

**Amendment 80 Non-AFA Trawl Gear
Catcher/Processor
Data Verification**

Report Prepared for
Pacific States Marine Fisheries Commission

2012 Calendar Year Data

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Executive Summary

Background

The Bering Sea and Aleutian Islands (BSAI) Amendment 80 program was developed to create a quota system that grants exclusive harvesting and processing rights to non-pollock trawl groundfish species among trawl fishery sectors, and facilitate the formation of harvesting cooperatives in the non-American Fisheries Act trawl catcher/processor sector. The groundfish species in the BSAI directly affected by Amendment 80 include:

- Atka mackerel
- Aleutian Islands Pacific Ocean perch
- Flathead sole
- Pacific cod
- Rock sole
- Yellowfin sole

The Amendment 80 program was finalized in the fall of 2007, with quota allocated based on the catch history of each individual vessel. An economic data collection program was implemented as part of Amendment 80 to better understand the economic impacts on the industry.

Economic data reports (EDRs) were developed to aid the North Pacific Fishery Management Council (Council) and National Marine Fisheries Service (NMFS) in assessing the performance of the program and developing amendments necessary to mitigate any unintended consequences. The EDRs are intended to gather information to help monitor how costs and economic returns of various stakeholders in BSAI non-pollock trawl groundfish species are affected by Amendment 80. In order to ensure the data submitted by respondents in the EDRs is accurate, the Council specified that EDR data be subject to mandatory data verification procedures. NMFS has contracted with Pacific States Marine Fisheries Commission (PSMFC) for administration of the data collection. PSMFC has contracted McGladrey LLP (McGladrey) to perform data verification procedures on variables selected by NMFS.

Participant Roles

National Marine Fisheries Service - specification of verification protocols and selection of variables to be inspected by McGladrey LLP.

Pacific States Marine Fisheries Commission - collector and manager of data collected through EDRs.

McGladrey LLP - perform data verification procedures for a selection of variables.

Participants in the Amendment 80 program - provide support for values of the variables submitted with their EDRs.

Scope of Work

For the 2012 year-end Amendment 80 EDRs, the following procedures will be performed:

1. NMFS performed a selection of 9 variables and provided classification criteria for verification findings, and McGladrey will perform data verification procedures for the selected variables.
2. McGladrey will request all EDR respondents to provide supporting documentation for each of the variables selected by NMFS.
3. McGladrey will review the supporting documentation provided, if any, compare the values obtained from the documentation provided to the initial value included in the EDR, correct the initial value, if necessary, and report on the type of support provided by the vessels according to classification criteria.

The findings and results of the data verification procedures performed will be included later in this report.

Key Objectives

- To obtain and analyze documentation to support the variables selected by NMFS
- Identify and update any changes to the initial value based on the supporting documentation provided
- Classify and report on the type of support provided by the respondents based on the data verification procedures performed

Each of these objectives will be discussed in the findings and results and conclusion sections of this report.

McGladrey LLP

Data Verification Procedures

Variable Selection

NMFS selected 9 variables to perform data verification procedures. Since the fleet of Amendment 80 consists of only 24 vessels, individual vessels were required to submit supporting documentation for all variables selected for the respective vessel. *Please note, under Data Verification Findings and Results section, the total number of vessels will not always equal 24. This is due to the fact that certain vessels were not selected to be verified for certain variables during the year.*

Variables selected by NMFS were as follows:

1. Table 2.2 - Vessel characteristics - Fishing and/or processing annual fuel consumption
2. Table 3 - Quantity and royalty revenue from QS shares leased by other vessels
3. Table 4 - Expenditures on vessel and onboard equipment
4. Table 5 - Expenses: 8. Repair and maintenance expenses for vessel and processing equipment
5. Table 5 - Expenses: 9. Freight, storage, and other sales costs for non-FOB sales
6. Table 5 - Expenses: 12. Lube
7. Table 5 - Expenses: 12. Fuel
8. Table 5 - Expenses: 15. General administrative costs
9. Table 5 - Expenses: 16. Insurance

Description of Findings

McGladrey classified and summarized the results of the data verification procedures based on the following criteria. The value and supporting documentation for both the initial value (as identified in the EDR form) and the corrected value (as identified in the review process) are classified.

