



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

June 15, 2010

The Honorable Charles E. Grassley  
Ranking Member  
Committee on Finance  
United States Senate  
219 Dirksen Senate Office Building  
Washington, D.C. 20510

The Honorable Tom Coburn  
Ranking Member  
Committee on Homeland Security and Governmental Affairs,  
Permanent Subcommittee on Investigations  
United States Senate  
340 Dirksen Senate Office Building  
Washington, D.C. 20510

**Via Electronic Transmission**

Dear Senators Grassley and Coburn:

This letter is in response to your April 8, 2010, request for information. The OIG has not experienced situations since October 1, 2008, where the Department or an operating unit resisted or objected to OIG oversight in a significant manner. Offices of Inspectors General operate in environments where a certain tension inherently exists between them and the agencies they oversee. The Department of Commerce Office of Inspector General (OIG) is not immune to this tension. From time to time, agency operating units may "filter" OIG access to information such as when an agency liaison becomes involved to a point where communications do not flow freely between OIG staff and individual agency staff. Also, an agency may delay providing access to OIG staff until after meeting with the Inspector General or other OIG principal. The OIG recognizes these potential obstacles and addresses them appropriately as they arise.

Although the OIG has not experienced significant resistance or objection to its oversight recently, in late 2008 the OIG was continuing to experience certain information access issues involving the Census Bureau. The OIG and Census resolved these issues by December 2008. We alerted the Committee on Homeland Security and Governmental Affairs to these issues. Chairman Lieberman, Ranking Member Collins, Senator Carper, and Senator Coburn sent a letter to the Census Director on September 16, 2008, which was helpful in resolving the issues. Enclosed please find a copy of the Committee's letter (see enclosure 1).



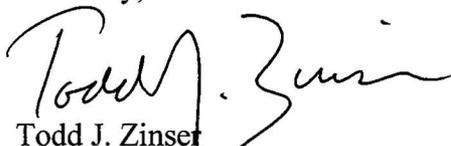
For some time prior to December 2008, Census prohibited OIG staff from removing Title 13 information from Census facilities or otherwise accessing that information outside of Census facilities. Census cited its guidelines and policy concerning safeguarding of Title 13 information as the reason it restricted the OIG to on-site only access. The OIG was also experiencing delays in Census's response to OIG requests for meetings and information. Although Census's restrictions did not pose significant, immediate problems, we anticipated that the restrictions would become particularly problematic given our oversight responsibilities for the upcoming 2010 Decennial Census. Census has since amended its guidelines and policies to provide OIG staff greater access and has also made efforts to better manage OIG requests and improve its responsiveness. This included providing the OIG a stand-alone data access terminal in OIG offices in the main Commerce Building. I also note that, at the initiation of Census Director Groves, conference calls among the OIG, GAO, Census Director and Deputy Census Director are being held twice weekly to discuss ongoing operations and issues identified by our oversight of the decennial. These calls provide unprecedented access to the Census Director, enabling the parties to address—in real time—problems the OIG and GAO are finding.

Per your request, enclosed are summaries of all OIG investigations, evaluations, and audits that have not been previously publicly disclosed (see enclosure 2). This information is being provided for matters that were closed from January 1, 2009, through April 30, 2010.

In your letter, you also request a courtesy copy of the OIG's reply to the Ranking Member of the House Committee on Oversight and Government Reform regarding outstanding OIG recommendations that have not been fully implemented. Enclosed please find a copy of our response (see enclosure 3).

If you have any questions or require additional information, please do not hesitate to contact me at (202) 482-4661.

Sincerely,

  
Todd J. Zinset

Enclosures (3)

cc: The Honorable Gary Locke, Secretary of Commerce

Enclosure 1

CARL LEVIN, MICHIGAN  
DANIEL K. AKAKA, HAWAII  
THOMAS R. CARPER, DELAWARE  
MARK L. PRYOR, ARKANSAS  
MARY L. LANDRIEU, LOUISIANA  
BARACK OBAMA, ILLINOIS  
CLAIRE McCASKILL, MISSOURI  
JON TESTER, MONTANA

SUSAN M. COLLINS, MAINE  
TED STEVENS, ALASKA  
GEORGE V. VOINOVICH, OHIO  
NORM COLEMAN, MINNESOTA  
TOM COBURN, OKLAHOMA  
PETE V. DOMENICI, NEW MEXICO  
JOHN WARNER, VIRGINIA  
JOHN E. SUNUNU, NEW HAMPSHIRE

MICHAEL L. ALEXANDER, STAFF DIRECTOR  
BRANDON L. MILHORN, MINORITY STAFF DIRECTOR

# United States Senate

COMMITTEE ON  
HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

WASHINGTON, DC 20510-6250

September 16, 2008

The Honorable Steven Murdock  
Director  
U.S. Department of Commerce  
Bureau of the Census  
Washington, DC 20233

Director Murdock:

In view of well-known information technology contracting issues and other challenges confronting the 2010 Census, we are troubled to learn that there are ongoing concerns about the working relationship between the Census Bureau and the Department of Commerce Inspector General (IG) and the Government Accountability Office (GAO).

