

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

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**PUBLIC  
RELEASE**

***NATIONAL OCEANIC AND  
ATMOSPHERIC ADMINISTRATION***

*NESDIS's Research in Remote Sensing of the  
Earth and Environment Program Awards  
Were Not Competitively Selected  
CFDA No. 11.440*

*Audit Report No. ATL-10944-9-0001 / March 1999*

*Office of Audits, Atlanta Regional Office*



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## EXECUTIVE SUMMARY

The Office of Inspector General conducted an audit of the fiscal year 1997 procedures and practices for soliciting, reviewing, and selecting applications for financial assistance under the National Oceanic and Atmospheric Administration's National Environmental Satellite, Data and Information Service's (NESDIS) Research in Remote Sensing of the Earth and Environment program. The program is classified as No. 11.440 in the *Catalog of Federal Domestic Assistance*. The audit was conducted as part of a Department-wide review of Commerce's discretionary financial assistance programs initiated at the request of the Chairman of the Senate Committee on Commerce, Science, and Transportation.

Discretionary financial assistance programs are those programs for which federal agencies have the authority to independently determine the recipients and funding levels of the awards. These programs involve a significant portion of the Commerce Department's budget and operations, representing approximately \$1 billion annually.

Through the remote sensing program, NESDIS advances and promotes applied research and technology development in satellite remote sensing of the earth and atmosphere in support of national needs. During fiscal year 1997, the program awarded three new cooperative agreements and three continuation amendments to an existing cooperative agreement, for a total of \$3,274,608. All three new cooperative agreements awarded during 1997 were made noncompetitively in response to unsolicited proposals. The original award amended by the continuation amendments was also made noncompetitively in response to an unsolicited proposal.

We found that NESDIS's criteria, procedures and practices for the solicitation, review, and selection of the remote sensing program awards did not comply with departmental and NOAA requirements and were not adequate to guide agency officials in making merit-based discretionary funding decisions. We found that the program was not administered as a competition-based financial assistance program, as encouraged by federal laws and regulations and mandated by Commerce policies and procedures. In addition, we examined the written justifications prepared for the three new noncompetitive awards made in fiscal year 1997 and found them to be inadequate. Specifically, we found that NESDIS:

- Did not develop and publish merit-based evaluation criteria against which program applications for financial assistance could be reviewed (see page 7).
- Did not comply with the Department's and NOAA's requirement that a notice be placed in the *Federal Register*, at least annually, announcing the availability of funding, and specifying the criteria and the process to be used in reviewing and selecting applications for funding (see page 7).
- Did not comply with the Department's and NOAA's requirements that (1) all financial assistance awards be made on the basis of a competitive review process, unless a special waiver is obtained, and (2) the competitive review process meet minimum standards established by the Department (see page 7).

As a result of these deficiencies, NESDIS cannot provide reasonable assurance that noncompetitive awards made under the program are merit-based and represent the most effective means of achieving program objectives.

By not following competitive award procedures, NESDIS increases the potential for making questionable or even inappropriate noncompetitive program awards in instances where competition from other sources is available. NESDIS risks not obtaining research proposals from other qualified organizations and thus may lose opportunities to increase the quality and effectiveness of the remote sensing program.

We also found that NOAA's Grants Management Division did not question NESDIS's lack of competitive award procedures or the validity of the noncompetitive awards (see page 10).

In its response to the draft report, NOAA stated that the agency agrees that more awards should be granted competitively for all discretionary funding programs and that a rigorous solicitation process should be used. NOAA also stated that the agency is continuing to look at its current processes and will provide more specific comments and details as part of the audit action plan submitted in response to the final report (see Appendix III).

We recommend that the Assistant Administrator for Satellite and Information Services ensure that financial assistance awards under the remote sensing program are made through a competitive merit-based process, unless otherwise mandated by law or adequately justified, and that the award process complies with Department policies and procedures and includes the following four elements:

- Widespread solicitation of eligible applications and disclosure of essential application and program information in written solicitations;
- Independent application reviews that consistently apply written program evaluation criteria;
- Written justifications for award decisions that deviate from recommendations made by application reviewers; and
- Adequate written justifications for noncompetitive awards which document appropriate market search efforts to validate the determination that there is only one source for the anticipated award. The market search should include, at a minimum, a preaward notice in the *Federal Register* stating that the agency expects to make a noncompetitive award and inviting other qualified parties to inquire.

