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***NATIONAL OCEANIC AND
ATMOSPHERIC ADMINISTRATION***

***NMFS Seafood Inspection Program
Should Be Divested***

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CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY	i
INTRODUCTION	1
PURPOSE AND SCOPE OF AUDIT	3
FINDINGS AND RECOMMENDATIONS	4
I. NMFS Should Divest Itself of the Seafood Inspection Program	4
A. Recommendation	6
B. Agency Response	6
II. NMFS Should Correct Program Mismanagement	7
A. Recommendations	13
B. Funds to be put to better use	13
C. Agency Response	14
D. OIG Comments	14
APPENDIX:	
A. Agency Response	

EXECUTIVE SUMMARY

The National Marine Fisheries Service's voluntary, fee-for-service, seafood inspection program is operated by the Inspection Services Division (ISD). ISD provides (1) consultative services in sanitation, laboratory analysis, and training; (2) in-plant quality assurance through inspection and certification; and (3) product lot inspection and certification. The inspection certifications attest that the products have been harvested, processed, or sold under sanitary conditions; comply with domestic and foreign processing requirements; and meet safety, wholesomeness, and labeling requirements.

ISD provides services to about 2,200 companies, of which about 320 receive in-plant inspection and certification; the remainder receive product lot inspection and certification.^A During 1995, ISD estimated that more than 1 billion pounds of seafood product, or about 23 percent of the fishery products consumed in the United States, had been inspected under the voluntary program.

The way seafood inspections are conducted is changing dramatically. A new inspection methodology, the Hazard Analysis Critical Control Point (HACCP) system, was developed during the 1980's. NMFS initiated its own HACCP-based system in 1992. The introduction of HACCP methodology reduces the need for inspector hours because, unlike traditional on-site inspections, a federal inspector is not present at all times. Instead, the processor monitors its own operations, while the inspector periodically ensures compliance with the HACCP plan through plant visits and desk audits of HACCP records. Under the prior in-plant inspection method, a plant required 2,080 hours or more of inspection effort during the year. Under HACCP, a plant needs only 480 hours of service during the first year, and, potentially, as few as 116 hours annually in later years. NMFS reports that many plants have converted from in-plant inspection to the HACCP system, thus creating a shortage of revenue which contributed to the program's financial losses. ISD's aggregate losses for FYs 1994 through 1997 were over \$1.7 million. To cover its fee-for-service shortfalls, ISD used NOAA appropriated monies.

Various proposals for reorganizing or relocating the seafood inspection function have been explored. During 1997, the Department prepared draft legislation which would convert ISD to a Performance Based Organization (PBO) within the Food and Drug Administration (FDA).

NMFS Should Divest Itself of the Seafood Inspection Program

NMFS should divest itself of the seafood inspection program. The program's mission is to determine quality by inspecting, measuring, and testing seafood, and to certify the product's wholesomeness. This mission is not related to NOAA's core mission and has little, if any, direct relationship to NMFS's other responsibilities and functions.

^ALot inspections are performed on a designated number of samples based on lot size. The inspections determine whether products comply with purchase agreement criteria, such as product condition, net drained or deglazed weights, labeling criteria, packaging integrity, etc. The inspector issues a certificate which attests to the quality and condition of the lot at the time of inspection.

Accordingly, we recommend that NOAA:

- continue to support legislation to immediately divest the Department of Commerce of the Inspection Services Division.

In response to the draft report, NOAA agreed with our recommendation.

NMFS Should Correct Program Mismanagement

We also found that ISD has been seriously mismanaged in recent years, resulting in large fund losses, misdirection of efforts, and a serious lack of control over internal functions. Specifically, ISD did not: (1) recover full costs as required (see page 7), (2) monitor operations and eliminate training functions not necessary to seafood inspections (see page 9), (3) have adequate training billing policies (see page 10), (4) limit travel to what was necessary (see page 11), and (5) establish or always follow invoice, contract, and travel policies (see page 12). Accordingly, NOAA should take immediate steps to ensure that ISD is appropriately and adequately managed.

We recommend that the Under Secretary for Oceans and Atmosphere:

- Require that ISD rates are established to recover full costs.
- Eliminate training of non-NMFS personnel.
- Fully recover training costs of foreign individuals and require prepayment for foreign training.
- Eliminate foreign travel that is not fully reimbursed.
- Follow established policies for billing and travel.
- Ensure that appropriate contractual procedures are followed for all training services.

Implementation of our recommendations would save NOAA about \$462,000. This figure represents projected losses for FYs 1998 and 1999 based on NMFS's loss for FY 1997.

In response to the draft report, NOAA agreed with our recommendation to recover full costs. NOAA also generally agreed with our recommendations to follow established policies for billing and travel, recover the full costs of foreign training, and ensure that appropriate contractual procedures are followed for training services. However, NOAA disagreed with our recommendations to eliminate training of non-NMFS personnel, require prepayment for foreign training, and eliminate all foreign travel that is not reimbursed. NOAA also disagreed that implementing our recommendations would result in funds to be put to better use.

After careful review and consideration of NOAA's written response to the draft report, we found no persuasive evidence to modify our recommendations. As appropriate, we provide our comments to NOAA's specific responses to our recommendations.

INTRODUCTION

The National Marine Fisheries Service's voluntary seafood quality inspection program is an outgrowth of the Agricultural Marketing Act of 1946. The Act authorized the Secretary of Agriculture to assist in the marketing of products by instituting a voluntary inspection and certification program on a fee-for-service basis so that products could be marketed to the seafood industry's best advantage, trading could be facilitated, and consumers could obtain quality products. The Act classified fish and fishery products as agricultural products. The Act's authorities relating to commercial fisheries were transferred to the Department of Interior by the Fish and Wildlife Act of 1956, and then to NOAA under Reorganization Plan No. 4 in 1970.

In 1986, Congress directed NOAA to design a program of certification and surveillance to improve the inspection of seafood based on the Hazard Analysis Critical Control Point (HACCP) system. The main difference between the traditional on-site inspection system and the HACCP system is that a federal inspector is not required to be on-site all the time. The HACCP system requires that food processors evaluate the hazards that affect their products, institute controls to minimize the risk that these hazards create, monitor control performance, and maintain records of the monitoring. Inspectors periodically ensure compliance with HACCP plans through plant visits and desk audits of HACCP records.

