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***NATIONAL OCEANIC AND
ATMOSPHERIC ADMINISTRATION***

***Excess Satellite Funding Indicates Need
For Better Financial Controls***

Inspection Report No. OSE-8797-7-0002 / September 1997

Office of Systems Evaluation



TABLE OF CONTENTS

EXECUTIVE SUMMARY	i
INTRODUCTION	1
PURPOSE AND SCOPE	2
BACKGROUND	3
NOAA's Satellite Program Funding	3
Satellite Acquisition Management	5
OBSERVATIONS AND CONCLUSIONS	5
I. Excess Funds Found in Other Satellite Accounts	5
A. \$36 Million in Excess Funding for Polar Launch Services	6
B. \$7.3 Million in Excess Funding for NASA Polar Technical Management	7
C. \$29.1 Million in Excess Funding for GOES I-M Spacecraft	8
D. \$26.9 Million in Excess Funding for GOES Technical Management and Launch Services	8
E. \$7.4 Million GOES N-Q Spacecraft Shortfall and \$12.6 Million Net Reallocation	8
II. Efficient Funding Requires Adequate Financial Management Controls	9
A. Scrutinize Millions in Funding Set Aside for Undelivered Orders	9
B. Use NASA Financial Reports to Prevent Excess Funds	11
C. Update Written Agreements to Provide a Basis for Funding Decisions ..	12
D. Ensure Costs are Captured and Properly Presented in Budgets	12
CONCLUSION AND RECOMMENDATIONS	13
FUNDS TO BE PUT TO BETTER USE	17
APPENDIX I: NOAA's Polar and Geostationary Satellite Programs	
APPENDIX II: The Department's Response to the Draft Report	

**OFFICE OF INSPECTOR GENERAL
FINAL INSPECTION REPORT
NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION
EXCESS SATELLITE FUNDING INDICATES NEED FOR BETTER
FINANCIAL CONTROLS**

EXECUTIVE SUMMARY

NOAA manages two weather satellite programs: the polar orbiting and geostationary operational environmental satellite (GOES) systems. Over the next five years, NOAA plans to request about \$2.6 billion in budget authority for acquiring satellites; operating command, control, and data acquisition stations; and developing new ways of using satellite data. NOAA components determine the general requirements for new satellites and its National Environmental Satellite, Data, and Information Service (NESDIS) operates them once they are in orbit. The National Aeronautics and Space Administration (NASA) manages the acquisition and launch of the satellites. Although satellite funding is summarized for congressional reviewers, many distinct components are tracked at the Department level. For example, NOAA satellite budgets include funding to be used by NOAA, as well as funds to be used by NASA to acquire polar and geostationary spacecraft and launch services and to pay salaries, expenses, and travel costs for its technical management teams.

Budget authority is a tool used by OMB and the Congress to control future outlays of taxpayer funds. These decision-makers limit the amount of annual budget authority to control government spending and ensure that tax dollars are available to meet expenses. For NOAA, an agency that has to operate under tight budget ceilings, efficient funding of its satellite programs should be one of its highest priorities because satellite funding represents close to 25 percent of the agency's budget authority. For example, NOAA's FY 1998 satellite budget request of \$372.2 million exceeded the planned operating budgets of every other NOAA component except the National Weather Service, and its FY 1999 request of \$566.2 million for satellite programs will probably exceed the operating budgets of every NOAA component.

In this report we discuss \$79.3 million in NOAA satellite funds designated for NASA use that we believe can be better used to support other NOAA critical program needs or to reduce NOAA's FY 1998 and FY 1999 satellite budget requests.¹ These funds, coupled with \$101.3 million in excess funds for NASA acquisition of polar spacecraft reported in an earlier OIG inspection report, equate to \$180.6 million in funds to be put to better use. The excess funding represents

¹The \$79.3 million in funds to be put to better use represents excess funds of \$91.9 million less NOAA reallocations of \$12.6 million and is discussed more fully on page 16 of this report.

NOAA budget authority that is not needed to meet NASA's current year cost and forward funding requirements.

Although NOAA has been sending excess funds to NASA for years, this practice went unquestioned because NOAA lacks adequate financial controls to guide the efficient use of its budget authority. NOAA's budget handbook provides the agency policy and financial controls for the proper execution of budget authority. However, the financial controls in the handbook stress tracking obligations to ensure that they do not exceed budget authority, giving little emphasis to when funds should be obligated or to tracking if and when funds are used after they are obligated. At the end of FY 1996, NOAA managers had obligated but not spent close to \$885 million to acquire goods or services (including satellites). We believe that the lack of NOAA guidance on the use of budget authority results in the accumulation of large amounts of unspent funds, as we found at NASA, and creates a false impression that budget estimates are accurate and programs are proceeding as planned.

NOAA needs to make sure its satellite program managers have tools for making funding decisions. We found that program managers could limit excess funding at NASA by using NASA quarterly reports that identify the status of funds transferred and the need for additional funding. In addition, NOAA should take steps to ensure that transfers to NASA for services are supported by written agreements and that costs are properly captured and presented in its capital asset budgets.

Our principal recommendations are that the Department work with NOAA, OMB and the Congress to reduce excess funding and instill financial controls to prevent the accumulation of excess funds. This process should start with instituting financial controls to guide funding decisions and continue with implementing processes to track the use of obligated but uncosted funds. Ultimately, the measure of NOAA's financial management performance will be its ability to control and track its acquisition projects and produce budget estimates that more accurately reflect needs.

The Department and NOAA concur with our report findings and recommendations. A synopsis of their response to each of our recommendations and our comments begins on page 13. Their complete response is included as appendix II.

INTRODUCTION

We conducted our first inspection of NOAA polar spacecraft funding because of large amounts of unspent NOAA funds accumulating at NASA. During our survey of NOAA satellite program management, we were told that NASA was projecting over \$140 million in unspent NOAA funds for the acquisition of polar spacecraft by the end of FY 1996. We became increasingly concerned that excess funds were being transferred to NASA instead of being reported as carryover, and on September 16, 1996, we requested that the Deputy Under Secretary for Oceans and Atmosphere not send NASA additional FY 1996 funds that were pending transfer. As a result, NOAA reported to us that it had \$88 million in FY 1996 unobligated carryover in its satellite programs.

In our report, *Excess Funding in NOAA's Polar Orbiting Satellite Program* (OSE-8797-7-0001, March 10, 1997), we discussed NOAA's practice of sending excess funds to NASA, where they become difficult to track. In response to our inspection findings, the Department and NOAA have taken steps to reduce excess funding including reducing the amount of forward funding of NASA programs to an amount sufficient for two instead of three months, requiring quarterly reports of NASA use of NOAA funds, and reducing and reallocating over \$100 million in funding.

Although satellite funding for the polar and GOES programs is appropriated in two line items, many distinct components are tracked at the Department level. For example, NOAA satellite budgets include funding for NASA to acquire polar and geostationary spacecraft and launch services and to pay salaries, expenses, and travel costs for its technical management teams, as well as funds for NOAA use. This inspection focuses on the NASA funding categories that were not covered in our first inspection: polar launch services, geostationary spacecraft and launch services, and NASA technical management (for both satellite systems).

Throughout the report, we substituted the term "funds" or "funding" for the new obligational authority that NOAA receives through its annual appropriation that allows it to enter into financial obligations that will result in immediate or future outlays of federal funds. An allocation is the portion of NOAA's current year appropriation designated for polar satellite and GOES programs. We use the term "transfers" to represent the passing of obligational authority from NOAA to NASA. NOAA records funds transferred to NASA as obligations. An "unobligated balance" is funding that has not been obligated or transferred to NASA. Not all funding transferred to NASA is immediately used to pay costs. NASA refers to funds received by NOAA as "available" and uses the term "uncosted obligation" to refer to funding that has been obligated on contracts for services that have yet to be received. Similarly, NOAA refers to all funds obligated, or in the case of the satellite program, transferred to NASA as funds for "undelivered orders," which means the portion of funding obligated where goods or services have not been received. We refer to all funds that have not been spent by NASA as "unspent or unused funding." "Forward funding" is the amount of available and uncosted funding needed by NASA

until the next fiscal year’s funding is transferred by NOAA. We use “excess funding” to represent funding that is not needed to meet NASA current year or forward funding requirements.