We also recommend that the Chief Financial Officer/Chief Administrative Officer, as the Director of Office of Finance and Administration, which includes the Grants Management Division, require that grants officer reviews of proposed noncompetitive awards include procedures designed to objectively determine compliance with department and NOAA competitive requirements. Our recommendations appear on pages 11 and 12.

## INTRODUCTION

The National Oceanic and Atmospheric Administration's (NOAA) mission is to describe and predict changes in the Earth's environment and to conserve and manage wisely the nation's coastal resources. NOAA's National Environmental Satellite, Data and Information Service (NESDIS) administers the Research in Remote Sensing of the Earth and Environment program, classified as No. 11.440 in the *Catalog of Federal Domestic Assistance*. The program's objective is to advance and promote applied research and technology development in satellite remote sensing of the earth and atmosphere in support of national needs.

NESDIS made six awards under the remote sensing program in fiscal year 1997, totaling \$3,274,608. The awards consisted of three new cooperative agreements and three continuation amendments to an existing cooperative agreement. NESDIS chose the cooperative agreement as its award mechanism for the three new awards because its program officials planned to be substantially involved in the projects. According to program authorization information provided by NOAA's Office of Legislative Affairs and published in the *Catalog of Federal Domestic Assistance*, the FY 1997 awards were made under the authority of The Land Remote-Sensing Commercialization Act of 1984.

Discretionary assistance programs are those for which federal agency officials have the authority to decide (1) which eligible applicants will receive awards, and (2) the amount of federal financial assistance that will be awarded. The use of competitive selection procedures has been determined to be the most effective method of ensuring that financial assistance awards are made on the basis of merit. One of the primary purposes of the Federal Grant and Cooperative Agreement Act (31 U.S.C. §6301) is to encourage competition in the award of federal financial assistance to the maximum extent practicable in order to fairly and objectively identify and fund, based on merit, the best possible projects proposed by applicants, and thereby more effectively achieve program objectives.

The Office of Management and Budget (OMB) has issued guidelines on administering competition-based financial assistance programs for use by federal agencies. An interagency study group, convened in 1979 by OMB to examine competition in financial assistance programs, determined that financial assistance award processes, to ensure effective competition, should include three basic elements. These elements, which were discussed in OMB's June 1980 report, *Managing Federal Assistance in the 1980's*, and are still applicable, include:

- Widespread solicitation of eligible applicants and disclosure of essential application and program information in written solicitations;
- Independent application reviews that consistently apply written program evaluation criteria; and
- Written justifications for award decisions that deviate from recommendations made by application reviewers.

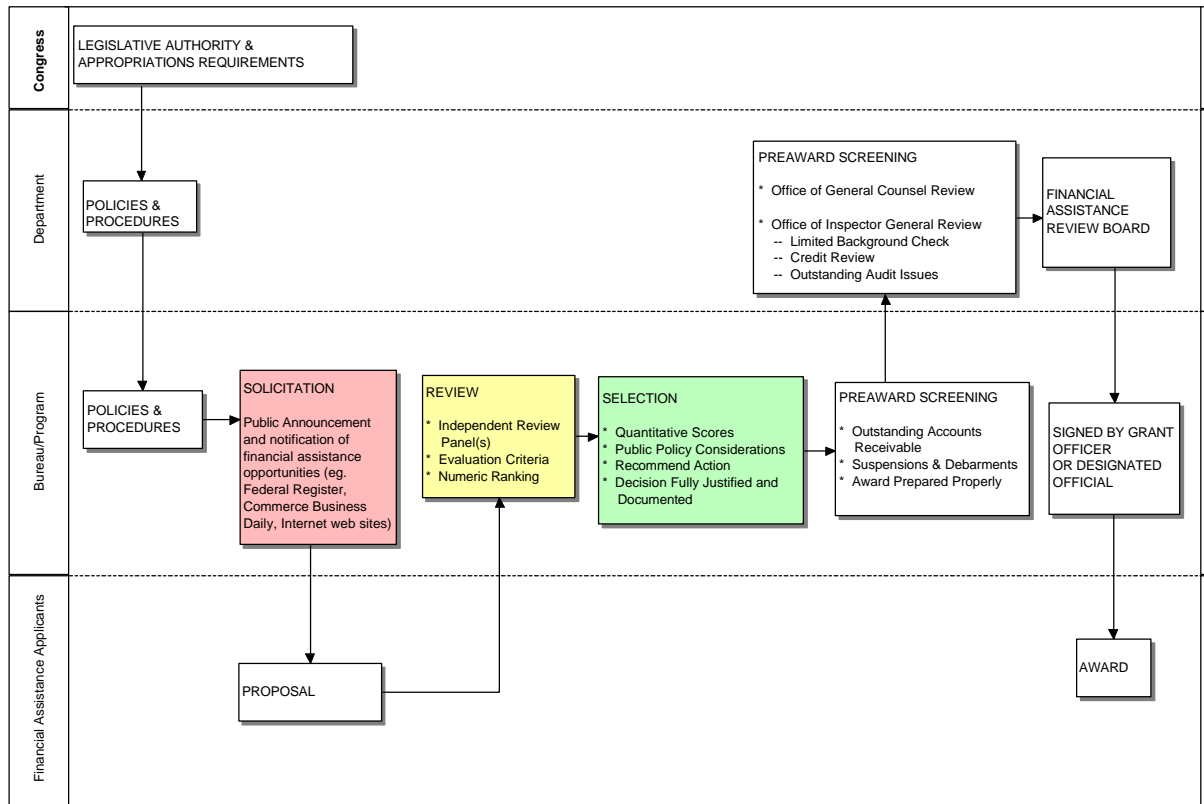
Also, OMB has issued the following circulars which set forth the policies and procedures to be followed in administering federal financial assistance programs:

- OMB Circular A-89, *Federal Domestic Program Information*, implements The Federal Program Information Act (P.L. 95-220) requiring agencies to systematically and periodically collect and distribute current information to the public on federal domestic assistance programs, which is accomplished through the semiannual publication of the *Catalog of Federal Domestic Assistance*.
- OMB Circular A-102, *Grants and Cooperative Agreements with State and Local Governments*, requires agencies to provide the public with advance notice in the *Federal Register*, or by other appropriate means, of their intended funding priorities for discretionary assistance programs unless such priorities are established by federal statute. Under A-102, when time permits, an agency must provide the public with an opportunity to comment on funding priorities. Finally, A-102 requires all grant awards over \$25,000 to be reviewed for consistency with agency priorities by a policy level official.
- OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other non-Profit Organizations*, requires agencies to provide the public with advance notice of their intended funding priorities for discretionary assistance programs unless such priorities are established by federal statute.
- OMB Circular A-123, *Management Accountability and Control*, implements The Federal Managers Financial Integrity Act (P.L. 97-255) requiring agencies to establish written procedures for all programs and administrative activities, including financial assistance programs, that provide reasonable assurance that activities are effectively and efficiently managed to achieve agency goals.

Commerce has relied on these guidelines and circulars in developing and issuing policies and procedures for its discretionary funding programs. Department Administrative Order (DAO) 203-26, *Department of Commerce Grants Administration*, requires that (1) Commerce financial assistance awards be made on the basis of competitive reviews unless a special waiver is obtained, (2) competitive review processes meet minimum standards outlined in the DAO, and (3) all Commerce agencies publish, at least annually, a notice in the *Federal Register* announcing the availability of funding, soliciting award applications, and specifying the criteria and the process to be used in reviewing and selecting applications for funding. In addition, agency initiated noncompetitive or unsolicited awards, if any, should be adequately justified in writing as part of an adequate internal control system defined in OMB Circular A-123 and required by DAO 203-26, Section 4.02.i.

The chart presented on the next page depicts the basic process and controls for the solicitation, review, and selection of financial assistance awards as set forth in DAO 203-26. The processes we reviewed during our audit are color coded for this chart and the NOAA/NESDIS process chart located in Appendix I.

### Department of Commerce Financial Assistance Awards Process



## PURPOSE AND SCOPE

This audit was conducted as part of a comprehensive review of the Department of Commerce's discretionary funding programs initiated at the request of the Chairman of the Senate Committee on Commerce, Science, and Transportation. The Chairman requested that the Inspectors General of the Departments of Commerce and Transportation and the National Science Foundation review the discretionary funding programs of their respective agencies to assess the manner in which discretionary funding decisions are made. More specifically, the Chairman requested that each IG review and report on the criteria developed, either statutorily or administratively, to guide agency officials in making discretionary spending decisions, and on the extent to which the criteria are appropriately applied.

We are conducting our Department-wide review in two phases: a survey phase (completed) and an individual program audit phase (on-going). During the survey phase, we identified and examined the body of laws, regulations, and other guidance applicable to the administration of federal financial assistance programs. We also examined the authorizing legislation, provided by Department officials, for each Commerce financial assistance program and classified each program as either a "full discretion" program or a "limited discretion" program, based on the extent to which the legislation limits the agency's authority to independently determine the recipients and funding levels of the awards made under the program. Finally, we examined the fiscal year 1997 appropriations legislation to identify legislatively mandated awards for this program. None were found.