In 1989, NMFS and the Food and Drug Administration (FDA) announced the creation of a joint, voluntary seafood inspection program. This program was a response to an executive branch initiative that addressed consumer concerns regarding fishery products. NMFS and FDA believed that a program based on the HACCP system would lead to more efficient regulation of the seafood industry, and would increase consumers' confidence in the safety, wholesomeness, and labeling of seafood products. However, according to NMFS, differences of opinion about the need for rule making led NMFS and FDA to abandon the joint project. In 1992, NMFS announced the establishment of its own HACCP system-based voluntary program covering safety, wholesomeness, labeling, and quality attributes. Under the NMFS program, participants are allowed to place an official government mark on their products; the mark is perceived as a marketing asset by participating producers.

In January 1994, FDA proposed regulations that would establish mandatory HACCP standards for the seafood industry. The regulations were approved December 18, 1995, and became effective on December 18, 1997. They mandate the application of HACCP standards to the processing of all seafood, including imported seafood. As a consequence of the new regulations, the NMFS user-fee-based voluntary program's focus is now to help companies comply with HACCP requirements by providing plan design, development, and implementation assistance.

Since its implementation, NMFS' seafood inspection program has been operated by the Inspection Services Division (ISD), previously within the Office of Industry Services. The Office of Industry Services was abolished in 1996 and the inspection program was transferred to the new Office of Sustainable Fisheries. ISD provides (1) consulting services in sanitation, laboratory analysis, and training; (2) in-plant quality assurance through inspection and certification; and (3) product lot

inspection and certification. The inspection certification attests that the products have been harvested, processed, or sold under sanitary conditions; comply with domestic and foreign processing requirements; and meet safety, wholesomeness, and labeling requirements.

ISD provides services to approximately 2,200 companies annually. About 320 of them receive in-plant inspection and certification, and the remainder receive product-lot inspection and certification.^B During 1995, ISD estimated that more than 1 billion pounds of seafood product, or about 23 percent of all seafood consumed in the United States, had been inspected under the voluntary seafood inspection program.

ISD has approximately 200 employees. Its headquarters are located in Silver Spring, Maryland; regional inspection offices are in Gloucester, Massachusetts; St. Petersburg, Florida; and Bell, California. ISD's Technical Services Unit is co-located with the Gloucester inspection office.

The Technical Services Unit's purpose is to provide support functions to the regional inspection offices. It is composed of four branches: National Training Branch; Standards and Specifications Branch; Sensory Evaluation Branch; and Document Approval and Supply Services. The National Training Branch provides training and education to assure uniform application of policy and procedures, and to expand industry's, government's, and inspectors' knowledge and skills. The Standards and Specifications Branch develops and revises standards for determining quality levels and conditions of seafood products used by the seafood industry. The Sensory Evaluation Branch provides training for using the physical senses (such as eyes, nose, and touch) to determine the characteristics of seafood products. Document Approval and Supply Services provides a uniform system for label and specification approval and documentation development, printing, and dissemination. The Standards and Specifications Branch and the Sensory Evaluation Branch are funded through NMFS appropriations.

The introduction of HACCP methodology reduced the need for inspector hours. Under the in-plant inspection method, a plant with a 40-hour-per-week inspection contract required 2,080 hours or more of inspection effort during the year. With the HACCP system, a plant needs only 480 hours of service during the first year, and, potentially, as few as 116 in later years. NMFS reports that many plants have converted from in-plant inspection to a HACCP system. The multiple conversions reduced revenues and contributed to the inspection program's losses. ISD's losses for FYs 1994 through 1997 were more than \$1.7 million.

^BLot inspections are performed on a designated number of samples based on lot size. The inspections determine whether products comply with purchase agreement criteria, such as product condition, net drained or deglazed weights, labeling criteria, packaging integrity, etc. The inspector issues a certificate which attests to the quality and condition of the lot at the time of inspection.

Purpose and Scope of Audit

In response to a request by NOAA's Assistant Administrator for Fisheries, we conducted an audit of the operational and financial management of ISD, including travel and training activities. We conducted our review from February through April 1997. We reviewed program files, records, reports, and individual travel vouchers at ISD headquarters in Silver Spring, and at the Northeast Inspection Office in Gloucester. We interviewed program officials at Silver Spring, Gloucester, St. Petersburg, and Bell.

We reviewed ISD's procedures for billing and controlling costs and its internal controls. Management control weaknesses related to billings, travel, and procurement are discussed in our report. We did not review the validity and reliability controls of computer-generated data because our audit objectives did not require such a review.

At the time of our review, NOAA and the Department were considering divesting ISD from NMFS and creating a seafood inspection Performance Based Organization (PBO). This was one of several PBOs proposed by NMFS to a Vice Presidential task force related to the National Performance Review. In December 1996, we notified NMFS of several deficiencies that needed to be corrected before the proposed PBO was established. Since then, discussions have taken place between NOAA's Office of General Counsel and Food and Drug Administration officials regarding the establishment and transfer of the proposed PBO to the FDA. As of May 1998, NOAA had drafted legislation, in conjunction with FDA, to transfer the program to FDA.

This review was conducted in accordance with generally accepted government auditing standards and was performed under the authority of the Inspector General Act of 1978, as amended, and Department Organization Order 10-13, dated May 24, 1980, as amended.

FINDINGS AND RECOMMENDATIONS

I. NMFS Should Divest Itself of the Seafood Inspection Program

NMFS should divest itself of the seafood inspection program. NMFS's voluntary program to determine quality by inspecting, measuring, and testing seafood, and certifying the wholesomeness of the product, is not part of NOAA's core mission, and has little, if any, relationship to NMFS's other responsibilities and functions. Furthermore, the seafood inspection industry is undergoing major changes and, in its present organizational structure, the program may not be able to compete with other seafood inspection organizations and agencies.

Seafood Inspection Is Not Part of NOAA's Core Mission

In its 1995-2005 Strategic Plan, NOAA identifies its core mission as comprising two components: promoting global environmental stewardship in order to conserve and wisely manage the Nation's marine and coastal resources; and describing, monitoring, and predicting changes in the Earth's environment in order to ensure and enhance sustainable economic opportunities. Providing voluntary, fee-for-service inspections to determine seafood quality lies outside of NOAA's core mission. Neither NOAA's mission statement nor its strategic plan mention seafood inspection as an important or necessary program activity.

Seafood Inspection Industry Changes Have Impacted Program

Changes in how seafood quality is inspected, including the introduction of HACCP methodology, competition from other organizations offering inspection services, and a changing role for the Food and Drug Administration will inevitably force changes in the present voluntary, fee-for-service inspection program operated by NMFS.