Our calculation of excess funds is based on an assessment of funds not needed to meet FY 1997 cost or forward funding requirements. To calculate the excess funding for each account, we added unobligated budget authority from FY 1996 and earlier years to the FY 1997 allocation. We then added funds obligated by NASA but not costed (or spent), and subtracted NASA’s FY 1997 cost estimate, which includes contingency funding, and two months of additional funds for forward funding. The Department recently approved NOAA’s change of forward funding allowed for NASA acquisition activities from three to two months, which increased the amount of excess funding in the satellite accounts.

<i>CALCULATION OF EXCESS FY1997 FUNDS</i>	
<i>+ Available Funds</i>	
+ Unobligated FY1996 & Earlier	
+ FY1997 Allocation	
+ Obligated FY 1996 & Earlier Unspent	
<i>- FY 1997 Cost & FY 1998 Forward Funds</i>	
- NASA FY 1997 Cost Estimate	
- Forward Funding for FY 1998	
<i>= EXCESS FUNDS</i>	

PURPOSE AND SCOPE

This is the second of two inspection reports on excess funding for NOAA satellite programs. The purpose of both inspections was to evaluate how NOAA program managers identify and report unspent funding and to determine the amount of excess funding. Funding for polar spacecraft acquisition was covered in our prior report, where we identified that the primary reasons for excess funding were NOAA’s failure to adjust its budget requests to reflect decreased spending and inappropriately transferring funds from its ground systems budget to NASA.

Our fieldwork was a continuation of the fieldwork begun in May 1996 that led to our first report. In conducting our review, we worked with NOAA staff to ascertain the status of program funding. We reviewed NASA program operating plans and NOAA guideline letters, budget submissions, and financial operating plans. We also reviewed NASA policy on reimbursable

agreements, the NASA Chief Financial Officer's guidance for reducing unliquidated budget authority in NASA-managed programs, the Commerce-NASA Memorandum of Agreement regarding satellite services, and the Department and NOAA budget handbooks.

We evaluated the methodology employed by NOAA and the Department to identify and report excess funding and assessed NOAA's compliance with OMB Circular A-11 and internal controls intended to prevent the accumulation of excess funding. We discussed our findings with program and budget officials at NOAA and briefed NOAA's Under Secretary for Oceans and Atmosphere, Assistant Administrator for Satellite and Information Services, and Director of Systems Acquisition; and the Department's Acting Chief Financial Officer and Assistant Secretary for Administration and its budget examiner responsible for NOAA satellite programs.

Our work was performed in accordance with the Inspector General Act of 1978, as amended, and the *Quality Standards for Inspections*, March 1993, issued by the President's Council on Integrity and Efficiency.

BACKGROUND

Over the next five years, NOAA plans to request about \$2.6 billion in budget authority for acquiring polar and geostationary satellites; operating command, control, and data acquisition stations; and developing new ways of using satellite data. Pursuant to a 1973 Department of Commerce-NASA memorandum of agreement, NOAA satellites are acquired by NASA. The images and data provided by the satellites support NOAA's National Centers for Environmental Prediction and weather service offices across the country in their severe weather warning and forecasting missions. Other NOAA bureaus, government agencies, and a plethora of public and private institutions, both in the United States and abroad, benefit from NOAA's satellite investment and use satellite data for climate monitoring and analysis and oceanographic applications. Details about NOAA's polar and GOES satellites are included in Appendix I.

NOAA is also a key player in the 1994 Presidential Directive to converge U.S. civilian and defense polar satellite programs. The "convergence" program is expected to provide a National Polar Orbiting Environmental Satellite System (NPOESS) to reduce the government's cost of acquiring polar satellite data and providing ground support. NPOESS will be the next generation of NOAA and Department of Defense satellites.

NOAA's Satellite Program Funding

NOAA's satellite agency, NESDIS, administers and controls all NOAA satellite funding. NESDIS retains some funds for its own use and distributes funding for the convergence program to the Air Force/NOAA Integrated Program Office and for the GOES and polar programs to

NOAA's Systems Acquisition Office (SAO).² During FY 1995, acquisition responsibilities were moved from NESDIS to SAO because of SAO's role as the NOAA designated acquisition office. SAO's polar and GOES programs are responsible for the development of spacecraft and ground systems, oversight of the acquisition services provided by NASA, and budget planning and execution. SAO receives funding from NESDIS incrementally and issues purchase orders that transfer funds for NASA use in acquiring polar and GOES spacecraft and launch services. NASA tracks the status of funds and provides the SAO with reports of cost and funding needs. SAO prepares budget requests based on NASA needs and forwards these budgets to NESDIS. Table 1 provides details on planned satellite funding over the next five years.

	FY98	FY99	FY00	FY01	FY02	TOTAL
POLAR SATELLITE FUNDING						
NESDIS R&D, Ground System Support	\$ 17.4	\$ 17.3	\$ 16.6	\$ 13.4	\$ 12.4	\$ 77.1
IPO Convergence Program	51.5	35.0	65.0	104.0	149.0	404.5
SAO Program Management & Technical Support	2.5	2.0	2.0	2.0	2.0	10.5
Subtotal	71.4	54.3	83.6	119.4	163.4	492.1
Transfers to NASA:						
NOAA K-N' & METOP Instruments ¹	48.3	119.8	75.7	46.1	33.7	323.6
Launch K-N'	7.8	26.5	27.5	16.5	20.4	98.7
Technical Management	7.0	7.1	7.3	7.4	6.6	35.4
Subtotal	63.1	153.4	110.5	70.0	60.7	457.7
Total Polar	\$134.5	\$207.7	\$194.1	\$189.4	\$224.1	\$949.8
GOES PROGRAM						
NESDIS Operation & Ground System Support	\$19.5	\$ 18.8	\$ 18.8	\$ 18.8	\$ 18.8	\$ 94.7
SAO Program Management & Technical Support	5.0	5.0	5.0	5.0	5.0	25.0
Subtotal	24.5	23.8	23.8	23.8	23.8	119.7
Transfers to NASA for:						
Spacecraft I-M	31.5	31.2	18.2	18.0	17.8	116.7
Launch I-M	47.7	65.5	52.1	47.2	2.0	214.5
Spacecraft N-Q	122.5	187.5	210.7	194.9	172.1	887.7
Launch N-Q	5.0	43.7	79.7	72.9	41.2	242.5
Technical Management	6.5	6.8	6.9	7.1	7.4	34.7
Subtotal	213.2	334.7	367.6	340.1	240.5	1,496.1
Total Geostationary	\$237.7	\$358.5	\$391.4	\$363.9	\$264.3	\$1,615.8
Total Satellite Funding	\$372.2²	\$566.2	\$585.5	\$553.3	\$488.4	\$2,565.6

¹NOAA purchase of instruments that will be flown on European meteorological operational polar satellite (METOP). See Appendix I for details.

²FY98 budget request significantly lower than out-years because of OIG recommended reductions in excess spacecraft funding (OSE-8797-0001, March 6, 1997).

²NESDIS funding is used to operate, maintain, and acquire the resources needed by the Satellite Operational Control Center; Command and Data Acquisition facilities; and ground systems used to track the satellites, download the satellite data, generate satellite data products, and disseminate the data to all of the satellite users. The Integrated Program Office (IPO) consists of NOAA, Air Force, and NASA staff and was set up to develop a converged Air Force-NOAA polar program to replace the existing NOAA and Air Force polar satellite programs. Although funding for the convergence program is in NOAA's satellite budget, we did not include it, or any of the NESDIS funding, in our analysis of excess funds.

Satellite Acquisition Management

NOAA satellites are acquired by NASA's Goddard Space Flight Center under its Mission to Planet Earth program. To manage the satellite acquisition process, NASA has polar and GOES project teams consisting of contracting officers, technical representatives, and program and financial managers. The project teams use the requirements outlined by NOAA and contractor cost and schedule estimates as the basis for identifying funding needs.

NASA negotiated a cost-plus-award-fee, level-of-effort contract for NOAA K, L, M³ with Martin Marietta, now Lockheed Martin, in FY 1988. The contract was amended to include NOAA N and N' in FY 1994. NASA awarded separate contracts for the spacecraft instruments to be carried on the spacecraft bus including three over \$100 million cost-plus-award-fee contracts, two to Aerojet Asuzo Operations and one to ITT. Once completed, the instruments are supplied to Lockheed Martin by NASA for integration with the satellite bus. NASA and SAO are addressing a series of issues with the current development, including ensuring that quality does not suffer as a result of the loss of experienced staff due to the impending closure of Lockheed Martin's production facility in New Jersey.

