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Office of Inspector General

National Oceanic and Atmospheric Administration

Review of NOAA Fisheries Enforcement Asset Forfeiture Fund

Final Report No. OIG-19887-1
July 2010

Office of Investigations

UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, D.C. 20230

July 1, 2010

MEMORANDUM FOR: Dr. Jane Lubchenco
Under Secretary of Commerce
for Oceans and Atmosphere

FROM: Todd J. Zinser

SUBJECT: Review of NOAA Fisheries Enforcement Asset Forfeiture Fund

This presents the results of a review we commissioned to examine the administration and utilization of NOAA's Asset Forfeiture Fund (AFF)[1] by the Office for Law Enforcement (OLE) and Office of General Counsel for Enforcement and Litigation (GCEL). Specifically, we engaged a major public accounting and auditing firm, KPMG, to conduct a forensic review[2] of the collection of fines and penalties into, and expenditures from, the AFF. We commissioned this examination as a follow-up to our "Review of NOAA Fisheries Enforcement Programs and Operations," the results of which we reported to you by memorandum dated January 21, 2010.

An objective of our prior review was to examine the AFF, based on industry concerns raised to us that NOAA's fines were excessive, constituting a form of bounty, partly because of NOAA's ability to retain and use proceeds from its enforcement cases. However, we found that despite OLE reporting a balance of $8.4 million as of December 31, 2009, OLE officials could not provide evidence that the AFF had ever been audited. We found that while the AFF's balance is included in the Department's overall annual financial statements, internal controls over the fund were weak and were not tested as part of the Department's annual financial statement audit due to the relatively small size of the fund within NOAA's overall budget. Accordingly, we could not readily determine how NOAA had utilized the AFF and were unable to address the concerns raised to us regarding its use; therefore, we commissioned the forensic review.

We note that, by memorandum dated February 3, 2010, you directed an immediate shift in oversight of the AFF from NMFS to NOAA's Comptroller. You described this as an intermediate step to address our finding of a lack of internal controls for the AFF and that efforts were needed to ensure proper use and verification of the funds. We consider this to be an important initial step,

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[1] Under provisions of the Magnuson-Stevens Fishery Conservation and Management Act (MSA), NOAA has authority to retain proceeds from the civil penalties it imposes and collects, and pursuant to asset forfeitures (e.g., the sale of seized fish, vessels, etc.) for violations of the Act, to pay for certain "expenses directly related to investigations and civil or criminal enforcement proceedings." NOAA's Asset Forfeiture Fund primarily consists of monetary proceeds from MSA enforcement actions, but also includes proceeds from enforcement of provisions of the Lacey Act and Endangered Species Act, which provide similar authorities.

[2] A forensic review utilizes accounting, auditing, and investigative skills to examine an entity's financial data and records to identify potential irregularities. It is not an audit and thus does not result in an opinion as to whether financial statements are presented accurately.

and we hope this report aids you in taking additional measures to effectively administer the AFF as a program with essential transparency and accountability.

Summarized below are the results of KPMG's forensic review, and we have attached a copy of KPMG's final report for your further information and appropriate action. Also presented are our associated findings and substantive recommendations to strengthen internal controls and oversight of the AFF.

RESULTS IN BRIEF

Under broad interpretation of the Magnuson-Stevens Fishery Conservation and Management Act (MSA), OLE has extensively used the AFF to pay for materials and services such as vehicles, vessels, travel, and training, while GCEL uses the AFF to fund over 99 percent of its non-salary operating expenses. In attempting to understand how the AFF has functioned, KPMG was unable to discern the current balance of the AFF because it found that NOAA did not have a consistent definition of the AFF, and indicated the AFF was more of an abstract concept than a tangible entity within NOAA. This is attributable to KPMG's assessment that no unit or individual within NOAA has a clear understanding of the AFF and how it functions from start to finish. As a result, KPMG was unable to verify the $8.4 million balance provided by OLE and NOAA's Office of Finance, as cited in our January 2010 report.

KPMG's analysis suggests that the AFF's current balance likely falls within a broader range. Based on complicated definitional, data analysis, and reconciliation efforts, KPMG found that during the period of its forensic review (January 1, 2005, through June 30, 2009), the AFF received approximately $96 million (including interest on prior balances), while expending about $49 million through over 82,000 transactions. This analysis suggests that the balance could be much higher than $8.4 million; however, NOAA must review KPMG's analysis and determine what a more accurate figure may be. NOAA should work with the Department to better define the fund and determine its balance.

We note that KPMG applied considerable time and effort attempting to define the AFF and its parameters, limiting its performance of comprehensive, detailed testing of individual transactions to identify irregularities. In short, KPMG could have carried out substantially deeper testing of AFF expenditure transactions to identify irregularities had it not run out of time under its contract.

The results of KPMG's review evidence a history of inattention within NOAA to a substantial and highly sensitive monetary function of the agency. KPMG's findings show that NOAA has administered the AFF in a manner that is neither transparent nor conducive to accountability, thus rendering it susceptible to both error and abuse. Reflective of a lack of transparency and accountability is the fact that the AFF is not identified in any NOAA or Department of Commerce annual budget document, to include the yearly submission of OLE, which is the chief recipient and administrator of AFF proceeds. We confirmed this through review of budget submissions and discussions with OLE, NMFS, NOAA, and Commerce budget officials.

Moreover, while OLE and GCEL use the AFF for wide-ranging purposes, NOAA has no legal opinion on the applicable language in the MSA regarding authorized uses of the AFF. On its

face, the following statutory language would appear to restrict AFF expenditures to specific enforcement investigations or proceedings.

> "Any expenses directly related to investigations and civil or criminal enforcement proceedings, including any necessary expenses for equipment, training, travel, witnesses, and contracting services directly related to such investigations or proceedings." 16 U.S.C. § 1861(e)(1)(C)

NOAA, however, has interpreted this statutory passage to allow for use of the AFF to cover a variety of expenses which do not appear to be "…directly related to investigations and civil or criminal enforcement proceedings…" Specific examples of these types of expenditures, such as travel associated with international enforcement conferences, are contained in this report.

Clear from KPMG's findings is that the AFF has not functioned as a coherent program, despite being a substantial source of agency operational funding—outside and supplemental to annual appropriations—drawn solely from the proceeds of NOAA enforcement actions against industry parties. Rather, as KPMG found, the AFF has operated through poorly defined, disjointed, and inconsistent processes that lack effective internal controls, and for which no single NOAA office appears to be in charge or accountable because it is so decentralized.

As KPMG completed its forensic review, we focused on several high-risk AFF expenditure areas: (a) OLE's acquisition and use of vehicles and vessels; (b) OLE and GCEL international travel; and (c) OLE's Special Operations Fund (SOF), which pays for covert and undercover activities[3]. Presented below are our results, along with those of KPMG, including recommendations to improve management processes, internal controls, and oversight for the AFF.

OIG OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS

KPMG's finding of weak or non-existent management processes and internal controls for AFF expenditures is reflected in OLE's procurement and management of vehicles and vessels; OLE's and GCEL's use of the AFF for international travel; and OLE's administration of its SOF for covert and undercover operations. For example:

- OLE policy authorizes AFF expenditures for vehicle leasing and rentals, but does not include authorization of AFF expenditures for vehicle purchases. OLE's vehicle inventory as of June 1, 2010, lists 202 vehicles, only two of which are leased. According to OLE, the other 200 were purchased at a cost of about $4.6 million, predominantly with AFF monies. OLE's 202 vehicles exceed by a substantial margin its staffing of approximately 172 enforcement personnel.

  Further, OLE lacks policy for take-home vehicles, which are assigned on a full-time basis to nearly its entire enforcement workforce of 172 personnel—including the Director, Deputy Director, Assistant Directors, and Special Agents-in-Charge. While there is valid

[3] OLE's Special Operations Fund (SOF), authorized under the Sikes Amendment (P.L. 97-396), authorizes a special fund for payment of rewards, purchase of evidence and information, and set-up and operation of covert businesses.

justification for OLE's special agents, enforcement officers, and first-level supervisors in the field to use take-home vehicles based on agency mission requirements, such justification for managers is not clear, particularly those in OLE headquarters. Of note, we learned that the then-Director[4], who resided approximately 60 miles from OLE headquarters, sometimes parked his daily take-home vehicle (a Chrysler Pacifica) at a commuter rail station and would then ride the train to his office free of charge, by virtue of his status as an armed law enforcement officer. On occasions when he missed the last evening train, he used an OLE headquarters pool vehicle to commute home.

Similarly, OLE policy does not include authorization of AFF expenditures for vessel purchases, yet OLE has used the AFF to acquire vessels. OLE's vessel inventory as of June 1, 2010, lists 22 vessels, purchased at a cost of nearly $2.7 million. These include, for instance, the 2008 acquisition of a $300,000 undercover vessel that the manufacturer's website describes as "luxurious" with a "beautifully appointed cabin," which was the most costly operational vessel OLE had purchased up to that time. We found the acquisition of this specific vessel bypassed an internal review process instituted by OLE headquarters and was approved by the then-Director prior to competitive procurement procedures being applied.

- While both OLE and GCEL have interpreted the Magnuson-Stevens Act to authorize AFF expenditures for any travel broadly related to enforcement activities, neither OLE nor GCEL has policy guidance authorizing such use of the AFF. Between January 2005 and June 2009, OLE and GCEL charged nearly $580,000 to the AFF for international travel to over 40 destinations. However, only about 17 percent of the cost for this travel was directly related to specific investigations or enforcement proceedings, according to NOAA records. The remaining 83 percent of the cost for such travel was for the purpose of training or attending meetings. For example, in 2008, 15 OLE and GCEL employees traveled to Norway to attend the week-long Global Fisheries Enforcement Training Workshop, at a cost of $109,000.

- OLE's decentralized administration of its SOF (funded by the AFF) for covert and undercover activities lacks oversight and accountability, including by headquarters. In particular, we found that OLE special agents received insufficient training on SOF policies and procedures. We further found that OLE has not consistently followed its policies and procedures for SOF expenditures, reflected in significant disparity between regions in terms of required written approvals for, and documentation of, SOF operations and expenditures. 13 percent of SOF transactions we tested (69 out of 532) lacked required approvals and/or supporting documentation. For example, in one region we identified a $2,500 cash withdrawal for payments to multiple individuals (number and identities not recorded) for what was only described as "buy-bust scenarios." We found no required approval or supporting documentation for this expenditure.

As NOAA's chief recipient and administrator of AFF proceeds, OLE has missed opportunities to effectively manage the AFF and strengthen internal oversight. For instance, OLE's leadership could have undertaken initiatives such as (a) requesting an annual audit of the AFF and using the

[4] On April 8, 2010, following OLE leadership changes, the Assistant Administrator for Fisheries announced the appointment of an interim Director until the competitive process of selecting a Director was complete.

results to improve processes and controls; (b) establishing and following formal priorities for use; and (c) linking AFF expenditure planning to strategic goals, which the Department of Justice does annually with its own asset forfeiture fund program.

More fundamentally, OLE's leadership could have established and updated policy guidance for employees on authorized uses of AFF monies. For instance, current guidance was issued by the then-Director's predecessor over ten years ago and does not include authorization of AFF expenditures for the purchase of vehicles and vessels—nearly all of which have been charged to the AFF. Instead, the then-Director and then-Deputy Director largely maintained the status quo of AFF spending without adequate and effective policy and internal controls, including for high-dollar items such as vehicles and vessels, as well as travel, training, computers, firearms, and fuel, among other expenditures—including SOF expenditures for covert/undercover operations.

The AFF represents an important resource for NOAA's fisheries compliance and enforcement efforts, but the very nature of its existence calls for (a) the AFF to be a well and closely managed program, including centralized approval, coordination, and tracking means; (b) proposed expenditures be authorized, adequately justified, and internally scrutinized prior to disbursement; (c) effective internal control and oversight mechanisms be consistently applied, including over the use of AFF-funded assets such as vehicles and vessels; and (d) the AFF to be comprehensively audited initially and annually, with results communicated to NOAA and DOC senior leadership, as well as outside stakeholders. Appropriate attention by senior leadership within NOAA is essential to providing needed transparency and accountability, and avoiding even the appearance of impropriety in both AFF expenditures and use of AFF-acquired assets.

Based on KPMG's results and our findings, we recommend that NOAA:

- Precisely define the AFF and comprehensively audit it, initially and annually. To arrive at its findings, KPMG expended significant time attempting to define the AFF since NOAA could not provide a consistent definition. As such, KPMG was unable to assess individual transactions beyond review of available supporting documentation. A comprehensive audit should entail detailed transaction testing and additional data mining.

- Communicate the results of initial and annual audits of the AFF to NOAA and Department of Commerce senior leadership, as well as outside stakeholders (Congress, Office of Management and Budget, etc.).

- Specifically identify and account for the AFF in NOAA's annual budget submissions.

- Modify OLE's and GCEL's processes for budgeting and spending AFF proceeds to be comparable to other agencies with similar asset forfeiture funds; and benchmark the asset forfeiture fund programs of the Treasury and Justice Departments for applicable best practices.

- Document a formal interpretation of the statutory language in the Magnuson-Stevens Act as to authorized uses of the AFF; and establish and update formal policy for OLE and GCEL to clearly prescribe both authorized and unauthorized expenditures of AFF monies.

- Take steps to greater centralize AFF approval processes for expenditures.

- Ensure that approved AFF expenditure transactions have required electronic/hard-copy supporting documentation (a recurring KPMG finding).

- Develop improved processes to (a) clearly identify and track AFF monies received and expended, and (b) ensure that AFF funds are not commingled.

- Implement more stringent internal reviews for split purchase card transactions (i.e., those involving the same credit card holder, date, vendor, and the same or different amounts) and duplicate purchase transactions. KPMG found evidence of multiple split transactions, which circumvent single purchase limits and competitive procurement procedures, as well as duplicate transactions.

- Determine the cost-effectiveness of General Services Administration-leased vs. purchased vehicles; establish formal policy for vehicle acquisition and management, based on operational need; and apply appropriate disposition procedures for excess vehicles.

- Establish formal policy for which OLE personnel should be authorized use of daily take-home vehicles; and review and determine the number of "pool" vehicles per locale based on justified need.

- Review and set policy for which OLE personnel should be authorized use of purchase cards, based on operational need. Presently, nearly every OLE special agent and enforcement officer is issued a purchase card. This is not consistent with current government-wide policy for internal controls to limit the risk of misuse of purchase cards[5].

- Determine whether NOAA's inability to adequately track AFF expenditures constitutes violation of any federal financial management law or standard. For example, while the Magnuson-Stevens Act requires that fines and penalties imposed for violations of the Northeast Multispecies Fishery Management Plan are to be specifically used to enforce that Plan, NOAA has not tracked the use of these funds. The then-Director was unfamiliar with this requirement when we initially addressed it with him.

KPMG ENGAGEMENT

KPMG conducted its forensic review under a $140,000 competitively awarded contract (firm fixed-price) with OIG, which was awarded on January 28, 2010. The contract statement of work required KPMG to carry out six specific tasks between February 1, 2010, and May 15, 2010:

Task I: Gain an understanding of the AFF.

[5] OMB Circular A-123, Appendix B (rev. 1/15/09), requires federal agencies to maintain internal controls that reduce fraud, waste, and error in government charge card programs, and identifies periodic reviews of the number of charge card accounts in use for appropriateness as a best practice in managing agency charge card programs. Similarly, in 2002, the President's Council on Integrity and Efficiency found that excessive numbers of cardholders greatly increase the government's financial exposure and makes it difficult to maintain effective internal controls.

Task II: Obtain detail-level transaction data for systems of record from January 1, 2005, through June 30, 2009.

Task III: Develop criteria for analyzing and testing data for anomalous transactions.

Task IV: Obtain supporting documentation for potentially anomalous transactions.

Task V: Present findings and recommendations to OIG.

Task VI: Provide bi-weekly progress reports to OIG.

SUMMARY OF KPMG FINDINGS

On May 13, 2010, KPMG issued a 72-page final report on its forensic review of NOAA's AFF. The report details KPMG's findings in its six task areas and includes 17 recommendations for consideration. KPMG's findings include:

a. No single unit or individual within NOAA has a detailed understanding of the AFF and how it functions from start to finish. NOAA provided KPMG with three different definitions of the AFF, thus KPMG could not use any of those definitions for analysis and had to ultimately create its own based on information collected from NOAA.

b. Between collection and disbursement, there are a significant number of "hand-offs" from one NOAA organization to another, without a consistent method of tracking the funds.

c. Revenues comprising the AFF are co-mingled with other funds in various NOAA finance funds, making it nearly impossible to delineate, track, and oversee the receipt and expenditure of only those monies which comprise the AFF.

d. OLE does not have a formal budget for its use of the AFF; rather, OLE charges expenses to the AFF, under broad internal guidelines for authorized use, as it deems such charges appropriate. Further, GCEL receives a minimal appropriated budget (usually less than $1,000) for its total annual operating costs, but assumes that virtually all of its operating costs are reimbursable from the AFF. Finally, neither OLE's nor GCEL's current budgeting process fully accounts for the use of AFF monies.

e. OLE's processes for disbursing AFF monies do not ensure that they are legally authorized and are not centrally managed or monitored; instead, disbursement processes are different in each division (region).

f. OLE's regions and headquarters, along with GCEL headquarters, have different requirements for AFF-related document retention and preservation.

g. KPMG found that 62 percent of 604 transactions it selected for further analysis (i.e., document review) did not have required supporting documentation, and 27 percent did not have required approvals[6].

h. KPMG identified approximately 4,000 OLE and GCEL purchase card transactions that appeared to be split into two or more transactions to circumvent single purchase limits and/or avoid competitive procedures—in violation of Federal Acquisition Regulation requirements that protect against improper or fraudulent purchases. Of that population, KPMG selected a sample of about 400 transactions for further review, finding 10 percent to be improperly split. KPMG further reported that over 50 percent of the transactions selected for further review lacked supporting documentation, and 34 percent had incomplete or missing approvals.

i. KPMG identified nearly 1,200 potential duplicate purchase card transactions, of which 290 were selected for further review. While 15 were confirmed to be duplicate transactions, KPMG was unable to assess over half of those selected for review as they lacked supporting documentation.

j. Regarding purchase cards issued to nearly all OLE special agents and enforcement officers, KPMG tested all purchase card transactions where the monthly total value purchased from any single vendor had a value above $3,000. KPMG selected 394 for further review, of which 54 percent (totaling approximately $204,000) did not have required supporting documentation.

DETAILED KPMG FINDINGS

- Due to the high volume of AFF transactions, the process-oriented focus of its review, and because considerable time was required in attempting to define the AFF, KPMG analyzed a relatively small percentage of transactions. Though it did not identify many anomalous transactions, KPMG was limited to, and relied on available supporting documentation, and did not carry out additional inquiries beyond review of existing records to identify evidence of potential irregularities.

- No single unit, nor any individual, within NOAA has a detailed understanding of the AFF from start to finish; and as a result, it has different meanings to different entities and officials within NOAA. Essentially, the AFF refers to no single source of revenue, no one accounting fund, program, or project, and is more of an abstract concept than a specific fund that can be tracked with a high degree of detail. After KPMG requested that NOAA provide specific criteria for defining which transactions were related to the AFF, NOAA gave KPMG effectively three different definitions of the AFF.

  First, NOAA informed KPMG that the AFF comprised three distinct funds, containing ten project codes. In reviewing NOAA-supplied data, KPMG discovered that the data referenced an unexpected fund code with an additional project code. KPMG's follow-on inquiries established that this data was related to the AFF and should have been provided to KPMG

[6] Supporting documentation was provided after the agreed upon cut-off date and, as such, was not reviewed by KPMG due to its time constraints. However, based on our assessment of the additional documentation provided, it would not have significantly affected these reported percentages.

initially. KPMG's inquiries later yielded yet a third definition of the AFF through the addition of two additional program codes. KPMG's analysis of the data showed that these three definitions of the AFF did not yield consistent data sets; thus, KPMG could not utilize any of the AFF definitions provided by NOAA for analysis. KPMG ultimately selected all project codes categorized as part of the Civil Monetary Penalties Fund (CMP) and all project codes utilized by OLE and GCEL, in order to define the AFF, while realizing that it would likely capture more data than NOAA would consider part of the AFF.

- Current processes have caused a lack of visibility over the entire fund by any one organization within NOAA. Between collection and disbursement, there are a significant number of "hand-offs" from one NOAA organization to another, without a consistent method of tracking the funds. As monies pass through different NOAA Finance accounting funds, they are labeled with several different Finance accounting program and project codes. Revenues comprising the AFF are co-mingled with other funds in various finance funds, making it nearly impossible to delineate, track, and oversee the receipt and expenditure of only those monies which comprise the AFF.

