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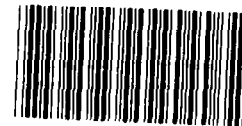
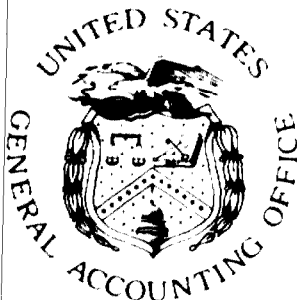
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Report To The Secretary Of Commerce

Cost Recovery Practices Inconsistent With Government Policy

When the public and private sectors request Government agencies' goods and services, cost recovery and user charges are required. Although the requirements had been stated in agency policy directives, the Environmental Data and Information Service (EDIS) either did not adhere to these policies in making its pricing determinations or did not apply them uniformly and consistently across the agency. The cost recovery practices of EDIS's data centers resulted in both over- and undercharges.

GAO recommends the agency establish and disseminate operating instructions consistent with Department of Commerce policy and implement a system for monitoring the data centers. GAO makes several other recommendations to ensure that their practices are consistent with Government policy.



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GAO/GGD-83-61
JULY 27, 1983

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

GENERAL GOVERNMENT
DIVISION

B-203565

The Honorable Malcolm Baldrige
Secretary of Commerce

Dear Mr. Secretary:

The General Accounting Office is conducting a review to assess the economy and efficiency of the Environmental Data and Information Service's (EDIS's)¹ data acquisition and dissemination functions with regard to environmental data. During our review, we identified problems with EDIS's cost recovery practices that we believe warrant your attention so that timely corrective action can be initiated. These problems involve the sale and exchange of environmental data and publications at the three EDIS data centers.

Specifically, present EDIS cost recovery and user charge practices are inconsistent with government policy and vary within the agency. These practices have resulted in both over- and undercharges. To date, EDIS has not taken steps to assure that existing cost recovery and user charge policies are implemented or to assure that data center pricing practices are monitored.

Briefly, we found that EDIS needs to establish management controls to assure that existing pricing policies are

- followed in determining the costs on which prices are based,
- applied uniformly and consistently across EDIS, and
- observed in decisions regarding the provision of free data.

Since the data centers generally do not retain or maintain sufficient cost records to support the prices charged, we did not attempt to determine the overall loss or gain resulting from

¹Effective December 1, 1982, EDIS merged with the National Environmental Satellite Service (NESS) to become the National Environmental Satellite Data and Information Service (NESDIS). The merger did not affect the thrust of this report.

the centers' practices. To aid management in determining whether the agency is adhering to applicable laws and regulations, the data centers should back up their pricing decisions with adequate documentation.

BACKGROUND

As a National Oceanic and Atmospheric Administration (NOAA) component, EDIS's mission is to gather, store, and disseminate environmental data. EDIS centers obtain data from a variety of public and private sources worldwide, which the centers process and disseminate in the form of standard publications and standard and/or customized data sets. Data are provided on request to public and private individuals and organizations worldwide. Some data are sold and some are provided free.

Office of Management and Budget (OMB) Circular A-25 and Title 31 U.S.C. §9701 (formerly 31 U.S.C. §483a) set forth the requirements for cost recovery and user charges related to the distribution of goods, services, or property at the request of persons in the public and private sectors. These requirements were interpreted by a Supreme Court decision² to limit the charges an agency can levy against nongovernmental users to the actual value of services rendered to the user which bestow a benefit to the recipient not shared by the general public.

The requirements have been reiterated in directives issued by the Department of Commerce, NOAA, and EDIS. These directives require Commerce agencies to collect a fee for the Federal services, goods, or property provided to recipients who derive from their use special benefits not received by the general public. The directives further require that

- fees or charges be set at levels to recover the cost of the service rendered and
- uniform methods be used in establishing fees and charges for recipients of given services.

NOAA and EDIS guidance generally identify the goods and services provided by EDIS as special services subject to uniform charges and full cost recovery. Exceptions to the full cost recovery policy have been identified. The exceptions are, however, generally limited to the occasional provision of courtesy copies of publications to domestic and foreign users or to the provision of data to a foreign customer in exchange for other data of equal value.

²National Cable Television Assn., Inc. v. United States, 415 U.S. 336 (1974).

OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of this segment of our review was to assess the adequacy of cost recovery practices at the three EDIS data centers. Accordingly, we conducted our review at the following locations:

Environmental Data and Information Service (EDIS),
Washington, D.C.
National Oceanographic Data Center (NODC),
Washington, D.C.
National Climatic Data Center (NCDC), Asheville, N.C.
National Geophysical Data Center (NGDC), Boulder, Co.

We reviewed policies and procedures relative to user charges and cost recovery; examined documents related to prices, charges and collections associated with disseminating data by the centers; and interviewed officials at each center and at EDIS headquarters. The review, conducted from July through November 1982, was performed in accordance with generally accepted government auditing standards. Matters concerning internal financial controls were referred to the Department of Commerce Inspector General who reviewed NGDC operations and issued his report on March 30, 1983.

USERS ARE OFTEN CHARGED
WITHOUT REGARD TO COST

Contrary to Commerce's General Counsel's position and EDIS's policy that user charges be limited to the direct and indirect costs of providing products and services, the data centers are frequently overcharging customers for data services. In other instances, charges are less than the cost of providing the data or service. These conditions occur because charges are frequently not based on either allowable or accurate costs.

Data centers do not always
compute prices correctly

Data centers have computed prices by including inhouse costs associated with other functions, costs of data provided free, and additional costs to cover losses on other data items. The inclusion of these costs is contrary to Commerce policy which limits user charges to the cost of handling requests, reproduction, and distribution of additional items and could lead to potential claims against the Government.

Furthermore, the centers generally do not maintain or retain adequate cost records to fully support the prices charged. For example, NGDC was unable to provide GAO with sufficient cost records to support its tape duping costs, which differed from EDIS's standard magnetic tape copying cost.

Some paying customers of the data centers were being charged for data services which were provided free to others. For example, the selling price for NGDC's Common Depth Point Seismic Data was significantly inflated because it included the cost of data sets provided free and an overhead charge of 250 percent. The data specialist responsible for setting the selling price, told us that he used a cost-computation formula which allocates the cost of "freebie add-ons" to paying customers. Further, the 250-percent overhead charge added to the total base cost was inconsistent with NOAA's determination that NGDC's overhead rate for this period was 65.7 percent.

According to the Director of NGDC's Solid-Earth Division, the center is also charging more than supportable amounts for some items to subsidize the cost of lower revenue items. This allows center officials to give data free to certain users without having to absorb the cost of providing this data by drawing from their resources.

Data centers are making
unwarranted adjustments

EDIS's practices include adjusting actual cost figures to reflect prices that agency officials wish to charge. These adjustments resulted in prices higher than actual cost in some cases and prices lower than actual cost in others. For example, in developing the standard fee schedule for prices in fiscal year 1983, NCDC officials computed the product or service prices allowing for increased salary rates and material costs. However, we were told that the resultant prices for some services were higher than wanted by the Archival Services Branch. As a result, the documentation was adjusted to support the Branch's preferred lower prices.

During fiscal year 1982, NGDC's Solar-Terrestrial Physics (STP) Division made adjustments to actual cost figures and prices to recoup funds lost in budget cuts. Specifically, the Acting Director of NGDC and the Director of the STP Division decided to make up a shortage of \$40,000 in the division's funding by raising the price of its products.

According to the Director, the prices were adjusted upward by one-third. Our review of cost sheets supporting STP's price list for fiscal year 1982 showed that the prices were adjusted upward by one-third without any evidence of an actual increase in the cost of providing the services or products.

The inclusion of improper costs and the adjustment of actual costs by various units within EDIS run counter to pricing policies and guidelines. We found no evidence that management had exercised control over these pricing practices. To demonstrate that the public interest is being protected and well

served, EDIS management needs to see that the centers fully document their pricing determinations.

EDIS PRICING PRACTICES
LACK UNIFORMITY

Commerce directives require charges for services to be uniform to avoid discrimination among users. However, EDIS practices include charging different amounts for identical services provided by a single division, by different divisions within a center, or by different centers.

This situation is the result of EDIS's noncompliance with existing cost recovery and user charge policies. Center officials provided us with a variety of explanations for these inconsistencies, including the existence of data exchange agreements, lack of guidance regarding EDIS policies, and the inability of foreign users to pay for data. Data centers need to initiate corrective action to assure that EDIS practices are brought in line with public policy and departmental directives.