A major problem affecting the current ISD program is that it relies on voluntary participation by industry and on fees charged to those participants to cover inspection costs. If NMFS attempts to raise fees to cover its increased inspection costs, it becomes increasingly difficult to expand the number of voluntary participants (also see page 7). The advent of HACCP has added to ISD's revenue problems, as HACCP decreases significantly the time required for inspections. Consequently, it has been difficult for ISD to generate revenues sufficient to cover its operating costs.

Private inspection firms and other government agencies provide quality assurance services similar to those provided by NMFS. A basic and long-established policy is that federal agencies should not compete to provide commercial services that can be provided as well by non-federal entities. It is highly doubtful that this program can successfully compete with similar private organizations.

There are at least two firms that compete with NMFS in providing seafood quality inspection and training services. One is a 12-person firm based in Seattle, Washington, that provides a variety of services, including training in quality assurance and HACCP methodology, sanitation audits, product inspections, and design and implementation programs. It operates from Seattle; Dutch Harbor, Alaska; Newfoundland and New Brunswick, Canada; and Pusan, Korea. The other firm is based in Geneva, Switzerland, and has a staff of more than 32,000 in 140 countries.

Some state governments also compete with ISD by providing low cost inspection and certification services to domestic seafood producers and processors. Several states, such as California and Oregon, provide low cost inspection certificates (about \$100 per inspection), which authorize shipments to foreign countries and satisfy trade and purchasing requirements. Oregon's certification program includes a laboratory that provides certification services to firms along the West Coast.

Department Proposes Inspection Service Division as PBO

At the initiation of our review, NOAA and the Department were considering restructuring the seafood quality inspection program as a Performance Based Organization (PBO). NOAA believes such an organization would provide the same services, but would have less bureaucratic constraints, and, hopefully, would operate in a more business-like manner, yet still receive policy direction from the Department. After reviewing ISD's current operations and its proposed operations as a PBO, we concluded that only minor operational change would actually occur. Even as a PBO, the organization might be unable to effectively compete and would continue to require federal funds.

Upon completing a preliminary review of the proposed PBO conversion plan in December 1996, we notified NMFS of several flaws that we believed needed to be corrected before moving forward. A primary flaw in the planned conversion was the absence of a comprehensive business plan -- an absolute necessity, given that the PBO is to be self-funded through fees for services. The business plan must demonstrate that the PBO can market specific products competitively and that the expected revenues will cover costs. The business plan should also include an analysis of historical and projected financial information and demonstrate how the PBO would compete for market share. ISD has not yet produced a completed business plan.

Our analysis of the PBO proposal led us to conclude that the PBO would be unlikely to develop revenues sufficient to cover the expected operating costs. Simply reorganizing ISD as a PBO did not appear to be sufficient to resolve the program's inherent problems resulting from its voluntary structure and fee-for-service base, two major weaknesses in a rapidly changing environment where potential revenues are steadily declining.

FDA's Role in Seafood Quality
Can Accommodate the NMFS Program

FDA, located within the Department of Health and Human Services, provides voluntary seafood inspection certifications at no cost to domestic seafood producers and processors who want to export seafood products. FDA relies on historical compliance records to determine whether a seafood exporting firm meets U.S. standards.^c The firms can then use the certificates as required proof of quality to export seafood products into the European Union.

FDA has the responsibility to ensure the safety and quality of all fish and fishery products. Under the provisions of the Federal Food, Drug, and Cosmetic Act, FDA has regulatory and enforcement authority to ensure that seafood imported, processed, and consumed in the United States is safe, clean, and wholesome for human consumption. FDA's responsibility for food safety was re-emphasized in January 1997, when the Administration designated it as the agency to ensure the safety of the nation's food sources. Although FDA's traditional role has been regulation and enforcement of product requirements, FDA's legal authority also extends to determining product quality and ensuring food safety.

During our review, discussions were initiated between NOAA and FDA regarding transferring ISD to FDA. Restructuring ISD as a PBO within FDA was also considered. As of May 1998, NOAA had drafted legislation, in conjunction with FDA, to transfer the program to FDA. Based on our review, we believe this may be the most promising course of action.

A. Recommendation

We recommend that NOAA continue to support legislation to immediately divest itself of the Inspection Services Division.

B. Agency Response

NOAA agreed with our recommendation. NOAA indicated it supports relocating the Inspection Services Division to FDA to consolidate seafood inspection activities.

^cFDA provides a no-cost service to seafood exporters in the form of certificates to facilitate entry of products into the European Union. The FDA program is based on a file search for evidence of significant noncompliance with FDA regulations or violations of the Food, Drug and Cosmetic Act in the past. FDA issues certificates based upon compliance with its normal surveillance program which has a targeted frequency for on-site evaluation of the processing facilities and products of once a year for high risk foods such as canned salmon. Low risk foods, such as fresh or frozen fishery products with a limited potential for a safety hazard are targeted for inspection once every two years. FDA files may be augmented with information that is received through the states.

**II. NMFS Should Correct
Program Mismanagement**

ISD's program mismanagement has allowed expenditures for purposes other than inspection services and resulted in substantial operating losses. Specifically, ISD did not (1) recover full costs as required, (2) monitor operations and eliminate training functions not necessary to seafood inspections, (3) have adequate training billing policies, (4) limit travel to what was necessary, and (5) establish or always follow invoice, contract, and travel.

NMFS Has Not Fully Recovered Costs

The Agricultural Marketing Act authorizes voluntary inspection and grading services on a fee-for-service basis by the government. ISD's seafood inspection program is supported by fees charged to organizations for inspections as provided for in the Act. The government's objectives are that services provided by an agency to specific recipients be self-sustaining, that the benefits be at least as great as the costs, and that the private sector be able to compete with the government in supplying comparable services.

NMFS advised that its billing rates are set to recover full costs and contribute to a modest reserve. This has not happen on a consistent basis because NMFS did not establish billing rates based on an analysis of ISD costs. The Director of Industry Services, the office with ISD oversight, subsequently stated that ISD rates were set *based on a perception of what inspection service users would accept*. For FY 1997, rates were set at a level that could result in a projected loss of as much as \$790,000. The actual loss for FY 1997, according to NOAA figures, was approximately \$231,000.

The rates established since FY 1994 have not recovered the full cost of the seafood inspection program resulting in sizable actual losses. The amounts shown below are before cost adjustments made by NMFS to reduce the reported size of the loss:

Fiscal Year	Revenues (\$000)	Expenses (\$000)	Loss (\$000)
1994	\$14,015	(\$14,474)	(\$459)
1995	13,817	(13,940)	(123)
1996	12,977	(13,874)	(897)
1997	12,723	(12,954)	(231)
Total			<u><u>(\$1,710)</u></u>

In the face of these losses, NMFS management transferred costs from the inspection program to the appropriated Operations, Research, and Facilities fund (OR&F) within NMFS's Office of Industry Services. These cost transfers totaled \$200,000 in FY 1994, \$200,000 in FY 1995, and \$499,000 in FY 1996. The Assistant Administrator for Fisheries was reportedly unaware of the ISD's poor financial condition until September 1996, when he was requested to approve the FY 1996 OR&F cost adjustment.

