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Report to the Chairman, Subcommittee
on Government Efficiency, Financial
Management and Intergovernmental
Relations, Committee on Government
Reform, House of Representatives

December 2002

MANAGING FOR RESULTS

Efforts to Strengthen the Link Between Resources and Results at the Nuclear Regulatory Commission





Highlights of [GAO-03-258](#), a report to the Chairman, Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations, House Committee on Government Reform

Why GAO Did This Study

Encouraging a clearer and closer link between budgeting and planning is essential to improving federal management and instilling a greater focus on results. Through work at various levels within the organization, this report on the Nuclear Regulatory Commission (NRC)—and its two companion studies on the Administration for Children and Families (GAO-03-09) and the Veterans Health Administration (GAO-03-10)—documents (1) what managers considered successful efforts at creating linkages between planning and performance information to influence resource choices and (2) the challenges managers face in creating these linkages.

MANAGING FOR RESULTS

Efforts to Strengthen the Link Between Resources and Results at the Nuclear Regulatory Commission

What GAO Found

Although in differing stages of implementation throughout NRC, NRC designed the Planning, Budgeting, and Performance Management Process (PBPM) to better integrate its strategic planning, budgeting, and performance management processes. PBPM links four individual components: (1) setting the agency's strategic direction, (2) determining activities and performance targets of component offices and related resources, (3) executing the budget and monitoring performance targets and taking corrective actions, if needed, to achieve those targets, and (4) assessing agency progress toward achieving its goals.

GAO's report provides examples of how the PBPM framework can influence budget formulation and execution decisions. These examples show (1) how NRC informs its resource allocation decisions by providing strategic direction to operating units prior to budget formulation, (2) how operating units that have implemented these processes link strategic direction to budgets through tools that set priorities and assign resources to office activities to accomplish these priorities, and (3) how operating units monitor performance targets and make adjustments as necessary during budget execution. In addition, agency managers have told GAO that PBPM also promotes agencywide coordination of budget formulation and execution decisions by providing a common language and common goals.

Integrating budget and planning processes and improving performance management in NRC is an ongoing effort that includes addressing a series of challenges. They are (1) creating performance measures that balance competing goals and keep performance measures current, (2) associating resource requests with outcomes, (3) standardizing PBPM practices and techniques but still allowing some flexibility among offices to tailor the process to their needs, (4) developing the assessment component, and (5) committing significant effort to maintain PBPM. In addition, NRC must continue developing a cost accounting system to support PBPM.

www.gao.gov/cgi-bin/getrpt?GAO-03-258.

To view the full report, including the scope and methodology, click on the link above. For more information, contact Paul Posner (202) 512-9573.

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Abbreviations

CFO	Chief Financial Officer
EDO	Executive Director for Operations
GPRA	Government Performance and Results Act
NMSS	Office of Nuclear Material Safety and Safeguards
NRC	Nuclear Regulatory Commission
NRR	Office of Nuclear Reactor Regulation
NSIR	Office of Nuclear Security and Incident Response
OMB	Office of Management and Budget
PART	Program Performance Assessment Rating Tool
PBPM	Planning, Budgeting, and Performance Management Process
RES	Office of Nuclear Regulatory Research
RIRIP	Risk-Informed Regulation Implementation Plan



United States General Accounting Office
Washington, D.C. 20548

December 10, 2002

The Honorable Stephen Horn
Chairman
Subcommittee on Government Efficiency, Financial Management
and Intergovernmental Relations
Committee on Government Reform
House of Representatives

Dear Mr. Chairman:

During the past decade, the Congress and the executive branch have sought to improve federal management and instill a greater focus on results. By enacting a number of major management reforms, the Congress has created a statutory framework, with the Government Performance and Results Act (GPRA) as its centerpiece.¹ One of GPRA's major purposes is to encourage a closer and clearer link between planning, performance—that is, results, and the budget process. Each administration takes a slightly different approach to implementing results management. Improving the integration of budget and performance is a high priority initiative in the *President's Management Agenda*.² A central piece of that initiative is the Office of Management and Budget's (OMB) new diagnostic tool, the Program Performance Assessment Rating Tool (PART). PART is designed to provide a consistent approach to reviewing program design, planning, and goals development as well as program management and results. OMB expects to use PART assessments in considering department and agency budget submissions for the fiscal year 2004 President's Budget request to the Congress.³

¹ Other significant legislation includes the Chief Financial Officers Act of 1990 and related legislation, which created a structure for more businesslike management and reporting of the government's finances, and the Clinger-Cohen Act of 1996 and the Paperwork Reduction Acts, which required agencies to take an orderly, planned approach to their information technology needs.

² The *President's Management Agenda*, by focusing on 14 targeted areas—5 governmentwide goals and 9 program initiatives—seeks to improve the management and performance of the federal government.

³ Office of Management and Budget, *Program Performance Assessments for the FY2004 Budget*, M-02-10 (Washington, D.C.: July 16, 2002).

In a number of different reports to the Congress, we have examined different aspects of the resources-to-results link. A series of three reports described agencies' progress over a 4-year period in aligning performance plans; budgets; and, in the most recent report, financial statements.⁴ We found that from fiscal years 1999 through 2002, agencies made significant progress in showing a direct link between expected performance and requested program activity funding levels—either through structural changes or crosswalks—as the first step in defining the performance consequences of budgetary decisions. However, we concluded that additional effort was needed to describe the relationship between performance expectations, requested funding, consumed resources, and performance results. Furthermore, we found that progress likely would be uneven and the pace of development affected by mission complexity and differences in operating environments across the government. Finally, we observed that describing the planned and actual use of resources in terms of measurable results was an essential long-term effort that would take time and adaptation on the part of all agencies.

We also studied ways to guide agencies to better integrate performance information into the budget process.⁵ In this work, we developed a framework of budget practices that we believe can contribute to an agency's capacity to manage for results. We view these practices as desirable dimensions of budgeting that could be implemented in many different ways to reflect the characteristics and circumstances of a particular agency. Both our assessments of performance and budget account alignments and the framework of budget practices have led to the next phase of work and the subject of this report. This report—one of a group of three—looks at the resources-to-results link from the perspective of agency managers charged with making the link happen.

The objectives of this report on the Nuclear Regulatory Commission (NRC), and its two companion studies on the Administration for Children and Families within the Department of Health and Human Services and the

⁴ U.S. General Accounting Office, *Performance Budgeting: Initial Experiences under the Results Act in Linking Plans With Budgets*, [GAO/AIMD/GGD-99-67](#) (Washington, D.C.: Apr. 12, 1999); *Performance Budgeting: Fiscal Year 2000 Progress in Linking Plans with Budgets*, [GAO/AIMD-99-239R](#) (Washington, D.C.: July 30, 1999); and *Managing for Results: Agency Progress in Linking Performance Plans With Budgets and Financial Statements*, [GAO-02-236](#) (Washington, D.C.: Jan. 4, 2002).

⁵ U.S. General Accounting Office, *Results-Oriented Budget Practices in Federal Agencies*, [GAO-01-1084SP](#) (Washington, D.C.: August 2001).

