



NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION

Delinquency Follow-Up Procedures and System Shortcomings Pose Risks for Fisheries Finance Program

FINAL REPORT NO. OIG-16-046-A
SEPTEMBER 26, 2016

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Office of Inspector General
Office of Audit and Evaluation


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September 26, 2016

MEMORANDUM FOR: Dr. Kathryn D. Sullivan
Under Secretary of Commerce for Oceans and Atmosphere
and NOAA Administrator

FROM: 
Richard Bachman
Assistant Inspector General for Financial
and Intellectual Property Audits

SUBJECT: *Delinquency Follow-Up Procedures and System Shortcomings Pose Risks
for Fisheries Finance Program*
Final Report No. OIG-16-046-A

Attached is our final report on our audit of the National Oceanic and Atmospheric Administration (NOAA) National Marine Fisheries Service (NMFS) Fisheries Finance Program (the Program). The purpose of our audit was to evaluate management's controls over the Program's loan approval, monitoring, and debt collection processes.

We found the following:

- I. Application fee processes and procedures for retaining documents received with applications do not ensure compliance with program regulations.
 - A. Program regulations were not consistently followed for the receipt or return of application fees.
 - B. Supporting documentation is missing in certain loan files.
- II. Current procedures limit NOAA's ability to effectively monitor loan payments and the financial condition of borrowers.
 - A. The program does not consistently apply late payment penalties.
 - B. Alternative payment arrangements are not properly identified in the program's loan management system.
 - C. Program aging reports do not identify all missed loan payments.
 - D. The Program does not hold borrowers accountable for noncompliance with financial disclosure requirements.
 - E. Program staff does not always enforce loan payment instructions given to borrowers.

- III. Some of the program's delinquency follow-up practices do not comply with federal policies and department procedures.
 - A. The Program does not prepare delinquent debt follow-up plans or monthly status reports.
 - B. At least one loan was not referred to the Department of the Treasury within 180 days of delinquency and to the Department of Justice within 1 year of delinquency.

We have summarized NOAA's response to our draft report and included its entire formal response as appendix D. The final report will be posted on OIG's website pursuant to section 8M of the Inspector General Act of 1978, as amended.

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 recommendation.

We appreciate the assistance and courtesies extended to us by your staff. If you have any questions about this report, please contact me at (202) 482-2877 or Lisa Kelly, Supervisory Auditor, at (206) 220-4715.

Attachment



Report in Brief

September 26, 2016

Background

Since 1997, the National Oceanic and Atmospheric Administration (NOAA) National Marine Fisheries Service (NMFS) has provided traditional loans through its Fisheries Finance Program (the Program) for financing the cost of construction or reconstruction of fishing vessels, fisheries facilities, and aquaculture facilities across the United States. The Program's loans will not finance the cost of new vessel construction and vessel refurbishing projects that materially increase an existing vessels fishing capacity. Vessel financing that could contribute to overcapitalization by increasing harvesting capacity is prohibited. The Program also offers quota share loans for financing the cost of individual fishing quota in the Northwest Halibut and Sablefish and Alaskan Crab fisheries.

Why We Did This Review

The purpose of our audit was to evaluate management's controls over the Program's loan approval, monitoring, and debt collection processes. Specifically, our objectives were to determine whether (1) loan application and approval processes comply with Program regulations, including whether loan approval decisions are supported and the status of affected fisheries are considered; (2) processes such as periodic review of borrowers' financial records and other loan monitoring activities are performed in compliance with federal policies; and (3) management and collection of delinquent loan accounts comply with federal policies and Departmental procedures.

NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION Delinquency Follow-Up Procedures and System Shortcomings Pose Risks for Fisheries Finance Program

OIG-16-046-A

WHAT WE FOUND

We found that:

- I. *Application fee processes and procedures for retaining documents received with applications do not ensure compliance with program regulations.* We found that the Program complied with most laws and regulations, but improvements are needed. Specifically, NOAA cannot consistently ensure that (1) application fees are received when applications are accepted, (2) commitment fees are promptly refunded to applicants whose applications are declined or withdrawn, and (3) documentation submitted by applicants is retained.
- II. *Current procedures limit NOAA's ability to effectively monitor loan payments and the financial condition of borrowers.* We found that some of the processes do not adequately address how late charges are properly applied to loan accounts and some of the reports and screens in the Program's loan management system do not identify all payment deferrals and missed loan payments. Occasionally Program staff did not hold borrowers accountable for financial disclosure requirements, and loan repayment instructions are not always enforced.
- III. *Some of the Program's delinquency follow-up practices do not comply with federal policies and Departmental procedures.* We found that the Program does not follow some of the Department's delinquency follow-up procedures and has not obtained written approval to use different procedures. For instance, Program staff did not prepare delinquent debt plans or submit monthly status reports for delinquent loans; in addition, Program managers did not refer at least two loans to other federal agencies in compliance with timelines in federal policies.

WHAT WE RECOMMEND

We recommend that the Deputy Chief Administrative Officer for Fisheries develop standard processes for (1) identifying applicants that are owed a refund, assigning responsibility for initiating commitment fee refunds, and, when commitment fees are refunded, ensuring that the correct amount is returned to the loan applicant; (2) collecting the application fee when the application is accepted; and (3) requiring the use of checklists or other tools to ensure that loan officers obtain and keep the necessary documentation in loan files to support an applicants' eligibility and legitimacy.

We also recommend that the Deputy Chief Administrative Officer for Fisheries

- (4) fix the flaw in the loan management system so that it (a) properly identifies delinquent accounts and (b) applies late payment penalties to loan accounts—or implement another loan management system in place of the current system;
- (5) develop policies and procedures to ensure that (a) late payment penalties and waivers are consistently assessed and supported and (b) all loan accounts approved for deferral payment arrangements are properly identified in the Program's loan management system;
- (6) develop and use an aging report that accurately identifies missed payments;
- (7) develop processes for acquiring annual financial records from borrowers;
- (8) ensure that Program staff follow loan payment procedures and pursue an increased acceptance of electronic payments;
- (9) develop a process for preparing written plans for delinquent accounts and the submission of monthly status reports to the appropriate officer; and
- (10) reinforce policies requiring the Program to refer delinquent debt to the Department of the Treasury and follow delinquency follow-up guidance in the Department's *Credit and Debt Management Operating Standards and Procedures Handbook*.

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Introduction

Since 1997, the National Oceanic and Atmospheric Administration (NOAA) National Marine Fisheries Service (NMFS) has provided traditional loans through its Fisheries Finance Program (the Program) for financing the cost of construction or reconstruction of fishing vessels, fisheries facilities, and aquaculture facilities across the United States.¹ The Program's loans will not finance the cost of new vessel construction and vessel refurbishing projects that materially increase an existing vessels fishing capacity. Vessel financing that could contribute to overcapitalization by increasing harvesting capacity is prohibited.² The Program also offers quota share loans for financing the cost of individual fishing quota³ in the Northwest Halibut and Sablefish and Alaskan Crab fisheries.⁴

Summary of Objectives, Scope, and Methodology

The purpose of our audit was to evaluate management's controls over the Program's loan approval, monitoring, and debt collection processes. Specifically, our objectives were to determine whether

- loan application and approval processes comply with Program regulations, including whether loan approval decisions are supported and the status of affected fisheries are considered;
- processes such as periodic review of borrowers' financial records and other loan monitoring activities are performed in compliance with federal policies; and
- management and collection of delinquent loan accounts comply with federal policies and department procedures.

