

U.S. DEPARTMENT OF COMMERCE
Office of Inspector General



**PUBLIC
RELEASE**

*NATIONAL OCEANIC AND
ATMOSPHERIC ADMINISTRATION*

*Internal Controls Over User Fees
Need Improvement*

Audit Report No. STD-11881-0-0001/March 2000

Office of Audits, Science and Technology Audits Division





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

March 30, 2000

MEMORANDUM FOR: Dr. D. James Baker
Under Secretary for Oceans and Atmosphere

FROM:

Johnnie E. Frazier

SUBJECT:

Internal Controls Over User Fees
Need Improvement

Final Audit Report No. STD-11881-0-0001

As a follow up to our draft report, issued January 31, 2000, this is our final report on our audit of NOAA user fees. The audit found that NOAA needs to improve its internal controls over user fees, in particular by establishing a centralized database and enforcing its policies and procedures governing biennial reviews. NOAA generally agreed with two of our three recommendations. While NOAA agreed that strengthening accountability over user fees is needed, it did not agree with our recommendation to establish a centralized database for user fees. Citing insufficient resources to design a new database system, NOAA said that, instead, it will revise its current policies and procedures to strengthen accountability. We accept NOAA's planned action and have so modified our recommendation. We plan to follow up on this recommendation in the future to assess its effectiveness. Our findings and recommendations are on pages 3 through 12. We have summarized NOAA's response in the body of the report and have included its complete response as Attachment 2.

We would appreciate receiving your audit action plan addressing the audit recommendations within 60 calendar days, in accordance with Department Administrative Order 213-5. The plan should be in the format specified in Exhibit 7 of the DAO. Should you have any questions regarding the preparation of the audit action plan, please call me on (202) 482-4661 or contact Ron Lieberman, Director, Science and Technology Audits Division, on (301) 713-2070.

We appreciate the cooperation and courtesies extended to us by NOAA officials during the audit.

INTRODUCTION

NOAA receives most of the funding needed to support its programs from no-year appropriations and from the collection of user fees. According to the Office of Management and Budget, user fees are levied on a class of individuals or businesses directly benefitting from, or subject to regulation by, a government program or activity. They represent the principle that identifiable individuals or businesses who receive benefits from governmental services beyond those that accrue to the general public should bear the cost of providing the service. For example, the National Ocean Service (NOS) sells nautical charts to mariners so that they have accurate, timely navigational information; the National Marine Fisheries Service (NMFS) charges the seafood industry for voluntary inspection and certification services; and the National Environmental

Satellite, Data, and Information Service (NESDIS) provides climatological, geophysical, and oceanographic data and products from the national data centers to the public, academia, other federal and state agencies, and commercial business on a cost-recovery basis. Because of weaknesses in NOAA's internal controls, discussed later in this report, the bureau could not provide reliable information on the number of user fees it administers or the total amount it collects.

General user fee authority was established under Title V of the *Independent Offices Appropriation Act of 1952*. The act gave agencies broad authority to assess user fees or charges on identifiable beneficiaries by administrative regulation. Authority to assess user fees may also be granted to agencies through the enactment of specific authorizing or appropriations legislation. In the absence of specific legislation that authorizes agencies to retain and/or use the fees they collect, fees must be deposited in the U.S. Treasury general fund.

OMB Circular A-25, *User Charges*, issued on July 8, 1993, establishes guidelines for federal agencies to use in assessing fees for government services and for the sale or use of government property or resources. In determining the amount of a user fee to assess, an agency is to follow the general policy that the fee be sufficient to recover the full cost to the government of providing the service, resource, or good.¹ Both OMB Circular A-25 and the Chief Financial Officers Act of 1990 (CFO Act) require an agency to review its user fees biennially and make recommendations on revising the fees to reflect costs incurred.

The General Accounting Office (GAO), to determine whether federal agencies pay attention to the biennial review requirements in the CFO Act and Circular A-25, conducted a review of 24 agencies, including Commerce. GAO issued a June 1998 report concluding that, generally, the agencies did not fully adhere to the Circular A-25 and CFO Act user fee review provisions requiring that user fees be reviewed biennially.²

PURPOSE AND SCOPE OF AUDIT

The original purpose of our audit was to determine whether NOAA is appropriately reviewing, charging, and reporting its user fees. The audit was to cover user fees collected during fiscal year 1998. However, because NOAA could not provide accurate and complete accounting information about its user fee activities, as discussed in our first finding, we were unable to accomplish our original purpose. Instead, we limited our audit to an evaluation of NOAA's internal controls over its accounting for user fees and its biennial review process.

