director, Office of State and Tribal Programs  
Roy P. Zimmerman, Director, Office of Nuclear Security and Incident Response  
Samuel J. Collins, Regional Administrator, Region I  
William D. Travers, Regional Administrator, Region II  
James L. Caldwell, Regional Administrator, Region III  
Bruce S. Mallett, Regional Administrator, Region IV  
Office of Public Affairs, Region I  
Office of Public Affairs, Region II  
Office of Public Affairs, Region IV

---

## **EXECUTIVE SUMMARY**

---

### **BACKGROUND**

The Office of the Chief Financial Officer (OCFO) manages the Nuclear Regulatory Commission's (NRC) Planning, Budgeting and Performance Management Process (PBPM). NRC designed PBPM to improve the integration of its strategic planning, budgeting, and performance management processes and to enhance cooperation and coordination among offices. OCFO is responsible for managing both budget formulation and budget execution. Budget formulation involves extensive coordination among the Office of the Executive Director for Operations (OEDO), OCFO, and program and support offices.

Development of the agency's budget is a multi-step process that includes significant internal coordination and communication. Key preliminary steps include development of the Strategic Plan, Performance Measures, Key Planning Assumptions, Fiscal Guidance, and Key Outputs. Ideally, the steps should occur sequentially, though some may occur in parallel. Early Commission decision on and approval of the preceding products is critical to ensure that offices prepare their budgets with a minimum of rework. Other key steps include common prioritization, the budget call, and the Program Review Committee (PRC) assessment.

### **PURPOSE**

The audit objectives were to determine whether the budget formulation portion of the Planning, Budgeting, and Performance Management process is:

- (1) effectively used to develop and collect data to align resources with strategic goals, and
- (2) efficiently and effectively coordinated with program and support offices.

### **RESULTS IN BRIEF**

The agency effectively develops and collects data to align resources with strategic goals. The budget is prepared in alignment with the Strategic Plan. Further, the agency successfully conducted Program Assessment Rating Tool (PART) evaluations during the budget formulation cycles for FYs 2005 and 2006. NRC continues to improve the internal coordination of the budget

formulation portion of the PBPM process with program and support offices. Also, the major program offices continue to develop and refine the common prioritization process. In addition to the improvements already made, action is needed to further improve internal coordination and communication. Specifically,

- (1) the roles and responsibilities of the Chief Financial Officer (CFO) and the Executive Director for Operations (EDO) require clarification (refer to page 7),
- (2) common prioritization needs definition and methodology (refer to page 9),
- (3) the decision-making process and roles and responsibilities of the Program Review Committee need to be documented (refer to page 9), and
- (4) the budget formulation process needs to be further documented (refer to page 10).

Lack of written policies and procedures that clarify the roles and responsibilities of key participants in the budget formulation process result in inefficiencies, particularly workflow disruption, confusion, and rework. Addressing the weaknesses identified in this report will improve the overall effectiveness and efficiency of the agency's budget formulation process and provide assurance that related aspects of the program are coordinated.

#### **AGENCY COMMENTS**

At a September 28, 2004, exit conference with agency senior executives, NRC officials generally agreed with the report's findings and recommendations. On January 7, 2005, the Deputy CFO, with concurrence of the OEDO, provided a final response consisting of two supplementary comments. (See Appendix B) These comments, along with prior comments, have been incorporated, as appropriate, in our final report. See Appendix C for the full text of the agency's comments and the Office of the Inspector General's (OIG) analysis and response.

## **ABBREVIATIONS AND ACRONYMS**

---

CFO	Chief Financial Officer
CIO	Chief Information Officer
CRDS	Controller Resource Database System
EDO	Executive Director for Operations
MD	Management Directive
NRC	Nuclear Regulatory Commission
OCFO	Office of the Chief Financial Officer
OEDO	Office of the Executive Director for Operations
OIG	Office of the Inspector General
OMB	Office of Management and Budget
PART	Program Assessment Rating Tool
PBPM	Planning, Budgeting and Performance Management Process
PRC	Program Review Committee

[Page intentionally left blank.]

## **TABLE OF CONTENTS**

---

EXECUTIVE SUMMARY.....	i
ABBREVIATIONS AND ACRONYMS .....	iii
I. BACKGROUND .....	1
II. PURPOSE.....	5
III. FINDING .....	6
A. INTERNAL COORDINATION AND COMMUNICATION NEED IMPROVEMENT.....	6
IV. OTHER MATTERS .....	11
V. AGENCY COMMENTS.....	13
APPENDICES	
A. SCOPE AND METHODOLOGY .....	15
B. FORMAL AGENCY COMMENTS .....	17
C. OIG ANALYSIS OF AGENCY COMMENTS .....	19



[Page intentionally left blank.]