In particular, we understand that in June 2006, the Census Bureau circulated a memorandum to both the Commerce IG and the GAO regarding certain statutory protections governing sensitive census data. Although the Census Bureau indicated that this memorandum was simply a reminder of existing policy, both the IG and the GAO view the memorandum as a departure from established practice. The IG and the GAO have also indicated that the restrictions on data access outlined in the memorandum could impede their ability to conduct important oversight.

We understand that the Bureau is properly concerned about protecting sensitive data provided as part of the census process, but are disappointed to learn of restrictions placed on the IG's and the GAO's efforts to provide thorough oversight of the Bureau's activities. Our concerns are heightened by the serious problems the Bureau has been facing in its preparations for the 2010 Census, most notably the concerns with the Field Data Collection Automation program. Such problems increase the need for effective oversight by both the IG and the GAO to ensure the quality of the census data. Other agencies that deal with sensitive data have resolved similar disputes. For example, the Internal Revenue Service (IRS) has entrusted confidential taxpayer information to the Treasury Inspector General for Tax Administration (TIGTA) and the GAO for limited and temporary use off IRS grounds. We expect the Census Bureau can reach similar satisfactory agreements with the Commerce IG and the GAO.

Accordingly, we urge the Bureau to do all it can to facilitate the work of the IG and the GAO and to quickly complete any reviews of applicable law necessary to expeditiously resolve this matter. This review should help establish reasonable safeguards to ensure that the Commerce IG and the GAO can effectively perform their vital duties while also protecting sensitive data from improper disclosure.

We would appreciate your prompt response to these concerns. If you have any questions regarding this matter, please have your staff contact Kristine Lam or Lisa Nieman, staff members of the Committee on Homeland Security and Government Affairs, at (202) 224-8539 or (202) 224-9296, respectively.

Sincerely,



Joseph I. Lieberman  
Chairman



Susan M. Collins  
Ranking Member



Thomas R. Carper  
Chairman  
Subcommittee on  
Federal Financial Management



Tom A. Coburn  
Ranking Member  
Subcommittee on  
Federal Financial Management

Enclosure 2

**Summaries of Closed, Non-public Matters of the Office of Audit and Evaluation  
(Matters Closed from January 1, 2009 through April 30, 2010)**

- The OIG completed audits of several Manufacturing Extension Partnerships (MEP) during the applicable period. Some of the MEP reports were not publicly released, but were released in “abstract” only. The four MEP reports released in abstract are: Florida Manufacturing Extension Partnership Award No. 70NANB3H2002 (ATL-18568); Massachusetts Manufacturing Extension Partnership Award No. 70NANB5H1144 (DEN-18135); The University of Texas at Arlington Manufacturing Extension Partnership Award No. 70NANB5H1005 (DEN-18573); and State of Ohio Department of Development MEP Award No. 70NANB5H1188 (DEN-18604). These abstracts are attached hereto for reference.
- The OIG engaged KPMG to conduct financial statement audits of the Department of Commerce and two of its bureaus during the applicable period. These audit reports were not publicly released, but were released in “abstract” only. The three reports released in abstract are: FY 2009 Financial Statement Audit, U.S. Patent and Trademark Office (FSD-19650); FY 2009 Financial Statement Audit, U.S. Census Bureau (FSD-19651); and FY 2009 Financial Statement Audit, Department of Commerce (FSD-19652). These abstracts are attached hereto for reference.
- The OIG completed a review of the National Oceanic and Atmospheric Administration’s Environmental Satellite Processing Center pursuant to the Federal Information Security Management Act of 2002 (FISMA). This report (OAE-19730) was not publicly released, but was released in “abstract” only. This abstract is attached hereto for reference.

**Summaries of Closed, Non-public Matters of the Office of Investigations  
(Matters Closed from January 1, 2009 through April 30, 2010)**

Below is a list of unreported investigative cases closed during the period from January 1, 2009 through April 30, 2010. The OIG identified thirty-four (34) responsive cases. The OIG identified twelve (12) additional cases closed during that period that had been reported in the OIG's semiannual reports to Congress. The cases summarized below are indexed by case number. The OIG can provide further information about specific cases if referenced by the case number.

