



OFFICE OF THE SECRETARY

Status of Departmental Actions to Correct National Weather Service Mismanagement of Funds

FINAL REPORT NO. OIG-13-029-I
SEPTEMBER 13, 2013

U.S. Department of Commerce
Office of Inspector General
Office of Audit and Evaluation


FOR PUBLIC RELEASE





September 13, 2013

MEMORANDUM FOR: Ellen Herbst
Chief Financial Officer and Assistant Secretary for Administration

FROM: Ann Eilers 
Principal Assistant Inspector General for Audit and Evaluation

SUBJECT: *Status of Departmental Actions to Correct NWS Mismanagement of Funds*
Final Report No. OIG-13-029-1

Attached please find the final report of our review of actions taken to address identified weaknesses from the Department's internal inquiry report of May 11, 2012, entitled *Internal Inquiry into Alleged Mismanagement of Funds Within the National Weather Service*. Our review compared Departmental actions against what was requested in the separate May 24, 2012, decision memorandums issued by the then Deputy Secretary of Commerce and then Under Secretary of Commerce for Oceans and Atmosphere.

We found that, while the Department and NOAA have completed many key action plan items, they still need to finalize several others. Further, the Department and NOAA must take additional action to address identified weaknesses. Our report provides further details on these findings, as well as several recommendations.

In accordance with Department Administrative Order 213-5, please provide us your action plan within 60 days of this memorandum. The plan should outline the actions you propose to take to address each audit recommendation.

We appreciate the cooperation and courtesies extended to us by your staff during our review. If you have any questions or concerns about this report, please do not hesitate to contact me at (202) 482-4238, or Andrew Katsaros, Assistant Inspector General for Audit, at (202) 482-7859.

Attachment

cc: Lisa Casias, Deputy Chief Financial Officer and Director for Financial Management
David Kennedy, Deputy Under Secretary for Operations, NOAA
MaryAnn Mausser, Audit Liaison
Mack Cato, Audit Liaison, NOAA



Report In Brief

SEPTEMBER 13, 2013

Background

In 2010 and 2011, the Department and OIG received a series of complaints about mismanagement of funds within the National Weather Service (NWS). On May 11, 2012, the Department issued its *Internal Inquiry into Alleged Mismanagement of Funds Within the National Weather Service*. The Department found—in addition to the unauthorized reprogramming of NWS funds in fiscal years (FYs) 2010 and 2011—significant management, leadership, budget, and financial control problems at NWS that resulted in Antideficiency Act violations.

Following the release of the May 11, 2012, report, then-Deputy Secretary Rebecca Blank and then-Under Secretary of Commerce for Oceans and Atmosphere Jane Lubchenco issued separate decision memorandums on May 24, 2012, which required specific actions for correcting the conditions leading to the report's findings. These decision memorandums required Departmental actions on 20 distinct activities, including audits, organizational reporting adjustments, and changes to budget formulation and execution processes.

Why We Did This Review

On June 7, 2012, the U.S. Senate Appropriations Subcommittee for Commerce, Justice, Science, and Related Agencies asked OIG to review materials and findings from the Department's internal inquiry report. We then reviewed the actions taken by the Department and NOAA to address identified weaknesses to determine the adequacy of such actions in addressing issues arising from NWS's FY 2012 reprogramming requests. Our review compared actions against what was directed in the separate May 24, 2012, decision memorandums.

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WHAT WE FOUND

Our review found that the Department and NOAA have taken steps to address the findings identified in the Department's internal inquiry, some of which were still ongoing as of our March 2013 end of fieldwork. Since May 2012, the Department and NOAA completed 15 out of 20 of their planned action items. We noted that the Department and NOAA need to take additional steps to ensure that budget formulation processes at line offices and the bureau are transparent and accountable, provide training to certain NOAA officials, and review NOAA's financial management team.

Many key action plan items are complete. The Department and NOAA made progress in completing many key actions to address the concerns identified in the May 11, 2012, internal inquiry report. The Department also determined that NOAA violated the Antideficiency Act by reprogramming and constructively transferring funds between appropriation accounts without providing advance notice as required by law—and took action to address the violations.