To determine the extent of management's controls over the Program, we obtained an understanding of loan application and approval procedures and reviewed records in loan files supporting the Program staff's determination that applicants meet eligibility requirements and qualify for a loan. We also accessed the Program's loan management system to confirm the Program evaluates borrowers' financial condition and to review loan payment history. Additionally, we conducted interviews with Program managers and reviewed supporting records to determine actions taken on loan accounts with past due amounts.

Appendix A further explains our audit objectives, scope, and methodology.

¹ 50 CFR § 253.26.

² 50 CFR § 253.26(a).

³ An *individual fishing quota* is a federal permit under a limited access system to harvest a quantity of fish, expressed by a unit or units representing a percentage of the total allowable catch of a fishery that may be received or held for exclusive use by a person. 50 CFR § 253.10.

⁴ 50 CFR § 253.27, 50 CFR § 253.28, and 50 CFR § 253.30.

We conducted our review from August 2015 through January 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Loan authority. The Program offers direct government loans to single proprietors, private corporations, partnerships, and public corporations. Loan amounts are limited to 80 percent of the actual cost for a project (or the quota shares' market value in case of quota share loans) and interest rates are fixed at 2 percent over the Department of Treasury's cost of borrowing public funds. The maximum term of a loan is 25 years with no prepayment penalties. The Program receives annual loan authority from Congress and—as summarized in table I below—in recent fiscal years (FYs), the Program has used less than the amount authorized.

Table I. Loan Authority, Loaned Amounts, and Unused Loan Authority (FYs 2011–2015)

FY	Loan Authority Receipt Date	Loan Authority	Loaned Amount	Unused Loan Authority
2015	02/27/2015	\$ 124,000,000	\$ 57,234,060	\$ 66,765,940
2014	03/12/2014	\$ 124,000,000	\$ 90,862,716	\$ 33,137,284
2013	03/27/2013	\$ 83,000,000	\$ 38,717,894	\$ 44,282,106
2012	03/19/2012	\$ 83,000,000	\$ 42,020,861	\$ 40,979,139
2011	03/25/2011	\$ 75,000,000	\$ 67,549,448	\$ 7,450,552
Total		\$ 489,000,000	\$296,384,979	\$192,615,021

Source: Department of Commerce, 2011–2015 Congressional budgets; OIG analysis of Program information

The Program's inability to expend its total loan authority may partly be due to the timing of when the Program receives its annual loan authority. The Program tends to receive loan authority nearly halfway through the fiscal year. As explained by Program managers, the Program cannot officially accept a loan application until it receives the loan authority. Rather than waiting to pursue financing through the Program, interested parties who contact the Program during periods without loan authority tend to turn to other lenders.

Locations. The Program has three regional financial services branches located in Seattle (Northwest), Gloucester, Massachusetts (Northeast), and St. Petersburg, Florida (Southeast). The Program's headquarters and senior management are located in Silver Spring, Maryland. As of August 2015, the Program had 18 employees.

Loan application process. Individuals and businesses interested in Program financing submit an application and fee to the applicable regional financial services branch. Applicants must be U.S. citizens; be eligible to document a vessel in the coastwise trade; and have the ability, experience, resources, character, reputation, and other qualifications the Program deems necessary for successfully operating, utilizing, or carrying out the project and protecting its financial interest. If the applicant is a corporation, at least 75 percent of the stock must be held by U.S. citizens.

The branch office receives the application, identifies the purpose for the prospective loan, and makes an initial determination about the applicant's qualifications. This review includes screening applicants for credit worthiness by running credit checks and identifying outstanding debt. Other steps performed include searches for outstanding civil penalties.

With input from senior managers, Program branches recommend approval or denial of loan applications originated in their jurisdiction. A loan committee at NMFS headquarters makes the final decision whether to fund the loan. With assistance from NOAA Office of General Counsel and the NOAA Finance Office,⁵ the Program takes the lead in preparing loan closing documents and initiating disbursement of loan funds. Loan officers monitor payments and compliance with loan terms. They also provide input on loan servicing actions.

As of July 15, 2015, the Program had 291 active loans with a total loaned amount of about \$328 million. Active loans have an unpaid balance and include loans with past due payments and rescheduled payment terms. Table 2 below summarizes the number of active loans and loaned amounts by financial services branch.

Table 2. Regional Financial Services Branch Loan Profile as of July 15, 2015

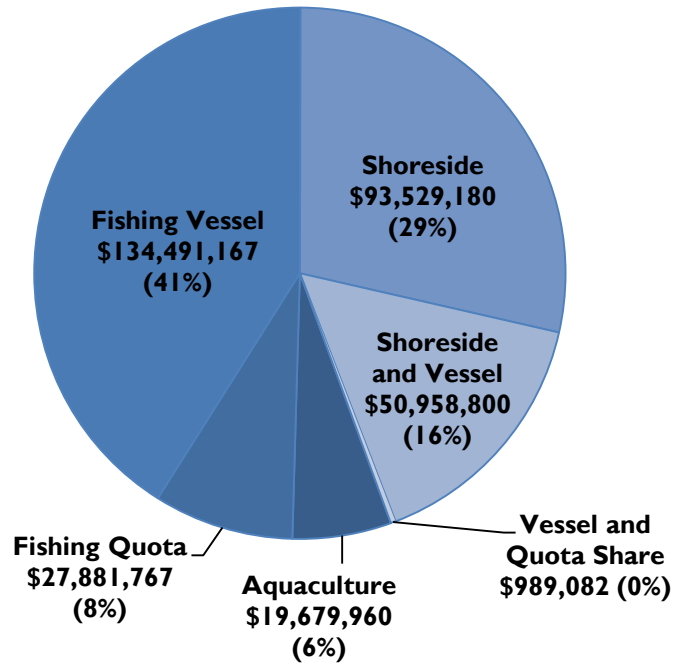
Financial Services Branch Office	Number of Active Loans	Loaned Amount
Seattle, WA	245	\$ 179,669,388.96
Gloucester, MA	37	\$ 87,261,566.37
St. Petersburg, FL	9	\$ 60,599,000.00
Total	291	\$327,529,955.33

Source: OIG analysis of Program information

As shown in figure 1 (next page), of the 291 active loans at July 15, 2015, the majority of projects the loans funded are for fishing vessel and shoreside improvements.

⁵ The Finance Office provides NOAA's financial management policies, systems and procedures. It advises line/staff offices on financial management policies and procedures and provides special-purpose financial information and analyses on matters of immediate concern to line/staff offices, the Chief Financial Officer, and the Office of the Under Secretary.

