OFFICE OF INSPECTOR GENERAL

OIG

U.S. DEPARTMENT OF COMMERCE

SEMIANNUAL REPORT TO CONGRESS

MARCH 2007

Top 10 Management Challenges

MAJOR CHALLENGES FOR THE DEPARTMENT

This section highlights the Top 10 Management Challenges that faced the Department at the close of this semiannual period. Each challenge meets one or more of the following criteria: (1) it is important to the Department's mission or the nation's well-being, (2) it is complex, (3) it involves sizable resources or expenditures, or (4) it requires significant management improvements. Because of the diverse nature of Commerce activities, these criteria sometimes cut across bureau and program lines. Experience has shown that by aggressively addressing these challenges, the Department can enhance program efficiency and effectiveness; eliminate serious operational problems; decrease fraud, waste, and abuse; and achieve substantial savings.

Top 10 Management Challenges

1. Control the cost and improve the accuracy of the decennial census.

2. Strengthen Department-wide information security.

3. Effectively manage departmental and bureau acquisition processes.

4. Strengthen internal controls over financial, programmatic, and business processes.

5. Ensure that USPTO uses its authorities and flexibilities as a performance-based organization to achieve better results.

6. Effectively manage the development and acquisition of environmental satellites.

7. Promote fair competition in international trade.

8. Effectively manage NOAA's stewardship of ocean and living marine resources.

9. Aggressively monitor emergency preparedness, safety, and security responsibilities.

10. Enhance export controls for dual-use commodities.

Challenge 1

Control the Cost and Improve the Accuracy of the Decennial Census

At an estimated cost of $11.5 billion, the 2010 census will be the country's most expensive decennial ever, both per capita and overall. The Census Bureau's redesigned decennial plan, established after the 2000 census, is heavily dependent on automating critical field operations to accurately count the nation's population within budget. The bureau has established an ambitious testing schedule to monitor development and implementation of the strategy, identify problems, and incorporate solutions in time for 2010.

During the past year, we reviewed various aspects of the bureau's 2006 test held in Travis County, Texas, and the Cheyenne River Reservation and Off-Reservation Trust Land in South Dakota.

Automating Address Canvassing

In our March 2006 *Semiannual Report* (page 19), we described our review of Census's test of automated address canvassing—an operation designed to keep the bureau's address file and digital map database current and complete. During address canvassing, temporary staff equipped with handheld computers go into the field to verify, update, add, or remove addresses; add and delete streets to correct computer maps; and annotate address locations on the maps. The information they collect has a direct bearing on the bureau's ability to accurately count the population.

We found several problems that undercut the value of the canvassing test, most notably, unreliable handheld computer functions, including the GPS capabilities; inaccurate maps; insufficient quality

control training; and an inadequate focus on outreach. We concluded that the bureau only partially achieved its test objectives and could have earned a better return on its investment if it had fielded more reliable handheld computers, tested areas where the postal service delivery of questionnaires could potentially replace bureau delivery to reduce costs, evaluated outreach efforts aimed at the hard-to-enumerate American Indian population, and assessed the viability and cost-benefits of its decision to canvass nearly every household in the country in 2010.

The Census Bureau concurred with some of our findings and recommendations, but took issue with others. In particular, the bureau disagreed that valuable learning opportunities were missed, that unreliable handheld computers interfered with the test, and that an analysis of the costs and benefits of 100 percent address canvassing should be performed and less costly alternatives considered.

Improving Group Quarters Enumeration

Although most U.S. residents live in residential housing units such as single-family houses, apartments, and mobile homes, more than 7 million people live in college dormitories, nursing homes, prisons, and group homes, collectively known as group quarters. In our September 2006 *Semiannual Report* (page 21), we reported on our review of the group quarters testing operation in Travis County, Texas—an ideal test location because it is home to four universities and colleges, a state prison, and numerous other group living facilities.

We found that the bureau continues to face a number of challenges in enumerating group quarters. For example, (1) nontraditional student housing, such as private dorms and student cooperatives, did not easily fit into any of Census's group quarters definitions, and so some were not enumerated; (2) 42 percent of the validation workload was associated with large apartment complexes erroneously identified as potential group quarters during address canvassing, which caused problems in group quarters validation and nonresponse follow-up; (3) a number of group quarters were not on the

final enumeration list, while others were duplicates—appearing on both the enumeration and housing unit lists or twice on the enumeration list.

We recommended that Census take additional steps to count the student population, such as working closely with fraternity and sorority campus oversight organizations and exploring the use of the Internet as a response option for this computer-oriented generation. Finally, we noted that some additional group quarters processes and procedures warrant management attention.

Counting American Indians on Reservations

We recently concluded fieldwork on one final 2006 test operation: update/enumerate at the Cheyenne River Reservation—an effort designed to reduce the historic undercount of American Indians living on reservations. Update/enumerate is used in communities where residents are less likely to return a completed questionnaire, so enumerators go door to door to collect census information in person and update the address lists and maps.

U.S. Census Bureau

In 2005 some 4.5 million people—or 1.5 percent of the total U.S. population—identified themselves as American Indian and Alaskan Native (either alone or in combination with other races). These populations have been historically undercounted in decennial censuses. The Census Bureau is modifying its traditional approach to enumerating Native Americans for the 2010 census in hopes of getting a more accurate count.

We are preparing to issue our draft report to Census officials, in which we will detail our recommendations for improving reservation enumerations. We will discuss our final report in our September 2007 *Semiannual Report to Congress*.