¹ Agency heads or OMB may allow a waiver of this requirement in situations involving foreign governments, a high cost to collect the user fee, or another justifiable condition.

² *Federal User Fees: Some Agencies Do Not Comply With Review Requirements*, Report No. GAO/GGD-98-161.

We reviewed relevant federal laws and regulations, Department Administrative Orders (DAOs), and NOAA policies pertaining to (1) user fees, including the *Independent Offices Appropriation Act of 1952*, the CFO Act, OMB Circular A-25, *NOAA Finance Handbook* and related May 22, 1995, memorandum, and to (2) internal controls, including OMB Circular A-123, the *Federal Managers' Financial Integrity Act of 1982*, and DAO 216-15, *Internal Management Control Systems*. We also interviewed officials and staff in NOAA's line offices and the Office of Finance and Administration, GAO, and OMB; and examined pertinent documents. Our audit was conducted at NOAA's headquarters in Silver Spring, Maryland. The field work was conducted from June to October 1999.

The lack of accurate and complete accounting information pertaining to user fees did not allow us to determine NOAA's compliance with applicable laws and regulations. The results of our review of internal controls are discussed in the body of the report. We did not rely on computer-generated data during our audit.

The audit was conducted in accordance with generally accepted government auditing standards and was performed under the authority of the Inspector General Act of 1978, as amended, and Department of Commerce Organization Order 10-13, dated May 22, 1980, as amended.

FINDINGS AND RECOMMENDATIONS

NOAA needs to improve its internal controls over user fees, including establishing a centralized database and enforcing its policies and procedures regarding biennial reviews. Our review found that NOAA could not provide accurate, complete, and timely accounting information regarding its user fee activities during fiscal year 1998. The importance of proper accounting for federal resources is addressed implicitly and explicitly in federal policies and legislation and in departmental policy. Also, NOAA did not fully comply with its policies and procedures regarding biennial reviews, including final reviews of unit prices, review listings, and random audits. As a result, NOAA cannot provide reasonable assurance that its decisions involving user fees are sound and reliable and that the sale of NOAA special products or services complies with federal policy that provides for full-cost recovery.

I. NOAA Needs to Establish a Centralized Database for User Fees

NOAA needs to strengthen its accountability over user fees by establishing a centralized database. We found that NOAA could not provide accurate, complete, and timely accounting information regarding its user fee activities during fiscal year 1998. Accounting for NOAA user fees is decentralized. Each line office organization that provides special products or services maintains a separate database and follows its own practices and procedures for identifying the items that it sells, processing customer orders, billing, and tracking collections and transactions. The importance of proper accounting for federal resources is addressed implicitly and explicitly in federal policies and legislation and in departmental policy. Without such information, NOAA

cannot ensure that decisions that affect the efficiency and effectiveness of its operations are being made on a sound basis.

A. User Fee Data Not Available

At the beginning of our audit, we asked NOAA for information identifying all of its special products and services, as well as the related totals and breakdowns, by line office and by special product or service, for user fee collections and number of transactions. Instead of promptly furnishing the information to us at one time from a central source, NOAA provided it piecemeal, from 10 organizations within four of its five line offices, over a period of more than three months. The lists identifying the special products or services in three of the four line offices reporting user fees did not agree with the biennial lists that these line offices submitted to NOAA's Finance Office. Moreover, the collection and transaction information for the special products or services that the NOAA organizations provided was incomplete and inaccurate. Specifically, of the 10 organizations³:

- 7 did not provide the number of user fee transactions,
- 1 designated some of its collection revenue as "unofficial,"
- 4 provided no information on collection revenue,
- 1 could only estimate its collection revenue, and
- 3 did not break down their collection revenue by product or service.

We also attempted to obtain the needed user fee data from other sources. We contacted NOAA's Finance Office and its Office of Budget Execution, but neither office was able to provide the requested data. A Finance Office official said that his office does not keep separate accounts for NOAA user fees. An official in the Office of Budget Execution was unable to extract the requested information from NOAA's Financial Information Management System (FIMA) and advised us that FIMA does not produce any special reports containing the user fee information that we requested.