## I. BACKGROUND

---

The OCFO manages the NRC's PBPM process. NRC designed PBPM to improve the integration of its strategic planning, budgeting, and performance management processes and to enhance cooperation and coordination among offices. OCFO is responsible for managing both budget formulation and budget execution. Budget formulation involves extensive coordination among the OEDO, OCFO, and program and support offices. During FY 2004, OCFO's resources dedicated to budget formulation totaled approximately \$2.3 million which primarily consisted of salaries and benefits for 16 staff members.<sup>1</sup> In addition, substantial resources are expended by all other NRC Offices.

### **Steps Leading to NRC's Budget**

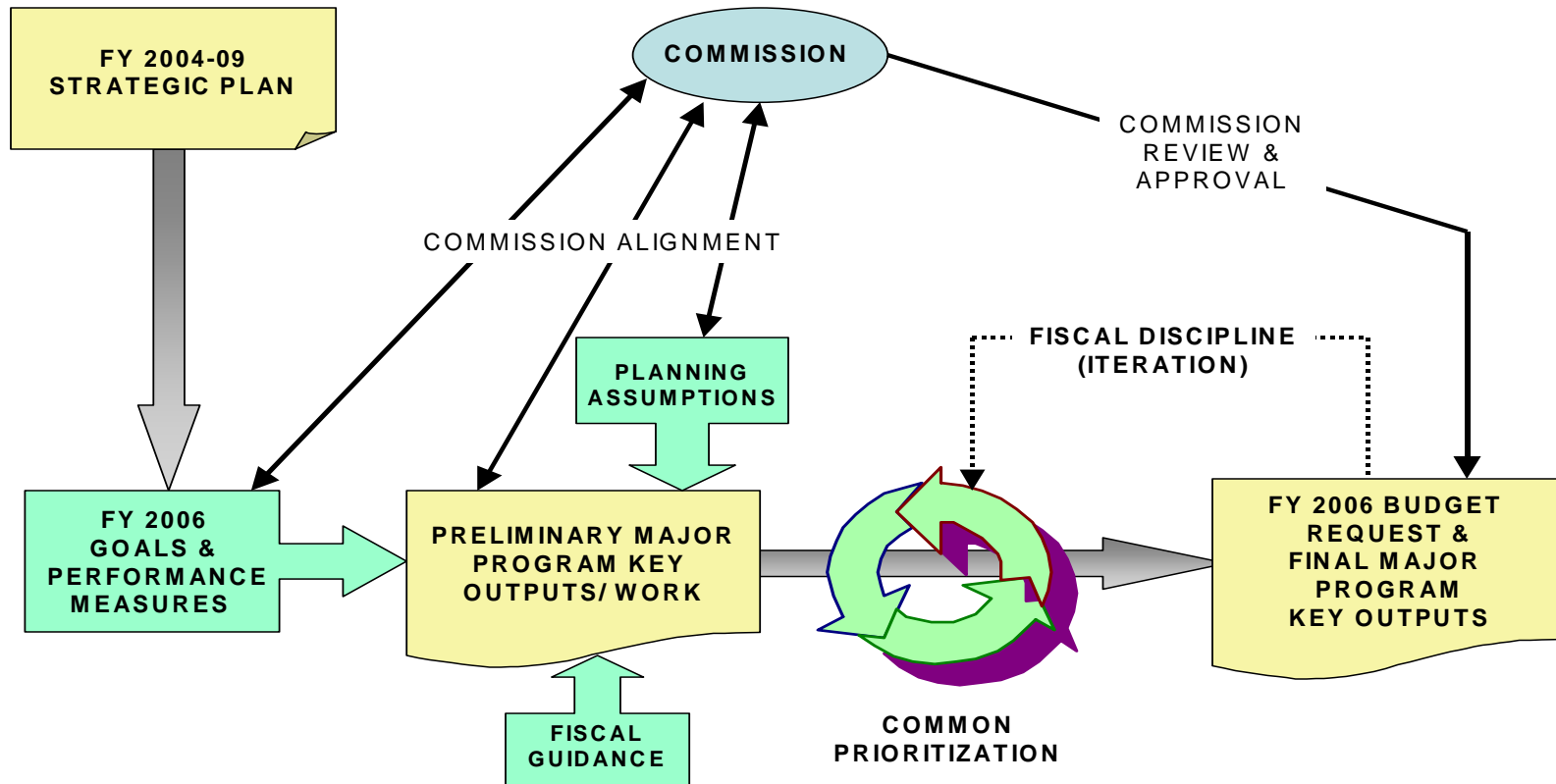
As illustrated in the following flowchart,<sup>2</sup> development of the agency's budget is a multi-step process that includes significant internal coordination and communication.

