

**U.S. DEPARTMENT OF COMMERCE**  
**Office of Inspector General**

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***Semiannual Report  
to the Congress***

***September 30, 1997***



Under the provisions of the Inspector General Act of 1978, Public Law 95-452, as amended, we report twice yearly to the Congress on the activities of the Office of Inspector General. We describe the major problems, abuses, and deficiencies identified during audits, inspections, and investigations, along with our recommendations for corrective action.

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# Message for the Secretary

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October 31, 1997

The Honorable William M. Daley  
Secretary of Commerce  
Washington, DC 20230

Mr. Secretary:

This report provides a comprehensive overview of Office of Inspector General activities for the second half of fiscal year 1997. Section 5 of the Inspector General Act requires that you transmit this report, with any comments you may wish to add, to the appropriate congressional committees within 30 days.

I appreciate the opportunity you have provided me, through participation in the Department's executive management team, to work more closely with senior bureau officials in identifying and addressing the Department's management issues. I also want to express my appreciation of your leadership in specifically addressing the 10 areas of management and program weaknesses identified by our office in cooperation with the General Accounting Office.

However, the Department still faces significant management and programmatic challenges that require intensive oversight and attention. Initiatives such as the 2000 decennial census, the National Weather Service modernization, the disestablishment of the NOAA Corps, the proposal to convert PTO to a performance-based organization, and the modernization of the Commerce Administrative Management System, to name a few, are approaching critical decision points.

Just as your personal leadership has been crucial in addressing the Department's management issues, so too will your continued oversight be essential in ultimately resolving them. I urge you to stay apprised of the problems, for much remains to be done.

Sincerely,

A handwritten signature in black ink, which appears to read "Francis D. DeGeorge".

Francis D. DeGeorge  
Inspector General

Enclosure



# Table of Contents

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MESSAGE FOR THE CONGRESS .....	1
Foreword .....	1
Major Areas of Concern .....	2
PTO Management and Program Issues .....	2
NOAA Fleet and NOAA Corps .....	3
2000 Decennial Census .....	5
Advanced Technology Program .....	8
NWS Modernization .....	9
Facilities Planning and Laboratory Consolidation .....	10
Financial Management .....	12
NTIS Efforts to Become a Performance-Based Organization .....	14
Resolution and Follow-Up .....	15
DEPARTMENT OF COMMERCE ORGANIZATION CHART .....	17
AGENCY OVERVIEWS .....	18
Bureau of Export Administration .....	18
Economic Development Administration .....	20
Economics and Statistics Administration .....	24
Bureau of Economic Analysis	
Bureau of the Census	
International Trade Administration .....	27
Minority Business Development Agency .....	30
National Oceanic and Atmospheric Administration .....	33
National Telecommunications and Information Administration .....	44
Patent and Trademark Office .....	46
Technology Administration .....	48
National Institute of Standards and Technology	
National Technical Information Service	
Departmental Management .....	55
REPORTING REQUIREMENTS .....	62
STATISTICAL HIGHLIGHTS .....	66
TABLES AND APPENDIXES .....	67
DEFINITIONS OF OIG REVIEWS .....	80
GLOSSARY OF ABBREVIATIONS .....	81
OIG ORGANIZATION CHART AND POINTS OF CONTACT (Inside Back Cover)	

# Message for the Congress

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## FOREWORD

In approaching the 20th anniversary of the Inspector General Act of 1978, we remain committed to our objectives of detecting and preventing waste, fraud, and abuse, and promoting economy, efficiency, and effectiveness in the Department of Commerce's programs and operations. In recent years, our efforts have been aided by the passage of key management reform legislation, including the Chief Financial Officers Act of 1990, the Government Performance and Results Act of 1993, the Government Management Reform Act of 1994, and the Federal Financial Management Improvement Act of 1996. This body of legislation has established a sound framework for strengthening managerial accountability, ensuring the effective use of resources, and enhancing program performance.

Major ongoing initiatives remain the focus of our efforts to improve the Department's management and administration. We still have concerns about the difficulties in designing and deploying the Advanced Weather Interactive Processing System, the key integrating element of the National Weather Service's modernization program; the completion of planning and implementation of the 2000 decennial census; NOAA's response to congressional guidance concerning the NOAA Corps and fleet; and the increasing costs and slow pace of implementation of the Commerce Administrative Management System.

We are expanding our program reviews of U.S. and Foreign Commercial Service posts to better respond to long-standing congressional direction to examine the Department's international trade programs and comply with the Omnibus Trade and Competitiveness Act of 1988. In this report, we discuss the results of our reviews of US&FCS posts in Germany, Poland, Thailand, Indonesia, and Malaysia. An ambitious schedule of additional reviews is planned for the upcoming reporting period.

We are also increasing our attention to PTO management and program issues. This report discusses the results of our review of PTO's patent quality review process. In addition, we are reviewing PTO's transition to a new systems development and maintenance contract for the Automated Patent System, its cost accounting and fee restructuring effort, its implementation of the Patent Application Management System, and its plans to consolidate operations at a new facility to be constructed in northern Virginia.

We will continue to keep the Department and the Congress fully informed of our activities.

A handwritten signature in black ink, appearing to read "Francis D. DeGeorge".

Francis D. DeGeorge  
Inspector General

## **MAJOR AREAS OF CONCERN**

This section highlights what we consider to be the major areas of concern for the Department. By addressing these areas, the Department and the Congress can improve program management, eliminate serious operational problems, decrease vulnerability to fraud and waste, and achieve significant cost savings.

### ***PTO Management and Program Issues***

As the Congress considers legislation to establish the Patent and Trademark Office as a performance-based organization, we have serious concerns about many aspects of the agency's operations. There is stagnant productivity and a growing patent application backlog. During the past year, patent pendency exceeded 20 months for the first time in nine years. Although PTO has invested heavily in automation and business process reengineering to improve program operations, the benefits of these costly investments have thus far been disappointing. The agency is currently making major decisions about its future space requirements, which could involve moving the entire organization in the near future. Finally, proposed legislation would convert the agency to a government corporation.

During this reporting period, we completed a review of PTO's Office of Patent Quality Review (OPQR) and its efforts to reengineer its review process (see page 46). OPQR's purpose is to monitor and evaluate the quality of the patent examination process by reviewing selected allowed patents. The results of these quality reviews are essential in identifying operational deficiencies and suggesting actions to correct them. In recent years, in anticipation of implementing the reengineered patent quality process, OPQR staffing has been cut almost in half, which has reduced its ability to report statistically accurate information about quality to PTO management.

However, implementation has been delayed by problems encountered during the pilot test, uncertainties surrounding FY 1998 funding, and negotiations with employee unions. PTO prematurely reduced OPQR's staff before the reengineered process was complete or demonstrated to be an effective quality control mechanism, preventing OPQR from reviewing patents at the same rate as before. Because of the importance of maintaining public confidence in the quality of issued patents, we recommended that OPQR staffing be restored to its former level so that sampling can be resumed at the previous rate. PTO management has concurred.

## **Automation Efforts**

We are currently conducting an inspection of PTO's transition to a new systems development and maintenance contract for the Automated Patent System. PTO has replaced its long-standing prime contract for the system with two new system development and maintenance contracts, valued at \$511 million over the next eight years. The purpose of our inspection is to determine PTO's preparedness to transfer system activities to the new contractors.

In addition, we are assessing PTO's progress in developing and implementing the Patent Application Management system (PAM). Part of the Automated Patent System plan, PAM is one of the few components of the system that is expected to improve the productivity of the patent application process. Yet implementation of PAM has been repeatedly postponed. As the backlog of patent applications continues to build, the need for PAM becomes greater. PTO should find a way to implement PAM, or it will suffer from additional backlog growth and cost increases.

## **Consolidation of Headquarters Offices**

We are reviewing PTO's efforts to consolidate its operations at a new design-to-lease, 2-million-square-foot facility to be constructed and ready for occupancy by 2001. Lease payments will total approximately \$57 million for 20 years. We believe that there has been inadequate planning for completing the interior design of the facility, which subjects the lease development effort to increased cost and schedule risks. Further, PTO does not have a written agreement with the General Services Administration describing their respective roles and responsibilities under this project. Since this will be one of the largest federal space procurements in the next decade, a written description of the agencies' relative responsibilities and how the project will be managed would seem to be essential.

## ***NOAA Fleet and NOAA Corps***

### **Decommissioning the Fleet**

We remain concerned about NOAA's plans to continue investing millions of dollars in an in-house fleet without demonstrating that this best meets its programmatic needs, fully exploring alternatives, or accounting for how the fleet would be operated. We are also concerned that the Department is supporting NOAA's planned investments without requiring NOAA to take these actions. NOAA officials have consistently stated that the agency's ships

provide unique services and are cost-competitive with non-NOAA vessels. We have consistently disagreed. The issue needs to be addressed.

We, the Congress, OMB, GAO, and others have repeatedly urged NOAA to explore alternatives to an agency designed, owned, and operated fleet for acquiring marine data. In our 1996 program evaluation report on NOAA's 1995 fleet operations and modernization plan (see March 1996 issue, page 43), we recommended that NOAA terminate its modernization plan; cease investing in its ships; begin immediately to decommission, sell, or transfer them; and contract for the required ship services. Unfortunately, despite some claims of progress, NOAA has yet to seriously articulate its needs for ship services to the private sector, academia, and other government ship operators that can provide more cost-effective and modern platforms, as has been requested by the Congress.

### **Eliminating the Corps**

In May 1997, the Department submitted to OMB a legislative proposal and transition plan for eliminating the NOAA Corps. The version of the proposed legislation that has been sent to the Congress is a significant improvement over earlier drafts, and many of our initial concerns have been addressed. However, one important issue remains unresolved: the maximum number of officers that should be converted to civil service positions.

In our recent report on our evaluation of the transition plan (see page 33), we recommended that NOAA:

- ! Convert only 100 line-office billets to civilian positions. This represents the approximate number of positions that can be paid for from the line organizations' budgets without using funds from ship-support appropriations.
- ! Eliminate aircraft activities not directly related to NOAA's mission and limit the number of officer conversions for ship- and aircraft-related activities to 70 positions. Outsourcing options appear to be readily available and cost effective. Creating no more than 70 civil service positions for ship and aircraft services will ensure sufficient staffing to maintain essential in-house services while providing an incentive to use more cost-effective outsourcing options.