Veterans Health Administration within the Department of Veterans Affairs, are (1) to document what managers in these three agencies considered successful efforts at creating links between planning and performance information to influence resource choices and (2) the challenges they face in doing so. For the purposes of this report, we take a broad view of performance information—possible sources include GPRA and program evaluations. We neither evaluated agency choices nor critiqued their processes. Instead, we asked managers to describe when and how planning and performance information was included in the budget cycle, to explain what strategies were used and why, and to provide evidence that there was a related programmatic effect. A secondary purpose was to show that there are multiple ways to establish these links, and that there can be successful applications even if progress in budget and performance integration is uneven.

Budgeting is and will remain an exercise in political choice in which performance can be one, but not necessarily the only, factor underlying decisions. However, efforts to infuse performance information into resource allocation decisions can more explicitly inform budget discussions and focus them—both in the Congress and in agencies—on expected results rather than on inputs. We believe that showcasing agencies' successes with and challenges in integrating budgeting and planning may prove useful to other agencies; congressional authorizing, appropriations, and oversight committees; and OMB in the shared goal of strengthening the link between program performance and resources.

Results in Brief

NRC designed the Planning, Budgeting, and Performance Management Process (PBPM) to better integrate its strategic planning, budgeting, and performance management processes. Its implementation is a work in progress. As designed, the process has four major components; the results of each component influence the other components. The four component processes are (1) setting the agency's strategic direction, (2) determining activities and performance targets of component offices and necessary resources to accomplish the work, (3) executing the budget and monitoring performance targets and making adjustments, if needed, to achieve those targets, and (4) assessing agency progress toward achieving its goals.

NRC officials describe PBPM as a framework through which planning and performance information can influence decisions in budget formulation and execution. NRC provides strategic direction to operating units prior to budget formulation through its strategic and performance plans and other

policy decisions. For example, the strategy of risk-informed regulation and NRC's four performance goals guided offices involved in the implementation of a revised nuclear power reactor oversight program.

Two PBPM techniques in particular provide a link between agency goals and budget decisions for individual office work activities.

- The first technique is NRC's use of effectiveness reviews, where individual offices set priorities for work activities based on their contribution to achieving NRC performance goals. The prioritization process questions why NRC is doing the work and whether the results, that is, outcomes, are worth the planned budgetary resources. Offices that had conducted effectiveness reviews prior to September 11, 2001, used information from those reviews to plan for work changes based upon new security threats.
- The second technique is NRC's use of operational planning reports. Once offices set work priorities, they monitor both work activity performance and budgets during program implementation. For example, offices monitored license renewal activities throughout the fiscal year so resources could be adjusted to achieve annual program performance targets.

In addition, PBPM also promotes agencywide coordination of budget formulation and execution decisions by providing a common language and common goals.

Integrating budget and planning processes and improving performance management in NRC is an ongoing effort that requires NRC to address a series of challenges that it had identified. The primary challenge facing NRC is to further develop the concepts and techniques established within the various components of PBPM and to refine agencywide implementation (e.g., by standardizing the priority ranking system). Integral to this challenge is keeping performance measures current to reflect new programs and industry practices, balancing efforts to standardize agency-level processes against individual office flexibility to implement PBPM, and improving performance assessment. As part of this challenge, NRC also faces an issue common to other federal agencies linking outcomes and resources—how to show progress in an annual budget process for activities such as research that may take years to produce results. Both the nature of these challenges and the additional work necessary to implement PBPM present a continuing workload challenge to NRC. In addition, NRC

must also finish implementing a cost accounting system that correlates cost and performance information.

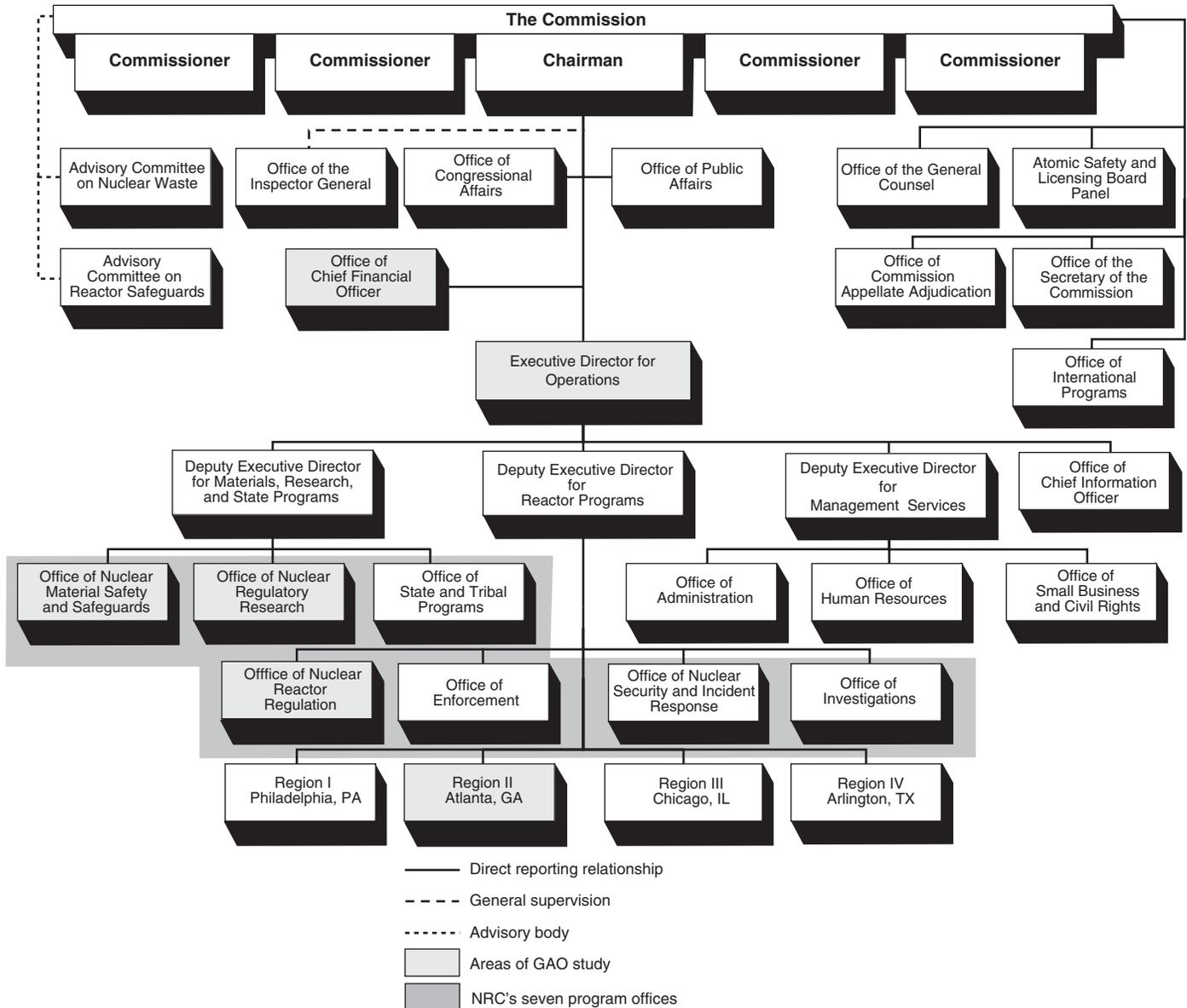
Background

NRC is an independent federal agency that (1) establishes standards and regulations for commercial nuclear power plants and non-power research, test, and training reactors; fuel cycle facilities; medical, academic, and industrial uses of nuclear materials; and the transport, storage, and disposal of nuclear materials and wastes, (2) issues licenses for nuclear facilities and uses of nuclear materials, such as industrial applications, nuclear medicine, academic activities, and research work, and (3) inspects facilities and the uses of nuclear materials to ensure compliance with regulatory requirements.