Charges for subscriptions are not uniform

Many foreign government organizations receive free subscriptions to priced publications, while many Federal agencies are charged for such publications. Although EDIS's mission is to support NOAA, we found that one NOAA unit was paying for its subscription, while foreign users evidently received them free without providing any data in exchange. For example, NGDC's publication, Solar-Geophysical Data, was sent to 762 subscribers in August 1982. Of this total, 317 subscribers paid nothing. Both the "free" and "paid" lists contain names and addresses of domestic and foreign individuals, government entities (such as NOAA), colleges, and universities.

The Director of the STP Division was unable to provide agency guidelines or other official instructions to support this free subscription practice. However, some reasons given were:

- Communist countries are unable to obtain hard currency to purchase subscriptions.
- Scientists in India do not like to pay for information.
- Free subscriptions are provided on the basis of data exchange.

Although Commerce directives do provide for free copies of publications as an occasional courtesy and for one free subscription in special cases, present EDIS practices surpass these instructions.

Further, the Director of NGDC's Solar-Terrestrial Physics Division was unable to provide documentation to show that recipients of free subscriptions (i.e., data exchanges) had provided anything of value to the Federal Government in return. NOAA instructions require another EDIS center, Environmental Sciences Information Service (ESIC),³ to monitor the distribution of free publications when they involve data exchanges. However, ESIC officials informed us that they have not monitored the data centers' exchange practices. Also, they do not have any record of publications received by the data centers nor have they been notified of the existence or nonexistence of exchange agreements with foreign organizations. At NGDC, a data clerk informed us that she decides who warrants a free subscription and does so without management approval for the solar geophysical data.

NCDC's practice for determining subscription costs involves a conscious decision to require paying subscribers to subsidize recipients who obtain free subscriptions. NCDC's procedure involves:

1. Determining the total number of copies to be printed (to fill all subscriptions).
2. Determining the total cost for reproducing and distributing the copies.
3. Dividing the total cost by the number of projected paying subscribers and announcing the result as the subscription price.

This practice is contrary to existing cost recovery requirements which limit cost recovery to the actual marginal cost of providing data. Despite NCDC's recent emphasis on reducing the number of free publications, over 32,000 free copies of NCDC publications are sent out each month. At fiscal year 1982 printing and distributing costs, this resulted in a situation where paying subscribers unknowingly paid an annual subsidy of about \$300,000 to cover the free publications.

Another inconsistency we identified in the pricing of subscriptions or data services concerns the recovery of postage costs. For example, NCDC's fiscal year 1982 publication price list reflects two prices for a subscription; one for domestic subscribers and another for foreign users. According to the Project Coordinator who was responsible for developing the price list, foreign subscribers paid an incremental postage cost to

³Effective December 1, 1982, ESIC merged with the Center for Environmental Assessment Services (CEAS) to form the Assessment Information Services Center. This merger does not affect the thrust of this report.

cover foreign delivery while domestic subscribers paid no postage.

However, requests for NCDC's weather data are priced differently than are publications. In this case, foreign and domestic users pay a flat rate which includes the cost of the product and postage. Thus, domestic users are subsidizing foreign users because postage on foreign delivery is much higher.

According to officials at the three data centers, postage costs are already included in a general overhead charge which is assigned to all subscriptions and data services. Therefore, there should not normally be a separate charge for postage.

An adverse effect of recovering postage costs through a general overhead charge is that foreign subscribers would be unfairly charged twice if they are also required to pay a direct charge for foreign delivery, as they are now for NCDC publications.

Inconsistent charges for standard data

We also found inconsistencies in the amounts different users paid for similar data. For example, EDIS's policy is to charge \$15 for rush orders and additional amounts for large or complex orders. NCDC's policy, however, is to charge \$15 for rush orders valued at less than \$30 and assess a 50-percent surcharge for orders greater than \$30. NODC assesses a surcharge of \$15 on rush order requests but rarely receives them. NGDC has no policy regarding rush orders.

Because consistent minimum charges have not been established for standard data requests, users are paying different prices for similar services. For example, in fiscal year 1980 NCDC established a minimum charge of \$5 for any single order except for shelf-stocked publications, which carry a \$3 minimum

charge.⁴ NCDC's minimum charge for shelf-stock publications is consistent with the EDIS Policy and Guidance Manual. However, the practices of two NGDC divisions are neither consistent with EDIS policies nor with each other. We were told that one NGDC division has no minimum charges, while the other division has implemented a procedure of not charging for its services unless the cost exceeds \$20.