We discussed the lack of a centralized database for user fees with officials in NOAA's Office of Finance and Administration. One official told us that many of NOAA's special products or services have unique accounting classification codes that allow collections to be tracked individually within FIMA. However, he was not certain whether all of NOAA's special products or services have unique codes. He added that the primary reason why user fee collection

³ Some of the responding NOAA organizations had more than one of the identified problems.

revenue, in total and by individual product or service, is not readily identifiable from FIMA is because the accounting codes do not distinguish user fee revenue from the other types of NOAA revenue, such as reimbursables. We believe that this explains, at least in part, why NOAA's fiscal year 1998 financial statements do not identify the amount of revenue received from user fees.⁴

Another official acknowledged that NOAA manually accounts for user fees, relying strictly on the information provided by the line offices. The official added that none of the user fee revenues included in FIMA roll up to a bureau total, much less a break down by special product or service for each line office. Moreover, the official stated that the Department's new Commerce Administrative Management System is not expected to provide the needed user fee information any time in the near future.

The importance of proper accounting for federal resources is addressed implicitly and explicitly in federal policies and legislation and in departmental policy. OMB Circular A-123, *Management Accountability and Control*, Section I, states that the proper stewardship of federal resources is a fundamental responsibility of agency managers and staff. Section II asserts that transactions should be promptly recorded, properly classified, and accounted for in order to prepare timely accounts and reliable financial and other reports. The *Federal Managers' Financial Integrity Act of 1982* (FMFIA), Public Law 97-255, establishes specific requirements with regard to management controls. The agency head must establish controls that reasonably ensure that revenues are properly accounted for and recorded. Department Administrative Order 216-15, *Internal Management Control Systems*, states that bureaus will ensure that internal control activities conform with the requirements of FMFIA and Circular A-123. OMB Circular A-25, Revised, *User Charges*, Section 8, identifies agency responsibilities. It states that each agency will maintain readily accessible records of the collections from each user charge imposed.

Without accurate, complete, and timely accounting information regarding its user fee activities, NOAA cannot ensure that decisions that affect the efficiency and effectiveness of its operations are being made on a sound basis. These include decisions about the relative importance of user fees as a source of total NOAA funding; the appropriate level of bureau funding to request during budget negotiations; the allocation of staffing, facilities, and equipment among programs; the addition or deletion of special products or services; and the extent of NOAA's compliance with federal requirements for full cost recovery.

Also, without such information, NOAA cannot adequately disclose the extent of its user fee activities in such decision-making tools as its annual financial statements. With increasingly limited congressional funding for federal government operations, alternative sources of funding take on added significance. It is essential that NOAA preserve and protect its alternative sources

⁴ *Audit of NOAA's FY 1998 Financial Statements*, FSC-10869-9-0001, March 1999.

through sound decisions resulting from reliable and timely accounting information for its user fee activities.

B. Recommendation

We recommend that the Under Secretary for Oceans and Atmosphere improve internal controls over NOAA user fees by revising its policy and procedures to require that each line and staff office annually submit to the Finance Office, as part of the preparation of NOAA's financial statements, the following user fee information:

1. A list of all special products or services and, for each, the approved unit price, unit price review date, and actual fee collections and number of transactions.
2. An accompanying statement certifying the accuracy and completeness of the information for all special products or services within the responding line or staff office.

C. NOAA Response

While NOAA agrees that strengthening accountability over user fees is needed, it did not concur with our draft recommendation to establish a centralized database for user fees. NOAA believes that a centralized database would not guarantee that user fee data is available, accurate, complete, or timely. Rather than use scarce resources to design a new database system, NOAA states that it will strengthen accountability by revising its Finance Office's current policy and procedures. These revisions will require that each line and staff office annually submits user fee data to the Finance Office as part of the process of preparing NOAA's year-end financial statements. The data will consist of a list of special products or services and for each the unit price review date, approved unit price, and amount of fees collected for the fiscal year. The data must be accompanied by a statement certifying that the list includes information on all special products or services within the responding line or staff office.

