



Semiannual
REPORT TO
Congress



SEPTEMBER 2005



IG's Semiannual Report to Congress

September 2005



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

September 2005

The Honorable Carlos M. Gutierrez
Secretary of Commerce
Washington, D.C. 20230

I am writing to submit to you, in accordance with the Inspector General Act of 1978, this semiannual report outlining the work and activities of the Office of Inspector General for the 6-month period April 1, 2005, through September 30, 2005. The act requires that we prepare this report twice each year to summarize our assessments of Commerce operations and that you transmit it, with any comments you may wish to add, to Congress within 30 days of receiving it.

This report highlights issues that continue to warrant management's attention. At the same time, I am pleased to relate to you that a number of our reviews of departmental operations and activities have found that Commerce has made progress in addressing some of its management challenges. For example, the Department has improved its financial management and maintained unqualified opinions on its consolidated financial statements for the past 6 consecutive years. Likewise, USPTO continues its efforts to address human resources management problems.

As you know, during this reporting period, we issued *From Vision to Action*, our final work plan for 2005-2007. This is the blueprint we intend to follow as we monitor the Department's most critical activities and address statutory and other special requirements over the next 2 years to fulfill the mandate of the Inspector General Act to prevent and detect fraud, waste, and abuse. However, we always maintain an element of flexibility in order to respond quickly to congressional requests and emerging issues.

There is no doubt, for example, that Commerce will play an important role in the rebuilding and economic recovery of the Gulf Coast region as the nation reconstructs that area of the country. We anticipate working closely with you and other senior Commerce managers to ensure the funds allocated for that vast effort are properly and effectively used.

And finally, you can be assured that we maintain our deep commitment to assist the Department as it addresses these and other top management challenges. I also extend my personal thanks to you and other Commerce officials for joining us in this endeavor in a spirit of cooperation and partnership. It is always my goal that the work performed and the reports issued by the Office of Inspector General serve to ensure that the Department fulfills its many and varied roles both efficiently and effectively.

Sincerely,

A handwritten signature in dark ink that reads "Johnnie E. Frazier".

Johnnie E. Frazier



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Inspector General's Message to Congress

When we began this semiannual period, our office had a plan for the work that would be done through the spring and summer of 2005. Indeed, we were even preparing for the next 2 years and about to publish our 2005–2007 work plan, *From Vision to Action*. But, as so often happens, unexpected events altered our course in some ways. Congressional requests, natural disasters, and the unpredictable nature of investigative activities required us to respond quickly.

The very mission of the Office of Inspector General requires that we must expect the unexpected and incorporate an element of flexibility in all our planning. I am proud to present this report detailing the important work performed by the employees in this organization over the past 6 months. I continue to be humbled by the dedication they exhibit as they endeavor to preserve the ideals of good, sound government, and to save taxpayer dollars, prevent waste, and combat fraud and abuse.

In the 26 years since enactment of the Inspector General Act, audits, inspections, and investigations have consistently resulted in significant return on the government's investment in OIGs. This return can be measured in a number of ways—direct money returned to the U.S. Treasury and federal agencies, systemic improvements in programs and operations resulting in better delivery of services to American taxpayers, and increased efficiency and accountability. During this semiannual period, our office has fulfilled the mission of the act by identifying millions in savings, making recommendations to improve programs, and pursuing those who have betrayed the trust of their federal positions.

Our work during this period covered the wide range of the Department's mission-critical activities. Continuing our emphasis on acquisition management, we conducted an audit of procurement and procedures at NIST and noted deficiencies in planning, legal review, and open competition, among other issues. We also examined the Census Bureau's acquisition of the handheld computers critical to the 2010 decennial and found that shortcomings in planning and management of this effort threatened the program's success. On a more positive note, our follow-up audit on the litany of problems associated with a major purchase in 2002 showed NOAA has taken significant steps to improve its overall acquisition procedures.

Our continued oversight of procurement and acquisition will be particularly critical as Commerce's bureaus increasingly play essential roles in rebuilding and safeguarding economic infrastructure and assisting business recovery in the Gulf Coast region. In

my recent September 2005 testimony before the U.S. House of Representatives Energy and Commerce Oversight and Investigations Subcommittee, I noted that procurement is particularly prone to waste, fraud, and abuse. My office has overseen activities related to hurricane relief and recovery before, and our evaluation of the Economic Development Administration's handling of the Hurricane Andrew assistance program in the 1990s provides valuable insight and guidance to help direct the response to Hurricane Katrina.

Another prominent area of concern is the Department's readiness in the event of emergency. With thousands of employees in facilities around the world, Commerce must be prepared to protect its people and its assets, come what may. In our report on the state of the Department's emergency preparedness, you will note that while the Department's actions have greatly improved its emergency response capabilities, more needs to be done in the future, particularly in the categories of emergency planning and implementation guidance, oversight of bureau compliance with policies and procedures, and key security upgrades. We made more than a dozen recommendations of specific actions the Department should take to address the identified weaknesses.

In another effort, we surveyed 30 of the International Trade Administration's Commercial Service overseas offices to help identify any security vulnerabilities. We did find issues to be addressed, and we also determined that some important security upgrades have not been handled in a timely manner. We recommended that management take quick action to address the security exposure and management issues and also fully implement recommendations from our previous assessment in 2000.

During this semiannual period, we also concluded work stemming from the October 2004 request by 19 members of the U.S. House of Representatives to review whether the Bureau of Reclamation undermined the environmental review process regarding the biological opinion issued by NOAA's National Marine Fisheries Service (NMFS) on a water project in California's Central Valley. Our job was to identify what review process NMFS used and to determine whether NMFS followed its policies, procedures, and normal practices for consultations when it issued the biological opinion. This office did not seek to evaluate the science involved, but rather the integrity of the process, and the findings were not favorable. We determined that the NMFS southwest regional office did not handle the consultation for the opinion the way it normally handles such procedures, and it failed to comply with two significant management controls in its usual review process. Our findings

emphasize how critical it is for NOAA to have a meaningful and open process that yields sound science and maximum integrity of these types of opinions.

I look forward to continuing to work with Secretary Gutierrez, Congress, and senior Department officials as they tackle these and

other important challenges facing Commerce. Meeting the goals of the Inspector General Act requires ongoing collaboration in order to provide the American people the highest quality and highest functioning government possible. I am confident that working together, we shall come as close as humanly possible to achieving that lofty standard.

Major Challenges for the Department

This section highlights OIG's 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.

Challenge 1

STRENGTHEN DEPARTMENT-WIDE INFORMATION SECURITY

Safeguarding the numerous Commerce computer systems holding nationally significant data is one of the Department's most critical challenges. Commerce undertook a major certification and accreditation (C&A) improvement effort during this fiscal year and has made considerable progress. However, OIG's evaluations under the Federal Information Security Management Act (FISMA) have revealed significant problems in C&A of some of Commerce's national- and mission-critical systems.

As we discussed in our March 2005 *Semiannual Report*, the Department's Chief Information Officer issued a plan last February to eliminate the IT security material weakness by producing acceptable quality C&A packages for all national-critical systems and some mission-critical systems by fiscal year-end and for all systems by the end of fiscal year 2006. It included schedules that were developed in collaboration with the operating units and plans of action and milestones to track progress. It also provided for increased oversight by the Department and bureau CIOs. Given the plan, our approach to the C&A portion of our FISMA evaluation was to review all improved packages available by August 31. Using this approach, we reviewed five improved C&A packages—three from NOAA and two from Census.¹ (The Department's CIO subsequently reported that by September 30, C&A packages for

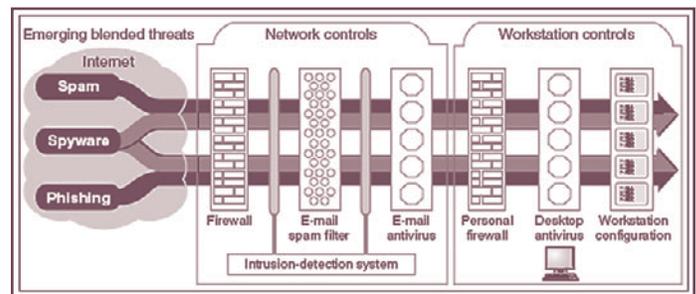
¹ Based on schedules provided by the Department's CIO Office in June, we expected more than 20 C&A packages to be available by August 31.

TOP 10 MANAGEMENT CHALLENGES

1. Strengthen Department-wide information security.
2. Effectively manage departmental and bureau acquisition processes.
3. Enhance USPTO's ability to manage and operate its own processes.
4. Control the cost and improve the accuracy of Census 2010.
5. Monitor the effectiveness of NOAA's ocean and living marine resources stewardship.
6. Promote fair competition in international trade.
7. Enhance export controls for dual-use commodities.
8. Enhance emergency preparedness, safety, and security of Commerce facilities and personnel.
9. Continue to strengthen financial management controls and systems.
10. Continue to improve the Department's strategic planning and performance measurement in accordance with GPRA.

all national-critical systems and over half of the mission-critical systems had been improved.)

Clearly, we saw noteworthy improvements in the packages we reviewed. NOAA had significantly improved risk assessments, security plans, and testing, while Census's security plans were more comprehensive. In light of the few packages available for review, however, and the testing deficiencies we still found in most



Federal agencies face numerous threats to the security of information stored in computer systems, because attack methods are increasingly sophisticated.

Source: May 2005 GAO report, *Emerging Cybersecurity Issues Threaten Federal Information Systems*. <http://www.gao.gov/new.items/d05231.pdf>.

of the packages, we concluded that the Department’s C&A process has not yet improved to the point where authorizing officials throughout the Department have sufficient information about the vulnerabilities remaining in their systems when it is time to make the accreditation decision.

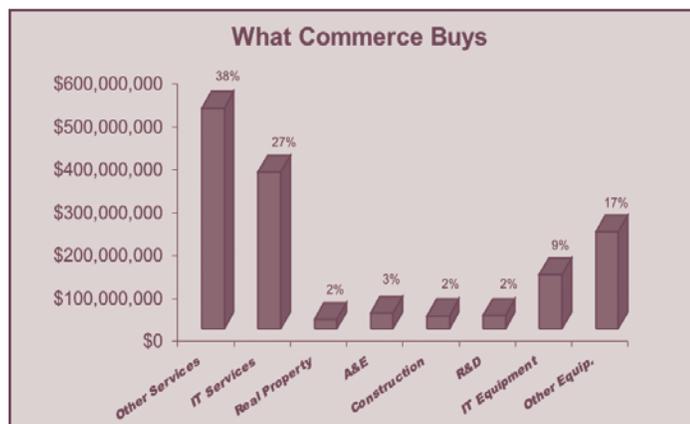
Last year we reported that USPTO had a good C&A process; as a result, this bureau was not part of the C&A improvement effort. Our review of two USPTO packages this year found shortfalls in the continuous monitoring phase of C&A. Major changes had been made to these systems since they were certified and accredited in 2004, but the potential impact on the security of the systems had not been assessed, nor had the need to reaccredit been evaluated.

As part of our FISMA work during this semiannual period, we also examined USPTO’s IT service contracts to determine whether they contained required security clauses and whether related security requirements were being implemented. (See page 33.) We found most of the contracts do contain the security clauses, but since certain key requirements are not being properly implemented and enforced, background screenings for some contractor employees are conducted at too low a level and no contractor IT systems have been certified or accredited. This could place restricted information at risk.

Challenge 2

EFFECTIVELY MANAGE DEPARTMENTAL AND BUREAU ACQUISITION PROCESSES

Commerce spends nearly \$2 billion each year on goods and services—roughly a third of its budget. It also relies more and more on contractor support to continue its mission-critical work. Adequate oversight of the Department’s acquisitions is essential



Commerce spends nearly \$2 billion per year on goods and services in a variety of categories.

Source: U.S. Department of Commerce, Systems Acquisition Division.

to ensure taxpayer dollars are spent effectively and efficiently and that procurement laws and regulations are followed.

In addition, how and when the Department and its bureaus plan and conduct acquisitions can determine whether or not projects of all sizes are successful. For example, OIG’s Office of Systems Evaluation surveyed the Census Bureau’s Field Data Collection Automation program, which is planned to provide field staff with handheld mobile computers to gather information for the decennial census. Census had originally intended to develop this program internally with contractor support but determined in early 2004 that it lacked the management and technical resources to develop the system in-house.

The Census Bureau’s late decision to use a contractor to handle the automation project and provide support services during the decennial and the initial slow pace in planning the acquisition put the program’s development at risk. We believe the delays in seeking an outside contractor and in finding vendors could affect the preparation for the dress rehearsal, although Census now reports that it has taken actions to address shortcomings we identified. (See page 13.)

NPOESS. We recently initiated an audit of the award fee process being used in the National Polar-orbiting Operational Environmental Satellite System (NPOESS). The NPOESS system is being funded by the Department of Defense and NOAA, with each contributing half of the estimated cost of \$8 billion. As such, this satellite system is one of the costliest activities undertaken by NOAA.

Follow-up on Flawed NEXRAD Power Source Acquisition. Our follow-up audit of NOAA’s efforts to address the problems we cited in our September 2003 report, *Acquisition of NEXRAD Transition Power Source Marred by Management, Technical, and Contractual Problems* (OSE-15676), found that the agency has for the most part taken the corrective actions it said it would in its action plan. Although some improvements are needed to its acquisition handbook, NOAA’s conscientious steps to bolster its procurement processes should help prevent problems in contract negotiation, review, and oversight that—in the NEXRAD procurement—ultimately added \$4.5 million to project costs.

Census Bureau IT Services Contracts. This semiannual report summarizes the findings of the second in a series of audits of Census Bureau IT services contracts. Our March 2005 semiannual report mentioned an audit of three task orders under an IT services contract in which we found \$8.5 million of the \$17.6 million charged to be questionable. In the current reporting period, we audited two task orders under another Census IT services contract. We found that the contractor had made more than \$10.7 million in questionable charges to the government out of the total of \$31.7 million billed. (See page 14.) We plan to continue our series of audits of Census Bureau contracts and will report our findings in subsequent semiannual reports.

Challenge 3

ENHANCE THE U.S. PATENT AND TRADEMARK OFFICE'S ABILITY TO MANAGE AND OPERATE ITS OWN PROCESSES

Our work at USPTO continues to focus on critical aspects of its functioning as a performance-based organization as the agency implements budget, procurement, and personnel operations that provide the flexibility to adapt to changing market forces and meet the needs of customers. Our previous work at USPTO assessed patent examiner production goals, performance appraisal plans and awards, the agency's move to its new headquarters complex, and reports of improper personnel practices. (See September 2004 *Semiannual Report to Congress*, pages 38-40.)

This latter issue has been long-standing. Since 1999 we have received repeated complaints that management of USPTO's Office of Human Resources (OHR) has allowed or encouraged unfair personnel practices and activities that undermine the integrity of that office and of USPTO in general. Our work in response to the complaints confirmed numerous problems. Resolution of these issues is particularly critical: USPTO has received authority to hire hundreds of examiners. It must have an effective HR operation that adheres to federal regulations, is guided by sound policies and procedures, and affords all employees the rights and protections required by law.

During this semiannual period, we reemphasized this point to senior Department and USPTO officials, noting several issues identified at USPTO that remain unresolved. These include the

need to uphold merit system principles, establish human resource policies and procedures to guide decision-making, and ensure those policies and procedures are followed. In addition, the agency's HR staff needs appropriate training in the Standards of Ethical Conduct for Employees of the Executive Branch. (See page 35.) It is imperative that USPTO bring stability to its human resources operation and ensure that its employees have the appropriate skills and experience to perform the jobs to which they are assigned.

To its credit, the bureau has taken action to address the problems OIG found in the past. In early 2005, the Office of General Counsel conducted an ethics training course for USPTO's human resources department. Subsequently, USPTO split the position of chief financial officer and chief administrative officer into two positions, each with its own organization, and hired experienced human resources professionals to be OHR director and deputy director, rather than continuing to rely on detailing other staff to those positions. USPTO also created a Comprehensive Human Capital Improvement Plan intended to address long-standing problems in human resources.

While we are pleased that USPTO has been receptive to our recommendations and has implemented numerous changes, the problems we identified are serious and long-standing. The actions PTO has taken to date are strong steps in the right direction, but the ultimate resolution of these issues will require the sustained commitment of senior management.

Challenge 4

CONTROL THE COST AND IMPROVE THE ACCURACY OF CENSUS 2010

At an estimated cost of more than \$11 billion, the decennial census will be one of the most costly and critical operations the Department has ever undertaken. There are two field tests and a dress rehearsal to be managed in addition to the actual census, so the Census Bureau and the Department face some formidable challenges in both controlling costs and improving the accuracy of the data collected.