---

<sup>1</sup> These resources include all OCFO/Division of Planning, Budget, and Analysis activities to support, conduct, and improve the internal and external review of the agency's budget, including planning, policy and operations, program analysis, support for the current and development of the new budget formulation information technology system, and a proportionate share of overhead, travel, training and supplies. OCFO represents that resources devoted to the internal review of the budget as covered by the audit are \$1.2 million, including 10 FTE.

<sup>2</sup> The flowchart was prepared by the Office of Nuclear Material Safety and Safeguards.

## OVERVIEW OF STEPS LEADING TO A BUDGET



Key preliminary steps include development of the Strategic Plan, Performance Measures, Key Planning Assumptions, Fiscal Guidance, and Key Outputs. The preliminary steps are discussed briefly below. Ideally, the steps should occur sequentially, though some may occur in parallel. Early Commission decision on and approval of the preceding products is important to ensure that offices prepare their budgets with a minimum of rework.

- The Strategic Plan sets the strategic direction and long-term goals for the agency.<sup>3</sup>
- Performance Measures are used to define success in achieving the agency's goals and are established during the yearly planning cycle.
- Key Planning Assumptions guide development of office budget requests and include external and internal factors that will significantly influence the agency's work activities and resource requirements.
- Fiscal Guidance, issued by OCFO, provides an overall framework/guideline for reporting and assessing office submissions.
- Key Outputs provide early identification of major agency products.

Other key steps that are described in more detail below include common prioritization, the budget call, and the PRC assessment.

### **Common Prioritization**

Common prioritization is a process that brings together the program offices to work towards agreement on the relative priority of all proposed work and to determine how best to distribute resources within their applicable strategic arenas (now major programs). The concept of common prioritization was first introduced during the FY 2004 budget cycle. At the direction of the EDO, offices individually prioritized activities as had been the practice for several years. Additionally, the EDO directed certain major program offices, namely, the Office of Nuclear Material Safety and Safeguards, the Office of Nuclear Reactor Regulation, and the Office of Nuclear Regulatory Research to use one unified

---

<sup>3</sup> Both the Strategic Plan and the Performance Goals and Measures were undergoing revisions during the budget formulation cycle.

prioritization method for work within their applicable major programs. For the FY 2006 budget formulation cycle, the EDO charged the above named major program offices along with the Office of Nuclear Security and Incident Response to continue implementation and refinement of the common prioritization process.<sup>4</sup> The support offices are working on a proposal for a common prioritization methodology that will be used by them for the FY 2007 PBPM process.

### **Budget Call**

Through the annual budget call, OCFO issues instructions to program and support offices for developing their budget requests. The offices, in return, provide their budget assumptions and requests to OCFO for review, analysis, development of program chapters and appendices, and preparation of the budget for review by the PRC. Each office's budget request includes the resources to accomplish agency goals. OCFO consolidates the budget requests and presents the analyses of program, policy, and resource issues to the PRC.