Several action items need to be finalized. While the Department and NOAA closely monitored the progress of planned action items through biweekly updates to the Deputy Secretary's office, several action items remain incomplete. The Department's review of summary level transfers (SLTs) determined a lack of appropriate internal controls, and it is currently modifying automated controls in its Commerce Business System (CBS). Next, third-party reviews of budget operating plans and SLTs were in the draft reporting stage at the time we completed our fieldwork. Finally, regarding the review of the Department's complaint process, NOAA has conducted a review to verify the existence of a complaint process within the Department—but it has not taken steps to communicate the process to staff.

Additional actions are needed to address identified weaknesses. Our review of the Department and NOAA's actions taken to complete the Deputy Secretary's and Under Secretary's memorandums revealed unsupported findings and an overreliance on generalized training programs. We also determined that the required action plans did not include a review of NOAA's financial management team.

WHAT WE RECOMMEND

We recommend that the Department's Chief Financial Officer take appropriate action to:

1. Issue an informational notice alerting Departmental staff to the OIG online hotline complaint process.
2. For future inquiries, ensure that Departmental offices are aware of the requirement to obtain and keep documentation supporting data requests and conclusions reached.
3. Provide a training module for NOAA managers and employees on reporting complaints of fraud, waste, abuse, and mismanagement at NOAA.
4. Evaluate the impact of Departmental senior executive training on the overall proficiency related to managing human, financial, and informational resources.
5. Document an analysis of NOAA's financial management leadership that addresses improper past practices and how the current leadership team can provide effective financial management direction.

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*COVER: Detail of fisheries pediment,
U.S. Department of Commerce headquarters,
by sculptor James Earle Fraser, 1934*

Introduction

In 2010 and 2011, the Department of Commerce (the Department¹) and Office of the Inspector General (OIG) received a series of complaints about mismanagement of funds within the National Weather Service (NWS) prompting the Department to conduct an internal inquiry. On May 11, 2012, the Department issued its *Internal Inquiry into Alleged Mismanagement of Funds Within the National Weather Service*. The Department found—in addition to the unauthorized reprogramming of NWS funds in fiscal years (FYs) 2010 and 2011—significant management, leadership, budget, and financial control problems at NWS that resulted in Antideficiency Act violations.

The Department's report stated that additional problems arose from several areas within NWS. Summary level transfers (SLTs) were used to facilitate the inappropriate reallocation of expenses.² Required NWS program office payments for common services were inappropriately assessed. The NWS Office of the Chief Financial Officer (OCFO) staff, despite their objections, participated in the unlawful reprogramming of funds. The NWS Assistant Administrator also failed to provide oversight and fostered an environment of mistrust within the OCFO. In addition, financial and management controls were ineffective at preventing an unlawful reprogramming of funds, and allegations of improprieties in NWS fund transfers were revealed.

Following the release of the May 11, 2012, report, then-Deputy Secretary Rebecca Blank and then-Under Secretary of Commerce for Oceans and Atmosphere Jane Lubchenco issued separate decision memorandums on May 24, 2012, which required specific actions for correcting the conditions leading to the report's findings. These decision memorandums required Departmental actions on 20 distinct activities, including audits, organizational reporting adjustments, and changes to budget formulation and execution processes. We provided a complete list of all the Department and NOAA directives in appendixes B and C.

On June 7, 2012, the U.S. Senate Appropriations Subcommittee for Commerce, Justice, Science, and Related Agencies asked OIG to review materials and findings from the Department's internal inquiry report. We then reviewed the actions taken by the Department and NOAA to address identified weaknesses to determine the adequacy of such actions in addressing issues arising from NWS's FY 2012 reprogramming requests. Our review compared actions against what was directed in the separate May 24, 2012, decision memorandums. Because resulting outcomes of these changes will likely occur over several years, we did not evaluate the

¹ The Department, for purposes of this report, comprises several offices within the Office of the Secretary. These include the Office of the Chief Financial Officer, Office of General Counsel, and Office of the Chief Information Officer.