During this reporting period, we concluded a review of the bureau's progress in planning and managing the automation of formerly paper-based field data collection activities, scheduled for roll-out in the 2008 dress rehearsal. (See page 13.) Census expects the automated process to improve data quality and operational efficiency and reduce overall decennial costs by as much as \$900 million. The plan is to have a contractor handle the automation project and provide support services for more than 450 local census offices and 500,000 temporary field staff at the peak of the decennial. But we are concerned that the contractor may not have enough time to adequately prepare for the 2008 decennial dress rehearsal, as





A census worker with a handheld computer shows official identification card during a practice for the 2006 census test.

Source: U.S. Census Bureau.

mentioned previously. We note that Census has taken measures to steer the project back on track, but have recommended Census develop a sound project plan that includes objective measures of progress and intensive management oversight

We have initiated our review of the 2006 field test beginning with the address listing operation. Among other things, we are assessing the bureau's progress in improving the accuracy of address lists and maps and its partnership program, which is designed to improve the response of historically undercounted populations, and its resource management and planning. Our objectives in this assessment also include follow-up on our review of the 2004 test and the problems we identified with data transmissions, technical field support, lister training, and various other issues.

Challenge 5

MONITOR THE EFFECTIVENESS OF NOAA'S STEWARDSHIP OF OCEAN AND LIVING MARINE RESOURCES

As the lead agency for marine resource protection, the National Oceanic and Atmospheric Administration (NOAA) is charged with not only monitoring the health of our nation's ocean and coastal resources but also administering a large number of civilian ocean programs, and these responsibilities are likely to expand. NOAA already is assessing a broad range of the recent hurricanes' effects on habitat and fisheries in the Gulf—from testing for toxins in seafood and Gulf waters to recording the diminished numbers and redistribution of native species and the damage to coastal wetlands.

The agency may have to deal with the storms' impacts on Gulf Coast aquatic ecosystems for many years to come.

In addition to monitoring NOAA's response to hurricane damage as a steward of marine resources, OIG plans to focus on a number of other NOAA activities in the future, which may include the Integrated Ocean Observing System and marine debris responsibilities.

During this reporting period, in response to a request from 19 members of Congress, we audited the National Marine Fisheries Service's (NMFS) preparation of a biological opinion for California's Central Valley Project, one of the largest water projects in the nation. (See page 21.) We sought to determine if NMFS' southwest regional office, which issued the biological opinion, adhered to policies, procedures, and standard practices. We concluded that NMFS deviated from its established process for initiating the consultation and ensuring the quality of the biological opinion. We recommended that NOAA objectively evaluate whether the regional office's questionable handling of the opinion impaired the opinion's scientific integrity. We also made several recommendations to NOAA to ensure that future opinions are sound and have maximum scientific and procedural integrity.

We also continued our series of reviews of salmon recovery programs during this semiannual period, auditing three more programs funded by NOAA's Pacific Coastal Salmon Recovery Fund. As with the audits we detailed in our March 2005 semiannual report (pages 31-32), we questioned costs and noted some administrative weaknesses.



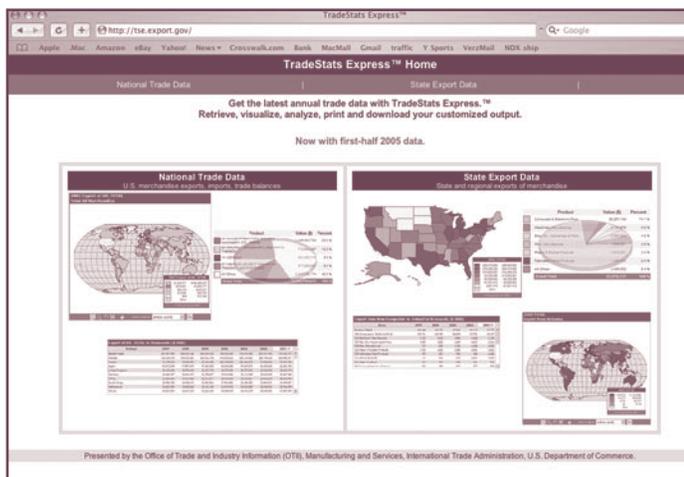
Erstwhile inhabitants of the Florida Keys National Marine Sanctuary.

Source: www.photolib.noaa.gov/sanctuary/sanc0201.htm.

Challenge 6

PROMOTE FAIR COMPETITION IN INTERNATIONAL TRADE

The Department of Commerce is charged with promoting trade, opening overseas markets to American firms, and ensuring compliance with U.S. laws designed to protect U.S. industry from unfair competition from imports. It is also specifically tasked to address market access issues and barriers, unfair trade practices, trade disputes with foreign firms, noncompliance with or violations of trade agreements, inadequate intellectual property protection, and other impediments to trade. Commerce accomplishes these goals through the work of the International Trade Administration. During this semiannual period, we focused our efforts on the security status of Commercial Service's overseas offices, which are responsible for assisting U.S. exporters. Commercial Service maintains more than 150 overseas offices. We also began a full-scale review of Commerce's trade-related activities in China.



The International Trade Administration provides constant information on nearly every aspect of international trade through easily accessible web site pages.

Source: <http://tse.export.gov>.

We reviewed the Commercial Service's overseas security program to determine if the 30 CS offices located outside of an embassy or consulate compound are in compliance with security standards and whether sufficient financial controls were in place over funds for security upgrades. The agency has made progress since a 2000 OIG review revealed a number of troubling weaknesses, but we found that CS needs to do more work to ensure those overseas offices meet security standards and to confirm exactly how much funding remains for upgrades.

We also are continuing with our focus on the Department's efforts to increase U.S. market opportunities and overcome trade barriers in difficult foreign markets. An inspection of CS' post in China

COORDINATOR FOR INTERNATIONAL INTELLECTUAL PROPERTY ENFORCEMENT

To combat intellectual property violations and better coordinate government efforts, a senior position was created within the Department of Commerce in July 2005. This official will serve as the head of the National Intellectual Property Law Enforcement Coordination Council, coordinate with relevant federal agencies, including the Justice Department, the U.S. Trade Representative's Office, U.S. Customs and Border Protection, State, Agriculture, and within the Department of Commerce, the Patent and Trademark Office and the International Trade Administration. In addition, the coordinator will develop policies to help protect intellectual property rights, and enforce intellectual property laws, and implement strategies for promoting American intellectual property rights overseas.

is in progress now, and we will detail our findings in our March 2006 *Semiannual Report*. As part of this inspection, we expect to address issues of coordination and cooperation among several Commerce bureaus with operations in China and management of the post's five offices in Beijing, Shanghai, Guangzhou, Chengdu, and Shenyang. We will also address export successes, efforts in the area of intellectual property rights and market access, the new American Trading Center initiative, and other issues.

Additionally, ITA has informed us that it is addressing issues identified in our previous reviews of posts. Our past reports highlighted problems with overstated or unverifiable export successes—a key measure of performance. Since that time, CS took several steps to improve reporting, such as the adoption of new reporting requirements including the requirement to directly confirm or verify the details of each export success, and appointing a quality control officer, among others. We will continue to monitor this area and report on the Department's efforts to resolve issues we identify.

Challenge 7

ENHANCE EXPORT CONTROLS FOR DUAL-USE COMMODITIES

The Department's Bureau of Industry and Security oversees the federal government's export licensing system for dual-use commodities and technology and is charged with advancing U.S. national and economic security interests by enforcing those export controls. The primary goal of the licensing and enforcement system is to prevent hostile nations and terrorist groups who might threaten global security from acquiring technologies and materials that have both civilian and military applications by controlling their export.

The National Defense Authorization Act (NDAA) for FY 2000 directs the inspectors general of Commerce, Defense, Energy, and State, in consultation with the directors of the Central Intelligence Agency and Federal Bureau of Investigation, to report to Congress each year through 2007 on the adequacy of these export controls and whether they are effectively preventing entities of concern from acquiring sensitive U.S. technologies. The OIGs have completed six reviews of export controls. Earlier this year to meet NDAA's FY 2005 requirement, Commerce OIG assessed BIS' licensing process for chemical and biological commodities to determine whether the process was timely and in compliance with statutory and regulatory requirements. We also examined the status of recommendations from prior reviews and concluded that, while action on some recommendations has not been completed, BIS has made progress on a number of them since our last semi-annual report. We are still doing the follow-up work and have not verified any of BIS' claims of recent progress.

To meet the NDAA's FY 2006 requirement, Commerce OIG is examining whether current licensing and enforcement practices are consistent with relevant laws, regulations, and national security and foreign policy objectives with respect to exports to China. In addition, we are evaluating the effectiveness of coordination between the various federal agencies for China-related export license applications that have been escalated in the dispute resolution process.

There is no doubt that BIS must remain vigilant in enforcing the nation's dual-use export control laws to protect U.S. national security, while at the same time, ensuring our economic competi-

tiveness. Legislation to replace the expired Export Administration Act is essential to those efforts, because BIS' regulatory authority should be strengthened in order to achieve these goals. We will continue to monitor BIS' efforts to address our previous NDAA recommendations.

Challenge 8

ENHANCE EMERGENCY PREPAREDNESS, SAFETY, AND SECURITY OF COMMERCE FACILITIES AND PERSONNEL

OIG first identified the Department's emergency preparedness weaknesses in a 2002 review that revealed serious security vulnerabilities. Since then, we have reported on the Department's efforts to address the concerns raised in that report. We have continued to spotlight areas where Commerce should apply resources to protect its 35,000+ employees and hundreds of facilities worldwide.



The members of the Department's emergency response team are easily recognizable in brightly colored vests.

Source: OIG.

EXCERPT: EXPORT ADMINISTRATION REGULATIONS

730.6 CONTROL PURPOSES. The export control provisions of the EAR are intended to serve the national security, foreign policy, nonproliferation, and short supply interests of the United States and, in some cases, to carry out its international obligations. Some controls are designed to restrict access to dual use items by countries or persons that might apply such items to uses inimical to U.S. interests. These include controls designed to stem the proliferation of weapons of mass destruction and controls designed to limit the military and terrorism support capability of certain countries. The effectiveness of many of the controls under the EAR is enhanced by their being maintained as part of multilateral control arrangements. Multilateral export control cooperation is sought through arrangements such as the Nuclear Suppliers Group, the Australia Group, and the Missile Technology Control Regime. The EAR also include some export controls to protect the United States from the adverse impact of the unrestricted export of commodities in short supply.

Source: www.access.gpo.gov/bis/ear/ear_data.html.

During this reporting period, we completed a follow-up assessment of Commerce's emergency preparedness status. Although the Department has dedicated significant resources and attention to emergency preparedness, our review noted the need for improvements in several areas, including Commerce-wide guidance and oversight for emergency preparedness, the risk assessment process, development and oversight of occupant emergency plans, security for critical assets, and oversight of security guard forces.

As a complement to our domestic review, we also surveyed the Commercial Service's 30 overseas offices that are located outside of U.S. embassies or consulates to determine, among other things, whether (1) any security vulnerabilities exist, (2) upgrades are timely, and (3) management tools and administrative controls for the overseas security program and assessment process are adequate. We found that some security vulnerabilities exist and that security upgrades are not always handled in a timely manner. In addition, we found that emergency preparedness issues at overseas offices have not always been addressed and that there is insufficient oversight by headquarters managers and staff and senior commercial officers at posts to ensure that emergency preparedness issues are adequately handled by the embassy or consulate regional security officer.

Challenge 9

CONTINUE TO STRENGTHEN FINANCIAL MANAGEMENT CONTROLS AND SYSTEMS

In recent years, the Department has improved its financial management, as evidenced by achieving and maintaining unqualified opinions on its consolidated financial statements for the past 6 consecutive years, implementing Commerce Business Systems (CBS), and substantially complying with the Federal Financial Management Improvement Act. Still, there is more to be done.

Under the revised OMB *Circular A-123*, agencies must assess internal controls over financial reporting, document those controls and the assessment process, and provide an assurance statement on the effectiveness of internal control over financial reporting beginning in FY 2006. Reliable financial reporting and effective, efficient program operations depend on strong internal controls. OIG will continue to monitor a range of financial management issues, including Commerce's efforts to implement the new A-123 requirements, improve internal financial controls, and achieve other operating efficiencies.

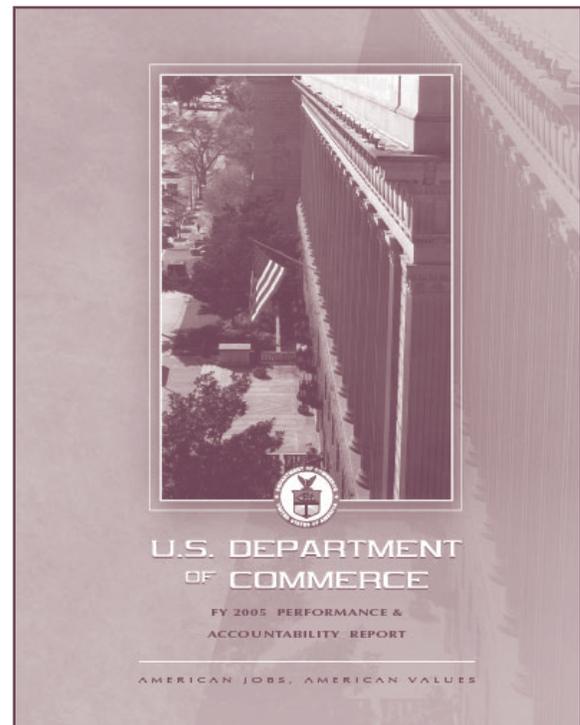
The Department also is in the process of working on a detailed implementation plan consolidating several IT servers that process financial information at six locations into a centralized consoli-

dated location supporting the Department's financial management system. The Department has decided to consolidate CBS and its associated feeders at the Office of Computer Services in Springfield, Virginia. This will occur in a phased-in approach. The consolidation will achieve hardware standardization, reduce redundant responsibilities and data center costs, and position the Department for the next-generation financial system. Further, the Department will be in the best possible position to maximize long-term benefits and support future upgrades with the least technological impact. This major system development will provide an additional challenge to the Department in maintaining its green score in financial management on the President's Management Agenda Scorecard.

Challenge 10

CONTINUE TO IMPROVE THE DEPARTMENT'S STRATEGIC PLANNING AND PERFORMANCE MEASUREMENT IN ACCORDANCE WITH THE GOVERNMENT PERFORMANCE AND RESULTS ACT

Collecting and reporting accurate performance data required by the Government Performance and Results Act (GPRA) is a challenge for most federal agencies, and the Department of Commerce is no exception. It is imperative for the Department to have accurate



Source: Department of Commerce.

program measures and reliable data supporting these measures in order to determine whether programs are accomplishing their intended purpose.

OIG audits of performance measure reporting by some Commerce bureaus have repeatedly identified the need to ensure that individuals who collect and use performance data understand what is being measured. Prior audits also have consistently shown a need for improved management controls over performance data, particularly where verification and validation of information is required. The bureaus we have audited have generally made improvements in response to issues raised, and the Department has established a process by which it will review each of the 115 performance measures over a 5-year cycle.

Although the Department has substantially strengthened its performance reporting in the past few years, as evidenced in our ongoing review of performance measurement at the Department, OIG reviews continue to identify the need for enhanced management controls. For example, a recent review of performance results reported by the Minority Business Development Agency for FY 2004 showed a number of instances in which success rates were overstated. The basic tenet of GPRA is that measuring performance will inform funding decision-making and ultimately improve government programming and spending. Every Commerce bureau should be reporting performance measures that are appropriate and understandable, and reported data should be accurate and reliable.



ECONOMIC DEVELOPMENT ADMINISTRATION

Audit Recommends New York Economic Development Organization Restore \$1.1 Million to Revolving Loan Fund

The Economic Development Administration was established by the Public Works and Economic Development Act of 1965 to generate new jobs, help retain existing jobs, and stimulate commercial and industrial growth in economically distressed areas of the United States. EDA continues to fulfill this mission under the authority of the Economic Development Administration Reform Act of 1998, which introduced the concept of Comprehensive Economic Development Strategies, a local planning process designed to guide the economic growth of an area. Based on these locally and regionally developed strategies, EDA works in partnership with state and local governments, regional economic development districts, public and private nonprofit organizations, and Indian tribes to help distressed communities address problems associated with long-term economic deterioration and recent, severe economic dislocations, including recovery from the economic impact of natural disasters, the closure of military installations and other federal facilities, changes in trade patterns, and the depletion of natural resources. EDA provides eligible recipients with technical assistance, as well as grants for public works and economic development, planning, training and research, and economic adjustment.

Between 1979 and 1983, an Erie County, New York, economic development organization received a \$7 million EDA grant to establish a revolving loan fund (RLF). The organization had been formed in 1970 by the New York state legislature to promote economic welfare for Erie County residents, primarily through job development but also through encouraging commerce and preventing economic deterioration. The grant required \$2,950,000 in total matching funds. The grantee provided a match of more than \$4 million.