  For example, KPMG found that of the relevant 99,251 records examined, there were 20,589 Accounts Payable records with organization codes that did not correspond with the 11 OLE or GCEL organization codes applicable to the AFF. Similarly, while the MSA requires that fines and penalties imposed for violations of the Northeast Multispecies Fishery Management Plan are to be specifically used to enforce that Plan, NOAA has not tracked the use of these funds.

- OLE headquarters does not have a formal budget for its use of the AFF. Although there are annual estimated expenditures for the use of the AFF, there is no formal process or reconciliation of budgeted funds to actual expenditures. Budget appropriations for each OLE division cover only a portion of their total operating costs and as a result, OLE divisions plan for wide use of AFF monies which are drawn from AFF accounts throughout the fiscal year. Other agencies with funds similar to the AFF fully appropriate operating budgets and then determine the amount to be withdrawn from the funds to reimburse the department-level agency based on a review of expenditures. Similarly, GCEL has two funding sources for its operations: appropriated funds and the AFF. GCEL receives a minimal (usually less than $1,000) appropriated budget for its total annual operating costs (exclusive of salary), but assumes that virtually all (approximately 99 percent) of its operating costs are AFF-reimbursable.

- OLE's processes for use of AFF monies, including procurements, are highly decentralized and inconsistent. OLE is not a large agency, but personnel within each of OLE's six divisions (regions) determine when an expenditure is appropriate to charge to the AFF. As a result, approval processes are different for each division. Each division has a Special Agent-in-Charge (SAC), who require differing levels of approval within their regions based on dollar amounts of requested purchases. While some SACs appear to have instituted local policies to provide greater oversight for AFF expenditures, there is a clear lack of consistency between divisions.

- Further, KPMG found that between January 1, 2005, and June 30, 2009, 466 individuals in OLE were issued purchase cards, which could be used to charge expenditures against AFF accounts. Approximately 25 percent of the issued cards had four or fewer transactions during this four-and-a-half year period, suggesting that those cards were not necessary for OLE operations and should not have been issued in the first place. This finding underscores the need for better management and internal controls for purchase cards.

- Different types and amounts of documentary support were maintained in each of the six OLE divisions, OLE headquarters, and GCEL. KPMG found that 62 percent of 604 transactions it selected for further analysis (i.e., document review) did not have required supporting documentation and 27 percent did not have required approvals[7]. It is unclear whether verbal approvals were provided for these transactions. OLE's six divisions and headquarters, along with GCEL, have different requirements for AFF-related document retention and preservation. As a result, the same types of documentation were often not present from one division/region to another, and it was difficult to determine what constituted a "complete" set of supporting documentation. Even within divisions, varying amounts of support documentation were provided. Further, transaction authorizations were not consistently noted or documented. NOAA should consider establishing an approved set of documentation to be used for all divisions/regions.

- KPMG identified approximately 4,000 OLE and GCEL purchase card transactions that appeared to be split into two or more transactions (i.e., those involving the same card holder, date, vendor, and the same or different amounts) to circumvent single purchase limits and/or avoid competitive procedures—in violation of Federal Acquisition Regulation requirements that protect against improper or fraudulent purchases. Of this population, approximately 400 were selected for further review, 41 of which were determined to be improperly split. Further, KPMG reported that over 50 percent of the transactions selected for further review lacked supporting documentation and, 34 percent had incomplete or missing approvals.

  One example KPMG identified involved three separate transactions (for transcription services on a single case) with the same vendor, on the same date, in the amounts of $1,243.29, $1,201.74, and $666.70, for a total charge of $3,111.73. This total exceeded the $3,000 micro-purchase transaction ceiling for purchase cards. KPMG was unable to determine why these transactions were split.

- KPMG identified approximately 1,200 potential duplicate purchase card transactions, of which 290 were selected for further review. Fifteen were confirmed to be duplicates based on analysis of supporting documentation. However, KPMG noted that 62 percent of the selected transactions lacked supporting documentation, and 30 percent had incomplete or missing approvals. Further, KPMG identified nearly 11,000 potential duplicate non-purchase card transactions (i.e., purchase orders and contracts) and 13 of these were selected for further assessment. This review disclosed that these 13 transactions, totaling $126,600, did not have required supporting documentation.

[7] Supporting documentation was provided after the agreed upon cut-off date and, as such, was not reviewed by KPMG due to its time constraints. However, based on our assessment of the additional documentation provided, it would not have significantly affected these reported percentages.

For example, KPMG identified a Citibank statement containing two $2,782 charges. One of these charges appears to be reversed on the Citibank statement. However, this charge was submitted to the accounting system twice, but KPMG could not determine why this charge was submitted to the accounting system a second time, or whether this second submission was reversed or paid.

As previously noted, we have attached KPMG's final forensic review report. Please apprise us within 60 days of your response to the results of this review, including any actions taken or planned with respect to our recommendations. If you have any questions, or if we can be of further assistance, please do not hesitate to call me at (202) 482-4661.

Attachment

(Received from KPMG on 5/13/10)

Final Report

Contract Number GS23F8127H: Forensic Audit Services Relating to the NOAA Fisheries Fund

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Project Background

In January 2010, the Department of Commerce, Office of Inspector General (OIG), issued Final Report No. OIG-19887 entitled, "Review of NOAA Fisheries Enforcement Programs and Operations." The relevant section of the report entitled, "Results in Brief," is attached as "Project Background Exhibit A."

In that report, the OIG recommended that NOAA "demonstrate in a transparent way how the proceeds of its enforcement actions are used" in an effort to respond to fishing industry claims of that "NOAA's fines are excessive, constituting a form of bounty, because NOAA is able to retain the proceeds from its enforcement cases."[1]

The OIG report goes on to state, "However, the account under which they are maintained has weak internal controls, and we could not readily determine how NOAA has utilized these funds because while the fund's balance is included in the Department's overall financial statements, internal controls over the fund are not tested as part of the Department's annual financial statement audit, due to the relatively small size of the fund, or as part of the Department-wide financial audit. As a result, we are commissioning a forensic review of the fund as a follow-up, and will issue our findings upon its completion."[2]

On January 27, 2010, the OIG engaged KPMG, LLP (KPMG) to perform a "forensic review of the collection of fines and penalties into and ultimate expenditures from NOAA Fisheries Enforcement's Asset Forfeiture Fund (Fund)."[3] The Statement of Work is included as Project Background – Exhibit B.

The Statement of Work identified six tasks to be completed:

- Task I: Gain an Understanding of the Fund
- Task II: Obtain Detail-Level Transaction Data for System of Record from 1/1/2005 – 6/30/2009
- Task III: Developing Criteria for Analyzing and Testing the Data for Anomalous Transactions
- Task IV: Obtain Supporting Documentation for Potentially Anomalous Transactions
- Task V: Present Findings and Recommendations to the OIG
- Task VI: Progress Reports (Bi-weekly)

The purpose of this document is to comply with Task V, which states, "Summarize findings as well as recommendations for process and procedural improvements over the Fund. The presentation shall

[1] See *National Oceanic and Atmospheric Administration: Review of NOAA Fisheries Enforcement Programs and Operations, Final Report No. OIG 19887*, January 2001, Page 5.
[2] *Id.*
[3] See *Order for Supplies or Services*, Contract No. GS23F8127H, page 4, January 27, 2010,

also include a memorandum to the OIG summarizing all findings and recommendations. Further, the Contractor shall include support for all findings as well as a detailed explanation of work performed."[4]

First, KPMG will provide the required "detailed explanation of work performed" for Tasks I through Task IV. Following the summaries of work performed for Tasks I though IV, we will provide the required summarization of findings and recommendations. Task VI will not be covered in this report except to include the bi-weekly reports as attachments found at Task VI – Exhibits A thru E.

Defining "The Fund"

The first challenge that KPMG faced in completing these tasks was defining the Asset Forfeiture Fund, (the fund) as it has different meanings to different entities and individuals within NOAA and Commerce.

No single unit, nor any individual, within Commerce has a detailed understanding of the Asset Forfeiture Fund from start to finish. The fund encompasses numerous sources of revenue, from a variety of criminal and civil proceedings. Fund monies originate as fines based on several laws; some of these laws prescribe specific purposes for fines originating under the specific law. In the process between collection and disbursement, there are several "hand-offs" from one NOAA department to another. Also, fund monies pass through different Finance accounting funds and are labeled with several different Finance accounting program and project numbers. Ultimately, fund monies are expended by a variety of entities, for a variety of reasons, including operations, case management, and enforcement actions.

The revenues comprising the fund are co-mingled with other funds in various finance funds, which make it nearly impossible to delineate, track and oversee the receipt and expenditure of only those monies which comprise the Asset Forfeiture Fund. In general, the current processes have caused a lack of visibility over the entire fund by any one organization in NOAA.

In short, after conducting an extensive review, it is understandable that the OIG concluded in their report, "we could not readily determine how NOAA has utilized these funds."[5] As will be discussed further below, the first task identified by the OIG was for KPMG to "Gain an Understanding of the Fund."

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[4] See *Order for Supplies or Services*, Contract No. GS23F8127H, page 6, January 27, 2010,
[5] See *National Oceanic and Atmospheric Administration: Review of NOAA Fisheries Enforcement Programs and Operations, Final Report No. OIG 19887*, January 2001, Page 5.

Task I: Gain an Understanding of the Fund

To comply with one of the required deliverables of this contract, KPMG has provided, and the OIG has reviewed and accepted, a detailed 32-page process memo describing the fund. That process memo is attached in its entirety as, Task I – Exhibit A.

In order to gain an understanding of the fund, KPMG interviewed 21 people: 14 individuals from the Office of Law Enforcement (OLE), 2 individuals from the General Counsel for Enforcement and Litigation (GCEL) and 5 individuals from NOAA Finance (Finance). Several people were interviewed more than once and a number of these individuals were engaged in frequent dialogue with the KPMG team throughout Task I and the other tasks. Additionally, during Task I, KPMG received and reviewed over 70 documents, such as budgets, policies, etc. Lists of the interviewees and the documents are provided in Task I – Exhibit B.

This section will only provide a high-level summarization of the key points from the process memo. We urge the reader to read the process memo - in its entirety - to gain an understanding of the fund, policies, actual practices and relationship between OLE, GCEL and NOAA Finance. Aspects of the process memo will be referenced throughout the remainder of this report.

Background

KPMG outlined the roles of NOAA's National Marine Fisheries Service (NMFS) NMFS's Office of Law Enforcement (OLE) and NOAA's Office of General Counsel for Enforcement and Litigation (GCEL). The Federal marine fisheries laws that OLE enforces are:

- The Magnuson-Stevens Fishery Conservation and Management Act (MSFCMA) (16 USC 1801-1882);
- Marine Mammal Protection Act of 1972 (MMPA) (16 USC 1361-1407);
- The Endangered Species Act of 1973 (ESA) (16 USC 1531-1543); and
- Lacey Act Amendments of 1981 (Lacey) (16 USC 3371-3378).

The MSFCMA provides the authority for the use of funds collected in enforcement activities and also provides general descriptions of allowable uses of the fund.[6] The specific language from the act describing the authorized uses of the fund is found both in the process memo and the Recommendations for Process and Procedural Improvements (Recommendations) section below.

NOAA also collects fines and penalties under the Marine Protection, Research, and Sanctuaries Act (16 USC 1431-1439). Fines and penalties collected under this Act can only be used for enforcement related to sanctuaries. These funds are managed by NOAA's National Ocean Service (NOS).

[6] See 16 U.S.C 3371, et seq.

NOAA Finance asserts that the amount in the AFF is not material to the overall financial statements.

Roles and Responsibilities

KPMG was provided significant detail for the role of NOAA Finance and respective roles for the OLE and GCEL division, district and agent levels. Descriptions of case management systems, organizational charts, personnel levels and narrative descriptions of functions were also provided to KPMG.

One key element identified was the significant number of "hand-offs" between the organizations without a consistent method of tracking the funds. This is also addressed in greater detail in the Recommendations section below.

Another was the limited automated exchange of information between the NOAA Finance funds, project codes and program codes, OLE's LEADS system and GCEL's EMIS system, also addressed in the Recommendations section.

Another area was the highly unusual budgeting process for both OLE and GCEL, which does not reflect the actual operating costs of either organization.

Accounting for Fines and Collections

KPMG described the NOAA Finance Fund, Project and Program Code Structure of the fund, and learned that NOAA Finance uses four fund codes (FC) to record collections for the fund: FC 6, FC 96, FC 68, and FC 72. Each of these fund codes contains multiple Project Codes and Program Codes. Each transaction is assigned a Fund Code, a Project Code, and a Program Code.

During KPMG's procedures, it was discovered that NOAA's departments did not have a consistent internal definition of the fund.[7] Essentially, the Asset Forfeiture Fund refers to no single source of revenue, no one accounting fund, accounting program or project, and is more of a concept rather than a specific Fund that can be tracked with a high degree of detail. Given this lack of consistent definition from NOAA, KPMG defined the AFF for purposes of its procedures only by utilizing specific identifiers from NOAA Finance, GCEL and OLE. KPMG's process of defining the AFF for its procedures will be discussed further below.

[7] A more thorough description of KPMG's process of determining which Project Codes are included in the AFF is found in a KPMG Memo titled *3-24-10 NOAA-Project Codes Relevant to Analysis*. This memo was provided to the OIG during the March 26, 2010 Bi-Weekly Progress Meeting, and can be found at Task II – Exhibit C

Types of Fines

An AFF fine or assessment can be levied against a respondent by either OLE or GCEL. Minor infractions are handled by OLE and may result in verbal warnings, written warnings with no fine, or Summary Settlements involving a fine and in some cases seizures. Larger infractions are handled by GCEL.

Criminal offenses are referred directly to the Department of Justice (DOJ) U.S. Attorney's Office. OLE generally consults with GCEL before referring the case to the DOJ. The U.S. Attorney's Office decides whether to seek an indictment and to prosecute the case in federal district court. Fines are usually paid directly to the U.S. Treasury.

The process memo provides detailed information on the following types of fines and seizures and also outlines the level of tracking that is currently in place.

- OLE Summary Settlements
- OLE Seizures
- GCEL Notice of Violation and Assessment (NOVA)
- GCEL Settlement Agreement
- Property Seizures
- Other areas of funds received

Joint Enforcement Agreements (JEA's)

In certain situations, NOAA and state agencies both have authority to enforce federal marine fisheries laws and enter into Joint Enforcement Agreements (JEAs) and/or Cooperative Enforcement Agreements. Such agreements exist, for example, with Florida, Georgia, Maryland and Virginia. Both OLE and GCEL can be involved in the processing of these fines.

Accounting and Criteria for Uses of the Fund

The MSFCMA statute gives both OLE and GCEL authority to use the AFF funds for the support of fisheries enforcement activity. Both OLE and GCEL use the funds for non-labor costs. OLE uses the fund as a supplement to its appropriated funds; GCEL used the AFF for between 97% and 99% of its non-labor operating costs in 2006-2009, as shown in the following chart:[8]

GCEL Operating Budget Calculation (Amounts in 000's)

Year	(A) Appropriations for Operations (1)	(B) Amount Spent from AFF	(A+B = C) Operating Budget	(C / B) % of Operating Budget from AFF
2006	$ 26.40	$ 842.40	$ 868.80	97.0%
2007	$ 14.90	$ 940.90	$ 955.80	98.4%
2008	$ 3.40	$ 1,135.90	$ 1,139.30	99.7%
2009	$ 2.20	$ 948.60	$ 950.80	99.8%

Note 1 This amount includes 21-XX Travel: 22-XX Trans of Things; 23-XX Rent, Comm & Utilities; 25-XX Contractual Services, 26-XX Supplies & Materials, and 77-87 NOAA Overhead. Labor charges and Personnel Benefits were not included.

The process memo provides significant description and several diagrams relating to the "Inflows and Outflows" of the fund from GCEL and OLE. It also provides a clear description of the varying polices and procedures, both from a headquarters and a division perspective, related to determining those authorized uses, approval levels, etc.

Noteworthy Items

OLE headquarters does not have a formal budget for its use of the AFF. Each OLE division has an annual estimated expenditure amount for the use of AFF, but there is no formal process or reconciliation of budgeted funds to actual OLE expenditures.

The processes for disbursing AFF funds are not centrally managed or monitored. Instead, disbursement processes are different at each division. Each division has a Special Agent in Charge (SAC) who reports directly to the OLE Director regarding the disbursement process.

During the period under review, all purchases of $5,000 or more required prior approval from OLE's director. In order to make a purchase of $5,000 or more, the Special Agent in Charge (SAC) of a division office submitted a memo to the OLE Director containing a request for approval and the

[8] See Task I – Exhibit C for documentation supporting GCEL's yearly actual operating expenses. See Task I – Exhibit D for documentation supporting GCEL's yearly appropriated budgets. The appropriations data for 2005 showed negative appropriated amounts for this year. NOAA was unable to provide an explanation prior to May 7, 2010, so this data was excluded from the chart.

proposed use for the funds. The $5,000 limit was decreased to $1,000 in February 2010, following the recent OIG report.

OLE National Directive No. 45 provided approval authority to the SAC and Deputy Special Agent in Charge (DSAC) for pre-approved items costing less than $5,000. Determination of whether an expense can be funded by the AFF is based on OLE National Directives No. 44, 45, 46, 53, 54, 91, 163 and 198.

In determining the proper use of AFF funds, OLE follows National Directive No. 53, which contains a list of pre-approved expenditures. However, other appropriate uses of the AFF which are not specified in OLE National Directives are:

- Rewards for reporting suspected violations.
- Reimbursement to any Federal or State agency for services performed under agreement with DOC to enforce the Magnuson-Stevens Act.
- Training for enforcement activities; and
- Enforcement-related travel reimbursement.

Purchase Cards (Pcards)

The process memo goes on to describe the Pcard processes and once again clearly articulates the differing local policies from one division to the other. The division policies not only differ from each other, but are different than the national policies, always more restrictive; once again, likely in an effort to provide greater oversight.

Procurement/Acquisitions

Each division is assigned an acquisition office to handle procurement, acquisitions, and purchase orders. A purchase order must be issued if an item or service is over the following amounts:

- $2,000 for construction;
- $2,500 for services (does not include training classes; these are classified as "all other");
- $3,000 for all other.

In certain circumstances, the division acquisition offices will refuse to make the purchase, and will ask the DPA (Designated Purchasing Authority) at the specific division to approve the purchase. However, many OLE divisions do not have a DPA.

Special Operations

Special Operations Funds are controlled by guidance in NEOM 7.1 and used during OLE's covert or undercover operations. For each undercover or covert case, OLE has a separate bank account that can distribute cash to the operatives and pay for other appropriate undercover expenses.

Task II: Obtain Detail-Level Transaction Data for System of Record from 1/1/2005 – 6/30/2009

KPMG's primary goals in Task II were to obtain the necessary data needed for analysis, gain comfort concerning the completeness of the dataset, and prepare the data for analysis.

Data Request

The scope of Task II required KPMG to obtain detail level transaction data for the system of record from January 1, 2005 through June 30, 2009. The "system of record" includes the NOAA Finance system, Purchase Card systems, ad hoc spreadsheets, and other materials. KPMG provided one data request to NOAA Finance on February 25, 2009,[9] and another data request to OLE on March 4, 2009.[10] Meetings were held with members of OLE, GCEL and NOAA Finance to discuss the requests in detail. KPMG also requested that sample datasets be provided for preliminary assessment prior to full extractions.

Defining the AFF

In order to focus KPMG's procedures on the Asset Forfeiture Fund, KPMG requested that NOAA provide specific criteria for defining which transactions were related to the AFF.

During a February 16, 2010 meeting, KPMG was told that the AFF comprised three funds: Fund Code (FC) 6, FC 68, and FC 96. These three funds contained ten project codes which would define the AFF and be relevant to KPMG's scope.[11] When the sample dataset was received on March 10, 2010, KPMG noted that this data set contained data for an unexpected fund code, FC 72, and an additional project code for FC 6. Email inquiries with NOAA personnel established that this data was also related to the AFF, should have been provided to KPMG initially, and should also be considered during KPMG's procedures.