During the second phase of our review, we are conducting individual audits of the award solicitation, review, and selection processes of each program we have classified as a "full discretion" program, including the remote sensing program. We are evaluating the adequacy of each program's established award procedures and criteria for evaluating individual applications. For those programs with procedures deemed to be adequate, we are ascertaining whether they were followed in making awards in fiscal year 1997. For those programs with procedures considered to be inadequate or lacking, we are reviewing how the fiscal year 1997 award decisions were made. Finally, we are examining the legislatively mandated projects identified for each program and determining their significance and impact on fiscal year 1997 award decisions. We plan to issue individual reports, with any appropriate recommendations, on each program, followed by a capping report summarizing the results of the individual audits and providing recommendations for the Department and/or its bureaus.

On July 21, 1998, the Acting Inspector General and the Chief Financial Officer and Assistant Secretary for Administration testified before the Senate Commerce, Science, and Transportation Committee on the Department's discretionary funding programs. The Acting IG reported on the results of the preliminary, survey phase of the OIG's review, and discussed some of the preliminary observations from the individual program audits.

This performance audit focused on all new awards and continuation amendments made during fiscal year 1997 under the remote sensing program. Specifically, we:



- Reviewed the program authorization provided by NOAA's Office of Legislative Affairs and other information published in the *Catalog of Federal Domestic Assistance* to identify criteria for funding decisions.
- Reviewed policies and procedures for soliciting, reviewing and selecting applications for funding (see Appendix I for flowchart of process). We also reviewed NOAA's *Grants and Cooperative Agreements Manual* as it applied to the solicitation, review, and selection process and assessed whether it was adequate and in accordance with DAO 203-26, *Department of Commerce Grants Administration*, and Office of Federal Assistance Financial Assistance Notice No. 17, *Department of Commerce Guidelines for the Preparation of Federal Register Notices Announcing the Availability of Financial Assistance Funds -- Requests for Applications*.
- Compared the procedures with NOAA/NESDIS award practices for fiscal year 1997 to determine if the process contained adequate internal controls to provide for competitive, merit-based awards.
- Examined pertinent documents in individual program award files to determine if Departmental and NOAA policies and procedures were followed.
- Interviewed NOAA/NESDIS program office officials concerning NOAA/NESDIS's solicitation, review, and selection procedures.
- Examined fiscal year 1997 appropriations legislation to identify legislatively mandated projects for this program.
- Reviewed the three continuation amendments made to a prior year award to determine if NOAA had certified whether the recipient was making satisfactory progress and was meeting the award terms and conditions.

We did not rely on computer-based data supplied by NOAA and the Department's Office of Executive Assistance Management (OEAM) and cited in the report, as a basis for our audit findings and recommendations. Consequently, we did not conduct tests of either the reliability of the data or the controls over the computer-based system that produced the data.

We performed the audit fieldwork at NESDIS's Office of Research and Applications in Camp Springs, Maryland, during May 1998. In February 1999, we issued a draft report to NOAA for review and comment. A copy of NOAA's complete response is included as Appendix III and is summarized on page 11 of this report. We conducted the audit 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.

## FINDINGS AND RECOMMENDATIONS

We found that NESDIS's criteria, procedures, and practices for the solicitation, review, and selection of the remote sensing program award recipients did not comply with statutory, departmental, and NOAA requirements and were not adequate to guide agency officials in making merit-based discretionary funding decisions. NESDIS does not administer the program as a competition-based financial assistance program. NESDIS has not developed and published merit-based evaluation criteria against which applications for funding could be reviewed, does not annually announce the program in the *Federal Register*, and makes all awards under this program noncompetitively in response to unsolicited proposals.

In addition, we reviewed the noncompetitive justifications for the three new awards made in fiscal year 1997 and found them to be inadequate because NESDIS did not provide sufficient support for the unique applicant capabilities cited. NESDIS's practices do not comply with the Department's and NOAA's requirements to seek maximum program competition. We also found that reviews performed by the NOAA grants office of the proposed awards did not question NESDIS's lack of competitive award procedures or the validity of the noncompetitive award justifications. As a result, NOAA/NESDIS cannot provide reasonable assurance that noncompetitive awards made under the program are merit-based and represent the most effective means of achieving program objectives.