- 1) 18638: A National Oceanic and Atmospheric Administration (NOAA) contractor was alleged to have engaged in possible contract fraud. Case was closed without actionable findings.
- 2) 19462: An allegation that the National Telecommunications and Information Administration (NTIA) mishandled consumer data. Case was closed without actionable findings.
- 3) 19307: A NOAA contractor was alleged to have engaged in possible contract fraud. Case was closed without actionable findings.
- 4) 19054: A National Institute of Standards and Technology (NIST) grantee was alleged to have misused grant funds. Case was closed without actionable findings.
- 5) 19020: An International Trade Administration (ITA) employee was alleged to have forged a supervisor's signature. Result was an administrative reprimand in April 2009.
- 6) 19007: NTIA grantees reported being contacted by an unknown person or entity soliciting proprietary information and falsely claiming a contractual affiliation with NTIA. Subject was never identified. Case was closed without actionable findings.
- 7) 18999: An Office of the Secretary (OS) employee was alleged to have altered a leave and earnings statement on behalf of another employee to facilitate a credit report. Case was closed without actionable findings.
- 8) 18949: A NOAA employee was alleged to have exceeded his official authority. Case was closed without actionable findings.
- 9) 18931: A NOAA employee was alleged to have used his work computer to access child pornography. Child pornography was not found. Case was closed without actionable findings.
- 10) 19749: A NOAA grantee was alleged to have misused grant funds. Case was closed without actionable findings.
- 11) 18718: An OIG employee was alleged to have received transit subsidies while also receiving a Department of Commerce-paid parking space. Employee resigned while under investigation.
- 12) 18411: A Census Bureau employee was alleged to have misreported time and attendance. Case was closed without actionable findings.

- 13) 18538: GAO reported various Department of Commerce employees had been identified as possibly having abused transit subsidies. Closed without actionable findings. Note: if an individual allegation was identified as having merit it was opened as a separate case and would have been reported as such.
- 14) 18603: Patent and Trademark Office (PTO) budget officials were alleged to have violated the Antideficiency Act in handling a transition between fiscal years. Case was closed without actionable findings.
- 15) 18403: A PTO employee was alleged to have engaged in improper hiring and contracting practices. The employee resigned while under investigation in June 2008.
- 16) 18314: A NOAA employee was alleged to have engaged in a conflict of interest with regard to a training contract. The employee resigned while under investigation in June 2007.
- 17) 18305: An allegation was received that various NOAA and Economic Development Administration (EDA) grants may have been within the scope of a broader array of improper earmarks allegedly made by a member of Congress and being investigated by the FBI. Case was closed without actionable findings.
- 18) 18162: A NOAA employee was alleged to have improperly disposed of surplus property. Case was closed without actionable findings.
- 19) 18392: An ITA Foreign Service National (FSN) employee in Iraq was alleged to have engaged in corrupt business practices. Case was closed without actionable findings.
- 20) 19755: A NOAA employee was alleged to have misused various government computers, databases and records. Case was closed without actionable findings.
- 21) 19508: A NOAA employee was alleged to have stolen a piece of shipboard equipment. Case was closed without actionable findings.
- 22) 17526: A seafood company was alleged to have conspired to control the purchase price of a shipment of fish seized for regulatory reasons by NOAA. Case was closed without actionable findings.
- 23) 19545: A Minority Business Development Agency (MBDA) employee was alleged to have engaged in a conflict of interest. Case was closed without actionable findings.
- 24) 19539: A NOAA grantee was alleged to have misused grant funds. Case was closed without actionable findings.
- 25) 18092: A Census Bureau employee was alleged to have fraudulently used a non-government credit card to pay for local parking tickets in Washington, DC. Result was an administrative termination for unacceptable conduct in March 2007.
- 26) 15728: A NIST grant was alleged to have involved a conflict of interest. Case was closed without actionable findings.
- 27) 17836: A Census Bureau employee was alleged to have engaged in workers compensation fraud. Case was closed without actionable findings.

- 28) 10-0005\*: A NOAA employee was alleged to have made threatening remarks about fishing industry entities that cooperated with the OIG during a review of NOAA enforcement practices. Case was closed without actionable findings.
- 29) 10-0003: A NOAA employee was alleged to have engaged in a conflict of interest. Result was that NOAA and the Office of General Counsel made a restatement of policy regarding appropriate recusals in February 2010.
- 30) 10-0091: A Census Bureau employee was alleged to have engaged in workers compensation fraud. Result was an administrative bill of collection, issued for \$1564 in January 2010.
- 31) 10-0166: A NOAA employee was alleged to have engaged in fraud regarding HUD housing benefits for their residence. Case was closed without actionable findings.
- 32) 10-0173: A computerized Department contracting database was alleged to have deficiencies in security certifications. Case was closed without actionable findings.
- 33) 10-0165: An EDA grantee was alleged to have misused grant funds. Case was closed without actionable findings.
- 34) 10-0007: An NTIA American Recovery and Reinvestment Act broadband grant applicant was alleged to have been solicited for a bribe by an individual purporting to be an insider to the award process. This individual was never identified. Case was closed without actionable findings.

\*In October 2009, the OIG Office of Investigations changed its case numbering convention, so all cases closed between October 2009 and April 2010 have case number formats that differ from older cases.