Email inquires[12] related to the hard copy document request[13] yielded an additional "definition" of the AFF: the Program Codes 02-02-04-000 and 02-11-01-000. This represented the third definition

[9] This data request is a memo dated 2/25/2010 with the subject: *Task II – Obtain Detail-Level Transaction Data for System of Record from 1/2005 – 6/30/2009*. This memo can be found at Task II – Exhibit A.
[10] This data request is a memo dated 3/4/2010 with the subject *Task II – Obtain Detail-Level Transaction Data for System of Record from 1/2005 – 6/30/2009: Data Request of Case Documents from LEADS*. This memo can be found at Task II – Exhibit B.
[11] The project codes initially identified from FC 6 were: 2BL2D01 (Lacey Act), 2BL7E01 (Lacey Act), 2BL2D02 (Magnuson-Stevens Act), 2BL7E02 (Magnuson-Stevens Act), 2BL2D03 (Endangered Species Act), and 2BL7E03 (Endangered Species Act). The project codes initially identified from FC 96 were 26L7E01 (Lacey Act), 26L7E02 (Magnuson-Stevens Act), and 26L7E03 (Endangered Species Act). The project code initially identified for FC 68 was ND06214.
[12] The relevant email is included at Task II – Exhibit E.
[13] The Hard Copy Document Request will be discussed in the Task IV section below.

of the AFF that NOAA provided to KPMG. KPMG's analysis of the data showed that the three definitions did not yield consistent data sets. As a result, KPMG could not utilize any of the Asset Forfeiture Fund definitions provided by NOAA for analysis.

The March 24, 2010 Memo titled *Project Codes Relevant to Analysis* found at Task II – Exhibit C outlines the methodology selected by KPMG for defining the Asset Forfeiture Fund. This memo was presented to the OIG at the March 26, 2010 Biweekly Progress Meeting, and was subsequently approved by the OIG.

Essentially, this memo explains that KPMG selected all Project Codes categorized as part of the Civil Monetary Penalties Fund (CMP) and all Project Codes utilized by OLE and GCEL. This yielded a population of 723 Project Codes. A list of the 723 Project Codes selected by KPMG is found at Task II – Exhibit D. These Project Codes were reviewed and approved by the OIG

KPMG realized that this would likely capture more data than NOAA would consider part of the AFF. However, since NOAA could not provide a consistent, agreed-upon definition of the AFF, KPMG could not utilize NOAA's provided definitions.

Data Collected

KPMG collected the transaction detail for the timeframe January 1, 2005 to June 30, 2009, of the inflow and outflow of money through the AFF from OLE, GCEL and NOAA Finance. Specifically, from OLE and GCEL, KPMG received case payment information detailing each payment received from fines, penalties and seizures from EMIS and LEADS. From NOAA Finance KPMG received all transaction detail in funds 6, 68, 72 and 96 from the CBS system, as well as Purchase Card transaction detail. KPMG's initial data request sent on February 25, 2010. The last dataset responsive to KPMG's request was received March 31, 2010 from NOAA Finance.

Completeness Testing

Before KPMG could perform analytical procedures on the data received from NOAA, KPMG had to assess the completeness of the data provided. Completeness testing is a process of aggregating of all transaction detail by fund, fiscal year, and account. These aggregations are compared to the provided trial balances to illustrate all transactions to support the financial reports of the NOAA Finance have been provided. If the data is complete, the aggregates should match the financial reports.

For the transaction detail obtained from NOAA Finance's CBS System for funds 6, 68, 72 and 96, KPMG received the beginning and ending trial balances for the period to perform completeness testing. There were nine accounts across Funds 6, 68, 72 and 96 from January 1, 2005 – June 30, 2010 that did not reconcile. These nine accounts were discussed with NOAA Finance and KPMG accepted NOAA's explanations for the non-reconciling accounts. Since these accounts were not material, KPMG determined that these accounts would not affect the analysis. On April 7, 2010,

KPMG reconciled the majority of the transactions to the trial balances provided by NOAA and determined the data provided by NOAA Finance to be complete for purposes of KPMG's procedures.

NOAA could not provide a trial balance that was specific to the AFF.

Task III: Development of Criteria for Analyzing and Testing the Data for Anomalous Transactions

Test Plan

KPMG developed a test plan of criteria for analyzing and testing the data for anomalous transactions for the inflow and outflow of monies for the Asset Forfeiture Fund for NOAA Fisheries. The tests were created in accordance to the statement of work. The test plan was approved by the Department of Commerce OIG on March 26, 2010, and was executed in accordance to the timeline determined by the statement of work. The Test Plan is found at Task III – Exhibit A.

Test Population

KPMG gained an understanding of the Asset Forfeiture Fund (AFF) through interviews and research. As discussed above, it was determined by KPMG and approved by the Department of Commerce OIG, that the AFF contained 723 project codes. Through discussions with NOAA Finance, account "1010.00 – Fund Balances With Treasury" was identified as the account that tracks actual inflow transactions and outflow transactions through the AFF. Since KPMG's scope include actual payments and receipts (rather than budgeted or obligated payments and receipts), KPMG selected transactions which debited or credited account 1010.00 which were labeled with one of the 723 project codes identified as AFF. The resulting population contained 99,521 transactions. These 99,251 transactions are considered KPMG's test population and the focus of analysis

The test population of 99,251 transactions was divided according to the flow of money through the fund, "Inflow" or "Outflow". In conjunction with NOAA Finance, KPMG identified the flow of funds by combination subsystem and transaction source codes.

Subsystem Code	Transaction Source	Account	Inflow/Outflow
ARNEW	BCOLL	1010.00	Inflow
ARNEW	MCOLL	1010.00	Inflow
ARNEW	BADJ	1010.00	Inflow
ARNEW	RADJ	1010.00	Inflow
ACCOMP	ACCOMP	1010.00	Outflow
DISB	MANUAL	1010.00	Outflow
APC	APC	1010.00	Outflow
GJ	GJ	1010.00	Outflow
GJ	ST	1010.00	Outflow
SP	SP	1010.00	Outflow
VP	VP	1010.00	Outflow

KPMG determined there were 82,778 "Outflow" transactions and 16,473 "Inflow" transactions.

The test plan required KPMG to perform separate tests on purchase card, procurement and travel transactions; therefore, KPMG categorized transactions into ten categories. KPMG identified the transactions by the data fields "Item Type" and "Object Code". KPMG was provided definitions of "Item Type" and "Object Code" by NOAA finance. The ten categories were as followed:

Transaction Group	Number of Transactions
Courier	3,869
GJ Subsystem	7,449
Miscellaneous	2,433
Payments to Respondents	83
Pcard	17,837
Proceeds	16,457
Procurement	4,366
Transfers	1,169
Travel	44,082
Utility	1,506
Total	**99,251**

Scoring Responsive Transactions

The test plan outlined 24 tests to identify potentially anomalous transactions. KPMG implemented a scoring methodology for each test. This methodology allowed the resulting transactions to be weighed and ranked. Each test was assigned a weight of "1" except for four tests that were deemed more important and thus received a weight of "2", these four tests were:

- One-time vendor transactions
- Single purchase card transactions exceeding $250 and for regions Northeast or Southwest
- Single Procurement transactions exceeding $5000
- Monthly purchase card exceeding $3,000

Each of the 99,251 transactions was assigned a score based on the query results and weighting. Scores ranged from "0" to "10".

Region Categorization

NOAA identified eleven organization codes to be related to the AFF. Of the eleven organization codes, eight were related to OLE and the remaining three were related to GCEL. The eight OLE organization codes had an associated region; the GCEL codes had no associated region. KPMG assigned each transaction to one of the eight OLE regions, GCEL, or "No Region" using the eleven organization codes and associated data available. The assigned regions were:

- Alaska (AK)
- GCEL
- Headquarters (HQ)
- Northeast (NE)
- Northwest (NW)
- Pacific Island (PI)
- Southeast (SE)
- Southwest (SW)
- No Region - This categorization contained the remaining transactions that were not identified by the organization codes. Some of these transactions were later assigned a region based on the hard copy document assessment discussed below. NOAA has also stated to KPMG that some of these transactions are not part of the AFF.[14]

These categorizations were later used to organize the transactions and hard copy documentation.

Transaction Selection

KPMG selected a population of 604 transactions for further procedures and assessment based on the following criteria:

- One-time vendor transactions (Test 3B4 of the Test Plan), or
- Transactions whose combined score from all tests was "7" or higher.

Keyword Testing Process and Selection

KPMG applied the search terms listed in the test plan to the Purchase card transaction detail relating to the defined test population. The initial results yielded 3870 transactions, and 917 unique vendor names. These initial statistics per keyword were provided to OIG for review. KPMG explained that the keywords results in a large number of transactions, and asked the OIG to prioritize the keywords. The OIG categorized the 77 keywords into 4 priority groups, but indicated their

[14] As discussed above, NOAA could not provide KPMG with a consistent definition of the AFF, and the transactions selected for KPMG's review were drawn from a population including all CMP transactions and all project codes utilized by OLE and GCEL.

preference was to have all results reviewed. KPMG assessed each priority group to eliminate false positives. For instance, Keyword "St Regis" yielded vendor names with "Registration" in the name. The remaining pcard transactions responsive to the keywords were summarized by priority groups and by employee/cardholder. The results of the keyword assessment can be found in Transaction Analysis – Exhibit Z, and will be discussed further below.

KPMG noted that some vendors had multiple entries in the electronic accounting system. For example, 27 unique vendors including the name "Verizon" were found.

KPMG also noted that NOAA employees were generally assigned both an employee number and a vendor number. In one case, an employee was assigned an employee number and two vendor numbers. The two vendor numbers were linked to different addresses and vendor creation dates.

Travel Transaction Selection

The 604 transactions selected for further analysis only resulted in 4 travel transactions. The OIG expressed interest in travel expenses for specific employees and travel expenses paid from the AFF. Therefore, KPMG selected a group of travel transactions for further analysis.

KPMG combined the scoring method described above and the list of employees of interest provided on April 20, 2010 by the OIG, to determine the most relevant transactions for further assessment. KPMG selected 29 travel transactions for hard copy analysis.

Task IV: Obtain Supporting Documentation for Potentially Anomalous Transactions

Task IV required KPMG to "obtain supporting documentation for each transaction selected for further analysis in Task III" and to also make a determination of the "integrity, sufficiency, and reliability of the support for each transaction."[15]

Request for Hard Copy Documentation

In discussions with NOAA personnel, KPMG learned that the likely volume of hard copy documentation for the pcard, procurement, and contract transactions would be 2-3 boxes per year. At that time, the volume of travel transactions was unknown. Given the relatively small volume of transactions, and also given the tight timeline on this project, KPMG requested supporting documentation for all activity and transactions in FC 6, FC 96, and FC 68 from each of the 6 regions, OLE headquarters, and GCEL Headquarters during the relevant time period. This initial document request was issued on March 2, 2010 and is found at Task IV – Exhibit A.

NOAA's response was that this document request would be unduly burdensome; especially since the volume of documentation supporting travel transactions was extremely large. As a result, KPMG issued a modified document request on March 9, 2010, limiting the request to hard copy documentation supporting pcard transactions, purchase orders, contracts, and reconciliation documents. This document request can be found at Task IV – Exhibit B.

It was agreed that KPMG would request specific documentation for travel transactions at a later date after specific transactions could be identified. NOAA agreed to provide this documentation within three days after receiving the request.

It was also agreed that hard copy documentation for pcard and procurement transactions would be shipped to the OIG's office at 1401 Constitution Ave NW, Washington, DC 20230, and that documentation for travel transactions would be shipped to NOAA's Germantown, MD; Seattle, WA; or Kansas City, KA offices.

Some documentation was not made available to KPMG. For example, the Northeast division destroyed all 2005 pcard records in October 2008. According to a March 18, 2010 email between NOAA personnel the Northeast Division was relocating at that time and no longer had offsite storage. They used an online version of the NOAA Disposition Handbook, Chapter 200: Administrative and Housekeeping Records (rev 1/02), which states that paper copy files should be destroyed "when 2 years old, or when no longer needed, whichever is sooner."[16]

[15] See *Order for Supplies or Services*, Contract No. GS23F8127H, page 6, January 27, 2010,
[16] The email and relevant portion of the NOAA Disposition Handbook can be found in Task IV – Exhibit F.

Document Assessment Plan

The OIG requested that KPMG provide a Document Assessment Plan to outline KPMG's proposed assessment process. Based on the procedures conducted in Task I, KPMG had a general idea of the type of documentation that should ideally be available, and the types of approvals that should be provided for each type of transaction. KPMG prepared the *NOAA Document Review Plan* in accordance with this information. This document can be found at Task IV – Exhibit C, and was presented to the OIG during the April 9, 2010 Biweekly Progress Meeting.

Document Assessment Process

As discussed in Task III above, KPMG selected transactions that were either One-Time Vendor transactions, transactions that scored "7" or higher on the testing criteria, or a sample of travel transactions. KPMG searched for and copied relevant hard copy documentation for the selected transactions at the OIG's office on April 16-20, 2010, and at NOAA's Germantown Office on April 28, 2010. The hard copy documentation was reviewed at KPMG's Washington, DC office.

KPMG provided specific, supplemental requests to NOAA when hard copy support for a particular transaction was not found at these offices. Supplemental Requests #1 and #2 were sent on April 26, 2010, and Supplemental Request #3 was sent on April 28, 2010. See Task IV – Exhibit D for copies of the Supplemental Document Requests. NOAA provided additional documentation in response to these Supplemental Document Requests. However, documentation received after April 29, 2010 was not analyzed due to time constraints. Analysis of these documents would reduce the quantity of transactions listed as "Transactions Without Hard Copy Documentation" in the charts below.

Type of Documentation Collected

KPMG noted that the 6 NOAA OLE Divisions, OLE Headquarters, and GCEL Headquarters had different requirements for document retention and preservation. As a result, the same types of documentation were often not present from one region to another, and it was difficult to determine what constituted a "complete" set of supporting documentation.[17] However, even within divisions, varying amounts of support documentation were provided. In addition, transaction authorizations were not consistently noted or documented.

Based on commonalities in the documentation, KPMG assigned the selected transactions into four categories: Pcard, Procurement, CMP, and Travel.

[17] In certain situations, only a screen shot from the NOAA accounting system was provided. KPMG did not consider these screen shots to be sufficient supporting hard copy documentation as it was duplicative of the data provided in Task III.

For pcard transactions, the available documentation generally included:

- Monthly pcard statement from a financial institution such as Citibank or JP Morgan Chase
- NOAA monthly pcard statement
- Vendor invoices and/or receipts
- Pcard Log (with or without reconciliation codes)
- Invoice approval form
- Quotations from multiple vendors
- Emails

For procurement and contract transactions, the available documentation generally included:

- Department of Commerce Procurement Requests
- Orders for Supplies or Services / Requisitions for Supplies or Services and contract amendments
- Vendor invoices and/or receipts
- Requests for Quotations and corresponding quotations for multiple vendors
- Packing slips
- NOAA Section 508 Standard Checklists
- Memorandums and emails
- Pcard statements from financial institutions such as Citibank and JP Morgan Chase
- Claims for Reimbursements for Expenditures on Official Business

For Civil Monetary Penalty (CMP) Refund transactions, the available documentation generally included:

- A letter requesting that the particular amount to be returned to the respondent.

For travel transactions, the available documentation generally included:

- Government Travel Voucher
- Citibank statements
- Invoices and receipts
- Travel Voucher Expense Itemizations
- Reservations
- Screen shots of vendor invoices from an internal accounting system[18]

The hard copy documentation was organized into binders by the 6 OLE Divisions and GCEL.

[18] Screenshots of Vendor Invoices from an internal accounting system were provided by members of the NOAA Travel and Transportation Team at NOAA's Germantown, MD office.

Document Assessment Process: 604 Transactions

As part of Task III, KPMG identified 604 pcard, procurement, and CMP refund transactions for further procedures. A summary assessment of these transactions is shown below:

Summary of Transaction Population Responsive to Test Criteria

Region	Total Population Responsive to Test Criteria			Transactions Without Hard Copy Documentation			Transactions With Incomplete/Missing Approvals			Transactions where Invoice Value Differs from Accounting System	
	# Trans	Value of Debits	Value of Credits	# Trans	Value of Debits	Value of Credits	# Trans	Value of Debits	Value of Credits	# Trans	Abs Value of Differences
GCEL	155	$ 40.26	$ 257,208.79	73	$ 20.13	$ 183,848.05	78	$ 20.13	$ 66,370.26	5	$ 4,623.10
OLE - AK	74	$ -	$ 184,625.00	24	$ -	$ 73,965.78	28	$ -	$ 76,326.12	5	$ 2,446.02
OLE - HQ	17	$ -	$ 310,518.91	14	$ -	$ 236,471.04	1	$ -	$ 3,919.97	0	$ -
OLE - NE	24	$ -	$ 280,352.58	5	$ -	$ 4,254.18	15	$ -	$ 96,917.32	2	$ 27,107.48
OLE - NW	22	$ -	$ 131,896.76	3	$ -	$ 75,000.00	12	$ -	$ 45,856.65	3	$ 5,167.89
OLE - PI	29	$ -	$ 395,963.82	8	$ -	$ 14,135.26	3	$ -	$ 11,420.50	4	$ 1,707.60
OLE - SE	11	$ -	$ 80,437.27	2	$ -	$ 2,400.00	5	$ -	$ 48,869.08	0	$ -
OLE - SW	30	$ -	$ 169,482.34	4	$ -	$ 8,296.45	19	$ -	$ 44,420.07	8	$ 1,168.63
No Region	242	$ -	$ 1,428,403.08	242	$ -	$ 1,428,403.08	0	$ -	$ -	0	$ -
Total	**604**	**$ 40.26**	**$ 3,238,888.55**	**375**	**$ 20.13**	**$ 2,026,773.84**	**161**	**$ 20.13**	**$ 394,099.97**	**27**	**$ 42,220.72**

As noted above, many transactions had no supporting documentation or were missing approvals. A further breakdown of these transactions, showing how many transactions in each division were categorized as Pcard, Procurement, CMP, or Travel[19] is found in Task IV – Exhibit E. The hard copy documentation collected for these transactions, as well as a summary listing of the transactions in each region can be found in 12 *Documentation for Transaction Testing* binders.

For pcard transactions, KPMG assessed the following properties of the transaction and related hard copy documentation:

- Availability of documentation – If no documentation was available for a transaction; this was marked as "No". If some documentation was available, this was marked as "Yes." The sufficiency of the available documentation was discussed in the Draft Notes column.
- Vendor Name
- Date of Transaction – The date of the invoice was entered in this column, and was compared to the Pcard expense date and transaction date from the accounting system data.
- Invoice Amount – In some cases, the invoice amount was different from the credit amount from the accounting system. These differences were discussed in the Draft Notes section.
- Description of Expenses or Services – this information was taken from the invoices or pcard logs, if available.
- Pre-Approvals – Very few pre-approvals were noted for pcard transactions.
- Local Approvals – the Southeast and Northeast division required special pre-approvals for all transactions over $250. Hard copy documentation for these pre-approvals was generally not found.

[19] These four categorizations were selected based on commonalities in the documentation received, and were used to simplify the presentation of the hard copy documentation.

- Approval for Purchase over $3,000 – In accordance with the information gathered in Task I, KPMG understands additional levels of approval are required for transactions over $3,000. Hard copy documentation of these approvals was rare. In addition, KPMG encountered instances where a larger-than-$3,000 transaction was split into smaller transactions, presumably to fit under this threshold amount. These findings will be discussed further below.
- Name of Approver for Transactions over $3,000
- NOAA Purchase Card Statement – This was marked as "Yes" if an internally-generated statement showing all purchase transactions for the month or year was found.
- Bank Pcard Statement – This was marked as "Yes" if a monthly statement from the Citibank or JP Morgan Chase was found. These statements were generally present.
- Receipts / Vendor Invoices – this was marked as "Yes" if a receipt or vendor invoice was present.
- Purchase Card Log – This was marked "Yes" if an internally generated statement labeled "Purchase Card Log" and showing all pcard transactions for the month was present. These statements were distinguished from the internally generated Purchase Card Statements because the Purchase Card Logs had a location where the transactions could be coded to internal project codes and accounts.
- Reconciliation on Purchase Card Log – This was marked "Yes" if the Purchase Card Log showed coding to internal project codes and accounts. Based on information gathered in Task I, if this coding is present for a particular transaction, then this transaction has been reconciled in the internal pcard system.
- Draft Notes – this column contains KPMG's draft observations about the transaction.