- ! Provide military retirement benefits to NOAA Corps officers with at least 15 years of service and convert only non-retiring officers. We believe that NOAA should implement the transition plan in the following manner: (1) retire all 120 officers with at least 15 years of service, (2) identify the 170 most critical positions in the line organizations and program support activities and fill as many of these as possible with non-retiring officers, (3) determine which of the 170 positions cannot be filled immediately by non-retiring officers, and (4) hire qualified temporary personnel for any position identified in the previous step until one of the non-retiring officers can be trained.

### **2000 Decennial Census**

Since the last semiannual report, the OIG has continued to work closely with senior departmental and Census Bureau officials to strengthen decennial planning and management. Despite progress in addressing a number of issues related to the 2000 decennial census, many remain unresolved, most notably congressional concerns about sampling.

Over the past several months, the Census Bureau has implemented a number of planning and management improvements, including (1) creating an integration team to ensure that the progress and design of individual components are compatible with the overall decennial plan, and (2) developing a decision path that shows schedules, milestones, and interdependencies among the design components. However, while the decision path is operational, it is not complete, as modifications are still being made. In addition, the bureau has recently taken steps to improve its decennial census cost model. It has reviewed the accuracy of the information in the tracking system and is making needed improvements. Although these are major improvements, the greatest benefit will come from linking these management tools so that the bureau can assess the cost impact of schedule and milestone changes. With this information, the bureau can determine how resources should be allocated to help ensure that design elements are completed on schedule.

The Census Bureau has also moved to fill key vacancies, in particular the positions of Deputy Director, Principal Associate Director, Chief Financial Officer, and Associate Director for Information Technology. Each of these senior officials plays an important role in supporting leadership in financial and management systems, two areas that have presented significant challenges.

Although the bureau has recently made progress in determining the statistical design for the 2000 decennial census, a number of interrelated, time-sensitive tasks remain to be completed. Bureau officials and outside observers have agreed that it is essential for the Dress Rehearsal, scheduled for the spring of 1998, to be a true “dry run” of the census, so that they can fully evaluate census plans. To allow sufficient time for subsequent implementation and operations activities, the statistical design must be completed by December 1997. In short, the bureau has an extremely limited time to resolve the remaining statistical questions related to the design, including developing procedures for identifying duplicate census forms, measuring error in the population estimates, and improving the quality of small area data.

The bureau also needs to increase its credibility with the Congress. A series of miscommunications involving sampling plans has exacerbated concerns that some Members of Congress and other stakeholders have had about the use of sampling. To address this major communications problem, the bureau must provide detailed, consistent, coherent documentation in its plans to the Congress. While a recent report to the Congress contained errors, its level of detail and accompanying research papers represent a step in the right direction. The bureau’s recent decision to convene a panel of independent experts to review its sampling plans is another positive step. However, the bureau must move quickly to provide the information that the panel needs to complete its review. The best way for the bureau to confirm the validity of its sampling approach is to ensure that only methodologies identical or very similar to those chosen for the 2000 census are part of the Dress Rehearsal.

The 2000 decennial census targeted questionnaire program may not be necessary and may compromise the bureau’s ability to achieve its goals of increasing accuracy and containing costs (see page 24). The 1995 Census Test results indicated that the program’s components (targeted mailings of questionnaires in English and Spanish and targeting areas with blank census forms in multiple languages) did not increase response rates for the intended populations. Giving people multiple opportunities to respond generally increases and complicates field operations and data processing and can affect accuracy. The bureau has agreed to design a targeted questionnaire program that considers cost, schedule, performance, and public perception constraints and trade-offs, and to communicate the program’s scope and limitations to local partners. Increased targeting may not be necessary because the bureau has already made sampling an integral part of its 2000 design to compensate for ineffective coverage improvement programs in past censuses.

We have been conducting an inspection of the headquarters information processing systems for the 2000 decennial census. Headquarters processing systems are important because they support key operations throughout the decennial census. We found that software is not being developed under a well-defined process and that, as a result, the bureau is lacking assurance that the work is proceeding efficiently and that the software will perform its intended functions correctly. Census has confirmed our findings and has moved to strengthen its software processes.

We also found that estimates of software development schedules and resources for the Dress Rehearsal and the 2000 census are not realistic. Rather than reflecting the time *required* for development, the bureau's estimates represent the time *available*. Without estimates of how long tasks will take, management cannot determine the staffing levels necessary to support software development or whether software development schedules are achievable.

Finally, we found that requirements for headquarters processing are incomplete and likely to be late. The Dress Rehearsal and the census will rely on statistical processes that have not been used in previous censuses. Therefore, decisions concerning the details of these processes must be documented in requirements specifications for software that must still be developed.

However, statistical research is still being conducted, and important decisions concerning the details of some of these processes have not yet been made; until these decisions are made, important requirements specifications cannot be prepared. As a result, some software developers plan to begin development without associated requirements specifications or with specifications that are likely to change. This increases the risk that costly, time-consuming modifications will be needed at a later date to accommodate changes in requirements. We believe that the bureau should focus now on defining and refining requirements, rather than risk having to modify prematurely designed and developed software.

We have discussed our concerns and preliminary observations with bureau managers, who have begun to address them. Our formal report will be issued during the next semiannual period.

We continue to recommend that decennial management be identified as a material weakness in the Department's FY 1997 report to the Congress under the Federal Managers' Financial Integrity Act.

### **Advanced Technology Program**

NIST's Advanced Technology Program (ATP) is a cost-sharing program designed to accelerate the development and commercialization of promising high-risk technologies by American businesses by providing funds to individual companies and joint ventures for research and development. We have identified two major ATP-related issues that need management attention: (1) joint venture participants' use of commercial prices in calculating the cost of projects, and (2) NIST's handling of incremental funding. The Secretary has directed that our recommendations be implemented, and NIST has taken actions, described below, to strengthen the management of ATP.

#### **Use of Commercial Prices**

More than 100 joint venture ATP awards involving over 500 companies have been issued, with total estimated costs exceeding \$2 billion. Our audit of two ATP joint venture awards with a total of 19 participants and \$64.3 million in federal and nonfederal funds has identified questioned costs of \$10.7 million, generally involving software companies that provided licenses, maintenance and support, or other items from a commercial product line for use on a project. Some joint venture participants have not complied with federal rules that prohibit financial assistance award recipients from being reimbursed for previously invested development costs, corporate interest expenses, or profit—which are significant ingredients of software commercial prices (see page 50). A number of participants that we have audited strongly disagree with our views on this matter.

The Department and NIST have moved to correct this problem for future ATP awards. We worked with NIST grants and program officials on a proposed rule, published in the *Federal Register* on September 17, 1997, to address the valuation of transfers of goods, including computer software, and services between separately owned joint venture members.

#### **Incremental Funding**

Although ATP projects generally require several years to complete, funding has been provided on an incremental basis—one year at a time. Funding for each subsequent year is intended to be contingent on the availability of funds and the grantee's satisfactory performance. To be eligible for multi-year funding, the project must be severable into annual increments of work that represent tangible accomplishments.

As a result of our audit work, NIST has agreed to review open projects with the objective of either (1) funding the remaining balance in the current year if the work is not severable, or (2) reconfirming that each prospective year's work can be discretely identified and thus funded on an annual basis. NIST has also agreed to ensure that all multi-year funded projects contain clearly defined quantitative technical milestones that are severable into annual increments of meaningful work so that, in the event that prospective funding is not provided, work already funded has significance (see page 48).

### ***NWS Modernization***

We continue to review the National Weather Service's \$4.5 billion program to modernize its observing and information systems and to reduce more than 250 field offices to 119. During this period, we focused on follow-up monitoring of past inspection recommendations related to the Advanced Weather Interactive Processing System (AWIPS). We have also provided analyses and recommendations in response to specific questions about AWIPS from the Department and the Congress.

In October 1996, Secretary Kantor directed NOAA to delay Key Decision Point-IV, the milestone that would allow nationwide AWIPS deployment to begin, until January 1, 1997, or until full testing of NOAA's new design (that is, the use of WFO-Advanced integrated with selected AWIPS components—see March 1997 issue, page 9) was complete and the results were fully evaluated, whichever was later. In February 1997, Secretary Daley decided to allow NOAA to procure and deploy only 21 AWIPS systems, with an option to procure 18 additional systems beginning in July 1997 if appropriate development and deployment progress had been demonstrated.

In July 1997, in response to departmental concerns, we advised the Department of our view that NOAA had not met the condition of demonstrating appropriate progress and that the option for 18 additional systems should not yet be exercised. Although NOAA had decided to convert to WFO-Advanced in August 1996, it still had not developed a detailed description of the technical work needed to complete AWIPS under the new WFO-Advanced design or developed a definitive schedule and cost estimate. In addition, it had failed to identify the organizational responsibilities and staffing required to complete the work, including the responsibilities and staffing of the National Weather Service, the Forecast Systems Laboratory, the AWIPS Acquisition Office, the prime contractor, and NOAA support contractors.

Without detailed plans for completing AWIPS or the results of the operational test and evaluation of the new AWIPS design, we concluded that neither NOAA nor the Department will be in a position to certify that the system can be completed within the legislatively mandated \$550 million cap. The Secretary has directed that the decision on exercising the option to deploy the additional systems should not be made until the results of operational testing and evaluation of AWIPS are known—estimated to be in November 1997.

### ***Facilities Planning and Laboratory Consolidation***

#### **NIST's Capital Improvements Facilities Program**

In our March 1997 issue (see page 61), we reported on the results of our review of NIST's Capital Improvements Facilities Program (CIFP). Since that time, the Department has, at our recommendation, improved its oversight of CIFP. The Department has taken a more active role in determining if CIFP budget requests are reasonable and justified, and the Department's Office of Budget, Management, and Information has coordinated a successful effort to obtain updated and reliable information on NIST's facilities needs and plans.