### **I. Remote Sensing Program Is Not Administered as a Competition-Based Financial Assistance Program**

The NESDIS remote sensing program is not being administered as a competition-based financial assistance program, as encouraged by federal laws and regulations and mandated by Department of Commerce and NOAA policies and procedures. All of the fiscal year 1997 awards under the program were made noncompetitively in response to unsolicited proposals. We examined the written justifications prepared for the three new noncompetitive awards made in fiscal year 1997 and found them to be inadequate. Specifically, we found that NESDIS:

- Did not develop and publish merit-based evaluation criteria against which funding applications could be reviewed;
- Did not comply with the Department's and NOAA's requirement that a notice be placed in the *Federal Register*, at least annually, soliciting award applications; and
- Did not comply with the Department's and NOAA's requirements that (1) all financial assistance awards be made on the basis of a competitive review process, unless a special waiver is obtained, and (2) the competitive review process meet minimum standards established by the Department.

As a result of these deficiencies, NESDIS cannot provide reasonable assurance that noncompetitive awards made under the program are merit-based and represent the most effective means of achieving program objectives.

**A. NESDIS did not develop and publish merit-based program application evaluation criteria**

The NOAA *Grants and Cooperative Agreements Policy Manual*, Chapter 1, Section A.4., requires that applications for financial assistance be reviewed by a panel of independent reviewers in accordance with published criteria. The manual states that the criteria used for evaluating applications must be published as part of the request for applications and prohibits scoring applications against unpublished criteria. However, NESDIS did not develop and publish merit-based evaluation criteria against which program applications could be reviewed.

In particular, the agency did not place a notice in the *Federal Register* soliciting competing applications and announcing the criteria for the remote sensing program for fiscal year 1997. Also, the NESDIS remote sensing program summary, published in the *Catalog of Federal Domestic Assistance*, does not cite program-specific evaluation criteria. The summary simply states that (1) program applications are evaluated technically and administratively primarily for scientific merit and relevance to NOAA goals and objectives; (2) the principal investigator's qualifications are considered; and (3) costs are subject to negotiation. In order to be adequate to facilitate a merit-based evaluation process, criteria used to evaluate applications for federal financial assistance must not be general in nature, but as specific as possible with weights assigned to each criterion.

**B. Solicitation and review process did not comply with competitive requirements**

Department Administrative Order 203-26, Section 4.02.b., requires Commerce bureaus to publish an annual notice in the *Federal Register* to announce the availability of funding and to solicit applications for each discretionary financial assistance program. It also encourages the bureaus to publish notices in other widely distributed publications, such as the *Commerce Business Daily*, to ensure widespread solicitation of applications. Moreover, NOAA's *Grants and Cooperative Agreements Policy Manual*, Chapter 1, Section A.4., states that it is NOAA's policy to seek maximum competition for its discretionary grants and cooperative agreements.

In addition, DAO 203-26, Section 4.02.a., requires the establishment of selection criteria for use in evaluating applications submitted for new awards. Section 4.02.h. requires awards be made on the basis of competitive review, and Section 4.02.h.1.(e) requires the use of the selection criteria in evaluating individual applications. Unless a program receives a waiver of competitive review requirements, awards under the program are generally required to be made on the basis of competitive review.

However, despite the Department and NOAA policies, NESDIS did not announce the remote sensing program in the *Federal Register* or the *Commerce Business Daily* and did not establish competitive award selection criteria. By not announcing the program and establishing competitive award selection criteria as required, NESDIS did not comply with Department as well as NOAA policies and missed an important opportunity to seek potential program competition. In addition, NESDIS may be encouraging the use of noncompetitive awards by not developing competitive selection criteria.

In addition to the annual *Federal Register* notice announcing a program's existence and funding availability, bureaus can also place *Federal Register* preaward notices announcing their intent to fund unsolicited proposals and inviting inquiries from other interested organizations. Bureaus can also prepare and send a request for proposal directly to organizations known or believed to be qualified. However, NESDIS did not publish individual preaward notices in the *Federal Register* for the three new projects it funded during fiscal year 1997.

**C. Noncompetitive awards under the remote sensing program lack adequate justification**

In fiscal year 1997, NOAA/NESDIS awarded three new cooperative agreements and three continuation amendments to an existing cooperative agreement totaling \$3,274,608 to four universities. A list of the awards is provided as Appendix II. The awards were made noncompetitively to organizations that had submitted unsolicited proposals for NESDIS funding consideration. The NESDIS written justifications for all the noncompetitive awards stated that each of the proposed recipients possessed unique capabilities that made it either the best or the only organization qualified to do the work. However, we concluded that the justifications for the noncompetitive awards were inadequate because NESDIS did not provide objective factual evidence, such as the results of a published solicitation, that the organizations were the only entities capable of conducting the projects. The following is a synopsis of the three noncompetitive awards reviewed during our audit.