For procurement transactions, KPMG assessed the following properties of the transaction and related hard copy documentation:

- Availability of documentation – If no documentation was available for a transaction, this was marked as "No". If some documentation was available, this was marked as "Yes." The sufficiency of the available documentation was discussed in the Draft Notes column.
- Description of Expenses or Services – this information was taken from the invoices or pcard logs, if available
- Amount – In some cases, the invoice amount was different from the credit amount from the accounting system. These differences were discussed in the Draft Notes section.
- Purchase Order Approved – This was marked as "Yes" if the supporting documentation indicated that the purchase order was approved.
- Purchase Order Approved By – The name of the approver was entered in this column, if available.
- Justification for Purchases – If supporting documentation contained justification for purchases language, this was marked as "Yes."
- Purchase Order Requisition Number

- Memo Containing Justification for Purchases over $5,000 – based on the information gathered in Task I, before initiating a purchase order over $5,000 a justification memo should be prepared and approved. These memos were rarely found.
- Approval from Headquarters for Purchase over $5,000 – based on the information gathered in Task 1, approval from Headquarters should be found on the justification memo.
- Name of Approver for Transaction over $5,000 – the name of the approver was entered in this column, if available.
- Supervisor Approval for Purchases under $5,000 – based on the information gathered in Task I, procurement purchases under $5,000 require a supervisor's approval.
- Name of Supervisor for Purchases under $5,000 – the name of the approver was entered in this column, if available.
- Obligation Document – based on the information gathered in Task I, an obligation document should be prepared after the purchase order has been approved.
- Obligation Document Approved By – the name of the approver was entered in this column, if available
- Invoices / Receipts – if vendor invoices or receipts were present, this was marked as "Yes".
- Date Stamp from Automation Clerk on Invoices / Receipts – based on the information gathered in Task I, when invoices are received, they are date stamped by a clerk.
- Invoice Approved to be Paid – Based on information gathered in Task I, approval for invoice payment should be found either on the actual invoice or on a separate invoice approval document.
- Signature from the Contract Specialist / COTR / Certifying Officer – This was marked as "Yes" if the required approval signature was found on the actual invoice or on a separate invoice approval document.
- NOAA Discussion of whether Expense is Allowable
- Other Documentation – if other documentation was present in the documentation packet, it was noted in this column. Quotes from other vendors or Sole Source or Limited Source Documents were also noted in this column.
- Draft Notes - this column contains KPMG's draft observations about the transaction.

For CMP transactions, KPMG assessed the following properties of the transaction and related hard copy documentation:

- Availability of documentation – If no documentation was available for a transaction, this was marked as "No". If some documentation was available, this was marked as "Yes." The sufficiency of the available documentation was discussed in the Draft Notes column.
- Letter Requesting Reimbursement – this was marked as "Yes" if a letter was present. This letter was generally the only documentation provided for these transactions. As a result, KPMG was unable to assess approvals for these transactions
- Amount – Any differences between the amount on the letter and the amount in the accounting system was noted. These differences were discussed in the Draft Notes section.
- Date of Letter

- Case Number – if the case number was provided in the letter, it was noted here.
- Draft Notes - this column contains KPMG's draft observations about the transaction.

Document Assessment Process: 29 Travel Transactions

Only four travel transactions were noted in the initial 604 transactions selected for further procedures. Supporting documentation was not found for any of these transactions. Due to the OIG's emphasis on travel transactions, KPMG selected an additional 29 travel-related transactions for further assessment. A summary of these transactions is shown below:

Summary of Travel Transactions Responsive to Test Criteria

Region	Total Population Responsive to Test Criteria		Transactions without Hard Copy Documentation		Transactions with Incomplete/Missing Approvals		Transactions where Invoice Value Differs from Accounting System	
	# Trans	Value of Credits	# Trans	Value of Credits	# Trans	Value of Credits	# Trans	Abs Value of Differences
OLE - AK	3	$ 3,738.46	1	$ 1,337.86	0	$ -	0	$ -
OLE - HQ	7	$ 11,127.90	0	$ -	1	$ 2,086.78	0	$ -
OLE - NE	6	$ 5,690.45	0	$ -	6	$ 5,690.45	3	$ (627.68)
OLE - NW	3	$ 5,756.42	3	$ 5,756.42	0	$ -	0	$ -
OLE - PI	No Transaction Selected							
OLE - SE	4	$ 5,683.68	4	$ 5,683.68	0	$ -	0	$ -
OLE - SW	6	$ 8,729.59	4	$ 6,329.19	0	$ -	0	$ -
GCEL	No Transaction Selected							
No Region	No Transaction Selected							
Total	**29**	**$ 40,726.50**	**12**	**$ 19,107.15**	**7**	**$ 7,777.23**	**3**	**$ (627.68)**

A further breakdown of these transactions is found in Task IV – Exhibit G. The hard copy documentation collected for these transactions, as well as a summary listing of the transactions in each region can be found in the 12 *Documentation for Transaction Testing* binders.

For travel transactions, KPMG assessed the following properties of the transaction and related hard copy documentation:

- Availability of documentation – if no documentation was available for a transaction; this was marked as "No". If some documentation was available, this was marked as "Yes." The sufficiency of the available documentation was discussed in the Draft Notes column.
- Amount – in some cases, the invoice amount was different from the credit amount from the accounting system. These differences were discussed in the Draft Notes section.
- Dates of Travel – KPMG obtained the travel dates either from Travel Voucher or invoices.
- Travel Voucher – This was marked as "Yes" if the supporting documentation contained the travel voucher form.
- Pre-Authorized Travel – this was marked as "Yes" if the supporting documentation contained the Authorization form.
- Approval – the name(s) of the approver(s) was entered in this column, if available.
- Receipts / Vendor Invoices - if vendor invoices or receipts were present, this was marked as "Yes".
- Location – if the supporting documentation provided the location where the NOAA employee traveled to, it was entered into this column.
- Traveler – the name of the traveler.

- Details of Travel – this column lists purpose of the travel expenditure that was referenced in the hard copy documentation.
- Draft Notes – this column contains KPMG's draft observations about the transaction.

Treatment of Employee Names Found in Electronic and Hard Copy Documentation

In order to maintain the confidentiality of Personally Identifiable Information (PII), the charts in this memo contain employee numbers instead of employee names for pcard transactions and when organizing procurement transactions by approver. Employee numbers were not provided for 10 employees, so these individuals were designated as "Employee #1", "Employee #2", etc. Task IV – Exhibit H contains a listing of the individuals who were designated as "Employee #1", "Employee #2", etc.

Employee names are present in the charts and tables found in the supporting documentation binder.

Transaction Analysis

As per the Test Plan described in the above section, KPMG preformed a number of tests to describe and aggregate the data by parameters such as Region, Vendor, Fiscal Year and other relevant information as well as designing procedures to identify potential anomalous or unexpected transactions. The following describes KPMG's results. It is also important to note that KPMG selected the population of 604 transactions for document review based on transactions that were either One-Time Vendor transactions or transactions that scored a "7" or higher because they hit multiple tests. Therefore, any given transaction may be represented in several sections because it was identified by several tests.

Upon receiving a complete dataset and understanding the data, KPMG needed to modify the test to best fit the data. For instance, the test population contained hundreds of vendors, and KPMG's original plan to aggregate data per vendor did not yield understandable results. KPMG therefore has aggregated vendors per transaction type to show relationships between vendors used for purchase card transactions, procurement transactions, utility transactions, etc. KPMG further determined that calculating the median of different populations did not provide meaningful results, so these calculations are not provided in this memo.

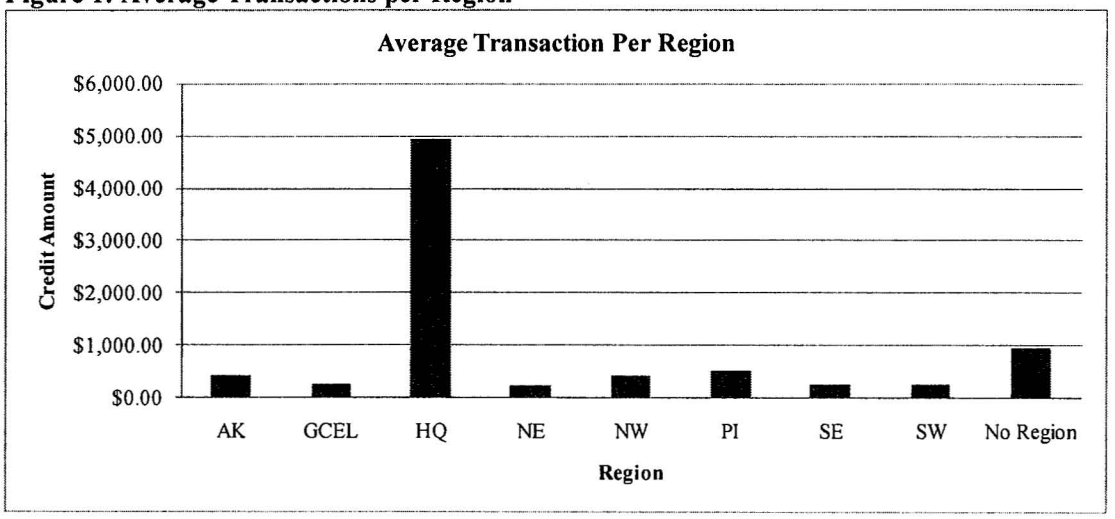
The format of this section follows the NOAA Criteria Test Plan dated March 24, 2010, and provided to the OIG on the March 26, 2010 Biweekly Progress Meeting. As a result, the individual tests will be labeled using the outline format found in this memo – for example, "3A1A".

A. Average Expenditure Amount

Test 3A1A - Average Expenditure Amount per Region

When assessing the average expenditure amount per region, KPMG analyzed all 82,778 Outflow Transactions. The results are shown in Figure 1 below:

Figure 1: Average Transactions per Region



No transactions were selected for hard copy review based on this test.

Test 3A1B – Median Transaction Amount by Region

The Median test discussed in the test plan was deemed to be not applicable, and was therefore not performed.

Test 3A1C – Stratification of Transaction Amounts by Region

The Stratification of Transaction Amounts by Region was duplicative of the results of Test 3C1C and will be discussed in that section.

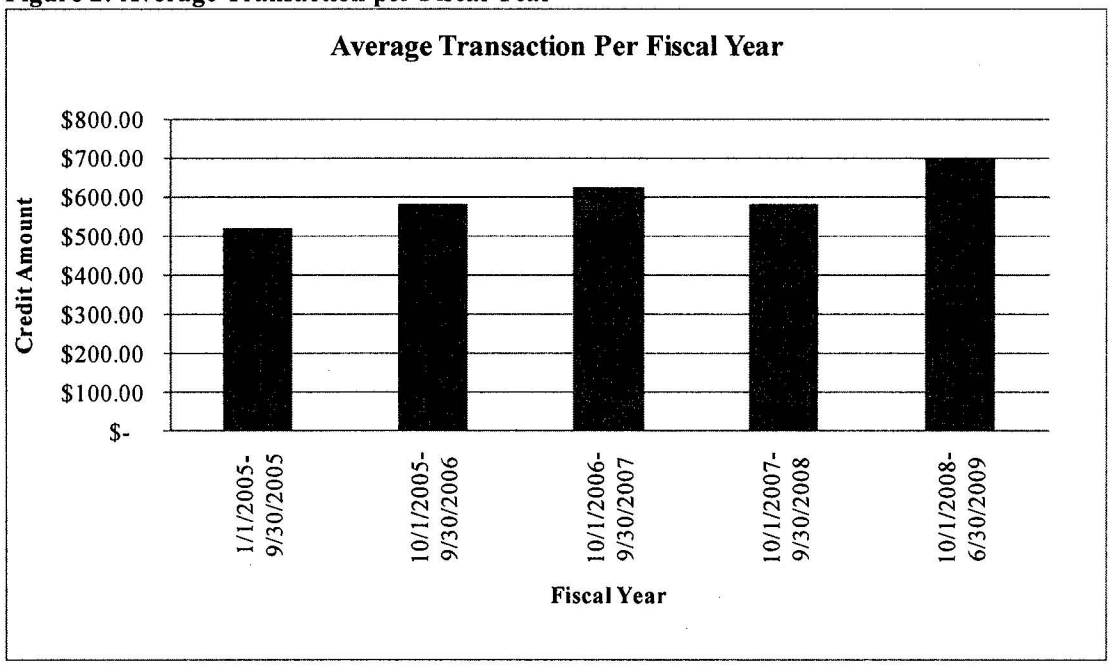
Test 3A1D – Value and Volume Graph of Transactions by Region

The Value and Volume test discussed in the test plan was deemed to be not applicable and was therefore not performed.

Test 3A2A - Average Expenditure Amount per Fiscal Year

When assessing the average expenditure amount per fiscal year, KPMG analyzed all 82,778 Outflow Transactions. The results are shown in Figure 2 below:

Figure 2: Average Transaction per Fiscal Year



No transactions were selected for hard copy review based on this test.

Test 3A2B – Median Transaction Amount by Fiscal Year

The Median test discussed in the test plan was deemed to be not applicable, and was therefore not performed.

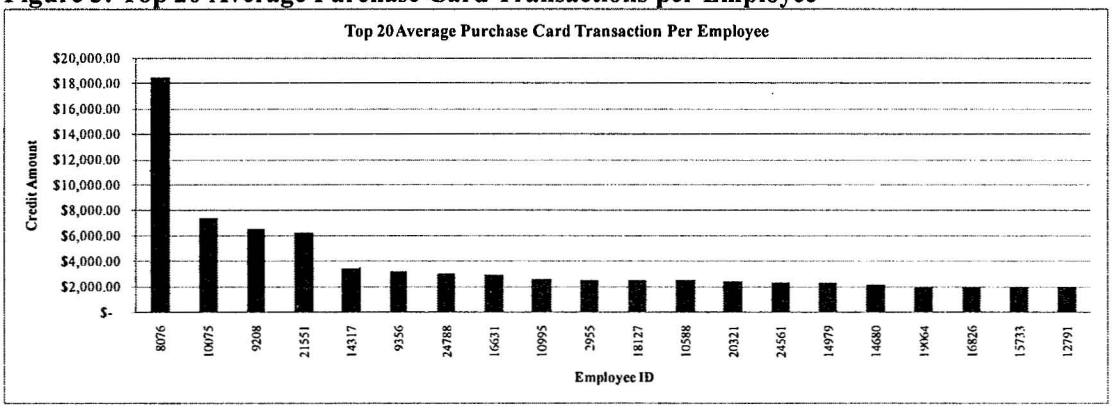
Test 3A2C – Stratification of Transaction Amounts by Fiscal Year

The Stratification of Transaction Amounts by Fiscal Year is duplicative of the results in Test 3C2C and is discussed in that section.

Test 3A3A - Average Expenditure Amount per Employee

When assessing the average expenditure amount per employee, KPMG analyzed all 17,837 purchase card outflow transactions. Since the data set identified 466 individual employees with purchase cards, KPMG selected the 20 employees with the highest purchase card expenditures for graphical representation. The results are shown in Figure 3 below:

Figure 3: Top 20 Average Purchase Card Transactions per Employee



When this graph was assessed, the $18,500 "average" transaction amount was noted. This transaction had not been selected for hard copy document review since it had a total score of "6", and KPMG selected transactions that scored "7" or above.

KPMG performed an additional assessment of this transaction using the electronic data set. Due to time constraints, hard copy documentation was not requested. KPMG determined that this amount was a single pcard transaction in 2008. This transaction was also the employee's only pcard transaction during the review period. The transaction was identified by the following tests: 3B4 – Transaction over $1,000; 3C5 – Transaction Exceeding $5,000; 3E1a – Pcard Transaction Exceeding $250; 3E3a – Monthly Pcard Transactions Totaling Greater than $3,000 For a Single Vendor (added weight); 3I1b – Transaction over $100 Which are Multiples of $100. Additional identifying information for this transaction is as follows:

- Organization: 30-31-0003-00-00-00-00 -- MISSISSIPPI LABORATORIES
- Project Code: 2BLFFMA -- SUSTAIN FISH SEA TURTLE CONSERV ACTY
- This transaction was listed as "No Region" for KPMG's purposes, since a designation as either GCEL or an OLE region for this transaction was not provided in the electronic data set.

Test 3A3B – Median Transaction Amount by Employee

The Median test discussed in the test plan was deemed to be not applicable, and was therefore not performed.

Test 3A3C – Stratification of Transaction Amounts by Employee

The Stratification of Transaction Amounts by Employee was duplicative of the data produced by Test 3C3C, and is discussed in that section.

Test 3A3D – Value and Volume Graph of Transactions by Employee

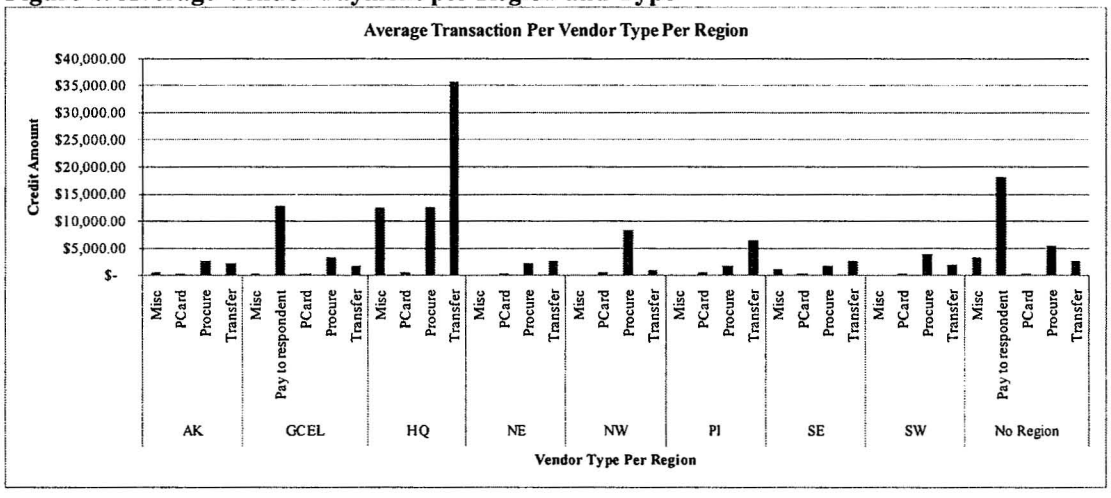
The Value and Volume test discussed in the test plan was deemed to be not applicable and was therefore not performed.

B. Vendor and Sum Total per Vendor

Test 3B1A - Average Vendor Payment per Region and Transaction Type

When assessing the average vendor transaction per region, KPMG analyzed all 82,778 Outflow Transactions. As discussed above, for purposes of this assessment, KPMG categorized the Outflow transactions into nine types, including Purchase Card, Procurement, Transfers, Payments to Respondent, Courier, Travel, Utilities, GJ Subsystem and Misc. A description of these types is found in Transaction Analysis – Exhibit B. The average vendor payment per region type of transaction is shown in Figure 4 below. Transaction groups having minimal activity were not graphically displayed.

Figure 4: Average Vendor Payment per Region and Type



KPMG notes that GCEL and the No Region transactions have a high level of Payments to Respondent. OLE Headquarters has a high level of transfer payments. Also, OLE Headquarters and the Northwest region have higher than average procurement transactions. No transactions were selected for hard copy review based on this test.

Test 3B1B - Median Vendor Payment per Region

The Median test discussed in the test plan was not applicable; and was therefore not performed.

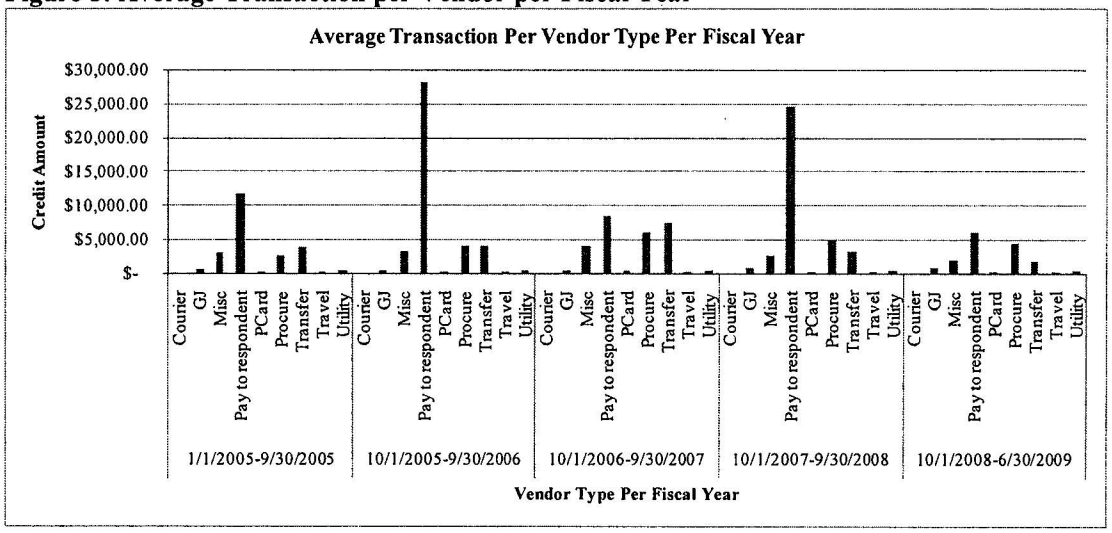
Test 3B1C – Stratification of Vendor Payment per Region

When performing the Stratification of Aggregate Vendor Payments per Region, KPMG analyzed all 82,788 Outflow transactions. The results of this test could not be included within the memo, but are shown in Transaction Analysis – Exhibit A. No transactions were selected for hard copy review based on this test.