In addition, NOAA has notified NGDC that checks of \$40 or less that are drawn on foreign banks should be returned as uncollectable since the cost of processing each of these checks is \$40. NGDC and NODC had not been recovering this added cost from users who pay with checks drawn on foreign banks. When these two centers fail to recover the \$40 foreign check processing cost, they incur a net loss and subsidize the foreign user. NCDC has avoided the problem of incurring a check processing cost by instructing its foreign customers to draw their checks either on a U.S. bank located in a foreign country or a branch of a foreign bank located in the United States.

The inconsistent handling of payments for foreign subscriptions, rush orders, and postage demonstrates the need to monitor the centers' pricing practices. Since these are special services, the users should be charged for the actual cost of the services provided. As a result of our audit, NODC is instructing its foreign customers to make payment in U.S. dollars and to draw their checks on a bank located in the United States.

EDIS'S DATA EXCHANGE PRACTICES DO NOT
ADHERE TO REGULATIONS AND PUBLIC POLICY

EDIS policy and regulations limit the provision of data on a no-cost basis to certain specific circumstances, consistent

⁴As a side note, we used NCDC's 1977 cost study which supported the center's minimum charge, and determined that the minimum charge for shelf-stocked publications was understated and should be raised to \$8 to enable the center to achieve full cost recovery. According to NCDC's analysis of invoices from December 15 through December 23, 1982, the center lost the opportunity to recover an additional \$1,425 during that 7-day work period. Further, the center could potentially recover an additional \$52,910 of its costs over a 12-month period by increasing the minimum charge. The Director of NCDC agreed that the minimum was too low but felt that an increase of \$5 would have a negative influence on customer requests. He said that the center plans to reassess the costs making up the minimum charge. Furthermore, he believes that with recent improvements in productivity and increased automation the costs may have decreased somewhat, thus enabling the center to keep the charge below \$8.

with Department of Commerce regulations. However, EDIS centers routinely provide data free to many domestic and foreign entities on the assumption that they will reciprocate by supplying other data in exchange. The centers have neither the documentation nor a system to show what foreign exchange data were received nor its value. As a result, the centers are losing opportunities for in-kind recovery of their costs of providing data.

According to the Acting Director of NGDC, many entities throughout the world provide valuable free data to EDIS facilities. In return, these entities are given free data and subscriptions in payment for data provided. We were told that the bases for many of these arrangements are data exchange agreements; however, agency officials stated that many of these agreements are undocumented. For example, we identified a publication at NGDC which was provided free to 317 entities. Little documentation was available to show what data was promised to or received by NGDC in return. Subsequently, an NGDC official stated that, as a result of their inquiries, at least 88 of these 317 entities would no longer get this publication free. Similar problems were observed at NODC.

Individuals at various organizational levels within NGDC (e.g., Division Director, group leader, data clerk) said that they were making decisions as to whether data should be provided free under the exchange umbrella. Little documentation exists to demonstrate that these decisions are appropriate and that fair value is actually received by EDIS. Furthermore, in the case of foreign exchanges, ESIC has not monitored the centers' exchange practices, and the centers have not sought ESIC's involvement in negotiating exchange agreements.

CONCLUSIONS AND RECOMMENDATIONS

Present user charging and cost recovery practices at EDIS have created a system of underpayments and overpayments which unfairly discriminates among users, contrary to Commerce directives and public policy. Specifically, charges to users are not adequately supported by cost data either because cost data do not exist or because actual charges are different than those supported by existing cost data. In addition, no documentation exists which demonstrates that the Government has received value in return for free data provided to users as data exchange. Although there are internal policies addressing these issues, EDIS has not established operational procedures or monitored actual data center operations. As a result, agency personnel at various organizational levels have developed their own practices. These practices are frequently inconsistent with public policy and vary widely among individuals and among centers.

We recommend that you direct EDIS to establish and disseminate operating instructions consistent with Commerce policies regarding user charges and cost recovery and to ensure that a plan for monitoring data center practices is developed and implemented. Specifically, the direction to EDIS should include a requirement to:

--Establish standard methods for determining what costs will be included to compute prices for services in accordance with existing legal and regulatory requirements.

