Report in Brief

September 26, 2016

Background

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

Why We Did This Review

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

NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION

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

OIG-16-046-A

WHAT WE FOUND

We found that:

I. *Application fee processes and procedures for retaining documents received with applications do not ensure compliance with program regulations.* We found that the Program complied with most laws and regulations, but improvements are needed. Specifically, NOAA cannot consistently ensure that (1) application fees are received when applications are accepted, (2) commitment fees are promptly refunded to applicants whose applications are declined or withdrawn, and (3) documentation submitted by applicants is retained.

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

III. *Some of the Program's delinquency follow-up practices do not comply with federal policies and Departmental procedures.* We found that the Program does not follow some of the Department's delinquency follow-up procedures and has not obtained written approval to use different procedures. For instance, Program staff did not prepare delinquent debt plans or submit monthly status reports for delinquent loans; in addition, Program managers did not refer at least two loans to other federal agencies in compliance with timelines in federal policies.

WHAT WE RECOMMEND

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

We also recommend that the Deputy Chief Administrative Officer for Fisheries

(4) fix the flaw in the loan management system so that it (a) properly identifies delinquent accounts and (b) applies late payment penalties to loan accounts—or implement another loan management system in place of the current system;

(5) develop policies and procedures to ensure that (a) late payment penalties and waivers are consistently assessed and supported and (b) all loan accounts approved for deferral payment arrangements are properly identified in the Program's loan management system;

(6) develop and use an aging report that accurately identifies missed payments;

(7) develop processes for acquiring annual financial records from borrowers;

(8) ensure that Program staff follow loan payment procedures and pursue an increased acceptance of electronic payments;

(9) develop a process for preparing written plans for delinquent accounts and the submission of monthly status reports to the appropriate officer; and

(10) reinforce policies requiring the Program to refer delinquent debt to the Department of the Treasury and follow delinquency follow-up guidance in the Department's *Credit and Debt Management Operating Standards and Procedures Handbook*.