Test 3B2A - Average Vendor Payment per Fiscal Year

When assessing the average transaction per vendor and fiscal year, KPMG analyzed all 82,778 Outflow Transactions. The results are shown in Figure 5 below. Transaction groups having minimal activity were not graphically displayed.

Figure 5: Average Transaction per Vendor per Fiscal Year



No transactions were selected for hard copy analysis based on the results of this test.

Test 3B2B - Median Vendor Payment per Fiscal Year

The Median test discussed in the test plan was not applicable; and was therefore not performed.

Test 3B2C –Stratification of Vendor Payments per Fiscal Year

When performing the Stratification of Aggregate Vendor Payments per Fiscal Year, KPMG analyzed all 82,788 Outflow transactions. The results of this test could not be included within the memo, but are shown in Transaction Analysis – Exhibit B. No transactions were selected for hard copy review based on the results of this test.

Test 3B3A – Stratification of Aggregate Vendor Payments per Fiscal Year

The results of this stratification were duplicative of the test performed in Test 3B2C. No separate charts were created.

Test 3B3B – Stratification of Aggregate Vendor Payments per Region

The results of this stratification were duplicative of the test performed in Test 312C. No separate charts were created.

Test 3B3C – Stratification of Aggregate Vendor Payments

The results of this stratification were duplicative of the results from Test 3B1C and 3B2C. No separate charts were created.

Test 3B4 – Vendor Payments Exceeding $1,000

This test identified all Accounts Payable transactions above $1,000. KPMG identified 6,975 transactions as a result of this test. 352 of these were selected for hard copy analysis. The results are shown below:

Single Payments to any Vendor which Exceed $1,000

Region	Total Population Responsive to Test Criteria		Transactions without Hard Copy Documentation		Transactions with Incomplete/Missing Approvals		Transactions where Invoice Value Differs from Accounting System	
	# Trans	Value of Credits	# Trans	Value of Credits	# Trans	Value of Credits	# Trans	Abs Value of Differences
GCEL	49	$ 212,007.56	22	$ 163,045.21	25	$ 43,831.87	4	$ 4,622.43
OLE - AK	50	$ 170,835.45	12	$ 67,069.16	22	$ 72,552.83	3	$ 2,372.34
OLE - HQ	17	$ 310,518.91	14	$ 236,471.04	1	$ 3,919.97	0	$ -
OLE - NE	19	$ 278,506.61	3	$ 4,211.00	13	$ 95,717.52	2	$ 27,107.48
OLE - NW	19	$ 131,026.28	3	$ 75,000.00	11	$ 45,601.17	3	$ 5,167.89
OLE - PI	23	$ 394,143.54	6	$ 13,402.47	3	$ 11,420.50	3	$ 1,447.90
OLE - SE	9	$ 79,179.95	2	$ 2,400.00	3	$ 47,611.76	0	$ -
OLE - SW	28	$ 169,323.04	4	$ 8,296.45	17	$ 44,260.77	8	$ 1,168.63
No Region	138	$ 1,392,269.76	138	$ 1,392,269.76	0	$ -	0	$ -
Total	**352**	**$ 3,137,811.10**	**204**	**$ 1,962,165.09**	**95**	**$ 364,916.39**	**23**	**$ 41,886.67**

Transaction Analysis – Exhibit C contains a more detailed version of this chart, which identifies the number and value of transactions by type (for example, Pcard, Procurement, CMP, or Travel). This section also contains the complete list of transactions which were responsive to this test.

KPMG noted that 204 of the 352 transactions did not have hard copy documentation. 138 of these transactions were identified as "No Region" because the accounting system data did not contain this information. NOAA asserts that some of these transactions are not part of the AFF, but as discussed above, NOAA could not provide a consistent definition of the AFF.

Also, 95 transactions had incomplete or missing approvals. Based on the information gathered in Task I, KPMG identified certain approvals that should be present for each type of transaction. KPMG designated a transaction as having incomplete or missing approvals if these were not present in the hard copy documentation.

In addition, 23 transactions have an invoice value that differs from the value listed in the accounting system. The absolute value of these differences totals $41,886.67.

Test 3B5 – One-Time Vendor Transactions

KPMG identified 186 transactions where the vendor at issue was only used once in the relevant time period. All of these transactions were selected for hard copy assessment. The results of this assessment are shown below:

One-Time Vendor Payment

Region	Total Population Responsive to Test Criteria		Transactions without Hard Copy Documentation		Transactions with Incomplete/Missing Approvals		Transactions where Invoice Value Differs from Accounting System	
	# Trans	Value of Credits	# Trans	Value of Credits	# Trans	Value of Credits	# Trans	Abs Value of Differences
GCEL	24	$ 243,536.74	11	$ 137,406.26	0	$ -	0	$ -
OLE - AK	23	$ 50,126.86	7	$ 13,186.57	4	$ 36,514.49	0	$ -
OLE - HQ	36	$ 306,598.84	14	$ 236,471.04	0	$ -	0	$ -
OLE - NE	22	$ 259,359.66	2	$ 43.18	3	$ 75,924.40	1	$ 21,101.60
OLE - NW	6	$ 38,980.39	0	$ -	5	$ 35,190.28	0	$ -
OLE - PI	8	$ 357,910.14	0	$ -	3	$ 11,420.30	2	$ 1,682.20
OLE - SE	5	$ 50,376.38	0	$ -	4	$ 46,010.43	0	$ -
OLE - SW	5	$ 228,726.20	0	$ -	1	$ 17,289.00	0	$ -
No Region	107	$ 1,297,609.47	107	$ 1,297,609.47	0	$ -	0	$ -
Total	**186**	**$ 2,633,224.78**	**141**	**$ 1,684,716.51**	**20**	**$ 222,349.10**	**3**	**$ 22,763.80**

Transaction Analysis – Exhibit D contains a more detailed version of this chart, which identifies the number and value of transactions by type (for example, Pcard, Procurement, CMP, or Travel). This section also contains the complete list of transactions which were responsive to this test.

KPMG noted that hard copy documentation was not provided for 141 of the186 transactions. 107 of these transactions were labeled as "No Region" since this information was not contained in the accounting system. In addition, 20 transactions had either incomplete or missing approvals, and three transactions had a hard copy invoice amount that differed from the amount listed in the accounting system.

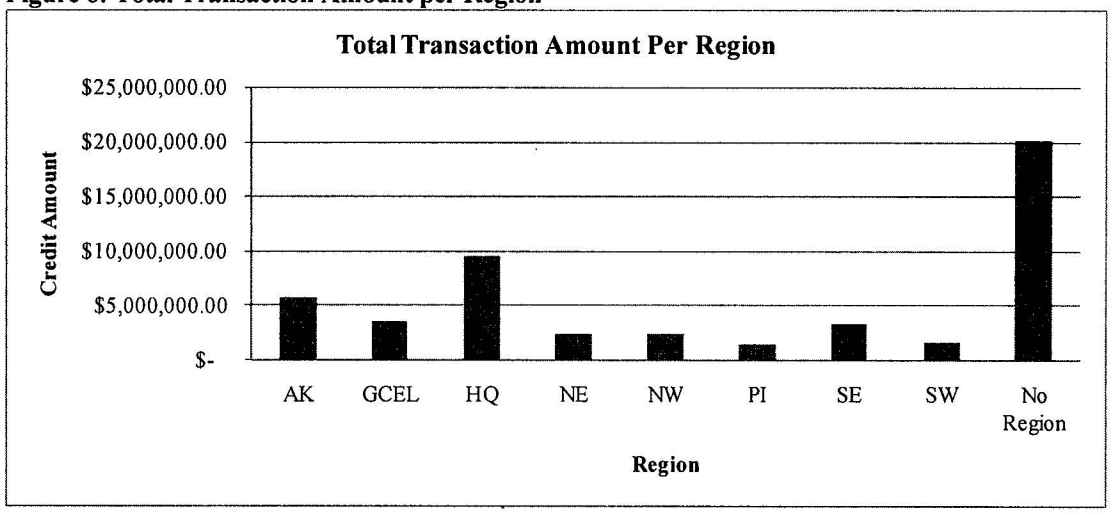
Since these 186 vendors were only utilized once in the test population, it is possible that NOAA could achieve efficiencies and volume discounts by consolidating its vendor list.

C. Expenditure by Division and/or Region

Test 3C1A – Expenditure by Region

The Task III test plan indicated that this section would address averages. Since the results would have been duplicative of the information in Section A, KPMG assessed total transaction amounts instead. When assessing the expenditures by Division and/or Region KPMG analyzed all 82,778 Outflow transactions. The results of this test are shown in Figure 6 below:

Figure 6: Total Transaction Amount per Region



No transactions were selected for hard copy analysis based on the results of this test.

Test 3C1B – Median Expenditure by Region

The Median Expenditure by Region test was not applicable, and was therefore was not performed.

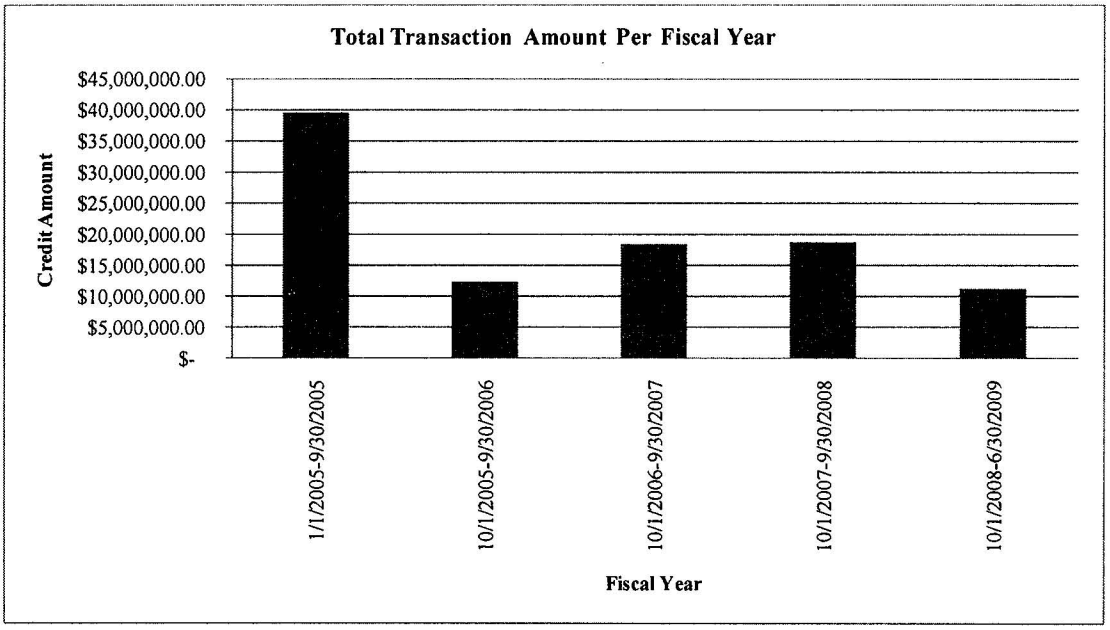
Test 3C1C – Stratification of Expenditures by Region

When performing this test, KPMG analyzed all 82,778 Outflow transactions. The results can be found in Transaction Analysis – Exhibit E.

Test 3C2A – Expenditure by Region per Fiscal Year

When assessing the expenditure by division/region per fiscal year, KPMG analyzed all 82,778 Outflow transactions. The results are shown in Figure 7 below:

Figure 7: Total Transaction Amount per Fiscal Year



No transactions were selected for hard copy analysis based on the results of this test.

Test 3C2B – Median Expenditure by Region per Fiscal Year

The Median test was not applicable, and therefore was not performed.

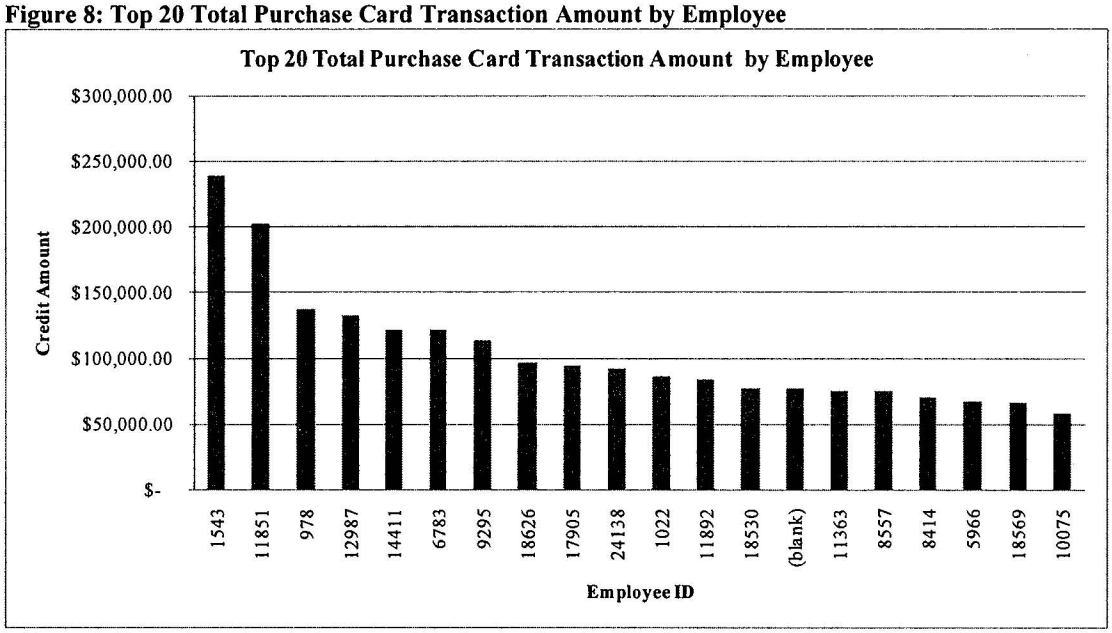
Test 3C2C – Stratification of Expenditures by Region per Fiscal Year

When performing this stratification, KPMG analyzed all 82,778 Outflow transactions. The results can be found in Transaction Analysis – Exhibit F.

Test 3C3A – Expenditure by Region per Employee

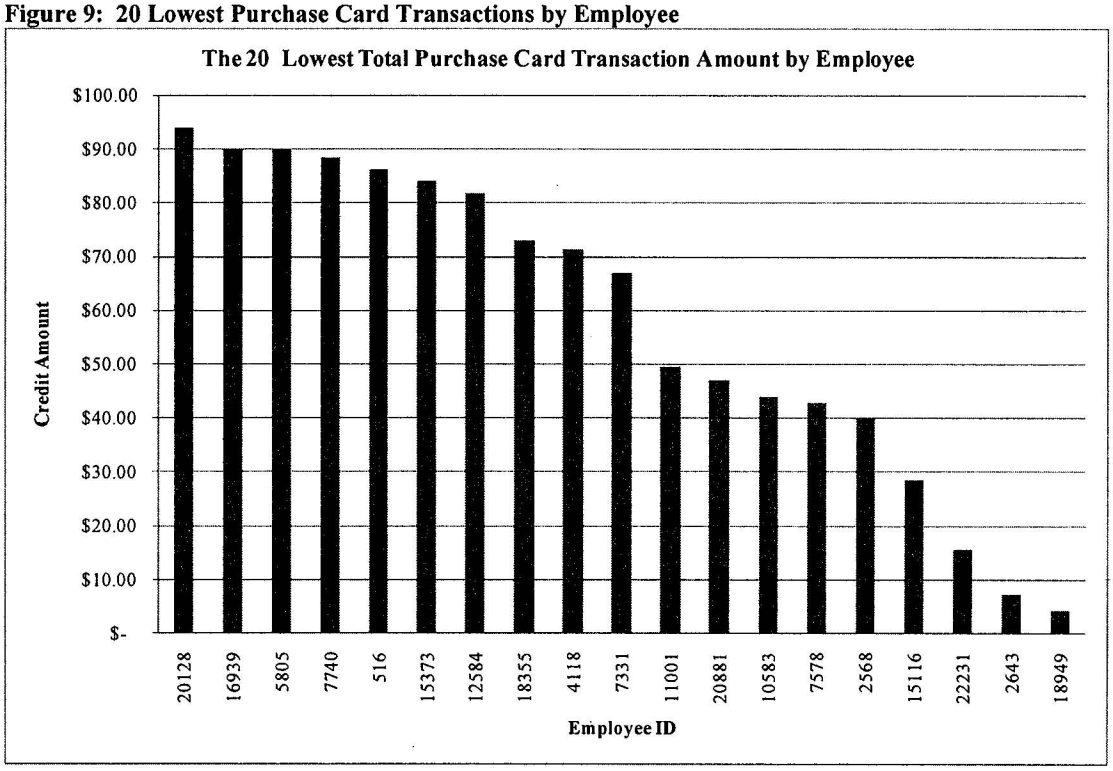
Since no employees were identified for procurement and other non-pcard transactions, KPMG limited the scope of these tests to purchase card transactions. When assessing the expenditure by region per employee, KPMG analyzed all 17,837 Purchase Card Outflow transactions. Since the data set contained 466 individual employees with purchase cards, KPMG selected the 20 employees with the highest purchase card expenditures for graphical representation. The results are shown in Figure 8 below:

Figure 8: Top 20 Total Purchase Card Transaction Amount by Employee



KPMG notes that there are 136 employees with four transactions or less over the timeframe January 1, 2005 through June 30, 2009. A graphical representation of the 20 employees who used their purchase cards the least is shown in Figure 9 below.

Figure 9: 20 Lowest Purchase Card Transactions by Employee



No transactions were selected for hard copy review based on the results of this test.

Test 3C3B – Median Expenditure by Region per Employee

The Median test was not applicable, and was therefore not performed.

Test 3C3C – Stratification of Expenditures by Region per Employee

When performing this stratification, KPMG analyzed all 17,837 Purchase Card Outflow transactions. The results can be found in Transaction Analysis – Exhibit G.

Test 3C4 – Transaction with Values between $1,000 and $4,999

KPMG identified 5,737 transactions with values between $1,000 and $4,999. 264 of these transactions were selected for hard copy assessment, as shown below.

Accounts Payable Transactions with Value from $1,000 to $4,999

Region	Total Population Responsive to Test Criteria		Transactions without Hard Copy Documentation		Transactions with Incomplete/Missing Approvals		Transactions where Invoice Value Differs from Accounting System	
	# Trans	Value of Credits	# Trans	Value of Credits	# Trans	Value of Credits	# Trans	Abs Value of Differences
GCEL	45	$ 83,465.02	17	$ 33,502.67	25	$ 43,831.87	4	$ 4,622.43
OLE - AK	44	$ 92,736.35	9	$ 21,470.06	19	$ 40,052.83	3	$ 2,372.34
OLE - HQ	8	$ 23,808.65	6	$ 16,675.38	1	$ 3,919.97	0	$ -
OLE - NE	12	$ 26,856.20	3	$ 4,211.00	10	$ 19,793.12	1	$ 6,005.88
OLE - NW	14	$ 27,390.48	0	$ -	9	$ 16,965.37	3	$ 5,167.89
OLE - PI	20	$ 48,008.60	6	$ 13,402.47	3	$ 11,420.50	3	$ 1,447.90
OLE - SE	7	$ 15,386.84	2	$ 2,400.00	2	$ 3,858.65	0	$ -
OLE - SW	23	$ 40,396.84	4	$ 8,296.45	16	$ 26,971.77	8	$ 1,168.63
Location Not Listed	91	$ 180,575.88	91	$ 180,575.88	0	$ -	0	$ -
Total	264	$ 538,824.86	138	$ 280,531.91	85	$ 166,814.08	22	$ 20,785.07

Transaction Analysis – Exhibit H contains a more detailed version of this chart, which identifies the number and value of transactions by type (for example, Pcard, Procurement, or CMP). This section also contains the complete list of transactions which were responsive to this test.