Moreover, NIST has modified its previous plan. NIST submitted to the Department a draft, five-year facilities plan (FY 1999-FY 2003), with an estimated cost of \$630 million. While an improvement over the previous plan, in our opinion the current NIST plan still has problems, several of which we discuss below.

- ! **Plan fails to adequately justify all construction and renovation costs.** First, NIST's plan fails to adequately justify its \$80 million renovation cost estimates for each of two general purpose laboratory buildings in Gaithersburg, Maryland. Second, by leasing and building two large facilities in Gaithersburg that were not in its original plans, NIST has greatly increased its square footage, without developing corresponding plans to terminate the use of older, less useful space. NIST should take into account the likelihood of restricted budgets when making and changing facilities plans. We believe that the Department must scrutinize these and future plans to ensure that all construction and renovation costs are fully justified.

! **Proposed advanced laboratory is not needed in Boulder.** NIST's current draft plan includes a \$21 million "clean room" in Boulder, Colorado, which, in our view, is not needed. We believe that all requirements for advanced laboratory and clean room space being considered for Boulder should be incorporated into the advanced laboratory facilities in Gaithersburg. We also recommend that NIST thoroughly reevaluate renovation proposals and the size of the proposed Central Utility Plant in Boulder in light of projected future operations there. In addition, we have previously recommended that the Department conduct a study to determine the costs and benefits of full, as well as partial, consolidation of Boulder programs and operations in Gaithersburg over the long-term, not only the five-year study period. A recent study by an independent contractor concluded that consolidation may be cost effective. Our observations—based on over two years of review—support the need for a study of long-term consolidation options and their benefits and costs.

### **Proposed NOAA Operations and Research Center**

We are reviewing NOAA's proposal for the design and construction of a \$97 million research center to be located at the National Aeronautics and Space Administration's Goddard Space Flight Center in Greenbelt, Maryland. The proposed new 350,000-square-foot facility would house 1,200 NOAA employees involved in satellite and weather service operations. Based on our work to date, we do not believe the facility should be funded until NOAA has determined that (1) it is absolutely necessary to consolidate employees at a single location, and (2) a new facility needs to be constructed.

### **NMFS Laboratory Structure**

We recently issued a draft report discussing the results of our performance audit of streamlining and reconfiguration opportunities within the National Marine Fisheries Service (NMFS) laboratory network (see page 39). We identified several opportunities for NMFS to streamline its field structure, including closing some laboratories and transferring their functions to other, underutilized facilities. We are currently assessing information provided by NMFS in its response to our draft report.

## **Financial Management**

### **Financial Statements Audits**

The OIG is responsible for financial statements audits of the Department of Commerce in accordance with the provisions of the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994.

During the prior reporting period, financial statements audits were completed of the Department's Consolidated Financial Statements, as well as of each bureau's statements (see March 1997 issue, page 69). Unqualified opinions were received by BEA/ESA, MBDA, NIST, NTIA, PTO, TA, and the Department's Working Capital Fund. Census, NTIS, and the Department's Salaries and Expense Fund received qualified opinions on their Statement of Financial Position with disclaimers on their Statement of Operations and Changes in Net Position. Disclaimers of opinion were received by BXA, EDA, ITA, and NOAA, and on the Department's Consolidated Statements. Much work is still needed to achieve unqualified opinions on all of the Department's financial statements.

Providing financial leadership from the top is essential, and Chief Financial Officer (CFO) positions are critical to the future success of the Department and its bureaus. We commend the Department for filling its CFO position, and we encourage it to continue assisting EDA, ITA, NIST, and PTO in permanently filling theirs. No further delays should be tolerated.

### **Commerce Administrative Management System**

CAMS is intended to provide the Department with an effective internal control environment that meets the CFO Act requirement for a single, integrated financial management system. However, the Department continues to face significant challenges and experience considerable delays in deploying CAMS components. The Department's latest CAMS cost estimate has increased to \$86 million: \$62 million (versus the original FY 1992 estimate of \$41 million), plus an additional \$24 million projected for in-house CAMS staff resources.

Due to schedule delays and rising costs, the Department has revised its strategic plan and approach to CAMS implementation. Resources will now be focused on completing a pilot site at the Census Bureau to assess the system's viability before implementing it at three other bureaus, as previously planned. The pilot site is expected to provide Census, in time for the 2000

decennial census, with an updated accounting system, which it is hoped the Department will be able to transfer to its other bureaus.

We reiterate that delays will most likely extend CAMS deployment dates for bureaus other than Census into 2000 and beyond. CAMS needs close, top-level departmental oversight. Increased costs, extended deadlines, and short time frames to accomplish CAMS implementation Department-wide continue to be serious concerns of this office.

### **Year 2000 Problem**

Most of the Department's accounting and feeder systems use two-digit year dates that will become inaccurate beyond December 31, 1999. Unless this problem is corrected, there is serious risk that the Department's mission-critical computer applications will cease functioning properly.

The Department estimates it will cost more than \$75 million to correct the year 2000 problem in all Commerce systems. Yet few of the bureaus seem to have adequate resources dedicated to working on year 2000 conversion projects. Staff are generally being asked to fit year 2000 work into their existing schedules. Only in rare cases are individuals spending more than 20 percent of their time on year 2000 projects. Given other responsibilities of information technology departments and user organizations, it would appear unlikely that there will be sufficient time to perform all required tasks. It also appears that the Department's total cost estimate does not fully consider the magnitude of the testing phase, which is predicted to be the most expensive, time-consuming part of the year 2000 effort.

Originally, several of the Department's year 2000 concerns were to be resolved by replacing noncompliant systems with CAMS. However, it now appears likely that CAMS will not be a significant factor in the bureau's compliance efforts.

Bureaus have not analyzed the impact that business functions will encounter as the deadline draws near and employees must work on year 2000 projects on a full-time basis. In addition, contingency plans have not been prepared to address what will be done if changes are incomplete and systems ultimately falter after 1999.

Given the short time remaining, the Department must focus on the year 2000 problem and dramatically increase the resources dedicated to it. Failure to do so will result in widespread system failures and risk Commerce's ability to conduct business in the new millennium.

### ***NTIS Efforts to Become a Performance-Based Organization***

The National Performance Review identified the National Technical Information Service as a candidate for conversion to a performance-based organization (PBO). The Department is drafting legislation to effect this conversion.

Two key prerequisites for becoming a PBO are (1) a clearly defined mission, and (2) the ability to generate sufficient revenues to support business operations. We have serious doubts that NTIS currently meets either of these prerequisites.

In a recently completed financial analysis of NTIS, we concluded that the agency will not meet its mandate to be self-supporting unless revenues increase and/or operating costs decrease (see page 52). NTIS has suffered a net loss in two of the last three years, including an estimated loss of \$3 million in FY 1997.

In our last semiannual report, we discussed the results of our program evaluation of NTIS's management and operations, which concluded that the agency had either undertaken or contemplated undertaking activities that were potentially outside of its statutory mission and capabilities (see March 1997 issue, page 58). As currently drafted, the bill that would convert NTIS to a PBO places virtually no restrictions on the kinds of information-related activities that the agency would be authorized to undertake, activities that could put it in direct competition with the private sector.

We believe that the Department should not proceed with legislation to convert NTIS to a PBO until its mission has been clearly defined and the agency can demonstrate its financial self-sufficiency.

## RESOLUTION AND FOLLOW-UP

The Inspector General Act Amendments of 1988 require this report to present those audits issued before the beginning of the reporting period (April 1, 1997) for which no management decision has been made by the end of the period (September 30, 1997). The following table presents the overall status.

Type of Audit Report	Unresolved
Performance	3
Financial Assistance	3
Financial Statements	1
Preaward Contract	1
Postaward Contract	0

The three performance audits involve NOAA programs. The first audit report recommended that tsunami warning programs be consolidated. NOAA did not agree with the recommendation; the OIG recently suggested an alternate approach to NWS as a basis for resolution. The second report offered the recommendation that NMFS's vessel buyout program be canceled and resulting funds be transferred to other federal programs that will better meet the needs of the fishing community. NMFS did not accept the recommendation; the OIG has suggested an alternate approach and is awaiting NMFS's response. The third report recommended eliminating a salmon fishing permit buyback program and reallocating funds to habitat restoration and data collection programs. NOAA did not agree with the recommendation. Details of all three audits are presented on pages 41 and 42.

There has been an increase in the number of unresolved financial assistance audit reports from one to three. One financial assistance audit report involves a NOAA award and remains unresolved for more than one year, pending action by the cognizant audit agency. The other two audits involve EDA and MBDA awards. Audit resolution proposals have been submitted; however, OIG-agency discussions were not able to resolve the reports on a timely basis. Additional details are presented on pages 23, 32, and 43.

There is one unresolved financial statements audit involving Census' Financial Statements for FY 1996. The OIG has received the audit action plan and is awaiting a legal opinion from the Department's General Counsel before responding to the Census proposal. Details are presented on page 26.