While safety is a paramount goal, a reassessment in 2001 added three subordinate performance goals to NRC's strategic plan: (1) to make NRC activities and decisions more effective, efficient, and realistic, (2) to reduce unnecessary regulatory burden on industry without affecting safety, and (3) to increase public confidence in NRC actions.

Figure 1 shows NRC's organization. NRC is governed by a five-member commission with one member designated by the President to serve as Chairman. The Chairman serves as the principal executive officer and official spokesperson of the commission. Reporting to the Commission Chairman is the Executive Director for Operations (EDO). The EDO is the chief operational and administrative officer of NRC, and is generally responsible for executing the program policies and decisions made by the NRC. Also reporting to the Commission Chairman is the Chief Financial Officer (CFO), who is responsible for the agency's PBPM and all of NRC's financial management activities. NRC is organized into seven program offices under the EDO. The Office of Nuclear Reactor Regulation (NRR), the Office of Nuclear Material Safety and Safeguards (NMSS), the Office of Nuclear Regulatory Research (RES), and the newly created Office of Nuclear Security and Incident Response (NSIR) are NRC's four largest offices. It also has three smaller program offices, various other management and mission support offices, and four regional offices.

Figure 1: NRC Organization Chart



Source: NRC.

While strategic planning, budgeting, and program implementation involve headquarters offices and regional operations, we focused our work on those offices that NRC officials said had more experience in PBPM implementation. The Office of the CFO which includes the Division of Planning, Budget, and Analysis, is responsible for NRC's financial management and reporting under GPRA. NRR licenses and inspects nuclear power reactors and non-power reactors. NMSS directs and oversees licensing, inspection, and environmental activities for nuclear fuel cycle facilities and safeguards nuclear materials, including the management and disposal of high- and low-level radioactive wastes. RES provides technical support to the frontline regulatory activities involving licensing and inspection, oversight and development of regulatory products. NSIR combines NMSS responsibilities for protection of fuel cycle facilities and materials with NRR responsibilities for physical security at nuclear power plants and other facilities.⁶ The four regions execute NRC policies and various programs relating to inspection, licensing, enforcement, investigation, governmental liaison, as well as emergency response within their regional boundaries.

NRC employed approximately 2,900 people and had a total budget of approximately \$559 million in fiscal year 2002. Of that amount, the Congress transferred about \$23.7 million from the Nuclear Waste Fund.⁷ The remainder was to be financed by a mix of revenues from licensing, inspection services, and other services and collections, and amounts from the general fund of the Treasury. These amounts were made available in NRC's annual appropriations and in an emergency supplemental appropriation to support homeland-security-related activities. Over half of NRC's annual budget is used to pay staff salaries and benefits. The remaining funds are used to support other operating expenses, purchase technical assistance for regulatory programs, and conduct safety research.

⁶ NSIR was created after we conducted our fieldwork for this study.

⁷ The Nuclear Waste Fund supports NRC's High Level Waste Program, which currently consists of the Yucca Mountain project. The High Level Waste Program was authorized under the Nuclear Waste Policy Act, as amended, and the Energy Policy Act of 1992. This legislation states requirements for storage, transportation, and disposal of high-level nuclear waste, and prescribes the respective roles of NRC, the Department of Energy, and the Environmental Protection Agency in the High Level Waste Program.

During the 1990s, various concerns were raised about NRC's performance, particularly the way NRC conducted inspections and promulgated regulations. Agency officials told us that NRC's former Commission Chairman, Shirley Jackson, was concerned that NRC's practices were narrowly focused on ensuring that its activities and processes were consistent with regulatory law without adequate attention to the results of its activities. Both the nuclear industry and public interest groups criticized NRC's plant assessment and enforcement processes as lacking objectivity, consistency, and predictability.⁸ An NRC report also described its former regulatory approach as punitive and reactive. According to a senior agency official, the agency was concerned that the Congress would cut about one-third of the agency's staff from the NRC budget for fiscal year 1999 unless the agency changed the way it conducted business.

NRC took various steps to improve regulatory oversight and agency management. These changes included a comprehensive strategic planning effort from 1995 to 1997 to reassess and establish new baselines for its programs, led by then-Chairman Jackson. NRC also charged the OCFO and the former Executive Council⁹ with developing a new planning, budgeting, and performance management process. NRC staff said that PBPM changes also supported the agency's efforts to implement GPRA. NRC established PBPM in the fall of 1997 and implemented a pilot project in NRR. In 1999, NRC extended PBPM to NMSS and RES for the fiscal year 2000 budget. NRC plans to further develop PBPM to include more detailed procedures, the products involved, and the roles of various management levels.

Scope and Methodology

To achieve our objectives, we interviewed selected NRC staff members from the offices of the EDO, the CFO, and the Chief Information Officer; from three headquarters offices in Rockville, Maryland (NRR, NMSS, and RES); and from the Region II (Atlanta) office for their perspectives on PBPM and how it supports resource decisions. The Region II office was selected because, according to NRC officials, this region had been instrumental in developing a cohesive operating plan—one of the PBPM techniques used by NRC to enhance coordination among program offices

⁸ U.S. General Accounting Office, *Nuclear Regulation: Strategy Needed to Regulate Safety Using Information on Risk*, [GAO/RCED-99-95](#) (Washington, D.C.: Mar. 19, 1999).

⁹ The Executive Council consisted of the EDO, the Chief Information Officer, and the CFO. The Executive Council was abolished without replacement in 2000.

and regions. Within these organizations, we interviewed officials at various levels of management involved in the budget decision-making process, including office directors, division directors, and unit managers. In total, we interviewed more than 30 NRC officials on the various aspects of planning and budgeting practices. We reviewed NRC's planning, budget, and program documents, including strategic plans, annual performance plans, budget requests, operating plans, and performance reports, that support PBPM.

This report presents NRC's budget and planning practices as described by the NRC officials we interviewed and described in the NRC documents we reviewed. The views of those individuals and the information in these documents, which we have summarized for reporting purposes, may not necessarily be generalized across NRC. We also did not observe or evaluate the processes in operation, nor did we assess the program or financial information contained in documents provided by NRC. We also did not evaluate the completeness or accuracy of NRC performance goals and measures or the effectiveness of NRC rule making, licensing, inspection, and oversight programs.¹⁰ Our work was conducted from February through May of 2002 in accordance with generally accepted government auditing standards.

The Current Budget and Planning Process

Implementation of PBPM is a work in progress. PBPM was created by NRC to improve program and service performance by integrating NRC's strategic planning and budgeting processes. This section describes how components of the process were designed to operate, while the next section ("Planning and Performance Information Influences Resource Allocation Decisions in Various Ways") explains how performance information informs resource decisions in those offices that have implemented PBPM and its techniques.

