



Report In Brief

U.S. Department of Commerce Office of Inspector General

May 19, 2011



Background

The Pacific States Marine Fisheries Commission is a quasi-governmental organization operating under an interstate compact authorized by federal statute. It is composed of five member states (Alaska, California, Idaho, Oregon, and Washington) that work together to better utilize and protect the resources of fisheries under their jurisdictions.

Most of the Commission's funding comes from the administration of federal contracts and financial assistance agreements related to fisheries resource management. Since 2003 the Department of Commerce has provided most of the Commission's federal funding and has acted as its *cognizant federal agency*. In this capacity, the Department is responsible for reviewing, negotiating, and approving the Commission's indirect cost rates.

Why We Did This Review

Federal cost principles require governmental units desiring to claim indirect costs under federal awards to prepare rate proposals, certifications, and specified documentation. These principles also set forth the rules for developing, supporting, and negotiating acceptable indirect cost rates. In addition, Commerce policy requires that acceptable indirect cost rates be developed by grantees and included in approved award budgets.

During the audit period (July 1, 2001, through June 30, 2008), the Commission recovered more than \$15 million in indirect costs, as well as almost \$3 million in administrative fees. The main objective of our audit was to determine whether the Commission complied with federal cost principles and departmental requirements for recovering indirect costs.

National Oceanic and Atmospheric Administration

Audit of Indirect Cost Plans and Rates Pacific States Marine Fisheries Commission Portland, Oregon (OIG-11-025-A)

What We Found

The Commission did not comply with the minimum requirements necessary to recover indirect costs under federal awards. We found significant deficiencies in every area of indirect cost we tested. The Commission did not submit, certify, or adequately support its indirect cost rate proposals. In addition, the Commission's unsubmitted indirect cost proposals and rates were not allowable in accordance with federal guidelines in that (1) implementation of its cost accounting system was inadequate; (2) it had not established an adequate indirect cost methodology or policies, procedures, and controls; (3) its method of distributing costs was inequitable; and (4) it had not adjusted proposed indirect cost rates to reflect actual costs. Therefore, all indirect costs claimed by the Commission during the audit period are called into question; none of the \$15.6 million in costs or the \$2.9 million in administrative fees recovered by the Commission during the audit period is allowable for federal participation.

What We Recommended

Because the Department acts as the Commission's cognizant federal agency, we directed our recommendations to the NOAA Grants Officer:

1. Require the Commission to comply with minimum federal standards for financial management, such as improving its cost accounting system; establishing adequate indirect cost policies; and developing and documenting indirect cost rate proposals and supporting documentation.
2. Establish a deadline for the Commission to develop and submit revised indirect cost plans and certifications in accordance with federal cost principles and department policies, and recover any excess amounts claimed by the Commission.
3. Suspend payment of indirect costs under all current awards and prohibit recovery for future awards until the Commission develops and negotiates acceptable indirect cost rates.
4. Advise the Commission that its unsupported fees and assessments are unallowable for federal participation on all current and future awards, and require the Commission to identify and remit all such assessments claimed from 2002 to the present.
5. Advise the Department's Indirect Cost Program Coordinator in the Office of Acquisition Management of the results of this audit and our recommendations. The Department, in its cognizant agency role, should then immediately notify all of its bureaus as well as other federal agencies that have provided federal financial and acquisition assistance to the Commission from 2002 through the present.