Figure I. Funded Projects and Loaned Amounts as of July 15, 2015



Source: OIG analysis of Program information

Findings and Recommendations

I. Application Fee Processes and Procedures for Retaining Documents Received with Applications Do Not Ensure Compliance with Program Regulations

We found that the Program complied with most laws and regulations, but improvements are needed. For most of the loan files we reviewed, we concluded the Program has adequate records to support loan approval decisions and to show compliance with Program regulations, with exceptions discussed below. We reviewed 29 loans that were approved between FYs 2002 and 2015—and found that NOAA staff ensured applicants met eligibility requirements and qualified for a Program loan, the approval decision was supported, and the status of the affected fisheries are considered before loans are approved. However, for 3 of the loan files reviewed, documentation related to verification of citizenship or corporate status was missing.

We also reviewed a selection of loan applications for compliance with application fee requirements and found a need for improvement. Specifically, NOAA cannot consistently ensure that (1) application fees are received when applications are accepted, (2) commitment fees are promptly refunded to applicants whose applications are declined or withdrawn, and (3) documentation submitted by applicants is retained.

A. Program Regulations Were Not Consistently Followed For the Receipt or Return of Application Fees

As part of the loan application process, Program regulations state that applicants must submit a fee equal to 0.5 percent of the requested borrowed amount when an application is formally accepted.⁶ The application fee allows the government to recover some of the costs incurred in reviewing and processing the loan application. Half of the amount is considered to be a commitment fee, and is refundable if the Program declines the application or if an applicant withdraws its application before the Program issues an approval in principle (AIP) letter.⁷ The remaining part of the application fee—the filing fee—is nonrefundable. We found that regulations were not consistently followed to ensure the prompt collection of fees when an application was accepted and the proper refund to the borrower when an application was denied or withdrawn.

Application fees received after acceptance. Although Program regulations state that the borrower must submit an application fee when a loan application is formally accepted, we found that—for 19 of the 29 loans reviewed—the applicant paid the

⁶ 50 CFR § 253.12(b).

⁷ 50 CFR § 253.10 defines AIP letter as “a written communication from NMFS to the applicant expressing the agency's commitment to provide financing for a project, subject to all applicable regulatory and Program requirements and in accordance with the terms and conditions contained in the AIP.”

application fee from 4 to 481 days after acceptance.⁸ At the time of our fieldwork, NOAA did not retain in its records the date it determined an application is formally accepted; therefore we used the date the application was received. Program officials stated that, as part of the application process, loan officers sometimes wait to collect an application fee, until it is almost certain the loan will be approved and the final loan amount is determined. While helpful in an effort to avoid refunding fees if a loan is denied or withdrawn—or if an approved loan amount is different from the requested amount—this practice does not follow Program regulations.

In addition to the 29 loans reviewed, we also judgmentally selected five declined and withdrawn applications at the Northwest Branch and found at least four instances where the Program did not receive an application fee when the application was accepted. As a result, the Northwest Branch did not collect \$18,128 in nonrefundable filing fees (see table 3, below). Because the filing fees are used to offset administrative costs, this resulted in \$18,128 of potential monetary benefits (see appendix B).

Table 3. Summary of OIG Calculation of Uncollected Filing Fees in the Northwest Branch

Item Number	Application Received (FY)	Requested Loan Amount	Uncollected Filing Fee
1	2014	\$ 1,800,000	\$ 4,500
2	2014	\$ 2,700,000	\$ 6,750
3	2012	\$ 1,751,000	\$ 4,378
4	2011	\$ 1,000,000	\$ 2,500
Total		\$7,251,000	\$18,128

Source: OIG analysis of Program information

The purpose of the application fee is to cover the agency's costs for reviewing applications, obtaining credit reports, and other information about the applicant. If the fee is not paid and the application is declined or withdrawn, the Program loses the opportunity to collect the filing fee—and, consequently, is unable to recover some of its expenses. Because the Program can receive applications before lending authority is available, and typically the Program would not accept an application fee without the authority to make Program loans, it is advantageous to the Program to document in writing its application fee collection process, including identifying when it has accepted an application.

⁸ This late application fee payment was noted for 10 loans audited at the Northwest branch, 5 loans audited at the Northeast branch, and 4 loans audited at the Southeast branch. However, for 28 of the 29 loans we audited for compliance with Program regulations, the application fees were paid by the time the Program issued the AIP letter. For one loan we reviewed it appears that the application fee was paid after the AIP letter date. The AIP is dated January 22, 2004 but the application fee was paid February 11, 2004.

Inconsistent borrower fee refunds. We found that commitment fees were not consistently refunded for loan applications that are declined or withdrawn—and, in one instance, the commitment fee returned was for an incorrect amount. As shown in table 4 (see below), we found four instances where the loan application was withdrawn but the fees were never returned to the applicant, despite the withdrawal occurring nearly 10 years ago. For one loan application submitted to the Northeast Branch, the Program returned to the applicant an amount that exceeded the commitment fee, resulting in an overpayment of the refund.⁹

Table 4. Summary of Commitment Fees Retained or Incorrectly Refunded

Loan Number ^a	Commitment Fee Received Date	Application Withdrawn Date	Commitment Fee Paid By Applicant	Commitment Fee Refunded By Program	Commitment Fee Refund Overpaid By Program
FF-B-071	04/04/2004	09/30/2006	\$ 2,000	—	—
FF-B-072	04/04/2004	09/30/2006	\$ 1,925	—	—
FF-A-047	04/25/2013	09/30/2015	\$ 1,125	—	—
FF-B-131	05/01/2008	09/17/2008	\$ 1,000	\$ 1,250	\$250
FF-B-177	07/30/2013	12/04/2013	\$ 117	—	—
Total			\$ 6,167	\$1,250	\$250

Source: OIG analysis of Program information

^a In the loan number, “B” or “A” indicates that the loan originated in the Northeast Branch or the Northwest Branch, respectively.

This pattern of inconsistent refunds occurred because the Program does not have adequate procedures for periodically reviewing declined and withdrawn loan applications to ensure amounts due to applicants are promptly refunded. As a result, program personnel may be simply unaware of instances when commitment fees should be returned. According to the Program leader, if the loan is withdrawn or declined, the responsible loan officers then notify the applicants of the ability to request a refund via email. If applicants did not ask for the refund, or loan staff did not voluntarily initiate the refund, none was processed. Although Program regulations state that refunds may be issued, not that they will be issued, the Program would benefit by defining its fee refund process and following standard procedures.

Because of the lack of controls over the refund process, at least four loan applications were not processed for refunds totaling about \$5,200 and the Program overpaid one applicant by \$250.

⁹ According to the Improper Payments Elimination and Recovery Act of 2012, Pub. L. No. 112-248, this overpayment constitutes an improper payment.