PBPM: A Work in Progress

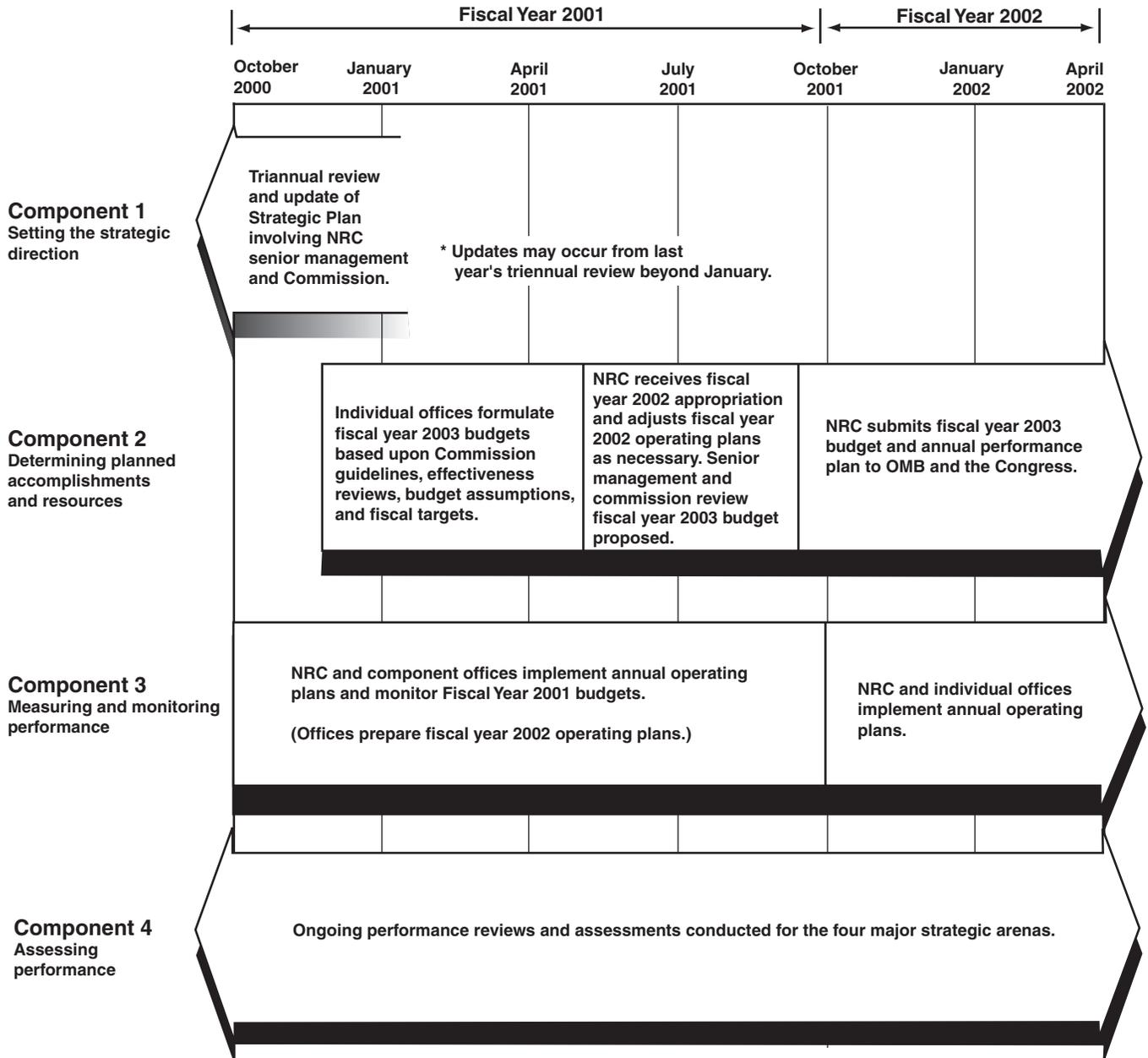
NRC has gradually introduced PBPM techniques across the agency and has allowed offices some flexibility during implementation of the process. NRC began implementation in its larger program and mission support offices. As NRC has gained experience, it is examining ways to extend the

¹⁰ For example, this study did not observe or evaluate recently reported safety problems in the Davis-Besse power plant.

process to the smaller program and mission support offices and to more fully standardize PBPM techniques across the agency.

NRC designed PBPM as an integrated process that functions most effectively when information from one component is used to inform decisions in other components. Figure 2 shows how the four components interact over a budget cycle. For example, the strategic direction setting in Component 1 relies in part on the assessment elements in Component 4. The effectiveness review element in Component 2 relies on performance goals developed during strategic direction setting. Finally, the assessment elements in Component 4 incorporate information gathered from Component 3, performance monitoring, to identify topics for program evaluations and self-assessments.

Figure 2: NRC's Planning, Budgeting, and Performance Management Process



Source: GAO analysis.

Four Components of PBPM

Component 1: Setting the Strategic Direction

In Component 1, NRC establishes agencywide strategic direction by formulating the strategic plan and by issuing Commission guidance throughout the year. The plan includes NRC's strategic and performance goals and corresponding measures and identifies general strategies on how best to achieve the agency's mission. The plan is developed with Commission and stakeholder involvement by a senior management group with a broad perspective of the agency, and is approved by the Commission. Although the plan covers 5 years and is reexamined every 3 years as required by GPRA, if circumstances warrant, the plan can be changed more often.¹¹ The plan also establishes a framework called "strategic arenas," each of which is composed of related programs with a common purpose.¹² NRC's strategic arenas correspond to program activities in the President's budget. In addition, the Commission provides direction to its managers on programs and operations through various written directives.

Component 2: Determining Planned Accomplishments and Resources

In Component 2, managers in offices using PBPM employ a set of interrelated tools to translate agency goals and strategies into individual office work activities,¹³ performance targets, and resource needs. To determine how work activities contribute to achieving NRC's four performance goals,¹⁴ individual offices conduct what are called effectiveness reviews. These reviews are not comprehensive assessments of programs but rather a structured way for managers to evaluate the contribution of work activities to achieving performance goals prior to budget formulation. For example, an office will examine each of its work activities and ask how a given activity achieves each of the performance goals. Effectiveness reviews also assist offices in identifying where there are gaps in activities or where new initiatives are needed. Agency officials

¹¹ For example, NRC reviewed its strategic plan after the terrorist attacks of September 11 but determined that the plan did not need to change at that time.

¹² NRC's strategic arenas are Nuclear Reactor Safety, Nuclear Materials Safety, Nuclear Waste Safety, Management and Support, International Nuclear Safety Support, and the Office of the Inspector General.

¹³ NRC defines planned accomplishments as work activities that implement a strategy in the strategic plan. A group of related work activities is a program.

¹⁴ Performance goals contribute to achieving strategic goals and outcomes.

said that offices that conduct these reviews have used various methodologies to rank office activities relative to agency performance goals.