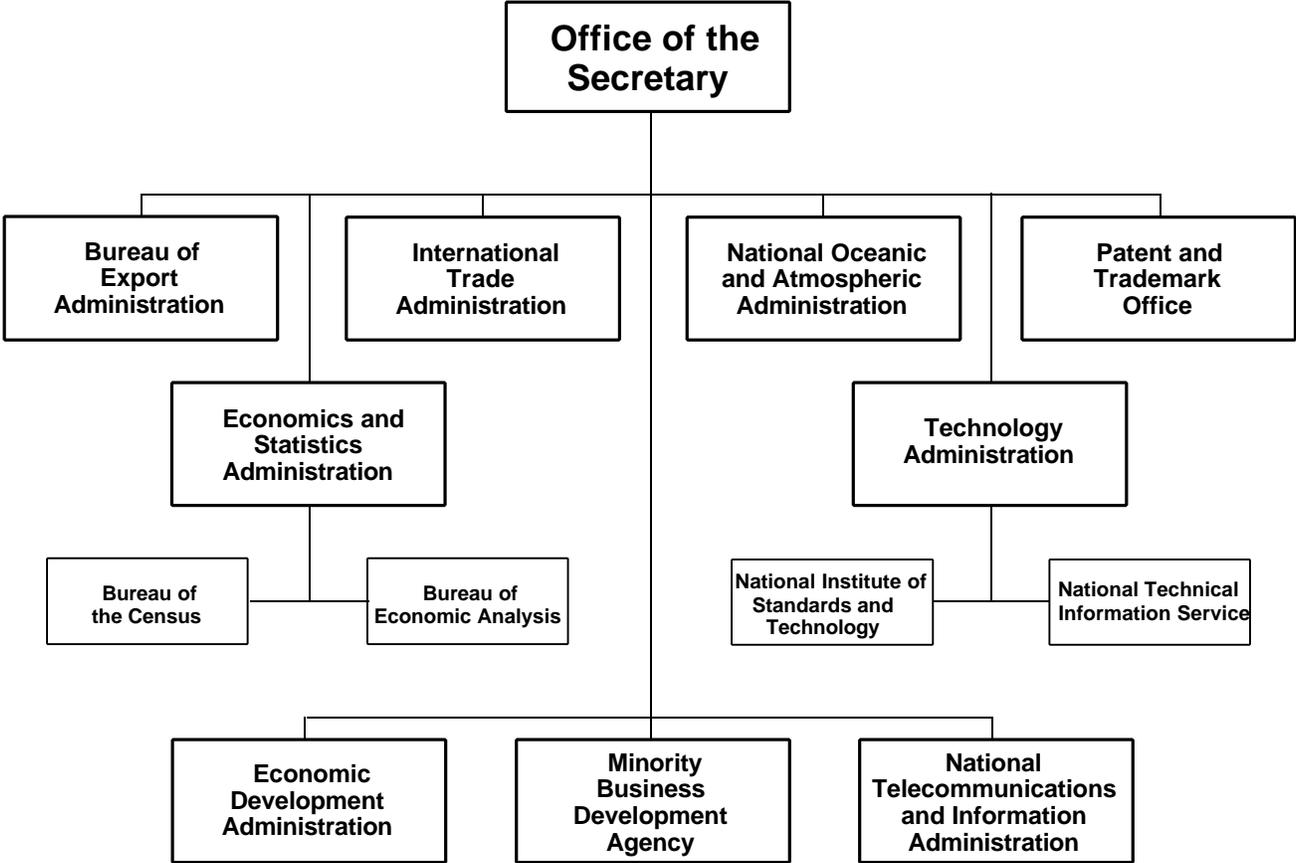
Discussion of the unresolved preaward contract audit can be found on page 65.

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 letter. The following table summarizes the activity during the reporting period.

<b>Report Category</b>	<b>Modifications</b>	<b>Appeals</b>
Actions pending (April 1, 1997)	0	9
Submissions	0	2
Decisions	0	5
Actions pending (September 30, 1997)	0	6

The six appeals pending final decisions by the Department include one NIST, three EDA, and two MBDA financial assistance audits. Four of these appeals (two EDA and two MBDA) have been in process for over a year, and two for as long as two years.

# Department of Commerce Organization Chart





# Bureau of Export Administration

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The **Bureau of Export Administration** is primarily responsible for the administration and enforcement of the nation's system for controlling exports of sensitive dual-use goods and technologies. Under the Export Administration Act and regulations, BXA's major functions include formulating and implementing export control policy; processing export license applications; conducting various policy, technical, and economic analyses; promulgating regulations; conducting industry outreach; and enforcing the act and regulations.

**Export Administration** implements U.S. export control and nonproliferation laws and policies through export licensing, commodity classifications, and advisory opinions; technical, economic, foreign availability, and policy analyses; promulgation of regulations; and industry outreach. It also conducts various defense industry base activities.

**Export Enforcement** participates in reviews of export license applications and conducts criminal and administrative investigations of the export control portions of the Export Administration Act and regulations. It also administers and enforces the antiboycott provisions of the act and regulations.

## **Export Licensing Process Needs Further Information Sharing and Screening**

The National Defense Authorization Act of FY 1996 required the Inspectors General of the Departments of Commerce and State to each report, in 1996 and 1997, on the effectiveness of their respective agencies' export licensing screening process during the preceding year. BXA is responsible for controlling the export of dual-use goods and technologies (those with civilian and military applications) by screening and approving export licenses and ensuring compliance.

BXA's watchlist is a compilation of three screening databases used to identify license applications that have the strongest potential for the misuse or diversion of items or technologies. The watchlist includes more than 38,000 parties, types of items and technologies, projects of concern, and other categories that BXA has identified as potential problems. Another important resource used in the export licensing process is end-use checks, which consist of both pre-license checks and post-shipment verifications. Pre-license checks are conducted before application approval to obtain information about a foreign end user; post-shipment verifications determine whether the correct party received the licensed item or technology.

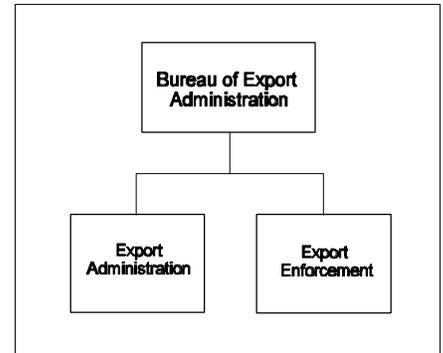
The OIG's report on BXA's export license screening process for FY 1995 contained several recommendations for strengthening BXA's screening process, including the need to improve the accuracy of its export license watchlist data by arranging for the electronic receipt of pertinent computer databases and lists from the Departments of State and the Treasury (see September 1996 issue, page 16). BXA has recently installed a new computer system that, once tested to ensure accuracy, will enable it to store electronic lists from these agencies.

During our review of FY 1996 activities, we also reviewed the status of BXA's implementation of recommendations from our first report. We made the following observations:

**The export licensing watchlist generally contains all relevant information.** BXA has been effectively managing and updating its screening database. However, it did not include some names provided by Treasury during FY 1996 because of data entry errors. Once BXA has tested the new computer system, it can incorporate the Treasury and State information electronically. We are also concerned about the State Department's lack of cooperation in sharing its watchlist information with BXA. We

recommended that BXA develop a plan with State for transferring electronically formatted information more regularly.

**Screening all parties against the TECS database could enhance the license application screening process.** Maintained by the U.S. Customs Service, the Treasury Enforcement Communications System (TECS) was created to provide multi-agency access to a common database of enforcement data supplied by the participating federal agencies. Currently, Customs receives data only on applications on which final action has been taken, not pending applications. Screening every applicant and consignee against TECS during the initial phases of the licensing process would give licensing and enforcement authorities ample warning of any potential Customs concerns. We recommended that BXA and Customs amend their current memorandum of understanding to provide for the transfer of pending license application information to Customs for screening against TECS for at least a one-year trial period.



**The quality and utility of end-use checks should be improved.**

Although the overseas posts were generally in compliance with BXA's guidelines for conducting the checks, the posts need to improve their processes in several ways. For example, the posts do not always conduct end-use checks in a timely manner and, contrary to BXA's guidance, they often allow US&FCS foreign service nationals to conduct the checks. We recommended that BXA communicate more with the posts about end-use checks, and work with US&FCS to develop policy guidance on whether and how foreign service nationals can be used in conducting such checks.

**Sharing of end-use and enforcement information should be improved.** Access to additional enforcement information, such as end-use check histories and limited descriptions of enforcement personnel's interest in specific applications, can improve cooperation within BXA and between BXA and referral agencies, and make the license process more efficient. We made several recommendations in this area, including some basic changes to the computer database to improve sharing of end-use check information.

In responding to our draft report, BXA agreed with most of our findings and has either taken, or plans to take, steps that satisfy several recommendations. However, BXA disagreed with our recommendation to screen all parties to new export license applications against Customs' TECS database. We reaffirmed our recommendation in the final report and will work with BXA to resolve our disagreement. (*Office of Inspections and Program Evaluations: IPE-9524*)



# Economic Development Administration

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The **Economic Development Administration** was established under the Public Works and Economic Development Act of 1965 to generate new jobs, help protect existing jobs, and stimulate commercial and industrial growth in economically distressed areas of the United States. EDA does this by providing grants to public and private nonprofit organizations in communities with problems that are stifling economic growth; planning grants to states, cities, districts, and Indian reservations; special economic adjustment assistance to states and local governments with recent, severe problems or long-term economic deterioration; technical assistance to communities to build organizational capacity and solve specific economic development problems; and research and evaluation grants to increase knowledge about effective economic development tools.

## **West Virginia Agency Made State Loans from EDA Funds to Conceal Excess Cash Reserves**

A West Virginia state agency created to provide assistance to businesses has among its lending programs one state and two EDA revolving loan funds (RLFs). The agency's \$75.5 million equity as of June 30, 1995, included about \$5.4 million from the two EDA RLFs, both of which are administered under the guidelines for the state RLF.

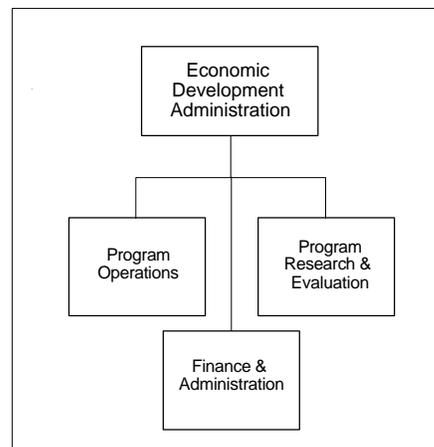
One EDA RLF was established through a \$4.7 million Sudden and Severe Economic Dislocation grant awarded to the state agency in 1978. EDA required the agency to use the grant funds to make an initial, directed loan, with loan repayments to be used to capitalize an RLF for economic development loans to other businesses. The fund's balance was about \$8.5 million as of March 31, 1996. The second RLF originated in EDA's 1984 award to the agency of a \$750,000 Long-Term Economic Deterioration grant, which had a \$250,000 matching requirement. The agency used the grant funds to capitalize an RLF that provided businesses with smaller loans than were available under the other fund. This RLF's balance was about \$1.4 million as of March 1996.