KPMG noted that no hard copy documentation was provided for 138 of the 264 transactions. 91 of these transactions were labeled as "No Region" since this information was not available in the accounting system. A total of 85 transactions with a value of $166,814.08 had either incomplete or missing approvals. 22 transactions had an invoice value which was different from the value listed in the accounting system. The absolute value of these differences was $20,785.07.

Test 3C5 – Transaction with Values above $5,000

This test identified all Accounts Payable transactions with values above $5,000. KPMG identified 1,242 transactions as a result of this test. 86 of these were selected for hard copy assessment, as shown below.

Accounts Payable Transactions Exceeding $5,000

Region	Total Population Responsive to Test Criteria		Transactions without Hard Copy Documentation		Transactions with Incomplete/Missing Approvals		Transactions where Invoice Value Differs from Accounting System	
	# Trans	Value of Credits	# Trans	Value of Credits	# Trans	Value of Credits	# Trans	Abs Value of Differences
GCEL	5	$ 129,542.54	5	$ 129,542.54	0	$ -	0	$ -
OLE - AK	6	$ 78,099.10	3	$ 45,599.10	3	$ 32,500.00	0	$ -
OLE - HQ	8	$ 281,710.26	7	$ 214,797.66	0	$ -	0	$ -
OLE - NE	7	$ 251,650.41	0	$ -	3	$ 75,924.40	1	$ 21,101.60
OLE - NW	5	$ 103,635.80	3	$ 75,000.00	2	$ 28,635.80	0	$ -
OLE - PI	3	$ 346,134.94	0	$ -	0	$ -	0	$ -
OLE - SE	3	$ 64,793.11	0	$ -	2	$ 44,753.11	0	$ -
OLE - SW	5	$ 128,726.20	0	$ -	1	$ 17,289.00	0	$ -
OLE - Unknown Region	44	$ 1,192,693.88	44	$ 1,192,693.88	0	$ -	0	$ -
Total	86	$ 2,576,986.24	62	$ 1,657,633.18	11	$ 199,102.31	1	$ 21,101.60

Transaction Analysis – Exhibit I contains a more detailed version of this chart, which identifies the number and value of transactions by type. In this case, all transactions were either for Procurement or CMP. This section also contains the complete list of transactions which were responsive to this test.

KPMG noted that no hard copy documentation was provided for 62 of the 86 transactions. 44 of these transactions were categorized as "No Region" since this data was not available in the electronic accounting system. In addition, 11 transactions had incomplete or missing approvals, and one transaction had an invoice value which was different from the value listed in the accounting system. The absolute value of this difference was $21,101.60.

D. Trend of Outflows by Division/Region

Test 3D1 - Comparison of Transactions per Region Ranging from January 1, 2005 – June 30, 2009

When performing this comparison, KPMG assessed all 82,778 Outflow transactions. A chart showing the number and value of outflow transactions per region is shown below:

Region	Outflow	
	Number of Transactions	Total Amount of Transactions
GCEL	12,657	$ 3,512,740.04
OLE - AK	12,853	$ 5,701,632.85
OLE - HQ	1,917	$ 9,492,705.05
OLE - NE	9,525	$ 2,317,257.65
OLE - NW	5,316	$ 2,330,545.88
OLE - PI	2,772	$ 1,456,075.17
OLE - SE	11,719	$ 3,314,190.05
OLE - SW	5,430	$ 1,565,821.05
No Region	20,589	$ 20,042,947.80
Total	**82,778**	**$ 49,733,915.54**

KPMG did not draw any conclusions or form any recommendations based on the number or total value of inflow and outflow transactions.

Test 3D2 – Comparison of Transactions per Region per Fiscal Year

Transaction Analysis – Exhibit J contains a detailed version of this test, which compares the number, and value of outflow transactions per fiscal year. KPMG did not draw any conclusions or form any recommendations based on the number or total value of inflow and outflow transactions.

Test 3D3 – Comparison of Inflow and Outflow Transactions of the Fund per Region Ranging from January 1, 2005 – June 30, 2009

When performing this comparison, KPMG assessed all 82,778 Outflow transactions and 16,473 Inflow transactions. A chart showing the number and value of outflow and inflow transactions per region is shown below:

Region	Inflow		Outflow	
	Number of Transactions	Total Amount of Transactions	Number of Transactions	Total Amount of Transactions
GCEL	13,482	$ 29,929,731.27	12,657	$ 3,512,740.04
OLE - AK	14	$ 60,292.41	12,853	$ 5,701,632.85
OLE - HQ	-	$ -	1,917	$ 9,492,705.05
OLE - NE	7	$ 2,634.60	9,525	$ 2,317,257.65
OLE - NW	7	$ 299.99	5,316	$ 2,330,545.88
OLE - PI	5	$ 132.82	2,772	$ 1,456,075.17
OLE - SE	22	$ 18,748.38	11,719	$ 3,314,190.05
OLE - SW	3	$ 9,585.59	5,430	$ 1,565,821.05
No Region	2,933	$ 66,325,294.45	20,589	$ 20,042,947.80
Total	**16,473**	**$ 96,346,719.51**	**82,778**	**$ 49,733,915.54**

KPMG did not draw any conclusions or form any recommendations based on the number or total value of inflow and outflow transactions.

Test 3D4 – Comparison of Inflow and Outflow Transactions of the Fund per Fiscal Year

Transaction Analysis – Exhibit K contains a summary of transactions which compares the number and value of inflow and outflow transactions of the fund per fiscal year. KPMG did not draw any conclusions or form any recommendations based on the number or total value of inflow and outflow transactions.

E. Trend of Outflows by Employee

KPMG ran the tests in this section on the population of 82,778 Outflow transactions. Since the Accounting System data did not contain employee names, KPMG combined this data set with the Pcard data set in order to obtain employee names.

Test 3E1A – Pcard Transactions Greater than $250

KPMG initially selected 4,671 transactions by searching for pcard transactions greater than $250. 343 of these were selected for hard copy assessment. This population was further limited to the 16 transactions from the Northeast and Southeast regions. Based on the information gathered in Task I, KPMG learned that the Northeast and Southeast regions have instituted a policy requiring approvals for all Pcard transactions greater than $250.00. This requirement is not present in other regions.

The results of this assessment are shown below:

Single Pcard Transactions Greater than >$250 for Employees in the OLE - Northeast and OLE - Southeast Regions

		Total Population Responsive to Test Criteria		Transactions without Hard Copy Documentation		Transactions with Incomplete/Missing Approvals		Transactions where Invoice Value Differs from Accounting System	
Region	Employee ID #	# Trans	Value of Credits	# Trans	Value of Credits	# Trans	Value of Credits	# Trans	Abs Value of Differences
OLE - NE	21171	2	$ 1,199.80	0	$ -	2	$ 1,199.80	0	$ -
	1022	8	$ 15,489.00	2	$ 2,865.00	8	$ 15,489.00	0	$ -
	15166	1	$ 1,346.00	1	$ 1,346.00	1	$ 1,346.00	0	$ -
	9295	1	$ 2,958.12	0	$ -	1	$ 2,958.12	1	$ 6,005.88
Subtotal OLE - NE		**12**	**$ 20,992.92**	**3**	**$ 4,211.00**	**12**	**$ 20,992.92**	**1**	**$ 6,005.88**
OLE - SE	10075	2	$ 21,710.00	0	$ -	0	$ -	0	$ -
	9295	2	$ 5,950.89	0	$ -	1	$ 2,858.65	0	$ -
Subtotal OLE - SE		**4**	**$ 27,660.89**	**0**	**$ -**	**1**	**$ 2,858.65**	**0**	**$ -**
Total for OLE - NE and OLE - SE Regions		**16**	**$ 48,653.81**	**3**	**$ 4,211.00**	**13**	**$ 23,851.57**	**1**	**$ 6,005.88**

Transaction Analysis – Exhibit L contains the complete list of transactions which were responsive to this test and selected for hard copy assessment.

KPMG noted that no hard copy documentation was provided for 3 of the 16 transactions. All 13 of the remaining transactions had incomplete or missing approvals. KPMG did not find any documentary evidence that specific approvals for transactions over $250 were being obtained or maintained in the Northeast and Southeast regions.

The transaction where the invoice value differs from the Accounting System represents Pcard transaction with a value of $8,964.00. According to the electronic and hard copy documentation, a one-year online database subscription was purchased for 9 individuals. The $8,964.00 amount was split into two amounts ($6,005.88 and $2,958.12) and charged to two internal codes.

Test 3E1B – Procurement Transactions with Values between $1,000 and $4,999

This test identified all procurement Accounts Payable transactions with values between $1,000 and $4,999. KPMG identified 1,206 transactions as a result of this test. 42 of these were selected for hard copy assessment, as shown below.

Single Procurement Transactions Between $1,000 and $4,999, per Purchase Order Approver

Region	Total Population Responsive to Test Criteria		Transactions without Hard Copy Documentation		Transactions where Invoice Value Differs from Accounting System	
	# Trans	Value of Credits	# Trans	Value of Credits	# Trans	Abs Value of Differences
GCEL	7	$ 15,090.00	7	$ 15,090.00	0	$ -
OLE - AK	2	$ 7,102.37	1	$ 3,087.88	0	$ -
OLE - HQ	4	$ 13,479.30	3	$ 10,264.00	0	$ -
OLE - NE	0	$ -	0	$ -	0	$ -
OLE - NW	2	$ 6,299.00	0	$ -	0	$ -
OLE - PI	2	$ 9,490.50	0	$ -	1	$ 1,402.50
OLE - SE	3	$ 3,400.00	2	$ 2,400.00	0	$ -
OLE - SW	0	$ -	0	$ -	0	$ -
No Region	22	$ 53,556.76	22	$ 53,556.76	0	$ -
Total	**42**	**$ 108,417.93**	**35**	**$ 84,398.64**	**1**	**$ 1,402.50**

Transaction Analysis – Exhibit M contains a more detailed version of this chart, which identifies the number and value of transactions by type and employee. This section also contains the complete list of transactions which were responsive to this test and selected for hard copy assessment.

KPMG noted that no hard copy documentation was provided for 35 of the 42 transactions. No transactions had incomplete or missing approvals, so these columns were not shown in the chart above. One transaction had an invoice value which was different from the value listed in the accounting system. The absolute value of this difference was $1,402.50.

Test 3E1C – Procurement Transactions with Values above $5,000

This test identified all Procurement Accounts Payable transactions with values above $5,000. KPMG identified 688 transactions as a result of this test. 52 of these were selected for hard copy assessment, as shown below.

Single Procurement Transactions Greater than $5,000, per Purchase Order Approver

	Total Population Responsive to Test Criteria		Transactions without Hard Copy Documentation		Transactions where Invoice Value Differs from Accounting System	
Region	**# Trans**	**Value of Credits**	**# Trans**	**Value of Credits**	**# Trans**	**Absolute Value of Differences**
GCEL	3	$ 23,789.29	3	$ 23,789.29	0	$ -
OLE - AK	6	$ 78,099.10	3	$ 45,599.10	0	$ -
OLE - HQ	5	$ 158,049.26	4	$ 91,136.66	0	$ -
OLE - NE	3	$ 75,924.40	0	$ -	1	$ 21,101.60
OLE - NW	5	$ 103,635.80	3	$ 75,000.00	0	$ -
OLE - PI	No Transactions Identified for this Region					
OLE - SE	1	$ 5,549.44	0	$ -	0	$ -
OLE - SW	1	$ 17,289.00	0	$ -	0	$ -
No Region	28	$ 597,901.68	28	$ 597,901.68	0	$ -
Total	**52**	**$ 1,060,237.97**	**41**	**$ 833,426.73**	**1**	**$ 21,101.60**

Transaction Analysis – Exhibit N contains a more detailed version of this chart, which identifies the number and value of transactions by type and employee. This section also contains the complete list of transactions which were responsive to this test and selected for hard copy assessment.

KPMG noted that no hard copy documentation was provided for 41 of the 52 transactions. No transactions had incomplete or missing approvals, so these columns are not shown in the chart above. One transaction had an invoice value which was different from the value listed in the accounting system. The absolute value of this difference was $21,101.60.

Test 3E2 – Volume of Transactions per Year

This test was duplicative of tests performed in other parts of this memo, so was not performed.

Test 3E3A – Pcard Transactions with Values above $3,000

This test identified all pcard transactions where the monthly total value purchased from any single vendor was with values above $3,000. KPMG identified 5,061 transactions as a result of this test. 394 of these were selected for hard copy assessment, as shown below.

Recurring Pcard Payments to the Same Vendor Totaling Greater than $3,000 Per Month Per Employee

Region	Total Population Responsive to Test Criteria			Transactions without Hard Copy Documentation			Transactions where Invoice Value Differs from Accounting System	
	# Trans	Value of Debits	Value of Credits	# Trans	Value of Debits	Value of Credits	# Trans	Abs Value of Differences
GCEL	134	$ 40.26	$ 101,093.35	55	$ 20.13	$ 33,863.09	5	$ 4,623.10
OLE - AK	55	$ -	$ 89,222.72	13	$ -	$ 18,941.50	5	$ 2,446.02
OLE - HQ	1	$ -	$ 3,919.97	0	$ -	$ -	0	$ -
OLE - NE	10	$ -	$ 19,793.12	3	$ -	$ 4,211.00	1	$ 6,005.88
OLE - NW	13	$ -	$ 17,916.37	0	$ -	$ -	3	$ 5,167.89
OLE - PI	21	$ -	$ 38,053.68	8	$ -	$ 14,135.26	2	$ 45.40
OLE - SE	4	$ -	$ 27,660.89	0	$ -	$ -	0	$ -
OLE - SW	25	$ -	$ 40,756.14	4	$ -	$ 8,296.45	8	$ 1,168.63
No Region	131	$ -	$ 124,870.13	131	$ -	$ 124,870.13	0	$ -
Total	**394**	**$ 40.26**	**$ 463,286.37**	**214**	**$ 20.13**	**$ 204,317.43**	**24**	**$ 19,456.92**

Transaction Analysis – Exhibit O contains a more detailed version of this chart, which identifies the number and value of transactions by employee. This section also contains the complete list of transactions which were responsive to this test and selected for hard copy assessment. It should be noted that during any given month where the recurring payments to a single vendor totaled greater than $3,000, all transactions comprising this amount may not have been selected for hard copy assessment since they may not have scored sufficiently high.

KPMG noted that no hard copy documentation was provided for 214 of the 394 transactions. No transactions had incomplete or missing approvals, so these columns were not included. In addition, 24 transactions had an invoice value which was different from the value listed in the accounting system. The absolute value of this difference was $19,456.92.

Test 3E3B – Procurement Transactions with Values between $1,000 - $4,999

This test identified all Accounts Payable procurement transactions where the monthly total value purchased from any single vendor was between $1,000 and $4,999. KPMG identified 1,060 transactions as a result of this test. This population included the transactions selected for Test 3E1B above. The 42 transactions selected for hard copy assessment were duplicative of the 42 transactions selected for Test 3E1B, so no separate chart was prepared. Transaction Analysis – Exhibit M contains the complete list of transactions which were responsive to this test (as well as Test 3E1B) and selected for hard copy assessment.

Test 3E3C – Procurement Transactions with Values above $5,000

This test identified all Accounts Payable procurement transactions where the monthly total value purchased from any single vendor exceeded $5,000. KPMG identified 2,363 transactions as a result of this test. This population included the transactions selected for Test 3E1C above. The 52 transactions selected for hard copy assessment were duplicative of the results from Test 3E1C, so no separate chart was prepared. Transaction Analysis – Exhibit N contains the complete list of transactions which were responsive to this test (as well as Test 3E1C) and selected for hard copy assessment.

F. Transactions Immediately Below Threshold Amounts

Test 3F1A1 – Pcard Transactions with Amounts below $250

This test identified Pcard transactions with amounts immediately below the $250 threshold. KPMG identified 288 transactions as a result of this test. Two of these were selected for hard copy assessment, as shown below.

Pcard Transactions with Amounts Immediately Below the $250 Threshold

Region	Total Population Responsive to Test Criteria		Transactions without Hard Copy Documentation	
	# Trans	Value of Credits	# Trans	Value of Credits
No Region	2	$ 463.80	2	$ 463.80
Subtotal No Region	**2**	**$ 463.80**	**2**	**$ 463.80**
Total	**2**	**$ 463.80**	**2**	**$ 463.80**

Transaction Analysis – Exhibit P contains the complete list of transactions which were responsive to this test and selected for hard copy assessment. Since no hard copy documentation was provided for these transactions, it was not possible to assess approvals or whether the invoice value equaled the value listed in the accounting system.

Test 3F1A2 – Pcard Transactions with Amounts below $1,000

This test identified procurement transactions with amounts immediately below the $1,000 threshold. KPMG identified 34 transactions as a result of this test. None of these were selected for hard copy assessment because they did not score sufficiently high.

Test 3F1A3 – All Transactions with Amounts Between $1,000 - $4,999

This was not applicable, and was therefore not performed.

Test 3F1A4 – Transactions with Amounts Immediately Below the $5,000 Threshold

This test identified transactions immediately below the $5,000 threshold - by pcard holder or purchase order approver. KPMG identified 23 transactions as a result of this test. Three of these were selected for hard copy assessment, as shown below.

Transactions Immediately Below the $5,000 Threshold - by Pcard Holder or Purchase Order Approver

			Total Population Responsive to Test Criteria		Transactions without Hard Copy Documentation		Transactions with Incomplete/Missing Approvals	
Region	Type	Employee ID #	# Trans	Value of Credits	# Trans	Value of Credits	# Trans	Value of Credits
OLE - AK	Pcard	11851	2	$ 9,950.00	1	$ 4,975.00	1	$ 4,975.00
Subtotal OLE - AK			**2**	**$ 9,950.00**	**1**	**$ 4,975.00**	**1**	**$ 4,975.00**
OLE - PI	Procurement	21149	1	$ 4,972.50	0	$ -	1	$ 4,972.50
Subtotal OLE - PI			**1**	**$ 4,972.50**	**0**	**$ -**	**1**	**$ 4,972.50**
Total			**3**	**$ 14,922.50**	**1**	**$ 4,975.00**	**2**	**$ 9,947.50**

Transaction Analysis – Exhibit Q contains a more detailed version of this chart, which identifies the number and value of transactions by type and purchase order approver. This section also contains the complete list of transactions which were responsive to this test and selected for hard copy assessment.

KPMG noted that no hard copy documentation was provided for one of the three transactions. Two transactions had incomplete or missing approvals. For all transactions, the invoice value was the same as the value listed in the accounting system; therefore these columns are not shown.

Test 3F1B – Stratification per Region, Year, and Employee or Vendor

This test was duplicative of stratifications performed previously. No separate charts were created for this test.

Test 3F1C – Benford Analysis

KPMG performed a Benford Analysis on all Accounts Payable transactions during the time frame, and also performed specific Benford Analyses for procurement transactions and pcard transactions. The results of these analyses are found in Transaction Analysis – Exhibit R. The following observations were noted:

- For the full transaction population, KPMG noted spikes at 22, 23, 27, 28, 29, and 96.
- For purchase card transactions, KPMG noted spikes at 25, 29, 50, 59, 69, 75, 79, 89, and 99
- For procurement transactions, KPMG noted spikes at 15, 18, 35, 47, 50, 65, and 70.

KPMG has not drawn any conclusions or recommendations based on the above information. No transactions were selected as a result of the Benford analysis.

G. Split Transactions

The following tests are specifically applied to all Accounts Payable, except item type "Purchase Card."

Test 3G1A – Duplicate Transactions: Payments Involving the Same Employee, Amount, Date and Vendor, Organized, Per Region

This test identified duplicate transactions for payments involving the same employee, amount, date, and vendor. This test did not include Pcard transactions; Pcard transactions are discussed separately in Test 3G2A-D. KPMG identified 10,922 transactions as a result of this test. 13 of these were selected for hard copy assessment, as shown below.