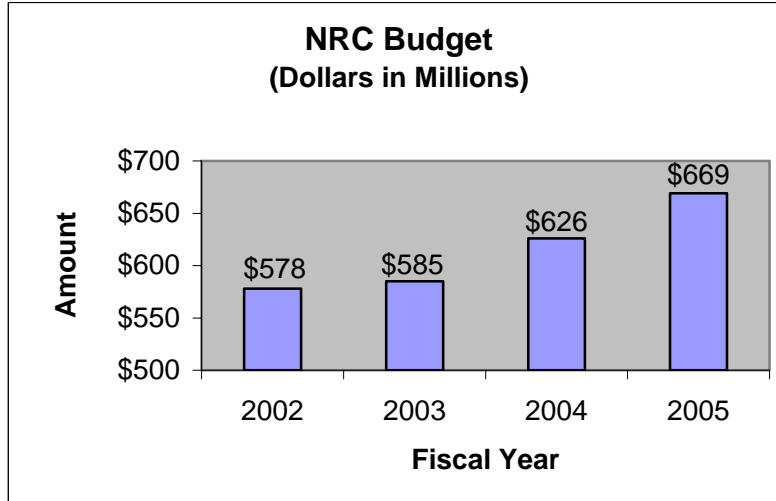
### **Program Review Committee**

The PRC consists of the four Deputy Executive Directors, the Deputy CFO, the Chief Information Officer (CIO), and a Regional representative. The PRC reviews office budget submissions and provides budget recommendations to the CFO and the EDO. The CFO and EDO, working together, then submit the proposed budget to the Chairman. The Chairman's budget is then provided to the Commission for review and approval. In September, the agency's proposed performance budget (the "blue book") is forwarded to the Office of Management and Budget (OMB) for review. After OMB passback (or revisions), NRC modifies its budget as necessary and it becomes a part of the President's Budget ("green book"). Finally, the agency sends the green book to Congress. The Congress determines the level of funding to be appropriated to the NRC.

---

<sup>4</sup> The Offices of Investigation, Enforcement, State and Tribal Programs, General Counsel, and International Programs also participated in the process.

The chart below shows the agency's budget totals for FYs 2002 through 2005.



Based on analysis of NRC's "green books," increases in agency salaries and benefits and additional activities related to Homeland Security, the High-Level Waste program, reactor license renewals, and new reactor licensing account for the majority of the growth in the budget over the last four years.

## II. PURPOSE

The audit objectives were to determine whether the budget formulation portion of the Planning, Budgeting, and Performance Management process is:

- (1) effectively used to develop and collect data to align resources with strategic goals, and
- (2) efficiently and effectively coordinated with program and support offices.

### III. FINDING

---

As required by the Government Performance and Results Act of 1993, the agency effectively develops and collects data to align resources with strategic goals. The budget is prepared in alignment with the Strategic Plan. The agency's FY 2006 budget describes programs, including the performance measures and metrics and associated resources required to achieve the goals identified in the Strategic Plan. Further, as required by OMB, the agency conducted PART evaluations<sup>5</sup> during the budget formulation cycles for FYs 2005 and 2006. All three programs<sup>6</sup> evaluated received the highest rating given by OMB - "effective." Two additional programs are scheduled for evaluation during the FY 2007 budget formulation cycle.

NRC continues to improve the internal coordination of the budget formulation portion of the PBPM process with program and support offices. For example, OCFO conducted a "lessons learned" exercise following the preparation of the FY 2005 budget. Efforts were made to address the observations and comments from agency offices. OCFO issued the budget call document with fiscal guidance one month earlier than in the prior year and continued to hold weekly discussion sessions to answer questions from program office budget analysts. Additionally, the major program offices continued to develop and refine the common prioritization process. In addition to improvements already made, action is needed to further improve internal coordination and communication.

#### A. INTERNAL COORDINATION AND COMMUNICATION NEED IMPROVEMENT

---

Additional efforts are needed in the area of internal coordination and communication. Specifically, the roles and responsibilities of the CFO and EDO require clarification; common prioritization needs definition and methodology; the decision-making process and roles and responsibilities of the PRC need to be documented; and the budget formulation process needs to be further documented. Lack of written policies and procedures that clarify the roles and

<sup>5</sup> PART is a tool developed by OMB to assess program performance in four areas: Purpose, Strategic Planning, Program Management, and Program Results. OMB's goal is to evaluate all Federal programs on a five-year cycle.

<sup>6</sup> The Reactor Inspection and Performance Assessment Program and the Fuel Facilities Licensing and Inspection Program were evaluated during FY 2003 (FY 2005 budget preparation). The Nuclear Materials Users Licensing and Inspection Program was evaluated during FY 2004 (FY 2006 budget preparation).

responsibilities of key participants in the budget formulation process result in inefficiencies, particularly workflow disruption and confusion.

Officials in program and support offices expressed concerns that numerous meetings and the revisions and rework of budget documents affect the ability of their organizations to operate efficiently.

### **Roles and Responsibilities of the CFO and EDO Require Clarification**

While the agency continues to improve coordination of the budget formulation process with program and support offices, additional steps are needed to clarify the roles and responsibilities of the CFO and EDO. In January 2001, the Commission abolished the Executive Council<sup>7</sup> and gave the CFO and the EDO responsibility for jointly producing and submitting selected work products related to the PBPM process. The respective roles and responsibilities, however, were never defined and clarified at the implementation level. Although Management Directive (MD) 4.7, "NRC Long-Range Planning, Programming, and Budget Formulation," approved October 1, 1989, and amended as of October 1, 1990, outlines roles and responsibilities in the budget formulation process, it is outdated and requires substantial updating and clarification to match the current process. As a result of the absence of a clear definition of roles and responsibilities, problems continue to affect the budget formulation process. Among these problems are delays in issuing key documents, inadequate time to respond to requests, and inadequate coordination of changes to documents.