Support Analysis Code

Supported by Documentation

1. Initial/corrected value supported by documentation and final reported value substantiated by complete records.
- 1T. Initial value blank or N/A when value should be zero; initial value corrected to zero.

Estimates Unsupported by Documentation

4. Initial/corrected value cannot be reported precisely as specified in the EDR and must be estimated. Estimate based on original documentation but flawed assumptions and logic.

Estimates Supported by Documentation

5. Initial/corrected value cannot be reported precisely as specified in the EDR and must be estimated. Estimate based on original documentation and sound assumptions and logic.

Reported Value Unsupported by Documentation

7. Reported value is "best guess," not derived from records; no valid value is available.

Initial Value Incorrect/Corrected Based on Documentation

2. Initial value supported by documentation; however, respondent did not correctly calculate or state the value reported in the EDR and the initial value was corrected to match the documentation.
- 2T. Initial value supported by documentation; however, the value reported in the EDR is an observable typographic error on respondent's part. The initial value was corrected to match documentation.
3. Initial/corrected value supported by documentation; however, respondent did not interpret the question correctly and the initial value was corrected based on new supporting documentation.
6. Initial value reported correctly based on original documentation, but the value was corrected based on updated documentation.
8. The initial value is unsubstantiated and the initial value is corrected based on new documentation.

No Data Reported

9. No data reported; however, data should be applicable to this vessel or the reported data and value are incorrect. No corrected value available for this variable.
10. No data reported or amount reported is zero, as this variable is not applicable to this vessel.

Data Verification Findings and Results

Variable

1. Table 2.2 – Vessel characteristics – Fishing and/or processing annual fuel consumption

Support Analysis Code	Initial Reporting		Corrected Reporting	
	# of Vessels	% of Total	As Corrected # of Vessels	As Corrected % of Total
5	17	77%	20	91%
6	3	14%	0	0%
10	2	9%	2	9%
Total	22	100%	22	100%

Support analysis code in (#) below and description of support provided:

- (5) Seventeen vessels' initial values cannot be reported precisely as specified in the EDR and must be estimated. The estimates are based on sound assumptions and logic. For six vessels, the total number of gallons consumed for the year was allocated to each activity (fishing/processing, steaming-empty, steaming-full) based on the number of days the vessel was engaged in each activity. For seven vessels, the estimated gallons per hour consumed are multiplied by the number of hours spent performing the activity – fishing and/or processing. For four vessels, the estimated gallons per hour consumed are multiplied by 24 hours. The gallons per day consumed are then multiplied by the number of days performing the activity – fishing and/or processing.
- (6) Three vessels' initial values were reported correctly based on initial documentation, but are corrected based on new documentation. The corrected support analysis was updated to a (5). The corrected values cannot be reported precisely as specified in the EDR and must be estimated. The estimates are based on sound assumptions and logic. For the three vessels the estimated gallons per hour consumed were multiplied by the number of hours spent performing the activity – fishing/processing.
- (10) Two vessels did not fish during the year; therefore, this variable was not applicable to these vessels.

Variable

2. Table 3 – Quantity and royalty revenue from QS shares leased by other vessels - please note there were only *two vessels* selected with a total of *20 variables* selected for verification

Support Analysis Code	Initial Reporting		Corrected Reporting	
	# of Variables	% of Total	As Corrected # of Variables	As Corrected % of Total
1	19	95%	20	100%
8	1	5%	0	0%
Total	20	100%	20	100%

Support analysis code in (#) below and description of support provided:

- (1) Two vessels provided support for the initial values, which were substantiated by the executed contract between the two parties.
- (8) One vessel had an initial value that was unsubstantiated, which was corrected based on the executed contract between the two parties. The corrected support analysis was updated to a (1).