² A *summary level transfer (SLT)* is the movement of summary-level paid costs from one account (e.g., a line office; an organizational entity; a program, project, or activity; or an object class) to another for the purpose of correcting erroneously recorded costs. SLTs are only used with summary paid costs, not transactional-level data, undelivered orders, or unpaid costs. An SLT is used as a convenience to avoid lengthy transactional-level transfers. The Department found that NWS inappropriately used SLTs to change accounting codes on expenses previously paid out of the NWS Local Warnings and Forecasts (LWF) base budget to those of other activities, thereby freeing up flexible LWF funds for almost any purpose.

immediate effects of these actions. For further details about our objective, scope, and methodology, please see appendix A.

Findings and Recommendations

Our review found that the Department and NOAA have taken steps to address the findings identified in the Department's internal inquiry, some of which were still ongoing as of our March 2013 end of fieldwork. Since May 2012, the Department and NOAA completed 15 out of 20 of their planned action items. We noted that the Department and NOAA need to take additional steps to ensure that budget formulation processes at line offices and the bureau are transparent and accountable, provide training to certain NOAA officials, and review NOAA's financial management team as identified in appendixes B and C.

The Department and NOAA have addressed 15 of 20 required action items.

I. Many Key Action Plan Items Are Complete

The Department and NOAA made progress in completing many key actions to address the concerns identified in the May 11, 2012, internal inquiry report. Specifically, the Department and NOAA:

- Revised policies and procedures related to SLT internal control and approval processes
- Reviewed NOAA's supervisory oversight structure, including its financial management supervisory reporting structure
- Reviewed its budget formulation process and developed appropriate avenues for financial managers to raise budget concerns
- Reviewed the NWS common services account to address allocation issues
- Provided training opportunities and informational notices on appropriations concepts and financial oversight to senior executives and all employees in budget roles

These steps were designed to strengthen internal controls and ensure that inappropriate transfers of funds do not continue.

The Department also determined that NOAA violated the Antideficiency Act by reprogramming and constructively transferring funds between appropriation accounts without providing advance notice as required by applicable provisions of the FY 2010 appropriations act and FY 2011 full-year continuing resolution. The Department took action to address the violations.

II. Several Action Items Need to Be Finalized

While the Department and NOAA closely monitored the progress of planned action items through biweekly updates to the Deputy Secretary's office, several action items remain incomplete:

SLT source documentation and management approval. The Department's review of SLTs determined that there was a lack of appropriate internal controls, including no source documentation to support transactions and no management approval. The Department is currently modifying automated controls in its Commerce Business System (CBS) that will monitor transactions and flag any that reach a specified threshold to ensure proper approval before completing the transaction.

Third-party reviews. The Department and NOAA contracted with separate third parties to review all budget operating plans and SLTs for the period from FY 2006 to the first quarter of FY 2012, as well as the methodologies of the bureaus' allocation of common central service costs. The review of budget operating plans and SLTs was in the draft reporting stage at the time we completed our fieldwork. The contractor reviewing the bureaus' allocation of common central service funds ran into setbacks due to the large scope of work when reviewing NOAA's process and had to extend the contract.

Review of the Department's complaint process. While NOAA conducted a review to verify the existence of a complaint process within the Department, it has not taken steps to communicate the process to staff. Due to conflicting priorities, NOAA has neither sent an informational notice alerting staff to the OIG hotline complaint process nor provided its managers and employees a training module that educates and informs them of their responsibility to report complaints of fraud, waste, abuse, or mismanagement at NOAA. We believe that NOAA should make these educational measures a priority, as managers and employees are required to report identified fraud, waste, abuse, or mismanagement.

III. Additional Actions Are Needed to Address Identified Weaknesses

Review of the Department and NOAA's actions taken to complete Deputy Secretary Rebecca Blank's and Under Secretary of Commerce for Oceans and Atmosphere Jane Lubchenco's memorandums revealed unsupported findings and an overreliance on generalized training programs. We also determined that the required action plans did not include a review of NOAA's financial management team.

Budget process transparency. To determine whether bureau and line office processes for budget formulation and execution are transparent and accountable, the Department developed a questionnaire to solicit feedback on the budget formulation and execution processes for the 12 bureaus and 2 Departmental oversight offices. As part of this inquiry, the Department's Office of Budget reviewed the questionnaire responses, along with any supporting documentation provided, and met with budget officials from each

bureau. The Department concluded that its budget formulation and execution processes are transparent and promote accountability.