B. Supporting Documentation Is Missing in Some of the Loan Files

As part of the loan application—and as stated on the loan application form—an applicant must provide a U.S. passport, birth certificate, or similar documentation proving U.S. citizenship.¹⁰ When the applicant is a business or corporation, at least 75 percent of the stock must be held by U.S. citizens,¹¹ and its principals submit the necessary records on behalf of the business. For partnerships, corporations, and limited liability companies, the Program's loan application requires submission of specific documents to provide loan staff reasonable assurance that the applicant is a legitimate business.¹² Additionally, Departmental procedures require that evaluations of credit applications include an assessment of the applicant's creditworthiness, financial responsibility, and ability to repay.¹³

Most loan files we reviewed contained the records necessary to verify eligibility and analyze the applicant's creditworthiness. However, 3 of the 29 did not have proof of U.S. citizenship or corporate documents (see appendix C).

Program officials stated that these exceptions represent missing documents that may have been obtained but unintentionally archived, destroyed, or misplaced. During our audit, we observed that two of the three branch offices use checklists as part of the loan application review process. The loan files with missing citizenship and business documents originated in the branch that does not use checklists. Checklists can remind loan staff to verify that the required information is obtained from the applicant and retained in the file.

Without the required proof of citizenship and business documents, the loan staff cannot demonstrate that they verified applicants meet eligibility and other program requirements. They cannot verify that the business is in good standing, determine the legal partners or shareholders of a business, and verify who has legal authority to transact business and enter into transactions. As a result, the Program could inadvertently jeopardize its ability to hold borrowers accountable if those loans become delinquent. Based on the 29 active loans we audited, for the most part the Program is adequately executing its process with respect to reviewing applicant eligibility.

¹⁰ 50 CFR § 253.12(a).

¹¹ 46 U.S.C. § 50501.

¹² According to the loan application form, partnerships provide a copy of the partnership agreement; corporations provide a certified copy of their articles of incorporation, bylaws, declaration of corporate officers, corporate resolution authorizing transaction, certificate of incumbency, and good standing certificate from the Secretary of State; and limited liability companies provide a certified copy of the articles of organization, operating agreement, resolution by members authorizing transaction, and a certificate of good standing from the Secretary of State.

¹³ Department of Commerce, September 2011. *Credit and Debt Management Operating Standards and Procedures Handbook* [online] Washington, DC: DOC.

http://www.osec.doc.gov/ofm/credit/Final_Chapter_5_Cr_&_Debt_Hbk-Procedures_for_Loan_&_Loan_Guarantees_Pre-Award_Evaluation_9-22-11.pdf (accessed February 10, 2016). See Chapter 5, "Procedures for Loans and Loan Guarantees Pre-Award Evaluation," Section 3.01 "Creditworthiness."

Recommendations

We recommend that the Deputy Chief Administrative Officer for Fisheries develop standard processes for

1. identifying applicants that are owed a refund; assigning responsibility for initiating commitment fee refunds; and, when commitment fees are refunded, ensuring that the correct amount is returned to the loan applicant;
2. collecting the application fee when the application is accepted; and
3. requiring the use of checklists or other tools to ensure that loan officers obtain and keep the necessary documentation in loan files to support an applicants' eligibility and legitimacy.

II. Current Procedures Limit NOAA's Ability to Effectively Monitor Loan Payments and the Financial Condition of Borrowers

Adequate controls to monitor borrowers are essential for the effective operation of the Program. Office of Management and Budget (OMB) policies advise federal agencies to use reports on the status of loan portfolios and receivables to support proactive management.¹⁴ Furthermore, agencies should maintain an accurate and timely reporting system to identify and monitor delinquencies.¹⁵

We found that some of the processes do not adequately address how late charges are properly applied to loan accounts and some of the reports and screens in the Program's loan management system do not identify all payment deferrals and missed loan payments. Occasionally Program staff did not hold borrowers accountable for financial disclosure requirements, and loan repayment instructions are not always enforced.

A. The Program Does Not Consistently Apply Late Payment Penalties

According to the promissory notes signed by the borrower and the Program, any installment not received within 15 days of its due date is subject to a late payment penalty of 5 percent of the overdue amount or \$1,000, whichever is less. The Program may also waive late payment penalties at its discretion, but documentation authorizing a waiver and management approval is required. Based on a judgmental selection of 56 loans, we found 12 instances—totaling approximately \$7,500 in late payment penalties—when the Program did not assess the penalty as required (see table 5, next page).

Late payment penalties were not applied properly and consistently because the Program does not have a reliable loan management system or reliable processes to ensure that late charges are assessed in compliance with terms of the signed promissory notes. We

¹⁴ Executive Office of the President, Office of Management and Budget, January 2013. *Policies for Federal Credit Programs and Non-Tax Receivables*, Section IV.A2, Circular No. A-129 [online]. https://www.whitehouse.gov/sites/default/files/omb/assets/a129/rev_2013/pdf/a-129.pdf (accessed on August 20, 2015).

¹⁵ *Ibid.*, Section V.B1.

identified that 9 out of 12 exceptions occurred because of processing deficiencies in the automated loan management system used by Program staff to record approved loans, monitor loan billing and payment activities, and track various loan-related requirements. Specifically, there was a program error that prevented the system from assessing late payment penalties in instances where multiple outstanding invoices appeared on a loan account. For the remaining 3 instances, Program staff could not adequately explain why late payment penalties were not assessed. In some instances, they stated that a waiver of the late charge may have been processed, but they provided no documentation for support.

Table 5. Summary of Inconsistently Assessed Late Payment Penalties

Loan Number	Regional Branch	Payment Due Date	Payment Received Date	Number of Days Past Due	Late Payment Penalty Amount
FFQS-158A	Northwest	08/14/2015	10/19/2015	66	\$ 208.81
FF-B-134	Northeast	12/11/2014	02/17/2015	68	\$ 658.64
FFQS-158A	Northwest	11/14/2014	01/26/2015	73	\$ 208.81
FF-B-134	Northeast	03/11/2014	05/09/2014	59	\$ 658.64
FF-B-134	Northeast	12/11/2013	02/14/2014	65	\$ 658.64
FF-B-134	Northeast	03/11/2013	05/30/2013	80	\$ 658.64
FF-B-134	Northeast	12/11/2011	02/08/2012	59	\$ 658.64
FF-B-108	Northeast	05/31/2011	08/02/2011	63	\$ 1,000.00
FF-B-084	Northeast	05/16/2011	07/18/2011	63	\$ 1,000.00
FF-B-133	Northeast	03/27/2011	06/10/2011	75	\$ 393.99
FF-B-133	Northeast	12/27/2010	03/18/2011	81	\$ 393.99
FF-B-108	Northeast	11/30/2010	02/14/2011	76	\$ 1,000.00
Total					\$7,498.80

Source: OIG analysis of Fisheries Finance Program information

The inconsistent application of late payment penalties on some loan accounts with past due balances, but not on others, can also result in inequitable treatment to borrowers. Moreover, not recovering late payment penalties from borrowers prevents the government from receiving money it is entitled to collect.