The Office of Industry Services Director's explanations for program losses included:

- Introduction of the HACCP program, resulting in the conversion of plants from traditional in-plant inspections to the HACCP system.
- Overly optimistic revenue projections.
- Early privatization efforts caused confusion and uncertainty among users who deferred entry into the program, delayed expansion of existing services, or chose to exit the program rather than make sizable investments in promotions and packaging materials.
- NMFS's delays in authorizing the reduction of permanent staff due to loss of business.

ISD estimated that the projected \$790,000 in losses in FY 1997 would require an infusion of at least that amount from NOAA or NMFS appropriated funds to cover the losses. The Director of Industry Services stated that setting the FY 1997 rates to cover the estimated costs would have resulted in a \$5.48 per hour rate increase from \$39.95 per hour, which he believed would have further eroded the customer base. Accordingly, the program raised rates by only \$2.50 in order to reduce the "sticker shock" to customers, and to give the program additional time to pursue overhead cost reductions and improve future business prospects. The loss in FY 1997 actually was \$231,000. According to NMFS, revenues from inspection fees were more than originally estimated and expenses were less due to reduced travel and training and a reduction in staff.

Raising rates by only \$2.50 per hour resulted in the program intentionally not recovering full costs. As previously noted, programs such as seafood inspection are intended to be self-sustaining. Accordingly, ISD management should establish rates that will result in a planned break-even of revenues and costs, not a planned loss. Continuing to rely on NMFS and NOAA funding to cover shortfalls with appropriated funds is not proper, and diverts funds from NMFS and NOAA mission requirements.

National Training Branch Poorly Managed

ISD's National Training Branch was initially formed to provide training primarily to ISD inspectors with training costs recovered through inspection fees. In recent years NMFS inspectors have received most of their training from other inspectors and through on-the-job activities.

In 1992, ISD's chief redirected the National Training Branch efforts to mainly provide training for non-ISD people (primarily foreign inspectors) on a cost-reimbursement basis. The reimbursements were intended to offset much of the training branch costs. The redirection was unsuccessful. The training branch was unable to attract enough paying customers to recover its costs. This resulted in losses of \$1.9 million for FY 1994 through FY 1996 -- the same period that ISD's losses (including the training branch) totaled \$1.48 million.

National Training Branch				Total ISD
Fiscal Year	Revenues (\$000)	Expenses (\$000)	Loss (\$000)	Loss (\$000)
1994	\$431	\$1,176	(\$745)	(\$459)
1995	350	875	(525)	(123)
1996	294	920	(626)	(897)
Total			<u>(\$1,896)</u>	<u>(\$1,479)</u>

Management did not take steps to eliminate training functions not necessary to seafood inspections, an action that would have reduced operating costs. Curtailing the National Training Branch's activities would have virtually eliminated ISD's accumulated losses over the past three years. ISD's primary mission would not have been effected by such action once the training branch shifted its focus to providing external fee-based training.

Inadequate Training Branch Billing and Expense Policies

ISD’s policies which (1) allowed foreign governments to “post-pay” for training services after the services were provided and (2) established billing rates below full cost recovery levels contributed to the training branch’s significant losses. Private organizations requesting training from ISD are required to prepay fees, but foreign governments are billed after the services are provided. ISD’s training branch representatives said that foreign governments are allowed to post-pay since their credit is usually good and, in many cases, governments are prohibited from paying for services in advance. However, we found that numerous foreign government invoices have remained unpaid for months and even years. For example, the following courses have not been reimbursed:

Unpaid “Non-reimbursed” Training Costs		
Foreign Government	Month/Year	Invoice
Mexico	October 1995	\$5,040
Peru	September 1996	17,772
Singapore	October 1996	10,554

Post-billing foreign governments is contrary to OMB Circular A-25 and Chapter 17 of the Department’s *Accounting Principles and Standards Handbook*, which generally require that charges be collected in advance of or simultaneous with the rendering of services. Furthermore, we noted that even when course costs are reimbursed, ISD’s fee structure did not always recover the full cost of offering a course. For example, ISD conducted a three-day HACCP-based training program in Casablanca, Morocco. This training session was justified as being “revenue producing at no cost to the government.” In reality, NMFS lost money on this course as shown below.

Description	Cost
Labor (including course preparation)	\$3,016
Fringe benefits and overhead	1,336
Travel to course (partial cost, hotel and airfare paid directly by Moroccan Government)	210
Travel to attend related course at the Foreign Service Institute	1,754
Travel for the United Nations presenter	576
Consultant costs for French tutoring and translations	1,400
Total	<u>\$8,292</u>
Billing	<u>\$7,500</u>
Loss	<u>(\$792)</u>

Questionable Foreign Travel

ISD's Washington Office personnel made numerous foreign trips that (1) appeared unnecessary for the effective performance of seafood inspections, (2) did not support income-producing inspection activities, and (3) were taken when the overall organization was incurring losses. Most of the trips were not billable, and others, contrary to trip justification statements and user fee regulations, were not fully reimbursed. Non-reimbursed trips taken by Washington Office personnel included:

Date	Destination	Purpose	Cost ¹
Dec. 1994	Belgium	Participate in discussions with the European Union to develop agreement for food products.	\$1,859
Feb. 1995	Australia; American Samoa	Attend Codex ² meeting; meet with inspection personnel in Samoa.	9,151
May 1995	Hawaii; American Samoa; Taiwan; China	HACCP duties and consultation services (partially reimbursable; China portion not billed is shown)	3,124
June 1995	Belgium	Participate in discussions with the European Union to develop agreement for food products.	2,172
Sept. 1995	Austria; Czech Republic; Greece; Italy; Cyprus	Meet with various inspection officials to discuss matters relative to U.S. exports of fishery products.	11,920
Jan. 1996	Thailand	Exhibitor in the Bangkok Seafood Show. ³	4,601
Feb. 1996	Australia	Attend Codex meeting on food import and export inspection and certification systems.	6,738
May 1996	Norway	Attend Codex meeting on fishery products.	3,112
May 1996	Chile	Attend Asian Pacific Economic Conference meeting.	2,876
June 1996	Philippines	APEC conference coordinator (billed, account delinquent.)	6,610
July 1996	Canada	Participate in a working group on fish products under the Canada/U.S. Free Trade Agreement.	2,601
Total			<u>\$54,764</u>

¹ Cost represents travel and per diem costs. NMFS does not include labor, fringe benefits, and preparation time when determining costs.