A February 1989 OIG audit had revealed several problems with the development agency's use of RLF funds, but recommendations from that audit were resolved satisfactorily. Our recent financial and compliance audit, covering the 3-year period from October 2000 through September 2003, sought to determine the financial status of the RLF, the propriety of the administrative costs charged to the fund, and whether the development agency had complied with the grant's terms and conditions and federal regulations. As of September 2003, the agency had made 437 RLF loans totaling more than \$70 million. Of these, 115 remained active and were either current, delinquent, or in default, with a total outstanding principal balance of more than \$10 million.

Our Findings

The development agency had maintained almost \$1.7 million in excess cash. Federal regulations require RLF operators to have at least 75 percent of RLF capital loaned out or committed at all times to achieve the goals of job creation and retention. Development agency officials said that EDA had approved a revised capital utilization schedule, submitted in March 2000, which allowed the agency to maintain more than 25 percent of its RLF cash on hand. EDA said the approval was a mistake, and the result of an oversight on its part.

The audit also disclosed that the organization had overstated loan commitments by more than \$5 million for two consecutive reporting periods, gave five companies a total of nearly \$1.3 million in ineligible loans, and charged more than \$352,000 in unallowable overhead costs and rental payments against the grant. Additionally, the grantee had not submitted required plan certifications, properly described its loan servicing and operational procedures in its RLF plan, or thoroughly documented borrowers' eligibility in loan files.

Development Agency Response

Development agency officials agreed that the organization had maintained excess cash and overstated its loan commitments. However, they also stated that loans to eliminate the excess cash were made subsequent to the audit period and the method for reporting loan commitments has been corrected. Officials disagreed that \$1.3 million in loans were ineligible and submitted information they believe justifies the loans. Officials agreed that personnel costs were arbitrarily marked up, rental payments were made to an affiliated company, and loan file documentation needed improvement.

Our Recommendations

We recommended that EDA require the organization to (1) restore to the RLF the roughly \$1.1 million in principal balance that remained in the five ineligible loans and the \$352,058 in unallowable costs, (2) update its RLF plan to fully comply with EDA guidelines, (3) submit required plan certifications, and (4) fully document the RLF loan files. (*Atlanta Regional Office of Audits: ATL-16533*)



ECONOMICS AND STATISTICS ADMINISTRATION

Slow Start for FDCA Program May Endanger Decennial Dress Rehearsal

The Economics and Statistics Administration

analyzes economic developments, formulates policy options, and produces a major share of U.S. government economic and demographic statistics. The Chief Economist monitors and analyzes economic developments and directs studies that have a bearing on the formulation of economic policy. ESA has two principal agencies:

Bureau of the Census is the country's pre-eminent statistical collection and dissemination agency. It publishes a wide variety of statistical data about the nation's people and economy, conducting approximately 200 annual surveys, in addition to the decennial census of the U.S. population and the decennial census of industry.

Bureau of Economic Analysis prepares, develops, and interprets the national income and product accounts (summarized by the gross domestic product), as well as aggregate measures of international, regional, and state economic activity.

In the fall of 2004, we began an inspection survey of the bureau's progress in planning and acquiring a contractor to develop, implement, and manage the systems for the Field Data Collection Automation (FDCA) program. FDCA is an \$800 million effort to automate field data collection and provide logistics, training, and help desk support for 12 regional centers, more than 450 local census offices, and up to 500,000 field staff who will be charged with conducting the 2010 decennial census. Our survey sought to determine if the Census Bureau is positioned to complete the FDCA program in time for the 2008 dress rehearsal and the 2010 decennial census.

FDCA is meant to automate paper-based field data collection processes to reduce overall 2010 census costs by as much as \$900 million (compared to the cost of the paper-based processes used in 2000) and improve data quality and operational efficiency. The key technology component of FDCA is a handheld mobile computing device equipped with Global Positioning System (GPS) capabilities that field staff will use to accurately locate housing units, update address lists and maps, and collect questionnaire data.

Census had intended to develop FDCA internally with contractor support, but the bureau determined early in 2004 that it did not have the management or technical resources to develop the field data collection systems for the dress rehearsal and 2010 census while simultaneously supporting its 2004 and 2006 site tests. Instead, the bureau decided to enlist an integration contractor for the entire program.



The Census Bureau plans to automate much of the data gathering function of the decennial census with handheld computers.

Source: U.S. Census Bureau.

A Slow Start

When we began our survey in fall 2004, FDCA lacked a project management plan and project organization. By the end of 2004, key acquisition milestones had been missed. Then in January 2005, Census reorganized the entire FDCA program, establishing a project management office, appointing a new project manager, and developing an acquisition strategy to address the shortened schedule. The bureau now appears to be on track to acquire the needed technology.

However, the initial slow pace in planning the acquisition and the late decision to use an integration contractor reduced the amount of time available to award the contract and develop FDCA. This increased the risk that systems and services will not be ready by April 2007 for address canvassing, which is the first major field operation in the dress rehearsal. Our survey revealed Census needed to develop a sound project management plan, formulate and report objective measures of progress for bureau and Department oversight, and develop procedures and training for the technical interchanges that will take place between Census and potential technology vendors.

Prototype Systems Being Developed During Source Selection

The Census Bureau's strategy to acquire the technology needed for FDCA was to have a limited number of vendors build prototype systems for address canvassing as part of the source selection process. FDCA officials believe developing prototypes as part of the contractor selection process provides a better chance of having a working system ready for address canvassing, better information for identifying the most qualified contractor, and more accurate cost proposals. But this approach also extends the source selection schedule by about 4 months and requires more technical communication between Census staff and prospective vendors. It further reduces the time to complete preparations for and begin dress rehearsal.

Our Recommendations

We recommended the Census Bureau director take the following actions:

1. Formulate a sound project management plan and track program progress against the project management plan.
2. For future complex IT projects, consider contracting for the entire effort early in the capital asset planning process and assign responsibility for managing complex IT projects to Census organizations with appropriate experience.
3. Establish specific procedures for how Census staff will communicate with vendors during prototype development and make sure any potential vendors are informed if system requirements change during the process of developing the prototype.

Agency Response

The Census Bureau agreed with our findings and recommendations and stated the bureau has taken actions to correct the deficiencies noted in our report. The bureau also indicated that additional project documentation is being developed, including a project management plan, and notes that the bureau has met all of its

acquisition milestones since January 2005. Census disputed our assessment that acquisition milestones had been missed in 2004 and that the address canvassing prototype extended the source selection schedule. (*Office of Systems Evaluation: OSE-17368*)

Latest Round of Census Contract Audits Questions More Than \$10.7 Million

We continued our audits of Census IT services contracts this semiannual period, reviewing task orders issued under another indefinite delivery/indefinite quantity contract awarded to a Virginia firm.

The contract, issued in 1999, was to provide up to \$150 million worth of information technology services to all Commerce operating units. Census awarded 21 task orders totaling \$44.5 million under the contract through April 2005.

We audited two of the 21 task orders to determine whether the firm had complied with contract terms and conditions and federal regulations, and had billed Census for work performed in accordance with the specifications of the task order. One order was awarded in 2000 and the other in 2001. Both were amended several times, extending the period of performance to 2005 and increasing combined funding for the two orders to approximately \$32 million.

In both audits, we found the firm had failed to comply with numerous contract and federal requirements, which caused us to question more than \$10.7 million in direct labor and other reimbursable costs. We recommended that Census disallow and seek recovery of the entire amount we questioned and take various other actions to rectify the noncompliance that led to the unallowable billings. (*Denver Regional Office of Audits: DEN-17445-5-0001 and 0002*)

Audits Unresolved for More Than 6 Months

ITS Services, Inc.

In the March 2005 *Semiannual Report* (page 19), we reported that three of the 32 task orders awarded under a Virginia IT services contract were audited to determine whether the costs billed by the firm were reasonable, allowable, and allocable under the contract terms and conditions and federal regulations. We found that the firm had failed to comply with numerous contract and federal requirements, and we questioned more than \$8.5 million in direct labor and reimbursable costs. We have suspended audit resolution pursuant to an agreement with Census.



INTERNATIONAL TRADE ADMINISTRATION

Overseas Security Program Needs Improvements

The International Trade Administration is

responsible for trade promotion and policy issues associated with most non-agricultural goods and services. ITA works with the Office of the U.S. Trade Representative to coordinate U.S. trade policy. ITA has four principal units:

Market Access and Compliance develops and implements international economic policies of a bilateral, multilateral, or regional nature. Its main objectives are to obtain market access for American firms and workers and to ensure full compliance by foreign nations with trade agreements signed with the United States.

Manufacturing and Services undertakes industry trade analysis, shapes U.S. trade policy, participates in trade negotiations, organizes trade capacity building programs, and evaluates the impact of domestic and international economic and regulatory policies on U.S. manufacturers and service industries.

Import Administration defends American industry against injurious and unfair trade practices by administering the antidumping and countervailing duty laws of the United States and enforcing other trade laws and agreements negotiated to address such trade practices.

U.S. Commercial Service promotes the export of U.S. products and helps small and medium-sized businesses market their goods and services abroad. It has 105 domestic offices and 157 overseas posts in serving more than 80 countries.

As the trade promotion arm of the International Trade Administration, the U.S. Commercial Service (CS) maintains more than 150 overseas offices. Thirty CS overseas offices are “noncollocated,” meaning they are not located in a building or compound with a State Department office, embassy, or consulate. The State Department’s Diplomatic Security (DS) is primarily responsible for the security of these offices and all Commerce personnel assigned to them, but Commerce is responsible for funding security upgrades. CS’ Office of International Operations (OIO) staffs a four-person security team to oversee security upgrades at noncollocated CS offices.



We conducted a review to follow up on our September 2000 assessment of CS’ overseas security program at the agency’s request. This follow-up also complements our recent evaluation of emergency preparedness and security at Commerce’s domestic facilities. (See page 37.) We surveyed CS’ 30 noncollocated offices to determine, among other things, whether any security vulnerabilities exist, upgrades are timely, and management tools and administrative controls for the overseas security program and assessment process are adequate.

While we noted improvements since our 2000 review, we found that the tracking of security funds had not improved. Our request that security funds be reconciled resulted in the identification of \$290,737 in security funds that were deobligated and could be put to better use. We also found some security vulnerabilities at several offices and that upgrades are not always handled in a timely manner. CS needs to (1) implement a project tracking system, (2) improve management of records, security funds, the security assessment process (and follow-up), and (3) better coordinate its security activities with DS. We made 14 recommendations to address the identified vulnerabilities and management issues, and reiterated that ITA should implement outstanding recommendations from our assessment conducted in 2000. (*Office of Inspections and Program Evaluations: IPE-17446*).



Audit Reveals MBDA 2004 Performance Results Are Unreliable

The Minority Business Development Agency was created to help minority-owned and operated businesses achieve effective and equal participation in the American free enterprise system, and overcome the social and economic disadvantages that have limited their participation in the past. MBDA provides management and technical assistance to minority firms upon request, primarily through a network of business development centers. It also promotes and coordinates the efforts of other federal agencies in assisting or providing market opportunities for minority businesses.

Created in 1971, the Minority Business Development Agency (MBDA) is supposed to foster the establishment and growth of minority-owned businesses in America. MBDA's primary mission is to achieve entrepreneurial parity. MBDA defines entrepreneurial parity as a benchmark whereby minority business enterprises are contributing to the U.S. economy at a rate comparable to the percentage of the U.S. minority population. MBDA programs foster the establishment and growth of minority-owned businesses in the U.S.

Performance Measure Showed Dramatic Increase

We audited MBDA's official FY 2004 performance measures after concerns surfaced about an unexplained dramatic increase in the number of clients the agency assisted. Despite a decrease in its FY 2004 appropriation from FY 2003, the number MBDA reported in the "Clients Assisted" category jumped from 7,228 in FY 2003 to 29,387 in FY 2004—a 300+ percent increase. Our audit assessed the process MBDA uses to measure, monitor, report, and verify its performance.

Pattern of Overstated Performance

The FY 2004 "Clients Assisted" number would have been enough of a curiosity in itself. But MBDA's performance reporting has been questionable before.

In 2003, OIG reviewed MBDA's performance reporting in the Department's *FY 2002 Performance & Accountability Report (PAR)*, finding, among other things, that the agency had overstated its FY 2002 performance under one measure, and did not verify some reported measures until after the *FY 2002 PAR* was issued. The 2003 review also found that OMB's 2002 evaluation of MBDA's submission for the Program Assessment Rating Tool (PART) relied on data from the *FY 2001 PAR*, which was inaccurate for similar reasons. In response to these earlier reviews, MBDA officials acknowledged the need to strengthen their performance measure oversight and reporting.

In our most recent review, we looked at four of seven performance measures reported by MBDA in the *FY 2004 PAR*. Our audit revealed that the agency inappropriately combined performance results for significantly different programs, thus inflating the numbers reported for those measures. We also found the reliability of results reported for Minority Business Operating Committees (MBOCs) to be questionable because of unclear definitions, inconsistent guidance, inadequate verification, and poorly supported claims of reported dollar values of awards at four of five MBOCs visited.

Claiming questionable awards and lacking adequate support for reported claims misrepresents program results, a violation of the agency's own quality standards as well as the data consistency standards set by GAO.



Source: OIG

Recommendations

We recommended the MBDA director take concrete steps to ensure that the agency defines and reports its results clearly and accurately, with unambiguous definitions of terms and distinct types of information, and that all MBOCs document their performance claims. We also recommended that MBDA regional offices and headquarters implement effective verification monitoring and oversight to ensure the reliability of performance results.

Agency Response

MBDA's national director concurred with our recommendations and described actions either already taken or planned to improve management controls for MBDA performance measures. MBDA believes that MBOC-related concerns raised by the audit have been addressed with its new solicitation for the MBOC program. In its response, MBDA wrote that OIG assisted in the development, review, and approval of the new MBOC program prior to competition. MBDA disagreed with the OIG position that in the case of multiple year awards, MBDA should not claim the full contract value in the year the contract was signed.

We are encouraged by actions that MBDA has taken and other actions that MBDA is planning. With regard to OIG's involvement in the revision of the MBOC program, while our auditors shared the problems they found with MBOC performance reporting with MBDA senior management during the course of our review, we did not otherwise assist in the development, review or approval of the new program.

We stand by our conclusion that the agency should not claim amounts for option years under a contract until those options are exercised because it is not prudent to assume that all anticipated option years of multiple year contracts will be exercised. Claim-

ing the entire amount of the contract in the first year might be defensible if MBDA (1) disclosed that its reported dollar value amount included such anticipated amounts, (2) tracked the actual outcomes of such contracts, and (3) made correcting adjustments for amounts claimed in the first year but not actually received in later years. (*Office of Audits, Financial Statements and Accountability Audits: FSD-17252*)

MBOCs in Florida and Wisconsin Working Well, Audits Find

The Minority Business Development Agency is the only federal agency created specifically to foster the establishment and growth of minority-owned businesses in America. The agency's mission is to actively promote the growth and competitiveness of minority business enterprises of all sizes by coordinating and leveraging public and private resources and encouraging strategic alliances in support of its mission. Among other things, MBDA administers the Minority Business Opportunity Committee (MBOC) program, which is designed to provide minority business enterprises with enhanced access to markets, capital, and information.

Florida. In February 2003, MBDA awarded a 3-year cooperative agreement to the National Minority Supplier Development Council of Florida to operate the Florida MBOC.

We audited the first 2 years of the Florida MBOC cooperative agreement to determine whether the program was meeting performance goals, claiming appropriate costs, and meeting the terms and conditions of the award. The audit did not reveal any adverse findings. In fact, we determined that the Florida MBOC is performing its duties and meeting its requirements well. The committee met the required performance goals for both 2003 and 2004 calendar years, claimed only reasonable and allowable costs, and complied with the terms and conditions of the original award. Accordingly, we did not recommend any corrective actions. (*Atlanta Regional Office of Audits: ATL-17363*)

Wisconsin. In February 2003, MBDA awarded a 3-year annually funded cooperative agreement to the Wisconsin Business Resource Center to operate the Wisconsin MBOC.

We audited the Wisconsin MBOC for the period beginning February 2003 through December 2004 to determine whether the Wisconsin Business Resource Center achieved or had made sufficient progress toward accomplishing performance objectives; claimed costs that are reasonable, allowable, and allocable to the project; and complied with the terms and conditions of the cooperative agreement.

Our audit showed that the Wisconsin Business Resource Center met its performance targets with one minor exception that the agency corrected when we pointed it out. Our draft audit report had questioned \$170,988 of in-kind costs and \$7,900 of costs without documentation of payment. In its response to the draft audit report, the center revised its in-kind cost claim to comply with applicable regulations and provided documentation of previ-

ously undocumented costs. The audit revealed the center claimed costs that are reasonable, allowable, and allocable to the project; and it complied with the terms and conditions of the cooperative agreement. We found the resource center to be a valuable center of influence comprised of local, state, and county executives as well as private business leaders. (*Denver Regional Office of Audits: DEN-17423*)





NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION

The National Oceanic and Atmospheric Administration

studies climate and global change, ensures the protection of coastal oceans and the management of marine resources, provides weather services, and manages worldwide environmental data. NOAA does this through the following organizations:

National Weather Service reports the weather of the United States and provides weather forecasts and warnings to the general public.