Protecting Confidentiality

Public cooperation is essential to the bureau's ability to improve the accuracy of the decennial census and successfully conduct its other surveys. But most people are willing to cooperate only if assured that the sensitive personal information they share is protected. Unfortunately, the recent, well-publicized loss of hundreds of Census laptops and unauthorized release of personal data on a bureau web site is likely to undermine trust.

Our office, at the request of Secretary Gutierrez, is assessing the bureau's property management policies and practices as well as its controls for protecting sensitive personal information in light of the laptop losses. We will report our findings during the next semiannual period.

OIG Planning: 2008 Census Dress Rehearsal and 2010 Decennial Census

The bureau has one final opportunity to test and improve its decennial design and methods before conducting the 2010 census—the 2008 dress rehearsal. Slated for Stockton, California, and Fayetteville, North Carolina, and a number of surrounding counties, the dress rehearsal will execute nearly all planned operations and procedures under conditions as close to those of the actual decennial as possible. This is a huge and critical undertaking, and key to the success of 2010.

The Office of Inspector General has undertaken a comprehensive planning effort to determine how to best utilize our limited resources in conducting effective oversight and providing Census with the most meaningful feedback on dress rehearsal operations during the time remaining in this decennial cycle. We began the decade by first

considering key concerns discussed in our summary report on Census 2000 (*Improving Our Measure of America: What Census 2000 Can Teach Us in Planning for 2010*, OIG-14431). Numerous topics emerged from our extensive work since—evaluations of the master address file, TIGER® maps, handheld computers, and components of the 2004 and 2006 census tests. Considering the results of this prior work and the bureau's goals of reducing costs and improving accuracy and timeliness, we have identified and prioritized over 50 areas for potential review, including various Census operations, large contracts, internal controls, new major systems, and budgetary matters. We will seek input from the Department, the Census Bureau, and Congress in finalizing our agenda for the remainder of the decade and look forward to further contributing, through our work, to a successful 2010 decennial census.

Challenge 2

Strengthen Department-Wide Information Security

Information security remains at the forefront of the challenges facing most federal agencies, as they endeavor to protect critical assets and sensitive information in the ever-changing online world. Last year, 19 federal agencies reported IT security breaches and loss of sensitive personal information in incidents dating back to 2003, the result of unauthorized system access or—in the case of stolen laptops—lax personal property controls.[1] Increasing use of mobile devices and expanding remote access privileges are but two of the trends reshaping the way government conducts business that require vigilant, proactive, and ever-more creative security solutions.

Since enactment of the Federal Information Security Management Act (FISMA) in 2002, agencies have spent millions of dollars to improve the security of information stored on their computer systems and shared via the Internet. Yet weaknesses persist and

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[1] http://oversight.house.gov/Documents/20061013145352-82231.pdf

breaches continue. At Commerce, IT security has been a material weakness since 2001.

What Is C&A and Why Does It Matter?

Certification is a comprehensive assessment of security controls implemented in a computer system. It determines whether controls are implemented correctly, operating as intended, and meeting the security requirements for the system. Through the formal assessment of controls, the system certifier identifies any vulnerabilities that have not been eliminated by security controls.

Accreditation is management's formal authorization to allow a system to operate. It includes an explicit acceptance of the risks posed by any identified remaining vulnerabilities. Through accreditation, senior agency officials take responsibility for the security of systems they manage and for any adverse impacts should a breach in security occur.

The Department's certification and accreditation (C&A) process is the reason for the material weakness. According to NIST guidance, authorizing officials must have complete, accurate, and trustworthy information on a system's security status in order to make timely, credible, risk-based decisions on whether to authorize its operation. This information is produced by the system security certification process. Our reviews of the Department's C&A packages continue to find a C&A process that does not adequately identify and assess needed management, operational, and technical security controls. As a result, authorizing officials do not have the information they need to make sound accreditation decisions.

To improve C&A, Commerce's Office of the Chief Information Officer (OCIO) began reviewing C&A packages in FY 2005, working with the bureaus to improve noted deficiencies and forwarding packages considered acceptable for high- or moderate-impact

systems[2] to OIG for FISMA review. (Nearly 80 percent of Commerce's 300 systems are either moderate or high impact.)

Although progress is slow, we are seeing improvements. Overall, security plans are better identifying system components (e.g., firewalls, routers, switches, servers). And we have seen significant advances in assessing security controls for several systems. C&A of contractor systems remains an issue, as none we reviewed last fiscal year met the requirements of Commerce's IT security policy and applicable NIST standards and guidance.

This fiscal year, we have redoubled our efforts to convey C&A problems and needed fixes to CIOs, senior officials, authorizing officials, and system owners throughout the Department. This dialogue has already begun to pay off by prompting greater management attention to IT security and better understanding of C&A requirements, challenges, and responsibilities. Senior officials better appreciate the rigor of the C&A process and the need to ensure that government personnel developing the packages, as well as the contractors supporting them, have the necessary knowledge and skills.