² The Codex Alimentarius Commission is a subsidiary body of the Food and Agriculture Organization of the United Nations and the World Health Organization. The Codex meetings generally concerned food import and export inspection and certification systems.

³ Includes the cost of a trainer from the National Training Branch.

Other Deficiencies Warrant
Management's Attention

We found deficiencies related to invoice preparation, contract adequacy, and travel policies. These deficiencies created the potential for abuse and violated the requirements of OMB Circular A-123, which requires that proper internal control systems be in place to reduce the chance of waste or improper use of government resources.

We found that invoices were not always prepared by appropriate personnel and controlled through the NMFS billing system. ISD's billing personnel normally initiate the billings for fee-related courses. NMFS then monitors the invoices to ensure that the invoices are paid on a timely basis, and if not, then delinquent notices are sent. For the 1995 Moroccan course, the trainer prepared and presented an invoice to the course organizer as requested. The invoice was not paid. Because the invoice was generated by the trainer rather than NMFS, the invoice did not go through the agency's billing system. Consequently, the trainer-generated invoice did not show up on the NMFS delinquent billing list when it went unpaid. After the trainer notified management that an invoice was never issued through the billing system, ISD generated an invoice for \$7,500 which was subsequently paid. Invoices should be prepared by NMFS and sent through the NMFS billing system to ensure timely billing and reduce the chance of abuse.

In addition, the contract between ISD and the course requester contained procedural deficiencies. The contract covered training services. ISD did not keep the request for training, and the records did not contain a contract/purchase order for services to be provided by NMFS. These items should have been obtained and retained by NMFS to document ISD's obligations to provide services, and the obligation on the requestor's part to pay a specific dollar amount in a timely manner.

We also found that ISD has not established procedures for preparing training contracts. As a result, contracts may not always be properly prepared. For example, ISD provided training services for four people in Mexico in September 1996. At the time of our review, the \$3,270 bill for the course had not been paid. ISD provided these services without a properly prepared and approved contract. After the course, the requestor provided a contract to be signed, but the contract contained several deficiencies. Specifically, the contract:

- was provided more than one month after the training,
- was in Spanish and referenced Mexican laws and regulations,
- required NMFS to attest to its familiarity with Mexico's acquisition and public works laws, and
- required NMFS to provide more services than were actually provided.

Contracts should be prepared, and approved by appropriate officials, for all services rendered outside the Department prior to providing the services.

In addition, ISD violated NOAA travel policy by not taking the most expeditious and economical carrier to the Mexican training site. Less expensive, more direct flights were available, but the instructor was directed by the Mexican official responsible for planning the training to use one particular flight even though ISD paid the instructor's travel costs. Reportedly, the instructor was directed to take the specific flight because several training attendees would also be onboard, and ground transportation would be provided for all of them at once. However, the instructor reported that he was the only conference attendee on the flight.

Conclusion

ISD's management of the seafood inspection program resulted in a program that has lost substantial amounts of money. ISD management is responsible for ensuring the program's viability; however, the program is on the brink of financial insolvency because management has failed to (1) recover the full operational costs as required, and (2) eliminate unnecessary and money-losing operations such as occurred in the training branch. The training branch was established primarily to train NMFS seafood inspectors, but it now primarily trains people and organizations outside ISD. Inspector training is generally provided through fellow inspectors and on-the-job training. Program losses were further exacerbated through inadequate monitoring of billings and expenses, unnecessary travel, and the failure to maintain a proper system of internal controls. ISD mismanagement must be addressed.

A. Recommendations

We recommend that the Under Secretary for Oceans and Atmosphere:

- Require that ISD rates are established to recover full costs.
- Eliminate training of non-NMFS personnel.
- Fully recover training costs of foreign individuals and require prepayment for foreign training
- Eliminate foreign travel which is not fully reimbursed.
- Follow established policies for billing and travel.
- Ensure that appropriate contractual procedures are followed for all training services.

B. Funds to Be Put to Better Use

Implementation of our recommendations would result in approximately \$462,000 in funds to be put to better use. This amount was arrived at by projecting NMFS's loss for FY 1997 to FY 1998 and 1999.

C. Agency Response

NOAA agreed with our recommendation to recover full costs and stated that rates for FY 1998 are intended to fully recover budgeted costs. NOAA also generally agreed with our recommendations to follow established policies for billing and travel, recover the full costs of foreign training, and ensure that appropriate contractual procedures are followed for training services. However, NOAA disagreed with our recommendations to eliminate training of non-NMFS personnel, require prepayment for foreign training, and eliminate all foreign travel that is not reimbursed. NOAA also disagreed that implementing our recommendations would result in funds to be put to better use.

D. OIG Comments

NOAA has taken several positive actions to identify and correct ISD program deficiencies, beginning with the NMFS Assistant Administrator's request that we conduct an audit of ISD's operational and financial management. As the audit progressed and issues were identified, NOAA took additional steps to address some of the deficiencies. As a result, according to NOAA, the full costs of operating the program are expected to be recovered in FY 1998 and procedural deficiencies are being addressed.

However, NOAA still disagrees with our recommendations to eliminate training of non-NMFS personnel, require prepayment for foreign training, and eliminate all foreign travel that is not reimbursed. The large losses incurred by the training branch contributed significantly to ISD's accumulated losses from FY 1994 through FY 1996, with the training branch losses occurring mainly from unreimbursed training provided to non-NMFS personnel and unpaid foreign training expenses—deficiencies our recommendations specifically address. NOAA's reluctance to formally accept our recommendations is puzzling since much of ISD's ability to reach a near breakeven level of operations in FY 1998 can be attributed to reducing its training branch expenses from \$1,176,000 in FY 1994 to \$352,000 in FY 1998. Regarding unreimbursable foreign travel, we still believe that many of the trips were questionable because they appeared unnecessary for the performance of seafood inspection activities and unwise considering ISD's financial condition at the time. We reaffirm our recommendations that ISD eliminate training of non-NMFS personnel, require prepayment for foreign training, and eliminate all foreign travel that is not reimbursed.