National Ocean Service issues nautical charts, performs geodetic surveys, conducts research, and develops policies on ocean mining and energy.

National Marine Fisheries Service conducts a program of management, research, and services related to the protection and rational use of living marine resources.

National Environmental Satellite, Data, and Information Service observes the environment by operating a national satellite system.

Office of Oceanic and Atmospheric Research conducts research related to the oceans and inland waters, the lower and upper atmosphere, space environment, and the Earth.

Office of Marine and Aviation Operations operates NOAA's ships and aircraft and provides NOAA programs with trained technical and management personnel from the nation's seventh uniformed service.

Audit Finds NMFS Deviated from Established Procedures

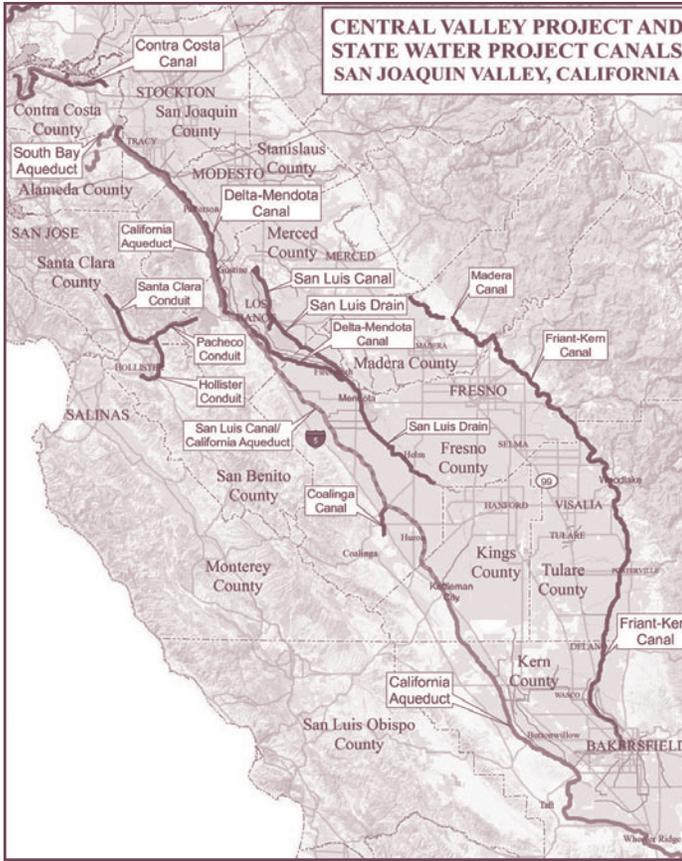
In October 2004, 19 members of the U.S. House of Representatives wrote to the inspectors general of Commerce and the Department of the Interior requesting a review into whether Interior's Bureau of Reclamation undermined the environmental review process of NOAA's National Marine Fisheries Service (NMFS) for a water project in California's Central Valley. Earlier in the year, a controversy had erupted when NMFS issued a biological opinion under Section 7 of the Endangered Species Act (ESA) stating that California's long-term Operations, Criteria, and Plan (OCAP) for the Central Valley Project and the State Water Project to manage the water supply would not jeopardize endangered species. The biological opinion was an element of a complex process to evaluate what impacts changes in the Central Valley Project would have on populations of endangered fish, such as salmon and steelhead trout.

In response to the congressional request, we conducted an audit to identify what review process NMFS used to issue the OCAP opinion. We also sought to determine whether NMFS followed its policies, procedures, and normal practices for consultations when it issued the OCAP biological opinion. Our purpose was not to evaluate the science involved, but rather the integrity of the process. Our findings are detailed below:

NMFS Deviated from Its Norm

Our assessment of the process leading to the biological opinion revealed the NMFS southwest regional office did not follow its normal procedures in handling the OCAP consultation and failed to comply with two significant controls in its review process. Rather than suspend the review until the Bureau of Reclamation provided all the information needed to begin a consultation under ESA, NMFS went forward. In fact, biologists who worked on the project said the Bureau of Reclamation was changing the project description even after the opinion had been issued, and that working on the OCAP opinion had been frustrating because it was like "trying to hit a moving target."

Of the 10 cases OIG reviewed, audit staff found no other cases in which the southwest regional office of NMFS initiated a formal consultation without sufficient information. In this instance, it began its analysis 4 months before the Bureau of Reclamation provided the information normally needed to begin such a case. This raised a question as to whether the final analysis was really based on the best scientific information available.



California's Central Valley Project was begun in 1935 by the federal government to irrigate the state's central valley and protect it from floods. As California's largest water project, it provides water to irrigate 3.7 million acres, and its power plants can produce up to 1.4 million kilowatts of electricity.

Source: http://esrpweb.csustan.edu/gis/maps/cvp_sw_p_sjv.jpg.

The southwest regional office also did not follow the policies and procedures in place that are intended to ensure that biological opinions are sound. For example, the designated regional Section 7 coordinator did not clear the OCAP opinion, a key management control normally required prior to issuing opinions. The coordinator told us she did not clear the opinion because the assistant regional administrator sent it out while she was away from the office conducting training. She also said that given the opportunity, she would not have cleared the opinion because she believed its conclusion did not match the scientific analysis. In addition, the Office of General Counsel never cleared the opinion, and the regional general counsel could not explain why.

No Evidence that "Jeopardy" Draft Was Provided to Interior

Because allegations that an earlier draft had been altered sparked the interest of legislators and led, ultimately, to OIG's review, we

sought to determine whether this was true. Was there an earlier "jeopardy" draft that had been issued to the Bureau of Reclamation and subsequently improperly changed?

NMFS staff who worked on the opinion initially told us that Bureau of Reclamation regional staff received a partial draft with a transmittal letter stating a "jeopardy" conclusion in early August 2004. But we found no evidence that the Bureau of Reclamation was ever actually provided such documents. The administrative record only documented delivery of a "no jeopardy" draft to the Bureau of Reclamation in late September 2004.

Recommendations and Agency Response

These types of biological opinions are clearly environmentally important and politically sensitive. NOAA must have a meaningful and open process based on sound science and maximum integrity to yield such pivotal opinions. With that and the results of our review in mind, we recommended that NOAA objectively evaluate whether the southwest regional office's questionable handling of the OCAP opinion undermined its scientific integrity. We also recommended the bureau review existing policies and directives for Section 7 consultations, clarify the legal review process, issue these policies and procedures to staff, and submit them for inclusion in NOAA Delegations of Authority, which are part of the agency's directives.

NOAA first responded to our report with the assertion that the southwest regional office had followed the process required under 1995 guidelines and asked us to reconsider our recommendations. After consulting with our office, the bureau promised to evaluate its policies and directives within 6 months, and we altered our recommendations to reflect that commitment. We believe if NOAA fails to complete its evaluation of the delegations, policies, and directives for biological opinions within 6 months, then all such delegations should be revoked.

NOAA also said it does not subject its biological opinions to peer review, but in light of OIG's recommendation to evaluate the scientific integrity of the NMFS opinion in the California case, it is working on an agreement with an outside organization to review the science underlying the OCAP opinion.

In NOAA's action plan for addressing the findings and recommendations in our final audit report, agency officials stated that they have completed their review of existing delegations, policies, and directives for Section 7 consultations and an interim delegation was issued August 15, 2005. Agency officials stated that a single comprehensive national policy for delegation of authority for Section 7 consultations will be approved and issued by December 15, 2005. The action plan also stated that by October 30, 2005, NMFS

would have completed development of a Section 7 training plan for employees, and by November 30, 2005, the agency would have implemented an oversight strategy for Section 7 consultations.

Although we concurred with these planned actions, we did not concur with NOAA's plan for objectively evaluating whether the regional office's questionable handling of the OCAP opinion impaired the opinion's scientific integrity. The organization selected by NOAA to conduct the evaluation did not appear to be an objective party. We therefore requested that NOAA select another organization—one that is objective—to evaluate the opinion. (*Seattle Regional Office of Audits: STL-17242*)

Minor Internal Control Issues Noted in Improper Payment Review

Each year the federal government loses approximately \$20 billion through improper payments²—payments made in duplicate; for incorrect amounts or vendors, unsupported claims, or services not rendered; or as a result of fraud. Congress passed two laws in recent years in an effort to ameliorate this problem. The National Defense Authorization Act for Fiscal Year 2002 requires agencies entering into contracts valued at more than \$500 million per fiscal year to identify and recover erroneous payments made to contractors. The Improper Payments Information Act requires that, beginning in FY 2004, agency heads conduct annual reviews of all programs and activities to identify those that are susceptible to significant erroneous payments,³ and for those programs and activities that are, further analyze and report on any such payments.

In response to these legislative initiatives, Commerce asked its bureaus in FY 2003 to assess their risks for making erroneous payments and evaluate the effectiveness of their internal controls for preventing them. The resulting assessment from NOAA concluded that the agency had appropriate internal controls in place to keep such payments to a minimum, but did identify the need for better oversight of the payments process.

Our audit looked at NOAA's FY 2003 payments made against contracts and purchase orders to determine whether the number or dollar amounts of improper payments were significant and to assess whether, as NOAA believed, its internal controls successfully prevented, detected, and corrected such payments.

² U.S. Government Accountability Office, GAO-03-750T, May 13, 2003.

³ The threshold is at least 2.5 percent of annual program payments and \$10 million.

Facts About Improper Payments

- Federal agencies completed risk assessments of all programs and dollars spent and determined that more than 60% of government outlays for fiscal year 2004, or \$1.4 trillion out of \$2.3 trillion, is at risk for a significant level of improper payments.
- Of the \$1.4 trillion in outlays at risk for improper payments, only \$1.2 trillion of this amount could be measured for improper payments. The largest program without an improper payment rate is Medicaid, which makes annual outlays of more than \$175 billion.
- Of the \$1.2 trillion in outlays for which improper payments were measured, agencies found a total of \$45.1 billion in improper payments in fiscal year 2004.
- Approximately 92% of these improper payments are overpayments with the remainder being underpayments.

Source: <http://reform.house.gov/GMFA/News/DocumentSingle.aspx?DocumentID=30678>.

Internal Controls Were Effective

We confirmed that NOAA's internal controls were effective, finding only 68 improper transactions in our entire review sample of 1,680 disbursements. But circumstances related to the 68 erroneous payments suggested opportunities for further strengthening controls. For example, nearly all of the improper transactions were the result of processing errors that NOAA staff failed to detect during prepayment audits—reviews conducted by financial staff to ensure payments are properly authorized and meet processing requirements. In a few other instances, the erroneous payments resulted from inadequate oversight by the contracting officer's representative managing the contract. NOAA agreed to review the circumstances surrounding the payments and strengthen internal controls as appropriate.

We also found that NOAA does not systematically retain all payment-related records, despite federal and Department regulations for doing so. Specifically, it discards a key payment certification document (the PM101A report) that it does not consider to be an official record. But this document verifies completion of the prepayment audit and contains other information that could protect the government's interests in the event of litigation. The document therefore is subject to records retention requirements. NOAA said that the certified copies of the payment document are retained in compliance with federal and Department requirements.

We concurred with NOAA's responses to both of the opportunities identified. (*Office of Audits, Business and Science Division: BSD-16186*)

Pacific Coastal Salmon Recovery Fund

In 2004, the Office of Inspector General began a series of audits on projects operating under the Pacific Coastal Salmon Recovery Fund. This multimillion dollar fund provides federal grants to Alaska, California, Idaho, Oregon, and Washington and their resident Native American tribes to conserve populations of wild salmon. The program supports habitat restoration, research, recovery planning, and enhancement projects for endangered and threatened salmon species. The program was established by Congress and is administered by the National Oceanic and Atmospheric Administration.

In our September 2004 semiannual report (pages 31-32) we detailed our interim audits of projects conducted by an Oregon state board and two Washington tribes. In our March 2005 report (page 27), we detailed the results of audits of three additional tribes. During this semiannual period, we completed interim audits of three more tribes.

All of these tribes are operating programs through subagreements with a Washington state Native American commission that received a 5-year, \$27.3 million recovery fund award to finance salmon projects. The commission allotted an equal share of the grant (roughly \$1.3 million) to each of its 20 member tribes.

In our 3 most recent audits, we looked at costs invoiced to the commission during the period April 2000 through September 2003. Here is a brief synopsis of what we found and recommended:

Audits Recommend Recovery of More Than \$1.8 Million from Washington Tribes

Our audit of one tribe conducting projects to recover several salmon species looked at a total of \$853,659 in costs billed to the commission. Of that amount, we questioned and sought recovery of \$695,868 in unsupported labor, fringe benefits, indirect costs, contract expenses, unapproved project expenditures, and overcharges. We also found the tribe's financial management, procurement, and property management systems did not meet federal standards.

A second tribe submitted costs totaling \$935,000. This tribe is assessing habitat and stock in a tributary of its traditional fishing area, and conducting a spawning survey and stream assessment of a smolt trapping program. Our audit questioned \$761,785 in unsupported labor and related fringe benefits, undocumented expenses, indirect costs, and subcontract costs not allocable to the program. We also found the tribe had inadequate time distribution procedures and documentation.



Lake Quinault is a source of salmon brood stock for one tribe's salmon recovery program.

Source: OIG.

The third tribe invoiced costs totaling \$839,243, and we questioned \$382,060 of that amount. The bulk of the questioned costs—\$366,772—reflected unsupported transfers of costs from its general fisheries grant to the salmon recovery projects. The tribe also had more than \$9,000 in questionable payroll costs, \$3,759 in unallowable travel expenses, and \$2,455 in associated indirect costs.

We recommended that the director of NOAA grants management (1) disallow and recover questioned costs totaling \$1,839,713, from the three tribes, and (2) direct the commission to take specific action to remedy the internal control and other weaknesses we identified in each tribe's administration of its projects. (*Seattle Regional Office of Audits: STL-16657-5-0005, -0007 and -0008*)



Salmon eggs from brood stock at a tribal hatchery.

Source: OIG.

Inspection Finds Few Problems at River Forecast Center

The National Weather Service has 13 river forecast centers (RFCs) across the country that monitor water levels in river basins and issue hydrometeorological forecasts and guidance to weather forecast offices (WFOs) and water management organizations. RFCs forecast when rivers are expected to reach flood stage, timing of flood crests, and when a flooded river is expected to recede. This service is vital, especially considering NWS' own estimates that 90 percent of all natural disasters in the United States involve some degree of flooding.

We conducted an inspection of NWS' Northeast River Forecast Center in Taunton, Massachusetts, from December 2004 to February 2005. The center is one of the smallest in the NWS system and is located in the same building as the Boston weather forecast office.

We found the northeast center to be a well-functioning and generally well-managed facility. The office works well as a team to issue the best possible river forecasts. We also found that staff from NWS' Eastern Region headquarters conduct semiannual internal reviews and regularly communicate with and visit the northeast center. However, we did find some areas that could benefit from program and administrative improvements.

Some Program Improvements Needed

The forecast center is not taking full advantage of new Geographic Information Systems (GIS) software, although NWS is exploring the possibility of transitioning to new GIS products. We recommended the assistant administrator for weather services develop a timeline to implement GIS capability.

We also found there are no well-defined procedures for verifying river forecasts that will provide enough detail to make river basin model and forecaster skill improvements possible. Work has begun to implement such a system. We recommended that NWS develop, document, and implement a timeline and action plan for completing the comprehensive river forecast verification system as soon as practicable.

Facility Needs Maintenance and Repair Work

The northeast center and the Boston WFO are located in an aging leased building that needs work. The lease states the owner



The Northeast River Forecast Center team works well together, but the building needs maintenance.

Source: OIG.

is responsible for maintenance and repairs, but at the time of our review, 46 work orders had been submitted since April 2004 and only 4 had been completed. In addition, metallic filaments called "zinc whiskers" that break free from aging floor tiles and lodge in circuits may have caused some serious computer equipment failures in the past 5 years.

We recommended that the assistant administrator for weather services, in conjunction with the director of NOAA's Facility and Acquisition Management Division, (1) ensure that repairs and maintenance at the Taunton facility are completed in a timely manner and (2) instruct the Eastern Region Headquarters to document the northeast center's handling of the zinc whisker problem and make that information available to other NWS facilities.