Lost Laptops Prompt Department-wide Security Fix

In September 2006, the Department reported that 1,138 laptop computers had been lost or stolen over the past 5 years, and more than 20 percent contained sensitive personal data. In October it reported that 297 instances of compromise had occurred since 2003, involving laptops, handheld devices, and thumb drives. Publicized breaches in the security of personally identifiable information have prompted

[2] In accordance with NIST's Federal Information Processing Standards (FIPS) Publication 199, agencies must categorize their IT systems and data as high, moderate, or low impact according to the potential harm to an agency's mission that system compromise or unauthorized data disclosure would cause. For example, a system that processes routine, nonprivate administrative information is considered low impact. A system that processes statistical data based on personally identifiable information is considered moderate impact, and a system that is used for emergency or disaster response is considered high impact.

new OMB requirements for protecting this information and a new policy at Commerce. OMB requires that all mobile computing devices encrypt sensitive data and that agencies report related security breaches to the U.S. Computer Emergency Readiness Team (US-CERT) within 1 hour of discovering them. Under the Department's new policy, only laptops equipped with approved encryption software may store personally identifiable information. Carrying this information on thumb drives, CDs, and similar devices has been restricted. Challenge 1 (page 3) on the decennial census describes the work we are doing in response to the Secretary's request to assess the security controls on Census laptop computers and other mobile devices. This evaluation is near completion and will be discussed in detail in our next *Semiannual Report.*

In January, Commerce began a Department-wide project to encrypt all laptops as quickly as possible. By mid-March, four operating units (including OIG) had encrypted their entire inventory of laptops; two had requested waivers; and the remaining agencies had various completion dates, the latest being June 1. The Department has also instituted procedures for reporting security incidents involving sensitive data to US-CERT within the 1-hour deadline.

Finally, responding to OMB requirements, Commerce is working toward "two-factor authentication" for accessing agency IT systems, which would use a biometric identifier, such as a fingerprint, along with a password, and would require that sensitive data extracted from agency databases be erased from the downloading computer within 90 days of the download.

Challenge 3

Effectively Manage Departmental and Bureau Acquisition Processes

With Commerce spending nearly $2 billion a year on goods and services, the potential for waste, fraud, or abuse looms large within the Department. OIG continues to closely monitor procurement processes in the bureaus and at the departmental level. Recent OIG audits and evaluations have identified the need for improvements in acquisition planning, to include accurate independent cost estimates, effective market research, and full and open competition whenever possible.

Part of the challenge facing the Department in this area is the high turnover in upper management contracting positions at several of its agencies. Continuity and consistency in contracts management and oversight are essential to ensuring the government gets what it pays for in these complex, costly acquisitions—and that services are delivered on time and within budget. But the obstacles to achieving these goals are steadily increasing, and with them, the demands on contracts personnel. The Department needs a plan to replace the lost talent and develop and retain staff already on board to provide the high-level management expertise and consistency needed.

New Contract Audits Division

To enhance our oversight of Commerce's acquisition activities, we have established a contract audits division to focus on them. The division will audit individual contracts and look at crosscutting acquisition issues to identify opportunities to improve departmental and bureau procurement policies and to minimize the likelihood of fraud, waste, and abuse. It will also look for and report on best practices and innovative approaches that can be adopted Department-wide.
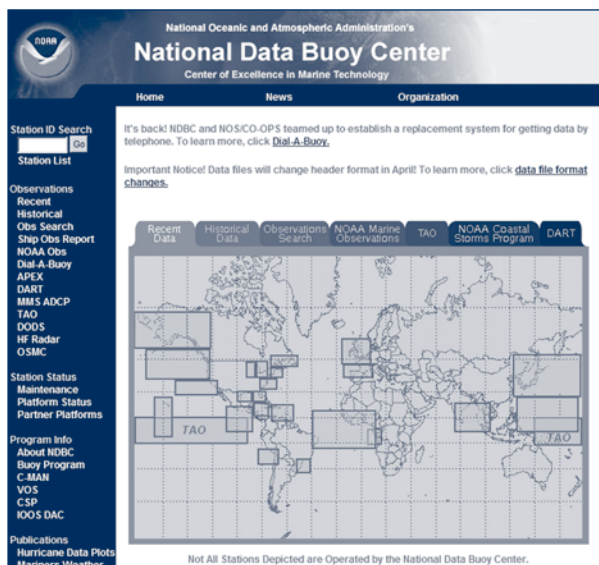
The division's initial area of emphasis will be the Census Bureau's procurement of products and services to support the 2010 decennial census. The bureau estimates that 17 percent ($1.9 billion) of its 2010 budget will be spent on contracts for information technology systems, advertising, and leases for local office space. Contract audits staff is currently monitoring Census's efforts to procure advertising and other communications services. These are considered essential to the bureau's efforts to lower operational costs by obtaining a high return rate for mailed questionnaires and thereby

minimizing the number of households that require nonresponse follow-up.

Census issued a request for proposals for communications services in January 2007 and plans to award a single indefinite delivery/indefinite quantity contract, with maximum costs capped at $300 million, in the fall of 2007. We are monitoring the progress of this procurement, and plan to pay close attention to its management at every phase. Among other things, we will focus on how Census measures the contractor's performance and whether it uses award fees appropriately.