We also believe our funds to be put to better use statement is accurate and realistic. Contrary to NOAA's assertion, ISD was not on the path toward restoring financial solvency before our audit. When we initiated the audit, NMFS officials were unsure as to why the significant losses had occurred and requested us to identify the causes of such losses. NMFS's implementation of several of our recommendations has been largely responsible for reducing its losses in FY 1997 to \$231,000 and to near breakeven levels of operation in FY 1998. Consequently, we reaffirm our funds to be put to better use statement.



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

JUL 9 1998

MEMORANDUM FOR: Johnnie Frazier
Acting Inspector General

FROM: Paul Roberts *Paul Roberts*

SUBJECT: Draft Audit Report: NMFS Seafood
Inspection Program Should Be Divested
STL-9607-8-0001/June 1998

Attached are the National Oceanic and Atmospheric Administration's (NOAA) comments on the subject OIG draft audit report concerning NOAA's Seafood Inspection Program. We agree with the OIG's finding that NOAA should divest itself of the Program. Since April 1997, NOAA has taken steps, including preparing draft legislation with the Food and Drug Administration, to accomplish this goal. We do not agree with the OIG's position that the Program cannot compete with other seafood inspection organizations and agencies. Our response provides further details on these issues and further addresses the OIG's findings and recommendations.

In addition, we do not agree that there will be \$500,000 in funds to be put to better use. Predicated on last year's results and the current financial projection, NOAA anticipates that the Program will break even for FY 1998, and believe there will be \$0 funds to be put to better use.

Attachment



NOAA Comments on OIG Draft Report:
STL-9607-8-0001/June 1998

OIG EXECUTIVE SUMMARY (Draft Report page i)

NOAA Comment: Matters of technical accuracy or clarity will be covered by paragraph number:

--Paragraph 1: The Draft Report is dated June 1998 and refers to the Office of Industry Services. That office was abolished on September 29, 1996, as part of the National Marine Fisheries Service (NMFS) reorganization. The Inspection Services Division (ISD) was concurrently transferred to the newly established Office of Sustainable Fisheries.

--Paragraph 2: The reference to 320 companies which "...receive in-plant continuous inspection and certification;" would be accurate if the word "continuous" is deleted. The 320 refers to all contract, in-plant services -- some of which extend beyond the traditional, continuous inspection approach. Firms within this group would include Integrated Quality Assurance (IQA) and Hazard Analysis Critical Control Point (HACCP) systems, which are both non-continuous inspection strategies.

--Paragraph 4: In 1997, the Department prepared a legislative proposal to establish a Performance Based Organization (PBO) within the Department of Commerce (DOC). It contained a provision for the Secretaries of Commerce and Health and Human Services (HHS) to consider, at a later time, the transfer of the Seafood Inspection PBO to the Food and Drug Administration (FDA). That draft legislation was transmitted to the Office of Management and Budget (OMB) on April 1, 1997, where it was placed on hold pending the development of a revised bill to establish the PBO at FDA. The DOC bill remains the only draft legislation that is pending at OMB--a draft bill to establish the Seafood Inspection PBO at FDA has been drafted, but has not yet been transmitted to OMB, and is, therefore, not being reviewed at that level.

NMFS Should Divest the Seafood Inspection Program
(Draft Report page i)

NOAA Comment: NOAA agrees and has been seeking to accomplish this goal since April 1997. However, page ii states that the "inspection program cannot compete, in its present structure, with other seafood inspection organizations and agencies." Later, the Draft Report states that the program cannot compete even after it is converted to a PBO. This is a very troubling view with which NOAA strongly disagrees. The draft report does not provide the analysis required to support this opinion. The Program is projected to break even during FY 1998.

NMFS Should Correct Program Mismanagement (Draft Report page ii)

NOAA Comment: Statements such as "seriously mismanaged" and "serious lack of control over internal functions" are misleading. A variety of internal and external events discussed later caused revenue forecasts to be overly optimistic. Inaccurate projections of others' actions during a period of transition in seafood inspection methodology does not constitute "mismanagement." (The detailed OIG recommendations will be addressed later.)

INTRODUCTION (Draft Report page 1)

NOAA Comment: Paragraph 3 contains the following statement: "However, according to NMFS, differences of opinion about the need for rule making led NMFS and FDA to abandon the joint project." This statement is not completely accurate. Abandonment of the joint project resulted from a decision by then FDA Commissioner Kessler to pursue rule making to establish regulations for a mandatory HACCP system which address the safety and sanitary processing of fish and fishery products, including imported seafood.

--Page 1, paragraph 4 states that "... the NMFS user-fee-based voluntary program's focus is now to help companies comply with HACCP requirements..." Although this is one of the Program's functions, the NMFS Program provides a variety of services that go well beyond FDA's mandatory HACCP regulation, which addresses only safety. The NMFS Program goes beyond safety to focus on quality, wholesomeness, economic fraud, and proper labeling.

--Page 2, paragraph 1: Delete reference to the "Office of Industry Services" as discussed previously.

--Page 2, paragraph 2: Delete "continuous" as discussed previously.

--Page 2, paragraph 4, last sentence: In addition to the Standards and Specifications Branch and the Sensory Evaluation Branch, there is also a two-person unit in Headquarters called the Foreign Requirements Unit that is funded through appropriations.

--Page 3, paragraph 3: The Seafood Inspection Program is the only PBO candidate currently proposed from NMFS. Draft legislation to convert ISD into a PBO within FDA is being prepared by Commerce and HHS. It has not been transmitted to OMB and, therefore, is not under evaluation at that level.

OIG Finding/Recommendation #I: NMFS Should Divest the Seafood Inspection Program (Draft Report page 4)

NOAA Response: Although NOAA agrees with the basic recommendation, NOAA strongly disagrees with the statement that "the program cannot compete with other seafood inspection organizations and agencies." The fact that there exists commercial firms that provide various seafood inspection services does not justify such a conclusion. NMFS is the only Federal agency that inspects seafood products upon request and it is the only entity that is authorized (through the Agricultural Marketing Act of 1946) to affix Federal inspection and quality marks to fishery products. This unique characteristic was identified as being of particular value to companies participating in the Program who also objected to the potential privatization of the Seafood Inspection Program due to the loss of Federal assurances.

NOAA initiated actions to determine a more appropriate location and character within government for the Seafood Inspection Program as early as 1995. The mission of NMFS primarily involves promoting sustainable fisheries, as evidenced by the Sustainable Fisheries Act of 1996. Consequently, relocating the Program to FDA to consolidate Federal seafood inspection activities is supported by NOAA. NOAA has prepared draft legislation with FDA to create a PBO to perform this function within the Food and Drug Administration, as suggested by the President's Food Safety Initiative.