The following are cases closed during the applicable period that were previously reported in a Semiannual Report to Congress:

- 1) 18106: NOAA – employee purchase credit card misuse; March 2007 Semiannual, p.63
- 2) 18207: NOAA – theft by a contractor; March 2007 Semiannual, p.62
- 3) 16910: NIST – theft by an employee; March 2009 Semiannual, p.50
- 4) 16590: NIST – misuse of computers/pornography; March 2004 Semiannual, p.44
- 5) 17975: NOAA – fleet card and vehicle misuse by employee; September 2006 Semiannual, p.49
- 6) 16011: NOAA – misuse of computers/child pornography; March 2006 Semiannual, p.51
- 7) 17466: NOAA – permanent change of duty station reimbursement fraud by employee; March 2006 Semiannual, p.50
- 8) 18443: NOAA – employee purchase credit card misuse; March 2008 Semiannual, p.26
- 9) 18607: OS – employee transit benefits misuse; March 2009 Semiannual, p.49
- 10) 18754: NOAA – purchase credit card fraud; September 2008 Semiannual, p.42
- 11) 18836: NOAA – grant fraud; March 2009 Semiannual, p.50

12) 19291: ITA – violation of security regulations by employee; September 2009  
Semiannual, p.37



# Report In Brief

U.S. Department of Commerce Office of Inspector General

March 2009



## Why We Did this Review

The Florida Manufacturing Extension Partnership (MEP) received a NIST cooperative agreement in 2003 that, as amended, funded the operations of its MEP center for approximately 4 years (August 2003-June 2007). Total budgeted costs for the project were \$17.1 million. The federal share was capped at \$5.8 million.

We audited the MEP to determine whether its claimed costs were allowable under the terms of the agreement and whether the recipient had complied with all other MEP operating guidelines, award terms, and conditions. We also examined the costs submitted by eight entities ("subrecipients") that received cooperative agreement funding from the Florida MEP to provide related services and two third parties that made in-kind contributions to the program.

## Background

Congress established the Manufacturing Extension Program in 1988 to provide manufacturers with technical and business management assistance aimed at improving their profitability, productivity, and global competitiveness.

Today there is at least one center in every state and a total of 59 MEP centers located across the country.

## National Institute of Standards and Technology

### **Florida Manufacturing Extension Partnership Award No. 70NANB3H2002 (ATL-18568)**

#### **What We Found**

The Florida Manufacturing Extension Partnership claimed costs totaling \$19.1 million for the period July 2005 through March 2007, and received federal reimbursements of \$5 million. We questioned \$12.6 million of the claimed costs. The bulk of this amount—\$11.4 million—represents costs submitted by eight subrecipients without documentation to show that the expenditures were directly incurred as part of their MEP-funded work.

We questioned an additional \$742,782 for, among other things, unsubstantiated consultant fees, duplicative services, unallowable lobbying activities, unreasonable travel expenses, and unreasonable rent and supply costs, as well as \$386,133 in indirect costs related to these expenditures.

We also questioned \$99,738 in improperly valued and inadequately documented donated services and personnel time. The bulk of this amount—\$85,738—represented expenses incurred by two third-party contributors for their own day-to-day business operations rather than in services directly supporting the MEP.

Finally, we found that the financial status reports the MEP filed during the period of our audit were erroneous: the MEP reported having excess program income, which was not the case, and incorrectly characterized these funds as "unrestricted net assets," meaning they could be used without federal restrictions or oversight.

#### **What We Recommended**

We recommended that NIST take the following actions:

1. Disallow \$12,623,477 in questioned costs.
2. Recover \$2,868,393 of excess federal funds.
3. Require the Florida MEP to correct and refile financial status reports to show that all earned program income was used to meet the MEP's cost-share requirement.



# Report In Brief

U.S. Department of Commerce Office of Inspector General

March 2009



## Why We Did this Review

The Massachusetts Manufacturing Extension Partnership (MEP) received a NIST cooperative agreement in September 2005 to continue operating an MEP center it had established in 1998 with NIST funding. The September 2005 award, as amended, provided funding for 1 year (July 2005-June 2006). Total estimated costs of the project were \$7.1 million. The federal share was capped at \$2.4 million (33 percent) of allowable costs.

We audited the MEP to determine whether its claimed costs were allowable under the terms of the agreement and whether the recipient had complied with all other MEP operating guidelines, award terms, and conditions. We also examined the costs submitted by entities ("sub-recipients") that received cooperative agreement funding from the MEP to provide related services.

## Background

Congress established the Manufacturing Extension Program in 1988 to provide manufacturers with technical and business management assistance aimed at improving their profitability, productivity, and global competitiveness.

Today there is at least one center in every state and a total of 59 MEP centers located across the country.

## National Institute of Standards and Technology

### **Massachusetts Manufacturing Extension Partnership Award No. 70NANB5H1144 (DEN-18135)**

## What We Found

The Massachusetts Manufacturing Extension Partnership claimed costs totaling \$9.4 million for the period July 2005 through June 2006, and received federal reimbursements of \$2.4 million. We questioned \$5.1 million of its claimed costs, as follows:

- \$4,167,430 claimed by two subrecipients who could not document that their costs were incurred as part of their MEP-funded work.
- \$908,823 for contract services that did not accomplish NIST cooperative agreement objectives.
- \$10,745 in consultant fees and associated costs for services provided prior to the award's start date.

In addition, we found that the MEP's reported earned program income for the year ended June 30, 2006, exceeded its nonfederal matching share expenditures by \$1.1 million. But the MEP did not seek required NIST approval to apply the additional income to nonfederal expenditures incurred in subsequent award periods and should therefore have used this amount to reduce the federal share of the MEP's expenditures, in accordance with cooperative agreement terms and conditions and federal regulations.