D. OIG Comments

Although NOAA's reply meets the intent of our recommendation, we still believe that establishing a centralized database for user fees is the most effective method for improving accounting controls. According to the U. S. General Accounting Office⁵, internal control systems are to provide reasonable, not absolute, assurance that the objectives of the systems will be accomplished. Managers should focus on reducing the risks that such objectives will not be accomplished. Therefore, we believe that there are no guarantees that any user fee database—centralized or decentralized—will provide information that is always accurate, complete,

⁵ *Standards for Internal Control in the Federal Government*, November 1999.

available, and timely. However, a centralized database provides the means for achieving the greatest risk reductions. These include, among others, reductions in the risks of errors and omissions in the compilation of roll-up totals for each office.

We are not convinced that revising NOAA's policy and procedures is the most effective and efficient long-term solution to improving accounting controls over user fees. Nevertheless, we recognize the realities of limited resources and have, therefore, modified our original recommendation. We will assess the effectiveness of this solution through a follow-up review of NOAA's annual financial statements and a future audit of NOAA's user fee activities.

II. NOAA Needs to Enforce Its Biennial Review Policies and Procedures

NOAA should ensure that all of its offices carry out the assigned responsibilities that are identified in its biennial review policies and procedures. Our limited review found that some offices did not fulfill these responsibilities, which include conducting final reviews of unit prices, submitting required biennial review listings, and randomly auditing Product/Service Cost Computation forms. Unless NOAA offices fully execute these responsibilities, neither NOAA, nor the administration, nor the Congress is assured that NOAA's user charges are in compliance with federal policy requiring that they be sufficient to recover the full cost to the government of providing the products or services.

Policies and procedures for biennial reviews are delineated in the *NOAA Finance Handbook*, Chapter 9, "Fees for Special Products or Services," and in a May 22, 1995, policy memorandum issued by NOAA's Office of the Comptroller. Pursuant to these policies and procedures, each line office organization furnishing a special product or service accumulates related cost data and prepares a Product/Service Cost Computation form. The form must be prepared every 2 years, but may be prepared more frequently if significant cost changes occur or a new product or service is introduced. The form is the basis for approval of the user fee for the ensuing fiscal year.

The form is submitted for final review and approval to the line office's management and budget office. The management and budget office then provides, at least biennially or more often as necessary, a list of special products or services to the NOAA Finance Office. For each product or service, the list includes the unit price and date approved. The Finance Office reviews the list submitted by the management and budget office of each line office to determine if biennial reviews were conducted for NOAA's known special products or services. It is also responsible for randomly auditing a sample of Product/Service Cost Computation forms selected from the lists. The biennial review process is depicted in Attachment 1.

A. Thorough, adequately documented final reviews support proper user fees

Our audit disclosed that the management and budget offices in each of NOAA's line offices that reported user fees in fiscal year 1998 either did not conduct thorough final reviews of Product/Service Cost Computation forms or could not provide adequate documentation to support that they did so. NOS staff told us that the office does not validate any of the costs on the forms before approval because the data needed to do so is with the organizations that prepare the forms. A NESDIS official said that instead of a thorough final review of the forms, the office looks for anomalies. Officials and staff in NWS and the NMFS informed us that they conduct final reviews of the forms. However, officials and staff in NESDIS, NWS, and NMFS could not provide us, for each of the forms approved, with documentation that clearly substantiates the scope and results of their reviews and how issues were resolved.

The significance that NOAA places on the final review is evident from the user fee responsibilities assigned to the management and budget office in each of the line offices. The Office of the Comptroller's policy memo states that the management and budget office is responsible for providing general supervision of user fees, assuring compliance with user fee policies and procedures, and conducting a final review and approval of unit prices. Also, the *NOAA Finance Handbook*, Chapter 9, states that the management and budget office will review Product/Service Cost Computation forms for accuracy, logic, and completeness of documentation before approving final prices.

We too believe that the final review is a significant event in the approval process and that it should be thorough and adequately documented. Without a thorough final review, as described in the *Finance Handbook*, NOAA risks approving user charges that are not based on full cost recovery or properly documented when full cost recovery is waived. Without an adequately documented final review, including a short summary of scope, results, and issue resolution, NOAA is not in compliance with the internal control standards embodied in OMB Circular A-123. These standards require that written evidence be maintained for all significant events and that the evidence be purposeful and useful to managers in controlling their operations. Adequately documented reviews increase the efficiency and effectiveness of future reviews, facilitate staff training, and protect the government from claims by users, GAO, and others that fee levels are inappropriate or the review process was inadequate.