**San Jose State University Foundation**

NESDIS received an unsolicited proposal from the San Jose State University Foundation in the amount of \$813,699. NOAA/NESDIS awarded a \$813,699 cooperative agreement (No. NA77EC0252) to the foundation in August 1997 using funds transferred from the National Aeronautics and Space Administration. The cooperative agreement required a \$20,000 matching contribution from the foundation, bringing the total budget to \$833,699. The award's purpose was to continue the research work being conducted in satellite remote sensing applications and represented the first year funding of a three-year project.

The written noncompetitive justification indicated that the university's Moss Landing Marine Laboratories maintains a level of optical, physical, chemical, and marine instrumentation and associated calibration facilities that is unmatched. However, the noncompetitive justification was inadequate because there was no documentation to support whether NESDIS based its decision on objective factual evidence, such as the results of a published solicitation, that the foundation was the only entity capable of performing the work.

**San Diego State University Foundation**

NESDIS received an unsolicited proposal from the San Diego State University Foundation in the amount of \$325,091. NOAA/NESDIS awarded a \$325,091 cooperative agreement (No. NA77EC0131) to the foundation in May 1997 using funds transferred from the

National Aeronautics and Space Administration. The cooperative agreement required a \$27,560 matching contribution from the foundation, bringing the total budget to \$352,651. The award's purpose was to fund research work related to improving and validating algorithms for several ocean color satellite sensors and represented the first year funding of a three-year project.

The written noncompetitive justification indicated that the university's Center for Hydro-Optics and Remote Sensing is unsurpassed in the field of oceanography and that a center research scientist possesses extensive and unique capabilities. However, the noncompetitive justification was inadequate because there was no documentation to support whether NESDIS based its decision on objective factual evidence, such as the results of a published solicitation, that the foundation was the only entity capable of performing the work.

### **The Johns Hopkins University**

NESDIS received an unsolicited proposal from The Johns Hopkins University in the amount of \$85,000. NOAA/NESDIS awarded an \$85,000 cooperative agreement (No. NA77EC0554) to the University in September 1997. The cooperative agreement required an \$85,000 matching contribution from the university, bringing the total budget to \$170,000. The award's purpose was to enhance NOAA's capability to recognize, develop, and exploit coastal applications of spaceborne synthetic aperture radar and represented the first year funding of a two-year project.

The written noncompetitive justification indicated that the Space Oceanography Group at the university's Applied Physics Laboratory is the only university source with the expertise, experience, and geographic location to accomplish the research goals. The justification also states that the laboratory's location in the Washington, D.C. area was an important factor because it would facilitate transfer of the desired technology and skills to NOAA personnel. However, the noncompetitive justification was inadequate because there was no documentation to support whether NESDIS based its decision on objective factual evidence, such as the results of a published solicitation, that the university was the only entity capable of performing the work.

Unsolicited proposals are applications for financial assistance that are not submitted in response to a formal solicitation notice published in the *Federal Register*. Because unsolicited proposals are a means by which unique or innovative ideas can be made available to accomplish specific projects, scientific organizations like NOAA and NESDIS encourage their submission. DAO 203-26, Section 4.02.i., allows the receipt of unsolicited proposals, but states that no unsolicited proposal may be funded outside the competitive process if that proposal falls within the program goals of a competitive program. In addition, the receipt of a technically acceptable unsolicited proposal does not, in itself, justify a noncompetitive award. DAO 203-26, Section 4.02.i., also states that the decision to fund an unsolicited proposal must be fully justified and included in the official grant file.

While NESDIS wrote noncompetitive justifications for the three new awards, the justifications do not cite any factual basis for the assertions that the three applicants possessed unique capabilities. Since NESDIS also did not comply with the Department's requirement that a notice be published in the *Federal Register* soliciting applications for fiscal year 1997 awards under the remote sensing program, it did not have support for its assertions that the organizations that submitted unsolicited proposals were the only ones that could perform the work. Instead, the justifications contain statements by program office officials based on knowledge accumulated through their past working relationships with the recipients. A belief that an organization possesses unique qualifications should still be verified through a competitive review process that includes widespread solicitation of eligible applicants, through announcement in the *Federal Register* and other means.