Seafood Inspection Is Not Part of NOAA's Core Mission
(Draft Report page 4)

NOAA Response: NOAA Agrees.

Seafood Inspection Industry Changes Have Impacted Program
(Draft Report page 4)

NOAA Response: Although the Program relies on voluntary participation by industry, it can generate sufficient revenues to cover its costs. The reimbursable Program is projected to break even for FY 1998. NOAA's seafood inspection functions are mandated by the Agricultural Marketing Act of 1946 which directs the Secretary of Commerce to "inspect, certify, and identify the class, quality, quantity, and condition" of seafood, fish and shellfish (7 U.S.C. §1622(h)). While the quality assurance inspections performed by private and other state government agencies may be similar to some of the services offered by NOAA, only the NOAA Program presently develops the National standards for seafood quality and has the National/international recognition to satisfy the inspection/certification/marketing needs of many processors, buyers, and sellers of seafood products. NOAA uniquely regulates the use of registered, official Federal marks demonstrating compliance with those standards. Given the statutory mandate to engage specifically in the inspection of fishery products, and the fact that a need for these services continues today as evidenced by the voluntary payment of a projected \$12 million during FY 1998, NOAA believes that this Program will continue to satisfy specific and desired needs to the benefit of the industry and consumers.

Department Proposes Inspection Service as PBO
(Draft Report page 5)

NOAA Response: NOAA strongly disagrees with the following OIG statements contained within this section:

"Even as a PBO, we believe the organization would be unable to compete and would continue to require federal funds."

"Our analysis of the PBO proposal led us to conclude that the PBO would be unlikely to develop revenues sufficient to cover the expected operating costs. Simply reorganizing ISD as a PBO will not be sufficient to resolve the program's inherent problems resulting from its voluntary structure and fee-for-service base, two major weaknesses in a rapidly changing environment where potential revenues are steadily declining."

NOAA believes that these opinions are not supported by any analysis provided in the draft report. The simple fact is that the Program has already operated successfully for nearly 40 years and is expected to continue to do so either in its current form or, preferably, as a PBO. A "voluntary structure" and "fee-for-

service" essentially describes a business environment. Although there are no guarantees in business, these realities are usually not considered to be either "inherent problems" or "major weaknesses." Rather, they are simply accepted as elements of a business environment. Although a fee-for-service entity is more problematic than an appropriation supported activity, it has the unique benefit of recovering costs rather than relying on taxpayer support.

The draft report notes that ISD has not yet produced a completed business plan. NOAA agrees that a business plan is needed and the Program plans to complete such a document. A prospectus containing many of the elements that will be included in the business plan was prepared some time ago; however, that information needs to be updated and additional information developed.

FDA's Role in Seafood Quality Can Accommodate the NMFS Program
(Draft Report page 6)

NOAA Response: NOAA agrees with the OIG's conclusion that restructuring ISD as a PBO within FDA "may be the most promising course of action."

Although FDA has the authority to regulate standards of minimum product quality under Section 401 of the Federal Food, Drug, and Cosmetic Act, to date, FDA has not established a standard of quality for any fishery product. Considering FDA's acknowledged limited resources, it is extremely doubtful that without the resources of the proposed PBO that FDA would have the inclination or the capacity for conducting seafood quality inspections.

The current FDA practice of providing no-cost export certificates for seafood destined for European Union countries was noted critically in a 1997 GAO Report entitled "Food Related Services-- Opportunities Exist to Recover Costs by Charging Beneficiaries." GAO noted that although FDA does not charge user fees for seafood export certificates, the NMFS, Food Safety Inspection Service (FSIS) and Animal Plant Health Inspection Service all do charge user fees for providing export certificates.

The statement that FDA's certificates are provided to exporting firms as "proof of quality" for export shipments is in error. The certificates state nothing about quality. FDA's Internet page entitled "Procedure for Obtaining Certificates for Export of Foods and Cosmetics" describes the purpose for their certificates very clearly. It states "The Certificate of Export will generally indicate that the product(s) is regulated by the Food and Drug Administration (FDA) and that they are not at this time the subject of any enforcement action by the FDA." Such certificates are not guarantees nor a certification of the

product's safety and quality." The specific certificate for fishery products certifies that the products identified have been handled and processed under conditions at least equivalent to those required by the European Union.

Recommendation: "We recommend that NOAA continue to support legislation to immediately divest the Inspection Services Division." (Draft Report page 6)

NOAA Response: NOAA agrees.

II. NMFS Should Correct Program Mismanagement
(Draft Report page 7)

NOAA Response: NOAA has or will correct any program mismanagement, operational, or procedural deficiencies which are determined to exist. (The OIG comment regarding management permitting expenditures for purposes other than inspection services will be addressed later in NOAA's comments.)

Costs Not Fully Recovered (Draft Report page 7)

NOAA Response: NOAA and Seafood Inspection Program policy is to fully recover costs whenever possible. The pricing strategy applied for FY 1997 was intended to maximize the Program's revenues--recognizing that the Program would realize a loss for the year. This strategy was a one-time anomaly based on management's views that a higher rate structure would result in firms leaving the Program; thereby, exacerbating the revenue shortfall. Rates for FY 1998 are intended to fully recover budgeted costs.

National Training Branch Poorly Managed (Draft Report page 9)

NOAA Response: For FY 1998, the budget for external training will be fully recovered. Primarily due to the intended imminent introduction of FDA's mandatory HACCP regulation, the Training Branch was staffed up in anticipation of additional training demand, which did not occur. Projected demand did not materialize initially because publication and implementation of FDA's regulation was significantly delayed. Also, no-cost or low-cost sources of training were introduced through FDA and Sea Grant sponsored activities. Management acted to reduce the training budget from a high of \$1,176,000 in FY 1994 to \$482,000 in FY 1997 and \$352,000 in FY 1998. Of the FY 1998 amount, about two thirds is budgeted to be recovered from outside customers with the remaining third to be used to train Program inspectors. The amount budgeted for internal training is planned to be

recovered indirectly from the Program's seafood inspection customers. It is included in the Program's overhead which is subsequently allocated to all customers through hourly rates for services.