B. Compliance with biennial list requirement encourages the review of all user fees

The management and budget offices did not comply with the requirement in NOAA's policy memorandum for submitting biennial review lists, instead of the Product/Service Cost Computation forms, to the Finance Office. We found that the offices either did not submit the

required lists or submitted incomplete lists. In November 1998, the Finance Office reminded each office of the requirement and asked for the lists no later than January 31, 1999. Despite this reminder, NWS did not submit the required list, and NESDIS, NOS, and NMFS submitted the lists without the unit price approval dates for 220, or 85 percent, of the 258 identified user fees. However, a Finance Office employee told us that he prepared a list for NWS from copies of the Product/Service Cost Computation forms that, although not required, line offices provided to him. The employee also told us that some special products or services were missing from the NOS list and he had to add them to it based on the copies of the computation forms that NOS voluntarily provided to the Finance Office.

We believe that compliance with NOAA's biennial list requirement can ensure that all user fees are reviewed. This is because the Finance Office is able to review the listed products or services and the unit price approval dates and take follow-up action for any reviews that did not occur during the biennial period. Without lists or unit price approval dates for all user fees, the Finance Office cannot provide assurance that the required biennial reviews have been completed. This increases the risk that the reviews are not completed, and that user fees do not recover full costs, as required by federal policy.

**C. Random audits strengthen compliance
with NOAA policy and procedures**

We found that the NOAA Finance Office did not conduct the required audits of unit prices included on the January 31, 1999, biennial lists submitted by the line offices. A Finance Office employee told us that he was unable to conduct any audits of the user fees because at the time his office received the lists, he had been assigned to work on several higher priorities. He added that there was insufficient remaining staff to conduct audits of the user fees. NOAA's policy memorandum states that the Finance Office is responsible for reviewing the biennial lists of special products or services and randomly auditing a sample of the Product/Service Cost Computation forms that support the unit prices.

The importance of reviewing the biennial lists and conducting random audits cannot be overemphasized. We observed that the unit price approval date of January 31, 1997, for 25 products or services included on the NOS biennial listing as of January 31, 1999, indicated that a review had not been completed within the biennial period. We discussed the issue with staff in the NOS organization that provides the products or services and staff in the NOS management and budget office. They informed us that NOS is still selling these items at the unit prices approved over two years ago. Also, they provided us with the Product/Service Cost Computation forms for the 25 products or services and said that they were completed and submitted to the management and budget office in January 1999.

Our analysis of the forms disclosed that 17 of the 25 forms, or 68 percent, showed unit prices that had changed by 10 percent or more since the January 31, 1997, biennial review. However, the NOS organization that provided the products or services did not sign or date them. Its staff could not explain why. Also, the management and budget office did not sign and date the forms. An employee in the management and budget office explained that this was because of a planned reorganization in March 1999 that would necessitate revised costs on the forms. The employee told us that the management and budget office is still awaiting the revised cost computation forms from the NOS organization that prepares them.

We believe that the information provided from an audit of these items would have enabled the Finance Office to initiate timely corrective action by requesting that the NOS management and budget office approve revised cost computation forms, based on full cost recovery, both before and after the reorganization. Support for this action is included in the NOAA policy memo, which states that user charges may be reviewed more frequently than biennially, if necessary, to incorporate significant cost changes or the costs of new products or services.

D. Recommendations

We recommend that the Under Secretary for Oceans and Atmosphere improve internal controls over NOAA user fees by:

1. Enforcing NOAA's biennial review policies and procedures, delineated in the *NOAA Finance Handbook* and in its May 22, 1995, policy memorandum, relating to final reviews of unit prices, biennial review listings, and random audits of Product/Service Cost Computation forms.
2. Enforcing OMB's internal control standards for the federal government, as embodied in OMB Circular A-123, Revised, by documenting each final review of unit prices with a summary that addresses scope, results, and issue resolution.

E. NOAA Response

NOAA fully concurs with recommendation #1 but only partially so with recommendation #2. Regarding recommendation #2, NOAA agrees that it should enforce OMB's internal control standards for the federal government, as embodied in OMB Circular A-123, Revised, but disagrees with OIG's recommendation to document each final review of unit prices with a summary that addresses scope, results, and issue resolution. NOAA believes that such a summary appears to be a requirement for the random audits, not a unit price review.