Variable

3. Table 4 – Expenditures on vessel and onboard equipment - please note only *one vessel* was selected for this variable

Support Analysis Code	Initial Reporting		Corrected Reporting	
	# of Vessels	% of Total	As Corrected # of Vessels	As Corrected % of Total
1	0	0%	1	100%
2	1	100%	0	0%
Total	1	100%	1	100%

Support analysis code in (#) below and description of support provided:

- (2) One vessel provided support for the initial value; however, respondent did not correctly calculate or state the value reported in the EDR and the initial value was corrected to match the documentation. This vessel originally provided the general ledger from accounting that shows expenditures on vessel and onboard equipment for some previously reported 2009 and 2010 costs, and all of 2011 and 2012 costs. The corrected support analysis showing 2012 only was updated to a (1).

Variable

4. Table 5 – Expenses: 8. Repair and maintenance expenses for vessel and processing equipment

Support Analysis Code	Initial Reporting		Corrected Reporting	
	# of Vessels	% of Total	As Corrected # of Vessels	As Corrected % of Total
1	19	90%	21	100%
8	2	10%	0	0%
Total	21	100%	21	100%

Support analysis code in (#) below and description of support provided:

- (1) Nineteen vessels provided support for the initial values, which were substantiated by complete records. Seventeen vessels provided the income statement, exported from the accounting system, showing repair and maintenance expenditures. Two vessels provided the general ledger from accounting that shows all repair and maintenance expenditures.
- (8) Two vessels' initial values are unsubstantiated and the initial values are corrected based on new documentation. The corrected support analysis was updated to a (1). Two vessels provided the general ledger from accounting that shows all repair and maintenance expenditures.

Variable

5. Table 5 – Expenses: 9. Freight, storage, and other sales costs for non-FOB sales - please note only *one vessel* was selected for this variable

Support Analysis Code	Initial Reporting		Corrected Reporting	
	# of Vessels	% of Total	As Corrected # of Vessels	As Corrected % of Total
1	1	100%	1	100%
Total	1	100%	1	100%

Support analysis code in (#) below and description of support provided:

- (1) The vessel provided the general ledger from accounting showing all sales freight costs to substantiate the value recorded.

Variable

6. Table 5 – Expenses: 12. Lube

Support Analysis Code	Initial Reporting		Corrected Reporting	
	# of Vessels	% of Total	As Corrected # of Vessels	As Corrected % of Total
1	15	70%	18	85%
2T	2	10%	0	0%
5	2	10%	2	10%
6	1	5%	0	0%
10	1	5%	1	5%
Total	21	100%	21	100%

Support analysis code in (#) below and description of support provided:

- (1) Fifteen vessels provided support for the initial values, which were substantiated by complete records. Nine vessels provided the income statement, exported from the accounting system, showing lube costs. Four vessels provided an Excel spreadsheet of all invoices received for lube expenses. Two vessels provided the general ledger from accounting showing all lube costs.
- (2T) Two vessels provided support for the initial values; however, the values reported are an observable typographic error on the respondent's part. The corrected support analysis was updated to a (1). These two vessels provided the income statement, exported from the accounting system, showing lube costs.
- (5) Two vessels' initial values cannot be reported precisely as specified in the EDR and must be estimated. The estimates are based on sound assumptions and logic. For these two vessels, the total lube cost was calculated as 10 percent of total fuel and lube costs. Lube is typically purchased at the same fuel dock where the vessels take on fuel. Supported by the general ledger of all fuel and lube accounts extracted from the general ledger.
- (6) One vessel's initial value was reported correctly based on original documentation, but was corrected based on new documentation. The corrected support analysis was updated to a (1). The vessel provided the general ledger from accounting showing all lube costs.
- (10) One vessel did not fish during the year; therefore, this variable was not applicable to this vessel.