Duplicate Transactions:
Payments Involving the Same Employee, Amount, Date, and Vendor (Not Including Pcard)

Region	Type	Employee	Total Population Responsive to Test Criteria		Transactions without Hard Copy Documentation	
			# Trans	Value of Credits	# Trans	Value of Credits
GCEL	Procurement	No Signature	6	$ 10,800.00	6	$ 10,800.00
Subtotal GCEL			**6**	**$ 10,800.00**	**6**	**$ 10,800.00**
OLE - AK	Procurement	No Signature	2	$ 38,400.00	2	$ 38,400.00
Subtotal OLE - AK			**2**	**$ 38,400.00**	**2**	**$ 38,400.00**
OLE - NW	Procurement	No Signature	3	$ 75,000.00	3	$ 75,000.00
Subtotal OLE - NW			**3**	**$ 75,000.00**	**3**	**$ 75,000.00**
OLE - SE	Procurement	No Signature	2	$ 2,400.00	2	$ 2,400.00
Subtotal OLE - SE			**2**	**$ 2,400.00**	**2**	**$ 2,400.00**
Total			**13**	**$ 126,600.00**	**13**	**$ 126,600.00**

Transaction Analysis – Exhibit S contains the complete list of transactions which were responsive to this test and selected for hard copy assessment. KPMG noted that no hard copy documentation was provided for these transactions.

Test 3G1B – Split Non-Pcard Transactions: Transactions Involving the: Same Employee, Date, and Vendor but Possibly Different Amounts

This test identified split transactions for payments involving the same employee, date, and vendor but possibly different amounts (not including Pcard) by type and purchase order approver. KPMG identified 48,365 transactions as a result of this test. 13 of these were selected for hard copy assessment. These 13 transactions were the same 13 transactions that were selected for 3G1A.

The only difference between Test 3G1A and 3G1B was that transaction amounts were NOT required to be identical for 3G1B. Therefore, the only non-pcard transactions involving the same employee, date, and vendor also had the same transaction amount.

Transaction Analysis – Exhibit S contains the complete list of transactions which were responsive to this test (as well as Test 3G1A) and selected for hard copy assessment.

Test 3G1C – Duplicate Transactions: Same Employee, Amount, Date, and Different Vendor per Region

This test identified duplicate transactions - procurement transactions involving the same employee, amount, and date, but a different vendor. KPMG identified 99 transactions as a result of this test, but none were selected for hard copy assessment because they did not score sufficiently high.

Test 3G1D – Benford Analysis

KPMG performed a Benford Analysis on all Accounts Payable transactions per region. The results of this test can be found in Transaction Analysis – Exhibit T. KPMG notes the following:

- For OLE – AK, KPMG noted spikes at 22, 23, 27, 28, 29, 32, 34, 35, and 95.
- For GCEL, KPMG noted spikes at 18, 22, 23, 27, 28, 29, 32, and 34.
- For OLE – HQ, KPMG noted spikes at 22, 24, 27, 28, 33, 65, 79, 81, 89, and 91. KPMG also noted lower than the Benford-expected frequencies for 15 through 21.
- For OLE – NE, KPMG noted spikes at 15, 16, 17, 20, 22 through 30, 96 and 99
- For OLE – NW, KPMG noted spikes at 12, 22, 23, 27, 28, 29, 58,73, 88, 96, and 97
- For OLE – PI, KPMG noted spikes at 22, 23, 27, 28, 29, and 42. KPMG also noted that a number of these transactions had lower than the Benford-expected frequencies.
- For OLE – SE, KPMG noted spikes at 15, 22, 27, 28, 29, 70, 88, 89, and 97
- For OLE – SW, KPMG noted spikes at 22, 27, 28, 29, 58, and 96. KPMG also noted that a number of these transactions had lower than the Benford-expected frequencies.

KPMG has not drawn any conclusions or recommendations based on the above information. No transactions were selected as a result of the Benford analysis.

Test 3G2A – Duplicate Transactions: Pcard Transactions Involving the Same Employee, Amount, Date and Vendor.

This test identified duplicate pcard transactions involving the same employee, amount, date, and vendor. KPMG identified 1,185 transactions as a result of this test. 290 of these were selected for hard copy assessment.

Duplicate Transactions:
Pcard Transactions Involving the Same Employee, Amount, Date and Vendor

Region	Total Population Responsive to Test Criteria			Transactions without Hard Copy Documentation			Transactions with Incomplete/Missing Approvals			Per Doc Review: Duplicate Transactions			Per Doc Review: Split Transactions		
	# Trans	Value of Debits	Value of Credits	# Trans	Value of Debits	Value of Credits	# Trans	Value of Debits	Value of Credits	# Trans	Value of Debits	Value of Credits	# Trans	Value of Debits	Value of Credits
GCEL	123	$ 40.26	$ 81,867.35	56	$ 20.13	$ 35,641.79	66	$ 20.13	$ 45,365.56	55	$ 20.13	$ 35,571.88	0	$ -	$ -
OLE - AK	34	$ -	$ 48,723.62	15	$ -	$ 22,379.21	10	$ -	$ 15,818.29	15	$ -	$ 22,379.21	7	$ -	$ 13,915.20
OLE - HQ	No Transactions Found														
OLE - NE	6	$ -	$ 8,723.80	0	$ -	$ -	6	$ -	$ 8,723.80	0	$ -	$ -	6	$ -	$ 8,723.80
OLE - NW	4	$ -	$ 3,950.00	0	$ -	$ -	0	$ -	$ -	1	$ -	$ 367.50	0	$ -	$ -
OLE - PI	14	$ -	$ 25,619.48	7	$ -	$ 12,809.74	0	$ -	$ -	6	$ -	$ 12,519.81	0	$ -	$ -
OLE - SE	No Transactions Found														
OLE - SW	10	$ -	$ 16,752.20	4	$ -	$ 8,296.45	5	$ -	$ 6,796.50	5	$ -	$ 8,376.10	2	$ -	$ 4,424.80
No Region	99	$ -	$ 62,816.57	99	$ -	$ 62,816.57	0	$ -	$ -	0	$ -	$ -	0	$ -	$ -
Total	290	$ 40.26	$ 248,453.02	181	$ 20.13	$ 141,943.76	87	$ 20.13	$ 76,704.15	82	$ 20.13	$ 79,154.50	15	$ -	$ 27,063.80

Transaction Analysis – Exhibit U contains a more detailed version of this chart, which identifies the number and value of transactions by type and employee. This section also contains the complete list of transactions which were responsive to this test and selected for hard copy assessment.

KPMG noted that no hard copy documentation was provided for 181 of the 290 transactions. 87 transactions had incomplete or missing approvals and zero transaction had an invoice value which was different from the value listed in the accounting system. 15 transactions were split based on the hard copy documentation analysis.

An example of a duplicate transaction from this section is shown below:

- On 10/26/06 and 11/22/06, two transactions were recorded for $2,095.00 to the same vendor. A purchase card statement was the only support for both transactions.[20]

An example of a Split transaction is shown below:

- On 09/27/06, a transaction in the amount of $9,950.00 for aviation safety training was recorded. The total charge per the Citibank statement was $9,950.00. The cost of this transaction appeared to be allocated between several internal codes. Per the Purchase Card Log, amounts allocated were $3,482.50, $1,492.50, and $4,975, and all amounts were found in the electronic accounting data and are presumed to be charged to the AFF. No explanation for the allocation was provided. A list of participants and a registration form for the course was included.[21]

[20] See Tabs 16 and 22 in OLE – Alaska Region Documentation for Transaction Testing binder
[21] See Tab 17 in OLE – Alaska Region Documentation for Transaction Testing binder.

It should also be noted that one employee in OLE – Alaska appeared to have a pattern of submitting expenses twice. This employee submitted an expense the first time at the beginning of the month, and appeared to re submit it toward the end of the month. No explanation was provided and KPMG was unable to determine whether one of these submissions was reversed. An example of this action is as follows:

- On both 7/9/2008 and 7/29/2008 an employee submitted a $1,488.16 vendor charge. The actual transaction date for both charges was 6/3/2008. KPMG was unable to determine why this charge was submitted twice, or whether one submission was reversed.[22]

No transactions in this section had a different invoice value from the value provided in the accounting system, so these columns were not shown.

[22] See Tabs 47 and 49 in OLE – Alaska Region Documentation for Transaction Testing binder.

Test 3G2B – Duplicate Transactions: Pcard Transactions Involving the Same Employee, Date and Vendor but Possibly Different Amounts

This test identified duplicate pcard transactions involving the same employee, date and vendor, but possibly different amounts. KPMG identified 4,011 transactions as a result of this test. 399 of these were selected for hard copy assessment.

Duplicate Transactions:
Pcard Transactions Involving the Same Employee, Date and Vendor, but Possibly Different Amounts

Region	Total Population Responsive to Test Criteria			Transactions without Hard Copy Documentation			Transactions with Incomplete/Missing Approvals			Per Doc Review: Duplicate Transactions			Per Doc Review: Split Transactions		
	# Trans	Value of Debits	Value of Credits	# Trans	Value of Debits	Value of Credits	# Trans	Value of Debits	Value of Credits	# Trans	Value of Debits	Value of Credits	# Trans	Value of Debits	Value of Credits
GCEL	135	$ 40.26	$ 102,872.05	56	$ 20.13	$ 35,641.79	78	$ 20.13	$ 66,370.26	55	$ 20.13	$ 35,571.88	0	$ -	$ -
OLE - AK	59	$ -	$ 96,098.14	15	$ -	$ 22,379.21	24	$ -	$ 39,811.63	16	$ -	$ 25,161.21	22	$ -	$ 38,684.67
OLE - HQ	1	$ -	$ 3,919.97	0	$ -	$ -	1	$ -	$ 3,919.97	0	$ -	$ -	0	$ -	$ -
OLE - NE	10	$ -	$ 15,892.92	3	$ -	$ 4,211.00	10	$ -	$ 15,892.92	0	$ -	$ -	6	$ -	$ 8,723.80
OLE - NW	13	$ -	$ 17,916.37	0	$ -	$ -	7	$ -	$ 10,666.37	1	$ -	$ 307.50	6	$ -	$ 9,844.53
OLE - PI	21	$ -	$ 38,033.68	8	$ -	$ 14,135.26	0	$ -	$ -	6	$ -	$ 12,519.81	0	$ -	$ -
OLE - SE	4	$ -	$ 27,660.89	0	$ -	$ -	1	$ -	$ 2,858.65	0	$ -	$ -	2	$ -	$ 5,950.89
OLE - SW	21	$ -	$ 32,656.39	4	$ -	$ 8,296.45	15	$ -	$ 21,531.32	5	$ -	$ 8,376.10	5	$ -	$ 10,461.36
No Region	135	$ -	$ 130,793.61	135	$ -	$ 130,793.61	0	$ -	$ -	0	$ -	$ -	0	$ -	$ -
Total	399	$ 40.26	$ 465,864.02	221	$ 20.13	$ 215,457.31	136	$ 20.13	$ 161,051.12	83	$ 20.13	$ 81,936.50	41	$ -	$ 73,665.25

Transaction Analysis – Exhibit V contains a more detailed version of this chart, which identifies the number and value of transactions by type and employee. This section also contains the complete list of transactions which were responsive to this test and selected for hard copy assessment.

KPMG noted that no hard copy documentation was provided for 221 of the 399 transactions. 136 transactions had incomplete or missing approvals and zero transaction had an invoice value which was different from the value listed in the accounting system. 41 transactions were split based on the hard copy documentation analysis.

An example of a duplicate transaction from this section is shown below:

- On 09/21/05, a transaction was recorded for $2,782.00. The Citibank statement contained two $2,782.00 charges on 09/16/05 and one of the $2,782.00 charges appears to be reversed on the Citibank statement. KPMG could not determine why this charge was submitted to the accounting system a second time, or whether this submission was reversed or paid.[23]

Examples of split transactions are shown below:

- Two transactions for the same vendor for $1,243.29 and $1,201.74 were selected for hard copy analysis. A third transaction on the same date for $666.70 was not selected because it did not hit a sufficient amount of tests. The total amount of these transactions is over the $3,000 approval threshold. All three transactions were for court reporter/ transcription services. KPMG was not able to determine why these transactions were split.[24]

[23] See Tab 15 in OLE – Alaska Region Documentation for Transaction Testing binder.
[24] See Tabs 5 and 6 in OLE – Alaska Region Documentation for Transaction Testing binder

- On 06/14/06, a transaction for $2,071.13 was recorded in the system. The total charge per Citibank statement was for $5,079.08. The cost of this transaction was allocated between several internal codes. Per the Purchase Card Log, the amounts allocated were $2,071.13, $364.60, $1,184.95, and $1,458.40. No explanation was provided for splitting this cost in the system.[25]

No transactions in this section had a different invoice value from the value provided in the accounting system, so these columns were not shown.

Test 3G2C – Duplicate Transactions: Same Employee, Amount, and Date but Possibly a Different Vendor per Vendor or Employee

This test identified duplicate pcard transactions involving the same employee, amount, and date, but a different vendor. KPMG identified 93 transactions as a result of this test, but none were selected for hard copy assessment because they did not score sufficiently high.

Test 3G2D – Benford Analysis

A Benford analysis was not applicable to this data set and was therefore not performed.

[25] See Tab 12 in OLE – Alaska Region Documentation for Transaction Testing binder.

H. Duplicate Transactions

The following tests were applied to Accounts Receivable activity. The initial test plan indicated that these test would be applied to both Accounts Payable and Accounts Receivable activity. However, to avoid duplication of the results found in Section G above, KPMG decided to apply these tests to Accounts Receivable activity.

3H1 – Duplicate Transactions per Region

This test identified duplicate Accounts Receivable transactions per region. KPMG identified 3,194 transactions as a result of this test, but none were selected for hard copy assessment. Per the engagement scope, the hard copy document assessment process focused only on Accounts Payable transactions.

Based on the information gathered in Task 1, it appears that duplicate Accounts Receivable transactions could be made for a variety of reasons, including Summary Settlement payments by a respondent on a payment plan. Therefore, no additional procedures were performed.

3H2 – Duplicate Transactions per Employee or Vendor

This test identified duplicate Accounts Receivable transactions per employee or vendor. KPMG identified 3,327 transactions as a result of this test, but none were selected for hard copy assessment. Per the engagement scope, the hard copy assessment process focused only on Accounts Payable transactions.

Based on the information gathered in Task 1, it appears that duplicate Accounts Receivable transactions could be made for a variety of reasons, including Summary Settlement payments by a respondent on a payment plan. Therefore, no additional procedures were performed.

3H3 – Aggregate Duplicate Transactions to Determine Whether there is Duplication across Regions

No transactions were identified by this test.

I. Round Number Testing

The tests in this section were applied only to Accounts Payable activity.

3I1A - Transactions Under $100, which are Multiples of 10

This test identified transactions under $100 which are a multiple of 10. (For example, 10, 20, 30, etc.) KPMG identified 1,448 transactions as a result of this test. Six of these were selected for hard copy assessment.

Transactions Under $100 Which Are a Multiple of 10

Region	Type	Total Population Responsive to Test Criteria		Transactions without Hard Copy Documentation		Transactions with Incomplete/Missing Approvals		Transactions where Invoice Value Differs from Accounting System	
		# Trans	Value of Credits	# Trans	Value of Credits	# Trans	Value of Credits	# Trans	Abs Value of Differences
GCEL	Procurement	1	$ 40.00	1	$ 40.00	0	$ -	0	$ -
Subtotal GCEL		1	$ 40.00	1	$ 40.00	0	$ -	0	$ -
No Region	CMP	3	$ 170.00	3	$ 170.00	0	$ -	0	$ -
	Procurement	2	$ 80.00	2	$ 80.00	0	$ -	0	$ -
Subtotal No Region		5	$ 250.00	5	$ 250.00	0	$ -	0	$ -
Total		6	$ 290.00	6	$ 290.00	0	$ -	0	$ -

Transaction Analysis – Exhibit W contains the complete list of transactions which were responsive to this test and selected for hard copy assessment.

KPMG noted that no hard copy documentation was provided for all six transactions. Zero transactions had incomplete or missing approvals and zero transactions had an invoice value which was different from the value listed in the accounting system.

3I1B – Transactions Equal or Greater than $100 which are a Multiple of 100

This test identified transactions above $100 which are a multiple of 100. KPMG identified 1,476 transactions as a result of this test. 90 of these were selected for hard copy assessment.

Transactions Greater Than $100 Which Round to a Multiple of 100

Region	Total Population Responsive to Test Criteria		Transactions without Hard Copy Documentation		Transactions with Incomplete/Missing Approvals		Transactions where Invoice Value Differs from Accounting System	
	# Trans	Value of Credits	# Trans	Value of Credits	# Trans	Value of Credits	# Trans	Abs Value of Differences
GCEL	22	$ 120,702.42	12	$ 113,901.21	8	$ 3,301.21	1	$ 0.67
OLE - AK	5	$ 46,999.81	2	$ 38,400.00	2	$ 7,500.00	2	$ 1,590.85
OLE - HQ	5	$ 120,300.00	5	$ 120,300.00	0	$ -	0	$ -
OLE - NE	4	$ 6,299.80	0	$ -	4	$ 6,299.80	0	$ -
OLE - NW	6	$ 93,299.80	3	$ 75,000.00	1	$ 14,999.80	0	$ -
OLE - PI	No Transactions Identified							
OLE - SE	3	$ 3,400.00	2	$ 2,400.00	1	$ 1,000.00	0	$ -
OLE - SW	7	$ 11,999.67	0	$ -	6	$ 9,499.67	3	$ 436.92
No Region	38	$ 472,500.20	38	$ 472,500.20	0	$ -	0	$ -
Total	**90**	**$ 875,501.70**	**62**	**$ 822,501.41**	**22**	**$ 42,600.48**	**6**	**$ 2,028.44**

Transaction Analysis – Exhibit X contains a more detailed version of this chart, which identifies the number and value of transactions by type. This section also contains the complete list of transactions which were responsive to this test and selected for hard copy assessment.

KPMG noted that no hard copy documentation was provided for 55 of 90 transactions. 22 transactions had incomplete or missing approvals and six transactions had an invoice value which was different from the value listed in the accounting system.

3I1C – Transactions with a Value Less than $100 Which Round to a Multiple of 10. (For example: 9.99 rounds to 10.)

This test identified transactions under $100, which round to a multiple of 10. KPMG identified 3,398 transactions as a result of this test. 58 of these were selected for hard copy assessment.

Transactions Less Than $100 Which Round to a Multiple of 10

		Total Population Responsive to Test Criteria			Transactions without Hard Copy Documentation			Transactions with Incomplete/Missing Approvals		
Region	Type	# Trans	Value of Debits	Value of Credits	# Trans	Value of Debits	Value of Credits	# Trans	Value of Debits	Value of Credits
GCEL	Pcard	25	$ 40.26	$ 1,210.35	12	$ 20.13	$ 590.20	13	$ 20.13	$ 620.15
	Procurement	1	$ -	$ 40.00	1	$ -	$ 40.00	0	$ -	$ -
Subtotal GCEL		**26**	**$ 40.26**	**$ 1,250.35**	**13**	**$ 20.13**	**$ 630.20**	**13**	**$ 20.13**	**$ 620.15**
OLE - SW	Pcard	2	$ -	$ 159.30	0	$ -	$ -	2	$ -	$ 159.30
Subtotal OLE - SW		**2**	**$ -**	**$ 159.30**	**0**	**$ -**	**$ -**	**2**	**$ -**	**$ 159.30**
No Region	Pcard	23	$ -	$ 346.21	23	$ -	$ 346.21	0	$ -	$ -
	Procurement	2	$ -	$ 80.00	2	$ -	$ 80.00	0	$ -	$ -
	CMP	5	$ -	$ 369.42	5	$ -	$ 369.42	0	$ -	$ -
Subtotal No Region		**30**	**$ -**	**$ 795.63**	**30**	**$ -**	**$ 795.63**	**0**	**$ -**	**$ -**
Total		**58**	**$ 40.26**	**$ 2,205.28**	**43**	**$ 20.13**	**$ 1,425.83**	**15**	**$ 20.13**	**$ 779.45**

Transaction Analysis – Exhibit Y contains the complete list of transactions which were responsive to this test and selected for hard copy assessment.

KPMG noted that no hard copy documentation was provided for 43 of 58 transactions. 15 transactions had incomplete or missing approvals. No transactions had an invoice value which was different from the value listed in the accounting system, so these columns were not shown.

J. Vendors of Interest

Test 3J1 – Transactions Containing OIG & KPMG Identified Vendors

All keywords identified by the OIG can be found in the Test Plan in Task III – Exhibit A. As discussed above, in the Task III section discussing keywords, the OIG grouped these keywords into four priority groups, which can be found Transaction Analysis – Exhibit Z

Summarization of the keyword searches across purchase card data is provided below for Priority one keywords.