NASA negotiated a cost-plus-award-fee contract with Space Systems Loral for the current series of GOES I-M spacecraft in FY 1985. GOES I-M instruments are being developed by ITT. Because of technical problems and cost growth, the program operates under a Congressionally-mandated cost cap of \$1.2 billion. NASA is planning to award a fixed priced contract for the design and development of GOES N and O, with options for GOES P and Q in the first quarter of FY 1998.

NOAA launch services are handled in a variety of ways. NASA arranged for the Air Force to provide NOAA K-M polar launch services and plans to acquire NOAA N and N' launch services directly through a contract with McDonald Douglas. The GOES launch services are acquired through a separate contract with Lockheed Martin. NASA directs funding to the appropriate NASA centers that oversee the contracts. For NOAA K-M satellites, funding is transferred to the Air Force by NASA's Goddard Space Flight Center and for GOES, funding is sent to the Lewis Research Center in Cleveland, Ohio.

OBSERVATIONS AND CONCLUSIONS

I. Excess Funds Found in Other Satellite Accounts

Since our first report, we have worked closely with NOAA staff to identify satellite accounts with excess funds. By identifying all of the sources of available funds, subtracting funds needed for NASA management costs and to pay current year contractor costs, and setting aside 2 months of

³NASA refers to the Polar spacecraft as "NOAA" followed by the letter designating the spacecraft under development.

funding for NASA to use as forward funding, our draft report identified \$61.3 million in excess funds. Since issuing our draft report, the amount of excess funds increased to \$91.9⁴ million primarily because NASA did not spend as much as it estimated in FY 1997. However, NOAA reallocated \$12.6 million of these funds to support other program needs, decreasing the excess to \$79.3 million. A discussion of the satellite account funding balances follows.

Satellite Accounts with Excess and Shortfalls in FY97 Funding	
(millions)	
\$ 36.0	Polar Launch Services
7.3	Polar Technical Management
29.1	GOES I-M Spacecraft
1.3	GOES Technical Management
<u>25.6</u>	GOES Launch Services
\$99.3	Funding Excess
<u>(7.4)</u>	GOES N-Q Spacecraft Shortfall
\$ 91.9	Net Funding Excess
<u>(12.6)</u>	NOAA Reallocation of Excess
\$ 79.3	Funds to be Put to Better Use

Excess funding is detailed in table format in the Funds To Be Put To Better Use section of this report on page 16.

A. \$36 Million in Excess Funding for Polar Launch Services

The \$36 million in excess funds we identified represents the difference between funds available of \$65.5 million and funds needed to meet the Air Force cost and forward funding estimate of \$29.5 million. Excess funding accumulated in this account because the current series of polar satellites are lasting longer than estimated and NOAA has not had to launch its replacement satellites as planned. As initially envisioned, NOAA K-M satellites were to be launched in FY 1993-95. An agreement for satellite launch services negotiated between NASA and the Air Force included the use of NOAA funding to pay for refurbishing spare Titan II missiles for use as launch vehicles, use of the launch pad, maintenance services, and technical launch support. Although NOAA has yet

⁴These funds represent \$99.3 million in excess funding for polar launch services and technical management and GOES I-M spacecraft, technical management, and launch services that was offset by a \$7.4 million shortfall for GOES N-Q spacecraft

to launch NOAA-K, L, or M, it has transferred approximately \$100 million to the Air Force for these services, including prefunding for the launch of NOAA-K.

NOAA officials originally believed that none of the funding was excess because these funds are needed by the Air Force to prepay NOAA-L launch services and complete other contract work. However, we were unable to confirm whether the Air Force needed these funds or the basis for NOAA's assertion. The Air Force project manager was in the process of reconciling NOAA funds transferred with actual costs and provided us with estimated FY 1996 and prior costs, which we used in our report. The project manager explained that part of the problem in determining funding needs was that NOAA and the Air Force are using the same contract for launch pad maintenance and launch services, and it is not always clear what percentage of the annual costs should be paid by NOAA. Another reason the Air Force program manager was reconciling the cost was that he believed one of the contractors had understated the amount of funds that it had available for use.

NASA officials were unable to provide us with details on contracts because they did not have copies of the Air Force contracts, nor did they have a written agreement with the Air Force describing the services and associated costs.

Even if its assessment of funding needs is accurate, we still believe that NOAA should not transfer the \$36 million for the following reasons: NOAA's plans to transfer funds for a NOAA-L launch appear to be premature since this satellite has a planned launch date in FY 2000. In addition, the lack of information on expended and available funds provides little assurance that current funding is being used as planned.

B. \$7.3 Million in Excess Funding for NASA Polar Technical Management

The \$7.3 million in excess funds we identified for polar technical management represents the difference between funds available of \$14.3 million and funds needed to meet NASA costs and forward funding of \$7 million. The excess funding results from NOAA's not adequately tracking available funds at NASA. NOAA uses NASA's estimates of the need for funding as a basis for its budget requests; however, these estimates can be overstated because they do not always reflect all funds transferred by NOAA in prior years. For example, NOAA transfers have been held at NASA headquarters and issued as subsequent year funds because they were not needed by the program or were transferred so late in the fiscal year that they were held for issuance in the following year. In addition, NOAA's unplanned end-of-year transfers are not reflected in NASA's estimates. For example, NASA's funding needs were overstated by \$4.8 million in its March 1996 Polar Technical Management plan provided to NOAA because NASA headquarters had not issued \$3 million in FY 1995 transfers to the program and NOAA sent \$1.8 million after NASA completed its estimate. If NASA had included these funds in its analysis, its request for new obligational authority would have been reduced by 73 percent--from \$6.6 million to \$1.8 million.

We found a similar problem when reviewing NOAA funding transfers on the polar spacecraft program (see OSE-8797-0001, page 9). NASA's identification of its funds available often reflected funds transferred by NOAA in prior years and did not always include all funds transferred in the current fiscal year. To identify the amount of funds available for use by the program, we had to request special accounting reports from NASA and track NOAA purchase orders to NASA's fiscal year use of the funds. To address this problem, NOAA is now using these reports to reconcile the amount NASA recorded as received during a fiscal year versus the amount NOAA transferred during the same year to ensure that NASA reports of funds available represent all funds transferred by NOAA.

C. \$29.1 Million in Excess Funding for GOES I-M Spacecraft

The \$29.1 million in excess funds for NOAA's GOES I-M spacecraft program represents the difference between funds available of \$86.5 million and funds needed to meet NASA costs and forward funding of \$57.4 million. The excess funds resulted from NOAA's decision to direct additional forward funding and unobligated NESDIS ground system funds to NASA. NOAA stated that these funds were sent in FY 1995 because they were available and NASA had identified a need for additional contingency funding in the upcoming years. NOAA also did not want to report unobligated carryover in its ground system program.

D. \$26.9 Million in Excess Funding for GOES Technical Management and Launch Services

The \$26.9 million in excess funds in GOES technical management and launch services represents the difference of funds available of \$76.8 million (\$9.7 million and 67.1 million, respectively, less funds needed to meet NASA cost and forward funding of \$49.9 million (\$8.4 million and \$41.5 million, respectively). Excess funds in these accounts result primarily from NASA over estimating GOES launch costs by \$25 million and changing from 3 months of forward funding to 2 months.

E. \$7.4 Million GOES N-Q Spacecraft Shortfall and \$12.6 Million Net Reallocation and Reprogramming

The \$7.4 million shortfall for the GOES N-Q spacecraft program represents the difference between funds available of \$58.2 million and the cost and forward funding requirement of \$65.6 million. The shortfall in this account results primarily from a planned contract award in the first quarter of FY 1998. The two month forward funding amount would not provide sufficient funds for awarding the contract. The \$12.6 million net reallocation represents funding that was used to support other NOAA programs. The \$12.6 million is the net difference between \$20.9 million of excess funds that NOAA reallocated, \$8.3 million of which was used to offset the GOES N-Q shortfall.