However, our review of the Department's inquiry disclosed that the Department did not maintain or create documents to support its determination. The Office of Budget—which mostly relied on the bureaus' questionnaires and interviews—often did not request that the bureaus provide documentation to support responses made during the inquiry. As a result, 10 of the 14 total bureaus and oversight offices responded with partially supported questionnaires, incomplete support, or in one case an unresponsive questionnaire with supporting documents for only some of the questions. For instance, one bureau did not provide documentation evidencing its budget execution and formulation processes. The Department should consistently obtain and keep supporting documentation to ensure the accuracy of statements and data provided by the bureaus.

Adequacy of financial training. A study of NOAA's senior executives, which addressed a directive in Undersecretary Lubchenco's memo, disclosed that not all members possessed the required ability to manage human, financial, and information resources strategically to provide effective fiscal oversight. This jeopardizes NOAA's organizational performance and reputation. To address this concern, NOAA is relying on the training programs provided by the Department's Office of General Counsel (OGC) on appropriations law concepts, including the Antideficiency Act. While we believe this training provided important information, it did not address all the concerns raised by the study. NOAA is also in the process of drafting executive development plans (EDPs) for all NOAA executives. As NOAA develops the EDPs, it should evaluate the impact of the Departmental training on overall level of proficiency of the senior executives and take additional steps to ensure that they gain any necessary knowledge and skills.

Efficacy of NOAA leadership. Our review of the actions taken to address the issues arising from the reprogramming request disclosed that the action plan memorandums did not require a review of competencies of certain financial management positions and management practices at NOAA. Such an assessment is necessary to better understand current leadership proficiencies and to provide assurances that past practices that led to the mismanagement of funds at NOAA have been addressed.

As early as FY 2010, individuals within the NWS budget execution leadership team learned of inappropriate fund transfers that occurred at NWS as early as FY 2009 and were subsequently directed to participate in the reallocation of 2010 funds. Additional interviews associated with subsequent inquiries suggest that multiple individuals within NOAA leadership were aware of the redirection of funds that took place at NWS but did not take needed corrective actions. All of these issues occurred under the leadership of NOAA's then-chief financial officer, who is now NOAA's chief resource and operations manager overseeing administrative functions and financial management.

Further, after the May 2012 internal inquiry report, our office continued to receive hotline complaints that other funds possibly were improperly moved during this period. After the budget reprogramming issues were discovered, it was revealed that NOAA financial management leadership encountered issues in accounting for satellites and

general property. These issues resulted in a material weakness³ in the Department's FY 2012 financial statements.

For these reasons, we believe that NOAA and the Department should assess the various budget and financial management leadership roles and competencies within NOAA. It is important that the current leadership team addresses past improper practices and provides effective financial management direction of NOAA's operations.

Recommendations

We recommend that the Department's Chief Financial Officer take appropriate action to:

1. Issue an informational notice alerting Departmental staff to the OIG online hotline complaint process.
2. For future inquiries, ensure that Departmental offices are aware of the requirement to obtain and keep documentation supporting data requests and conclusions reached.
3. Provide a training module for NOAA managers and employees on reporting complaints of fraud, waste, abuse, and mismanagement at NOAA.
4. Evaluate the impact of Departmental senior executive training on the overall proficiency related to managing human, financial, and informational resources.
5. Document an analysis of NOAA's financial management leadership that addresses improper past practices and how the current leadership team can provide effective financial management direction.

³ A *material weakness* is a deficiency, or combination of deficiencies, in internal controls that leaves open a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, detected, and corrected on a timely basis.

Summary of Agency Response and OIG Comments

OIG received the Department's comments on the draft report, which we include as appendix D of this final report. Generally, the Department concurs with the findings and recommendations in the report. While the Department has implemented some improvements in response to the May 24, 2012, decision memorandums, it will also develop corrective action plans and ensure timely implementation to address OIG recommendations.

Because the Department's response did not specifically address concurrence with each individual recommendation, this will be required before the OIG accepts an audit resolution proposal. Department Administrative Order 213-5, *Audit Resolution and Follow-Up*, Section 5, part .01(d)(3) requires organizational units to ensure that a written determination is prepared specifying concurrence or nonconcurrence with each recommendation. The written determination shall present a specific plan of corrective action, with appropriate target dates for implementing all accepted recommendations, and shall provide a justification for nonconcurrence with any recommendations.