According to agency officials, if an office determines through an effectiveness review that activities are not critical to achieving NRC performance goals, the office will likely propose reducing or eliminating resources for the activity in the upcoming budget year.¹⁵ Effectiveness review discussions may begin prior to the start of the annual budget process, concurrent with Component 1 activities establishing strategic direction. These discussions enable senior management to provide guidance on expectations for work priorities (targets).

The budget assumptions document is a tool used to plan work activities based on workload and set performance targets. This document identifies external and internal factors, such as anticipated number of license reviews that will affect the agency's workload over the next 2 fiscal years. These assumptions are developed by the offices and approved by NRC executive-level managers. These assumptions then become key inputs for offices when formulating their resource needs for the upcoming budget year.

Each budget assumption is supported by a summary of the factors that were evaluated to produce the assumption and to indicate the likelihood that this assumption will materialize. For example, the fiscal year 2003-2004 budget assumptions document estimates approximately 1,500 enforcement actions for each year. This estimate is based on historical trends and anticipated results from implementation of the revised reactor oversight process. In addition, the budget assumptions document includes related information that may affect the assumptions. In the above example, NRC is attempting to integrate Alternative Dispute Resolution techniques¹⁶ into the enforcement program, a decision that may require additional resources to implement.

¹⁵ According to an NRC official, NRC's authorizing statutes provide NRC with flexibility on which type of work activities it can perform to accomplish its mission. This official stated that the agency is required to license nuclear plants and ensure they are operated safely, but that NRC is not specifically required to inspect these plants.

¹⁶ Alternative Dispute Resolution refers to a number of processes, such as mediation and facilitated dialogues, used to assist parties in resolving disputes and potential conflicts.

Finally, through its annual budget call NRC provides instructions to individual offices for developing office budget priorities. Individual offices submit budgets to the NRC executive level by program. These submissions address resources needed by each office to accomplish NRC strategic and performance goals. A group of senior managers then reviews office budget submissions by strategic arena and submits the proposed office budget to the CFO and EDO. The CFO and EDO then submit their proposed budget to the Chairman for Commission approval. After Commission approval, NRC submits a combined annual budget and performance plan to OMB for inclusion in the President's budget. The combined budget and performance plan also serves as the agency's budget justification to the Congress. Figure 3 shows how NRC's performance plan links program activities and funding allocations by goal.

Figure 3: NRC Linked Program Activities and Funding Allocations by General Goal (Fiscal Year 2002)

Agency	Account	Program activity in fiscal year 2002	(dollars in millions)	General goal	Performance goal
NRC	Salaries and Expenses	1. Nuclear reactor safety program areas	(259.2)	Nuclear reactor safety (259.2) →	Maintain safety, protection of the environment, and the common defense and security. Increase public confidence. Make NRC activities and decisions more effective, efficient, and realistic. Reduce unnecessary regulatory burden on stakeholders.
		Reactor licensing	(56.0)		
		Reactor license renewal	(13.1)		
		Reactor inspection and performance assessment	(70.4)		
		Reactor incident response	((7.0)		
		Reactor safety research	(57.3)		
		Reactor technical training	(9.8)		
		Reactor enforcement actions	(1.8)		
		Reactor investigations	(4.1)		
		Reactor legal advice	(2.5)		
		Reactor adjudication	(1.2)		
		New reactor licensing	(10.0)		
		Homeland Security	(26.0)		
		3. Nuclear waste safety program area			
		4. International nuclear safety support program area			
		5. Management and support program area			

Source: GAO table NRC figures.

Component 3: Measuring and Monitoring Performance

In Component 3, NRC executes the approved budget through office operating plans¹⁷ based on appropriations, congressional guidance, and Commission priorities. Each office prepares operating plans to reflect the allocation of staff years and funds available following appropriations action and OMB apportionment. The operating plans, tailored by each office

¹⁷ The OCFO is responsible for monitoring overall budget execution. As part of this responsibility, the OCFO prepares financial plans with each office to monitor resource utilization. In addition, offices report staff years and contract dollars used to the Office of Executive Director for Operations as part of its operating plan.

implementing PBPM, tie allocated staff and other resources to each work activity and to performance goals and define how success is measured for each activity.

As the budget is executed, operating plans also are used to compare actual office resources to budget estimates and actual performance to targeted performance, and to identify necessary programmatic and fiscal actions. Based on targets established in the operating plans, individual offices develop quarterly reports on the status of resources and performance. Any performance issues identified in the quarterly reports are discussed with the deputy executive director responsible for that particular office. Generally, when an office meets with its cognizant deputy executive director, it has prepared a course of corrective action it intends to take. However, if an issue is significant, senior staff members will meet with their deputy when they become aware of the issue rather than wait for the quarterly operating plan update. Follow-up actions are incorporated into the next scheduled operating plan meeting as appropriate. The Office of the EDO does not prepare quarterly reports summarizing its review of office operating plans for the Commission. Instead, the Commission is kept informed of operating plan issues throughout the year by various means including Commission meetings, staff papers, the *Budget Execution Report*, and individual briefings. Finally, performance results are reported annually through a publicly available agency performance report.

Component 4: Assessing Performance

In Component 4, NRC assesses agency performance. This component is designed to use information from and feed information to other components. Although this component is the least developed of the four components, products are intended to both inform future planning and budget deliberations and further improve performance. (A later section of this report, "Challenges to Improving the NRC Budget and Planning Process," more fully discusses challenges to improving the assessment component). When fully operational, this component should help NRC to determine whether a program should be continued, restructured, or curtailed and, as designed, may influence planning and budget decisions in Components 1 and 2. In July 2002, NRC proposed that this component include performance reviews conducted for the four major strategic arenas as well as selected management and support offices. However, no decision has been made on who in NRC will conduct these reviews. In addition, individual offices can identify issues during the performance monitoring component that they may select for internal self-assessments during Component 4.

Planning and Performance Information Influences Resource Allocation Decisions in Various Ways

PBPM provides NRC with a framework through which it can use performance information to influence planning and resource allocation decisions and is consistent in key respects with our framework for budget practices.¹⁸ NRC informs its resource allocation decisions by providing strategic direction to operating units prior to budget formulation and by monitoring actual performance against performance targets during budget execution. PBPM also promotes agencywide coordination of budget formulation and execution decisions by providing a common language and common goals.

Strategic Direction Influences Resource Allocation Decisions

A key principle driving PBPM is that the agency's strategic direction influences internal policy and resource decisions. NRC seeks to use PBPM to identify general strategies to achieve goals, identify programs to implement these strategies, and determine resources to fund and staff programs. NRC practices are similar to those proposed in our framework for budget practices. Under the framework for budget practices, agency management should provide context during budget formulation in the form of general guidance to program managers on proposed agency goals, existing performance issues, and resource constraints—consistent with Components 1 and 2 of PBPM. The following are examples of operation and program decisions that link NRC's strategic direction with corresponding resource decisions made through PBPM.

One of the strategies used to implement the four performance goals in the strategic plan is risk-informed regulation and oversight. This strategy uses risk assessment findings, engineering analysis, and performance history to focus attention on the most important safety-related activities; establishes objective criteria to evaluate performance; develops measures to assess licensee performance; and uses performance results as the primary basis for making regulatory decisions.

¹⁸ [GAO-01-1084SP](#).

