



***U.S. DEPARTMENT OF COMMERCE
Office of Inspector General***



***NATIONAL OCEANIC AND
ATMOSPHERIC ADMINISTRATION***

***Opportunities to Further Enhance
Controls Over User Fees***

Audit Report No. BSD-17612-6-0001/January 2006

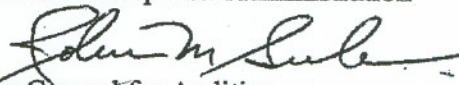
Office of Audits, Business and Science Division





JAN - 9 2006

MEMORANDUM FOR: Maureen Wylie
Chief Financial Officer
National Oceanic and Atmospheric Administration

FROM: John M. Seeba 
Assistant Inspector General for Auditing

SUBJECT: *Opportunities to Further Enhance
Controls Over User Fees*
Final Audit Report No. BSD-17612-6-0001

As a follow up to our September 23, 2005, briefing with National Oceanic and Atmospheric Administration officials, we are providing you with the results of our audit of NOAA user fees. The purpose of our audit was to evaluate NOAA's actions in implementing its audit action plan for addressing the three recommendations that were included in the OIG's audit report STD-11881, *Internal Controls Over User Fees Need Improvement*, issued on March 30, 2000. While we found that NOAA has implemented all of the actions included in its plan, it has an opportunity to further enhance its internal controls in two important areas. Both areas focus on NOAA's standard Product/Service Cost Computation form and involve the Finance Office's random audits and the line management and budget office's documented reviews of the form. Our findings and conclusion are on pages 3 and 5, respectively.

Introduction

The Office of Management and Budget defines user fees or user charges as assessments levied on a class of individuals or businesses directly benefiting from, or subject to regulation by, a government program or activity. During Fiscal Year 2004, NOAA line offices reported the collection of \$23.1 million in user fees from the sale of 73 different types of special products and services. Examples include permits, reproductions of weather records and data, aerial photographs, oceanographic records, hydrographic and topographic surveys, and the certification of records and access to computer databases or files. User fees represent the principle that identifiable individuals or businesses receiving benefits from governmental services beyond those that accrue to the general public should bear the cost of providing the service.

In March 2000, the Office of Inspector General conducted an audit of NOAA user fees and reported that the bureau needed to improve its internal controls over them¹. The OIG recommended that NOAA make certain revisions to its user fee policy and procedures involving

¹ STD-11881-0-0001, *Internal Controls Over User Fees Need Improvement*, March 30, 2000.

accountability and enforce its policies and procedures governing biennial reviews². Audit resolution was accomplished when, in June 2000, NOAA concurred with the recommendations, provided the OIG with its audit action plan containing proposed corrective actions, and obtained the OIG's agreement to the plan.

Audit follow-up is an integral part of good management, and is a shared responsibility of agency management officials and the OIG. Timely corrective action taken by management on resolved findings and recommendations is essential to improving the effectiveness and efficiency of government operations. So, too, is the OIG's monitoring of promised corrective actions in order to assure that they have actually been taken. OMB Circular A-50, Revised, *Audit Followup*³, and Department of Commerce Administrative Order 213-5, *Audit Resolution and Follow-up*⁴, identify the responsibilities of management officials, the audit follow-up official⁵, and the OIG with regard to audit follow-up. One of the OIG's responsibilities specified in DAO 213-5, which implements the provisions of OMB Circular A-50, is performing periodic management audits of organizational units' audit resolution activities, including the implementation and effectiveness of significant recommendations.

Objectives, Scope, and Methodology

The purpose of our audit was to evaluate NOAA's actions in implementing its audit action plan for addressing the three recommendations that were included in the OIG's audit report STD-11881, *Internal Controls Over User Fees Need Improvement*, issued on March 30, 2000. The OIG's recommendations and NOAA's proposed actions for implementing them are set forth in the bureau's audit action plan, which we have included as Attachment 1.