Inadequate Training Branch Billing and Expense Policies

(Draft Report page 10)

NOAA Response: NOAA agrees that foreign training costs should be fully recovered and applies that criteria in pricing foreign training. NOAA does not believe that prepayment for training services should be required from foreign governments and maintains that this position is supported under exception c. (1) of OMB Circular A-25, Revised (Transmittal Memorandum No. 1) issued in 1993 which recognizes that there are conditions when exception to the general policy of the Circular would be an appropriate courtesy to extend to a foreign government or international organization. (This exception even provides agency heads or their designees the opportunity to provide free service). NOAA believes that the Inspection Program's policy of not requiring prepayment by a foreign government is appropriate under the spirit of this exception. As is the case with services provided to the U.S. Government, foreign governments similarly require that services first be adequately performed before payment is made. The adoption of such a policy by NOAA could easily result in offending the foreign agency or country due to the obvious lack of trust being expressed by the U.S. Government to the promise of its trading partner. The establishment of such a prepayment policy relative to foreign governments would certainly retard foreign training which has been growing. Such an effect is counterproductive to U.S. interests relative to requiring foreign governments and foreign firms to comply with FDA's HACCP regulation to increase assurances that seafood exported to the United States is safe and has been processed under hygienic conditions. It should be noted that overdue accounts generally result from some form of dispute rather than a deliberate lack of payment.

Unnecessary Foreign Travel (Draft Report page 10)

NOAA Response: NOAA disagrees with the portion of the recommendation that appears to limit foreign travel to only that which directly supports seafood inspections and generates billable hours. NOAA also believes that the table on page 11 is misleading in that it may imply that all the trips cited were paid through the reimbursable part of the Program. Of the trips cited, 8 were paid through appropriated funds, and hence, did not contribute to reimbursable Program losses. One of the remaining 3 was fully revenue-producing and a second was partially revenue-producing. A review of all 11 trips indicates the following:
2 were clearly intended to be at least partially revenue

producing events; 3 supported Codex participation by the U.S. Delegation, 3 were meetings with European Union officials regarding issues that involve seafood trade and inspection, 1 was to participate in (recurring) Canada/U.S. Free Trade Agreement discussions regarding seafood inspection; one was to exhibit at a trade show (a form of education and promotion regarding the benefits of inspection services); and 1 was to attend an Asian Pacific Economic Conference.

This Program has an international role pursuant to the Agricultural Marketing Act which includes facilitating trade in seafood products. A portion of the annual recurring appropriated funding is used to support international activities that generate benefits to those beyond the Program's paying customers and was used to fund most of the noted events. Activities noted with respect to Codex, the European Union, and Canada, are all recognized official U.S. Government activities which seek to facilitate reciprocal compliance and trade in safe, wholesome, and properly labeled seafood products and thereby advance the U.S. seafood trade agenda. Inspectional protocols, problems and disagreements invariably constitute major issues for which the U.S. Government needs to be represented by those who have sufficient expertise to support U.S. goals. (NMFS personnel often complement FDA personnel at many of these meetings).

Other Deficiencies Warrant Management's Attention
(Draft Report page 12)

NOAA Response: NOAA generally agrees with the need for management to address all procedural deficiencies. The draft report cites both invoice and contract deficiencies pertaining to a specific 1995 course provided in Morocco by the Training Branch. Program management recognized the need for improved oversight of both the Technical Services Unit and its Training Branch, and acted in August 1996 to fill the long-vacant position of Director of the Technical Services Unit. Additional personnel changes also occurred in the Training Branch. Although NOAA does not defend or condone the cited deficiencies, the Program believes that they are an anomaly rather than symptoms of a recurring problem.

The last sentence on page 12 indicates that "Contracts should be prepared, and approved by appropriate officials, for all services provided outside the Department prior to providing services." The present procedure in the Technical Services Unit, as in the other regional inspection branches, is to retain the written request for services along with all correspondence that documents the contractual process of offer and acceptance of terms. This is a procedure that has been approved by our General Counsel as

adequate and sufficient. If a foreign government or private firm submits atypical requests or conditions for inspection, these will routinely receive review from the General Counsel for Fisheries before services are provided.

Page 13 of the draft report cites a specific "violation" of NOAA travel policy "...by not taking the most expeditious and economical carrier to the Mexican training site." The customer, in this instance the Mexican Government which was paying all travel costs, directed the U.S. instructor to take a particular flight for several reasons, including a concern that the instructor might otherwise be delayed and miss the start time for the scheduled course. The Program honored the wishes of the paying customer and accepted the local official's judgment regarding transportation within his country. NOAA does not agree that this action violates a NOAA travel regulation (which was developed primarily to manage the use of appropriated funds). This travel only occurred to satisfy a paying customer's needs. This was a fully reimbursable training activity with all travel and salary expenses being recovered.

Conclusion (Draft Report page 13)

NOAA Response: NOAA agrees that the Seafood Inspection Program lost substantial amounts of money in the last few years (after accumulating substantial surpluses in the late 1980s and early 1990s). However, NOAA disagrees that "the program is on the brink of financial insolvency...." According to NOAA's financial statements, at the end of FY 1997 the Program had a net operating position of a negative \$104,293 which reflected a net operating loss of \$230,553 which occurred that year. The Program is projected to roughly break even at the end of FY 1998. This does not sound like a Program that is on the brink of financial insolvency, and it is not clear what specific "ISD mismanagement must be addressed."

Recommendations (Draft Report page 13)

- o Require that ISD recover costs as nearly as possible.

NOAA Response: NOAA agrees.

- o Eliminate training of non-NMFS personnel.

NOAA Response: NOAA disagrees. External training, in addition to being operated as a fully reimbursable expense, is a highly visible way to demonstrate the Program's competence and enhance the Program's credibility. NOAA agrees that it is important to

recover the costs of delivering external training so long as internal training costs are projected separately and included in the Program's overhead base.

- o **Require prepayment for foreign training, and fully recover training costs of foreign individuals.**

NOAA Response: NOAA disagrees with requiring foreign government prepayment, but agrees with fully recovering training costs of foreign individuals. (It is not clear how full training cost recovery would be an issue if training of all non-NMFS personnel were eliminated as recommended in the draft report).

- o **Eliminate foreign travel which is not fully reimbursed.**

NOAA Response: NOAA disagrees.

- o **Follow established policies for billing and travel.**

NOAA Response: NOAA generally agrees.

- o **Ensure that appropriate contractual procedures are followed for all training services.**

NOAA Response: NOAA generally agrees with the intent depending upon what is deemed to be appropriate for a "business-like" activity.

Funds to Be Put to Better Use

NOAA Response: NOAA disagrees that implementation of OIG recommendations will result in approximately \$500,000 in funds to be put to better use. Even without the OIG's involvement, the Program's management was on a path toward restoring financial balance, as evidenced by last year's results and the current financial projection that the Program will roughly break even for FY 1998. Consequently, NOAA believes that a more realistic projection would be zero dollars (\$0) in funds to be put to better use.