As part of its risk-informed regulation and oversight strategy, NRC modified its reactor oversight program to help achieve its three subordinate performance goals—developed through Component 1—while maintaining its primary safety goal.¹⁹ The Commission provided guidance throughout the development and implementation of the revised reactor oversight program. This guidance included requirements for staff reporting to the Commission, approval of a pilot program, and instructions for future program development. In one modification to the inspection process, NRC stopped inspecting some elements affecting the plant operators' work environments (e.g., how well lights in the plant illuminate the operating panel). NRC determined that these factors did not critically contribute to safety and created unnecessary regulatory burdens to industry. Regional officials told us that NRC could now focus on the significant work activities that maintain safety.

The reactor oversight program's procedure for assessing nuclear plants was also changed to increase public confidence in NRC operations by increasing the predictability, consistency, objectivity, and transparency of the oversight process. Each quarter, NRC posts the performance of each nuclear plant on its Web site to provide more information to the public. Regional officials told us that the overall level of resources required to implement the revised reactor oversight program is similar to that of the prior oversight program but that significant changes have occurred in how they manage their inspection program. Specifically, the new inspection procedure includes baseline inspections of all plants but focuses more of the agency's resources on plants that demonstrate performance problems. Whether the revised reactor oversight program will reduce costs is unknown, but regional officials said that potentially fewer resources may be needed in the future using this approach. NRC established a focus group to identify where or how possible resource savings could occur.

As part of its risk-informed regulation and oversight strategy, NRC developed the Risk-Informed Regulation Implementation Plan (RIRIP), which is updated periodically. The first RIRIP, issued in October 2000, examined a range of staff activities including rule making to achieve NRC performance goals. The Commission provided guidance throughout the development and implementation of the new plan, including instructions

¹⁹ As mentioned previously, we did not evaluate the completeness or accuracy of NRC performance goals and measures or the effectiveness of NRC rule making, licensing, inspection, and oversight programs.

for future program development as NRC updates the plan. To facilitate its use, the plan is organized around the strategic arenas. Organizing the plan around arenas helps offices to establish priorities and identify resources as part of PBPM. For example, the plan describes activities designed to improve fire protection for nuclear power plants. In this area, NRC plans to develop less prescriptive, more performance-based risk-informed regulations to support its primary goal of safety. NRC is working with industry to study alternatives to existing fire protection standards and emergency postfire shutdown procedures.

A senior NRC official gave additional examples of changes NRC has made to its regulations to reduce unnecessary regulatory burden on licensees without compromising safety. He cited the decision to have NRC oversee, but no longer perform, examinations to qualify power plant operators since the industry conducts its own examinations. In addition, this official said NRC eliminated its regulation requiring all nuclear power plants to install state-of-the-art equipment, for example, they could continue to use analog rather than digital equipment, focusing instead on whether use of the current equipment adversely affected safety.

NRC also changed its licensing regulations to support its performance goals of reducing unnecessary regulatory burden on licensees and becoming more effective and efficient. One official said NRC changed its regulation governing the length of a power plant license from 40 years to 60 years in some circumstances. Before this change, NRC would only license a power plant for 40 years. At the end of the 40-year license period, the licensee would be required to shut down and decommission the plant.²⁰ The change in regulation means that NRC will extend the term of a license from 40 to 60 years if it determines through licensing review that existing plant design will support a longer term. According to NRC officials, these license extensions can eliminate extremely large costs to licensees while reducing NRC costs because it is less costly to renew a plant operating license than to review a request for a license for a new power plant.

The Commission directed the reorganization of NRC's three major NRC program offices so that they could become more effective and efficient. For example, in NRR the reorganization established reporting lines consistent with major NRR program functions—inspection, performance

²⁰ "Decommissioning" is the process of shutting down and dismantling a nuclear power plant so the plant site can be safely reused for other purposes.

assessment, license renewal, and licensing. An NRR official said the previous organizational structure in NRC had contributed to inconsistent processes for inspecting power plants and duplication of work.

To address the overall safety goal, NRC developed a program to measure trends in industry nuclear power reactor performance. One part of the safety goal is that there should be no statistically significant adverse industry trends in safety performance.²¹ Performance indicators are included in the NRC performance plan and are reported to the Congress through the NRC annual performance report. Resources for this new program are determined through PBPM.

Work Performance Influences Resource Allocation Decisions

NRC uses performance information to inform resource allocation decisions during budget execution by monitoring current year work performance and by adjusting resource allocations as necessary. This practice is consistent with our proposed framework for budget practices. As noted previously, office operating plans track performance against established targets for each planned work activity to call attention to significant performance issues needing corrective action. For example, shortly after September 11, 2001, NRC conducted a comprehensive review of its security program. As part of this review, NRC examined lists of prioritized work activities prepared during the effectiveness review process in Component 2. These lists helped NRC determine which activities to delete or modify as it prepared to use existing resources to respond to security threats in the post-September 11 environment. For example, NRC staffed around-the-clock emergency response centers for significantly longer than originally anticipated.

²¹ The performance measure of no statistically significant adverse industry trends in safety performance is one of several measures under NRC's performance goal of maintaining safety. Another measure, is having no more than one event per year identified as a significant precursor of a nuclear accident.

As part of this comprehensive review of its security program, NRC began research on the structural integrity of power plants if they were attacked by large aircraft. NRC also delayed routine inspections at non-power reactors for 3 months to help fund these new activities.²² In addition, in April 2002, NRC established NSIR to streamline selected NRC security, safeguards, and incident response responsibilities and related resources.²³

Operating plans are also used to monitor performance and make necessary adjustments. For example, NRR discovered that the May 2000 operating plan report showed plant license renewal applications and associated staff years well below annual expected target levels that year. NRR was thus able to shift resources to other priorities. An NRR official said this example showed NRR the importance of monthly monitoring of the budget assumptions prior to the beginning of the fiscal year. Furthermore, in another example, NRR management officials also reviewed the fiscal year 2002 first quarter operating plan report and found that the workload impact from the September 11 attacks would prevent NRR from achieving annual licensing action targets. These officials redirected additional staff resources to complete these licensing actions. As a result, the third quarter projection is that NRR will slightly exceed its annual target for these actions.

Enhanced Cooperation and Communication among Offices

PBPM is designed to enhance cooperation and coordination among offices. This practice matches our proposed framework for budget practices, which states that agency managers should share information on policy and programs among offices during budget decision making.

Sharing information during budgeting is important because many offices share responsibilities for achieving NRC goals. NRC office managers said they coordinate their work with others to determine if necessary skills are already available elsewhere in the agency. For example, one official said he relies on another unit's expertise in conducting environmental studies. In

²² NRC eventually received \$36 million in fiscal year 2002 emergency supplemental funds for new security-related activities.

²³ The new office combines NMSS responsibilities for protection of fuel cycle facilities and materials with NRR responsibilities for nuclear power plants and other facilities. Resources for the consolidated functions, including about 90 staff members, were transferred from existing NRC offices.

another example, regional officials reported that they occasionally share specialized staff with other regions to perform nonroutine inspections.