The audit did not include detailed testing of NOAA's Product/Service Cost Computation forms⁶ and accounting records to determine if the bureau is properly reviewing, charging, and reporting its user fees. Except as noted in this report, the audit also did not include a review of NOAA's internal controls or compliance with applicable laws and regulations. Instead, the audit was limited to confirming whether NOAA has complied with its audit action plan in implementing the recommendations from the March 2000 OIG report. We did not assess the reliability of computer-generated data because such data was not relevant to our review.

We used the following methodology:

- **Review of federal law, guidance, policies, and procedures.** We examined the following federal law, guidelines, policies, and procedures that provided background

² Both the Chief Financial Officers Act of 1990 and Office of Management and Budget Circular A-25, Revised, *User Charges*, require that agencies review their user fees biennially and make recommendations on revising those charges to reflect costs incurred.

³ Issued September 29, 1982.

⁴ Effective June 21, 1991.

⁵ According to DAO 213-5, the designated Audit Follow-up Official for the Department of Commerce is the Assistant Secretary for Administration

⁶ Each organization furnishing a special product or service is required to accumulate the related cost data and complete a Product/Service Cost computation form and its supporting worksheets for each special product or service. NOAA organizations must submit the forms for all special products/services at least biennially to their Line/Staff Management and Budget Office for approval of fees for the ensuing two fiscal years. The costs that must be considered in developing special product/service prices are shown on the forms.

on user fees and information on the implementation status of recommendations from the OIG's March 2000 report: Chief Financial Officers Act of 1990, Office of Management and Budget Circulars A-25 (Revised), *User Charges* and A-50 (Revised), *Audit Followup*, Department of Commerce Administrative Order 213-5, *Audit Resolution and Follow-up*, and *NOAA Finance Handbook* and related May 22, 1995, August 7, 2000, and June 25, 2003, memoranda relating to user charges.

- **Examination of relevant documents.** We evaluated NOAA's actions in implementing its audit action plan by reviewing the following documents: NOAA's audit action plan; implementation status reports; Fiscal Year 2004 certified lists of special products or services; line management and budget office final review summaries; and cost computation forms, worksheets, e-mails, and memorandums related to the Finance Office's random audits; and a Departmental quality assurance review of NOAA's audit action plan.
- **Interviews.** We spoke with officials and staff in NOAA's Audit, Internal Control, and Information Management Office, Finance Office, and National Marine Fisheries Service and the Department's Office of Management and Organization.

We performed our fieldwork from July 2005 to September 2005 at NOAA's headquarters in Silver Spring, Maryland. We conducted our review in accordance with generally accepted government auditing standards and under the authority of the Inspector General Act of 1978, as amended, and Department Organization Order 10-13, dated May 22, 1980, as amended.

NOAA needs to strengthen implementation of its audit action plan in two key areas

While we found that NOAA has basically implemented all of the actions included in its plan, it has an opportunity to further enhance its internal controls in two important areas. Both areas focus on NOAA's standard Product/Service Cost Computation form and involve the Finance Office's random audits and the line management and budget office's documented reviews of the forms.

1. Random audits of Product/Service Cost Computation forms

Recommendation 2 provided that NOAA enforce its policies and procedures calling for random audits of Product/Service Cost Computation forms. We found that the Finance Office has implemented NOAA's audit action plan by subsequently conducting audits of computation forms in Fiscal Years 2001, 2003, and 2005. However, these audits did not include the forms for two programs that accounted for \$19.5 million, or 84%, of NOAA's reported Fiscal Year 2004 user fee collections of \$23.1 million, i.e., Seafood Inspections (\$15.9 million, 69%) and Sablefish IFQ (\$3.6 million, 15%). The intent of recommendation 2, as it relates to random audits, was to ensure that, through adequate audit coverage, NOAA's user fees are consistent and comply with Federal policy and legislation. Finance Office officials told us that they use statistical sampling to select the forms for audit and that forms for the two programs have not yet been included in their selections using this methodology. We believe that the Finance Office's modification of its sampling methodology to include periodic coverage of both programs will produce more meaningful audits and greater assurance that its user fees are consistent and comply with Federal policy and legislation. Without Finance Office audit coverage of the two programs, NOAA's assurance would only extend to a relatively small percentage—16% in Fiscal Year 2004—of its reported user fee collections.