Other contracts of interest to OIG include one issued by NOAA's National Data Buoy Center, a part of the National Weather Service that designs, develops, operates, and maintains a network of data-collecting buoys and coastal stations. In 2005 the center awarded a 10-year contract worth up to $500 million for technical services support for its marine observation network. OIG plans to review NOAA's management of this contract, as well as its oversight of the associated tasks performed to maintain and repair data buoys and other observation platforms for marine weather forecasting.

www.ndbc.noaa.gov/

Challenge 4

Strengthen Internal Controls over Financial, Programmatic, and Business Practices

Internal controls are the steps agencies take to make sure their operations are effective, efficient, and in compliance with laws and regulations. Internal controls also ensure that financial reporting is reliable and assets are safeguarded from waste, loss, or misappropriation.
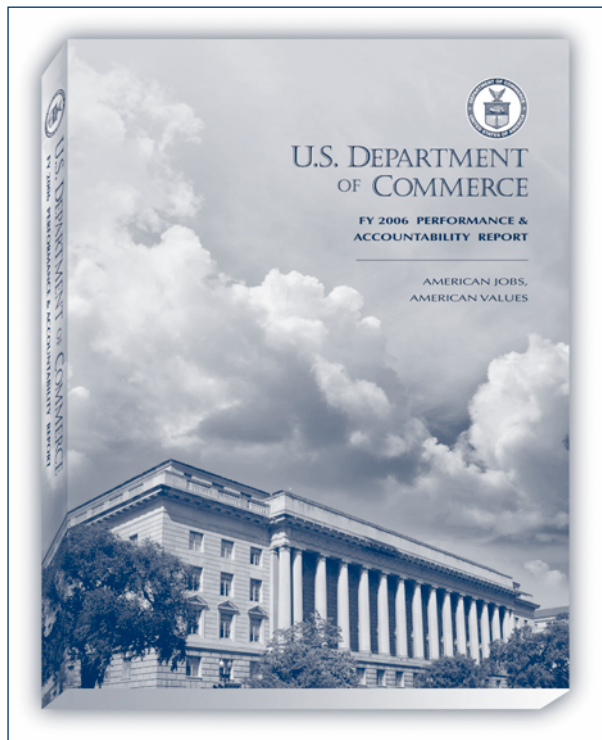
Under OMB's revised Circular A-123, agencies in FY 2006 began implementing new internal accounting controls and since FY 2004 have had to issue audited financial statements within 45 days of the fiscal year's close. Commerce has met this deadline both years, and has continued to receive a clean opinion on its consolidated statements (see page 57).

These are no small accomplishments. In the years since passage of the 1990 Chief Financial Officers Act, Commerce has been chipping away at financial management problems, overhauling accounting practices, and consolidating an array of legacy financial systems into one. The result has been a more integrated system designed to give agency managers current, accurate information with which to make decisions.

The next step is government-wide integration. In 2006, under an initiative known as Financial Management Line of Business, OMB began requiring all agencies—when upgrading their financial systems—to consolidate their core financial operations (accounting, payments, and recording) with those of other agencies, either by using shared service providers or becoming shared service providers themselves. The goals of the initiative are to standardize systems, promote seamless data exchange, improve the quality and efficiency of financial operations, reduce costs, and eliminate redundancy.

Agencies have until 2015 to move to or become shared service providers. They must begin reporting in June 2007 how well their financial services perform as part of the Financial Management Line of

Business, using metrics OMB published March 30, 2007. These evaluations will serve as blueprints for identifying needed internal control improvements and the steps required to migrate to shared services.

The Department outlined its strategy for implementing the Financial Management Line of Business initiative in its FY 2006 Performance & Accountability Report.

Planning for the transition at Commerce is under way. The Department is, among other things, upgrading its financial applications software and consolidating these applications to one data center using a common hardware platform. It is seeking contractor support for a comprehensive financial management modernization project[3] that will achieve Line of Business goals, including those for facilitating strong internal controls, reducing costs, standardizing systems and business processes, and allowing seamless data exchange with other federal agencies. This is a huge, critical undertaking that we plan to carefully monitor.

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[3] www.fbo.gov/spg/DOC/OS/OAM-OSBS/Reference%2D Number%2DMARKET%2DRESEARCH%2D02232007/ SynopsisR.html

Ensuring Sound Management of New NTIA Programs

The Digital Television Transition and Public Safety Act of 2005 requires the FCC to auction recovered analog spectrum and deposit the proceeds into a special fund. A portion of the proceeds will be used to fund many new programs within the National Telecommunications and Information Administration. Under the act, NTIA, one of the Department's smaller agencies, is slated to manage up to nine new programs, two of which have potential combined budgets totaling $2.5 billion (a grant program for interoperable communications and a converter box coupon program).

Successfully implementing these new programs will constitute a significant management challenge for the Department. We are sharing our expertise with NTIA to help it design strong, well-structured programs that minimize opportunities for fraud. During this period, we examined certain aspects of the accounting system and financial records of a broadcasting consortium slated to receive a $30 million grant under the act. We provided agency management with information it could use to ensure the grantee's accounting structure complied with federal requirements and supported appropriate use of federal funds prior to the funds' disbursement. (See page 47.) We are also monitoring the agency's implementation of the converter box program and the interoperable communications grant program.

Evaluating Program and Accountable Property Controls

Commerce also needs to strengthen internal controls for select programs and administrative operations. For example, a recent review of the Department's Federal Employees Compensation Act program found a variety of problems caused by poor internal controls, including people who were overpaid or who remained on workers' compensation rolls for years without medical justification.

During this semiannual period, our audits of EDA's revolving loan fund program and the Department's

management of premium-class travel revealed numerous deficiencies in program controls. We also began looking at the Census Bureau's accountable property management policies and practices, at the Secretary's request, in light of the loss of several hundred laptops. Because the design and implementation of program and property controls can significantly impact the effectiveness of departmental operations, we expect that this area will remain an important aspect of our audit and inspection work.

