

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

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**PUBLIC  
RELEASE**

***NATIONAL OCEANIC AND  
ATMOSPHERIC ADMINISTRATION***

*NWS's Hydrologic Research Program  
Awards Were Not Competitively Selected  
CFDA No. 11.462*

*Audit Report No. ATL-11140-9-0001 / 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 Weather Service's (NWS) Hydrologic Research Program. The program is classified as No. 11.462 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, approximately \$1 billion annually.

Through the hydrologic research program, NWS conducts joint research and development on pressing surface water hydrology issues. During fiscal year 1997, the program awarded six new cooperative agreements (\$336,480) and two continuation amendments to existing cooperative agreements (\$196,493), for a total of \$532,973. All six new cooperative agreements awarded during 1997 were made noncompetitively in response to unsolicited proposals, as were the original awards amended by the continuation amendments.

We found that NWS's criteria, procedures and practices for the solicitation, review, and selection of the hydrologic research 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. 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 six new noncompetitive awards made in fiscal year 1997 and found them to be inadequate. Specifically, we found that NWS:

- Did not develop and publish merit-based evaluation criteria against which program applications could be reviewed (see page 7).
- Does 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).
- Does 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, NWS 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, NWS could make questionable or even inappropriate noncompetitive program awards in instances where competition from other sources is available. NWS risks forgoing the receipt of research proposals from a broad range of eligible applicants and thus may lose opportunities to increase the quality and effectiveness of the Hydrologic Research Program.

We also found that NOAA's Grants Management Division did not provide adequate oversight of NWS's administration of the program's award process (see page 11).

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 Weather Services ensure that financial assistance awards under the Hydrologic Research 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 page 13.

## 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 Weather Service (NWS) administers the Hydrologic Research Program, classified as No. 11.462 in the *Catalog of Federal Domestic Assistance*. The program's objective is to conduct joint research and development on pressing surface water hydrology issues.

NWS made eight awards under the Hydrologic Research Program in fiscal year 1997, totaling \$532,973. The awards consisted of six new cooperative agreements and two continuation amendments to existing cooperative agreements. NWS chose the cooperative agreement as its award mechanism for the six 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 Weather Service Organic Act of 1890, as amended.

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.

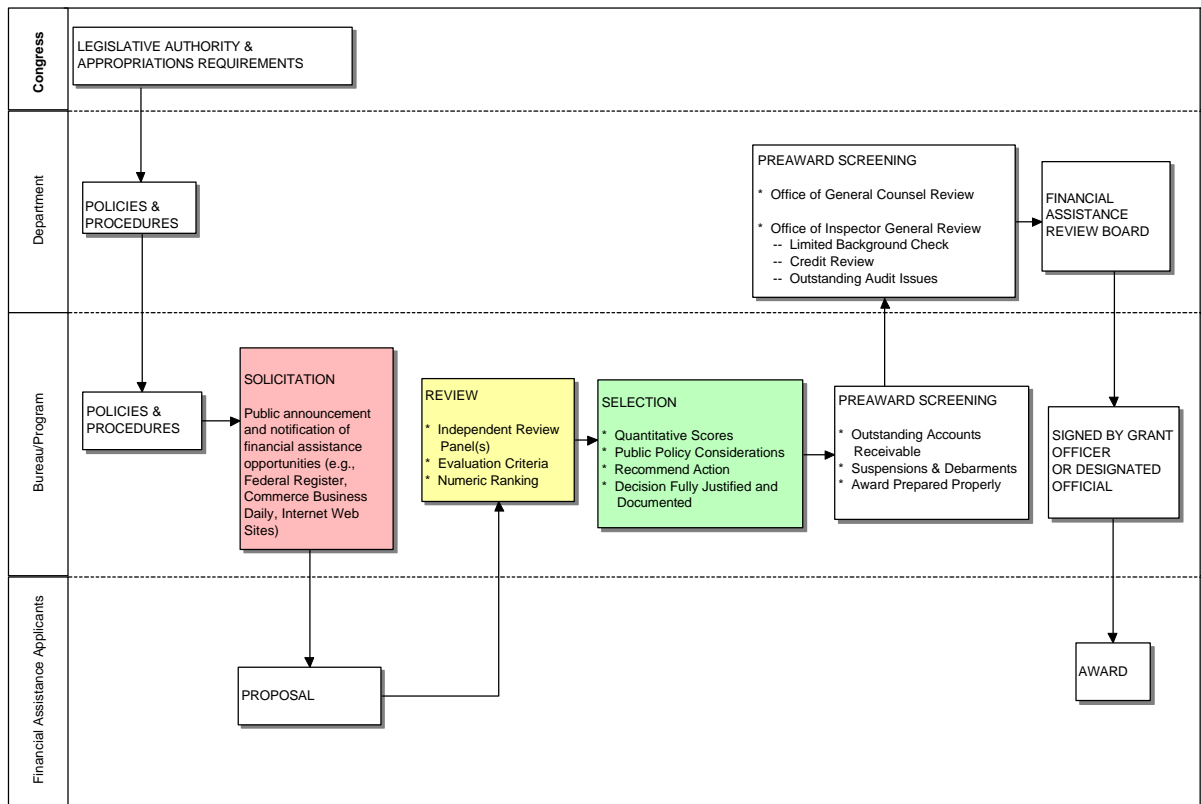
Also, OMB has issued the following circulars which set forth the policies and procedures to be followed in administering federal financial assistance programs:

- 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) all 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 non-competitive 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 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/NWS 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 Commerce, Science, and Transportation Committee. 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. No legislatively mandated awards 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 hydrologic research 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 Hydrologic Research 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/NWS grant 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/NWS program office officials concerning NOAA/NWS's solicitation, review, and selection procedures.
- Examined fiscal year 1997 appropriations legislation to identify legislatively mandated projects for this program.
- Reviewed the two continuation amendments made to prior year awards to determine if NOAA had certified whether the recipients were making satisfactory progress and were 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 NWS's Hydrologic Research Laboratory in Silver Spring, Maryland, during July 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 12 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 NWS's criteria, procedures, and practices for the solicitation, review, and selection of the hydrologic research 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. NWS does not administer the program as a competition-based financial assistance program. NWS 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 six new awards made in fiscal year 1997 and found them to be inadequate because NWS did not provide sufficient support for the unique applicant capabilities cited. NWS'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 NWS's lack of competitive award procedures or the validity of the noncompetitive award justifications. As a result, NOAA/NWS 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. Hydrologic Research Program Is Not Administered as a Competition-Based Financial Assistance Program**

The NWS hydrologic research program is not 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 awards under the program were made noncompetitively in response to unsolicited proposals. We examined the written justifications prepared for the six new noncompetitive awards made in fiscal year 1997 and found them to be inadequate. Specifically, we found that NWS, as it currently administers the hydrologic research program:

- Did not develop and publish merit-based evaluation criteria against which program applications could be reviewed;
- Does 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,
- Does 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, NWS cannot provide reasonable assurance that noncompetitive awards made under the hydrologic research program are merit-based and represent the most effective means of achieving program objectives.

**A. NWS did not develop and publish merit-based 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 against unpublished criteria. However, NWS 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 hydrologic research program for fiscal year 1997. Also, the NWS Hydrologic Research Program summary, published in the *Catalog of Federal Domestic Assistance*, does not cite program-specific evaluation criteria. The summary simply states that proposals are subject to an office and peer review process taking into consideration scientific merit, application to office research goals, principal investigator's qualifications, cost, and available funding. 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 does 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 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, NWS did not announce the hydrologic research 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, NWS did not comply with Department as well

as NOAA policies and missed an important opportunity to seek potential program competition. In addition, NWS 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, NWS did not publish individual preaward notices in the *Federal Register* for the six new projects it funded during fiscal year 1997.

### **C. Noncompetitive awards lacked adequate justification**

In fiscal year 1997, NOAA/NWS awarded six new cooperative agreements (\$336,480) and two continuation amendments to existing cooperative agreements (\$196,493), totaling \$532,973, to four universities, a nonprofit organization, and a state agency. A list of the awards is provided as Appendix II. The awards were made noncompetitively to organizations that had submitted unsolicited proposals for NWS funding consideration. The NWS written justifications for the six new 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. The following is a synopsis of the six new noncompetitive awards.

#### **Hydrologic Research Center**

NWS received an unsolicited proposal in the amount of \$135,000 from the Hydrologic Research Center, a nonprofit research and technology transfer corporation. NOAA/NWS awarded a \$135,000 cooperative agreement (No. NA77WHO009) to the center in May 1997. The cooperative agreement did not require a matching contribution from the center. The award's purpose was to develop, install and test the Integrated Hydrologic Forecast System for the combined prediction of mean rainfall and streamflow of a watershed in Panama for use in flood prediction.

The written noncompetitive justification states that similar projects are already being conducted at the center; thus, adequate staff and equipment are already in place to begin immediate work. The justification also states that the project is critical to public safety, and another recipient would need to assemble these items at a greater expense and time delay to the project.

The noncompetitive justification was inadequate because NWS did not provide objective factual evidence, such as the results of a published solicitation, that the center was the only entity capable of performing the award.