B. Alternative Payment Arrangements Are Not Properly Identified in the Program's Loan Management System

When borrowers experience financial hardship or other situations resulting in inability to comply with loan repayment terms, the Program can reschedule loan terms, including allowing borrowers to defer either a partial or full loan payment. The unpaid amount is

then due at the end of the loan term. Typically, the Program identifies deferred payments in its loan management system on a Bills Report screen. Doing so is consistent with guidance in OMB's *Policies for Federal Credit Programs and Non-Tax Receivables*, which advises agencies to include in loan files (or other systems of records) adequate and up-to-date information on loan actions that result in payment deferrals.¹⁶ However, we noted several deferred payments that were not identified in the Program's loan management system.

When Program managers approve deferral of one or more loan payments prior to the payment due date and before the bill is sent to the borrower, NOAA Finance modifies the borrower's payment schedule in the loan management system. This revised payment schedule will not reflect that a deferred payment was approved, unless NOAA Finance records the deferral in the Bills Report screen in the system. We found that—because the payment schedules for three loans were changed before the quarterly payment was due, and the deferred payments on those loans were not recorded on the Bills Report screen in the loan management system—the deferred payments were not captured in the system.

Loans with deferred payments indicate that a borrower may require closer monitoring. Identifying all loan payment deferrals in the loan management system gives Program staff access to a borrower's payment history and provides updated information to aid in developing an effective strategy to respond to circumstances related to the loan.

C. *Program Aging Reports Do Not Identify All Missed Loan Payments*

To effectively manage the status of loans, OMB policy guides federal programs to use comprehensive reports that provide a clear understanding of the payment history and other actions affecting each loan account.¹⁷ Using such tools, Program managers and staff would have access to reports to identify delinquent amounts on loan accounts (known as aging reports) to help them identify borrowers who missed payments, and determine the number of days each payment is past due and the total unpaid amount.

The Program's two aging reports are not designed to identify all missed loan payments. These two system-generated reports simply subtract total payments received from the total amount owed to date on a particular loan to track delinquencies. One report uses cumulative amounts billed as the amount owed and the other report uses the loan amortization schedule. For example: if a borrower has made \$11,000 in payments on a \$20,000 loan, while \$10,000 was due to date (per loan amortization schedules), that borrower could skip the next two \$500 payments without being flagged as delinquent. We identified an instance of a borrower, who missed a quarterly loan payment, not identified in the Program's aging report because the cumulative loan payments exceeded the total amount due for all payments to date. As a result, the Program's aging reports would not identify a borrower who made one large payment, then experienced financial hardship and missed a subsequent loan payment. Allowing a borrower who prepaid on

¹⁶ Ibid., Section IV.B.1.

¹⁷ Ibid., Sections IV.A and IV.B.

the loan to miss a subsequent payment—without written pre-approval to do so—is inconsistent with the Program’s loan terms, which state that any partial prepayment will (1) be applied against the principal amount outstanding and (2) not postpone the due date and amount of any subsequent quarterly installments, unless the payee or other holder of the note agrees in writing.

The limited information in the Program’s aging reports prevents proactive oversight of loans. A delayed reaction by the Program could limit its ability to recover subsequent loan payments or full repayment of the loan.

D. The Program Does Not Hold Borrowers Accountable for Noncompliance with Financial Disclosure Requirements

The AIP letter—signed by the borrower and Program representatives—states that the borrower will provide to the government annually, at the end of each of its accounting or tax years, the borrower’s balance sheet, income statement, and federal income tax return. However, for 4 of the 29 loans we reviewed, Program staff did not ensure borrowers complied with the requirement (see supporting table in appendix C).

This condition exists because the Program lacks policies and procedures that guide loan staff in (1) consistently and regularly obtaining borrower financial information and (2) responding to borrowers not providing financial information. When borrowers fail to comply with annual financial reporting requirements, Program staff may be unable to identify borrowers experiencing financial difficulties. As a result, the government’s ability to fully recover loan amounts could be limited in the event a borrower defaults.

E. Program Staff Does Not Always Enforce Loan Payment Instructions Given to Borrowers

Program regulations allow NOAA to determine the address where loan payments will be received.¹⁸ In the loan closing documents and in quarterly bills, NOAA instructs borrowers to send loan payments to a lock box. Using this type of banking service both ensures that loan payments are deposited timely to the proper bank account and safeguards funds from misuse.

We found correspondence in six loan files identifying two branch offices that regularly accept loan payments from borrowers prior to being entered into the lockbox. (See supporting table in appendix C, where we list the loans for which this was noted.) At times, loan officers asked borrowers to send payments to the branch, so that the loan officer would know when the payment was received and could provide instructions to NOAA Finance staff on how to apply the payment to the loan account. Although our audit did not identify misuse of funds, accepting loan payments at branch offices—where there are no procedures in place to ensure separation of check receiving, recording, and depositing functions—exposes payments to loss and unauthorized use.

¹⁸ 50 CFR § 253.20(d).

Services such as Pay.gov and Fedwire give federal agencies access to electronic payment methods and promoting use of these alternatives could add efficiencies to the Program's loan payment receiving process.¹⁹

Recommendations

We recommend that the Deputy Chief Administrative Officer for Fisheries

4. fix the flaw in the loan management system so that it (a) properly identifies delinquent accounts and (b) applies late payment penalties to loan accounts—or implement another loan management system in place of the current system;
5. develop policies and procedures to ensure that (a) late payment penalties and waivers are consistently assessed and supported and (b) all loan accounts approved for deferral payment arrangements are properly identified in the Program's loan management system;
6. develop and use an aging report that accurately identifies missed payments;
7. develop processes for acquiring annual financial records from borrowers; and
8. ensure that Program staff follow loan payment procedures and pursue an increased acceptance of electronic payments.

III. Some of the Program's Delinquency Follow-Up Practices Do Not Comply with Federal Policies and Department Procedures

When a loan is delinquent—or the borrower defaults on the loan—federal laws and regulations require agencies to monitor accounts, pursue overdue balances, and use the appropriate collection tools to recover debt. Requirements in the Debt Collection Improvement Act (DCIA) of 1996 as well as principles in OMB's *Policies for Federal Credit Programs and Non-Tax Receivables* emphasize that agencies are to establish strategies to maximize the collection of debt.²⁰

Additionally, according to Department procedures, an agency's collection strategy should consist of a methodical process that balances program needs and statutory requirements. Chapter 8 of the Department's *Credit and Debt Management Operating Standards and Procedures Handbook* establishes delinquency follow-up practices for its bureaus and agencies—which may follow procedures that differ, as long as those alternative procedures are in writing and approved by the Deputy Chief Financial Officer and Director for Financial Management.

We found that the Program does not follow some of the Department's delinquency follow-up procedures and has not obtained written approval to use different procedures. For instance, Program staff did not prepare delinquent debt plans or submit monthly status

¹⁹ Pay.gov allows federal agencies to receive payments made by credit card, debit card, and direct debit. Fedwire is an electronic payment and securities transfer service that processes same-day transactions for government agencies, banks, and businesses.

²⁰ Debt Collection Improvement Act of 1996, Pub. L. No. 104-134, 110 Stat. 1321 (1996).

reports for delinquent loans; in addition, Program managers did not refer at least two loans to other federal agencies in compliance with timelines in federal policies.