Challenge 5

Ensure that USPTO Uses Its Authorities and Flexibilities as a Performance-Based Organization to Achieve Better Results

USPTO's operations and practices have been a strong focus of our work since March 2000, when the Patent and Trademark Office Efficiency Act transformed the agency into a performance-based organization that operates like a private corporation. We have issued nearly a dozen reports since that time, examining a host of administrative, program, and operational issues. One particularly troubling area has been human resources: our reviews of the agency's HR office have identified some questionable practices and the need for improved management controls and policies.

Strong HR operations are essential at an agency hiring hundreds of new patent examiners each year to reduce a backlog of unexamined patent applications that has reached historic proportions, and pursuing alternative work arrangements to enhance productivity and improve staff retention. These initiatives raise other areas of concern. For example, USPTO continues to expand its telework program, allowing hundreds of patent examiners to use laptops to work at offsite locations. The findings of lost laptops and data security problems at other Commerce bureaus underscore the need for strong policies, procedures, and controls at USPTO to avoid

similar problems and the potential compromise of sensitive patent information.

USPTO

Patent examiners at USPTO use a dual-monitor setup to improve efficiency.

The long-standing and growing backlog highlights other issues for USPTO and OIG attention: the need to expedite a fully electronic patent examination process and to carefully monitor the agency's billion-dollar investment in high-risk time and materials and award fee contracts for related information technology services. Our review last year of NOAA's multibillion-dollar award fee contract for satellites revealed the pitfalls of these arrangements and the potential for huge cost overruns. (See September 2006 *Semiannual Report*, page 29.) OIG may conduct reviews of selected USPTO contracts to ensure vendors are complying with contract terms and conditions, containing costs, and delivering the required services on time.

During this semiannual period, we reviewed USPTO's procurement process to learn whether the agency's acquisition criteria have changed since the Patent and Trademark Office Efficiency Act took effect. We noted several areas that could benefit from improved guidance, particularly with regard to applying the *Patent and Trademark Office Acquisition Guidelines*. We also found data input errors that could have been prevented with better controls. (See page 53.)

Challenge 6

Effectively Manage the Development and Acquisition of Environmental Satellites

Over the next 5 years, NOAA will spend several billion dollars in contracts for the purchase, construction, and modernization of environmental satellites. These systems, operated by the National Environmental Satellite, Data and Information Service (NESDIS), collect data to provide short- and long-range weather forecasts and a variety of other critical environmental and climate information.

GOES-R Costs, Schedule, and Capabilities Are Being Redefined

In the next decade, the geostationary operational environmental satellite R series (GOES-R) will replace the existing GOES satellites. The new series will have enhanced sensing capabilities that are expected to offer an uninterrupted flow of high-quality data to support weather forecasting, severe storm detection, and climate research vital to public safety. GOES-R is a multicontract, multiyear program wholly funded by Commerce, though the new satellites will be developed and acquired with help from NASA Goddard Space Flight Center.

The Department's investment for GOES-R for fiscal years 2006 to 2010 is projected to be about $2 billion. Planning for the new series has been under way for the past 6 years. During this semiannual period, we conducted fieldwork in conjunction with our joint review of the GOES-R program with NASA's Office of Inspector General. Our shared objective is to determine whether the Department and NASA have created a management structure to ensure effective oversight of the many risks associated with the GOES-R program. At Commerce, the oversight component of our work is looking at the Department and NOAA's efforts to establish effective monitoring organizations, policies, and procedures and the mechanisms NOAA will use to leverage NASA's oversight expertise. We are also examining

whether program staff report significant issues to senior Department and NOAA oversight officials in a timely fashion and whether those officials take appropriate action.

Our acquisition focus is on the program office's overall approach to procuring key satellite instruments, identifying potential risks, and implementing associated mitigation strategies. We are also assessing the acquisition contracts' award fee plans to determine whether they are structured to promote excellent performance.

www.photolib.noaa.gov/htmls/spac0107.htm

Over the next 5 years, NOAA will spend several billion dollars in contracts for the purchase, construction, and modernization of environmental satellites. Above, the predawn launch of a NOAA satellite.

NASA OIG plans to determine whether NASA program management councils effectively identify and review program issues and progress, and whether procedures and processes are in place to recognize, mitigate, and report technical risks in accordance with NASA policy.

The Department, NOAA, and NASA, as part of detailed risk reduction activities, have been

restructuring major aspects of the program in response to input on costs and technological risks provided by independent review teams and contractors. These changes include the following:

- Reductions in system capabilities to contain unacceptable costs and risks.

- Modifications to the satellite architecture, necessitating approximately $18 million in rework by the program definition contractors.

- A revised acquisition strategy that, instead of having one prime contractor with end-to-end responsibility for the entire system, now awards separate contracts for the spacecraft and ground segments and relies on the government to furnish the instruments.

NOAA and NASA have also been negotiating a memorandum of understanding defining the authorities and responsibilities of each organization for the management, development, acquisition, and integration of GOES-R, which they had expected to complete by the end of last calendar year. A draft was provided for departmental review in early January. It offers a high-level outline of responsibilities but defers the specifics to the GOES-R management control plan, which is to be approved by NESDIS and Goddard within 90 days of the memorandum's signing.

We are concluding our fieldwork and expect to report recommendations for improving the Department's satellite acquisition processes and oversight in the next semiannual period.

NPOESS Problems Increase Pressure for Strong Agency Oversight

Our September 2006 *Semiannual Report* (page 29) detailed the findings of our audit of the National Polar-orbiting Operational Environmental Satellite System (NPOESS). Our findings revealed how far afield satellite procurement projects can run when management oversight slides. This has put new pressure on agency officials and program planners to have strong mechanisms in place for tracking every

phase of the program to contain costs and promptly mitigate problems.