Because of the questioned costs and excess program income, Massachusetts MEP ultimately received \$1.3 million in excess federal funding.

## What We Recommended

We recommended that NIST disallow \$5.1 million in questioned costs, and recover \$1.3 million in excess federal funds.



# Report In Brief

U.S. Department of Commerce Office of Inspector General

June 2009



## Why We Did this Review

The University of Texas at Arlington (UTA) received a NIST cooperative agreement in March 2005 to continue operating the Texas Manufacturing Assistance Center—a network of seven centers operating throughout the state. The award, as amended, provided funding for 33 months (December 2004-August 2007). Total estimated costs of the project were \$42 million. The federal share was capped at \$14 million (33 percent) of allowable costs.

We audited the MEP to determine whether its claimed costs were allowable under the terms of the agreement and whether the recipient had complied with all other MEP operating guidelines, award terms, and conditions. We also examined costs submitted to UTA by two “subrecipients”—Texas Engineering Extension Service and Southwest Research Institute—that received cooperative agreement funding from the MEP to operate centers.

## Background

Congress established the Manufacturing Extension Program in 1988 to provide manufacturers with technical and business management assistance aimed at improving their profitability, productivity, and global competitiveness.

Today there is at least one center in every state and a total of 59 MEP centers located across the country.

## National Institute of Standards and Technology

### ***The University of Texas at Arlington Manufacturing Extension Partnership (MEP) Award No. 70NANB5H1005 (DEN-18573)***

## What We Found

The University of Texas at Arlington claimed costs totaling \$21 million for the period September 2005 through March 2007, and received federal reimbursements of \$6.6 million. We questioned \$1,619,280 of these costs, as follows:

- \$1,533,055 in costs submitted to UTA by subrecipient Texas Engineering Extension Service (TEEX) for, among other things, services from contractors that the contracting firms provided as part of their normal course of business, not as a result of their MEP association; activities the extension service could not document as having been incurred as part of MEP-funded work; and indirect costs that exceeded the approved budget.
- \$86,225 in direct and indirect costs UTA incurred for unallowable lobbying and related hotel expenses.

We also found that TEEX used \$238,338 budgeted for indirect costs to cover direct costs claimed from September 1, 2005, through August 31, 2006, without prior approval from NIST or UTA, and reported incorrect program income for its subrecipients.

Finally, we found that subrecipient Southwest Research Institute erroneously claimed certain indirect costs, totaling \$63,412, as in-kind contributions.

## What We Recommended

We recommended that NIST disallow \$1,619,280 in questioned costs and recover \$94,120 in excess federal funds.



# Report In Brief

U.S. Department of Commerce Office of Inspector General

March 2010



## Why We Did this Review

The objective of our audit was to determine whether the State of Ohio Department of Development (ODOD) reported Manufacturing Extension Partnership (MEP) costs to the National Institute of Standards and Technology (NIST), including costs incurred by subrecipients, that were reasonable, allocable, and allowable in accordance with applicable federal cost principles, cooperative agreement terms and conditions, and NIST policy, including *MEP Operating Plan Guidelines*.

## Background

In September 2005, NIST awarded an MEP cooperative agreement to ODOD to continue operating an existing MEP center. The award funded the period July 1, 2005, through June 30, 2006, and was later extended through June 30, 2007. Total estimated project costs for the 24-month award period were \$27,272,502.

In May 2007, we initiated an audit of the agreement to determine whether the recipient complied with award terms and conditions and NIST operating guidelines for MEP centers. The audit covered the period July 1, 2005, through March 31, 2007, during which time the recipient claimed project costs of \$20,269,989 and received federal reimbursements totaling \$6,517,538.

We examined the costs the recipient claimed to have incurred as well as the cost claims of two grant subrecipients, MAGNET and TechSolve, Inc.

## National Institute of Standards and Technology

### *State of Ohio Department of Development MEP Award 70NANB5H1188 (DEN-18604)*

## What We Found

Our audit questioned \$6,781,041 in costs claimed by ODOD and its subrecipients, Manufacturing Advocacy and Growth Network (MAGNET) and Techsolve, Inc. The costs in question pertained to contractual claims, salaries and other personnel costs, invalid travel-related claims, and various indirect costs.

We found that the subrecipients did not report program income generated under their subawards to ODOD; consequently, ODOD did not report this information to NIST. The two subrecipients also generated program income in excess of what was permissible under the cooperative agreement. We analyzed MAGNET's and TechSolve's accounting records for the period July 1, 2005, through June 30, 2006, and found the two subrecipients had generated a combined program income of \$1,424,266 in excess of what was required to pay the nonfederal share of project costs.

As a result of the questioned costs and excess program income, ODOD received \$2,057,121 more than it should have in federal funds.

## What We Recommended

We recommended the chief of NIST's Grants and Agreement Management Division

- disallow \$6,781,041 in questioned costs;
- deduct \$1,424,266 in excess program income from total accepted project costs from ODOD's subrecipients; and
- recover \$2,057,121 of excess federal funds from ODOD.