II. Efficient Funding Requires Adequate Financial Management Controls

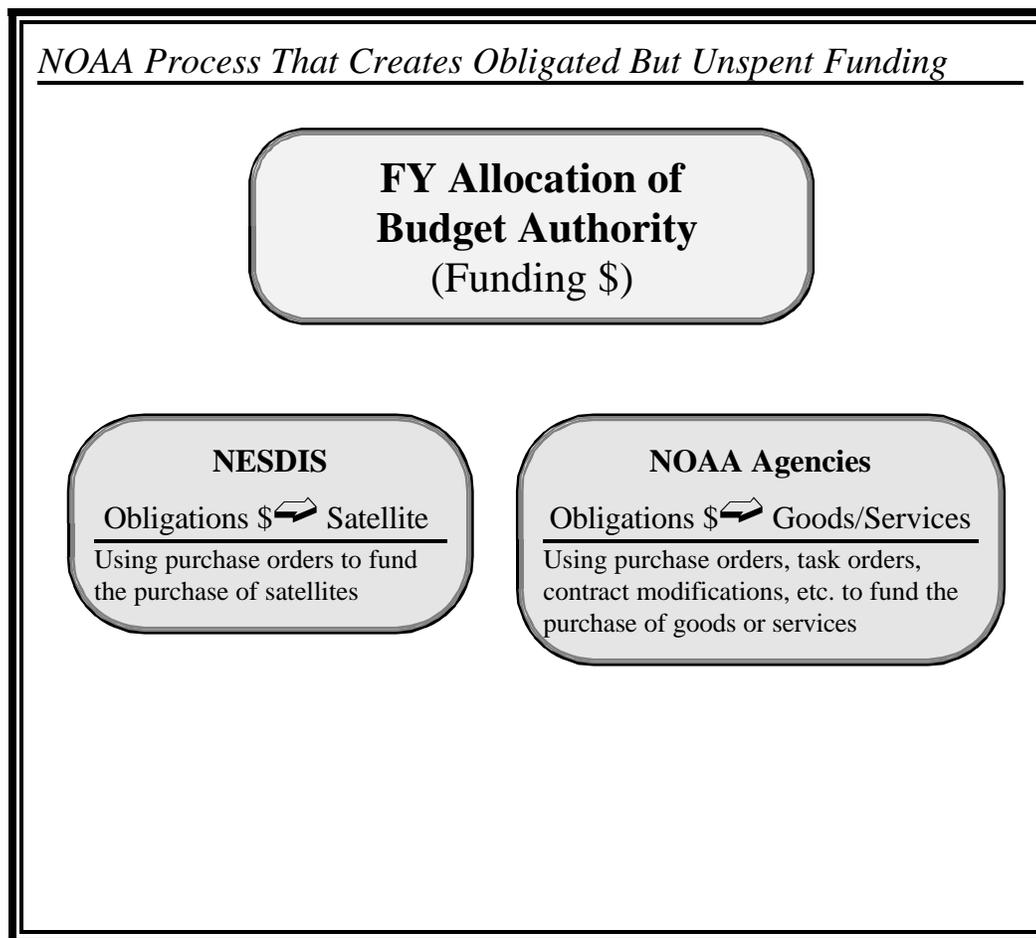
Budget authority is a tool used by OMB and the Congress to control future outlays of taxpayer funds. These decision-makers limit the amount of annual budget authority to control government spending and ensure that tax dollars are available to meet expenses. For NOAA, an agency that has to operate under tight budget ceilings, efficient use of its budget authority is especially important. Knowing what it spends in a given year (budget execution) will give NOAA administrators insight into what additional amounts will be needed in the future years (budget formulation).

Although NOAA has been sending excess funds to NASA for years, this practice went undetected because NOAA lacks adequate financial controls to ensure the efficient use of its budget authority. NOAA's budget handbook provides the agency policy and financial controls for the proper execution of budget authority. However, the financial controls in the handbook stress tracking obligations to ensure that they do not exceed budget authority, giving little emphasis to when funds should be obligated or to tracking if and when funds are used after they are obligated. Once obligated, the excess satellite funding is hard to detect because NOAA does not adequately track NASA's use of the obligational authority. This not only results in substantial unspent funding but also creates a false impression that budget estimates are accurate and the program is proceeding as planned.

We believe that NOAA needs to evaluate its system of financial management controls to ensure that they provide for the best use of funding for all of its programs. To make accurate assessments of funding needs that translate into budgets, the Department needs to ensure that efficient funding decisions are being made. The Department has started to implement an improved process in response to the recommendations in our earlier report, including requiring the reporting of carryover, creating a reporting process to identify satellite program performance and spending, and limiting fund transfers to NASA. In the following sections, we identify other financial controls that we believe will improve NOAA's ability to make efficient funding decisions.

A. Scrutinize Millions in Funding Set Aside for Undelivered Orders

Excess funding for satellites is categorized by NOAA as budget authority obligated for which services have yet to be delivered or "undelivered orders." We believe that these funds went undetected because NOAA did not adequately scrutinize these obligated funds. Often it is not clear how much program funding is excess. For example, NOAA used many different purchase orders to transfer satellite funds to NASA. Looking at reports that identified these purchase orders as unspent funds, it would be difficult to determine how much funding is obligated for a specific program versus how much is needed. The number of orders and the way that NOAA records these balances make detecting excess funds in any NOAA program difficult. The process that creates obligated but unspent funding is shown in the figure below.



Undelivered orders represent the amount of budget authority that has been obligated against contracts, purchase orders, interagency agreements, or other contractual documents for services or supplies that have yet to be delivered. There can be legitimate reasons for an agency to accumulate large amounts of unspent funding for undelivered orders. For example, some agencies receive funding for large procurements all in one year, even though those funds will be spent over several years. Most NOAA programs, however, receive additional funding annually, so that large amounts of unspent funding should signal that additional funds may not be needed. NOAA's undelivered orders balance at the end of FY 1996 was \$885 million. The \$885 million represents close to half of NOAA's FY 1997 appropriation or enough funding for 6 months of NOAA operations.

To prevent the increasing amounts of obligated but unspent funding at NASA, the Chief Financial Officer recommended financial controls that would limit the amount of funds that can be obligated but unspent at the end of the fiscal year to the amount required to forward fund contractor operations for two months. Similarly, by recommending controls to limit NOAA obligations on purchase orders that transferred satellite funding to NASA, we were able to prevent additional

pooling of unspent satellite funds as NOAA undelivered orders. We believe that if NOAA applied this practice to all of its annually funded acquisitions, it could identify additional excess funds and adjust its budget requests accordingly.

B. Use NASA Financial Reports to Prevent Excess Funds

In response to findings in our first report, a NOAA program analyst is working with NASA to create monthly status reports of NOAA fund transfers to reflect the amount of unobligated funds, uncosted obligations (funds that were obligated by NASA for goods and services not yet completed by a contractor), and payables and expenditures. Quarterly planned and actual accomplishments should be included with the status of funding. NOAA and departmental managers should use the information to determine whether excess funds are being applied to contracts (obligated) and whether obligations are outpacing spending.

The reports will also provide NOAA with information that it can use to adjust budget requests and limit planned transfers and forward funding when excess funding accumulates. As recommended in our earlier report, the decision to forward fund should be justified based on NASA's actual need for these funds. If NOAA's end-of-year analysis of NASA funding indicates that NASA has sufficient balances of unobligated or uncosted funds to meet its first quarter needs, NOAA should not send the additional funds. NOAA's fourth quarter analysis of the status of funds already transferred to NASA will determine more precisely the amount actually needed.

NOAA should also use these reports to track how well actual costs are meeting the estimates to prevent another cause of excess funds. For example, NASA estimated costs for FY 1997 as \$199.5 million. However, if schedules slip or contractors are unable to staff projects as estimated, this cost estimate may not be met. In our earlier report on the acquisition of polar spacecraft, we found that a primary reason that excess funding accumulated was because NASA cost estimates were inflated by approximately 16 percent. Although we did not analyze the cost estimates of the programs covered by this report, there is some evidence that they too may be overstated. For example, the cost estimate for polar launch services included the cost to launch NOAA-K in FY 1997. However, this launch has been delayed until the second quarter of FY 1998. If the award of the GOES N-Q contract slips from its planned time frame of first quarter FY 1998, the estimated shortfall in this program may be more than adequately offset by the schedule slip.