NPOESS—a joint project of NOAA, NASA, and the Department of Defense—will be a critical element in the nation's ability to provide continuous weather and environmental data for civilian and military needs through the coming 2 decades.

In November 2005, Defense reported that NPOESS costs had grown by 25 percent over original estimates—triggering congressional recertification of the program under the Nunn-McCurdy provision of the FY 1982 National Defense Authorization Act. In addition to the staggering cost increases, the program was running 17 months behind schedule yet the contractor had received $123 million in incentive payments. Our audit uncovered two overarching management and contract weaknesses that contributed to the unchecked cost and schedule overruns: first, the NPOESS Executive Committee—top leaders from the three agencies charged with overseeing the project—never challenged optimistic assessments of the impact of technological problems. Second, the contractor received excessive award fees despite problems.

In June 2006, the House Science Committee accepted a triagency proposal to continue the program, but with four satellites instead of six. The first satellite will launch in 2013 rather than 2010, as proposed in the original program. Total acquisition costs were revised from the original estimate of $6.4 billion to $11.5 billion to support NPOESS satellite coverage through 2026.

As a result of our audit, NOAA agreed to institute regular internal program reviews as well as annual and ad hoc independent program assessments, revise the award fee plan to better link award fees with desired outcomes, and assign responsibility for determining fee awards to an official who does not directly manage the NPOESS program.

Challenge 7

Promote Fair Competition in International Trade

The Department of Commerce accomplishes its goals of promoting trade, opening overseas markets to American firms, and protecting U.S. industry from unfair trade practices primarily through the work of the International Trade Administration. ITA also works with USPTO and NIST to assist U.S. companies with intellectual property rights and standards. Over the past several years, OIG has focused a number of reviews on the Department's efforts to increase U.S. market opportunities, provide assistance to U.S. exporters, and overcome trade barriers in difficult foreign markets.

In September 2006, ITA's Commercial Service (CS) responded to OIG recommendations regarding U.S. trade promotion efforts in China and India by announcing extensive changes in its procedures for verifying export success claims, its primary performance measure. CS stated that the new procedures were necessary because, in a significant number of cases, OIG had found discrepancies in the reported export successes. These discrepancies raised doubts about the integrity of the data CS reports to Congress and the administration on its accomplishments. The new CS procedures require improved documentation, supervisory confirmation of a sample of export success reports, and verification that CS provided value-added assistance.

Interagency Trade Coordination

In response to a request from members of the U.S. House of Representatives, including the then-chairman of the Small Business Committee, we reviewed various aspects of Commerce's trade promotion efforts and the coordination of those efforts among various offices within Commerce and with other federal and state agencies and other trade partners. We found effective collaboration on trade promotion in many instances, but we also identified areas where Commerce and members of the interagency Trade Promotion Coordinating Committee could enhance their cooperation on specific trade promotion activities, such as trade finance assistance. In addition, our review of the Department's Internet resources for exporters found that Commerce could better organize its online content and consolidate information from other agencies to provide a one-stop source of U.S. government trade leads and other export assistance. (See page 37.)
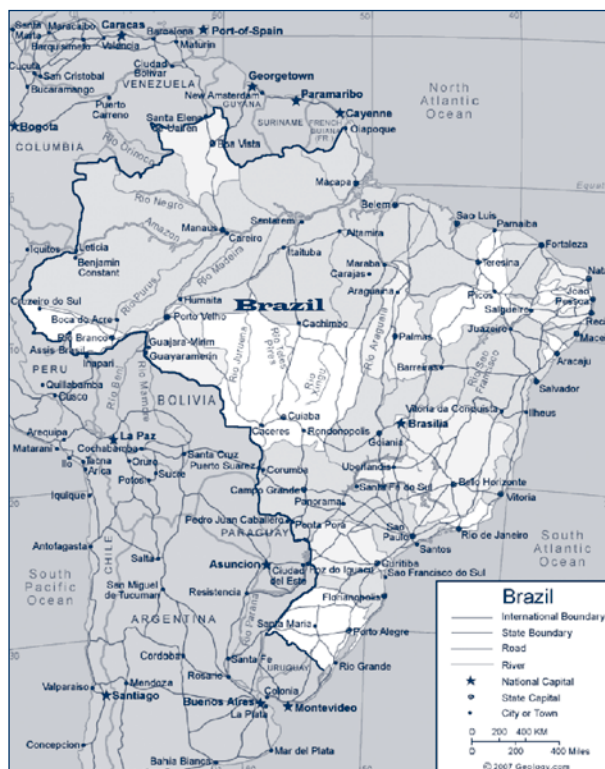
U.S. Trade Promotion in Latin America

During this semiannual period, we issued our report on CS' posts in Brazil and received an action plan on our report about its posts in Argentina and Uruguay. (About half of the recommendations we made have been satisfied. Only seven remain open, and we have asked for a follow-up status report by June 30.) Significant export opportunities are opening in these countries as Brazil's large economy continues its steady growth, Argentina recovers from its 2001-2002 economic crisis, and Uruguay pursues closer trade relations with the United States. Our inspections focused on the management, program operations, and financial and administrative practices of these three South American posts.

Our review of CS operations in Brazil found that the post provides valuable assistance to U.S. companies in the complex Brazilian business environment and collaborates well with other trade promotion agencies, including key U.S. government offices and nongovernmental organizations. The report discusses challenges posed by the post's management structure and allocation of office resources, and the need to develop measurable long-term goals for the standards and intellectual property attachés recently posted to Brazil. We found that the post responded to budget cuts by adjusting its programmatic priorities, and we are concerned that this may impact its overall performance and delivery of products and services.