2. Documented final review of Product/Service Cost Computation forms

Recommendation 3 provided that NOAA enforce federal internal control standards by documenting the line management and budget offices' final reviews of the Product/Service Cost Computation forms. We found that NOAA has taken several steps to implement its audit action plan. In August 2000, it issued revised user fee policies and procedures that direct all NOAA offices to follow OMB's internal control standards for the federal government by documenting each final review of unit prices with a brief summary that addresses scope, results, and issue resolution. Also, in May 2001, the Finance Office notified the line offices to begin using its revised Product/Service Cost Computation form. The revised form includes space in the line management and budget office review section to document its review scope, results, and issue resolution⁷. During our follow-up audit, we noted that NOAA has been enforcing compliance with its revised procedures through its random audits to determine if the forms contain a documented summary.

Despite these actions, we found that one of the four line offices that collected user fees during Fiscal Year 2004—NMFS—did not complete the documented summary, either in the space provided on the revised form or as an attachment to the older version. A NMFS official acknowledged that in May 2001 the Finance Office provided him with a copy of the revised form but he could not explain why NMFS has failed to use it. He added that in May 2005, the Finance Office did comment in its audit of the form for one of NMFS's user fees that they were not using the current form and a review summary was not otherwise included. He said he subsequently requested that the Finance Office send him the latest form for use on the Fiscal Year 2005 updated reviews of user fees.

One of the forms for NMFS's products and services that did not contain a documented review summary was that for its Seafood Inspection Program, which, as previously noted, accounted for 69% of NOAA's reported user fee collections in Fiscal Year 2004. Also, we noted that, although not a finding in our March 2000 audit report, the documented cost computations lacked the approval signatures and dates of both the preparer's supervisor and the NMFS management and budget office reviewing official. NMFS officials told us that the Seafood Inspection Program does not use the standard Product/Service Cost Computation form, which, in its revision, includes sections for the documented review summary and the signatures and dates of supervisory and management and budget reviewing officials. Instead, the Finance Office approved NMFS's use of an alternate format to accommodate the calculations for the program's multiple types of inspection services. NMFS officials also told us that, while there are no signatures and dates associated with the alternate format, once it is completed and the various rates established, a meeting is held with NMFS's Chief Financial Officer and Deputy Assistant Administrator for their approval. However, a Finance Office official informed us that the Seafood Inspection Program is still expected to follow the same documentation requirements as those for NOAA's other products and services.

The intent of recommendation 3 was to provide written evidence that a final review and approval of unit prices was conducted and that the evidence is purposeful and useful to managers in controlling their operations. Adequately documented reviews, including review summaries and supervisory and reviewing officials' signatures and dates, increase the efficiency and

⁷ NOAA has made the revised form available on the NOAA Electronic Forms website.

effectiveness of future reviews, facilitate staff training, and protect the government from claims by users, GAO, and others that fee levels are inappropriate or the review process was inadequate.

Conclusion

As noted previously, we found that NOAA has implemented all of the actions included in its action plan. Nevertheless, its process could be strengthened if the following actions are taken:

1. The Finance Office modifies its sampling methodology associated with its random audits of the Product/Service Cost Computation forms in order to include periodic coverage of both the Seafood Inspection and the Sablefish IFQ programs.
2. The National Marine Fisheries Service's management and budget office does not approve the user fee for any special product or service unless a documented review summary, which addresses review scope, results, and issue resolution, is included as part of the standard NOAA Product/Service Cost Computation form or approved alternate format.
3. The National Marine Fisheries Service includes with its alternate format of the NOAA Product/Service Cost Computation form for the Seafood Inspection Program the signatures and dates of both the preparer's supervisor and the management and budget office's reviewing official.