# Report In Brief

U.S. Department of Commerce, Office of Inspector General

December 3, 2009



## Why We Did This Review U.S. Patent and Trademark Office (USPTO)

USPTO's financial statements are audited in conjunction with the annual audit of the Department of Commerce's consolidated financial statements, which is required by law.

### *FY 2009 Financial Statement Audits (FSD-19650)*

#### What We Found

KPMG's audit found that USPTO's financial statements were fairly presented in all material respects and in conformity with U.S. generally accepted accounting principles. KPMG found no instances of material noncompliance with laws, regulations, or contracts. The audit results indicate that USPTO's internal control structure facilitates the preparation of reliable financial and performance information.

#### Background

The Office of Inspector General engaged KPMG, an independent public accounting firm, to audit USPTO's FY 2009 financial statements. The audit included an assessment of USPTO's IT controls supporting its financial management systems.

The IT review found that while USPTO has taken positive steps to correct previous findings, there are still several weaknesses in its IT environment. These weaknesses combine to form a significant deficiency in USPTO's IT controls.

KPMG conducted the financial statement audit in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget Bulletin 07-04, Audit Requirements for Federal Financial Statements, as amended, and measured USPTO's IT controls against the five criteria in GAO's Federal Information System Controls Audit Manual.

We defined the scope of work for the audits, oversaw their performance and delivery, and reviewed the final reports.

#### What We Recommend

The results of KPMG's IT audit have been summarized in a limited distribution report. We requested that USPTO provide us an audit action plan by January 9, 2010, to address the report's findings and delineate the actions it plans to take to fix its IT vulnerabilities. We also asked that USPTO provide its rationale or the legal basis behind its decision should it choose not to implement KPMG's recommendations.



# Report In Brief

U.S. Department of Commerce, Office of Inspector General

December 3, 2009



## Why We Did This Review U.S. Census Bureau

The U.S. Census Bureau's financial statements were audited in conjunction with the annual audit of the Department of Commerce's consolidated financial statements, which is required by law.

### *FY 2009 Financial Statement Audits (FSD-19651)*

#### What We Found

KPMG's audits found that Census's balance sheet was fairly presented in all material respects and in conformity with U.S. generally accepted accounting principles. KPMG found no instances of material noncompliance with laws, regulations, or contracts. The audit results indicate that Census's internal control structure facilitates the preparation of reliable financial and performance information.

#### Background

The Office of Inspector General engaged KPMG, an independent public accounting firm, to audit the Census's FY 2009 balance sheet, including an assessment of the IT controls supporting its financial management systems.

The IT review found that while Census has taken positive steps to correct previous IT findings, there are still weaknesses related to IT controls supporting the bureau's financial management systems. These weaknesses are not considered a significant deficiency in Census's IT controls.

KPMG conducted the audit in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget Bulletin 07-04, Audit Requirements for Federal Financial Statements, as amended, and measured Census's IT controls against the five criteria in GAO's Federal Information System Controls Audit Manual.

#### What We Recommend

The results of KPMG's IT audit have been summarized in a limited distribution report. We requested that Census provide us an audit action plan by January 9, 2010, to address the report's findings and delineate the actions it plans to take to fix the IT vulnerabilities. We also asked that Census provide the rationale or legal basis behind its decision should it choose not to implement KPMG's recommendations.

We defined the scope of work for the audits, oversaw their performance and delivery, and reviewed the final reports.



# Report In Brief

U.S. Department of Commerce, Office of Inspector General

December 3, 2009



## Why We Did This Review Department of Commerce

The Government Management Reform Act of 1994 amended the requirements of the Chief Financial Officers Act of 1990 by requiring annual preparation and auditing of the Department of Commerce's financial statements.

### Background

The Office of Inspector General engaged KPMG, an independent public accounting firm, to audit the Department of Commerce's FY 2009 consolidated and special-purpose financial statements, including an assessment of the IT controls supporting its financial management systems.

KPMG conducted the financial statement audit in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget Bulletin 07-04, Audit Requirements for Federal Financial Statements, as amended, and measured the Department's IT controls against the five criteria in GAO's Federal Information System Controls Audit Manual.

We defined the scope of work for the audits, oversaw their performance and delivery, and reviewed the final reports.

## FY 2009 Financial Statement Audits (FSD-19652)

### What We Found

KPMG's audit found that the Department's consolidated financial statements were fairly presented in all material respects and in conformity with U.S. generally accepted accounting principles. KPMG found one instance of material noncompliance with laws, regulations, or contracts: the National Oceanic and Atmospheric Administration did not comply with the Anti-Deficiency Act. Another concern related to Anti-Deficiency Act compliance at the National Telecommunications and Information Administration will be referred to the Department's Office of General Counsel.

KPMG found that while the Department has taken positive steps to correct previous findings, there are still vulnerabilities related to various controls over the Department's financial management systems. These weaknesses combine to form a significant deficiency in Commerce's IT controls.