Variable

7. Table 5 – Expenses: 12. Fuel

Support Analysis Code	Initial Reporting		Corrected Reporting	
	# of Vessels	% of Total	As Corrected # of Vessels	As Corrected % of Total
1	18	85%	18	85%
5	2	10%	2	10%
10	1	5%	1	5%
Total	21	100%	21	100%

Support analysis code in (#) below and description of support provided:

- (1) Eighteen vessels provided support for the initial values, which were substantiated by complete records. Twelve vessels provided the income statement, exported from the accounting system, showing fuel costs. Four vessels provided an Excel spreadsheet of all invoices received for fuel expenses. Two vessels provided the general ledger from accounting showing all fuel costs.
- (5) Two vessels' initial values cannot be reported precisely as specified in the EDR and must be estimated. The estimates are based on sound assumptions and logic. For these two vessels, the total fuel cost was calculated as 90 percent of total fuel and lube costs. Lube is typically purchased at the same fuel dock where the vessels take on fuel and, thus, 10 percent of fuel and lube costs are allocated to lube and 90 percent to fuel. Supported by the general ledger of all fuel and lube accounts extracted from the general ledger.
- (10) One vessel did not fish during the year; therefore, this variable was not applicable to this vessel.

Variable

8. Table 5 – Expenses: 15. General administrative costs - please note only *one vessel* was selected for this variable

Support Analysis Code	Initial Reporting		Corrected Reporting	
	# of Vessels	% of Total	As Corrected # of Vessels	As Corrected % of Total
1	1	100%	1	100%
Total	1	100%	1	100%

Support analysis code in (#) below and description of support provided:

- (1) The vessel provided support for the initial value, which was substantiated by complete records. The vessel provided the general ledger from accounting showing all general administrative costs to substantiate the value recorded.

Variable

9. Table 5 – Expenses: 16. Insurance - please note only *two vessels* were selected for this variable

Support Analysis Code	Initial Reporting		Corrected Reporting	
	# of Vessels	% of Total	As Corrected # of Vessels	As Corrected % of Total
1	2	100%	2	100%
Total	2	100%	2	100%

Support analysis code in (#) below and description of support provided:

- (1) Two vessels provided support for the initial values, which were substantiated by complete records. One vessel provided the income statement, exported from the accounting system, showing all applicable insurance costs. One vessel provided the general ledger from accounting showing all applicable insurance costs.

Conclusion

The quality of the information submitted in the EDRs is important, as the information will be used to analyze the impact of the Amendment 80 rationalization program. Overall, the data verification procedures found that information was supported mostly by original documentation or based on estimates of the original documentation and sound assumptions and logic. It was also noted that some of the variables selected were not applicable to all of the vessels in the fleet.

The results of the data verification procedures performed, detailed in the findings section, discuss the basis for the initial values and the support provided if the initial values were corrected based on updated documentation. Based on key objectives listed earlier in the report, several other observations noted through the data verification procedures performed are as follows:

1. The support provided was consistent with the types of support provided during the prior year EDR data verification project. The support was organized and complete for purposes of McGladrey's review.
2. EDR respondents were in compliance with the procedures, as support was provided in a timely fashion and follow-up questions were addressed as requested.
3. Errors in submitted information did not indicate a directional bias in the data. The corrected information was made as a result of new information received subsequent to the preparation of the original EDR or based on updated estimates or guidance on how to derive the variable.
4. Some respondents expressed difficulty in preparing the information for Table 2.2 – Vessel characteristics – fishing and/or processing annual fuel consumption. There was inconsistency in how respondents addressed this variable. It is recommended the EDR instructions include a more detailed explanation as to how this variable should be calculated.

Thank You

This project was made possible only through the collaborative effort of PSMFC, NMFS and the owners and management companies of the vessels. We would like to extend our gratitude to the following, who helped make this project a success:

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