--Establish agencywide standard prices for items used at all data centers including

- staff time charges,
- postage charges,
- foreign-check processing charges, and
- standard media charges.

--Establish the specific conditions under which data will be exchanged and

- identify the management level at which these decisions will be made and
- maintain documentation to demonstrate that a reasonable exchange of information had taken place when data are received as an alternative to cost recovery.

--Establish the conditions under which data will be provided free and

- identify the management level at which these decisions will be made and
- require written justification which specifically identifies the public interest served.

--Prohibit agency personnel other than those specifically designated from providing data free or in exchange.

AGENCY COMMENTS AND OUR EVALUATION

In its June 6, 1983, comments, the Department of Commerce essentially concurred with the report findings, conclusions, and recommendations. The Department's comments, annotated with our point-by-point evaluation, are included in the appendix. The

agency pointed out that although there is no objective way to establish a fair market value for scientific data received in exchanges, it would maintain records of substantial data sets received to demonstrate their value as an alternative to cost recovery. Our primary concern was to have the EDIS centers demonstrate that a reasonable exchange of information had taken place when the basis for providing free data to a user was an exchange agreement. We agree with EDIS's proposed action, but believe it would be achieving a higher level of accountability if it expanded its new records maintenance policy to all data exchanges. Accordingly, we have modified our recommendation to emphasize this matter.

The Department also commented that the following actions will be taken to enhance EDIS's cost recovery program.

- The Deputy Assistant Administrator for Information Services will develop and implement a plan for monitoring data center practices by September 30, 1983. Also, the Deputy will be designated the management level for decisions on data exchanges.
- The plan for monitoring data center practices will include a method for building standard costs and documentation based on accepted cost accounting practices.
- Standard procedures will be developed to compute prices where existing policies do not apply.
- Application of the Department guidelines on the distribution of free data will be reviewed and made more specific. A check sheet will be used to document the public interest served and the rationale for free distribution.

- - - - -

As you know, 31 U.S.C. §720 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations. This written statement must be submitted to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of this report. A written statement must also be submitted to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of this report.

We are sending copies of this report to interested congressional committees; the Director, Office of Management and Budget; the Administrator, National Oceanic and Atmospheric Administration; and to your Inspector General.

Sincerely yours,

W. J. Anderson

William J. Anderson
Director



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

June 6, 1983

Mr. William J. Anderson
Director
General Government Division
U.S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Anderson:

This is in reply to your letter of May 3, 1983, requesting comments on the draft report entitled "Improved Cost Recovery Practices Can Eliminate Inconsistent and Discriminatory Pricing of Services."

We have reviewed the enclosed comments of the Deputy Administrator, National Oceanic and Atmospheric Administration and believe they are responsive to the matters discussed in the report.

Sincerely,

A handwritten signature in cursive script that reads "Sherman M. Funk".

Sherman M. Funk
Inspector General

Enclosure



UNITED STATES DEPARTMENT OF COMMERCE
National Oceanic and Atmospheric Administration
Washington, D. C. 20230

OFFICE OF THE ADMINISTRATOR

June 6, 1983

Mr. William J. Anderson
Director
General Government Division
General Accounting Office
Washington, D. C. 20548

Dear Mr. Anderson:

The enclosed GAO draft report addresses difficult and complex issues. We agree that it is extremely important that the principles of cost recovery and user charges be clearly defined and uniformly applied by all who furnish services to the public. For these reasons, the Department of Commerce welcomes the report.

The report makes a number of recommendations. These are addressed below. Supplementary explanations are provided where necessary to support the responses or clarify the issues addressed by GAO.

General GAO Recommendation

We recommend that you direct EDIS to establish and disseminate operating instructions consistent with Commerce policies regarding user charges and cost recovery and to ensure that a plan for monitoring data center practices is developed and implemented.

General Response

EDIS has established and disseminated operating instructions (see Attachment A) regarding user charges and cost recovery. These have been reviewed periodically and found consistent with Commerce policies. We agree, however, that there is a need to better monitor implementation of these policies. The Deputy Assistant Administrator for Information Services of NESDIS will develop and implement a plan for monitoring data center practices by September 30, 1983.