KPMG also audited the Department's special-purpose financial statements and determined its compliance with the financial reporting requirements in the Treasury Financial Manual. The Treasury Department uses the audited statements to prepare its Financial Report of the U.S. Government. In its unqualified opinion on the special-purpose statements, KPMG reported no material weaknesses in internal controls and no instances of noncompliance.

### What We Recommend

KPMG's audit has been summarized in a limited distribution report. We requested that the Department provide us an audit action plan by January 9, 2010, to address the report's findings and delineate the actions the Department plans to take to fix the IT deficiency. We also asked that the Department provide the rationale or legal basis behind its decision should it choose not to implement KPMG's recommendations.



# Report In Brief

U.S. Department of Commerce, Office of Inspector General

January 2010



## Why We Did This Review

The Federal Information Security Management Act of 2002 (FISMA) requires federal agencies to identify and provide security protection of information collected or maintained by them or on their behalf. Inspectors general are required to annually evaluate agencies' information security programs and practices. Such evaluations must include testing of a representative subset of systems and an assessment, based on that testing, of the entity's compliance with FISMA and applicable requirements.

This review covers our evaluation of NOAA's ESPC, which is one of a sample of systems we assessed in FY 2009.

## Background

ESPC is NOAA's primary processing system for the nation's environmental satellite data. ESPC ingests, processes, distributes, and archives data from two environmental and meteorological satellite systems.

C&A is a process by which security controls for IT systems are assessed to determine their overall effectiveness. Understanding the remaining vulnerabilities identified during the assessment is essential in determining the risk resulting from the use of the system to the organizations's operations and assets, to individuals, to other organizations, and to the nation. Continuous monitoring is a critical post-accreditation aspect of this process.

## National Oceanic and Atmospheric Administration (NOAA)

### *FY 2009 FISMA Assessment of the Environmental Satellite Processing Center (ESPC) (OAE-19730)*

#### What We Found

Our objectives for this review were to determine whether (1) implemented controls adequately protected the system and its information, (2) continuous monitoring is keeping the authorizing official sufficiently informed about the operational status and effectiveness of security controls, and (3) the certification and accreditation (C&A) process produced sufficient information about remaining system vulnerabilities to enable the authorizing official to make a credible, risk-based accreditation decision.

We found that the National Environmental Satellite, Data, and Information Service has not followed the required process for C&A of ESPC. The lack of proper security planning undermined the effectiveness of the system's security certification, hindering the authorizing official in making a credible risk-based accreditation decision. The system's plan of action and milestones for remediating vulnerabilities is ineffective.

#### What We Recommend

We recommend that NOAA complete security planning activities, conduct appropriate security control assessments, and address system deficiencies. Until these activities have been completed, NOAA should revise the system's accreditation status to an interim authorization to operate.

In its response to our draft report, NOAA disputed our findings and concurred with only two of our recommendations. NOAA does agree that ESPC's security posture must improve. We have asked NOAA to reconsider its response based on our comments in this report and craft its action plan, due in 60 days, accordingly.

Enclosure 3



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

April 14, 2010

The Honorable Darrell Issa  
Ranking Member  
Committee on Oversight and Government Reform  
House of Representatives  
2157 Rayburn House Office Building  
Washington, D.C. 20515-6143

Dear Mr. Issa:

In response to your request of March 24, 2010, we are providing current information on our office's open and unimplemented recommendations (see enclosure 1). We have no open or unimplemented recommendations with potential monetary benefits. As requested, we also identify what our office considers to be the three most important unimplemented recommendations (see enclosure 2).

In your letter you also solicited our opinion about improving the Inspector General Act of 1978. We are providing our response under separate cover.

If you have any questions or require additional information, you or your staff may contact me at (202) 482-4661 or Judith J. Gordon, Associate Deputy Inspector General, at (202) 482-2754.

Sincerely,

A handwritten signature in black ink that reads "Todd J. Zinser".

Todd J. Zinser

Enclosures (2)

cc: The Honorable Edolphus Towns, Chairman



**Open and Unimplemented Recommendations Since 2007\***  
**(As of March 31, 2010)**

| <b>Calendar Year</b>     | <b>Recommendations Made</b> | <b>Recommendations Still Open</b> | <b>Recommendations Still Unimplemented</b> | <b>Recommendations Implemented since Jan 5, 2009</b> |
|--------------------------|-----------------------------|-----------------------------------|--|--|
| <b>2007</b>              | 187                         | 0                                 | 49   | 17   |
| <b>2008</b>              | 143                         | 0                                 | 8  | 107  |
| <b>2009</b>              | 100                         | 0                                 | 68   | 32   |
| <b>2010 (as of 3/31)</b> | 20                          | 0                                 | 16   | 4  |
| <b>Total</b>             | 450                         | 0                                 | 141  | 160  |

\*The chart was compiled by reviewing all performance audit, evaluation, and inspection reports issued by Commerce OIG during the period of January 1, 2007, through March 31, 2010. We consider an "open" recommendation to be an OIG recommendation that a bureau has not accepted, and an "unimplemented" recommendation to be a recommendation that a bureau has accepted but has not yet implemented. We have not reported on classified or sensitive non-public recommendations, recommendations in financial statement audits, or those addressed to specific non-federal entities in connection with audits of financial assistance awards.