An OIG audit of the two EDA RLFs covering the period from April 1991 through March 1996 disclosed that the agency had made \$4.6 million in state loans from the RLFs to conceal the existence of over \$4 million in excess cash reserves. To offset this substitution of federal for state monies, the agency must transfer state monies to the EDA RLFs. These funds will then be either greatly overcapitalized or underutilized unless the agency takes strong remedial actions. We also found that the agency did not adequately document that loans were made to eligible borrowers, and made some loans at inappropriately low interest rates.

Among our recommendations were that EDA require the state agency to (1) use state monies to purchase the outstanding balances of the state loans made with EDA monies, (2) make EDA loans only after reaching the state revolving loan capacity, and (3) deposit future excess EDA cash reserves in an interest-bearing escrow account and pay a portion of the interest earned to the U.S. Treasury. In response to our draft report, the agency disagreed that it had concealed excess cash reserves and denied any responsibility for repurchasing the EDA loans; however, it did agree to implement some of our recommendations. Nothing in the agency's response convinced us to change our findings or recommendations. (*Atlanta Regional Office of Audits: ATL-8969-7-0001*)

### **Uncompleted Public Works Project in Florida Lacked Documentation of Actual Costs**

In 1993 EDA awarded a \$2.5 million public works grant to a Florida city to help it recover from the effects of Hurricane Andrew. EDA disbursed only \$115,000 under the award. The grant funds were to be used to renovate part of a downtown building for use as an international trade exposition mart. However, because of construction delays and operator financial problems, the mart never opened, and the building owners terminated the lease agreement with the city. The city requested that EDA terminate the award agreement for convenience and reimburse the city for more than \$1.5 million in costs. EDA asked the OIG to audit the claimed costs.



Our audit disclosed that the city had paid the contractor based on percent-of-completion estimates, instead of actual cost documentation as required by the grant. Under this unacceptable method, the city claimed about \$1 million in construction costs, which we questioned. Nevertheless, we recognized that the city incurred construction costs that are reimbursable under a termination for convenience, and we assisted and monitored the parties' efforts to negotiate a settlement.

We questioned a total of about \$1.4 million in construction costs, consisting of the \$1 million in unsupported costs and another \$400,000 in costs for asbestos removal that the building owner, not the city, is paying. We recommended that in the absence of a settlement agreeable to us, EDA disallow more than \$1.4 million in claimed costs, disburse about \$20,000 to the city, and deobligate the remaining grant funds, totaling over \$2.3 million.

The city responded to our report with a proposal to settle for an additional \$500,000 disbursement of EDA funds. Recognizing that the city had incurred construction costs, EDA recommended accepting this as a fair and reasonable offer, and we concurred. (*Atlanta Regional Office of Audits: ATL-9297-7-0001*)

### **North Carolina Farmers' Market Project: Equipment Missing and Purpose Changed**

Between 1975 and 1979, EDA awarded three grants to a North Carolina county to plan, design, and build a farmers' market to serve seven counties in North Carolina, Georgia, and Tennessee. The EDA award funds totaled \$800,000, which was matched by about \$480,000 in county, state, and other federal funds. All EDA grant funds have been disbursed. After the

market was built, the county delegated project management responsibility to a separate market board of directors.

EDA requested an OIG audit to examine allegations that the county was not using the project according to the grant terms and conditions. Specifically, the agency wanted to know how project facilities were being used, what leases were in effect, and what income the county was receiving. The audit, which covered the entire project period from 1975 through 1996, was impaired by the county's poor control over the project and the failure of the county and the market's board to maintain adequate records on the project.

Our audit revealed that because of the lack of county control over project management, more than \$179,000 in equipment had been improperly removed from the project site. Moreover, we found that the county had changed the project's purpose to a general use industrial park and leased the property in a manner that frustrated the goal of expanding local employment.

We recommended that EDA require the county to repay to the U.S. Treasury \$111,000, the federal share of the missing project equipment; establish certain controls over project management; and submit a comprehensive use plan for the project facilities. County officials generally agreed with our findings and recommendations, but disagreed that the county was liable for the value of the missing equipment. (*Atlanta Regional Office of Audits: ATL-9614-7-0001*)

### **Update**

**Judgment.** In the September 1994 issue (page 26), we reported the initiation of a civil action in U.S. District Court for the Central District of California to recover the assets of a revolving loan fund that had been capitalized with the proceeds of an EDA grant. After the grant recipient filed for bankruptcy in 1986, a former bookkeeper improperly used RLF records to solicit and obtain loan payments from several borrowers over a period of about five years. In June 1997, a default judgment in the amount of \$65,070 was entered against the former employee; all funds recovered under the judgment will be returned to EDA. (*Denver Field Office of Investigations*)

### ***Audit Reports Unresolved for Over Six Months***

An OIG financial assistance audit report, DEN-7037-7-0001 (see March 1997 issue, page 25), found that a Texas Title IX grant recipient could not support its project cost claims because it commingled federal and state funds with local funds and used some of these funds for ineligible or non-project-related purposes. As a result, we questioned more than \$760,000 in costs claimed against the EDA grant, and nearly \$600,000 in costs claimed against state funds. We also found that the grantee (1) misled the state in applications for project funds, (2) made inappropriate and duplicative claims of project costs, (3) entered into inappropriate and duplicative engineering agreements, and (4) maintained inadequate accounting records.

EDA did not agree with all of our recommendations, and we are working with the bureau to resolve our disagreements.



# Economics and Statistics Administration

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The **Economics and Statistics Administration** analyzes economic developments, develops 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.** Census is the country's preeminent statistical collection and dissemination agency. It publishes a wide variety of statistical data about people and the economy of the nation, 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.** BEA's goal is to provide a clear picture of the U.S. economy by preparing, developing, and interpreting the national income and product accounts (summarized by the gross domestic product) as well as aggregate measures of international, regional, and state economic activity.

## ***Expanded Census Targeted Questionnaire Effort May Be Unnecessary and Counterproductive***

In the year 2000, the Bureau of the Census will be faced with its greatest decennial challenge—to successfully enumerate increasing numbers of hard-to-count people at an acceptable cost. The 1990 census was long, expensive, and labor-intensive, yet census accuracy decreased, especially among minorities. Bureau officials agreed with expert advisory panels that the highly labor-intensive enumeration techniques for non-response follow-up and coverage improvement added in recent decades to increase census participation did not increase accuracy.

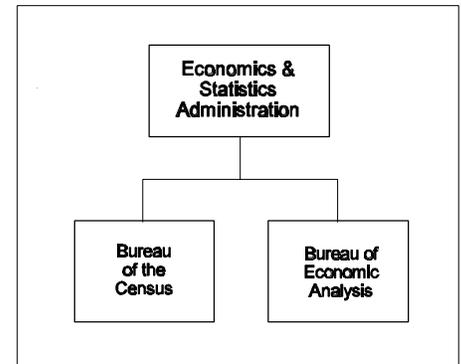
Therefore, the bureau has incorporated statistical techniques, such as sampling and estimation, as an integral part of the 2000 decennial census design. In addition to using statistical methods, the bureau, in consultation with local officials, is planning to target areas for mailing joint English and Spanish questionnaire packages and distributing blank “Be Counted” questionnaires in English and over 30 other languages to help ensure a successful census.

Based on an initial survey of the preparation of 2000 Census questionnaires, we decided to conduct an audit of the effects of two recent decisions on the census design's cost, schedule, performance, and public perception: (1) expansion of the targeted program for mailing joint English and Spanish questionnaire packages to include additional languages, and (2) extension of the “Be Counted” program through the end of the non-response follow-up process. Both programs, which we refer to jointly as the “targeted questionnaire program,” were still in the conceptual stage at the time of our review.

Our major observations and conclusions were as follows:

- ! **Targeted questionnaire program may be unnecessary.** Because the bureau has made sampling an integral part of its 2000 design, the targeted questionnaire program may not be necessary. Further, the 1995 Census Test results indicated that the two program components did not increase response rates for the intended populations.
- ! **Fully implementing the targeted questionnaire program could become counterproductive.** Although many details of the targeted questionnaire program are not yet defined, an expansive scenario, involving many targeted language mailings and millions of Be Counted forms in up to 32 languages at thousands of sites, could

compromise the bureau's ability to achieve its goals of increasing accuracy and containing costs. Bureau managers do not anticipate extensive program implementation, but acknowledge that such an outcome is possible. According to decennial managers, the biggest risk in the census is the ability to complete follow-up of those households that did not return a questionnaire in the limited time available before the large independent survey designed to locate and correct for those not counted. A delay in the start of this survey could compromise completion of the census by the legal deadline.



- ! **Emphasis and lack of details on targeted questionnaire partnership cast uncertainty on program cost.** While program details for 2000 are still pending, bureau managers have put significant effort into promoting the targeted questionnaire concept, which could result in local officials' strongly advocating an expanded program to increase their population counts. Asked about the program's cost-effectiveness, a senior bureau official stated that promoting partnerships, not containing cost, was the deciding factor in expanding the program. He added that according to the current estimate, the cost of expanding languages should only modestly increase the total program cost. However, the current overall cost estimate is based on an incomplete set of program cost components.
  
- ! **Whether planned or unplanned, cost growth seems likely.** If the bureau continues to promote the targeted questionnaire program without stringent selection criteria, the program appears likely to grow in size and cost. A key question is whether the growth will occur early, and therefore be planned, or late, and be minimally controlled. For example, local officials may find narrow bureau criteria for targeting unacceptable during the local review of targeted areas scheduled for next year and push for an expanded program. Or the bureau may proceed with narrow criteria but, during the census, receive enormous pressure to expand the program from local officials concerned about response rates. Because bureau managers decided not to include cost-effectiveness as a fundamental criterion, program cost growth is likely.