C. Update Written Agreements to Provide a Basis for Funding Decisions

In two areas, written agreements would provide a better basis for making funding decisions. The lack of an agreement with the Air Force on what services can be provided in the short and long term for launching polar satellites, was discussed earlier in this report. Without an agreement, NOAA can only guess whether the Air Force launch pad will be available to launch its satellites. Continued funding for these services, which may not actually be provided, increases the risk that funds will not be used as planned or will not be immediately available if alternative launch services have to be procured. The other area that would benefit from a written agreement is NOAA's

acquisition of instruments for the European METOP satellites. NOAA plans to replace its AM polar satellite with a European meteorological operational polar (METOP) satellite in FY 2002. Under provisions of the draft agreement, the METOP satellite will be launched and operated by the European Organization for the Exploitation of Meteorological Satellites. NOAA is responsible for the acquisition of some of the instruments that will be flown on the METOP satellite and is acquiring the instruments through its NOAA K-N' program. While NOAA should benefit greatly from the use of one of these satellites to replace its own AM polar satellite, we believe that spending millions of dollars for instruments without first obtaining a written agreement is risky. Although the U.S. and Europeans agree on the language in the agreement, it has not been formally approved by the administration. The Europeans are expected to commit funding for the first three METOP satellites this fall.

D. Ensure Costs are Captured and Properly Presented in Budgets

In response to the 1993 National Performance Review recommendations to protect the government's investment in fixed assets, agencies are required to provide more detailed information about their investments in such assets to OMB as part of their annual budgets. OMB plans to use this information to review requests for funding of fixed assets and evaluate new and ongoing projects. OMB Circular A-11, part 3, provides guidance to agencies on planning, budgeting, and acquisition management of fixed assets.⁵ NOAA made its first submission to fulfill this guideline as part of its FY 1998 budget. During our review we noted that NOAA does not accurately report spending by asset account. For example, the \$40 million in funding originally designated for ground systems was transferred to NASA because NOAA was unable to use the funding for ground systems as originally intended. However, in subsequent year budget requests these funds were not moved to the spacecraft funding line, which understated the amount invested for spacecraft and overstated the cost of ground systems.

One reason NOAA may be having difficulty reporting on its satellite capital accounts is that satellite costs are not being properly recorded or supported. We discuss this problem in our report, *Audit of NOAA's FY 1996 Financial Statements* (FSC-8841-7-0001, February 26, 1997), where we noted that NOAA's property, plant, and equipment account was misstated because satellite costs are not properly maintained, recorded, and disclosed in the financial statements. These findings underscore the link between the lack of financial controls for tracking the use of satellite funds with inaccurate information in satellite budget requests. To best support the government's initiative, we believe NOAA should ensure that its satellite capital asset budgets accurately reflect prior year funding for each satellite account.

⁵OMB Circular A-11 (revised) Transmittal Memorandum 68, defines spending for fixed assets to include construction, major rehabilitation, and the purchase of fixed assets such as land, buildings, equipment, and information technology owned by the Federal Government.

CONCLUSION AND RECOMMENDATIONS

Efficient funding of its satellite programs should be one of NOAA's highest priorities because those programs represent close to 25 percent of the agency's budget authority. For example, NOAA's FY 1998 satellite budget request of \$372.2 million exceeded the planned operating budgets of each NOAA component except the National Weather Service, and its FY 1999 request of \$566.2 million for satellite programs will probably exceed the operating budgets for all other NOAA bureaus. Decisions about the efficient use of budget authority are becoming more important as budget authority is being reduced in an effort to reduce the federal debt. Ironically, while NESDIS has excess funding, the National Weather Service, one of the primary users of the satellite data, has taken steps to conduct reductions-in-force because of a lack of funding.

The Chief Financial Officers (CFO) Act of 1990, the National Performance Review and Government Performance and Results Act of 1993, and the Government Management and Reform Act of 1994 were all designed to improve the way federal agencies manage their programs. Our recent audit report, *Department of Commerce's Consolidating Financial Statements, Fiscal Year 1996* (FSD-9355-7-0001, March 1997), conducted under the CFO Act, found that financial management and internal controls across most bureaus are not sufficient to preclude financial reporting problems. As our inspection of excess satellite funding reveals, the lack of financial controls not only creates reporting problems but also can result in millions of dollars in excess funding for some programs, while other programs may desperately need funds. Clearly NOAA's goal of providing satellite continuity is critical, and sound program and financial management should be exercised in achieving that goal. Preventing excess funding starts with financial controls to guide funding requests and continues through the identification of such funds. The ultimate goal is to produce more accurate budget estimates which request no more funds than are needed.

The Department is working to create a more efficient budget process. We believe this process should be a high priority and should not only include a careful accounting of unobligated funds but should also include the use of all obligated but unspent funds. To accomplish this, we recommend that the Department's Acting Chief Financial Officer and Assistant Secretary for Administration work with NOAA, OMB and Congress to reduce the \$79.3 million in excess funding by:

- ! Justifying any planned use of the excess funds and adjusting the FY 1998 and out-year budgets to reduce the remaining excess.

Synopsis of the Department's Response and OIG Discussion

The Department replied that it identified \$79.3 million as unobligated carryover (as of June 1997) that was available for reprogramming or reduction to its FY 1998 appropriation. The Department stated further that its used \$59.9 million in projected FY 1998 carryover to reduce its FY 1999 budget request. The Department concluded that further reductions of funds by reprogramming, or by a reduction in the FY 1998

appropriation would require a corresponding increase in the FY 1999 funding request, all things being equal.⁶

The Department actions involved with identifying the \$79.3 million in excess funds, using these funds to offset its FY 1998 requirements, and reducing its FY 1999 budget request by the remaining \$59.9 million comply with our recommendation to justify the use of excess funds and reduce out-year budgets. However, we do not concur with the Department's assessment that further reductions in FY 1998 will have to be restored in FY 1999. Given the history of satellite budget estimates being higher than the cost incurred and the associated forward funding, we believe the Department needs to closely monitor NOAA's use of its FY 1998 funding. As the year progresses, the Department will have a better idea of funding needs for FY 1999.

Just prior to issuing this report we received updated budget information from NOAA and noted that for some accounts forward funding appears to be more than the 2 month limit recently adopted by the Department. We suggest that the Department validate forward funding requirements and the need for what appears to be more than 2 months of forward funding.

- ! Using quarterly reports on the status of funds transferred to NASA, including funds available for obligation (unobligated funds), uncosted obligations (funds that were obligated by NASA for goods and services that have not yet been billed by the contractor), payables, and expenditures to determine funds that are not needed to meet fourth quarter forward funding and report these funds as unobligated carryover.

Synopsis of the Department's Response and OIG Discussion

The Department replied that it is being provided quarterly reports that track NASA's actual costs and obligation and the status of NOAA funds.

We concur with the Department's actions.

⁶In its response to our specific recommendation the Department identified the excess funds as \$127.4 million. We clarified this with the Department, and were told that the \$127.4 million includes the \$79.3 million referred to in this report plus an additional \$48.1 million primarily for polar spacecraft included in our prior report.

We also recommend that the Department's Acting Chief Financial Officer and Assistant Secretary for Administration direct NOAA to improve financial control of funds by:

- ! Analyzing the \$885 million in NOAA unspent funding identified as undelivered orders to determine if other NOAA acquisitions have excess funds.

Synopsis of the Department's Response and OIG Discussion

The Department replied that NOAA has a vigorous program in place to track and recoup excess funding residing in undelivered orders and that this program has been given increased attention during the last several years.

We are aware of NOAA's deobligation activities. However, what this report and our prior report make clear is that funding is being obligated without a clear need for the funds or because NOAA does not want the funds identified as unobligated carryover. Our recommendation is directed to other NOAA programs that may have obligated more funding than needed for ongoing projects. Programs associated with large amounts of funding in undelivered orders may be overestimating budget needs. In order to ensure efficient use of scarce budget resources, we believe that NOAA should monitor these projects to ensure that budget requests reflect actual need for the funds.

- ! Establishing limits for the amount of obligated but unspent funds that can be carried over into the next fiscal year for programs that receive additional funding each year.

Synopsis of the Department's Response and OIG Discussion

The Department replied that increased diligence in analyzing unspent funds should apply the discipline necessary to eliminate excessive obligations and that arbitrary limits are not appropriate without analysis of the reason for the unspent funds.

We concur with the Department's assessment that arbitrary limits would not be appropriate but believe limits should be provided as guidelines. Careful attention to excessive forward funding of existing contracts is needed to adequately identify future funding needs.

- ! Incorporating guidance in its budget handbook for making obligation decisions, including the recommendations made in both of our satellite funding reports.