We look forward to receiving the Department's action plans.

Appendix A: Objective, Scope, and Methodology

We initiated this review in response to a June 7, 2012, request from the U.S. Senate Appropriations Subcommittee on Commerce, Justice, Science and Related Agencies to review materials and findings from a May 11, 2012, internal inquiry report prepared by the Department of Commerce (the Department). The May 11 report highlighted the management of budgetary resources that resulted in the National Weather Service (NWS) budget shortfalls. Deputy Secretary Blank and Under Secretary Lubchenco issued separate decision memorandums on May 24, 2012, which required specific actions for correcting the conditions leading to the report's findings.

Our objective was to determine the adequacy of actions taken by the Department and National Oceanic and Atmospheric Administration (NOAA) in addressing issues arising from the FY 2012 reprogramming requests. Considering the 20 action items required by Deputy Secretary Blank and Under Secretary Lubchenco, we established a systematic review of the Department's and NOAA's actions to address each requirement.

We interviewed officials and reviewed documentation from the Department's Offices of the Deputy Secretary, Chief Financial Officer (CFO), Financial Management, Budget, Chief Human Capital Officer, and General Counsel. We also interviewed officials and reviewed documentation from NOAA's Offices of Finance, Workforce Management, and Chief Administrative Officer, as well as from NWS.

We conducted our review from August 2012 through March 2013. Our work was performed in accordance with *Quality Standards for Inspection and Evaluation* (2012) issued by the President's Council on Integrity and Efficiency, and under authority of the Inspector General Act of 1978, as amended, 5 U.S.C. App. 3, and Department Organization Order 10-13 (2006).

Appendix B: The Deputy Secretary's Eight Directives

	Action Item	Status
1	Direct NOAA to provide an implementation plan for each of the decisions contained in Under Secretary Lubchenco's memorandum, with a timetable and milestones.	Complete
2	Conduct a comprehensive review of how summary level transfers (SLTs) are used across the Department and whether they are used appropriately and there are proper procedures in place for approving and monitoring such transactions. Also, determine whether automated controls can be added to the existing departmental financial management system to flag SLTs that warrant additional review.	Partially complete; discussed in finding 2, "SLT source documentation and management approval"
3	Examine the bureaus' budget formulation processes to determine whether the Department's recent reforms are appropriately implemented and cascaded. Also, ensure that there are appropriate avenues for financial managers within the Department to raise concerns about budget issues without fear of retaliation.	Complete
4	Develop a training program that addresses core appropriations law concepts, including reprogramming, the Antideficiency Act, and the appropriate use of SLTs. Each bureau should designate staff that would benefit from this training and require it as part of their performance plans.	Complete
5	Develop a training program that addresses financial oversight and basic tenets of appropriations law for appropriate senior executive service (SES) employees and political appointees who oversee any budget processes. Bureaus should develop a list of political appointee positions that require this training as well.	Complete
6	Ensure that both SES and political leadership within the Department are trained on the proper process for reviewing and responding to complaints made regarding misconduct allegedly occurring under their supervision. ⁴	Complete
7	Conduct a review of procedures currently used by bureaus to allocate funds from sub-bureaus and line offices to common central service funds and ensure that the procedures are transparent and result in fair and objective allocations.	Partially complete; discussed in finding 2, "Third-party reviews"
8	Oversee a review of the reporting structure of all Bureaus within the Department that contain line offices to make sure that all line CFOs are appropriately supervised.	Complete

Source: U.S. Department of Commerce, May 24, 2012. Deputy Secretarial Decision Memorandum, "Decisions Regarding Recommendations Contained in Report Entitled *Internal Inquiry into Alleged Mismanagement of Funds Within the National Weather Service*."

⁴ The Deputy Secretary also asked the Inspector General to review his process to ensure that complaints received by OIG are appropriately addressed.