Agency Response

NOAA concurred with all our recommendations and said an integrated work team is being formed to identify NWS-wide information needs and systems architecture to support GIS. The team will use an Operations and Service Improvement Process to prioritize requirements and identify solutions. NOAA also is developing an outreach plan for FY 2006, which includes partnered RFC-weather forecast office outreach activities for the purpose of educating NWS users, and NOAA's Hydrologic Services Program is currently developing a timeline and action plan to implement the National River Forecast Verification System. In addition, NOAA's Real Property Division and NWS Eastern Region officials have met with a representative of the owner and discussions to resolve facility issues have begun. NOAA also agreed to prepare a document regarding the center's experience and solution for the metallic whisker problem and make it available to other NWS facilities. (*Office of Inspections and Program Evaluations: IPE-17259*)

NEXRAD Audit Follow-up Shows NOAA Has Completed Action Plan

During this semiannual period, we followed up on the status of NOAA's actions to address recommendations from our 2003 review of a modification to a contract for acquiring power sources to support the NEXRAD system. That report, *Acquisition of NEXRAD Transition Power Source Marred by Management, Technical, and Contractual Problems* (OSE-15676), concluded that poor handling of the contract change increased costs of the procurement by \$4.5 million and that NWS paid for defective

equipment. Specifically, the contract modification was executed without sufficient evaluation, serious consideration of any other alternatives, adequate negotiation, and proper review and oversight by NOAA's Acquisition and Grants Office. Our recommendations addressed such areas as program office management, contracting officer representatives' technical management responsibilities, acquisition office responsibilities, and professional training.

In November 2003, NOAA submitted a plan outlining seven actions for implementing our recommendations by the end of calendar year 2004. These included, among other things, developing an acquisitions handbook and procurement policy directive; ensuring acquisition staff are adequately trained to do their jobs; improving coordination with its federal partners (Defense and Transportation) in operating NEXRAD; and establishing a board to review proposed solicitations. Our follow-up found that NOAA has taken these actions, but needs to improve the acquisition handbook to include provisions regarding:

1. *Alternatives*—how all reasonable alternatives are analyzed, evaluated, and documented;
2. *Technology reviews*—what is necessary in establishing the acquisition plan; how trade-offs are evaluated; how the technical evaluation is to be conducted and documented; and how the technical performance, schedule, and cost risk are presented; and
3. *Contract changes*—how post-award changes will be handled, related costs considered, and proposed decisions, findings, and recommendations be documented.

(Office of Audits: BSD-17613)



A hilltop NEXRAD tower in San Diego stands out in front of a cloud bank.

Source: www.wrh.noaa.gov/Sandiego.



TECHNOLOGY ADMINISTRATION

NIST Procurement Practices Have Improved but Improvements Are Still Needed

The Technology Administration serves the needs of technology-based industry, advocates federal actions and policies to speed the transfer of technology from the laboratory to the marketplace, and removes barriers for commercializing new technologies. It includes three major organizations:

Office of Technology Policy works in partnership with the private sector to develop and advocate national policies and initiatives that use technology to build America's economic strength, promote the creation of high-wage jobs, and bring about improvements in our quality of life.

National Institute of Standards and Technology promotes U.S. economic growth by working to develop and apply technology, measurements, and standards. NIST manages four programs: the Advanced Technology Program, the Manufacturing Extension Partnership program, the Baldrige National Quality Program, and NIST Research Laboratories.

National Technical Information Service is a self-supporting agency that promotes the nation's economic growth and job creation by providing access to information that stimulates innovation and discovery. NTIS accomplishes this mission through information collection and dissemination to the public and through information and production services to federal agencies.

In keeping with our focus on acquisition management, we concluded a performance audit of NIST procurement policies and procedures—assessing their effectiveness and compliance with federal laws and regulations, and determining whether the agency's acquisition workforce is trained to handle the huge and often complex business of purchasing goods and services from outside vendors.

In FY 2004, NIST spent some \$276 million—more than a third of its annual budgetary resources—on such purchases. Congress has enacted a series of laws over the past 30 years to both simplify the government procurement process, maximize competition, and protect the government's interest in these transactions (see box). The latest reform came in 2003, when the president issued an open competition initiative to help small businesses compete more effectively for government contracts. While bringing greater efficiency to the acquisition process, these initiatives have reduced management oversight, given contracting officers greater latitude in choosing the method of procurement and in justifying their decision, and created new opportunities for mismanagement and abuse.

In our review at NIST, we focused on contract actions whose total dollar value exceeded \$100,000, and looked for instances in which single acquisitions might have been split into two or more transactions to circumvent spending limits. We reviewed a sample of contract actions from fiscal years 2002 and 2004.

OUR FINDINGS

NIST's acquisition policies and procedures generally comply with federal regulations and Department guidance, but the agency does not always apply them properly. The net effect is that procurement activities at times do not meet the intention of federal and Commerce requirements. In particular, we noted these problems:

Greater emphasis on opportunities for full and open competition is needed. By federal law and executive order, agencies must aggressively promote competition and limit noncompetitive solicitations. NIST's internal guidance requires bids from at least three vendors for orders costing more than \$2,500 and made under General Services Administration (GSA) federal supply schedules. Open market purchases costing more than \$100,000 must be awarded using full and open competitive procedures. More than half of the contracts we reviewed were awarded noncompetitively with NIST possibly missing out on savings and other benefits that competition promotes. We learned that program staff members are not always open to competition, preferring instead to work with contractors they know or have dealt with before. Although NIST has improved its use of competition from FY 2002 to FY 2004, continuing efforts are needed. The agency has committed to taking actions to reinforce the proper use of competitive and noncompetitive procedures.

Federal Procurement Regulations and Legislation

- Federal Acquisition Regulation established uniform policies and procedures that cover all aspects of procurement.
- Competition in Contracting Act of 1984 stipulates seven circumstances under which noncompetitive contracting is permitted.
- Federal Acquisition Streamlining Act of 1994 and the Clinger-Cohen Act of 1996 promoted performance-based contracts.

NIST requires that when contracts are awarded noncompetitively, the reasons must be documented on form CD-492, “Justification for Other than Full and Open Competition.” We found that of 53 noncompetitive contracts reviewed, there were 26 instances where the lack of competition was either inadequately justified or there was inadequate documentation. NIST has stated that it will promote competition and ensure that when noncompetitive procurements are necessary, the reasons are adequately documented.

We also found that the agency historically has contracted non-competitively on a sole-source basis for scientific and technical expertise with leading scientific experts including former NIST employees. NIST has taken steps to attempt competition by issuing a basic ordering agreement with a consulting firm tasked to provide the requested resources. However, since the government provides the contractor with the name of a “government-referred” individual capable of accomplishing the task, we questioned the adequacy of competition. NIST has reported it is currently taking steps to issue a new contract or contracts that will create competition when contracting for technical or scientific expertise.

NIST does not properly plan for acquisitions. According to NIST’s Acquisition Management Division director, the program staff who request goods and services are typically scientists who are not attentive to the administrative details of procurement or the need to plan ahead. We believe that inadequate planning explains the lack of full competition for many of the 53 noncompetitive contracts in our sample. Advance planning would have allowed NIST the time to conduct a thorough search of all potential contractors. To resolve this problem, the agency now requires managers to prepare annual spending plans that identify upcoming purchasing and allow for proper planning.

Market research and legal review are lacking. For procurement contracts valued at more than \$100,000, federal regulations require agencies to conduct market research to determine whether needed goods are available commercially or if the use of noncompetitive procedures is warranted. Eleven of the 39 FY 2002 contracts we

reviewed that were awarded under negotiated or simplified acquisition procedures—with a total value of \$3.1 million—were awarded without adequate market research.

Commerce requires legal review of proposed contract awards that may leave the government vulnerable, including certain noncompetitive procurements and large-dollar competitive procurements. We found four instances in which required legal review under these criteria was not performed. Although the Department does not require review of federal supply schedule contracts or of orders made against indefinite delivery/indefinite quantity contracts, these can pose monetary and performance risks to the government and we believe should be subject to legal review. Using these criteria, we identified 33 orders totaling \$22.8 million that should have been submitted for legal review.

The Department’s Office of General Counsel agreed that these orders pose a potential risk to the government and that they should be subjected to legal review.

NIST does not consider past performance. Agencies must consider a contractor’s past performance in evaluating offers and awarding new contracts, yet sufficient consideration was lacking in 30 of the awards in our sample (23 from FY 2002 and 7 from FY 2004). The value of these contracts totaled \$22.9 million. Although the Federal Acquisition Regulation requires consideration of past performance when making awards, neither the Department nor NIST offers guidance as to how past performance is to be used.

Government estimates are not properly documented. The Federal Acquisition Regulation requires agencies to prepare their own independent estimates of the cost of a planned acquisition, but neither the Department nor NIST offers guidance for how they should be developed and documented. The contracts in our sample had government estimates, but only the estimates for construction-type contracts were adequately documented. In 14 cases, the government estimate was the same as the vendor’s quoted price. In 11 of these, the award amount exactly matched the estimate and the contractor’s quote.

NIST is not doing enough to stop unauthorized procurements. An unauthorized procurement is an agreement that is not binding because the government representative who made it lacked the authority to enter into the agreement on the government’s behalf. In FY 2002, NIST processed 46 unauthorized procurement actions totaling \$412,065, and in FY 2004, it processed 28 such actions totaling \$1,071,143. Unauthorized purchases are serious matters and the practice should be discontinued.

Training for acquisition staff is not tracked and documented. The Commerce Acquisition Career Management Program implements training requirements for procurement staff, as stipulated by the Office of Federal Procurement Policy. As part of the program,

agency points of contact must report on courses completed by employees. At the time of our review, NIST's point of contact kept a log of completed training as reported by individual employees but NIST did not maintain supporting documentation to verify the training had actually been completed. Additionally, the agency had no written procedures for managing the training program. Since the completion of the audit, the agency has reported that it has issued procedures that outlined the NIST training program.

OIG Recommendations

We recommended that NIST take a series of steps to improve its procurement activities, among them that the agency subject acquisitions to full and open competition whenever possible; improve acquisition planning; fully justify noncompetitive procurements on form CD-492; revise market research guidelines; update guidelines for legal review of contract actions; develop procedures for conducting past performance reviews and preparing independent government estimates; establish a tracking and monitoring system for acquisition staff training; eliminate unauthorized procurement actions; and that the agency director ensure program managers actively support initiatives to improve agency procurement activities.

NIST's Response

NIST agreed that its leaders need to ensure that program managers actively support initiatives to improve procurement activities, and stated that the agency is committed to ensuring that good, sound procurement practices are implemented. NIST commented that the competition results included in the report would be more balanced had we included transactions between \$25,000 and \$100,000 with our sampled transactions exceeding \$100,000. The agency disagreed with the recommendation to develop legal review criteria for Federal Supply Schedule orders and orders placed on indefinite delivery or indefinite quantity contracts. NIST also disagreed with our recommendations to establish internal guidance for developing independent government estimates and for documenting past performance reviews because it considered this to be the responsibility of the Department to offer Department-wide policy. (*Office of Audits, Business and Science Division: BSD-16656*)

Minimal Costs Questioned in ATP Awards Audits

New York. A New York City firm received an Advanced Technology Program (ATP) award to develop affordable software for generating precise 3-D computer models of buildings and major structures. The software is intended to help emergency responders locate people more quickly in a disaster and to help architects de-

sign safer structures in the aftermath. Total estimated direct costs of the 3-year award were \$2 million, to be fully paid by the federal government. NIST set the maximum funding limit for direct costs at \$690,000 for the first year of the project (October 2003 through September 2004). The firm received reimbursement for total claimed costs of \$607,027.

Our interim financial audit of these first-year costs questioned \$1,506 in fringe benefits paid to an employee for time not allocable to the ATP project. We recommended that NIST seek full reimbursement of this amount. We found the firm was otherwise in compliance with all federal regulations and ATP requirements for the award. (*Denver Regional Office of Audits: DEN-17247*)

Massachusetts. In September 2003, NIST awarded a 2-year ATP cooperative agreement to a Massachusetts firm to develop real-time video technology that will broadcast 3-D holographic images. The government's total estimated direct costs are \$1,666,468. No matching funds from the company are required.

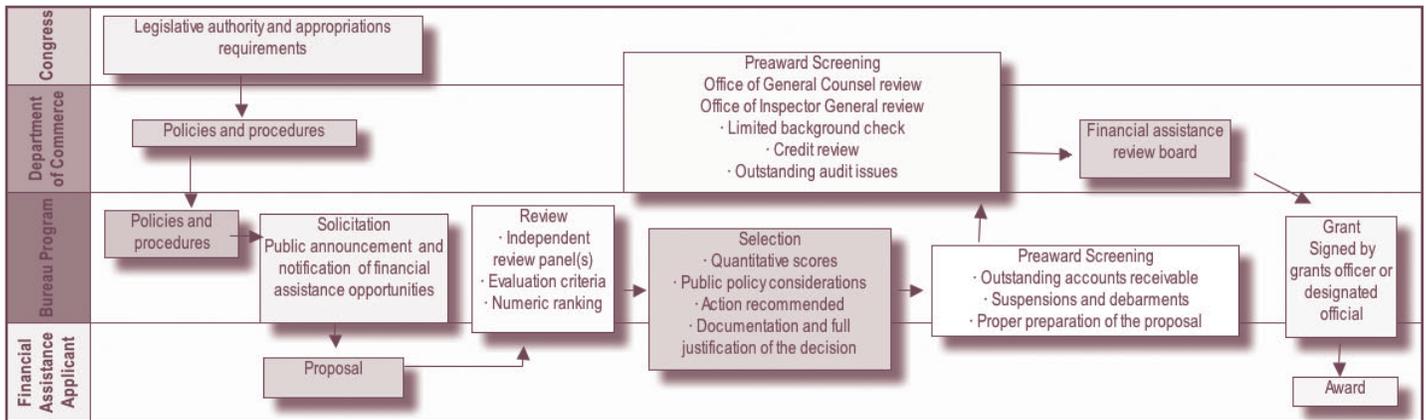
For the first year, federal reimbursement was capped at \$755,399. The firm sought and received reimbursement of \$401,800. We questioned \$2,855 of that amount in non-ATP payroll and fringe benefits, but noted that during the same time frame, the firm had not claimed \$1,778 of project-related expenses. We credited the recipient for this amount, which reduced questioned costs to \$1,077.

Our audit also revealed that the firm had violated federal procurement regulations and ATP award terms by executing contracts that did not contain required provisions and by failing to establish written procurement procedures. Further, the company's written accounting procedures fell far short of complying with federal financial management regulations, and it failed to consistently implement the few policies that were in place. For example, most of the timesheets we looked at had not been signed by both the employee and the supervisor, as required.

We recommended that NIST (1) disallow and fully recover the \$1,077 in questioned costs, and (2) direct the firm to establish and enforce the required written procurement and accounting procedures. (*Denver Regional Office of Audits: DEN-16980*)

NIST's Advanced Technology Program

As part of its efforts to spur technological development, NIST administers the Advanced Technology Program (ATP) to provide financial assistance through cooperative agreements, with the goal of transferring cutting-edge technology to industrial uses. Between 1990 and September 2004, ATP awarded \$2.3 billion in funding to companies to develop promising, high-risk technologies. Industry has matched this funding with \$2.3 billion in cost-sharing.



The financial assistance awards process of the Department of Commerce.

Source: OIG

No Compliance Issues Noted in Audit of North Carolina Project

We audited the costs claimed by a firm that received a 3-year ATP award to develop software that accurately predicts the efficacy and effects of drugs in development. The goal of the project is to greatly reduce the time and cost of bringing new drugs to market (currently 12 years and \$800 million, respectively) by identifying potential successes and failures during drug design rather than in clinical trial. Total estimated direct costs of the project are \$1.9 million, with federal funding for the first year capped at \$654,000. The agreement requires no matching funds from the company, nor does it provide reimbursement for indirect costs. For the first 12 months of the project, the recipient claimed \$558,482 in direct costs and received \$556,988 in federal reimbursement.

Our interim audit disclosed no instances of noncompliance with ATP award terms and conditions, and found the firm had an adequate accounting system for the purposes of the award. However, its financial management system did not meet minimum federal requirements because the recipient had not developed written procurement procedures. The firm subsequently produced evidence that such procedures are in place, and we considered the matter resolved. (*Denver Regional Office of Audits: DEN-17248*)

OIG Assistance Strengthens Grant Program

The NIST Hollings Manufacturing Extension Partnership (MEP) program is a model for federal-state partnerships designed to

leverage public and private resources to make a comprehensive range of services and assistance available to small manufacturers. Centers receive one-third of their funding from the federal government, one-third from state and local organizations, and one-third from fees for services. The program began in 1989 with centers in three states and today it comprises a national network of affiliated manufacturing extension centers and field offices serving small manufacturers in all 50 states and Puerto Rico. In the past 16 years, the program has provided services to more than 184,000 clients.

The Office of Inspector General has issued 90 reports of audits of NIST-funded centers and program operations since MEP's inception. MEP centers often have a difficult time meeting the nonfederal matching share requirement, which can be as large as two-thirds of the total annual cost of the center. As a result, centers sometimes made claims for matching share contributions that we found questionable. NIST's unclear direction to centers on what constitutes acceptable matching share contributions sometimes exacerbated the problem.

In April 2005, NIST issued operating plan guidelines for the program, in part to address the continuing OIG concern regarding matching share claims under the program. The new guidelines took effect July 1, 2005, and were formulated with input from the Department's Office of General Counsel and OIG. The guidelines more clearly define both acceptable and unacceptable types of non-federal matching share and require many matching share arrangements to be reviewed and approved in advance by the NIST grants officer. This guidance should significantly reduce or eliminate the types of matching share claims that OIG has rejected during numerous past audits. We plan to monitor the implementation and effectiveness of the new guidelines through future audits.