A. The Program Does Not Prepare Delinquent Debt Follow-Up Plans or Monthly Status Reports

As of September 30, 2015, the Program had nine delinquent loans and the loan default rate was very low—less than 1 percent of the loan portfolio. Table 6 (below) shows the number of loans granted deferrals, in delinquency, or in default over the last 4 fiscal years.

Table 6. Count of Deferred, Delinquent and Defaulted Loans (FYs 2012–2015)

	FY 2012	FY 2013	FY 2014	FY 2015
Deferred ^a	3	3	7	7
Delinquent	1	4	9	9
Defaulted	1	3	3	3

Source: OIG analysis of Program information

^a As explained in finding II.B in this report, the count excludes loans with deferred payments that were approved before the bill was due.

We reviewed several of the Program’s delinquent loans, finding at times that the Program does not follow delinquency follow-up procedures in the Department’s *Credit and Debt Management Operating Standards and Procedures Handbook*. For example, according to chapter 2, section 3.04, bureaus will establish and maintain workout groups who are responsible for ensuring all collection mechanisms are used in an attempt to collect a delinquent debt. Typically, the group gets involved when loans are 30 days overdue.²¹ The group evaluates overdue accounts and determines whether delinquent accounts can be restored to a regular payment basis or if liquidation or litigation is the appropriate next step. Chapter 3 of the handbook explains that workout plans will be in writing, approved by the appropriate organization unit official, and made available upon request from auditors or other Departmental units.

We found that, although the Program managers and loan staff in the branch offices work closely with one another on delinquent and defaulted loan cases, they do not prepare written plans for handling specific loan cases. These plans are also not approved by the

²¹ However, deviations regarding the use of a workout group and extension of the time limit (longer than 30 days after delinquency) are allowed as long as the practice is included in a bureau’s delinquency follow-up procedures, and these procedures are approved by the Deputy Chief Financial Officer and Director for Financial Management, Department of Commerce, September 2011. *Credit and Debt Management Operating Standards and Procedures Handbook* [online] Washington, DC: DOC.

http://www.osec.doc.gov/ofm/credit/Final_Chapter_8_Cr_&_Debt_Hbk_-_Delinquency_Follow-Up_10-1-15.pdf (accessed February 10, 2016). See Chapter 8, “Delinquency Follow-Up,” Section 4.03 “Bureau Workout Groups/Follow Up.”

appropriate NOAA officials. During our review of loan files, we did observe email communications and other correspondence between loan staff and Program management; however, we did not see formal written plans and status reports that meet the Departmental requirements.

Also, chapter 8 of the *Handbook* requires that the workout group prepare a monthly report that contains the dollar value of each case and its status. The group then submits the report to NOAA's accounting or finance officer or the debt management officer. The Program did not have monthly status reports and consequently did not submit reports to the appropriate officer.

These conditions exist because, in lieu of formal written procedures for handling delinquent accounts, Program managers have worked with loan staff in the branch offices and responded to circumstances on a case-by-case basis. When loan payments are more than 30 days late, Program managers have not required staff to document their collection strategies and submit them for review. Similarly, management has not required the preparation and submission of monthly status reports.

Because the Program did not document its workout plans and monthly status reports for a \$16 million loan, the Program did not have a complete record explaining its reasons for allowing deferred payments for more than 8 years. For 1 year of this loan—which closed on November 29, 2005—the Program received the scheduled quarterly loan payments. Shortly afterward, the loan became delinquent. In June 2007, Program managers approved an alternative payment arrangement that allowed the borrower to defer quarterly payments due on February 28, May 31, and August 31, 2007. Although the Program managers required the borrower to make periodic loan payments during the last 8 years, the Program managers allowed the deferred payment arrangement to continue.²²

Program managers may have a reasonable methodology behind their collection strategy for this loan. However, in the absence of a written plan and monthly status reports submitted to the appropriate agency officials, it has not demonstrated compliance with the Department's debt collection procedures—which, when followed, help ensure agencies maximize collection of delinquent debt and minimize the cost of debt collection activities.

B. At Least One Loan Was Not Referred to the Department of the Treasury Within 180 Days of Delinquency and to the Department of Justice Within 1 Year of Delinquency

When debt owed to federal agencies is more than 180 days delinquent, DCIA requires agencies to refer the debt to the Department of the Treasury—unless that debt is in litigation or foreclosure with a collection agency, with a designated federal debt collection center, or is scheduled to be disposed of under an asset sales program.²³ When a debtor is more than 1 year delinquent on debt, *Federal Claims Collection*

²² The amounts received vary and are less than the total amount required according to the amortization schedule.

²³ 31 U.S.C. § 3711(g).

Standards require that agencies make every effort to refer delinquent debts to the Department of Justice for litigation within 1 year of the date such debts last became delinquent.²⁴

Our audit identified one loan that was not transferred to the Department of the Treasury for cross-servicing after the loan became 180 days delinquent. Rather than referring the delinquent loan to the cross-servicing program within the statutory time limit, NOAA program staff pursued their own collection efforts. For this loan, the Program deferred several quarterly loan payments beginning in October 2009 due to the financial hardships of the borrower. By November 2011, the loan was over 180 days delinquent and, at this point, should have been referred to the U.S. Treasury. However, the program continued to service the debt and received only one payment until the borrower's business ceased operations in November 2012. At this time, the outstanding loan balance was about \$2.2 million. In January 2013, the Program issued a demand letter but continued negotiations with the borrower for the sale of collateral. Even though the sale allowed the Program to collect nearly \$1.8 million, which was applied to the outstanding loan balance in February 2014, a significant unpaid loan balance of \$1.7 million remained. Eventually the loan was referred to the Department of Justice in July 2014.²⁵

By not following requirements to refer debt for cross-servicing, the Program has not taken full advantage of government-wide resources that exist to assist federal agencies in collecting delinquent balances. Unless there is a compelling reason to do so, not timely referring the debt to the Department of the Treasury's Debt Management Services, as required by the DCIA, could impair the ability to aggressively collect debts owed to the government.

Recommendations

We recommend that the Deputy Chief Administrative Officer for Fisheries

9. develop a process for preparing written plans for delinquent accounts and the submission of monthly status reports to the appropriate officer and
10. reinforce policies requiring the Program to refer delinquent debt to the Department of the Treasury and follow delinquency follow-up guidance in the Department's *Credit and Debt Management Operating Standards and Procedures Handbook*.

²⁴ 31 CFR § 904.1(a).

²⁵ A demand letter generally provides legal notice of collection actions that could occur unless the applicable terms and conditions of the loan are met. Subsequent actions can include offset, referral to the Department of the Treasury for cross-servicing, referral to the Department of Justice for litigation, collection agency referral, and credit bureau reporting.

Summary of Agency Response and OIG Comments

On August 25, 2016, OIG received NOAA's comments on the draft report, which we included as appendix D of this final report. We appreciate NOAA's comments and our analysis is below.