Appendix C: Under Secretary of Commerce for Oceans and Atmosphere's 12 Directives

	Action Item	Status
1	Deliver the FY 2012 reprogramming requests to NOAA's Appropriations and Authorizing Committees.	Complete
2	Fully fund the NWS common services account at the beginning of each fiscal year. Also, assess NWS programs equably for common services and ensure that there is a training procedure to make required staff aware that it is NOAA policy to ensure that program offices are assessed equably for common service accounts.	Complete
3	Change the supervisory structure of NWS so that the financial process is directly supervised by the NWS Deputy Assistant Administrator (AA) and the NWS AA and NOAA CFO serve as reviewing officials on the NWS CFO performance plan and evaluation. Review the supervisory structure in all other NOAA line offices to ensure that the line office AA, Deputy AA, and NOAA CFO all play a role in the rating and reviewing of line office CFO performance plans and evaluations. Examine the membership, roles, and responsibilities of the Corporate Board for providing budget review and oversight going forward.	Complete
4	Expand the current supervision of SLTs to ensure that the transactions are appropriately reviewed.	Complete
5	Create and implement an action plan to ensure that senior program managers and NWS leadership provide input into NWS budget decisions and to create avenues to raise concerns about budget issues to NOAA and NWS leadership without fear of retaliation.	Complete
6	Create a well-documented process that includes explicit time for programmatic decisions that align NWS budget formulation and execution with available funds.	Complete
7	Undertake a review of the financial management and oversight experience within NOAA AA, Deputy AA, and any other SES leadership positions identified as having budget formulation and execution oversight roles. Propose additional training necessary to ensure that all NOAA personnel who are involved in financial transactions have the requisite knowledge to perform their duties responsibly.	Complete
8	Contract with outside independent firms to conduct a financial audit and a program audit of NWS for FY 2006 through the first quarter of FY 2012. The financial audit must investigate whether there is a "structural deficit" within the NWS budget and whether any other line offices were involved in or harmed by the unauthorized transactions.	Partially complete; discussed in finding 2, "Third-party reviews"
9	Examine each program office to determine whether the belief that a "structural deficit" existed in the NWS budget is supported by evidence and if so, determine the causes and extent of that shortfall.	Complete
10	Determine whether an Antideficiency Act violation occurred and if so, make appropriate notifications to Congress.	Complete

	Action Item	Status
11	Review the current system of filing, logging, and responding to the type of fiscal complaints that prompted this investigation and recommend any further changes in consultation with Department officials and Office of Inspector General. In addition, reaffirm through yearly all-hands messages where and how employees should send anonymous complaints, and what steps managers can take to quickly evaluate such complaints and ensure appropriate and timely follow-up. Also, institute a yearly training for all NOAA SES employees regarding how to handle anonymous complaints.	Partially complete; discussed in finding 2, "Review of the Department's complaint process"
12	Review delegations of authority to all NOAA line offices and ensure that sufficient avenues exist within NOAA for employees to raise serious concerns to headquarters without fear of retaliation from their immediate supervisors.	Partially complete; discussed in finding 2, "Review of the Department's complaint process"

Source: U.S. Department of Commerce National Oceanic and Atmospheric Administration, May 24, 2012. Under Secretarial Decision Memorandum, "Corrective Actions re: *Internal Inquiry into Alleged Mismanagement of Funds Within the National Weather Service.*"

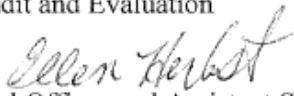
Appendix D: Agency Response

AUG 26 2013



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

MEMORANDUM FOR Ann E. Eilers
Principal Assistant Inspector General for
Office of Audit and Evaluation

FROM: Ellen Herbst 
Chief Financial Officer and Assistant Secretary
for Administration

SUBJECT: OIG Draft Report, *Status of Departmental Actions to Correct NWS Mismanagement of Funds*, July 12, 2013

This memorandum responds to the draft report from the Office of the Inspector General (OIG), *Status of Departmental Actions to Correct NWS Mismanagement of Funds*, issued on July 12, 2013.

I am pleased the report recognizes the many improvements that both the National Oceanic and Atmospheric Administration (NOAA) and the Department have implemented in response to the Decision Memorandums dated May 24, 2012. We have completed additional corrective actions since the OIG finished field work in March and have additional items nearing completion. We generally agree with your recommendations and will work with your office as we develop corrective action plans.

Thank you for the opportunity to provide comments. Please feel free to contact Lisa Casias, extension 21207, if you have any questions or comments.

cc: Maryann Mausser
Julie Tao

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