Synopsis of the Department's Response and OIG Discussion

The Department replied that NOAA will review its budget handbook to assure proper guidance for making obligation decisions.

We concur with the Department's action to have NOAA review its handbook. This review should include steps for incorporating additional guidance for making obligation decisions.

- ! Providing funds for services or acquisitions only when supported by a written agreement that provide a basis for making sound funding decisions.

Synopsis of the Department's Response and OIG Discussion

The Department replied that it agrees that written agreements are necessary to support sound funding decisions. In its overall response to our observation, the Department stated that in regards to funding of Air Force launch services, it is developing a revised agreement, but because of program uncertainties, is having difficulty with this process. The Department has taken steps to limit fund transfers to the Air Force pending adequate cost data on previously transferred funds. Also, a final agreement for METOP satellites has been negotiated and is pending State Department approval.

We concur with the Department's actions.

- ! Working with OMB to ensure that capital asset budgets are properly presented and that they include performance measures related to meeting cost and schedule estimates for all ongoing acquisition projects.

Synopsis of the Department's Response and OIG Discussion

The Department replied that it is working with NOAA and OMB to properly present the Capital Assets project accounts.

We concur with the Department's actions.

The Department's complete response is included as appendix II of this report.

FUNDS TO BE PUT TO BETTER USE

Our report recommends that NOAA retain \$79.3 million in net excess funding, report these funds as carryover, and reduce FY 1998 and out-year budgets to reflect the excess. Our calculation of excess funds is based on an assessment of funds not needed to meet FY 1997 cost or forward funding requirements. We decreased the amount of excess funds to reflect larger amounts of forward funding and funds reallocated. Although we did not include these funds as part of the excess, the Department must ensure that the amounts of forward funding over 2 months is justified and that funds reallocated have been accounted for. To calculate the excess funding for each account, we added unobligated carryover at the end of FY 1996 at NOAA and NASA, the FY 1997 budget allocation and funds obligated by NASA for work in progress. The FY 1997 cost estimate and forward funding requirements were subtracted from the available funding to determine excess funding. NOAA reallocations and reprogramming/holdings are shown in the next to the last row. This table was submitted to the OIG by NOAA just prior to issuance of the final report to reflect revised amounts for NASA funding on contracts for work in progress, reallocations, and cost and forward funding estimates.

OIG Evaluation of Satellite Funding as of Fiscal Year End 97 (millions)

Funding Category	Polar		GOES				Total
	Launch Services	Technical Mgmt.	Spacecraft I-M	Spacecraft N-Q	Technical Mgmt.	Launch Services	
NOAA unobligated carryover	\$2.2	\$2.0	\$0.0	\$5.3	\$0.0	\$0.0	\$9.5
NASA unobligated funding	\$6.5	\$5.7	\$17.4	\$13.5	\$2.4	\$8.9	\$54.4
NOAA FY 1997 budget allocation	\$42.4	\$6.6	\$50.2	\$31.4	\$7.3	\$49.0	\$186.9
Unobligated funds available	\$51.1	\$14.3	\$67.6	\$50.2	\$9.7	\$57.9	\$250.8
NASA on contract for work in progress (obligated not spent)	\$14.4	\$0.0	\$18.9	\$8.0	\$0.0	\$9.2	\$50.5
Total unobligated and uncosted funds	\$65.5	\$14.3	\$86.5	\$58.2	\$9.7	\$67.1	\$301.3
NASA FY 1997 cost estimate (includes contingency funding)	(\$12.6)	(\$5.3)	(\$44.3)	(\$27.6)	(\$6.5)	(\$30.8)	(\$127.1)
2 months' forward funding	(\$16.9)	(\$1.7)	(\$13.1)	(\$38.0)	(\$1.9)	(\$10.7)	(\$82.3)
Total cost and forward funding	(\$29.5)	(\$7.0)	(\$57.4)	(\$65.6)	(\$8.4)	(\$41.5)	(\$209.4)
Funding Excess (funding in excess of cost & forward funding requirement)	\$36.0	\$7.3	\$29.1	\$0.0	\$1.3	\$25.6	\$99.3
Funding Shortfall				(\$7.4)			(\$7.4)
Net Funding Excess	\$36.0	\$7.3	\$29.1	(\$7.4)	\$1.3	\$25.6	\$91.9
NOAA Proposed Use (reallocations/corrections)	(\$2.2)	(\$6.7)	(\$5.0)	\$8.3	\$0.0	(\$7.0)	(\$12.6)
Balance	\$33.8	\$0.6	\$15.2	\$0.9	\$1.3	\$18.6	\$79.3

APPENDIX I: NOAA's Polar and Geostationary Satellite Programs

NOAA's Polar Orbiting Environmental Satellite Program

NOAA maintains two polar satellites that orbit the Earth's North and South poles. As the Earth rotates, these satellites are able to capture global information about the earth's atmosphere for use by the National Centers for Environmental Prediction. The most important satellite is launched into a PM orbit¹ and provides the principal source of soundings for forecasting U.S. weather 12 to 48 hours in advance. NOAA launches a backup satellite in an AM orbit to provide a secondary source of global data in case the sounder or imager fails on the PM satellite. The sounder and the imager are the two primary satellite instruments. The sounder collects vertical atmospheric profiles of temperature and humidity, that provide the initial weather conditions used in numerical models of future weather events. The imager provides global pictures of cloud, snow, and ice cover.

<i>Polar Satellites, Launch Dates, and Orbits</i>		
Polar Satellite	Launch Date	Orbit
Existing		
NOAA-9	Dec. 84	PM (Limited Use) ²
NOAA-10	Sept. 86	AM (Limited Use)
NOAA-11	Sept. 88	PM (Limited Use)
NOAA-12	May 91	AM (Operational)
NOAA-14	Dec. 94	PM (Operational)
Planned¹		
NOAA-K	Feb. 98	AM
NOAA-L	FY2000	AM or PM
NOAA-M	FY2001	AM or PM
METOP-1	FY2002	AM
NOAA-N	FY2004	PM
METOP-2	FY2006	AM
NOAA-N'	FY2007	PM
NPOESS	FY2008	PM

¹Represents the program's planned launch dates based on current estimate of 50 percent need.

²Some instruments are still providing data although critical instruments no longer operational.

¹PM and AM refer to the time that the satellite crosses the equator in either a southern or northern direction.

NOAA builds satellites to meet planned launch dates and extends these dates until a replacement satellite is needed. Because NOAA cannot accurately predict when a satellite needs to be launched, budget estimates can be overstated when funding is included for launches that are not needed as scheduled.

NOAA plans to replace its AM polar satellite with a European meteorological operational polar (METOP) satellite in FY 2003. Under provisions of the draft agreement, the METOP satellite will be launched and operated by the European Organization for the Exploitation of Meteorological Satellites. NOAA is responsible for the acquisition of instruments that will be flown on the METOP satellite and is funding the instruments through its NOAA K-N program. The chart above lists NOAA's existing polar satellites and current launch date plans.²

NOAA's Geostationary Operational Environmental Satellite Program

NOAA maintains a two-GOES configuration as its requirement. These satellites orbit the Earth at the same rate that the Earth rotates, which allows them to stay positioned over the U.S. East and West Coasts. As with polar satellites, the sounder and the imager are the principal GOES instruments. The satellites, designed to stare directly at the Earth, provide a steady stream of images that can be used to detect severe weather events, as well as continuous soundings of the atmosphere above the United States.

The current series of geostationary satellites are designated GOES I-M. GOES I and J were launched in 1994 and 1995, respectively, and GOES-K was launched in April 1997. NOAA's policy for launching GOES is under revision because the existing satellites are not lasting as long as expected and launch slots are not always available when needed. GOES-K, which will be renamed GOES-10 after the checkout period, has been launched as an "in-orbit spare" in order to have an immediate replacement should GOES 8 or 9 fail.³

²Satellites are referred to alphabetically while under development but numerically after launch.

³Our report, *Geostationary Satellite Acquisition Strategy Improved, But Store-in-Orbit Approach Needs Re-evaluation*, OSE-8784-7-0001 discusses NOAA's launch strategy in greater detail.