F. **OIG Comments**

We concur with NOAA's response to recommendation #1. However, we do not concur with NOAA's response to recommendation #2. In our judgment, recommendation #2 is consistent with the intent of OMB Circular A-123, Revised, and, therefore, we reaffirm it. As we state in our report, the documentation requirement of the Circular applies to all significant events and the final review of unit prices is such an event. The intent of this requirement is to provide evidence that is purposeful and useful to managers in controlling their operations. At the same time, the scope of coverage, results, and issue resolution are, or should be, fundamental concerns of managers responsible for planning and executing unit price reviews. Written evidence in the form of a brief summary that demonstrates that the manager adequately validated costs and calculations (scope), identified any issues or problems (results), and resolved the issues or problems (issue resolution), is purposeful and useful. Such a summary provides the following benefits:

- It expedites future unit price reviews, especially important in offices having numerous special products or services, staff turnover, and training needs.
- It protects NOAA from claims by users and others that fee levels are inappropriate or the review process was inadequate.

NOAA's audit action plan should include a commitment to amend its policy and procedures to require the documentation of each unit price review with a brief summary that addresses scope, results, and issue resolution.

G. **Other Related Issues**

NOAA raises the following other issues related to the Finance Office's review of the lists submitted by the line offices. The page references are to NOAA's complete response to the draft audit report at Attachment 2.

1. **Scope of Coverage**

NOAA Response:

NOAA asserts that in the draft report our narrative description and flow chart depiction of the Finance Office's scope of coverage when it reviews the biennial lists is incorrect (see page 2). In the draft, we stated that the NOAA Finance Office reviews the lists to determine if a biennial review was conducted for *all* special products or services. NOAA states that there is no way to verify that *all* products or services that require a user fee are on any list, whether decentralized or centralized. They also add that the Finance Office's review does not ensure that *all* products and services have had a biennial review. Therefore, we should remove the word "all."

OIG Comments:

We agree with NOAA's assertion that it is not reasonable to expect the Finance Office to monitor those special products or services that have been erroneously excluded from the lists. During our audit field work, a Finance Office official told us that he reviews the lists to ensure that *known* products or services have current prices. While we did not make this distinction in the draft report, we have replaced "all" with "known" in the narrative description and flow chart depiction of the Finance Office's responsibilities in the final report.

2. Sample Selection in Random Audits

NOAA Response:

NOAA claims that there is no guarantee that its Finance Office would have selected for audit, based on a random sample of the lists, a certain group of products or services with noncurrent prices that we identify and discuss in our report (see page 3).

OIG Comments:

Specifically, NOAA refers to our observation that the unit price approval date of January 31, 1997, for 25 products or services included on the NOS biennial list as of January 31, 1999, indicated that a review had not been completed within the biennial period. As we state in the report, the information provided from a Finance Office audit of these items would have enabled it to initiate timely corrective action. While there is no guarantee that the items in question would have been selected in a random sample, an adequate review of the listings by the Finance Office should have made their choice highly probable. A Finance Office official told us that he reviews the lists to ensure that known products or services have current prices. In our judgment, the easiest and most obvious way to make that initial determination is a simple scan of the unit price approval dates included on the lists. Any noncurrent dates should alert the reviewer of a potential problem and provide a reasonable basis for including the related product or service in an audit sample. In fact, as discussed in the report, that is the methodology which we used during our audit to identify the 25 NOS products or services with noncurrent prices.