## **II. NOAA Reviews of Proposed NESDIS Awards Are Not Effective**

Reviews performed by the NOAA grants management office of the three new proposed awards did not question NESDIS's lack of competitive award procedures or the validity of the noncompetitive award justifications. The Assistant Administrator for Satellite and Information Services forwarded, as required, the program office's justifications and related documents for the three new proposed noncompetitive awards to the grants office for review and approval. However, the grants office review of the proposed awards did not ensure the NESDIS program office's compliance with applicable Department and NOAA competitive requirements.

DAO 203-26, Section 4.01., requires that each organization unit establish a central liaison to ensure that its programs comply with federal, departmental and organization grant requirements and to review grant documents for compliance. The Grants Management Division, within NOAA's Office of Finance and Administration, fulfills that responsibility for NOAA.

The grant files do not indicate whether the Grants Management Division questioned why the NESDIS program office did not prepare and submit the required annual *Federal Register* program announcement. The files also do not show whether the grants office determined if the noncompetitive justifications were factually based or if the program office had made any attempt to identify other qualified sources before submitting the noncompetitive awards. Grants Management Division personnel stated that they relied on and accepted as valid the technical descriptions of perceived unique capabilities presented in the program office's award justifications. Grants Management Division personnel limited their review of the justifications to determining whether they addressed one or more of the acceptable reasons for a noncompetitive award and did not attempt to verify the information. Therefore, we believe the reviews were not effective in ensuring the program office's compliance with Department and NOAA competitive policies.

## **III. Conclusions**

We concluded that NESDIS's fiscal year 1997 award process under its Research in Remote Sensing of the Earth and Environment Program was not adequate to guide officials in making merit-based discretionary funding decisions because NESDIS did not develop and publish

merit-based evaluation criteria and its noncompetitive award of the three new cooperative agreements did not comply with Department requirements and NOAA policies of seeking maximum competition. Also, NESDIS's written justifications for the awards did not cite any factual basis for its assertions that the three applicants were the only entities that could perform the work. Despite these facts, NOAA's Grants Management Division did not question the awards. By not following competitive procedures, NESDIS could make questionable or even inappropriate noncompetitive program awards in instances where competition is available. In addition, by not seeking competition, NESDIS misses the opportunity to benefit from the ideas, designs, technology, or services that other qualified organizations can produce and thus increase program quality and efficiency.

### **NOAA Response**

In its response to the draft report, NOAA stated that the agency agrees that more awards should be granted competitively for all discretionary funding programs and that a rigorous solicitation process should be used. The response further states that the agency is continuing to look at its current processes and will provide more specific comments and details as part of the audit action plan submitted in response to the final report.

### **OIG Comments**

NOAA's concurrence that more awards should be competitively awarded is a positive reaction to this report. We look forward to the remote sensing research program moving in that direction. We have modified our recommendations in response to discussions with NOAA officials regarding the draft report to clarify that we did not intend to suggest that *all* awards must be made competitively. We understand that an unsolicited research proposal may very well be justified for noncompetitive funding on an exception basis. However, we are emphasizing that an entire program should not be administered on a noncompetitive basis, as this one is, unless mandated by law.

## **IV. Recommendations**

We recommend that the Assistant Administrator for Satellite and Information Services ensure that financial assistance awards under the remote sensing program are made through a competitive merit-based process, unless otherwise mandated by law or adequately justified, and that the award process complies with Department policies and procedures and includes the following four elements:

1. Widespread solicitation of eligible applications and disclosure of essential application and program information in written solicitations;
2. Independent application reviews that consistently apply published evaluation criteria;
3. Written justifications for award decisions that deviate from recommendations made by application reviewers; and