The next series of geostationary satellites will be designated GOES N through Q. A contract award for the N-Q series is planned for the first quarter in FY 1998. NOAA also is purchasing long lead items for another satellite, GOES N', from the current contractor as a warranty in case the GOES N-Q procurement is delayed. NOAA will purchase the complete satellite only if it determines that GOES N-Q will not be available by April 2002. The following chart lists existing GOES and planned launch dates.

<i>Existing GOES & Planned Launch Dates</i>	
<u>Geostationary Satellite</u>	<u>Launch Date¹</u>
Existing	
GOES-8	Apr. 94
GOES-9	May 95
GOES-K (10)	Apr. 97
Planned	
GOES-M	Apr. 02
GOES-L	Feb. 99
GOES-N	Apr. 02
GOES-N'	Apr. 05
GOES-O	Apr. 05
GOES-P	Apr. 07
GOES-Q	Apr. 10
GOES-R	TBD

¹Planned launch date based on 50 percent probability of need.



UNITED STATES DEPARTMENT OF COMMERCE
 Chief Financial Officer
 Assistant Secretary for Administration
 Washington, D.C. 20230

SEP 29 1997

MEMORANDUM FOR: Frank DeGeorge
 Inspector General

FROM: Raymond G. Kammer, Jr. *R.G.K.*
 Acting Chief Financial Officer
 and Assistant Secretary for Administration

SUBJECT: Response to Inspection Report: Excess Satellite
 Funding Indicates Need for Better Financial
 Controls (OSE-8797-7-XXXX)

This memo responds to the Inspector General's (OIG) inspection report related to annual carryover of funds appropriated for satellite systems and the implementation of Department of Commerce (DOC)/National Oceanic and Atmospheric Administration (NOAA) financial controls to track the use of uncosted funds.

In general, we agree with the report and NOAA has taken action as proposed in my January 9, 1997 response to the previous OIG Inspection Report.

The following information describes actions already taken and those actions planned in response to the Observations and Conclusions section of your report:

OIG Observation I: \$61.3 Million in Excess Funds Found in Other Satellite Accounts

Response: The National Environmental Satellite, Data and Information Service (NESDIS) has identified the following funds (as of June 1997) as available for either reprogramming in FY 1997, or reduction to FY 1998 appropriation:

	Through
	<u>FY 97</u>
Polar System	\$34.4M
GOES System	<u>44.9</u>
Total	\$ 79.3

Projected carryover through FY 1998, was used to offset NOAA's FY 1999 budget request to the Department and will likewise be incorporated into our OMB and Congressional submissions as well. We will make adjustments as appropriate, to these figures as we proceed through the FY 1999 budget process and as Congress appropriates funds for these programs in FY 1998.

National Aeronautics and Space Administration (NASA) costs are being tracked on a monthly basis to monitor the validity of our carryover projections.

OIG Observation II: Efficient Funding Requires Adequate Financial Management Controls

Response: NOAA will be tracking NASA satellite costs and obligations on a monthly basis to ensure that any excess funding is identified. Funds not required to meet program requirements will be reported as available for reprogramming to meet other urgent Department needs.

NOAA has also required NASA to provide updated cost estimates at least twice a year instead of the past schedule of annual submissions.

In addition, NOAA has a vigorous program to recapture funds residing in undelivered orders. As these undelivered orders relate to the satellite programs, the newly implemented cost and obligation tracking effort will allow us to better evaluate if the undelivered orders are excessive. Any obligated funds at NASA identified as excessive through this process will be used to offset future funding requirements for NASA.

In regard to the OIG observation that "Updated Written Agreements to Provide a Basis for Funding Decisions", NOAA offers the following information related to the status of the two areas cited:

- 1) Air Force Launch Services - A revised agreement with the Air Force is in development; however, uncertainties about future funding of the Titan program with the Air Force, which includes the large Titan-IV program, are making this process difficult. NOAA is continuously evaluating its requirements for launch services beyond 1999, particularly for NOAA-M. NASA is currently withholding funding from the Air Force pending adequate cost data on previously transferred funding.
- 2) European METOP Satellites - A Project Manager-level preliminary agreement was signed on May 19, 1993, and a formal agreement has been negotiated which needs only final State Department approval to be signed by the U.S.

The following information responds to the Conclusion and Recommendations section of the draft report:

●**OIG Recommendation:** Justifying any planned use of the excess funds and adjusting the FY 1998 and out-year budgets to reduce the remaining excess.

Response: The amounts of \$127.4M in FY 1997 and \$59.9M in FY 1998 were identified as potential unused funds in NOAA's FY 1999 budget submission to DOC, thereby reducing the FY 1999 request by \$59.9M. Reduction of these carryover funds by reprogramming, or by a reduction in the FY 1998 appropriation would require a corresponding increase in the FY 1999 funding request, all things being equal.

●**OIG Recommendation:** Using quarterly reports on the status of funds transferred to NASA, including funds available for obligation (unobligated funds), uncosted obligations (funds that were obligated by NASA for goods and services that have not yet been billed by the contractor), payables, and expenditures to determine funds that are not needed to meet fourth quarter forward funding and report these funds as unobligated carryover.

Response: A quarterly report which tracks NASA's actual costs and obligations versus NOAA's funds available is being provided to DOC and OMB. The report will include monthly information based on NASA's actual performance.

●**OIG Recommendation:** Analyzing the \$885 million in NOAA unspent funding identified as undelivered orders to determine if other NOAA acquisitions have excess funds.

Response: NOAA has a vigorous program in place to track and recoup excess funding residing in undelivered orders (see attachment). This program has been given increased attention over the past several years to meet the Congress's assessment of funds assumed to offset appropriations.

●**OIG Recommendation:** Establishing limits for the amount of obligated, but unspent funds that can be carried over into the next fiscal year for programs that receive additional funding each year.

Response: Increased diligence in analyzing unspent funds should apply the discipline necessary to eliminate excessive obligations. Arbitrary limits are not appropriate without analysis of the reasons for the unspent funds.

•OIG Recommendation: Incorporating guidance in its budget handbook for making obligation decisions, including the recommendations made in both of our satellite funding reports.

Response: NOAA will review its budget handbook to assure proper guidance for making obligation decisions.

•OIG Recommendation: Providing funds for services or acquisitions only when supported by a written agreement that would provide a basis for making sound funding decisions.

Response: NOAA agrees that written agreements are necessary to support sound funding decisions.

•OIG Recommendation: Working with OMB to ensure that capital asset budgets are properly presented and that they include performance measures related to meeting cost and schedule estimates for all ongoing acquisition projects.

Response: The current budget process coupled with NOAA's emphasis on Strategic Planning and the Government Performance Results Act will strengthen the NOAA/DOC/Office of Management and Budget efforts to properly present the Capital Assets Acquisition Account projects.

CC: D. James Baker

Attachment



UNITED STATES DEPARTMENT OF COMMERCE
National Oceanic and Atmospheric Administration
OFFICE OF FINANCE AND ADMINISTRATION

APR 03 1997

MEMORANDUM FOR: Financial Management Centers

FROM: R. J. Dominic *RJ Dominic*
Director, Finance Office

SUBJECT: Review of Prior Year Documents Pending
Deobligation

The automatic deobligation process will be conducted this year on a shorter schedule. It will be completed two months earlier than in past years, prior to commencing the certification of obligations. We are doing this in an attempt to prevent the confusion and duplicate effort involved when documents appear on both listings.

Attached are reports "Prior Year Documents Pending Deobligation--Undelivered Orders" and/or "Prior Year Documents Pending Deobligation--Unpaid Accrued Expenditures," which list documents on the Active Document Status File that meet the criteria we have established for automatic deobligation. Those criteria for undelivered orders and unpaid accrued expenditures consist of:

1. an amount greater than \$5000 with no activity for at least 1 1/2 years prior to 4/01/97 for document types 01, 03, 05, 06, 07, 08, 09, 13, 40, or 43;
2. an amount greater than \$5000 with no activity for at least 3 years prior to 4/01/97 for document type 26;
3. an amount \$1,000,000 or greater with no activity for at least 6 months prior to 4/01/97 for document types 01, 03, 05, 06, 07, 08, 09, 13, 26, 40, or 43.

The documents on these reports will be deobligated unless adequate supporting documentation is provided by May 15, 1997, to retain them on the active file.

You will receive this package directly from the Finance Office (FO), OFA22, or forwarded from your Line Office Management/Budget (MB) staff. You should proceed with the following steps:

1. Upon receipt of this package, complete and send the "Confirmation of Receipt" to Carol Silver by mail or facsimile.
2. Review the attached reports carefully. Indicate in the right-hand column by each document whether it may be deobligated or should be retained.