Our principal recommendations were that the bureau comprehensively define the targeted questionnaire program, keeping in mind trade-offs among cost, schedule, performance, and public perception, and discuss the program details and justification with local partners as soon as possible. The bureau agreed with our observations and recommendations. (*Economics & Statistics Audits Division: ESD-9610-7-0001*)

### ***Audit Report Unresolved for Over Six Months***

As of September 30, 1997, there was one OIG financial statements audit report unresolved for more than six months: *Bureau of the Census Financial Statements for Fiscal Year 1996*, FSC-8836-7-0001 (see March 1997 issue, page 31). During the audit, the contractor certified public accounting firm identified an internal control weakness related to inadequacies in the bureau's cost allocation system that will significantly change its costing and pricing policy for reimbursable work. Census has proposed using the new allocation system only for new reimbursement agreements. For agreements entered into before FY 1997, price increases will be phased in over a two-year period. The bureau plans to reduce the number of projects with a cost/price difference by 80 percent in FY 1998, and eliminate the balance in FY 1999.

Before agreeing to Census' audit action plan, we have asked the Department's Office of General Counsel to review the plan in light of laws requiring full cost recovery. We have also requested that the bureau provide a list of agreements and dollar amounts that make up the projects that will have a cost/price difference at the end of FY 1997. Based on the results of these inquiries, we will respond to the audit action plan.

# International Trade Administration



## **Effective Service Delivery, but Inefficient Operations at Five US&FCS Overseas Posts**

ITA's U.S. and Foreign Commercial Service (US&FCS) is charged with providing business firms with a base of export assistance support, from individual U.S. cities to specific foreign markets. A total of 138 foreign commercial offices perform various overseas activities directed at improving the trade position of the United States, including identifying trade or investment opportunities, finding potential representatives or agents, providing business consultation to U.S. visitors at foreign posts, and preparing market research on a country's "best prospects" industries.

The OIG performed inspections of five US&FCS overseas posts—Malaysia, Indonesia, Thailand, Germany, and Poland—and found them generally effective in delivering services to their customers. However, we also found both postwide and post-specific inefficiencies in management and operations. We provided US&FCS officials with inspection reports for the five individual posts, as well as a broader analysis based on all the inspections. The primary cross-cutting issues of concern were:

- ! **Lack of effective resource management by post officials.** Several posts were pursuing activities without adequate regard for their relative priority or payoff. Also, none of the posts had a time or resource management system in place to reliably estimate the unit costs of various post products or services, or to determine how best to allocate resources to maximize their effectiveness.
- ! **Failure by regional directors to provide adequate oversight of posts.** Some regional directors were failing to provide the necessary oversight and guidance to posts, and to hold the respective senior commercial officer accountable for post management weaknesses.
- ! **Need for direct US&FCS involvement in the development and cost analysis of ICASS.** The International Cooperative Administrative Support Services (ICASS), the new administrative cost system to become effective in FY 1998, should give U.S. agencies more control over the services they receive overseas by requiring them to pay costs commensurate with those services. ITA is not planning further review of ICASS until it has been in place for a full year. We believe that the potentially large savings to US&FCS, and the time it would take to implement alternative arrangements, justify US&FCS's supporting local or regional cost comparisons by field representatives without

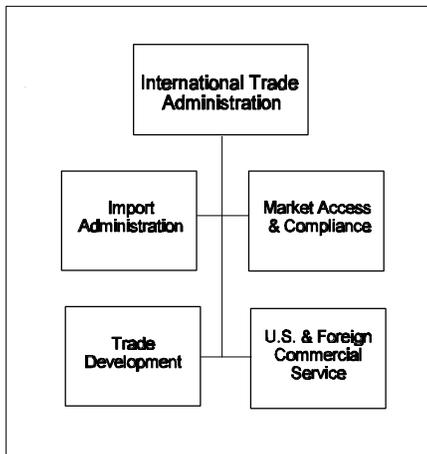
The **International Trade Administration** is responsible for most non-agricultural U.S. trade issues and works with the Office of the U.S. Trade Representative in coordinating U.S. trade policy. ITA has four principal units:

**Market Access and Compliance.** MAC develops and implements international economic policies of a bilateral, multilateral, or regional nature. It promotes trade, investment, and commercial relations, and maintains comprehensive commercial and economic data on countries and regions of the world.

**Trade Development.** TD advises on international trade and investment policies pertaining to U.S. industrial sectors, carries out programs to strengthen domestic export competitiveness, and promotes U.S. industry's increased participation in international markets.

**Import Administration.** IA 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. & Foreign Commercial Service.** U.S.&FCS promotes the exports of U.S. companies and helps small and medium-size businesses market their goods and services abroad. It has 98 domestic offices and 138 overseas posts in 75 countries.



waiting a year. US&FCS should consider all viable options, such as private sector services and continued participation in some or all of ICASS services.

- ! **Failure to comply with BXA's export licensing regulations.** BXA relies on US&FCS posts to perform pre-license checks and post-shipment verifications of certain export transactions. BXA requires that an American officer conduct the checks, but of the five posts, foreign service nationals were conducting the checks at three, and an American contractor was conducting the checks at a fourth.
- ! **Improper use of personal service contractors for post activities.** Contractors at some posts were performing various prohibited activities, including supervising government employees; controlling money, property, and other valuable resources; and representing the U.S. government before foreign governments.

The report also noted inefficiencies in the areas of resource allocation, performance evaluation systems, interagency coordination overseas, and information technology. Recommendations were made to US&FCS officials to remedy these organizational problems. US&FCS accepted many of our recommendations, but has not clearly communicated to us how or whether the balance of our recommendations will be addressed. (*Office of Inspections and Program Evaluations: IPE-9178, IPE-9284, IPE-9285, IPE-9286, IPE-9287, and IPE-9288*)

## ***USTTA Funds Properly Spent and Accounted for During Closeout***

Established in 1961, the Department's United States Travel and Tourism Administration served as the U.S. government's official national tourism office, responsible for maximizing tourism's contribution to the nation's economic goals of growth, stability, and job creation. In June 1996, the Congress abolished USTTA, but authorized funding to transfer limited tourism promotion functions to ITA. The OIG advised the Department on USTTA closeout procedures and cost estimates.

We later contracted with a certified public accounting firm to perform a financial audit to estimate funds not needed to cover USTTA's existing obligations, detail the observed results of the audit, and outline remaining tasks that need to be completed by the Department in closing out USTTA. The firm recommended that the remaining tasks be assigned to the appropriate Commerce offices and that a timetable be established for their completion.

Tasks remaining involved such matters as funding sources and cash reconciliation, overseas and domestic office balances, and personnel costs.

The firm also found that (1) USTTA's outstanding obligations and future costs, as of September 30, 1996, contained accurate estimates and were adequately supported; (2) expenditures incurred domestically by USTTA from October 1, 1995, to March 31, 1997, were accurate; and (3) the rates of expenditures incurred by overseas posts were comparable to rates in the previous year. (*Financial Statements Contract Audits Division: FSD-8711-7-0001*)

### ***“Blueprint” Provided to Assist Agency in Improving Its Financial Management***

The OIG's audit of ITA's FY 1996 financial statements found serious problems requiring immediate corrective action (see March 1997 issue, page 34). The ITA Acting Under Secretary requested our assistance in developing a blueprint for improving the agency's financial management. After consulting with the accounting firm that performed the audit, we provided ITA with steps needed to improve its financial management.

Among the more significant steps were: (1) recruit a Chief Financial Officer, along with additional professional accounting staff; (2) develop a staff of financial management personnel to improve operations at ITA headquarters and overseas posts; and (3) establish a Financial Statements and Reports Section, reporting to the CFO, to collect, analyze, record, and report on ITA's financial activity. The actions recommended in the blueprint, while not all of the steps needed to improve ITA's financial management, should have an immediate impact in addressing major problems. (*Financial Statements Audits Division*)

### ***In Brief***

**Reprimand.** A senior ITA official received a letter of reprimand as the result of an OIG investigation, which found that she had violated federal ethical standards of conduct by permitting her secretary to perform personal tasks for her during work hours. While there was no finding that the official had coerced her secretary to perform such tasks, the standards of conduct prohibit a supervisor from directing or even requesting a subordinate employee to perform activities of a personal nature on official time. (*Washington Field Office of Investigations*)



# Minority Business Development Agency

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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.

## ***East Coast Awardees Neither Met Goals Nor Complied with OMB Guidelines***

MBDA awarded a \$250,000 cooperative agreement to a nonprofit organization, and its subrecipient, for the establishment of a comprehensive minority business development program in an East Coast metropolitan area. The award period was from October 1, 1995, to September 30, 1996, but an amendment extended the program through November 30, 1996, at no additional cost to the government. The awardee's state, county, and city provided additional funding, making the total award \$575,000.

The OIG performed a financial, compliance, and performance audit of the cooperative agreement and found several deficiencies, including:

- ! Questioned costs of more than \$76,000 out of about \$550,000 claimed by the subrecipient;
- ! Noncompliance by the awardee with OMB Circular No. A-110 requirements to monitor a subrecipient's performance; and
- ! Unaccomplished goals by the subrecipient.

We recommended that the Department disallow the questioned costs and recover approximately \$33,000 in disbursed funds. We also recommended that MBDA not award future grants to the awardee or the subrecipient. Both the awardee and the subrecipient disagreed with our findings, but presented no evidence to cause us to change our position. We plan to issue a second audit report to the Department regarding MBDA's management and monitoring of the pilot project. (*Economic Development Audits Division: EDD-9406-7-0001*)

## ***Audits Report Significant Financial Deficiencies of Oregon Firm***

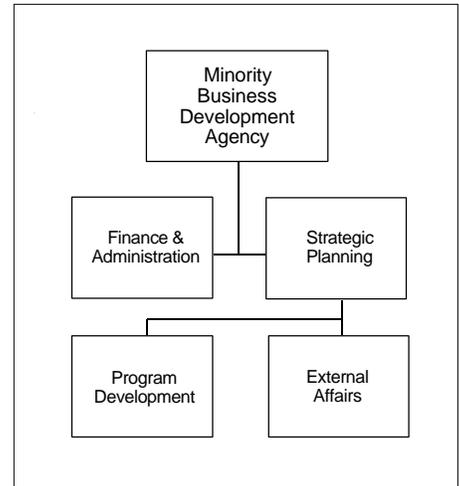
MBDA awarded five cooperative agreements to a Portland, Oregon, consulting firm in 1995 to operate five minority business development centers in Portland, Salt Lake City, Seattle, Phoenix, and Tucson. The awards funded the first year of potential three-year awards. The total project cost budgeted for the five first-year budget periods was approximately \$1.04 million, including a 15 percent local match requirement of \$156,196.