(GAO Comment: We were aware of EDIS's Policy and Guidance Manual; however, it did not provide the specificity needed by the centers in pricing their products and services. For example, the centers did not fully understand what costs were to be included or excluded, as discussed on pages 3 and 4. Instructions were also needed by the centers in demonstrating that a reasonable exchange of information had taken place when data were provided to a user under an exchange arrangement.)

Supplementary Explanation of Commerce Policies

31 U.S.C. 483a provides that anything of value provided by a Federal agency shall be "self sustaining to the full extent possible" and that the agency head shall prescribe such fees or prices as he determines "to be fair and equitable taking into consideration direct and indirect costs to the Government, value to the recipient, public policy or interest served, and other pertinent facts..."

The GAO Report suggests that, in setting its prices, NESDIS should consider only one of these factors, value to the recipient, citing National Cable Television Assn., Inc. v. United States, 415 U.S. 336 (1974). There the Court did read the statute very narrowly, but it was in the context of the setting of a licensing fee by a regulatory agency. In this situation, the Court limited the amount the licensing agency could recover to the costs of only those activities which benefitted the applicant because the Court thought that charging an applicant for the costs of the agency's general oversight activities to protect the public interest amounted to a tax. Even for license fees, however, later cases appear to be at odds with this reasoning,¹ and certainly nothing in any case suggests that in pricing documents and services the public interest and other factors cannot be taken into account as clearly allowed by the statute.

This broader reading is reflected in section 4 of Department Administrative Order 203-5, guidance which the GAO Report appears to endorse. In particular, section 4.02 provides exceptions to any general pricing policy where:

- a. The recovery of full cost is in conflict with statutory requirements or would seriously impair the objectives of the program or public policy.
- b. The cost of collecting the fees would be an unduly large part of the receipts of the activity.
- c. The furnishing of the service without charge is an appropriate or reciprocal courtesy to a foreign country or international organization or is in accordance with an international agreement to which the United States has subscribed.
- d. Comparable fees are set on a reciprocal basis with a foreign country.
- e. The recipient is engaged in a non-profit activity designed for the public safety, health, or welfare.
- f. Payment of the full cost by a Federal agency, State or local government, or non-profit group would not be in the interest of the program.
- g. The furnishing of information to a recipient is clearly a reasonable exchange of information with a voluntary contributor of information to a Department program.

¹ See Mississippi Power & Light Co. v. NRC, 401 F.2d 223 (5th C., 1979) cert denied 444 U.S. 1102.

(GAO Comment: It was not our intent to suggest that NESDIS consider only one of these factors. The Supreme Court decision was cited for the purpose of alerting the agency that the statute limits the charges that can be levied against a non-Governmental user. For example, charges that benefit the public at large or that are incurred in establishing the whole program, rather than the specific services provided, cannot be included in the authorized fee. Further, we agree that other factors can be taken into account in setting prices. However, if a user is charged less for a service than it costs the agency to provide, the agency should demonstrate how the public interest is being served by not recovering the full cost of the service provided and that the established price will be consistently applied to avoid any discrimination among users of this data or service.)

Specific GAO Recommendation 1

Specifically, the instructions should direct EDIS to:

- Establish standard methods for determining what costs will be included to compute prices for services in accordance with existing legal and regulatory requirements (Department policies).

Response

EDIS uses a standard form (Attachment R) to compute prices. Standard instructions for completing the form are given in NOAA Finance Handbook (Chapter 9, Section 1). These instructions are based on DAO 203-5. The plan to monitor data center practices will include a method of building standard costs and documentation based on accepted cost accounting practices.

(GAO Comment: We were aware that NOAA Form 34-71 existed, but the form was not being used by the data centers because application of the instructions would overstate the cost of the center's products and/or services. Providing the centers with a method for building standard costs and documentation, based on accepted cost accounting practices, and monitoring the centers' application of these procedures should give management greater assurance that the charges for products and services are based on allowable and accurate costs.)

Specific GAO Recommendation 2

- Establish agencywide standard prices for items used at all data centers including
 - staff time charges,
 - postage charges,
 - foreign-check processing charges, and
 - standard media charges.

Response

EDIS has established agencywide standard prices for certain items used at all data centers, including tape charges (see Attachment C). NOAA policy that foreign checks be drawn on U.S. banks will be followed. Computation of other charges are based on NOAA and DAO policies (see above). Where these policies do not apply, standard procedures will be developed to compute prices.