### **Top Three Unimplemented Recommendations**

1. **2010 Census: Quarterly Report to Congress** (OIG-19791-1), August 2009

Our review found serious limitations to effective management and oversight of the 2010 Census including lack of integration of schedule activities and budget plan/expenditures, an unreliable cost estimate for the decennial census, delayed risk management activities, and lack of transparency in monthly status reports. We made the following set of recommendations for improving 2020 Census planning and oversight:

- Complete the schedule development process earlier in the 2020 decennial life-cycle. Utilize the bureau's project management software to integrate cost and schedule activities of bureau and contractor operations to allow Census managers to better track the status of available funds, forecast impending underruns and overruns so that funds can be reallocated promptly, and improve the transparency of decennial decisions to Census stakeholders.
- Develop a transparent decision documentation strategy to account for 2020 Census program and spending decisions.
- Strengthen and implement a risk management strategy and relevant contingency plans prior to the start of 2020 decennial census operations.

**a) Status of Recommendation:** Census has agreed with our recommendations. Planning for the 2020 Census is under way.

**b) Estimated Cost Savings:** The cost savings cannot be projected. However, the total cost of the 2010 Census is projected to be \$14.7 billion, which includes cost growth estimated to exceed \$3 billion. Improved planning, management, oversight, and transparency are critical to containing cost and avoiding similar overruns in the 2020 Census.

**c) Whether agency plans to implement the recommendation in the near future:** According to the bureau, a small core team at Census has begun early planning and is focused on establishing planning and program management processes to ensure a foundation for designing the 2020 Census.

**2. Commerce Should Take Steps to Strengthen Its Information Technology Security Workforce** (CAR-19569-1), September 2009

IT security weaknesses have been sufficiently serious that the Secretary of Commerce has reported this issue as a material weakness in the annual *Performance and Accountability Report* since FY 2001, pursuant to the Federal Managers' Financial Integrity Act of 1982. Based on our reviews, we have attributed the persistence of the material weakness, in part, to weaknesses in the IT security workforce and have recently completed an audit in which we found that the Department needs to devote more attention to the professional development and guidance of the IT security personnel who protect the Department's sensitive computer systems and information.

We made a number of recommendations for improving the IT security workforce including to enhance the professional development of personnel with significant IT security responsibilities. In particular, we noted that the only federal job classification specifically targeted toward IT security does not require a college degree and recommended that the Department develop and implement a requirement for professional certifications for key IT security personnel.

**a) Status of Recommendation:** The Department agreed with our recommendation and has developed an implementation plan.

**b) Estimated Cost Savings:** The cost savings cannot be projected. However, implementation of the recommendation not just for the Department of Commerce but for all civilian agencies would substantially improve the capacity of the IT security workforce and thus the security of sensitive government information and systems. Recognizing a similar need, the Department of Defense began implementing a professional certification requirement for its IT security workforce in 2004 with a goal of full compliance by 2011.

**c) Whether agency plans to implement the recommendation in the near future:** The Department is developing a policy that will require noncertified personnel in roles requiring certification to work with their supervisors to establish a development plan leading to successful accomplishment of an appropriate certification. Certification will also be required for new employees in designated roles.

**3. *Successful Oversight of GOES-R Requires Adherence to Accepted Satellite Acquisition Practices (OSE-18291), November 2007***

In 2005, the Department and NOAA assumed oversight and management responsibility for the entire Geostationary Operational Environmental Satellite (GOES-R) program, which is now projected to cost \$7.7 billion. This represents a \$1.5 billion increase from the original estimate. For the first time, NOAA, rather than NASA, has the lead role in GOES-R's program management and acquisition, thus giving the Department direct oversight authority for both the ground and space segments. While this change was positive overall, these new roles added risk to an already highly complex undertaking. Our review found that the Department lacked a workable oversight structure not just for GOES-R but for all major acquisitions. Accordingly, we made the following recommendation:

- Complete and implement the Department's major system acquisition policy. For satellite programs, ensure the policy incorporates the key decision points in NPR 7120.5D and requires comprehensive independent reviews at all key decision points. (NPR 7120.5D is a NASA policy that NOAA has adopted for its satellite acquisition activities.)

**a) Status of Recommendation:** The Department agreed to develop a major systems acquisition policy by the third quarter of FY 2008 but stated that in creating the policy, a key decision point structure would be considered, along with other approaches. This deadline was not met. The current Deputy Secretary has convened a steering committee to develop a Department-wide major investment oversight policy.

**b) Estimated Cost Savings:** The cost savings cannot be projected. However, with an estimate of nearly \$20 billion to be spent on two critical environmental satellite systems over their life cycle and \$2.6 billion in major IT investments in FY 2010 alone, the Department must have an effective oversight program in place.

**c) Whether agency plans to implement the recommendation in the near future:** The Department has not provided a specific date as to when the recommendation will be implemented. As noted above, it is actively working this issue at the direction of the Deputy Secretary.