3. For each document you wish to retain, complete a copy of the form, "Request to Retain Prior Year Document Pending Deobligation," which is attached. Please note the documentation requirements on Attachment I and provide us with adequate support for each document you wish to retain on the file. Due to the condensed schedule, we will not have much time to request additional information. In most cases, we will make our decision to retain based on what you send us initially. If the documentation is not adequate to support retention, the document will be automatically deobligated.

4. By May 15, 1997, send a copy of the reports listing the documents (on which you indicated deobligate or retain) and the items in #3, if appropriate, to the office (FO or M/B) from which you received the original package. A copy of the reports should be sent even if you have indicated that all the documents may be deobligated.

5. After the Autodeob program is run, you will receive a list of documents which were deobligated. It will include the documents you reviewed, as well as documents which had undelivered orders or unpaid accrued expenditures \$5000 and less with no activity for 1 1/2 years prior to April 1, 1997. Those documents are automatically deobligated without review.

Please include your Financial Management Center (FMC) number in all communications about the autodeobligation program.

The Finance Office will retain a reserve of a percentage of the total amount deobligated. If, within three years of deobligation, an invoice is received for a document deobligated through this process, we will fund the payment from this reserve. Expenses will be covered only to the amount deobligated. Any expenses beyond that amount will have to be covered by the responsible FMC.

If you have any questions, please call Lois Coleman or Carol Silver at (301) 413-8795.

Attachments

cc: MB Chiefs

DISCUSSION OF DOCUMENT RETENTION

The following are reasons it may be necessary to retain some of these documents on the file.

1. The contract is still open and additional goods or services are expected.

Required documentation: copy of the contract page which shows the future closing date.

2. An invoice is forthcoming for work which was done or merchandise which was already received.

Required documentation: date the invoice is anticipated or copy of the invoice if received but unpaid.

3. Work was only partially completed or only a partial shipment of merchandise was received and the balance of the order is forthcoming.

Required documentation: date the remaining services/shipment will be received and copy of any relevant correspondence (within the last 6 months) between NOAA/BXA and the contractor/vendor.

4. An invoice or contract is in dispute.

Required documentation: copy of relevant correspondence (within the last 6 months) between NOAA/BXA and the contractor/vendor.

Waiting for final closeout or audit is not adequate justification for retaining a document. In addition, we expect that NOAA/BXA is making an active effort to receive overdue goods/services/invoices and to resolve disputes in order to complete these obligations and remove them from the records.

All requests and documentation for retaining specific documents on file should be forwarded by May 15, 1997.

**REQUEST TO RETAIN
PRIOR YEAR DOCUMENT PENDING DEOBLIGATION**

Number of EMC:

Name of EMC:

ASC	FY	Doc Type	Document Number	Amount	Org Code	Task Code	Ph Code	Obj Code
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The above document should not be deobligated for the following reason: (Attach a page if necessary.)

— The contract is still open and additional goods or services are expected. A copy of the contract page showing the future closing date is attached.

— An invoice is forthcoming for work which was done or merchandise which was already received. A copy of the correspondence requesting the invoice (if overdue) from the contractor/vendor is attached.

Date invoice will be submitted _____

— Work was only partially completed or only a partial shipment of merchandise was received and the balance of the order is forthcoming. A copy of the correspondence requesting the additional services/merchandise (if overdue) from the contractor/vendor is attached.

Date merchandise/services is anticipated _____

— An invoice or contract is in disputa. A copy of the correspondence with the contractor/vendor is attached.

— Other. Appropriate documentation is attached.

Explanation:

If you have any questions on the above information, please call _____ (in NOAA/BXA) on _____.

APPROVED BY: (Print name) _____

SIGNED: _____ DATE: _____

To be sent immediately upon receipt of reports

CONFIRMATION OF RECEIPT

UNDELIVERED ORDERS/UNPAID ACCRUED EXPENDITURES

OFFICE _____
FMC _____
DATE _____
NAME _____
PHONE NUMBER _____

Please check one of the following:

- The documents on our reports may all be deobligated.
 We wish to retain some or all of the documents and will forward the required documentation by May 15, 1997.

Send to Carol Silver

Mail: Finance Office
OFA22
Caller Service #8025
20020 Century Boulevard
Germantown, Maryland 20874

Fax: (301) 413-8543

JUL 08 1997

MEMORANDUM FOR: Distribution

/s/ R. J. Dominic

FROM: R. J. Dominic
Director, Finance Office

SUBJECT: Review and Certification of Obligations

NOAA Administrative Order 203-34 requires a review and certification of obligations to be performed once a year as of June 30. The certification is required to allow the Finance Office (OFA2) to certify the accuracy of NOAA's financial statements. The certifications are due to OFA22 by September 3, 1997.

The reviews should be conducted by each Financial Management Center (FMC) using the June 30 Quarterly Document Status and the Monthly and Cumulative Cost and Obligation Detail Reports. The completed FMC certification (Attachment 1) should be sent to the appropriate Line/Staff Office for consolidation. The Line/Staff Office should forward a consolidated response (Attachment 2) to the Financial Systems and Policy Division, OFA22.

The FY 1996 audit report on NOAA's financial statements noted as a material weakness that accounts payable and unliquidated obligations are not properly recorded and liquidated. The audit report recommended that FMCs pay more attention to the annual certification of obligations by either contacting vendors for older accounts payable or determining whether payables should be written off. Consequently, as part of the review of obligations, FMCs should contact vendors to determine the validity of accounts payable over \$25,000 that are older than 12 months. The unsupported accounts payable balances which are no longer valid should be marked so the Administrative Service Center (ASC) Finance Division/Accounting Operations Division can write them off.

FMCs must also request the servicing ASC Finance Division/
Accounting Operations Division to initiate required corrective
actions to adjust any unrecorded or improperly recorded
obligations.

Questions may be directed to Lois Coleman or Lou Deutsch at
(301) 413-8591, or your servicing finance office.

Attachments

Distribution:

E/BP - D. Namian	F/BP - A. Risenhoover
N/MB - J. Oliver, Jr.	R/RM - M. Whitcomb
W/MB - L. Gajdys	SAOX1 - B. MacNeill
MB - T. Smith	GP - J. Craig
NCOP - D. McElhaney	NCx4 - D. Spillman
OFA23 - S. Walters	ASC Finance Division Chiefs
BXA - B. Keckler	

cc: FMCs

OFA22:LDeutsch:(301)413-8951:red:06-26-97
oblcertf

U. S. Department of Commerce
National Oceanic and Atmospheric Administration
Certification of Obligations

for

Financial Management Center Number _____

I hereby certify that the amounts shown in the quarterly Document Status Reports and the FMCs Monthly and Cumulative Cost and Obligation Detail Reports as of June 30, 1997 are correct, except for the amounts where I requested correction by the servicing Administrative Support Center Finance Division/Accounting Operations Division.

Proper documentation for all transactions are retained in official document files for review and/or audit purposes.

All known transactions meeting the criteria of 31 U.S.C. 1501(a) have been obligated and reported.

FMC Certification:

LO/SO Review:

Signature Date

Signature Date

Typed Name

Typed Name

Line/Staff Office

Send the completed form to the respective Line/Staff Office. This will provide the LO/SO the necessary back up for their required consolidated reply to the Finance Office.

Attachment 1

U. S. Department of Commerce
National Oceanic and Atmospheric Administration
Certification of Obligations

for

LINE OFFICE/STAFF OFFICE _____

I hereby certify that the amounts shown in the Quarterly Document Status Reports and the FMCs Monthly and Cumulative Cost and Obligation Detail Reports as of June 30, 1997 are correct, except for the amounts where the FMCs requested correction by the servicing Administrative Support Center Finance Division/Accounting Operations Division.

Proper documentation for all transactions are retained in official document files for review and/or audit purposes.

All known transactions meeting the criteria of 31 U.S.C. 1501(a) have been obligated and reported.

This consolidated certification includes all FMCs of the above Line or Staff Office.

LO/CO Certification

Signature

Date

Typed Name

Send the completed form to:

Mail: Financial Systems and Policy Division
OFA22
Caller Service #8025
20020 Century Boulevard
Germantown, Md 20874

Fax: 301-413-8543

Attachment 2