AUDITS UNRESOLVED FOR MORE THAN 6 MONTHS

Massachusetts MEP

We are continuing to work with NIST officials toward resolution of an audit we reported on in our September 2004 *Semiannual Report* (page 37). In that report, we detailed an audit of an MEP cooperative agreement as being unresolved for more than 6 months. Our audit had recommended that NIST disallow questioned costs of \$8,177,606, recover the federal share of \$1,599,349, and require the recipient to implement improvements to its financial reporting system. In its audit resolution proposal, NIST disallowed \$715,097 and reinstated \$7,462,509 in costs questioned in the audit report. In July 2004, after detailed analyses of NIST's audit resolution proposal and other documents provided by NIST and the recipient,

we advised NIST that we concurred with its decision to disallow \$715,097, but did not concur with reinstatement of the remaining \$7,462,509. OIG is currently reviewing a revised audit resolution proposal that NIST submitted in June 2005.

Computer Aided Surgery Inc., New York

An OIG audit of this NIST cooperative agreement (see September 2004 issue, page 35, and March 2005 issue, page 33—ATL-16095) questioned costs totaling \$547,426 in inappropriately charged rent, utilities, and certain salary, fringe benefit, and other expenses, because these costs were unallowable, in excess of budgetary limits, or incorrectly categorized. We have postponed NIST's submission of an audit resolution proposal.



UNITED STATES PATENT AND TRADEMARK OFFICE

FISMA Review Finds Inadequate Enforcement of Contractor Information Security Requirements

The United States Patent and Trademark

Office administers the nation's patent and trademark laws. Patents are granted and trademarks registered under a system intended to provide incentives to invent, invest in research, commercialize new technology, and draw attention to inventions that would otherwise go unnoticed. USPTO also collects, assembles, publishes, and disseminates technological information disclosed in patents.

To meet our FY 2005 reporting requirements under the Federal Information Security Management Act (FISMA), we evaluated USPTO's efforts to implement IT security requirements for contractor employees and systems. USPTO relies heavily on contractors to accomplish its mission and enable electronic processing of patents and trademarks. Because patent and trademark application information is extremely confidential, the systems processing it must be highly secure.

The Department of Commerce issued two contract clauses containing IT security requirements in 2003, in response to OIG findings reported in a review of Department-wide information security.⁴ USPTO adopted these clauses to protect information and IT systems from risks posed by contractors who connect to its network or process or store sensitive agency data. The clauses require contractors to comply with USPTO's IT security handbook, get their IT systems certified and accredited,⁵ and have their employees undergo appropriate background screening. The agency advised its contracting officers to begin using these clauses in new and certain existing service contracts beginning in late 2003.

We evaluated 10 IT service contracts currently in force at USPTO to determine whether and how effectively the agency has implemented the clauses. The maximum estimated value of our sample over the life of the contracts was \$1.7 billion.

We found that USPTO has incorporated the clauses, but noted several weaknesses in their implementation:

Contract risk levels are low and employee background screenings inadequate. The level of risk to the government posed by a contract determines how closely a contractor is screened. USPTO designated all contracts in our sample as low risk—meaning contract employees undergo minimal background investigations. But guidance in the Commerce Acquisition Manual (CAM) suggests that some of these contracts should be designated as high or moderate risk, in which case contractor employees should receive more rigorous background screenings.

The low-risk designation assigned to our sample contracts is not an anomaly. The agency gives low-risk designations to nearly all contracts and employee positions. Even its IT security handbook favors low-risk designations and does not even mention what would require high or moderate designations.

⁴ U. S. Department of Commerce Office of Inspector General, May 2002. *Information Security Requirements Need to be Included in the Department's Information Technology Service Contracts*. Report No. OSE-14788.

⁵ Certification is the comprehensive assessment of the management, operational, and technical controls of an information system to determine if the controls are implemented correctly, operating as intended, and producing the desired outcome. Accreditation is management's formal authorization to allow a system to operate and acceptance of remaining system vulnerabilities.

USPTO Risk-Level Designation Compared to CAM Criteria			
Description of Contract Work	USPTO Risk Level	CAM Risk Level	Relevant CAM Criteria
System Design and Integration (SDI) contracts—System design and development, allowing access to operational systems and underlying IT infrastructure. (2 contracts in our sample)	Low	High	Designing and operating a computer system that includes ADP hardware, software, and/or data communications, regardless of the sensitivity of the data. Access to a computer system that could result in grave damage or in personal gain.
Patent Data Capture contract—Managing patent applications, allowing access to pre-publication patent applications, confidentiality required by 35 USC 122. (1 contract in our sample)	Low	High Moderate	Access to a computer system during the operation or maintenance process that could result in grave damage or in personal gain. Work involving access to sensitive information.
System Engineering and Technical Assistance contract (SETA)—Developing and implementing USPTO IT security program, allowing access to security plans, and proprietary/confidential information. (1 contract in our sample)	Low	High	Planning and implementing a computer security program

Contractor systems are not certified or accredited. Contractors have 14 days from the time they connect to a USPTO network to submit C&A packages. None of those in our sample had done so, though the deadline had long passed.⁶ Consequently, none of their systems has undergone certification testing or received accreditation. So while most systems in our sample are either connected to the USPTO network or contain sensitive agency data, USPTO has no assurance that they are adequately secure. We believe this noncompliance reflects USPTO’s failure to convey the importance, magnitude, and cost of meeting the C&A requirement; enforce the deadline and consequences for missing it; and coordinate the roles of agency personnel responsible for implementing contractor IT security.

OIG Recommendations

In summary, we recommended that USPTO

1. Develop a plan and schedule for certifying and accrediting contractor systems that connect to the USPTO network, or process

or access sensitive agency information. The plan should provide cost estimates and a method for improving communication about and compliance with C&A requirements.

2. Certify and accredit contractor systems in accordance with FISMA, make the appropriate USPTO program officials responsible for accrediting these systems, and test security controls at a level that corresponds to associated risks.
3. Incorporate IT security clauses into all new task orders under government-wide service contracts, and develop a plan and schedule for reviewing existing contract risk designations and modifying them as appropriate.
4. Review and modify the IT security handbook guidance that establishes roles and responsibilities for implementing IT security in acquisitions.

⁶ After we completed our fieldwork for this report, we met with officials from the Department’s Office of the Chief Information Officer and Office of Acquisition Management to raise concerns about the feasibility of the 14-day deadline. They told us that the Department is considering ways to improve implementation of the C&A requirement and are aware that 14 days to complete a certification and accreditation package is unreasonable.

Agency Response

USPTO generally concurred with our findings and agreed to implement all of our recommendations. (*Office of Systems Evaluation: OSE-17455*)

Inspector General Urges Department Officials to Address Personnel Problems at USPTO

In 2004, allegations that the United States Patent and Trademark Office had used improper hiring practices to install a new human resources director prompted OIG to audit the bureau's human resource processes. For many years prior to 2004, we had also received repeated complaints that USPTO management had allowed unfair personnel practices and activities that undermined the integrity of the bureau's human resources operation. Our June 2004 report, *USPTO Needs Strong Office of Human Resources Management Capable of Addressing Current and Future Challenges* (BTD-16432), detailed troubling findings, such as a flawed hiring process and USPTO's failure to adhere to merit system principles. In that report, we advised the bureau to promptly create an effective HR office that implements management controls to ensure it adheres to merit system principles and establishes sound HR policies and procedures.

USPTO officials agreed with our findings and promised to make reforms, but this year we again found the bureau has problems with compliance with merit system principles and hiring practices. Since USPTO has authority to hire hundreds of examiners, it is critical that USPTO addresses the problems in its personnel practices. In May 2005, the Inspector General sent a memorandum to then-Acting Deputy Secretary of Commerce David A. Sampson summarizing the problems we had earlier identified along with some new issues that had come to our attention and asking the Department to work with USPTO senior management to properly address them.



The public search room at USPTO's new building in Alexandria, Virginia.

Source: USPTO.

The memorandum listed several actions USPTO should take immediately to solve its seemingly intractable HR problems, including:

1. Establish and follow appropriate HR policies and procedures to guide decision-making.
2. Train OHR staff in the Standards of Ethical Conduct for Employees of the Executive Branch.
3. Stabilize OHR and ensure people detailed to jobs have the appropriate skills and experience to perform those jobs.

The bureau has taken some actions to address the problems OIG found in the past, including providing ethics training to its human resources department staff, splitting the post of chief financial officer/chief administrative officer into two positions, hiring experienced human resources professionals to be OHR director and deputy director, and creating a plan to address long-standing HR problems. (*Memorandum from Inspector General Johnnie E. Frazier to Acting Deputy Secretary of Commerce David A. Sampson, dated May 6, 2005, "Ongoing Issues in USPTO's Office of Human Resources"*)



DEPARTMENT-WIDE MANAGEMENT

Improvements in Commerce Emergency Preparedness Have Been Made but Additional Department-wide Guidance and Oversight Are Needed

The United States Department of Commerce

promotes job creation and improved living standards for all Americans by creating infrastructure that fosters economic growth, technological competitiveness, and sustainable growth. The Department has three strategic goals:

Goal 1: Provide the information and the framework to enable the economy to operate efficiently and equitably.

Goal 2: Provide the infrastructure innovation to enhance American competitiveness.

Goal 3: Observe and manage the Earth's environment to promote sustainable growth.

The Department has also established a Management Integration Goal that is equally important to all bureaus: **Strengthen management at all levels.**

Three years ago, in the wake of the September 11 terrorist attacks, OIG evaluated the state of the Department's emergency preparedness. We noted vulnerabilities in the safety and security of many Commerce facilities. (See March 2002 *Semiannual Report to Congress*, page 77.) During this past semiannual period, we followed up on this review to identify and evaluate enhancements the Department has introduced in the intervening years, and determine the overall status of emergency preparedness. A separate review also was completed on security of ITA's overseas offices (see page 15).

In the 3 years since our initial evaluation, Commerce has made great strides in improving its emergency preparedness. For example, it has installed public address and voice over Internet protocol (VoIP) notification systems, implemented shelter-in-place programs and enhanced evacuation procedures, purchased escape hoods and other emergency equipment, and tightened access to and security of its facilities around the country. To better manage Department-wide security initiatives, Commerce consolidated responsibility for overseeing and coordinating emergency preparedness under its Office of Security (OSY), while leaving the bureaus responsible for implementing specific measures and programs to safeguard their own personnel and facilities.

While the Department has greatly improved its emergency response capabilities and issued much guidance on continuity of operations plans, it has issued relatively little Commerce-wide guidance on implementing effective preparedness programs. There also has been inadequate oversight of bureau compliance with established policies and procedures. This void has undercut the effectiveness of the Department's efforts, and some bureaus and facilities may be ill prepared to handle an emergency. OSY's risk assessments of Commerce sites—while thorough and more frequent than in the past—offer inconsistent recommendations, and OSY does not always follow up with bureaus to see whether recommended actions are being implemented. Key security upgrades to protect certain critical assets remain unimplemented, and OSY has acknowledged that some proposed, more costly upgrades still are pending. The quality of security guard forces—though improved since our 2002 review—still varies among locations, with some much better prepared than others to handle the specific risks and potential threats to Commerce personnel and property.

OSY's Responsibilities:

- Develop security policies and procedures.
- Safeguard classified and sensitive documents and information.
- Analyze threats and assess security risks.
- Coordinate emergency actions and preparedness efforts.
- Conduct security operations, education, awareness, and training.
- Oversee compliance with security policies and procedures.
- Coordinate, establish, and maintain a Department occupant emergency program.
- Help establish and maintain a Department-wide emergency action program.
- Conduct administrative investigations.
- Specify and enforce the security elements of the Office of Administrative Services' management policy.

We recommended 13 specific actions to eliminate the weaknesses we identified in the Department’s emergency preparedness policies and oversight, risk assessment process, and guard services, and thereby improve its response capabilities and the overall safety and security of Commerce staff and assets nationwide.

The Department’s Chief Financial Officer and Assistant Secretary for Administration fully concurred with most of our recommendations, and noted actions Commerce is taking to address them. He acknowledged that improvements are needed in communication, oversight, and guidance related to the Department’s security and emergency preparedness programs. Though disagreeing with some of the weaknesses we identified with risk assessments, security guard forces, and other areas, the CFO described departmental initiatives under way that respond to a number of these concerns. (*Office of Inspections and Program Evaluations: IPE 17198*)

PREAWARD FINANCIAL ASSISTANCE SCREENING

As part of our ongoing emphasis on prevention of fraud, waste, and abuse, we continue to work with the Office of Acquisition Management, NOAA and NIST grant offices, and EDA program offices to screen the Department’s proposed grants and cooperative agreements before they are awarded. Our screening serves two functions: it provides information on whether the applicant has unresolved audit findings and recommendations on earlier awards, and it identifies any negative financial or investigative history on individuals or organizations connected with a proposed award.

On January 1, 2004, we implemented new policies and procedures for our preaward screening process. OIG and the Department determined that there are several categories of recipients for whom the costs and administrative burden of the screening process may well outweigh the government’s risk of financial loss. Our new policies exempt from review, recipients who (1) receive awards in amounts of \$100,000 or less; (2) have received financial assistance from the Department for 3 or more consecutive years without any adverse program or audit findings; or (3) are units of a state or local government.

During this period we screened 273 proposed awards. For 38 of the awards, we found major deficiencies that could affect the ability of the prospective recipients to maintain proper control over federal funds. On the basis of the information we provided, the Department delayed 13 awards and established special award conditions for 25 awards. (*Office of Audits*)

Preaward Screening Results		
Results	Award	
	Number	Amount
Awards delayed to resolve concerns	13	\$15,652,706
Special award conditions established	25	\$20,362,666

NONFEDERAL AUDIT ACTIVITIES

In addition to undergoing OIG-performed audits, certain recipients of Commerce financial assistance are periodically examined by state and local government auditors and by independent public accountants. OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, sets forth the audit requirements for most of these audits. For-profit organizations that receive Advanced Technology Program funds from NIST are audited in accordance with *Government Auditing Standards* and *NIST Program-Specific Audit Guidelines for ATP Cooperative Agreements*, issued by the Department.

We examined 157 audit reports during this semiannual period to determine whether they contained any audit findings related to Department programs. For 88 of these reports the Department acts as oversight agency and monitors the audited entity’s compliance with OMB Circular A-133 or NIST’s program-specific reporting requirements. The other 69 reports are from entities for which other federal agencies have oversight responsibility. We identified 17 reports with findings related to the Department of Commerce.

Report Category	OMB A-133 Audits	ATP Program-Specific Audits	Total
Pending (April 1, 2005)	10	98	108
Received	83	52	135
Examined	83	74	157
Pending (September 30, 2005)	10	76	86

The following table shows a breakdown, by bureau, of the nearly \$548 million in Commerce funds audited.

Bureau	Funds
EDA	\$ 22,053,804
NIST*	116,797,267
NOAA	12,608,159
NTIA	308,986
Multiagency	393,584,076
Agency not identified	2,786,532
Total	\$548,138,824

* Includes \$116,692,322 in ATP program-specific audits.

We identified a total of \$2,694,768 in questioned costs and \$31,233 in funds to be put to better use. In most reports the subject programs were not considered major programs; thus the audits involved limited transaction and compliance testing against laws, regulations, and grant terms and conditions. The 17 reports with Commerce findings are listed in Appendix B-1. (*Atlanta and Denver Regional Offices of Audits*)





OFFICE OF INSPECTOR GENERAL

Commerce Inspector General Joins Other IGs in Hearing on Hurricane Katrina Spending

The mission of the Office of Inspector General is to promote economy, efficiency, and effectiveness and detect and prevent waste, fraud, abuse, and mismanagement in the programs and operations of the U.S. Department of Commerce. Through its audits, inspections, performance evaluations, and investigations, OIG proposes innovative ideas and constructive solutions that lead to positive changes for the Department. By providing timely, useful, and reliable information and advice to departmental officials, the administration, and Congress, OIG's work helps improve Commerce management and operations as well as its delivery of services to the public

With billions of federal dollars flowing into the Gulf Coast region, the U.S. House of Representatives' Subcommittee on Oversight and Investigations, Committee on Energy and Commerce, called six inspectors general and representatives from the Government Accountability Office to describe plans for monitoring their agencies' use of these funds. Inspector General Johnnie E. Frazier of Commerce joined IGs from Energy, Defense, Homeland Security, HHS, and EPA in testifying before the subcommittee.



On September 28, Johnnie E. Frazier (left), inspector general of the U.S. Department of Commerce, and six other inspectors general gave the U.S. House of Representatives' Subcommittee on Oversight and Investigations, Committee on Energy and Commerce, information about their plans for monitoring their agencies' use of funds designated for the Gulf Coast region.