Attachments

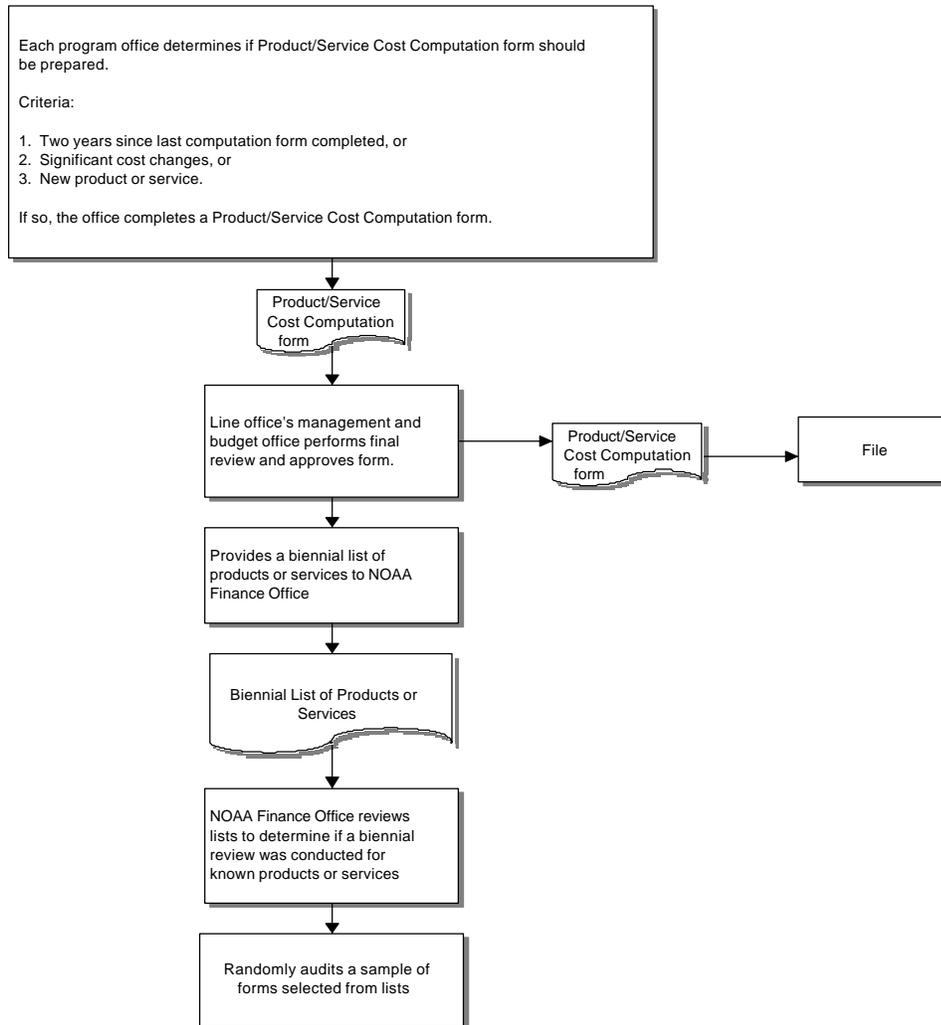
cc: Scott Gudes
Deputy Under Secretary for Oceans and Atmosphere

Sonya Stewart
Chief Financial Officer/Chief Administrative Officer

Barbara Martin
Chief, Audits and Internal Control Staff Office

Attachment 1

NOAA Procedures for Biennial Review of Special Products or Services





UNITED STATES DEPARTMENT OF COMMERCE
National Oceanic and Atmospheric Administration
CHIEF FINANCIAL OFFICER/CHIEF ADMINISTRATIVE OFFICER

March 9, 2000

MEMORANDUM FOR: Mary L. Casey
Acting Assistant Inspector General
for Auditing

FROM: Paul F. Roberts *Barbara Martin*

SUBJECT: NOAA Response to Draft OIG Audit Report
"Internal Controls Over User Fees Need
Improvement," Report No. STD-11881-0-XXXX

Thank you for the opportunity to review and comment on the subject draft report concerning the internal controls over user fees within the National Oceanic and Atmospheric Administration (NOAA). NOAA agrees in part, with the Office of Inspector General's (OIG) findings and concurs with two of the three recommendations made by the OIG to improve internal controls over user fees.

If you have any questions concerning our response, or should you require further assistance, please contact Barbara Martin on (301) 713-1150.

Attachment



NOAA Response to Draft Audit OIG Report "Internal Controls Over User Fees Need Improvement," Report No. STD-11881-0-XXXX

General Comments:

The Office of Inspector General (OIG) statement in the Introduction of their report, page 1, paragraph 3, line 8, . . . "*NWS sells weather data to the private sector*". . . is incorrect. The NWS fees are charged with the sole purpose of recovering the cost of dissemination of weather products to a variety of users, including private sector companies. NWS user fees are not transaction based but service based. The costs of dissemination are incurred through the process of generating multiple products available to users on a continuing basis.