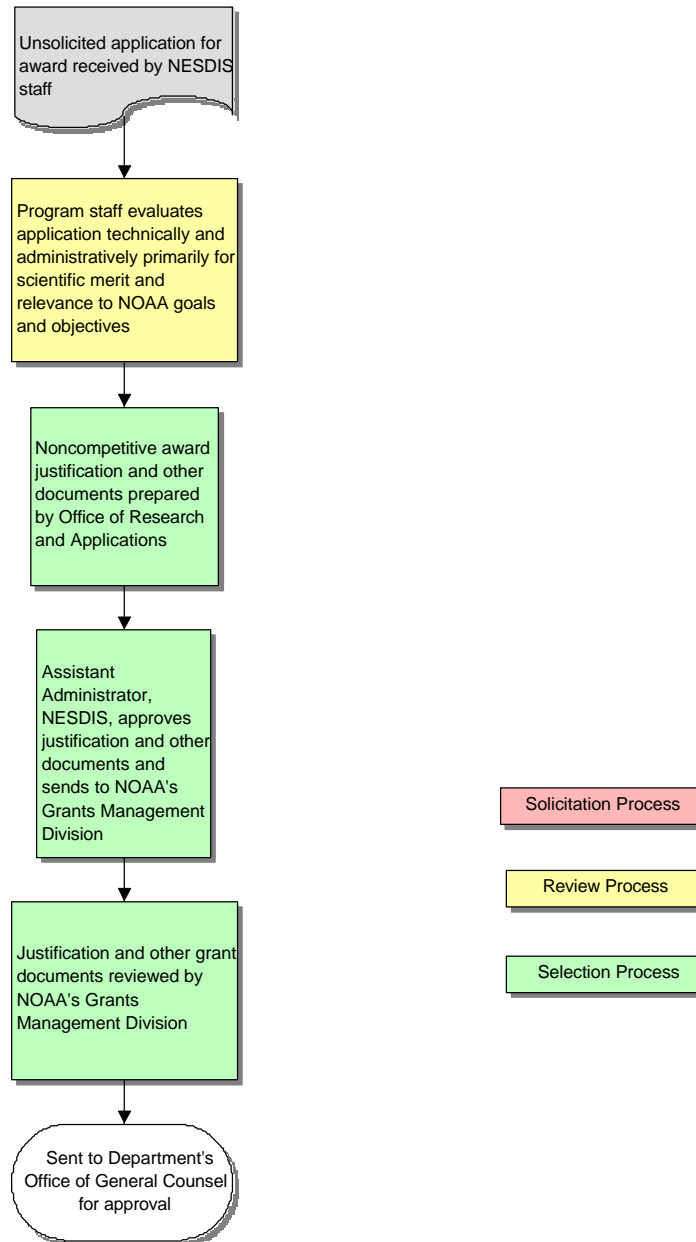
4. Adequate written justifications for noncompetitive awards which document appropriate market search efforts to validate the determination that there is only one source for the anticipated award. The market search should include, at a minimum, a preaward notice in the *Federal Register* stating that the agency expects to make a noncompetitive award and inviting other qualified parties to inquire.

We recommend that the Chief Financial Officer/Chief Administrative Officer, as the Director of the Office of Finance and Administration, which includes the Grants Management Division, require that grants officer reviews of proposed noncompetitive awards include procedures designed to objectively determine compliance with department and NOAA competitive requirements.



**APPENDIX I**

**NOAA/NESDIS PROCEDURES FOR REVIEW  
AND SELECTION OF AWARDS**



**APPENDIX II**

**RESEARCH IN REMOTE SENSING OF THE EARTH  
AND ENVIRONMENT PROGRAM**

**New Awards and Continuation Amendments for Fiscal Year 1997**

| Continuation<br>RECIPIENT ( <i>Awards reviewed are italicized</i> ) | AWARD AMOUNT        |                     |
|---|---------------------|---------------------|
|   | New                 |                     |
|   | Award               | Amendment           |
| <i>San Jose State University Foundation</i>                         | \$ 813,699          |                     |
| <i>San Diego State University Foundation</i>                        | 325,091             |                     |
| <i>The Johns Hopkins University</i>                                 | 85,000              |                     |
| University of Wisconsin   |                     | \$ 1,185,000        |
| University of Wisconsin   |                     | 460,992             |
| University of Wisconsin   |                     | 404,826             |
| TOTAL   | <u>\$ 1,223,790</u> | <u>\$ 2,050,818</u> |



Appendix III

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

MAR 25 1999

MEMORANDUM FOR: Johnnie Frazier  
Acting Inspector General

FROM: Paul F. Roberts *Paul Roberts*

SUBJECT: Office of Inspector General Draft Reports -  
NOAA's Discretionary Funding Programs

Thank you for the opportunity to review and comment on the draft audits reports prepared by the Office of the Inspector General relating to NOAA's discretionary funding programs.

NOAA agrees that more awards should be granted competitively for all discretionary funding programs and that a rigorous solicitation process should be used. NOAA is committed to ensuring an awards program that is consistent with Department of Commerce policies and responsive to our research needs. We will continue to look at our current processes and I will provide more specific comments and details as part of the audit action plans submitted in response to the final reports.



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