In its response, NOAA concurred with all 10 recommendations and suggested technical and editorial changes to our report. Based on NOAA's comments we revised certain statements in the introduction and findings sections in the report.

In response to finding I.A, we found that \$18,128 of commitment fees was not collected by NOAA at the time the loan application was submitted. At the time of our fieldwork, we used the application submission date to determine the formal acceptance date, which was not recorded in their system or otherwise available to us. In its comments, NOAA acknowledged this and stated that it would address this deficiency in its response to our recommendations. Although NOAA did provide additional formal acceptance dates, which in some instances differed from what we observed, we could not verify these new dates.

Finally, for finding III.B, we included additional information in the report showing the specific time period in which the loan was more than 180 days delinquent. By statute, the loan should have been referred to the Department of the Treasury during this time; as this was the focus of our finding, we provided additional details to the relevant finding in our final report. Although this additional information was not part of our draft report, it was provided and discussed with NOAA officials during the course of our audit.

Appendix A: Objectives, Scope, and Methodology

The purpose of our audit was to evaluate management's controls over the Program's loan approval, monitoring, and debt collection processes. Specifically, our objectives were to determine whether

- loan application and approval processes comply with Program regulations, including whether loan approval decisions are supported and the status of affected fisheries are considered;
- processes such as periodic review of borrowers' financial records and other loan monitoring activities are performed in compliance with federal policies; and
- management and collection of delinquent loan accounts comply with federal policies and department procedures.

The scope of our audit was current and non-current loans as of FY 2015.

To accomplish our audit objectives we did the following:

- Reviewed relevant laws and regulations, including the DCIA, OMB's *Policies for Federal Credit Programs and Non-Tax Receivables*, the Commerce Department's *Credit and Debt Management Operating Standards and Procedures Handbook*, 50 CFR Part 253, 46 U.S.C. Ch. 537, and 31 CFR Ch. IX.
- Interviewed senior management and staff at NMFS headquarters to understand their oversight of the Program.
- Interviewed branch chiefs and loan officers at the three branch offices in Seattle, Gloucester, Massachusetts, and St. Petersburg, Florida, to understand their processes for reviewing loan applications, monitoring loans, and pursuing collection of late payments.
- Obtained an understanding of prior work performed by other auditors, and the results of their work, to identify audit findings impacting the planning and conduct of our audit.
- Accessed the Program's loan management system to obtain billing, payment, and other relevant information for loan accounts.
- Judgmentally selected for our audit 29 loans—which represent \$153 million or 47 percent of the loaned amount for active loans as of July 15, 2015—based on the amount of the loan, whether the loan payments are current, and other risk factors.
- Reviewed the Program's loan files at the three branch offices—including loan closing documents, correspondence between Program personnel and borrowers, and loan payment history—to understand and evaluate management's controls over the Program and to conclude whether the Program is complying with laws and regulations.
- Reviewed the status of a selection of delinquent and defaulted loans.

No specific instances of fraud, illegal acts, significant violations, or abuse were identified in our audit. We did not solely rely on computer-processed data to perform this audit. Although we could not independently verify the reliability of all the information we collected, we compared the information with other available supporting documents to determine data consistency and reasonableness. Based on these efforts, we believe the information we obtained is sufficiently reliable for this report.

Our audit was not a statistical sample of all loans in all three regions. Therefore, the results should not be used as conclusive evidence of the controls in place for the Program.

We conducted this audit from August 2015 through January 2016 and under the authority of the Inspector General Act of 1978, as amended, and Department Organizational Order 10-13, dated April 26, 2013. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusion based on our audit objectives.

Appendix B: Potential Monetary Benefits

	Unsupported Costs	Funds to Be Put to Better Use
Finding I.A		\$18,128

Appendix C: Supporting Table

Summary of Exceptions and Noncompliance with Program Regulations

Case Number	Loan Amount	Filing Fees Received After Application Acceptance	Missing Business or Citizenship Documents	Financial Conditions Not Monitored	Payments Sent to Branches Instead of Lockbox
Northwest Branch	FFQA-219A	\$ 156,976	X	X	X
	FFQS-101B	65,923	X		
	FFQS-158A	205,253	X		X
	FFQS-156A	312,137	X		
	FFQS-172A ^a	172,938	X		
	FF-C-030	3,000,000	X		
	FF-S-070	11,500,000	X		
	FF-A-048	715,000	X	X	X
	FF-A-053	391,823	X		X
	FF-S-112	15,000,000	X		
Northeast Branch	FF-B-059	2,555,000	X		
	FF-B-139	180,000	X	X	X
	FF-B-128	162,300	X	X	
	FF-B-176A	5,500,000	X		
	FF-B-127	874,000		X	
	FF-B-134	586,000	X	X	
	FF-B-162	285,000			
	FF-B-160	5,650,000			
	FF-B-170	479,000			X
	FF-B-181	44,500,000			
Southeast Branch	FF-G-013	14,000,000	X		
	FF-G-017A	6,349,000			
	FF-G-017B	10,000,000			
	FF-G-011	5,300,000	X		
	FF-G-035A	3,293,266			
	FF-G-035B	1,506,734			
	FF-G-026	2,250,000	X		
	FF-G-008	1,900,000			
	FF-G-016	16,000,000	X		
Total	\$ 152,890,351	19	3	4	6

Source: OIG analysis of Program information

^a Alternative payment arrangement was not identified in the Program's loan management system.


Appendix D: Agency Response



UNITED STATES DEPARTMENT OF COMMERCE
The Deputy Under Secretary for Operations
Washington, D.C. 20230

AUG 25 2016

MEMORANDUM FOR: Richard Bachman
Assistant Inspector General for Financial
and Intellectual Property Audits

FROM: Benjamin Friedman 

SUBJECT: *Delinquency Follow-Up Procedures and System Shortcomings
Pose Risks for Fisheries Finance Program
Draft OIG Report*

Thank you for the opportunity to comment on the Office of the Inspector General's draft report on the National Oceanic and Atmospheric Administration (NOAA) National Marine Fisheries Service (NMFS) Fisheries Finance Program. Our specific comments on the report's findings and recommendations are attached.

If you have any questions, please contact Mack Cato, Director, Audit, Internal Control, and Information Management Office at (301) 628-0949.

Attachment



Department of Commerce
National Oceanic and Atmospheric Administration
Comments to the OIG Draft Report Entitled
*Delinquency Follow-Up Procedures and System
Shortcomings Pose Risks for Fisheries Finance Program*
(July 2016)

General Comments

The Department of Commerce's National Oceanic and Atmospheric Administration (NOAA) appreciates the opportunity to review the Office of Inspector General's (OIG) draft report on the Fisheries Finance Program (FFP). NOAA's National Marine Fisheries Service (NMFS) prepared the comments. The details below demonstrate that NMFS has already started making improvements recommended from this report.

Recommended Changes for Factual/Technical Information

Page 1, first paragraph, first sentence:

The first year the FFP provided loans were 1997. Suggest modifying to "Since 1997" instead of "Since 1996."