Keyword	# Trans	# Distinct Card Holders	Sum of Trans
Apple	24	14	$ 9,380.33
Barnes & Noble	11	4	$ 212.32
Best Buy	75	42	$ 12,978.83
Borders	5	3	$ 416.66
Dell	224	60	$ 258,979.40
Golf	1	1	$ 40.00
Hewlett Packard	70	16	$ 18,038.49
Yacht	21	4	$ 2,171.82
Total Priority 1	**431**		**$ 302,217.85**

Note: Distinct card holders not summed, since one card holder could fall into multiple categories.
Per the Cardholder Statistics page, 116 distinct card holders made transactions involving Priority 1 keywords.

Summarizations of the additional priority groupings and a summary of results per card holder are found in Transaction Analysis – Exhibit Z.

KPMG did not draw any conclusions or form any recommendations based on the results of the keyword searches.

K. General Transactions of Interest

Test 3K – Transactions Related to Travel

This test identified general transactions of interest. KPMG identified 44,082 transactions as a result of this test. 29 of these were selected for hard copy assessment.

Summary of Travel Transactions Responsive to Test Criteria

Region	Total Population Responsive to Test Criteria		Transactions without Hard Copy Documentation		Transactions with Incomplete/Missing Approvals		Transactions where Invoice Value Differs from Accounting System	
	# Trans	Value of Credits	# Trans	Value of Credits	# Trans	Value of Credits	# Trans	Abs Value of Differences
OLE - AK	3	$ 3,738.46	1	$ 1,337.86	0	$ -	0	$ -
OLE - HQ	7	$ 11,127.90	0	$ -	1	$ 2,086.78	0	$ -
OLE - NE	6	$ 5,690.45	0	$ -	6	$ 5,690.45	3	$ (627.68)
OLE - NW	3	$ 5,756.42	3	$ 5,756.42	0	$ -	0	$ -
OLE - PI	No Transaction Selected							
OLE - SE	4	$ 5,683.68	4	$ 5,683.68	0	$ -	0	$ -
OLE - SW	6	$ 8,729.59	4	$ 6,329.19	0	$ -	0	$ -
GCEL	No Transaction Selected							
No Region	No Transaction Selected							
Total	29	$ 40,726.50	12	$ 19,107.15	7	$ 7,777.23	3	$ (627.68)

Task IV – Exhibit G contains a more detailed version of this chart, which identifies the number and value of transactions by traveler. This section also contains the complete list of transactions which were responsive to this test and selected for hard copy assessment.

KPMG noted that no hard copy documentation was provided for 12 of the 29 transactions. Seven transactions had incomplete or missing approvals and three transactions had an invoice value which was different from the value listed in the accounting system.

Recommendations for Process and Procedural Improvements

Defining "The Fund"

The first challenge that KPMG faced in completing these tasks was defining the "fund," as it has different meanings to different entities and individuals within NOAA and Commerce. The fund encompasses numerous sources of revenue, from a variety of criminal and civil proceedings, originating from several laws - some with very specific intended uses for the funds, passing through different Finance accounting funds, utilizing several Finance accounting program and project codes/numbers, and being expended by a variety of entities, for a variety of reasons.

As stated in the process memo on page 5, "NOAA Finance appears to have a broad level of controls in place regarding the Asset Forfeiture Fund. Since there are several hand-offs from one NOAA department to another, NOAA Finance appears to be limited by a lack of transparency relating to the entire fund."

As a result of the field work conducted by KPMG, we offer the following considerations for the OIG:

1. Development of an Improved Process to Identify Funds Received and Expended

The first item for the OIG's consideration, and the central issue to providing greater visibility and greater oversight, is the development of a process to identify funds received and expended in a more automated, easier and more readily understandable way. This should involve the parties mentioned above because it is likely to involve changes to the Finance Funds, Program and Project Codes, as well as elements of the OLE and GCEL case management systems or other processes, which would be maintained by these organizations within NOAA.

There are five areas, which could be tracked in a way that provides greater visibility and would therefore afford a greater opportunity for oversight:

- By Statute
- By Statutorily Authorized Use for the Funds
- By the Legal Source of the Fines, Restitutions, etc. (GCEL, US Courts, etc.)
- By Agency, broken down into division, district and even by individual.
- By individual case or action number

Each of the above areas is further described below.

By Statute:

Changes to the Finance Fund, Program and Project Codes could be uniquely dedicated to identifying receipts and expenditures by the legal authority or statute:

- The Magnuson-Stevens Fishery Conservation and Management Act (MSFCMA) (16 USC 1801-1882);
- Marine Mammal Protection Act of 1972 (MMPA) (16 USC 1361-1407);
- The Endangered Species Act of 1973 (ESA) (16 USC 1531-1543); and
- Lacey Act Amendments of 1981 (Lacey) (16 USC 3371-3378).
- Marine Protection, Research, and Sanctuaries Act (16 USC 1431-1439). Fines and penalties collected under this Act can only be used for enforcement related to sanctuaries. These funds are managed by NOAA's National Ocean Service (NOS).

Knowing the legal foundation for the funds received and expended, and being able to track them by that authority, becomes very important due to the differing limitations of uses, the differing requirements to return those funds to efforts benefitting certain geographic areas, etc.

By Statutorily Authorized Use for the Funds

Elements of the Finance program and project codes and/or aspects of the OLE and GCEL case management systems could, in a more automated way, be used to better delineate, track and oversee the funds, in line with the description of the authorized uses of the funds, as found in the MSFCMA, specifically 16 USC 1861E:

A. The reasonable and necessary costs incurred in providing temporary storage, care, and maintenance of seized fish or other property pending disposition of any civil or criminal proceeding alleging a violation of any provision of this Act or any other marine resource law enforced by the Secretary with respect to that fish or other property;

B. A reward of not less than 20 percent of the penalty collected or $20,000, whichever is the lesser amount, to any person who furnishes information, which leads to an arrest, conviction, civil penalty assessment, or forfeiture of property for any violation of any provision of this Act or any other fishery resource law enforced by the Secretary;

C. Any expenses directly related to investigations and civil or criminal enforcement proceedings, including any necessary expenses for equipment, training, travel, witnesses, and contracting services directly related to such investigations or proceedings;

D. Any valid liens or mortgages against any property that has been forfeited;

E. Claims of parties in interest to property disposed of under section 612(b) of the Tariff Act of 1930 (19 U.S.C. 1612(b)), as made applicable by section 310(c) of this Act or by any other marine resource law enforced by the Secretary, to seizures made by the Secretary, in amounts determined by the Secretary to be applicable to such claims at the time of seizure; and,

F. Reimbursement to any Federal or State agency, including the Coast Guard, for services performed, or personnel, equipment, or facilities utilized, under any agreement with the Secretary entered into pursuant to subsection (a), or any similar agreement authorized by law.

By the Legal Source of the Fines, Restitutions, etc. (GCEL, US Courts, etc.)

Another aspect which may be considered for delineation is by fines, restitutions, etc. Fines can be administered by GCEL, by OLE in the field based on GCEL guidance, by various other state and federal agencies given the authority to levy MSFCM and other fines or by the Courts. It becomes important to not only identify the legislative authority, but the agency administering the fine. This provides some of the greater visibility to determine it the fines are being levied in a consistent and appropriate manner.

By Agency, broken down into division, district and even by individual.

Elements of the Finance program and project codes and/or aspects of the OLE and GCEL case management systems could, in a more automated way, be used to better delineate, track and oversee the funds, by agency, division, district and even by individual.

KPMG recognizes that OLE and GCEL have law enforcement-sensitive case management systems, which cannot be fully accessible to NOAA Finance. However, the elements tracked by these systems can be better coordinated to provide the level of transparency and oversight desired by all. In short, although NOAA Finance, OLE and GCEL all have a certain level of visibility into the funds when they are taking their appropriate actions, there are several "hand-offs" from one NOAA department to another relating to operational aspects, case management, enforcement actions and receipting for the funds. Thus, no single unit, nor any individual, within Commerce has a detailed understanding of the Asset Forfeiture Fund from start to finish.

By individual case or action number

Currently, both OLE and GCEL have unique identifiers. Additionally, sometimes an action beginning with OLE will end up being handed off to GCEL due to the non-payment of a fine or the contesting of a fine. Thus, the same source of funds received could have multiple agency case

identifiers. A more coordinated use of identifiers could reduce confusion and/or better associate the funds to the agency case numbers.

KPMG's assessment has identified that some of the above tracking is in place, but it is often accomplished using manual processes. When automated systems are utilized, they do not provide the ability to exchange information across agencies in a way that any one entity has a high level of visibility or oversight.

2. Develop Processes so that AFF Funds are Not Comingled

Revenues comprising the AFF are co-mingled with other funds in various finance funds, which make it nearly impossible to delineate, track and oversee the receipt and expenditure of only those comprising the Asset Forfeiture Fund. In general, the current processes have caused a lack of visibility over the entire fund by any one organization in NOAA. It is conceivable that NOAA Finance could identify one Finance fund to capture the AFF and other sources of non-appropriated revenue from OLE and GCEL. However, KPMG recognizes that NOAA Finance tracks other funds, which are received in a similar manner to those from the AFF and the use of Finance funds may be limited. However, KPMG identified at least four Finance funds currently maintaining some balance from the AFF and directly related to OLE and GCEL.

3. Consider Modifying OLE's Budgeting Process

OLE Divisional appropriated budgets, and therefore OLE's overall appropriated budget, only reflect a portion of their overall cost to operate. OLE divisional offices submit annual budget/spending plans to OLE Headquarters in Silver Spring, Maryland. The budget submission includes budgets for both appropriated funds and AFF monies. OLE headquarters only formally approves the budget for appropriated funds. The AFF budget is not formally approved. The approved budget is entered into NOAA's Management Analysis and Reporting System (MARS) by division. The MARS budgeting system compares spending plans to actual spending for each division. The budget for AFF is not entered into the MARS budgeting system, but actual AFF spending is reported in MARS. There is no formal process of comparing the budget to actual AFF expenditures. In essence, in addition to their appropriated budget, OLE plans for a wide use of AFF funds and then submits expenditures to NOAA Finance to be drawn from the AFF funds throughout the year. Other agencies with similar funds fully appropriate operating budgets, and then upon a review of expenditures, they ascertain the amount to be withdrawn from the funds and reimburse the department level agency.

4. Consider Centralizing OLE's Process for Deciding Appropriate Use of the Funds

OLE decisions concerning the appropriate use of the funds are being made in a highly decentralized manner. OLE is not a large agency, but personnel in small offices, within each of OLE's six divisions are determining when an expenditure is appropriate to draw down from the AFF fund. Thus, the opportunity for inconsistent application of the AFF funds according to the authorized use of those funds continues to exist. Part of the potential solution identified in item #1 could be a more

centralized process within OLE headquarters to review, approve and track authorized uses of the AFF fund. This entire process would not be necessary if all of OLE operating expenses were covered by an appropriated budget and then Commerce was reimbursed regularly (monthly, quarterly or annually) for the amount of operating expenses, which could be reimbursed from the AFF for the legislatively authorized uses of the fund.

5. Consider Modifying GCEL's Budget Process

GCEL receives a minimal (usually less than $1,000) appropriated budget from Commerce for their entire annual operating costs. GCEL makes the assumption that virtually all of their operating costs are reimbursable from the AFF. However, instead of receiving reimbursement, or even drawing down from the fund as expenses occur like OLE, GCEL estimates their annual operating costs in advance and arranges for an advance transfer from the AFF at the beginning of each year. This advance is in essence for the full amount of their annual operating expenses. The process used is as follows; GCEL submits an annual AFF budget request to OLE (not Commerce) for approval, but does not enter this budget into the MARS system. After OLE approves GCEL's budget request, OLE transfers the requested AFF amount to GCEL's organization code. This transfer is made in advance of any actual spending. However, the amount still remains in the same fund and project code. KPMG assessed GCEL annual budgets to determine that, in past years, the advance amount GCEL requests from the Asset Forfeiture Fund is approximately the same amount as GCEL's entire operating budget for the year. GCEL's actual use of AFF funds is reported in MARS. OLE does not monitor or reconcile GCEL's budget to actual spending. Nor is it clear that any post-review occurs by any agency outside of GCEL that the expenditures for the entire year were indeed authorized uses of the AFF. Furthermore, in one recent year, GCEL greatly over-estimated their annual expenditures, therefore, nearly $300,000 of AFF funds were designated for GCEL at the beginning of the year, but never used due to their over-estimation. As previously stated for OLE, other agencies with similar funds fully appropriate operating budgets, and then upon a review of expenditures, they ascertain the amount to be withdrawn from the funds and reimburse the department level agency.

As described in the Task I Process Memo, "The processes for disbursing AFF funds are not centrally managed or monitored. Instead, disbursement processes are different at each division. Each division has a Special Agent in Charge (SAC) who reports directly to the OLE Director regarding the disbursement process." In short, the SAC's have determined differing levels of approvals based on different dollar amounts of purchases. Clearly some have instituted these local policies to provide more oversight. However, the lack of consistency from division to division indicates that some SAC's have felt it necessary to have these more stringent controls, while others have not. A singular policy from division to division would provide more consistency.

6. Consider Reviewing National Directives and Local Policies for Consistency and Modifying Policies Where Necessary

In the recent past, determination of whether expenses can be funded by the AFF have been based on OLE National Directives No. 44, 45, 46, 53, 54, 91, 163 and 198. OLE generally follows National Directive No. 53, which contains a list of pre-approved expenditures. However, other appropriate uses of the fund, which are not specified in OLE National Directives, are rewards for reporting suspected violation, reimbursement to any Federal or State agency for services performed under agreement with DOC to enforce the Magnuson-Stevens Act, training for enforcement activities; and enforcement-related travel reimbursement. The OLE directives have vacillated on approval amounts over time, authorized expenditures from the fund are reflected in various different directives and the directives do not encompass instructions for all authorized uses of the fund. A thorough review of the policies (National Directives) and ensuring consistency between National Directives and local policies would support consistent application of the fund.

7. Consider Centralizing the Procurement Process

OLE Divisions, on average, have less than 50 people. However, each division is assigned an acquisition office to handle procurement, acquisitions, and purchase orders. A purchase order must be issued if an item or service is over the following amounts:

- $2,000 for construction;
- $2,500 for services (does not include training classes; these are classified as "all other");
- $3,000 for all other.

In certain circumstances, the division acquisition offices will refuse to make the purchase, and will ask the DPA (Designated Purchasing Authority) at the specific division to approve the purchase. However, many OLE divisions not have a DPA. Once again, OLE's highly decentralized operations result in inconsistent processes for procurement. A more centralized process for these types of purchases would provide more consistency and better oversight.

8. Consider Restricting Purchase Card Use

During the procedures in Task III, KPMG identified 466 individual employees with purchase cards. The Task III procedures also revealed that 136 of these 466 employees made four or less purchase card transactions between January 1, 2005 and June 30, 2009. As a control issue, NOAA may want to consider restricting the distribution of purchase cards to those employees who will use them on a regular basis.

9. Consider Limiting the List of Approved Vendors to Achieve Volume Efficiencies

During the procedures in Task III and Task IV, KPMG identified 186 vendors that were used for one transaction only. NOAA may wish to consider whether volume efficiencies could be achieved by limiting the list of approved vendors.

In addition, KPMG noted that some vendors had multiple entries. For simplicity and tracking purposes, NOAA may wish to assess the reasons why some vendors were listed multiple times and consolidate if necessary. NOAA may particularly wish to assess why employees receive both a vendor number and employee, and one employee was listed twice in the vendor system, with a different address and vendor number for each entry.

10. Consider Modifying the Process of Documenting Transactions to Achieve Greater Consistency

During the procedures in Task IV, KPMG noted that different types and amounts of hard copy documentary support were maintained in each of the 6 OLE Divisions, OLE Headquarters, and GCEL. In addition, different types of documentation were used depending on the transaction type – for example, Pcard transactions had different supporting documentation than Procurement transactions and Travel transactions. NOAA may wish to consider establishing an approved set of documentation to be used for all Regions, Divisions, and transactions.

11. Consider Updating Document Retention Policies

During the Task IV procedures, KPMG learned that some documentation had been destroyed due to lack of storage space. The policy used to justify this action was last revised in 2002, and indicated that documentation should be destroyed "when 2 years old, or when no longer needed, whichever is sooner.[26] The wording of this policy allows NOAA personnel significant leeway to destroy hard copy documentation. NOAA may wish to consider updating this policy to be more in harmony with current practices regarding the preservation of documents.

In addition, KPMG noted that hard copy documentation was not available for several transactions. KPMG sent supplemental document requests to NOAA, and documentation has been received in response to these requests. However, due to project time constraints, documentation received after April 29, 2010 was not analyzed by KPMG. Assessment of this documentation would reduce the quantity of transactions identified as the "No Documentation Received."

[26] The email and relevant portion of the NOAA Disposition Handbook can be found in Task IV – Exhibit F.

12. Consider Reaffirming and Harmonizing Approval Policies

During the Task IV procedures, KPMG encountered several situations where hard copy evidence of approvals was not present. KPMG does not know whether verbal approvals were provided for these transactions. However, based on the information gathered in Task I, it is KPMG's understanding that hard copy approvals are required to be maintained for all transactions.

13. Consider Using Consistent Codification Methods to Identify AFF

During the Task III procedures, KPMG noted that of the 99,251 records there are 20,589 Accounts Payable records with an organization code that is not one of the 11 OLE or GCEL Organization Codes. This finding emphasizes the importance of NOAA determining a consistent definition for the Asset Forfeiture Fund. As discussed previously, all records were selected because they were either labeled as Civil Monetary Penalty, or because they had a Project Code utilized by OLE or GCEL. KPMG has received no explanation as to why CMP, OLE, or GCEL Project Codes should have a non-OLE or GCEL Organization Code.

14. Consider Linking Reverse with the Original Transactions

During the Task III and IV procedures, KPMG noted several transactions that appear to be duplicative. For one transaction, KPMG was able to determine that the apparent duplicate was, in fact, reversed because the reversal was shown on the hard copy purchase card statement from the financial institution. However, KPMG did not find this chain of documentation for any other transactions. In addition, KPMG was unable to assess whether transactions were reversals based on the accounting system data since the accounting system does not contain a specific indicator for reversed transactions.

15. Consider Implementing More Stringent Reviews for Duplicate and Split Transactions

During the Task III and IV procedures, KPMG noted several transactions, which were duplicative and some that appear to be split to avoid approval thresholds. Specific examples of both of these types of transactions were provided above. NOAA should consider implementing a stricter review and approval process to prevent, detect, and respond to these transactions.

16. Consider Implementing a System to Ensure Amounts Collected Under Certain Laws and Regulations, including the Northeast Multispecies Fisheries Management Plan, are Properly Tracked and Utilized

According to the MSA, "Amounts available to the Secretary under this Act which are attributable to fines and penalties imposed for violations of the Northeast Multispecies Fishery Management Plan shall be used by the Secretary pursuant to this section to enforce that Plan." NOAA does not keep track of the use of funds collected from fines and penalties imposed for the violation of the Northeast Multispecies Fishery Management Plan. NOAA should develop a process to ensure that

funds collected from fines and penalties imposed for violations of the Northeast Multispecies Fishery Management Plan are only used to enforce that plan.

17. Consider Giving One Entity Oversight Responsibilities for the AFF

As stated on several occasions, no one person or entity within NOAA has a complete view of the fund. It was also recommended earlier that policies and processes should be revised to create the information necessary for a comprehensive view of the fund, which in turn would allow better oversight. Finally, we recommend that one entity be given oversight responsibilities over the fund. It stands to reason that OLE and GCEL must continue, and even strengthen, their individual agency oversight roles. However, the agency with overall oversight should not be one with the ability to determine the amount of the fines or benefit directly from the revenues of the fines

NOAA Finance, OLE and GCEL Input Sought

Near the conclusion of the field work conducted by KPMG, we had the opportunity to discuss the issue of potential process and procedural improvements with NOAA Finance, OLE and GCEL. No specific recommendations were discussed, but all agreed that a singular method of tracking the funds through individual identifiers would provide the needed visibility of the flow of the funds and provide an opportunity for increased oversight. This is a central point quickly identified by both the OIG and KPMG. The NOAA parties also emphasized that to do so might involve enhancements to either the OLE or GCEL case tracking systems or changes to the NOAA Finance funds, program or project codes. Thus, it would be wise to include personnel from those NOAA units, with detailed knowledge of those systems and funds, to ensure potential solutions are indeed feasible given the existing limitations of those funds and systems.

Additionally, those involved in the dialogue felt their may be opportunities to better utilize data from the "lock box" operations, likely from ensuring that additional or more case specific information is entered during the deposit into the lock box.