Source: OIG.

At the time of the September 28 hearing, Congress had appropriated an unprecedented \$63 billion for Katrina relief, and Commerce bureaus are actively supporting the relief effort. Under the President's National Response Plan, the Department is charged with supporting the Department of Homeland Security in helping the nation prepare for, respond to, and recover from major natural disasters. As a result, the focus and level of funding Commerce dedicated to post-Katrina activities could be substantial.

Mr. Frazier noted that the large infusion of federal resources accompanied by spending flexibilities that agencies may adopt inevitably increases the potential for waste, fraud, and abuse. For example, Commerce has raised spending limits for certain NOAA purchase cardholders to \$15,000 and the ceiling for simplified acquisitions from \$100,000 to \$250,000 for Katrina-related buying.

"Huge infusions of dollars, coupled with more flexible rules, create an environment ripe for possible waste, fraud, and abuse," Mr. Frazier stated. But he added that inspectors general are well-positioned to monitor the appropriate use of such funding and flexibilities because in identifying the top challenges facing their agencies every year, IGs are well aware of their operational and programmatic weaknesses and know where to look for problems.

"Across all agencies and departments, the areas of procurement, financial and grants management, and information security have been consistently cited as vulnerable to waste, fraud, and abuse," Mr. Frazier stated. "Not surprisingly, these are some of the key areas and means by which government agencies will deliver and manage their relief efforts."

Mr. Frazier noted that his office began working closely with Department officials almost immediately after Katrina to identify funds being spent on related activities. He reported that the Commerce Chief Financial Officer has established internal controls to identify and monitor Katrina spending. OIG will evaluate the effectiveness of those controls, assess whether funded projects are targeting the most crucial needs and meeting their objectives, review contract administration, and pay close attention to financial assistance projects that are permitted to operate under nontraditional funding terms and conditions.

Lessons Learned from Hurricane Andrew

Mr. Frazier spoke of his office's experience monitoring the Department's recovery efforts after Hurricane Andrew in the 1990s and of lessons learned that can inform Commerce's involvement with Katrina. The scope of that disaster and related federal support was much smaller—roughly \$1 billion was shared by various federal agencies, \$80 million of which went to Commerce's Economic Development Administration to fund long-term economic recovery and growth projects. OIG reviews of these projects revealed that the successful ones rebuilt or replaced critical buildings and infrastructure, and were located within a 20-mile path of the hurricane. The unsuccessful ones were in areas less impacted by the hurricane and focused on developing tourism and new business ventures. Had EDA applied the following guidelines in every case, unsuccessful projects could have been identified and their funding transferred to better prospects:

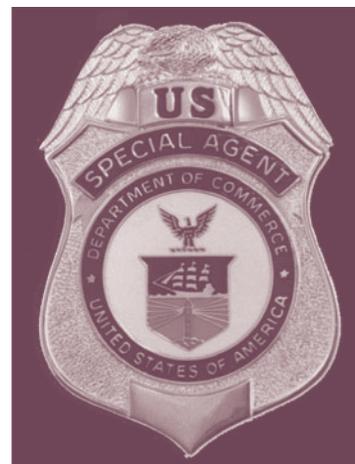
- Target communities directly impacted.
- Focus immediate rebuilding efforts on vital infrastructure and commercial concerns.
- Enforce standard monitoring procedures.
- Provide consistent, ongoing oversight both on-site and from agency headquarters.
- Quickly rehabilitate or terminate projects that are failing to meet milestone goals and transfer funds to other disaster recovery purposes.

“It is critical that agencies not overlook the need to give close attention to shortcomings in project oversight in light of the monumental rebuilding effort required post-Hurricane Katrina,” Mr. Frazier stated. “If officials recognize the symptoms of problem projects early on, they can promptly act to fix them, where possible, or terminate the award and redeploy the remaining funds.”

OFFICE OF INVESTIGATIONS

During this semiannual period, we achieved a significant measure of success and substantially enhanced the impact of our work by focusing our limited resources in several areas that currently make up the greatest part of our caseload: fraud and corruption involving contractors, grantees, and other private parties dealing with the Department; employee fraud, corruption, and misconduct;

and criminal and administrative misuse of government computer resources. The investigations highlighted below are representative of our accomplishments during this period in these areas of critical concern. Our investigative results are grouped by subject matter into three distinct areas: external and program fraud, internal misconduct, and computer crime.



CONTRACTOR, GRANTEE, AND OTHER EXTERNAL FRAUD AND CORRUPTION

Commerce disburses millions of dollars each year in financial assistance awards and government contracts. With large sums of money being entrusted to thousands of different recipients across the nation, it is unfortunately not uncommon for unscrupulous individuals to attempt to exploit bureaucratic vulnerabilities for professional or personal gain. Addressing fraud by contractors and grantees (as well as other forms of external fraud and corruption) is a high priority for OIG, and the Office of Investigations has markedly increased its attention to these issues over the past several years.

Economic Development Commission Officials Convicted on Program Fraud and False Statement Charges

In our September 2004 *Semiannual Report* (page 19), we reported the indictment of two former directors of a regional rural economic development commission for conspiracy, program fraud, and false statements in connection with their administration of federal grant funds, including funds awarded by EDA to operate a revolving loan fund. A joint OIG/FBI investigation disclosed that the defendants had used nearly half a million dollars in federal funds to make unauthorized loans and payments to benefit themselves and companies they controlled. On May 17, 2005, both defendants entered guilty pleas on single counts of the indictment in U.S. District Court for the Western District of Missouri. The former executive director of the commission pleaded guilty to federal program fraud, which could subject him to a sentence of up to 10 years in prison without parole, plus a fine of up to \$250,000. The former assistant director pleaded guilty to using false documents and was sentenced in September 2005 to 3 years' probation and a \$5,000 fine. (*Denver Resident Office*)

Census Contractor Ordered to Make Restitution to the Government for Credit Card Fraud

Under the terms of a pretrial diversion agreement with the State's Attorney's Office in Kane County, Illinois, on June 15, 2005, a Census vendor was ordered to pay \$23,225 in restitution and perform 500 hours of community service over a 36-month probationary period for fraudulently billing a credit card account issued to the bureau. As previously reported (see March 2005 *Semiannual Report*, page 19), an OIG investigation found that in addition to legitimate charges for services rendered to Census by his company, the vendor had billed a government purchase card for more than 20 fraudulent charges over an 8-month period in 2004. By admitting his culpability and complying with all terms and conditions of the pretrial agreement, the defendant will be eligible to have the charges dismissed at the completion of his probationary period. (*Alexandria Resident Office*)

Joint Investigation Reveals Extortion Scheme in Connection with Federally Funded Projects

On September 30, 2005, a construction company subcontracting on an EDA-funded public works project and the company's owner were charged with bribery in connection with an extortion scheme executed by a Philadelphia city official. A joint investigation involving the FBI, IRS, and OIGs of the departments of Commerce, Labor, and Transportation disclosed that the official was accepting bribes from private companies in exchange for issuing minority business certificates for use in obtaining construction contracts on city projects, including several projects funded by the federal government. The city official pleaded guilty to extortion in U.S. District Court for the Eastern District of Pennsylvania and was sentenced in May 2005 to 36 months' probation and a \$600 fine. The charges filed against the construction company and its owner could result in fines of up to \$500,000 each, and a 13-year maximum term of imprisonment for the owner. (*Alexandria Resident Office*)

Assignment of Fictitious Census Contract Results in Conspiracy Conviction

A Louisiana businessman was convicted of conspiracy to commit bank fraud as the result of a joint OIG/FBI investigation. As reported in our March 2005 *Semiannual Report* (page 19), the defendant had pledged his company's interest in the proceeds of an \$18.5 million contract with the Census Bureau as collateral for a \$6 million loan from a New Orleans bank. We established that documents he submitted to support the assignment were forged and no contract with Census actually existed. On April 21, 2005, the defendant entered a guilty plea in U.S. District Court for the Eastern District of Louisiana. Sentencing was scheduled for October 2005. (*Alexandria Resident Office*)

Local Government Officials Debarred

In April 2005, the former manager and former accountant of a municipal economic development organization in Massachusetts were debarred from receiving federal contracts or financial assistance awards for periods of 10 and 3 years, respectively. As noted in our March 2005 *Semiannual Report* (page 16), the debarred individuals are two of four local officials convicted of conspiracy and fraud in connection with the administration of grant funds awarded to the organization by the Economic Development Administration and other federal agencies. The other two officials were previously debarred. (*Alexandria Resident Office*)

EMPLOYEE FRAUD, CORRUPTION, AND MISCONDUCT

Investigation of criminal activities and misconduct by Commerce employees has long been the province of OIG, and it remains a staple of the Office of Investigation's work. During this semiannual period, OI successfully prosecuted one employee for bribery and resolved allegations of unethical conduct by two senior officials. We also pursued multiple cases of time and attendance fraud and theft of government property.

USPTO Employee Convicted on Bribery Charges

On June 23, 2005, a former supervisory engineering draftsman at USPTO was indicted for bribery in violation of 18 USC § 201 after an OIG investigation disclosed that she had solicited payment from patent applicants in exchange for drafting work to be performed by employees under her supervision. In September 2005, the defendant entered a guilty plea to all charges in U.S. District Court for the Eastern District of Virginia. Sentencing has not yet been scheduled. (*Alexandria Virginia Resident Office*)

Unethical Hiring Practices in USPTO's Office of Human Resources Result in Removal of Senior Employee

A supervisory patent examiner was removed from her position in August 2005 as the result of an OIG investigation into allegations of misconduct and mismanagement in USPTO's Office of Human Resources. The inquiry was prompted by a series of complaints alleging improper hiring practices, improper use of employee details, and violations of merit hiring principles in the office. The complaints had earlier resulted in an OIG audit of a questionable OHR recruitment that found USPTO did not have sufficient HR policies and procedures in place to guide its personnel function. (See our September 2004 *Semiannual Report*, page 40.) Our multidisciplinary follow-up effort included both investigation of specific instances of alleged misconduct and an analysis of OHR operations from a functional and management perspective.

With respect to the allegations of misconduct, we found that the patent examiner had violated employee ethical standards of conduct by actively participating in the hiring of a close family member as a human resources specialist working under her supervision. She was personally involved in the hiring process from its inception and took various actions to influence the result up through and including the selection phase. Because of the nepotism involved in the hiring, the relative was notified that her appointment would be cancelled.

Our inquiry also confirmed a wide variety of problems, including improper document handling, inappropriate hiring practices, misuse of details to place unqualified employees in positions, and violations of the agency's performance recognition procedures. Of greatest concern, we identified an organizational culture that overlooked violations of required merit system procedures and controls and exhibited widespread ignorance or disregard of basic ethical requirements.

In response to the recommendations generated by our inquiry, OHR is in the process of implementing significant changes to its policies, procedures, and office structure. In addition, USPTO management requested that the Office of General Counsel provide ethics training to all OHR staff members. (*Silver Spring Resident Office; Office of Audits; Office of Counsel*)

Procurement Official Counseled for Misconduct

An OIG investigation found that a senior procurement official who was involved in a personal relationship with an executive employed by a DOC contractor failed to notify all necessary parties of the relationship as part of the recusal process, thereby creating the appearance of a conflict of interest. The official was counseled and reminded of departmental expectations in this area. (*Silver Spring Resident Office*)

Former NWS Employee Sentenced for \$100,000 Time and Attendance Fraud

A former National Weather Service employee pleaded guilty to one count of theft of government property in April 2005 after an OIG investigation disclosed that she had used her position as a timekeeper to process and transmit false timesheets over a 2-year period to claim more than \$100,000 in overtime pay for hours she had not worked. In July 2005, the defendant was sentenced in U.S. District Court for the Eastern District of New York to 6 months' home detention, 3 years' probation, and 300 hours of community service. The employee resigned from government service in August 2005 upon receiving notice of her proposed removal; restitution to NOAA for the full amount of her theft had been made prior to sentencing. As a result of our investigation, various policy changes have been implemented in the defendant's former office.

Specifically, timekeepers are no longer allowed to process their own timesheets, and transmission file listings are now required for all time and attendance information transmitted to the National Finance Center. In addition, each supervisor has access to an overtime/compensatory time report for his or her office on a pay period basis, and the region's deputy director reviews individual overtime data at least once a month. (*Washington Field Office*)

Theft Conviction in Time and Attendance Fraud Case

An OIG investigation disclosed that over a span of four pay periods in late 2004, an office automation assistant at the National Ocean Service embezzled more than \$5,000 by using her position as alternate timekeeper to falsify her time in the T&A database, claiming 236 hours of overtime she had not worked. In September 2005, she pleaded guilty to theft in U.S. District Court for the District of Maryland and was sentenced to 12 months' probation, a \$500 fine, and ordered to pay \$5,151 in restitution. (*Atlanta Field Office*)

Crackdown on Time and Attendance Fraud at USPTO

Between April and September 2005, OIG uncovered evidence that five USPTO employees, including a patent examiner and several legal instruments examiners, were engaged in time and attendance fraud on a recurring basis, falsely claiming hundreds of hours of work time to obtain a total of more than \$25,000 in unearned salary payments. Two of the employees immediately resigned their positions when confronted with evidence of their misconduct. Three employees were arrested on state theft charges. On September 22, 2005, one of the three was convicted of felony theft in the Circuit Court of the City of Alexandria for embezzling more than \$14,000 by claiming approximately 400 hours of work he had not performed. His sentencing date is pending. (*Alexandria Resident Office*)

Census Employee Pleads Guilty to Theft of Debit Cards

A Census employee was charged in July 2005 with theft and making false statements in a Census matter after an OIG investigation established that she had improperly negotiated 47 debit cards worth almost \$2000 that were intended for distribution to the public as an incentive to participate in Census surveys. The debit cards were cashed in at least 21 different locations in southern Ohio, western West Virginia, and northern Kentucky. In the process, the employee submitted falsified survey forms to account for the missing cards. On September 15, 2005, the employee pleaded guilty to theft of government property in U.S. District Court for the Southern District of Ohio. Sentencing is pending. (*Denver Resident Office*)

Census Employee Arrested for Theft of Debit Cards

In July 2005, OIG agents arrested a Census employee in New York City on theft charges after an investigation established that she had stolen and cashed approximately 73 survey debit cards, valued at \$40 each, at various ATM locations throughout the city. The employee was responsible for maintaining and distributing the debit cards to field representatives for use in completing surveys. Prosecution is pending in U.S. District Court for the Southern District of New York. (*Washington Field Office*)

CRIMINAL USE AND MISUSE OF GOVERNMENT COMPUTERS

The Office of Investigations has dedicated considerable resources to improving its capabilities in the area of information technology security and integrity of government computer systems. Our Washington Field Office now has a full-time, well-equipped, and highly trained Computer Crimes Unit under its own assistant special agent-in-charge. This unit has aggressively and successfully pursued investigations into the criminal misuse of government computers, particularly in the area of Internet child pornography. During this semiannual reporting period, there were significant developments in several such investigations and criminal prosecutions. Each of these cases represents a sizable but necessary investment of time and resources to eliminate destructive and unacceptable conduct through successful prosecution and effective deterrence.

Former Census Employee Convicted on Child Pornography Charge

In May 2005, a former statistical mathematician at the Bureau of the Census was convicted in U.S. District Court for the Southern District of Indiana on one count of possessing child pornography in violation of 18 USC 2252, after an OIG investigation established that he had used his government computer to download sexually explicit images of children. When OIG investigators examined the employee's computer, they discovered several hundred pornographic images of children and more than 200 web e-mail links relating to the acquisition of logins and passwords for sites that hosted child pornographic images. In addition, e-mail and other



OIG special agents move seized computers and documents to the evidence room.

Source: OIG.

documents stored on his computer hard drive contained confirmations of the employee's subscriptions to various child pornography websites and evidence of child molestation. Because the employee was acting as a foster parent to two small children, we also alerted local Child Protective Services, which initiated appropriate follow-up actions. The individual resigned his position at Census in 2004 after initiation of our investigation. His sentencing was pending at the close of the reporting period. (*Washington Field Office*)

Former USPTO Employee Sentenced on Child Pornography Conviction

In our March 2005 *Semiannual Report* (page 35), we reported the conviction of a former patent examiner for possession of child pornography, which resulted from an OIG investigation that found he had downloaded hundreds of child pornographic images to both his government and home computers. On April 22, 2005, the defendant was sentenced in U.S. District Court for the Eastern District of Virginia to 30 months' incarceration, followed by 5 years' supervised probation. Upon release, he will also be required to register as a sex offender in his state of residence. (*Washington Field Office*)

TABLES AND STATISTICS

Statistical Overview

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Table 1. Investigative Statistical Highlights for this Period

Criminal Investigative Activities	
Arrests	6
Indictments and informations	10
Convictions	9
Personnel actions	4
Fines, restitutions, judgments, and other civil and administrative recoveries	\$141,885
Allegations Processed	
Accepted for investigation	45
Referred to operating units	51
Evaluated but not accepted for investigation or referral	18
Total	114

Audit Resolution and Follow-up

The Inspector General Act Amendments of 1988 require us to present in this report those audits issued before the beginning of the reporting period (April 1, 2005) for which no management decision had been made by the end of the period (September 30, 2005). Five audit reports remain unresolved for this reporting period (see pages 14 and 31).