Because NOAA has implemented all of the actions included in its action plan and the report only identifies further enhancements to NOAA's internal controls, no further action by NOAA is required. We appreciate the cooperation and courtesies your staff extended to us during our review.

CC: John J. Kelly, Jr.
Deputy Under Secretary for Oceans and Atmosphere

R. J. Dominic
Director, Finance Office/Comptroller

Mack A. Cato
Director, Audit, Internal Control, and Information Management Office



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

JUN 27 2000

MEMORANDUM FOR:

Sonya G. Stewart
Chief Financial Officer/Chief Administrative Officer
National Oceanic and Atmospheric Administration

FROM:

Johnnie E. Frazier

SUBJECT:

*Internal Controls Over User Fees
Need Improvement*

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

We have reviewed NOAA's audit action plan dated June 12, 2000, addressing the findings and recommendations contained in the subject report. The Office of Inspector General concurs with your proposed action plan. We believe that the actions planned or taken as described in the audit action plan, if properly implemented, will meet the intent of our recommendations. Accordingly, pursuant to Department Administrative Order 213-5, we regard the audit report as resolved. A copy of the plan with OIG concurrence is attached.

Attachment

cc: Scott Gudes, Deputy Under Secretary for Oceans and Atmosphere
Linda J. Bilmes, Chief Financial Officer and Assistant Secretary for Administration
Barbara Martin, Chief, Audit and Internal Control Staff Office, NOAA



NOAA's AUDIT ACTION PLAN

AUDIT REPORT TITLE: Internal Controls Over User Fees Need Improvement

AUDIT REPORT NUMBER: STD-11881-0-0001/March 2000

AUDITED ENTITY: National Oceanic and Atmospheric Administration

TITLE OF FINDING: NOAA Needs to Establish a Centralized Database for User Fees

OIG Recommendation 1: We recommend that the Under Secretary for Oceans and Atmosphere improve internal controls over NOAA user fees by revising its policy and procedures to require that each line and staff office annually submit to the Finance Office, as part of the preparation of NOAA's financial statements, the following user fee information:

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

Actions Taken or Planned: The NOAA Finance Office will revise and distribute user fee policies and procedures requiring Line/Staff Offices to annually submit, as part of the preparation of the financial statements, the user fee information as depicted in parts 1 and 2 in recommendation 1.

Target Date for Completion: August 18, 2000

OIG Concurrence

Ronald R. Berman

Date

6/19/00

NOAA's AUDIT ACTION PLAN

AUDIT REPORT TITLE: Internal Controls Over User Fees Need Improvement

AUDIT REPORT NUMBER: STD-11881-0-0001/March 2000

AUDITED ENTITY: National Oceanic and Atmospheric Administration

TITLE OF FINDING: NOAA Needs to Enforce Its Biennial Review Policies and Procedures

OIG Recommendation 2: We recommend that the Under Secretary for Oceans and Atmosphere improve internal controls over NOAA user fees by:

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

Actions Taken or Planned: The Finance Office will perform random audits of user fees to ensure that the final reviews of unit prices have been completed and contain a documented summary.

The Office of Finance and Administration (OFA) will direct all NOAA Offices in NOAA's revised user fee policies and procedures, to follow OMB's internal control standards for the federal government, as embodied in OMB Circular A-123, Revised, by documenting each final review of unit prices with a brief summary that addresses scope, results, and issue resolution.

Target Dates for Completion: Random audits will be performed by April 30, 2001 with subsequent audits performed on a biennially basis following receipt of the information required in the Finding I Recommendations.

Instructions for documenting each final review of unit prices will be included in the revised NOAA user fee policies and procedures to be issued August 18, 2000.

OIG Concurrence *Russel Lieberman* Date 6/19/00