### **Hydrologic Research Center**

NWS received an unsolicited proposal from the Hydrologic Research Center in the amount of \$53,987. NOAA/NWS awarded a \$53,987 cooperative agreement (No. NA77WHO312) to the center in September 1997. The cooperative agreement did not require a matching contribution from the center. The award's purpose was to continue the development of standardized training methodologies for the operation and calibration of the Sacramento-Soil Moisture Accounting conceptual hydrologic computer model.

The written noncompetitive justification states that the center has unique capabilities and that the start-up period for another recipient would require a significant increase in resources. The justification also states that the center completed the first project phase under a prior cooperative agreement and has the equipment and experienced staff to handle the scientific research and technology transfer that the second project phase entails.

The noncompetitive justification was inadequate because NWS did not provide objective factual evidence, such as the results of a published solicitation, that the center was the only entity capable of performing the award.

### **Hydrologic Research Center**

NWS received an unsolicited proposal from the Hydrologic Research Center in the amount of \$42,704. NOAA/NWS awarded a \$42,704 cooperative agreement (No. NA77WHO396) to the organization in September 1997. The cooperative agreement did not require a matching contribution from the center. The award's primary purpose was to conduct system software tests of a hydrologic modeling system.

The written noncompetitive justification states that the center has unique capabilities and that the start-up period for another recipient would require a significant increase in resources. The justification also states that the center has the equipment and experienced staff to handle the state-of-the-art scientific research and technology transfer that the project entails.

The noncompetitive justification was inadequate because NWS did not provide objective factual evidence, such as the results of a published solicitation, that the center was the only entity capable of performing the award.

### **University of Arizona Board of Regents**

NWS received an unsolicited proposal from the University of Arizona Board of Regents in the amount of \$65,000. NOAA/NWS awarded a \$65,000 cooperative agreement (No. NA77WHO425) to the institution in September 1997. The cooperative agreement did not require a matching contribution from the university. The award's purpose was to develop hydrologic models for flash flood forecasting in semi-arid climate regions. The written noncompetitive justification states that performance of the project by another

institution would require significant start-up costs. The justification also states that the University of Arizona faculty has knowledge and expertise of both NWS hydrologic models and optimization procedures that is unmatched in the university community.

The noncompetitive justification was inadequate because NWS did not provide objective factual evidence, such as the results of a published solicitation, that the University of Arizona Board of Regents was the only entity capable of performing the award.

### **University of Iowa**

NWS received an unsolicited proposal from the University of Iowa in the amount of \$25,000. NOAA/NWS awarded a \$25,000 cooperative agreement (No. NA77WHO376) to the university in August 1997. The cooperative agreement did not require a matching contribution from the university. The award's purpose was to investigate Doppler weather surveillance radar range effects in rainfall estimation.

The written noncompetitive justification states that the performance of the project by another institution would require significant start-up costs. The justification also states that the University of Iowa project staff possess unique experience in this specialized research field and that the university has the extensive research facilities necessary for the project.

The noncompetitive justification was inadequate because NWS did not provide objective factual evidence, such as the results of a published solicitation, that the University of Iowa was the only entity capable of performing the award.

### **Massachusetts Institute of Technology**

NWS received an unsolicited proposal from the Massachusetts Institute of Technology in the amount of \$14,789. NOAA/NWS awarded a \$14,789 cooperative agreement (No. NA77WHO477) to the university in September 1997. The cooperative agreement did not require a matching contribution from the university. The award's purpose was to accomplish three major tasks involving the development and testing of a hydrologic model using grid-based digital elevation maps.

The written noncompetitive justification states that because of MIT's expertise in distributed parameter modeling and the work it has accomplished through previous cooperative agreements, the university is in a unique position to perform this research. The justification also states that the start-up and familiarization period required for any other recipient to perform the same research tasks would mean a significant increase in resources.

The noncompetitive justification was inadequate because NWS did not provide objective factual evidence, such as the results of a published solicitation, that the Massachusetts Institute of Technology was the only entity capable of performing the award.

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 NWS 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.

However, while NWS wrote noncompetitive justifications for the six new awards, the justifications do not cite any factual basis for its assertions that the applicants possessed unique capabilities. Since NWS 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, it lacked 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 that are based on their own perceptions. 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 NWS Awards Were Not Effective**

Reviews performed by the NOAA grants office of the six new proposed awards did not question NWS's lack of competitive award procedures or the validity of the noncompetitive award justifications. The Assistant Administrator for Weather Services forwarded, as required, the Hydrologic Research Laboratory's justifications and related documents for the six 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 program office's compliance with applicable Department and NOAA competitive requirements.