PBPM provides NRC with reference points such as common goals, performance measures, and strategies that help offices communicate and reach agreement on budget priorities. For example, NRR, which depends upon research studies conducted by RES, meets regularly with that office to discuss program and budget priorities for risk analysis, structural integrity, and new reactor designs.²⁴ NRR also meets with other offices as it develops its budget proposal to coordinate its resource requests for mutually agreed-upon priorities. For instance, NRR shares information with NMSS to ensure that crosscutting activities, such as rule making, have adequate resources. In addition, the NRC crosswalk of all program activities into strategic arenas allows NRC to clarify the relationship between budget requests and agency goals. Our report on federal agency efforts in linking performance plans with budgets found that NRC's budget presentation linked its program activities to performance goals, which showed funding needed to achieve goals.²⁵ NRC uses the arena reporting structure to communicate its budget needs to audiences outside the agency, including OMB and the Congress.²⁶

Challenges to Improving the NRC Budget and Planning Process

When it introduced PBPM, NRC recognized that continued development of the process would be necessary. After gaining experience for several years, NRC is now in the process of addressing several challenges to PBPM implementation. Agency officials noted challenges in (1) creating performance measures that balance competing goals and keep performance measures current, (2) associating resource requests with outcomes, (3) standardizing PBPM practices and techniques but still allowing individual offices to tailor the process to their needs, (4) developing the assessment component, and (5) committing significant effort to maintaining PBPM. In addition, NRC must continue developing a cost accounting system to support PBPM.

²⁴ RES funds approximately 190 separate activities, which serve the immediate needs of other offices. It also funds long-term research.

²⁵ [GAO-02-236](#).

²⁶ NRC's budget guidance includes a detailed crosswalk of offices and programs to specific planned activities.

NRC Efforts to Develop PBPM

Issues in Creating Performance Measures That Balance Goals and Remain Current and Linked to Resources

As NRC officials create new performance measures or redesign existing measures, they find it a challenge to refine performance measures so that they balance performance goals. While safety is a paramount goal, NRC also seeks to progress in reducing unnecessary regulatory burden on the industry and improving public confidence in NRC's operations. One official said it is a balancing act to minimize the time and steps it takes to license a facility while at the same time being sure that the agency is licensing a safe operation. Several NRC officials also said current performance measures track office efficiency well but capture the quality of license review poorly. NRC officials said they are beginning to develop performance measures that better capture quality. For example, NRR is now using a template to assess the quality of its evaluation of safety issues during review of licensing actions. Officials believe that when measures of quality are in place, they can be used to determine whether adjusting budget resources will have an effect on the quality of their activities.

New strategies, such as risk-based regulation and oversight programs, can dictate changes in performance measures. NRC must also keep its performance measures relevant as the industry changes. Several examples illustrate these points. NRC plans to develop new performance measures for reviewing applications to upgrade power output from existing plants because of concern that existing measures did not accurately measure NRC performance in this area. In another example, NRC is studying new performance measures to determine if it can predict, and thus avoid, emergent problems in the Reactor Oversight Program. NRC and industry representatives jointly developed a new set of performance indicators to measure availability of nuclear plant safety systems. NRC believes the new performance indicators will provide more accurate risk assessments.

Link between Expected Outcomes and Resource Requests Is Not Always Clear

NRC officials said that linking outcomes to resources is challenging for several reasons. First, the budget process focuses on performance targets and budget decisions for the short term while achieving some outcomes may take many years. Therefore, it is difficult to know the incremental effect of adjusting resources annually for longer-term outcomes. For example, one official noted that research leading to safer reactor design takes many years to bear fruit. Agency officials said linking outcomes to resources is also difficult because achieving many agency goals depends on the actions of others not directly under NRC's control. NRC's strategic plan states that achieving its strategic goals²⁷ requires the collective efforts of NRC, licensees, and the agreement states.²⁸ Yet, as one NRC official noted, neither NRC nor stakeholder representatives could identify how much each contributes to achieving NRC strategic goals. Nonetheless, this official said that both NRC and stakeholders strongly believe in establishing quantifiable outcome measures so that all stakeholders understand NRC's goals. While the particular links and interdependencies are specific to NRC, many of these challenges permeate federal agencies. Many federal programs depend on other actors. For many federal activities ultimate outcomes are years away, but ways must be found to evaluate progress and make resource decisions annually.²⁹

Standardizing Practices and Techniques while Maintaining Office Flexibility Is Difficult

A continuing challenge during PBPM implementation is to determine which process techniques and information should be standardized across offices. For example, NRC officials said the major program offices use different procedures and methodologies to rank the contribution of their work activities to achieving NRC performance goals. Nonstandard weighing of priorities has made cross-office comparisons of activities and related resource allocation decisions more challenging for NRC officials. NRC officials said they established a task force to develop a common methodology to prioritize the contributions of the major program offices to NRC goals. They said their goal is to have aspects of a common ranking

²⁷ NRC strategic goals represent the agency's fundamental mission and the overall outcome NRC wants to achieve. Performance goals are the key contributors to achieving the strategic goals.

²⁸ An agreement state is one that NRC has authorized to regulate certain radioactive materials.

²⁹ A previous GAO report identified many federal agencies that shared responsibilities with other entities for achieving their objectives. U.S. General Accounting Office, *Managing for Results: Measuring Program Results That Are Under Limited Federal Control*, GAO/GGD-99-16 (Washington, D.C.: Dec. 11, 1998).

process among the major program offices for the fiscal year 2005 budget. In addition, NRC is in the process of further defining the roles and responsibilities of participants in PBPM through a management directive.

In a related example, an NRC official said the agency faces a challenge to improve comparison of performance measures across both major program and mission support offices. Major NRC program offices are required to include agency strategic goals and performance goal measures in their annual operating plans. These measures are reported in the annual performance report by strategic arena. However, mission support offices are not required to report on these strategic performance goals.³⁰ In addition, each office has been permitted to develop additional, office-specific, detailed performance measures to provide supplemental management information.

The Assessment Component Needs Further Work

NRC officials describe NRC's current assessment process as the weakest component of PBPM. These officials said existing guidance does not adequately describe what an assessment is or how to select programs for evaluation. Since there is not a clear definition of what qualifies as an assessment within Component 4, NRC performance reports vary and may not capture the full range of assessments that occurred or are planned at NRC.

Because information contained in assessments is intended to inform the other PBPM components, NRC officials see the performance assessment component as a critical element of its process. For example, performance assessments can capture key information on how the agency is performing that can be used for setting the agency's strategic direction. This practice, consistent with our framework for budget practices, can help NRC to seek continual improvement by evaluating current program performance and identifying alternative approaches to better achieve agency goals.

NRC is taking steps to improve its assessment process by developing a new procedure for selecting programs and activities for evaluation. In July 2002, NRC established annual performance reviews for the four major strategic arenas and an annual assessment plan that identifies subjects for

³⁰ According to NRC officials, although mission support offices are not required to report on strategic performance goals in the *Performance and Accountability Report*, some information on mission support outputs is included in the *Budget Estimates and Performance Plan*.

evaluation during the upcoming fiscal year. Programs will be selected for evaluation where a strong potential exists for performance improvement, cost reduction, or both. Results of the program evaluations will inform the next strategic direction phase of PBPM and may also result in changes during the performance monitoring process.