### **Delays in Issuing Key Documents**

Though Commission input plays a major role in the budget process, offices prepared their FY 2006 budget requests without the benefit of Commission decisions on the key planning assumptions and performance measures. The lack of clear delineation of the roles and responsibilities of the CFO and EDO contributed to coordination difficulties, including numerous changes to budget documents. These circumstances resulted in a six-week<sup>8</sup> delay in

<sup>7</sup> The Executive Council consisted of three equal members: the EDO, the CFO, and the CIO. The Executive Council as a unit and the three individual members reported directly to the Chairman.

<sup>8</sup> OIG calculated the six-week period using the scheduled and actual dates of January 30, 2004, and March 16, 2004, respectively, for submitting the key planning assumptions to the Commission. The source of the January 30, 2004, date is a CFO memorandum dated December 8, 2003, titled "Development Of Key Planning Assumptions For The FY 2006 Program And Budget Planning Cycle."



the Commission's receipt of the key planning assumptions and performance measures. It is important to obtain Commission decisions early in the process in order to allow offices to prepare their budgets with a minimum of rework. Preparation of the budget without Commission approval of the key planning assumptions and performance measures leaves offices vulnerable to the possibility that the assumptions and measures will be changed, requiring rework of the budget. For example, during the FY 2006 budget formulation process, the Commission was provided key planning assumptions and performance measures late in the process (March 16, 2004). Therefore, offices were not able to incorporate Commission guidance prior to submitting their budgets on April 2, 2004. This delay did not result in any known significant rework. During the previous year, however, the agency performed extensive rework on the budget request as a result of obtaining direction from the Chairman late in the budget formulation process.<sup>9</sup>

### **Inadequate Time To Respond To Requests**

Generally, OCFO provides 15 to 30 working days for formal requests for information by memoranda and 3 working days for email requests. However, staff in several offices commented that, throughout the FY 2006 budget formulation process, they received several requests for information or clarification from OCFO with short turnaround times, some as little as 30 minutes. Such requests affect workload and exacerbate the natural tensions that exist during the budget formulation process. The absence of clearly defined roles and responsibilities of the CFO and EDO in the budget formulation process contributes to the communication and coordination difficulties described previously.

### **Inadequate Coordination of Changes to Documents**

Several program offices cited instances of changes to their budget narratives that were incorrect and which altered the meaning of the input. Identifying such changes and communicating the impact of them to OCFO staff took about two to three business days. The changes were corrected before the budget documents went forward, but resolving the issues adversely affected workflow and increased tension. In some cases, OCFO made the changes to fit the format prescribed by OMB. Communication of OMB formats to

<sup>9</sup> During the FY 2005 budget formulation process, the agency submitted budget assumptions to the Commission on March 4, 2003, for informational purposes only; approval was not sought. The budget submitted to the Chairman on June 9, 2003, contained a limit of 10 reactor license renewal reviews. On June 20, 2003, the Chairman determined that additional resources should be provided to increase the limit from 10 to 12 reviews.

the program offices would alleviate this problem. The lack of a definition of the roles and responsibilities of the CFO and EDO contributed to this problem.

### **Common Prioritization Needs Definition and Methodology**

Common prioritization is a process that brings together the major program offices to: (1) work towards agreement on the relative priority of all proposed work and (2) make informed decisions on how best to apply resources effectively toward the achievement of agency goals.

Common prioritization enhances shared accountability and has the potential to streamline the budget process. It has proven to be both positive and useful in the budget formulation process and PRC meetings. The EDO noted, in a memo dated September 12, 2003, that common prioritization “represents a significant advancement in planning and budgeting within the PBPM process.” However, a definition of the process and a methodology are required to avoid the current difficulty with lengthy meetings and absence of leadership with authority to resolve disputes. Specifically, absent such authority by defined leadership during meetings, disagreements among the offices participating in common prioritization are difficult to resolve. The definition should also include the sequential placement of common prioritization in the budget process. Ideally, common prioritization should be completed before the development of office budget requests.