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

The grant files do not indicate whether the Grants Management Division questioned why the NWS 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 NWS's fiscal year 1997 award process under its Hydrologic Research Program was not adequate to guide officials in making merit-based discretionary funding decisions because NWS did not develop and publish merit-based evaluation criteria and the noncompetitive award of the six new cooperative agreements did not comply with the Department's and NOAA's policies of seeking maximum competition. Also, NWS's written justifications for the awards did not cite any factual basis for its assertions that the 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, NOAA/NWS could make questionable or even inappropriate noncompetitive program awards in instances where competition is available. In addition, by not seeking competition, NWS could bypass proposals containing the ideas, designs, technology, or services that other qualified organizations can produce and thus lose an opportunity to 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 hydrologic 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**

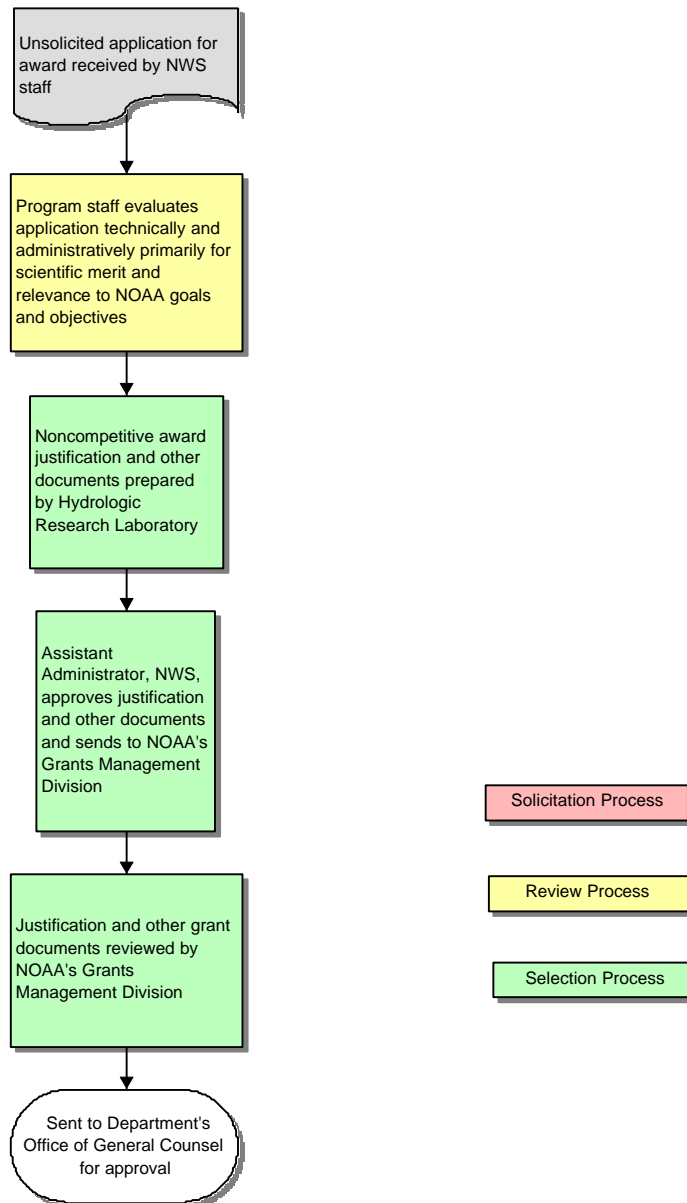
We recommend that the Assistant Administrator for Weather Services ensure that financial assistance awards under the hydrologic research program are made on a competitive merit-based process, unless otherwise mandated by law or adequately justified, and that the award process complies with Department 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 program 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 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.

**APPENDIX I**

**NOAA/NWS Procedures for Review and Selection of Awards**



**APPENDIX II**

**HYDROLOGIC RESEARCH PROGRAM**

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

RECIPIENT ( <i>Awards reviewed are italicized</i> )	AMOUNT OF AWARDS	
	New Awards	Continuation Amendments
<i>Hydrologic Research Center</i>	\$ 135,000	
<i>Hydrologic Research Center</i>	53,987	
<i>Hydrologic Research Center</i>	42,704	
<i>University of Arizona Board of Regents</i>	65,000	
<i>University of Iowa</i>	25,000	
<i>Massachusetts Institute of Technology</i>	14,789	
Virginia Department of Emergency Services		\$ 171,493
Trustees of Princeton University		25,000
TOTAL	<u>\$ 336,480</u>	<u>\$ 196,493</u>

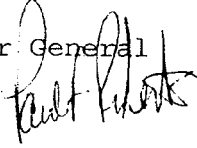


Appendix III

**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 

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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