In general, we found the post's financial and administrative operations are sound. However, our report identifies some discrepancies in ITA and CS

accounting reports for the post and some administrative policies that were not being followed. We also continued to see some questionable export success claims that do not appear to contribute to CS' mission to promote U.S. exports. (See page 33.)

www.geology.com/world/brazil-map.gif

During the upcoming semiannual period, OIG plans to continue its review of Commerce's trade promotion efforts, including the Department's preparation of the National Export Strategy and the involvement of other federal agencies in that effort. We will also continue our review of Commerce's actions taken in response to the recommendations of our recent reports on CS operations at Asian and South American posts. We may also look at the Department's efforts to increase exports to countries that have recently signed trade promotion agreements with the United States.

Challenge 8

Effectively Manage NOAA's Stewardship of Ocean and Living Marine Resources
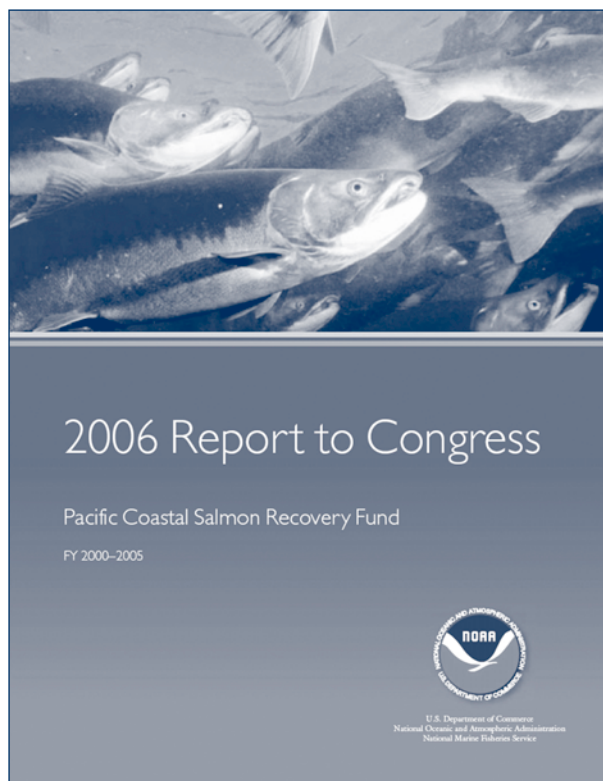
The National Oceanic and Atmospheric Administration is charged with monitoring the health of our nation's ocean, coastal, and Great Lakes resources; administering civilian ocean programs; and protecting and preserving the nation's living marine resources through scientific research, fisheries management, enforcement, and habitat conservation. NOAA spends billions of dollars each year supporting a vast array of programs designed to protect and enhance these resources that "are critical to the very existence and well-being of the nation and its people."[4] These are programs that require long-term commitments and years of funding to show their full effect. During this semiannual period we continued our look at one such program, salmon recovery, wrapping up a series of audits of NOAA-funded projects operating in the Pacific Northwest.

We reviewed the administration of a 5-year, $27.4 million grant to fund salmon recovery projects in Washington state to assess whether the grantee was properly managing a number of project subgrants. Our initial fieldwork disclosed inadequate policies and procedures for awarding subgrants and monitoring funded projects, which prompted us to conduct audits of nine project subgrants. Our recently concluded audit of the grantee revealed that some processes had improved, but serious deficiencies remain, particularly in the area of fund administration. (See page 45.)

Along the same lines, during the next semiannual period, we plan to initiate additional audits of NOAA financial assistance programs and award recipients. For example, we will look at the Fisheries Finance Loan Program, operated by NOAA's National Marine Fisheries Service. This program provides financing for the purchase or reconstruction of used fishing vessels that will not add capacity to regulated fisheries. Our audit will evaluate NMFS'

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[4] U.S. Commission on Ocean Policy

management of the loan program and assess whether the program advances the complementary goals of ending overfishing and rebuilding fisheries.

www.nwr.noaa.gov/Salmon-Recovery-Planning/PCSRF/upload/ PCSRF-Rpt-2006.pdf

We are also preparing to initiate reviews of programs in other stewardship areas, as follows:

National Marine Sanctuary Program

This program is charged with managing areas of the marine environment that have special national significance because of their conservation, historical, or scientific qualities. It encompasses one coral reef ecosystem reserve and 13 marine sanctuaries, including the Northwestern Hawaiian Islands Marine National Monument, which is the world's largest marine conservation area. Managing the sanctuaries presents significant challenges to NOAA, as it must balance commercial interests with conservation and research activities, and coordinate its efforts with the Coast Guard, the Department of Interior, and others.   We are initiating a comprehensive review of the program during the next semiannual period.

The Consultation Process

Section 7 of the Endangered Species Act requires federal agencies to consult with NOAA about any activity they plan to undertake that may affect listed species. In July 2005, we issued a report on NOAA's consultation process for a biological opinion, in which we found that NOAA deviated from its normal quality control practices, and was criticized as having acted arbitrarily or inappropriately (see September 2005 *Semiannual Report*, page 21). We plan to follow up on actions NOAA has taken to improve its review process.