### **Decision-Making Process and Roles and Responsibilities of the Program Review Committee Need to be Documented**

The PRC consists of the four Deputy Executive Directors, the Deputy CFO, the CIO, and a Regional representative. Although its composition has been established, the decision-making process and the roles and responsibilities of the PRC need to be clearly documented. One of the main functions of the PRC is assessing office budget requests for consistency with the agency’s strategic objective and goals. This assessment occurs over a four to five week period during April and May. Following the review, the PRC makes recommendations for CFO and EDO consideration. A management directive that includes a definition of the decision-making process and the roles and responsibilities of the PRC would add permanence to this committee and better document this aspect of the budget formulation process.

### **The Budget Formulation Process Needs to be Further Documented**

As a result of the lack of written criteria and procedures, the roles and responsibilities of all the key participants in the budget process are unclear. The Standards for Internal Control in the Federal Government stipulate that internal control is an integral component of an organization's management that provides reasonable assurance that an organization achieves efficiency and effectiveness in the course of its operations. Creating a good internal control environment requires the agency's organizational structure to "clearly define key areas of authority and responsibility and establish appropriate lines of reporting." Such definition would alleviate many of the current difficulties with the budget formulation process.

The PBPM process, which includes planning and budget formulation, would be more effective if the management directives defined roles and responsibilities, further documented the process, and institutionalized meetings with and early direction from the Commission. A number of management directives contain provisions that address budget formulation.

MD 4.7, "NRC Long-Range Planning, Programming, and Budget Formulation," approved October 1, 1989, and amended as of October 1, 1990, includes the policies and procedures that govern the agency's budget formulation process and sets out the roles and responsibilities of the various parties. It is, however, thoroughly out-of-date.

MD 4.8, "Performance Measurement," currently in draft form, addresses the establishment and maintenance of performance measures that provide information necessary to determine whether the agency has achieved its strategic and performance goals. Issuance of MD 4.8 has been delayed for over two years. Although the OEDO raised some concerns regarding the draft management directive with the OCFO, the OEDO has not provided written comments or suggested changes to OCFO. OCFO issued interim guidance in July 2001.

MD 9.20, "Organization and Functions, Office of the Chief Financial Officer," mentions the shared responsibilities of the CFO and the EDO for jointly producing and submitting products related to the PBPM process.

These management directives do not adequately define and document the complete process. As a result, the management directives need to be updated to address all aspects of the process.

### **Inefficiency, Disruption and Confusion**

The lack of clarification regarding the roles and responsibilities of key participants in the budget formulation process has led to confusion for the offices and disrupted their workflow. Without up-to-date management directives, employees engaged in budget formulation may not efficiently and effectively perform their duties and new employees will not have an authoritative source for reference. Additionally, the failure to obtain early Commission direction led staff in program offices to spend excessive time on rework.

### **RECOMMENDATIONS**

OIG recommends that the Chief Financial Officer update the management directives to:

1. Clarify, in coordination with the Executive Director for Operations, the roles and responsibilities of the Chief Financial Officer and Executive Director for Operations in the budget formulation process.
2. Document the decision-making process and roles and responsibilities of the Program Review Committee.
3. Document the budget formulation process to ensure a logical, comprehensive sequencing of events that provides for obtaining early Commission direction and approval.

The OIG recommends that the Executive Director for Operations update the management directives to:

4. Document the methodology for the common prioritization process for program offices.

## **IV. OTHER MATTERS**

---

During the course of the audit, OIG considered other matters including replacement of the agency's computer budget system and successful budget formulation practices used by other Federal agencies.

## **Replacement of the Controller Resource Database System**

At NRC, an integral part of the budget formulation process is the entry of budget information into an ACCESS Database, referred to as the Controller Resource Database System or CRDS. The database, which became operational in July 1995, contains valuable historical, current, and proposed agency budget request information. However, CRDS has experienced many problems including system failures, functional limitations, and excessive time demands on staff. As a result of known CRDS deficiencies, an OCFO lessons learned initiative, and an offsite manager's meeting, OCFO is conducting an evaluation that will lead to selection of an information technology application for the replacement of CRDS.

In June 2004, OIG representatives visited the Patent and Trademark Office and interviewed agency officials. During the interview, OIG learned that the Patent and Trademark Office had completed extensive market research into a proposed purchase of a new computerized budget system. Patent and Trademark Office officials stated that they had entered the final stages of their research and were close to purchasing a new system. OIG representatives realized that this market research information could prove valuable to NRC's Budget Project Team, which is in the initial stages of searching for a new computerized budget system. Consequently, information was forwarded to the Project Team who will build on Patent and Trademark Office efforts.