Department Administrative Order 213-5, Audit Resolution and Follow-up, provides procedures for management to request a modification to an approved audit action plan or for a financial assistance recipient to appeal an audit resolution determination. The following table summarizes modification and appeal activity during the reporting period.

Table 2. Audit Resolution Follow-Up

Report Category	Modifications	Appeals
Actions pending (April 1, 2005)	0	9
Submissions	1	5
Decisions	1	4
Actions pending (September 30, 2005)	0	10

Table 3. Audit and Inspection Statistical Highlights for this Period

Questioned costs	\$15,510,326*
Value of audit recommendations that funds be put to better use	734,951
Value of audit recommendations agreed to by management	1,223,803
Value of inspection recommendations that funds be put to better use	290,737

*This number includes costs questioned by state and local government auditors or independent public accountants.

Table 4. Audits with Questioned Costs

Report Category	Number	Questioned Costs	Unsupported Costs
A. Reports for which no management decision had been made by the beginning of the reporting period	25	\$ 18,188,059	\$ 6,451,608
B. Reports issued during the reporting period	23	15,510,326	2,735,230
Total reports (A+B) requiring a management decision during the reporting period ¹	48	33,698,385	9,186,838
C. Reports for which a management decision was made during the reporting period ²	21	6,429,166	3,228,585
i. Value of disallowed costs		1,059,407	259,993
ii. Value of costs not disallowed		5,369,759	2,968,592
D. Reports for which no management decision had been made by the end of the reporting period	27	27,269,219	5,958,253

¹Four audit reports included in this table are also included among reports with recommendations that funds be put to better use (see table 5). However, the dollar amounts do not overlap.

²In Category C, lines i a□

Table 5. Audits with Recommendations that Funds Be Put to Better Use

Report Category	Number	Value
A. Reports for which no management decision had been made by the beginning of the reporting period	3	\$421,340
B. Reports issued during the reporting period	3	734,951
Total reports (A+B) requiring a management decision during the reporting period ¹	6	1,156,291
C. Reports for which a management decision was made during the reporting period ²	4	446,157
i. Value of recommendations agreed to by management		164,396
ii. Value of recommendations not agreed to by management		281,763
D. Reports for which no management decision had been made by the end of the reporting period	2	710,134

¹Four audit reports included in this table are also included in the reports with questioned cost (see table 4). However, the dollar amounts do not overlap.

²In Category C, lines i and ii

Definitions of Terms Used in the Tables

Questioned cost: a cost questioned by OIG because of (1) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; (2) a finding that, at the time of the audit, such cost is not supported by adequate documentation; or (3) a finding that an expenditure of funds for the intended purpose is unnecessary or unreasonable.

Unsupported cost: a cost that, at the time of the audit, is not supported by adequate documentation. Questioned costs include unsupported costs.

Recommendation that funds be put to better use: an OIG recommendation that funds could be used more efficiently if Commerce management took action to implement and complete the recommendation, including (1) reductions in outlays; (2) de-obligation of funds from programs or operations; (3) withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds; (4) costs not incurred by implementing recommended improvements related to Commerce, a contractor, or a grantee; (5) avoidance of unnecessary expenditures identified in preaward reviews of contracts or grant agreements; or (6) any other savings specifically identified.

Management decision: management's evaluation of the findings and recommendations included in the audit report and the issuance of a final decision by management concerning its response.

APPENDIX A. REPORT TYPES THIS PERIOD

Type	Number of Reports	Appendix Number
Performance audits	5	A-1
Financial assistance audits	11	A-2
Inspections and systems evaluations	6	A-3
Total	22	

APPENDIX A-1. PERFORMANCE AUDITS

Report Title	Report Number	Date Issued	Funds to Be Put to Better Use
Minority Business Development Agency			
Value of MBDA Performance Measures is Undermined by Inappropriate Combining of Program Results and Unreliable Performance Data from MBOC Program	FSD-17252-5-0001	09/30/05	—
National Oceanic and Atmospheric Administration			
Opportunities to Strengthen Internal Controls Over Improper Payments	BSD-16186-5-0001	07/08/05	—
The NMFS Review Process for the California Central Valley and State Water Projects' Biological Opinion Deviated from the Region's Normal Practice	STL-17242-5-0001	07/08/05	—
Follow-up Audit of Inspection Report OSE-15676 Acquisition of NEXRAD Transition Power Source Marred by Management, Technical, and Contractual Problems	BSD-17613-5-0001	09/30/05	—
National Institute of Standards and Technology			
NIST's Procurement Practices Have Improved But Additional Challenges Remain	BSD-16656-5-0001	09/30/05	—

APPENDIX A-2. FINANCIAL ASSISTANCE AUDITS

Report Title	Report Number	Date Issued	Value of Funds to Be Put to Better Use	Federal Amount Questioned	Federal Amount Unsupported
Bureau of the Census					
Computer & Hi-Tech Management, Inc., VA	DEN-17445-5-0002	09/30/05		\$ 1,486,234	\$ 85,936
Computer & Hi-Tech Management, Inc., VA	DEN-17445-5-0001	09/30/05		9,263,559	608,953
Economic Development Administration					
Erie County Industrial Development Agency, NY	ATL-16533-5-0001	09/27/05	703,718	221,691	105,218
Minority Business Development Agency					
National Minority Supplier Development Council of Florida	ATL-17363-5-0001	09/29/05			
Wisconsin Business Resource Center, Inc.	DEN-17423-5-0001	09/30/05			
National Institute of Standards & Technology					
BRAINSTORM Technology, LLC, NY	DEN-17247-5-0001	08/05/05		1,506	
Targacept, Inc., NC	DEN-17248-5-0001	08/24/05			
Actuality Systems, Inc., MA	DEN-16980-5-0001	09/13/05		2,855	624
National Oceanic & Atmospheric Administration					
Northwest Indian Fisheries Commission, Audit of Subgrant with the Nisqually Tribe, WA	STL-16657-5-0005	07/21/05		695,868	695,868
Northwest Indian Fisheries Commission, Audit of Subgrant with the Quinault Tribe, WA	STL-16657-5-0007	09/30/05		382,060	366,772
Northwest Indian Fisheries Commission, Audit of Subgrant with the Quileute Tribe, WA	STL-16657-5-0008	09/30/05		761,785	750,141

APPENDIX A-3. INSPECTIONS AND SYSTEM EVALUATIONS

Agency	Report Title	Report Number	Date Issued	Funds to Be Put to Better Use
Census	FDCA Program for 2010 Census Is Progressing, but Key Management and Acquisition Activities Need to Be Completed	OSE-17368	08/05/05	—
NOAA	The Northeast River Forecast Center Is Well Managed, But Some Improvements Are Needed	IPE-17259	08/01/05	—
ITA	Better Management of the Overseas Security Program and Security Funds Is Needed	IPE-17446	09/30/05	\$290,737
Office of the Secretary	Commerce's Emergency Preparedness Efforts Are Improving, but Additional Management Guidance and Oversight Are Needed	IPE-17198	08/19/05	—
	FY 2005 FISMA Evaluation	OSE-17131	10/07/05	—
USPTO	Information Security in Contracts Needs Better Enforcement and Oversight	OSE-17455	09/30/05	—

APPENDIX B. PROCESSED AUDIT REPORTS

The Office of Inspector General reviewed and accepted 157 audit reports prepared by independent public accountants and local, state, and other federal auditors. The reports processed with questioned costs, recommendations that funds be put to better use, and/or non-financial recommendations are listed in Appendix B-1.

Agency	Audits
Economic Development Administration <input type="checkbox"/>	23
National Institute of Standards and Technology*	76
National Oceanic and Atmospheric Administration	13
National Telecommunications and Information Administration	3
Multiagency	38
Agency not identified	4
Total	57

*Includes 74 ATP program-specific audits.

APPENDIX B 1. PROCESSED REPORTS WITH AUDIT FINDINGS

Report Title	Report Number	Date Issued	Value of Funds to Be Put to Better Use	Federal Amount Questioned	Federal Amount Unsupported
Economic Development Administration					
Native American Development Corporation, MT	ATL-09999-5-2077	08/23/05		\$15,350	
Seneca County Industrial Development Agency, Inc., NY	ATL-09999-5-2192	09/22/05		59,772	
Southwestern Wisconsin Regional Planning Commission	ATL-09999-5-2099	09/28/05		25,352	
National Institute of Standards and Technology					
CombineNet, Inc., PA	DEN-09999-5-1741	04/01/05			
GSE, Inc., NV	ATL-09999-5-1939	06/10/05	\$24,817		
Evergreen Solar, Inc., MA	DEN-09999-5-1825	06/30/05		493,969	
E.I. duPont de Nemours & Co., CR&D, DE	ATL-09999-5-2019	07/06/05		1,265,851	
Gene Network Sciences, Inc., NY	ATL-09999-5-1924	07/06/05		179,795	
Immerge BioTherapeutics, Inc., MA	ATL-09999-5-1948	07/06/05		6,275	
Xradia, Inc., CA	ATL-09999-5-1929	07/06/05	6,416	10,688	
IBM T.J. Watson Research Center, NY	ATL-09999-5-1968	08/03/05		297,809	
Teranex, Inc., FL	ATL-09999-5-2027	08/03/05		34,622	
Agility Communications, Inc., CA	ATL-09999-5-1977	08/23/05		45,967	
Imaging Systems Technology, Inc., OH	ATL-09999-5-1948	09/09/05		46,242	
RheoGene, Inc., PA	ATL-09999-5-2163	09/09/05		121,718	\$121,718
Cabot Superior MicroPowders, NM	DEN-09999-5-1654	09/14/05		22,300	
Alfred University, NY	ATL-09999-5-2182	09/28/05		69,058	

REPORTING REQUIREMENTS

The Inspector General Act of 1978, as amended, specifies reporting requirements for semiannual reports. The requirements are listed below and indexed to the applicable pages of this report.

Section	Topic	Page
4(a)(2)	Review of Legislation and Regulations	53–54
5(a)(1)	Significant Problems, Abuses, and Deficiencies	11–39
5(a)(2)	Significant Recommendations for Corrective Action	11–39
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5(a)4	Matters Referred to Prosecutive Authorities	46
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5(a)(9)	Audit Reports—Funds to Be Put to Better Use	48
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5(a)(11)	Significant Revised Management Decisions	54
5(a)(12)	Significant Management Decisions with which OIG Disagreed	54

Section 4(a)(2): Review of Legislation and Regulations

This section requires the inspector general of each agency to review existing and proposed legislation and regulations relating to that agency's programs and operations. Based on this review, the inspector general is required to make recommendations in the semiannual report concerning the impact of such legislation or regulations on the economy and efficiency of the management of programs and operations administered or financed by the agency or on the prevention and detection of fraud and abuse in those programs and operations. Comments concerning legislative and regulatory initiatives affecting Commerce programs are discussed, as appropriate, in relevant sections of the report.

Section 5(a)(3): Prior Significant Recommendations Unimplemented

This section requires identification of each significant recommendation described in previous semiannual reports for which corrective action has not been completed. Section 5(b) requires that the Secretary transmit to Congress statistical tables showing the number and value of audit reports for which no final action has been taken, plus an explanation of the reasons why recommended action has not occurred, except when the management decision was made within the preceding year.

To include a list of all significant unimplemented recommendations in this report would be duplicative. Information on the status of any audit recommendations can be obtained through OIG's Office of Audits.

Sections 5(a)(5) and 6(b)(2): Information or Assistance Refused

These sections require a summary of each report to the Secretary when access, information, or assistance has been unreasonably refused or not provided. There were no instances during this semiannual period and no reports to the Secretary.

Section 5(a)(10): Prior Audit Reports Unresolved

This section requires a summary of each audit report issued before the beginning of the reporting period for which no management decision has been made by the end of the reporting period (including the date and title of each such report), an explanation of why a decision has not been made, and a statement concerning the desired timetable for delivering a decision on each such report. There were three Census and two NIST reports more than 6 months old.

Section 5(a)(11): Significant Revised Management Decisions

This section requires an explanation of the reasons for any significant revision to a management decision made during the reporting period. Department Administrative Order 213-5, Audit Resolution and Follow-up, provides procedures for revising a management decision. For performance audits, OIG must be consulted and must approve in advance any modification to an audit action plan. For financial assistance audits, OIG must concur with any decision that would change the audit resolution proposal in response to an appeal by the recipient. The decisions issued on one modification and four appeals of audit-related debts were finalized with the full participation and concurrence of OIG.

Section 5(a)(12): Significant Management Decisions with Which OIG Disagreed

This section requires information concerning any significant management decision with which the inspector general disagrees. Department Administrative Order 213-5 provides procedures for elevating unresolved audit recommendations to higher levels of Department and OIG management, including their consideration by an Audit Resolution Council. During this period no audit issues were referred to the council.

ACRONYMS

ATP.....	Advanced Technology Program
BEA.....	Bureau of Economic Analysis
BIS.....	Bureau of Industry and Security
CAM.....	Commerce Acquisition Manual
CAMS.....	Commerce Administrative Management System
CBS.....	Commerce Business Systems
C&A.....	certification and accreditation
CIO.....	chief information officer
CS.....	Commercial Service
DS.....	Diplomatic Security
EAR.....	Export Administration Regulations
EDA.....	Economic Development Administration
ESA.....	Economics and Statistics Administration
ESA.....	Endangered Species Act
FDCA.....	Field Data Collection Automation
FISMA.....	Federal Information Security Management Act
GAO.....	Government Accountability Office
GIS.....	Geographic Information Systems
GPS.....	Global Positioning System
GSA.....	Government Printing Office
GPRA.....	Government Performance and Results Act
IG.....	inspector general
IT.....	information technology
ITA.....	International Trade Administration
MBDA.....	Minority Business Development Agency
MBOC.....	Minority Business Operating Committee

MEP	Manufacturing Extension Partnership
NDAA	National Defense Authorization Act
NIST	National Institute of Standards and Technology
NMFS	National Marine Fisheries Service
NOAA	National Oceanic and Atmospheric Administration
NPOESS	National Polar-orbiting Operational Environmental Satellite System
NTIA	National Telecommunications and Information Administration
NWS	National Weather Service
OCAP	Operations, Criteria, and Plan
OHR	Office of Human Resources
OIG	Office of Inspector General
OMB	Office of Management and Budget
OSY	Office of Security
RFC	river forecast center
RLF	revolving loan fund
USPTO	United States Patent and Trademark Office
VoIP	voice over Internet Protocol
WFO	weather forecast office

TYPES OF OIG WORK PRODUCTS

The various kinds of audits, evaluations, inspections, and investigations at our disposal enable the IG's office to assess Commerce programs and operations from a range of perspectives. Thus we are able to provide program managers with reviews and recommendations that are either narrowly focused or comprehensive, as needed, to aid them in ensuring the most efficient and effective use of taxpayer dollars.

AUDITS

Performance Audits address the efficiency, effectiveness, and economy of the Department's programs, activities, and information technology systems. They may check a unit's compliance with laws and regulations, and evaluate its success in achieving program objectives. They may also involve reviewing the Department's financial assistance awards by assessing an award recipient's compliance with laws, regulations, and award terms; allowance of costs; and the degree to which projects achieved intended results.

Financial Audits determine whether (1) a reporting entity's financial statements are presented fairly and in accordance with generally accepted accounting principles; (2) the entity has an internal control structure that provides reasonable assurance of achieving the control objectives set forth by OMB; and (3) the entity complied with laws and regulations that could have a direct and material effect on the financial statements, the Federal Financial Management Improvement Act, and other laws and regulations.

Attestation Engagements involve examining, reviewing, or performing agreed-upon procedures on a subject matter or an assertion about a subject matter and reporting the results. Attestation engagements can have a broad range of financial or nonfinancial

focuses, such as an entity's compliance with laws and regulations; management's discussion and analysis presentations; and allowability and reasonableness of final grant and contract costs.

INSPECTIONS

Inspections are reviews of an activity, unit, or office, or a contractor or other nonfederal entity that receives funds from the Department. They focus on an organization, not a whole program, and are often designed to give agency managers timely and useful information about operations, including current and foreseeable problems.

EVALUATIONS

Program Evaluations are in-depth reviews of specific management issues, policies, or programs.

Systems Evaluations review system development, acquisitions, operations, and policy, focusing on computer systems and other technologies.

INVESTIGATIONS

Investigations are conducted based on alleged or suspected wrongdoing by Department employees, contractors, recipients of financial assistance, and others responsible for handling federal resources. Investigations that expose violations of Department rules and regulations or acts of fraud committed against the U.S. government can result in administrative sanctions and/or criminal or civil prosecution.



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