Challenge 9

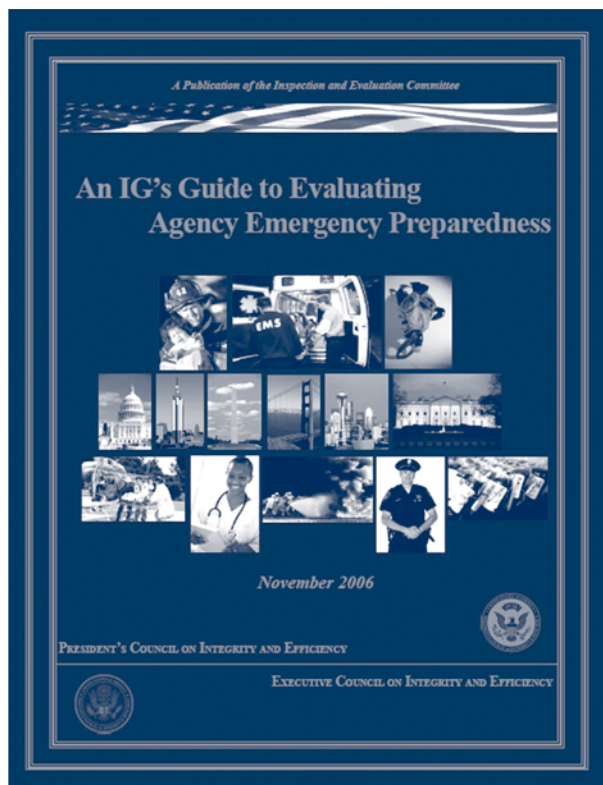# Aggressively Monitor Emergency Preparedness, Safety, and Security Responsibilities

The Department of Commerce has more than 35,000 employees and hundreds of facilities it must keep safe. As a cabinet-level Department, it also has a number of programs critical to national preparedness and recovery efforts, and it must support U.S. efforts to prepare for, respond to, and promote recovery from major disasters.

We continue to monitor Commerce's progress in resolving departmental emergency preparedness and security weaknesses. As of February 2007, the Department had addressed virtually all of the outstanding recommendations from our 2002 and 2005 reviews of its emergency preparedness efforts. Despite this progress, a dynamic security environment will continue to challenge the Department as it seeks to maintain effective oversight of emergency programs and plans, identify and mitigate security vulnerabilities, and protect critical assets.

During this semiannual period, we worked closely with the Defense Intelligence Agency to develop a guide for evaluating emergency preparedness programs for the Inspection and Evaluation Committee of the President's Council on Integrity

and Efficiency (PCIE). The guide was designed to be a tool for reviewing agency emergency preparedness at the local, state, and federal levels.

September is traditionally a month of little tornadic activity in Minnesota. But the unannounced F-2 tornado that hit Rogers severely damaged scores of homes, such as the one above, and left one child dead.

Also during this period, we responded to a request from then-Senator Mark Dayton (D-Minnesota) to examine NWS' actions in connection with a powerful tornado in Rogers, Minnesota, that killed a child and injured six other people in September. We were also asked to evaluate the agency's policies and technological capabilities for forewarning the public. In our response to the Senator's inquiry, we reported that the Chanhassen Weather Forecasting Office, the NWS Central Region Office, and the Storm Prediction Center generally followed agency policies for handling severe weather events and have what is considered to be the best available technology for reading weather conditions. But at the same time, we noted several factors that may have adversely impacted Chanhassen's handling of the situation and that warrant close management attention. (See page 41.)

During the next 6 months, we plan to review NOAA's National Data Buoy Center and the National Weather Service's other buoy and coastal monitoring station operations that are part of the nation's weather monitoring and forecasting system. Such operations play a critical role in the Department's efforts to enhance the United States' emergency preparedness by supporting NWS' ability to provide advance notification of severe weather events to state and local officials and the public.

Challenge 10

Enhance Export Controls for Dual-Use Commodities

Protecting U.S. national and economic security through export controls is a challenge that grows constantly more complex for federal agencies such as Commerce's Bureau of Industry and Security. BIS is responsible for the federal government's export licensing and enforcement system for goods and technologies with both civilian and military uses.

During this semiannual period, we completed our final National Defense Authorization Act review, this time looking at the effectiveness of U.S. controls on dual-use exports to India—a country that presents unique challenges for U.S. commercial interests and export control policy. Although India is recognized as

a democratic partner in the fight against terrorism and as a counterbalance to China, U.S. nonproliferation specialists are concerned about its nuclear capabilities and intentions. As current U.S. policy moves toward full civil nuclear cooperation with India, it is essential that the U.S. government have effective export controls.

Edgewood Chemical Biological Center, U.S. Army

This nuclear magnetic resonance imager is among a host of advances made possible by nuclear technologies that have revolutionized medical diagnostics and treatment. With greater access to such technologies from the U.S., India plans to expand its nuclear medicine capacity and a variety of other civilian programs.

Our 2007 review assessed (1) whether BIS' export control policies, practices, and procedures for India are clear, documented, and designed to achieve the desired goals; (2) whether BIS personnel were following the prescribed policies, practices, and procedures relating to India; and (3) how effective BIS was in detecting and preventing the diversion of sensitive commodities to weapons of mass destruction-related programs within or outside India. While the license application review process was working adequately, we identified a number of weaknesses in BIS' administration of export controls for India and recommended a series of actions to resolve them. (See page 19.)

Although this review concludes our statutory reporting requirements under NDAA, we will continue to monitor BIS' efforts to implement and enforce dual-use export controls, follow up on our previous NDAA recommendations, and report on BIS' progress in implementing them.