## **Successful Budget Formulation Practices Used by Other Federal Agencies**

OIG gathered information on successful budget formulation practices from the following agencies' budget offices: Patent and Trademark Office, Federal Energy Regulatory Commission, Federal Communications Commission, and the Department of Transportation. Highlights of the information obtained are listed below.

### **Successful Budget Office Practices**

- Obtain early Executive Management guidance and start the budget cycle early to allow ample time for budget preparation by the offices.
- Issue a monthly budget calendar containing relevant meetings and due dates of budget products.

- Take Commission meeting schedules into consideration when preparing the budget calendar.

### **Successful Program and Support Office Practices**

- Have the program and support offices, rather than the budget office, prepare the budget narrative justifications.

## **V. AGENCY COMMENTS**

At an exit conference on September 28, 2004, OIG discussed its draft report with agency officials. Subsequent to that meeting, OIG met with OCFO senior managers on two occasions to address specific issues that OCFO and OEDO believed needed further clarification or explanation. Additionally, OIG received written comments on the discussion draft report as well as requested documentation related to the agency's comments.

On January 7, 2005, the Deputy Chief Financial Officer, with concurrence of the OEDO, provided a final response consisting of two supplementary comments. (See Appendix B) The first comment related to information that is considered pre-decisional. OIG did not include that information in this report. The second comment related to the finding concerning delays in issuing key documents. The agency asserted that the last sentence of the finding and its accompanying footnote *may* (emphasis added) mislead the reader. OIG disagrees with this assertion. See Appendix C for the full text of the agency's comments and OIG's analysis and response.

These comments, along with prior comments, have been incorporated, as appropriate, in our final report.

[Page intentionally left blank.]

---

## SCOPE AND METHODOLOGY

---

The audit objectives were to determine whether the budget formulation portion of the Planning, Budgeting, and Performance Management process is:

- (1) effectively used to develop and collect data to align resources with strategic goals, and
- (2) efficiently and effectively coordinated with program and support offices.

To accomplish the audit objectives, OIG reviewed and analyzed pertinent laws, regulations, authoritative guidance and prior relevant NRC/OIG and General Accounting Office reports. This review focused on the FY 2006 budget formulation process. OIG reviewed applicable documentation to gain an understanding of how the agency (1) develops and collects data to align resources with strategic goals and (2) coordinates the budget portion of the PBPM process. OIG interviewed personnel from most Headquarters' offices to determine current issues, problems, and known deficiencies and to assess management controls. Additionally, OIG contacted other Federal Agencies and obtained information about successful budget formulation practices and lessons learned data.

OIG reviewed and analyzed management controls related to the audit objectives, and conducted this audit from February through July 2004 in accordance with Generally Accepted Government Auditing Standards. The major contributors to this report were Steven Zane, Team Leader; Kathleen Stetson, Audit Manager; Michael Steinberg, Senior Auditor; and Amanda Hollander, Intern.



[Page intentionally left blank.]

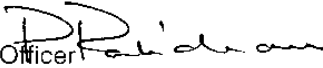
## FORMAL AGENCY COMMENTS



UNITED STATES  
NUCLEAR REGULATORY COMMISSION  
WASHINGTON, D.C. 20555-0001

January 7, 2005

MEMORANDUM TO: Stephen D. Dingbaum  
Assistant Inspector General for Audits

FROM: Peter J. Rabideau   
Deputy Chief Financial Officer

SUBJECT: DRAFT REPORT: AUDIT OF THE BUDGET FORMULATION  
PORTION OF NRC'S PLANNING, BUDGETING, AND  
PERFORMANCE MANAGEMENT PROCESS

We have reviewed the draft report, *Audit of the Budget Formulation Portion of NRC's Planning, Budgeting and Performance Management Process*, dated December 14, 2004. Based on that review, the following comments are provided:

- Page 5 of the draft report contains FY 2006 resource estimates based on the NRC's budget request that was submitted to OMB in September 2004. The OMB Circular A-11 (*Preparation, Submission, and Execution of the Budget*) Section 22-1 states that, "The nature and amounts of the President's decisions and the underlying materials are confidential. Do not release the President's decisions outside of your agency until the budget is transmitted to the Congress. In addition, materials underlying those decisions should not be released at any time, except in accordance with this section." We recommend that the references to the FY 2006 budget contained in the report be removed or the report not be released until after the President's budget has been submitted to Congress in February 2005.<sup>1</sup>
- Page 9 of the draft report states, "Preparation of the budget without Commission approval of the key planning assumptions and performance measures leaves offices vulnerable to the possibility that the assumptions and measures will be changed, requiring a rework of the budget. For example, during the FY 2006, budget formulation process, the Commission was provided key planning assumptions and performance measures late in the process (March 16, 2004). Therefore, Offices were not