Also, the Introduction paragraph, page 1, paragraph 3, line 10, states " . . . *NESDIS provides some of its oceanographic data to maritime shipping and offshore drilling companies . . .*" By using an example restricted to oceanographic data, the sentence does not capture the bulk of NESDIS data for which user fees are applied. We suggest the sentence be revised to read, "*NESDIS provides climatological, geophysical, and oceanographic data and products from the national data centers to the public, academia, other federal and state agencies, and commercial business on a cost-recovery basis.*"

OIG Finding I - NOAA Needs to Establish a Centralized Database for User Fees:

NOAA Comments: NOAA does not concur with this finding. While we agree that strengthening accountability over user fees is needed, a centralized database would not, in and of itself, increase the availability of additional data, accuracy, completeness, or timeliness of that data.

OIG Recommendation 1: Establish for use by managers at all levels a centralized database for user fees, which includes, at a minimum: an accurate and complete list of all special products or services, categorized by line office; the amount of user fees collected and the number of transactions executed for each special product or service; and roll-up totals for each line office and for NOAA of the number of special products or services, the amount of user fees collected, and the number of transactions executed.

NOAA Response: NOAA does not concur with this recommendation. While we agree that strengthening accountability over user fees is needed, a centralized database would not, in and of itself,

increase the availability of additional data, accuracy, completeness, or timeliness of that data. Improved information on the completeness, accuracy, collections, number of transactions by product or services, within each Line/Staff Office, will not be guaranteed by a centralized database. User fee data will be adequate for financial statement and management purposes when each Line/Staff Office not only implements, but maintains the user fee policy and procedures according to established policy. Rather than use scarce resources to design a new database system, the Finance Office will request information on user fees as part of the preparation of its annual financial statements.

To strengthen the internal controls on user fees, the Finance Office will revise its current policy and procedures to require annual submission of user fee information as part of the preparation of NOAA's financial statement. The information required on the annual list for each special product/service will include the unit price review date, approved unit price, and amount of fees collected for the fiscal year. The request for annual submission of user fee information will also require a certification statement that the list includes information on all special products/services within the responding Line/Staff Office. We think this process will effectively use existing resources to improve internal controls over user fees, and should replace the recommendation to establish a centralized database of user fee information.

OIG Finding II - NOAA Needs to Enforce Its Biennial Review Policies and Procedures:

NOAA Comments: On page 7, first paragraph, third sentence, line four, . . . "to determine if biennial reviews were conducted for all of NOAA's special products" . . . delete the word "all." The Finance Office does not review the list of user fees submitted biennially to determine if reviews were conducted for all of NOAA's special products or services. There is no way to verify that all products or services that require a user fee are on any list, whether decentralized or centralized. Also, concerning the reference to Attachment 1, a depiction of NOAA's biennial review process, the block that states "NOAA Finance Office reviews lists to determine if a biennial review was conducted for all products or services" is incorrect. The Finance Office reviews the biennial lists to see if products or services that were on the previous list are on the current list. This does not ensure that all products and services have had a biennial review.

On page 9, Section C - Random Audits Strengthen Compliance with NOAA Policy and Procedures, the first sentence of the last paragraph states, "We believe that the information provided from an audit of these items would have enabled the Finance Office to initiate timely corrective action by requesting that the NOS management and budget office approve revised cost computation forms, based on full cost recovery, both before and after the reorganization." The biennial audit of user fees was to be based on a sample of user fees. There is no guarantee that the items in question would be selected in a random sample.

OIG Recommendation 2: Enforce NOAA's biennial review policies and procedures, delineated in the NOAA Finance Handbook and in its May 22, 1995, policy memorandum, relating to final reviews of unit prices, biennial review listings, and random audits of Product/Service Cost Computation forms.

NOAA Response: NOAA concurs with this recommendation.

OIG Recommendation 3: Enforce OMB's internal control standards for the federal government, as embodied in OMB Circular A-123, Revised, by documenting each final review of unit prices with a summary that addresses scope, results, and issue resolution.

NOAA Response: NOAA concurs in part with this recommendation. NOAA agrees that we should enforce OMB's internal control standards for the federal government, as embodied in OMB Circular A-123, Revised, but disagrees with the OIG's request to document each final review of unit prices with a summary that addresses scope, results, and issue resolution. A summary that addresses scope, results, and issue resolution appears to be a requirement for the random audits, not a unit price review.