At MBDA's request, the OIG performed financial audits of the five individual MBDA awards to the firm to determine whether the costs claimed under the awards were reasonable, allowable, and allocable, and whether the firm's administrative, financial, and program controls complied with the terms and conditions of the award and were adequate to provide required assurances. (*Seattle Regional Office of Audits: STL-8823-7-0002; STL-8823-7-0003; STL-8823-7-0004; STL-8823-7-0005; and STL-8823-7-0006*)

Our audits disclosed that the firm failed to comply with numerous federal and EDA requirements. Many of the deficiencies were long-standing and had been repeatedly identified in independent audits, but remained uncorrected. Specifically, the firm:

- ! Lacked an adequate financial management system, and produced financial reports that were inaccurate and unsupported.
- ! Did not have a cost estimating system and, despite certifications to the contrary, lacked complete, current, accurate, and consistent project proposals.
- ! Failed to comply with numerous uniform administrative requirements, federal cost principles, and award terms and conditions.

We recommended that the Department require the firm to establish an adequate financial management system, an estimating system based on historical experience and company policies, and the controls and systems necessary to comply with federal financial assistance requirements. In addition, we recommended that the Department consider the firm a "high risk" recipient based on financial and cash management deficiencies and noncompliance with federal financial assistance requirements. The firm's noncompliance with award terms and conditions, federal cost principles, and uniform administrative requirements also caused us to question nearly \$225,000 of almost \$1.06 million in total project costs claimed under the first year of its five current cooperative agreements. (*Seattle Regional Office of Audits: STL-8823-7-0001*)



### **Center Operator Pays \$50,000 to Settle False Claims Act Suit**

An OIG investigation uncovered evidence that the operator of a minority business development center in Puerto Rico was running a private business from the center's offices and overcharging the government for center operating expenses, including office lease costs. We also determined that the operator had submitted a fraudulent lease agreement to MBDA to disguise the fact that she was the owner of the office space, which had been leased by the center on a less-than-arm's-length basis. The matter was referred to the U.S. Attorney's Office for the District of Puerto Rico, which filed suit against the operator in August 1997 under the False Claims Act. The operator denied any wrongdoing, but agreed to a settlement under which the government will be paid \$50,000 plus interest over the next three years. (*Denver Field Office of Investigations*)

### **Audit Reports Unresolved for Over Six Months**

A financial assistance audit report, ATL-8882-7-0001 (see March 1997 issue, page 38), found that a for-profit consulting firm operating a minority enterprise growth assistance center had failed to maintain financial management and internal control systems that comply with federal standards. We questioned \$675,000 in costs and recommended that the firm return nearly \$223,000 in unearned federal funds.

We are working with MBDA to arrive at an agreement on the appropriate amount of costs to be disallowed.

# National Oceanic and Atmospheric Administration



## **NOAA Corps Transition Plan Should Convert No More Than 170 Officers**

NOAA's Commissioned Corps has three primary functions: (1) operate and maintain NOAA's ships, (2) operate and maintain its aircraft, and (3) provide scientific and engineering support for the line offices. These functions are currently carried out by fewer than 300 officers, with support from civil service personnel and wage mariners.

In January 1996, NOAA announced its intention to implement the National Performance Review's recommendation to eliminate the Corps. Since then, the Department, in consultation with NOAA, has been drafting legislation and a transition plan to implement the recommendation. The OIG conducted an evaluation of the May 1997 legislative proposal and transition plan to determine whether they provide the most cost-effective means of eliminating the Corps.

We concluded that the latest versions of the proposal and the plan are significant improvements over earlier drafts, and many of our concerns about such issues as retirement incentives and separation payments have been addressed. However, one important issue remains: How many officers should be converted to civil service positions? This issue can be resolved by incorporating the following recommendation into the transition plan:

### **No More than 170 Officers Should Be Converted to Permanent Civil Service Positions**

The May 1997 transition plan proposes a three-step process: (1) the 120 officers with at least 15 years of service will be involuntarily retired, (2) the 170 officers not eligible for retirement will be placed within 299 designated positions, and (3) any of the 299 positions that are unfilled and are considered essential will be filled by retired officers or other Commerce civil service personnel. We are concerned that the last step will result in almost all of the 299 positions being filled and the current organizational infrastructure being locked into place, an approach inconsistent with congressional direction relating to outsourcing for ship services.

We recommended that NOAA implement the transition plan by (1) retiring all 120 officers with at least 15 years of service, (2) identifying the 170 most critical positions in the line offices and support activities and filling as many as possible with non-retiring officers, (3) determining which of the 170 positions cannot be filled immediately by non-retiring officers,

The **National Oceanic and Atmospheric Administration** studies climate and global change; ensures protection of coastal oceans and management of marine resources; provides weather services; and manages worldwide environmental data. It does this through the following organizations:

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

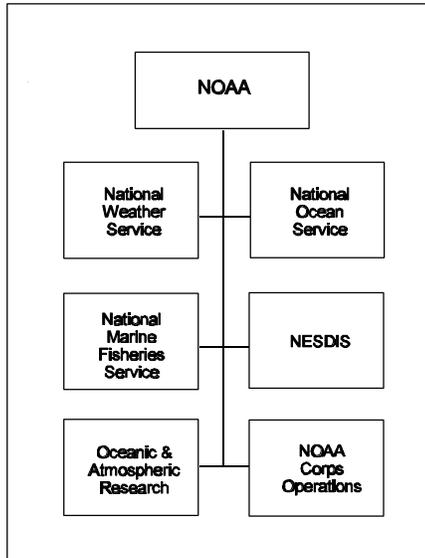
**National Ocean Service.** NOS issues nautical and aeronautical charts; performs geodetic surveys; conducts research; and develops policies on ocean mining and energy.

**National Marine Fisheries Service.** NMFS 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.** NESDIS observes the environment by operating a national satellite system.

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

**Office of NOAA Corps Operations.** The Corps is the nation's seventh uniformed service. Its ships, aircraft, and personnel support NOAA's activities throughout the world.



and (4) hiring qualified temporary personnel for such positions until non-retiring officers can be trained. This process will provide fair treatment for all officers, prevent disruptions in essential services, and allow NOAA to increase its use of outsourcing options for ship- and aircraft-related activities. By implementing our recommendations, NOAA will have \$16.6 million available over the next two fiscal years to acquire additional ship and aircraft support.

The 170 permanent civil service positions should be allocated as follows:

- ! **In NOAA line offices, the number of conversions should be limited to 100.** Over the years, in order to accommodate the Corps rotation policy, officer positions have been created in NOAA's five line offices (see organization chart on this page). NOAA has identified 187 such positions for possible conversion to civil service positions, even though the Corps has fewer than 300 officers. Historically, about 40 percent of the funding for the officers assigned to the line offices has been diverted from ship-related appropriations, even though the officers are not directly involved in ship support. If funds continue to be diverted from these appropriations after the transition, NOAA will have to reduce its use of ships for its vital research activities. For this reason, we recommended that NOAA limit the converted positions in the line offices to 100, the approximate number that can be supported by the offices' budgets.
  
- ! **For ship- and aircraft-related activities, the number of conversions should be limited to 70.** Our office, along with the administration, the Congress, and other groups, has repeatedly recommended that NOAA pursue outsourcing alternatives for its ship support activities. Our 1996 report on the NOAA fleet confirmed that private-sector and academic vessels are available and can perform at least as well as NOAA's in-house fleet, at a lower cost (see March 1996 issue, page 43). A similar OIG review of NOAA's aircraft services is nearing completion. Creating no more than 70 civil service positions for ship and aircraft services will furnish enough staffing to maintain essential in-house services while providing an incentive to explore outsourcing options. We believe that the number of permanent positions needed for in-house ships and aircraft can be further reduced if NOAA aggressively pursues these options.

NOAA disagreed with all of our conclusions and recommendations, continuing to support the efficacy of its transition plan. We found nothing in the agency's arguments to justify changing our conclusions or recommendations. (NOAA Audits Division: [NAD-9087-7-0001](#))

## **Excess Satellite Funding Indicates Need for Better Financial Controls**

NOAA manages two weather satellite programs: polar orbiting and geostationary operational environmental satellites. Over the next five years, NOAA plans to request about \$2.6 billion for acquiring satellites; operating command, control, and data acquisition stations; and developing new ways of using satellite data. The National Aeronautics and Space Administration (NASA) manages the acquisition and launch of the weather satellites, and NOAA operates them once they are in orbit.

For NOAA, an agency operating under tight budget ceilings, efficient use of the funds it receives for satellite programs should be a high priority because satellite funding represents close to 25 percent of its budget. NOAA's FY 1999 satellite budget request of \$568.5 million exceeds the planned operating budgets of every other NOAA component, including the National Weather Service.

In this, our second inspection of satellite funding, we identified \$79.3 million in funds to be put to better use as a result of the accumulation of NOAA funds at NASA in excess of the amounts NASA required for its weather satellite work. We also identified steps to prevent such excess funds from accumulating in the future. Excess funds represent funding that is not needed to meet NASA current year or forward funding requirements and that can be better used to support other NOAA critical program needs or to reduce NOAA's FY 1998 and 1999 satellite budget requests. The \$79.3 million in funds identified in this report, coupled with \$101.3 million in excess funds for NASA's acquisition of polar spacecraft identified in an earlier OIG inspection report (see March 1997 issue, page 41), amount to \$180.6 million in funds to be put to better use.

NOAA's practice of sending excess funds to NASA went unquestioned for years because NOAA lacks adequate financial controls to ensure the efficient use of its budget authority. The controls described in NOAA's budget handbook stress tracking obligations to ensure that they do not exceed budget authority, but place little emphasis on deciding when funds should be obligated or on tracking if and when funds are used after obligation. As of the end of FY 1996, NOAA managers had obligated but

not spent close to \$885 million to acquire goods and services, including satellites. We believe that the lack of NOAA guidance on the use of budget authority results in large amounts of obligated, but unspent, funds being accumulated and creates a false impression that budget estimates are accurate and programs are proceeding as planned.