Implementation of New
Processes Requires Commitment

Agency officials describe the introduction of PBPM as a culture shift requiring a commitment of time and effort by NRC employees. NRC officials said the agency sought to facilitate this cultural change by holding staff meetings at all levels and by using task force working groups to introduce PBPM. The introduction and evolution of PBPM also presents a continuing workload challenge to NRC. For example, one official said the detailed work associated with PBPM had been added to reporting requirements already in place. Nevertheless, key officials reported that implementing PBPM has been worth the time and effort because it provides a framework for more informed and focused resource allocation decisions. According to one official, PBPM has resulted in agency officials asking the key questions about why and how they conduct an activity.

Cost Accounting System Not Fully Developed

NRC faces the challenge of developing a cost accounting system that can support budget decision making. Developing a cost accounting system is important to budget decision making because it can help managers track direct, indirect, and unit costs of activities and compare the cost of activities to appropriate benchmarks.³¹ The October 2001 NRC Managerial Cost Accounting Remediation Plan noted that the prior accounting system supported general financial reporting but did not include a managerial cost accounting system. An example in the remediation plan states that labor hour tracking systems were not integrated with payroll systems. NRC officials said the agency has since developed a cost accounting system to help in resource allocation decisions. They said the new system will integrate payroll and nonpayroll costs at a level that will enable NRC to compare total direct costs of work activities with appropriate benchmarks. However, officials told us that they only started using the cost accounting system in the first two quarters of fiscal year 2002³² and plan to refine the information collected based on what is the most useful and relevant. Agency officials estimate that fully implementing the system will take 4 to 5 years.

Agency Comments and Our Evaluation

We requested comments on a draft of this report from NRC. NRC expressed appreciation for our recognition of its efforts and progress and the fact that we note consistencies with our framework for budget practices.³³ NRC expressed some concern about our report underrecognizing how far beyond conceptual stage PBPM is, about our statement that a good cost accounting system was necessary, and about our reference to operating plans. We modified our language to clarify our views on the implementation of PBPM. The agency's letter and our response are contained in appendix I. NRC officials also provided clarifying comments, which we have incorporated in the report as appropriate.

³¹ [GAO-01-1084SP](#).

³² NRC experienced delays in developing and implementing its cost accounting system because of problems it encountered with the contractor initially selected to develop the core system. NRC contracted with a new vendor and purchased a software package to develop the core system. In our January 2001 report on NRC major management challenges, we said NRC's staff expected to have manager's time and labor charges for each strategic arena available by April 2001.

³³ [GAO-01-1084SP](#).

We are sending copies of this report to the Chairman of the Nuclear Regulatory Commission and will make copies available to other interested parties upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

Please contact me on (202) 512-9573 or Denise Fantone, Assistant Director, on (202) 512-4997 if you or your staff has any questions about this report. Major contributors to this report are Robert Hadley, James Whitcomb, and Robert Yetvin.

Sincerely yours,

A handwritten signature in black ink that reads "Paul L. Posner". The signature is written in a cursive style with a large initial "P".

Paul L. Posner
Managing Director, Federal Budget Analysis
Strategic Issues

Comments from the Nuclear Regulatory Commission

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



CHIEF FINANCIAL OFFICER

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

November 22, 2002

Mr. Paul L. Posner
Managing Director, Federal Budget,
Intergovernmental Relations, Strategic Issues
United States General Accounting Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Posner:

I would like to thank you for the opportunity to review and submit comments on the draft report, "MANAGING FOR RESULTS: Efforts to Strengthen the Link Between Resources and Results at the Nuclear Regulatory Commission" (GAO-03-258). We appreciate the time and effort that you and your staff have taken to review the agency's Planning, Budgeting, and Performance Management (PBPM) process and the methodology for incorporating performance in the budget process.

See comment 1.

We do have several comments on areas in the report that we feel require further clarification. First, the draft report implies that the NRC's PBPM process is not as developed as we find it to be. The PBPM process has progressed much beyond a conceptual stage to the point where the full framework was developed and implementation has taken place. As we have gained experience over the years from implementing PBPM, we have made and will continue to make refinements to the tools and methodologies employed in this process. We recommend that the discussion of the PBPM process be clarified to reflect these comments.

See comment 2.

Second, the report discusses one system that supports the PBPM process, our cost accounting system that was implemented at the beginning of FY 2002. While we agree that the cost accounting system produces important information to support the PBPM process and budget decisions, it is not the only agency system that provides meaningful information in support of PBPM. We recommend not singling out one system in this report.

See comment 3.

Third, we are concerned about the numerous references to NRC's internal operating plan documents. As internal management tools used at the office and region level, our operating plans contain a level of detail on milestones and resources, most of which we treat as predecisional information. The report's emphasis on these working-level documents, as opposed to outcomes in the operational planning process, may result in readers failing to appropriately focus on the NRC's processes, and may lead to misperceptions and/or mischaracterization of operating plan documents.

See comment 4.
Now fn.10, p. 9.

Finally, the report mentions, in footnote 11, a conclusion from the lessons-learned task force work on Davis-Besse. Since the conclusion is presented out of context of the full report, it could be misleading and should be deleted. In addition, the focus of the draft report is on NRC performance and budget practices, not on Davis-Besse or any of the many other specific oversight programs and activities the NRC has undertaken. In fact, the body of the report

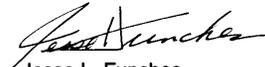
Appendix I
Comments from the Nuclear Regulatory
Commission

indicates that the GAO was not evaluating the effectiveness of NRC rulemaking, licensing, inspection, and oversight programs, nor were any plant-specific activities reviewed. The specific reference to the Davis-Besse task force work, or to any plant-specific activities, is not appropriate.

We appreciate GAO's recognition of the progress that we have made. The draft indicates that our practices are consistent in key respects with the framework for budget practices that GAO developed.

We will continue to work with your staff on other clarifying and editorial comments. Should you have any questions about this response, please contact Mr. Richard Rough of my staff at (301) 415-7540.

Sincerely,



Jesse L. Funches
Chief Financial Officer

cc: Dwayne Weigel, GAO
Robert Yetvin, GAO

The following are GAO's comments on the Nuclear Regulatory Commission's (NRC) letter dated November 22, 2002.

GAO Comments

1. Our point is not that the Planning, Budgeting, and Performance Management Process is still at a conceptual stage but rather that implementation is in various stages throughout NRC, and that refinement of agencywide implementation is still necessary. This is consistent with what we were told and saw at NRC. We modified wording to clarify this point. (See pp. 4 and 9.)
2. We consistently have said that good cost accounting is critical to linking resources to results/outcomes. For example, in our recent testimony on performance budgeting we said that the integration of reliable cost accounting data into budget debates needs to become a key part of the performance budgeting agenda.³⁴
3. NRC uses operating plans to set milestones, track progress, and make adjustments to improve program outcomes. This is—and was so described in our interviews at NRC— an important part of PBPM.
4. The footnote was modified to clarify that this report neither observed nor evaluated reported safety problems in the Davis-Besse power plant. (See p. 9.)

³⁴ U.S. General Accounting Office, *Performance Budgeting: Opportunities and Challenges*, GAO-02-1106T (Washington, D.C.: Sept. 19, 2002).

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