---

<sup>1</sup> If the references to FY 2006 are retained, the estimates should be revised to reflect the

S. D. Dingbaum

-2-

able to incorporate Commission guidance prior to submitting their budgets on April 2, 2004. This delay did not result in any known significant rework. *During the previous year, however, the agency performed an extensive rework on the budget request as a result of obtaining direction from the Chairman late in the budget formulation processes* [emphasis added].<sup>109</sup> This last sentence and its accompanying footnote may mislead the reader. The rework referred to in the statement was necessary because the staff decided to abandon the original March 4, 2003, planning assumptions and to introduce a new concept of limiting or "capping" the number of license renewal applications to be reviewed. The FY 2005 budget, submitted to the Chairman on June 9, 2003, included this first time proposal to limit the number of license renewal applications to be reviewed. As part of his review, the Chairman determined that resources should be adjusted to increase the number of license renewal applications to be reviewed from 10 to 12. Because of its misleading nature, we recommend that the statement be removed. A similar statement on page 13 should also be removed.

Thank you for the opportunity to comment on the draft report, and for your staff's consideration of the comments we provided during the exit conference. The Office of the Executive Director for Operations has concurred in this memorandum.

cc: L. A. Reyes, EDO  
W. Dean, OEDO  
M. Malloy, OEDO  
P. Tressler, OEDO

CONTACT: Leslie W. Barnett, OCFO/DPBA  
415-7540  
[lwb@nrc.gov](mailto:lwb@nrc.gov)

## DETAILED OIG ANALYSIS OF AGENCY COMMENTS

### Finding: Internal Coordination and Communication Need Improvement – Delays in Issuing Key Documents

#### Agency Comments:

Page 5 of the draft report contains FY 2006 resource estimates based on the NRC's budget request that was submitted to OMB in September 2004. The OMB Circular A-11 (Preparation, Submission, and Execution of the Budget) Section 22-1 states that, "The nature and amounts of the President's decisions and the underlying materials are confidential. Do not release the President's decisions outside of your agency until the budget is transmitted to the Congress. In addition, materials underlying those decisions should not be released at any time, except in accordance with this section." We recommend that the references to the FY 2006 budget contained in the report be removed or the report not be released until after the President's budget has been submitted to Congress in February 2005.<sup>1</sup>

#### OIG Response:

OIG removed the references to the FY 2006 budget in this report.

#### Agency Comments:

Page 9 of the draft report states, "Preparation of the budget without Commission approval of the key planning assumptions and performance measures leaves offices vulnerable to the possibility that the assumptions and measures will be changed, requiring a rework of the budget. For example, during the FY 2006, budget formulation process, the Commission was provided key planning assumptions and performance measures late in the process (March 16, 2004). Therefore, Offices were not able to incorporate Commission guidance prior to submitting their budgets on April 2, 2004. This delay did not result in any known significant rework. *During the previous year, however, the agency performed an extensive rework on the budget request as a result of obtaining direction from the Chairman late in the budget formulation precesses [sic] [emphasis added].*<sup>10</sup>" This last sentence and its

<sup>1</sup>If the references to FY 2006 are retained, the estimates should be revised to reflect the OMB's final passback.

accompanying footnote may mislead the reader. The rework referred to in the statement was necessary because the staff decided to abandon the original March 4, 2003, planning assumptions and to introduce a new concept of limiting or “capping” the number of license renewal applications to be reviewed. The FY 2005 budget, submitted to the Chairman on June 9, 2003, included this first time proposal to limit the number of license renewal applications to be reviewed. As part of his review, the Chairman determined that resources should be adjusted to increase the number of license renewal applications to be reviewed from 10 to 12. Because of its misleading nature, we recommend that the statement be removed. A similar statement on page 13 should also be removed.

**OIG Response:**

The agency asserted that the last sentence of the finding and its accompanying footnote *may* (emphasis added) mislead the reader. OIG disagrees with this assertion. Based on earlier comments and additional information provided by the agency, OIG added footnote 10, on page 8 of this report, for clarification. The discussion in this report accurately reflects the facts. Therefore, OIG did not make further changes to the report.