Supplementary Explanation of Difficulty in Establishing Standard Prices for All Items

Staff time charges must reflect actual salaries of the level of employees required to provide specific services for a broad spectrum of users. Other costs of operation vary by center as computed by the NOAA finance system, depending on rental rates and administrative staffs.

The charges for publication media depend on the number of copies printed (set-up time for printing is the most expensive phase; the cost per copy normally decreases as the number of copies increases).

Beyond a standard EDIS policy for one-for-one magnetic tape copying, special requests for extraction of specific data from the digital data base are priced according to computer and personnel costs incurred.

(GAO Comment: We believe that the development of standard procedures for computing prices is definitely a step in the right direction, particularly if the implementation of the standard procedures by the data centers is monitored by EDIS Headquarters.)

Specific GAO Recommendation 3

- Establish the specific conditions under which data will be exchanged and
 - identify the management level at which decisions about data exchange will be made.
 - establish a fair market value for data received in exchange, and
 - maintain documentation to demonstrate the value of data received as an alternative to cost recovery.

Response

- Conditions of international exchange of data are governed by bilateral and international arrangements which in some cases (meteorology) have been recognized as essential to the national welfare for more than 100 years.
- The NESDIS Deputy Assistant Administrator for Information Services will be designated the management level for decisions concerning changes in data exchange, subject to legal requirements and existing U.S. international agreements (See DAO 203-5, Sec.4.02).
- No methods exist to establish the fair market value of data received in exchanges, but we will maintain records of substantial data sets received to demonstrate their value as an alternative to cost recovery.

Supplementary Explanation of the International Data Exchange Program and Value of Data

EDIS acquires foreign and global environmental data and scientific literature through bilateral and international exchange programs. These programs include the World Data Center (WDC) System (see Appendix D), under which EDIS operates WDC-A facilities, collocated by discipline with EDIS' national data centers. In climatology, international data exchange is conducted through the WDC system and through programs of the World Meteorological Organization.

These international exchange programs provide massive amounts of multidisciplinary data and information to U.S. national programs and users at a fraction of the cost of duplicative national collection efforts; they provide a global data base essential to the Nation's economic and defense activities. For example, oceanographic data provided NODC by just six countries* over a period of 20 years would cost about \$570,000,000 for U.S. ships to collect today.

There is no objective way to establish "a fair market value" for scientific data. Experts have tried for years and have failed to do so. The value depends on the use made of the data. Also, the value is not constant. Solar-radiation data, for example, became "valuable" only after the energy crisis led to the pursuit of alternate energy sources. In addition, the same data for different areas are of considerably different values, depending on such things as the country of origin, other data available for the area, the quality of the data, and the date of the observation (to coincide with a specific event of importance to the user).

*Federal Republic of Germany, France, Japan, India, Korea, and Peru.

(GAO Comment: We agree there is not a consensus on establishing a fair market value. However, our primary concern was to have the centers demonstrate that a reasonable exchange of information had taken place when the basis for providing free data to a customer was a prior exchange agreement. The proposed designation of the Deputy Assistant Administrator for Information Services and the maintenance of records on substantial data sets to demonstrate their value partially accomplishes what we had in mind. We believe that EDIS would be establishing a higher level of accountability, as well as ensuring that the public interest is being protected, if it expanded its new records maintenance policy to all data exchanges.)

Specific GAO Recommendation 4

- Establish the conditions under which data will be provided free and
 - identify the management level at which these decisions will be made and
 - require written justification which specifically identifies the public interest served.

Response

The NESDIS application of the Departmental guidelines will be reviewed and made more specific. Such decisions will be made and documented by the Deputy Assistant Administrator for Information Services. A check sheet will be used to document the public interest served and the rationale for free distribution.

Specific GAO Recommendation 5

- Prohibit agency personnel other than those specifically designated from providing data free or in exchange.

Response

Agree. Only NESDIS Data Center Directors will be designated the responsible individuals necessary for approving data free or in exchange.

This report has prompted a timely review of EDIS cost recovery practices. It will be useful to us as we more clearly define the issues, improve our practices, and ensure consistent implementation in all Centers. We appreciate the opportunity to review the draft report and to provide our comments prior to publication and dissemination.

Sincerely yours,


Anthony J. Calio
Deputy Administrator

Attachments

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