Page 5, section IA:

In the 2010 rewrite of the program's regulation, the word "formally" was purposely inserted in the language when the application is "formally" accepted. This was done to allow maximum flexibility for an eligibility review before collecting non-refundable fees. We believe, in conducting their analysis, OIG staff used the date of receipt of the application form, not the date formally accepted. This was necessary because the date of formal acceptance has not been recorded in our system documentation yet. It does, however, distort the data and should be noted. We propose to add the following, on page 5, paragraph 2, after the sentence ending with "... days after acceptance:" "(This date was the stamped date of receipt of the application form, not the date when loan staff formally accepted the complete application.)" Formal acceptance is dependent on many things including receipt from the applicant of supporting information. It may also be subject to carrying an application to future fiscal years due to applicant requests or fiscal year timing. Our response to OIG recommendations will address our plan to record a formal date of acceptance. This also affects the four loans listed with uncollected filing fees as follows:

- **2014 loan application in the amount of \$2.7 million.** The application was received on August 14, 2014. The loan fee was requested on August 14, 2014. The applicant withdrew on August 21, 2014 citing other priorities. This is an example of why we inserted "formally." Had the fee accompanied the application, we would have collected \$4,500 in non-refundable fees.
- **2014 loan application in the amount of \$1.8 million.** The application was dated May 22, 2014. The initial review found weaknesses. In discussion with the applicant in June, it was decided not to process, but we offered to reconsider the applicant after another year of vessel operation. Again, this application was not formally accepted.

- **2011 loan application in the amount of \$1 million.** The application was dated March 24, 2011. Subsequent correspondence deemed the applicant eligible and requested the fee. But the applicant had cost overruns and withdrew the application.
- The fourth loan was archived and not available for review.

Pages 10 and 11, section IIB:

We believe it should be noted that the granting of deferrals requires issuing an approval letter executed by the Chief, Financial Services Division, and this documentation does exist in both branch and headquarters' case files. Also, program policy requires waivers of late charges be approved only by the Chief, Financial Services Division or FFP Program Leader.

Page 16, first full paragraph:

OIG staff correctly notes that after the application of the \$1.8 million recovery, an unpaid balance remained. We believe it should be noted that collection was not complete at that point. The Department of Justice still has remaining collateral to foreclose.

Additionally, we believe the requirement to refer the case to the Department of Justice is based on days of delinquency, not days in default (see page 15, B heading). We issued a demand letter declaring a security default on January 14, 2013. This was a security default issued because the borrower had advised us that they could not continue operations. Payments were not delinquent at this time. On July 3, 2012, a payment of \$264,480 was received. There was an agreement that this be applied to the April 4, 2012 payment and subsequent payments. This paid the account through July 5, 2013. On February 7, 2014, funds were applied to cover the October 5, 2013 payment with the next payment due on January 5, 2014. The program referred the case for foreclosure on July 2, 2014. This would represent less than 180 days of delinquency.

Editorial Comments

None.

NOAA Response to OIG Recommendations

Recommendation 1: "We recommend that the Deputy Chief Administrative Officer for Fisheries develop standard processes for identifying applicants that are owed a refund, assigning responsibility for initiating commitment fee refunds; and, when commitment fees are refunded, ensuring that the correct amount is returned to the loan applicant."

NOAA Response: We concur. The FFP will implement a policy making refunds mandatory with annual audits by branch chiefs.

Recommendation 2: "We recommend that the Deputy Chief Administrative Officer for Fisheries develop standard processes for collecting the application fee when the application is accepted."

NOAA Response: We concur. The FFP has begun making written requests for fees to document the date the application is formally accepted (as opposed to initially received). This

will be incorporated into a policy that requires the fees to be requested within 30 days of initial receipt of the application. If fees are not received within 30 days of the written request, the application will either be returned or the file will note the reasoning for retaining the application.

Recommendation 3: “We recommend that the Deputy Chief Administrative Officer for Fisheries develop standard processes for requiring the use of checklists or other tools to ensure that loan officers obtain and keep the necessary documentation in loan files to support an applicant’s eligibility and legitimacy.”

NOAA Response: We concur. The FFP has added citizenship documentation to the list of items that must be submitted with the approval request and added this to headquarters’ checklists. Additionally, the program will ensure that the use of a checklist is required in all three branches. The Northeast Branch will begin using a checklist immediately. Headquarters and the other two branches use checklists in the processing of every loan and retain a copy in each lending file.

Recommendation 4: “We recommend that the Deputy Chief Administrative Officer for Fisheries fix the flaw in the loan management system so that it (a) properly identifies delinquent accounts and (b) applies late payment penalties to loan accounts—or implement another loan management system in place of the current system.”

NOAA Response: We concur. The deficiency in the loan management system has been fixed. Additionally, the FFP developed a table in the loan management system that allows program staff to review the application of funds including the number of days late and collection of late charges.

Recommendation 5: “We recommend that the Deputy Chief Administrative Officer for Fisheries develop policies and procedures to ensure that (a) late payment penalties and waivers are consistently assessed and supported and (b) all loan accounts approved for deferral payment arrangements are properly identified in the Program’s loan management system.”

NOAA Response: We concur. The FFP will issue new guidance stressing the importance of collecting late charges, the waiver approval authorities, and the need to document the decisions. The FFP will develop an improved system to track deferrals in the loan management system.

Recommendation 6: “We recommend that the Deputy Chief Administrative Officer for Fisheries develop and use an aging report that accurately identifies missed payments.”

NOAA Response: We concur. FFP staff will continue to work with IT staff to solve this problem.

Recommendation 7: “We recommend that the Deputy Chief Administrative Officer for Fisheries develop processes for acquiring annual financial records from borrowers.”

NOAA Responses: We concur. The FFP will reinforce procedures and add a requirement for annual review of financial status records by branch chiefs.

Recommendation 8: “We recommend that the Deputy Chief Administrative Officer for Fisheries ensure that Program staff follow loan payment procedures and pursue an increased acceptance of electronic payments.”

NOAA Response: We concur. FFP staff sometimes requested late payments be sent to branch offices to ensure they could promptly follow up, if they were not received, as sometimes posting occurred days later. Posting is now being accomplished within a working day of lock box receipt, and staff has been instructed to stop this practice. We do have accounts using electronic payments and will increase borrower awareness of this option.

Recommendation 9: “We recommend that the Deputy Chief Administrative Officer for Fisheries develop a process for preparing written plans for delinquent accounts and the submission of monthly status reports to the appropriate officer.”

NOAA Response: We concur. The FFP will make its delinquency review more formal to include written collection plans and monthly reporting of cases 30 days or more delinquent.

Recommendation 10: “We recommend that the Deputy Chief Administrative Officer for Fisheries reinforce policies requiring the Program to refer delinquent debt to the Department of the Treasury and follow delinquency follow-up guidance in the Department’s *Credit and Debt Management Operating Standards and Procedures Handbook*.”

NOAA Response: We concur. The FFP will restate the associated policies for all loan staff. Additionally, the written plans and reports listed in our response to recommendation 9 will list the number of days of delinquency, ensuring that attention is drawn to these requirements.