NOAA needs to ensure that its satellite program managers have tools to assist them in making funding decisions. In response to our first report, a NOAA program analyst is working with NASA to create monthly reports that identify the status of NOAA funds transferred to NASA and the need for additional funding. In addition, NOAA should ensure that costs are properly captured and presented in its capital asset budgets.

We recommended that the Department work with NOAA, OMB, and the Congress to reduce excess funding and establish financial controls to prevent the accumulation of excess funds. The ultimate measure of NOAA's financial management performance will be its ability to control and track its acquisition projects and to produce budget estimates that more accurately reflect its needs.

The Department and NOAA agreed with our recommendations and, as a result, will report the \$79.3 million in excess funds as FY 1997 carry-over. The Department also stated that it had adjusted its FY 1999 budget request to reflect the excess. We concur with the Department's actions in identifying and reporting excess funds and recommend that it closely monitor the use of funds in FY 1998 to ensure that it has adequately adjusted its FY 1999 budget. (*Office of Systems Evaluation: OSE-8797(2)*)

## **Coastal Zone Management Recipient Claimed Unsupported and Excessive Costs**

In September 1995, NOAA awarded an \$819,000 cooperative agreement to a Southern state agency responsible for administering the state's coastal zone management program. The agreement required a \$716,000 in-kind matching contribution from the state, bringing the total project budget to \$1,535,000. The award continued the annual funding that NOAA has provided the state since 1980 and, like previous awards, was to assist in the development and implementation of an effective coastal zone management program.

The OIG conducted a financial and compliance audit covering the agreement's one-year performance period of October 1, 1995, to September 30, 1996. The audit was prompted by allegations that the state agency may have been improperly using NOAA Coastal Zone Management grant funds.

Our audit revealed that the agency had improperly claimed \$285,151 in project costs during the one-year period, representing about 21 percent of the total project costs. Specifically, the agency could not support more than \$164,000 in claimed in-kind matching costs and, as a result, did not meet its project cost-sharing requirement, and had charged almost \$54,000 in excessive administrative costs to the project because it did not have an adequate system for allocating such costs. In addition, a recent NOAA performance review found that the agency was not conducting its coastal zone management program in a satisfactory manner.

We recommended that NOAA (1) require the agency to submit detailed documentation supporting all future in-kind matching costs claimed in its quarterly financial reports, (2) direct the agency to reasonably and consistently allocate its administrative costs to its NOAA-funded projects, and (3) disallow \$285,151 in questioned costs, disburse \$15,470 to the agency as its final grant payment, and deobligate the remaining \$243,439 in grant funds. Our audit, which included steps specifically designed to address the allegations of misuse, did not disclose any evidence that the agency had improperly used its NOAA grant funds.

The agency agreed with the report's findings, and has already taken action to correct its grant management weaknesses, but we continue to recommend that NOAA disallow the \$285,151 in questioned costs. (*Atlanta Regional Office of Audits: ATL-9632-7-0001*)

## ***Preaward Survey Shows Grantee Needs Financial Management Improvements***

In July 1996, NOAA awarded nearly \$200,000 in grant funds to a Houston engineering company as part of its initiative to implement the Department's program for Small Business Innovation Research projects. The company's objective is to use the funds to develop an aquaculture environment control system. At NOAA's request, we performed a preaward accounting system survey of the company.

We reviewed key aspects of the company's financial management system, including the company's organization and management structure; procurement and property management procedures and controls; and personnel management, timekeeping, payroll administration, and labor-cost allocation procedures and controls. We found several weaknesses that could materially affect the company's operations, and made recommendations to resolve these issues. (*Atlanta Regional Office of Audits: ATL-9905-7-0001*)

### **Actions Taken by Pacific Fishery Management Council Were Appropriate**

In response to concerns raised by a California citizen and a constituent of Senator Slade Gorton of Washington state, the OIG examined the conduct of an October 1996 meeting of the Pacific Fishery Management Council, where action was taken to consider sablefish management options for certain types of fishing vessels. Following a review of the audio tapes of the meeting and interviews with Council staff, we concluded that the Council's actions were proper and did not violate the Magnuson-Stevens Act or any implementing procedures. These actions were later rejected by the National Marine Fisheries Service for reasons other than those stated by the complainants. We also found no evidence of wrongdoing in connection with two other issues raised by the parties. (*Seattle Regional Office of Audits*)

### **Department Obtains \$25,000 in Settlement of Administrative Fraud Claim**

A NOAA scientist agreed to pay \$25,000 to settle a claim under the Program Fraud Civil Remedies Act, which resulted from OIG investigative findings that he had submitted fraudulent documentation to the agency in an effort to obtain more than \$16,000 in relocation expenses in connection with a permanent change of duty station. The administrative complaint alleged that he altered a settlement statement on the sale of a house co-owned with his former wife in order to make it appear that it was his primary residence and claim the expenses of the sale. He also raised the sales price to increase the amount of his reimbursement. The attempted fraud was discovered before the employee was paid by NOAA, and he received a five-day suspension for his misconduct. (*Washington Field Office of Investigations*)

## ***In Brief***

**Conviction and Sentencing.** An NMFS employee was convicted of theft after an OIG investigation disclosed that she had forged the name of a coworker to obtain a \$1,000 travel advance from a NOAA imprest fund. In September 1997, she was sentenced to 18 months' unsupervised probation and 75 hours of community service, and ordered to make full restitution of the embezzled funds. (*Silver Spring Field Office of Investigations*)

**Restitution.** As part of a pretrial diversion agreement executed in July 1997, a Louisiana fisherman agreed to make restitution to NMFS in the amount of \$9,314 after a joint OIG/Louisiana Department of Justice investigation revealed that he had submitted fraudulent documentation to the Fisherman's Contingency Fund to support inflated claims for lost fishing gear and economic losses arising out of two accidents in federal waters. The defendant also agreed to repay the state department of natural resources more than \$9,000 for false casualty claims filed with that agency. (*Denver Field Office of Investigations*)

**Suspensions.** A senior NOAA manager was suspended when an OIG investigation confirmed that she had kept a loaded gun in an unlocked desk drawer in her office for more than a year. The weapon was provided to her by a NOAA security officer after she advised him that she had been threatened by another employee. The manager received a 14-day suspension for unauthorized possession of a firearm on a federal work site, and the officer was suspended for seven days for providing a government weapon to a person without authority to carry or possess it. (*Office of Investigations*)

**Suspension.** An NWS employee was suspended for two weeks and compelled to repay more than \$3,200 to the Department for falsely claiming relocation expenses for a woman who was not his wife. The employee was living with the woman at the time of his transfer and improperly included her travel and moving expenses, and those of her minor child, in his claim for reimbursement. (*Denver Field Office of Investigations*)

## ***Work in Progress***

### **NMFS Laboratory Structure**

In response to a congressional request, we conducted a performance audit to assess streamlining and reconfiguration opportunities within the National Marine Fisheries Service laboratory network. We identified opportu-

nities for NMFS to streamline its field structure, including closing some laboratories and transferring their functions to other, underutilized laboratories.

In its comments on our draft report, NMFS did not agree with the streamlining plan we recommended for the lab structure. NMFS also did not agree with our calculations of the cost savings and avoidances that could be realized by implementing our recommendations. We are incorporating NMFS's comments and our analysis of them in our final report. (*Seattle Regional Office of Audits*)

## **NMFS Inspection Services Division**

The National Marine Fisheries Service's voluntary, fee-for-service seafood inspection program, operated by the NMFS's Inspection Services Division (ISD), provides quality assurance services to about 2,200 fishery product companies through both in-plant quality assurance and product lot inspections and certifications. In 1995 ISD estimated that it inspected over 1 billion pounds of seafood products, representing approximately 23 percent of the total consumed in the United States. In response to a request received from the Assistant Administrator for Fisheries, we evaluated the operational and financial management of ISD. Our recently issued draft report is being reviewed by NOAA; our final report will be issued during the next semiannual period. (*Seattle Regional Office of Audits*)

## **Coastal Zone Management and National Estuarine Research Reserve System Programs**

NOAA's Coastal Zone Management and National Estuarine Research Reserve System programs are federal/state partnerships, in which the federal government assists the states in effectively protecting and promoting the wise use of land and water resources in the coastal zone. Currently, 31 of the 35 coastal states and territories have NOAA-approved Coastal Zone Management programs, and there are 21 designated Reserve sites. In a recent review of the effectiveness and efficiency of the two programs, we found that, despite marked improvement in the programs' management and operations in recent years, several issues warrant NOAA management attention. Our draft report on the two programs is being reviewed by NOAA. After considering NOAA's comments, we will issue our final report during the next semiannual period. (*Office of Inspections and Program Evaluations*)

## **Severe Weather Forecasting**

As a key aspect of its mission, the National Weather Service helps protect the nation's people and property from the dangerous effects of severe and hazardous weather by issuing severe weather and flood warnings, public forecasts, and advisories. NWS determines how well it handles its severe weather responsibilities through verification—a quality control process that essentially matches warnings to actual weather observations and compiles statistical results of forecasting performance. In an inspection of this process, we focused on assessing whether (1) NWS's severe storm verification activities and statistics are valid and reliable measures of NWS severe storm forecasting performance, and (2) its modernization efforts have improved the accuracy of such forecasting.

Based on our inspection, we concluded that NWS's modernization efforts have resulted in more accurate forecasting and that its verification statistics are vital, and generally valid, measures of performance. However, our recently issued draft report also highlighted a number of ways in which the reliability of NWS's verification statistics and process can be improved. Our draft report is being reviewed by NOAA; our final report will be issued during the next semiannual period. (*Office of Inspections and Program Evaluations*)

## **Audit Reports Unresolved for Over Six Months**

As of September 30, 1997, there were three performance audit reports, one financial assistance audit report, and one preaward contract audit report with recommendations unresolved for more than six months.

## **Consolidation of NWS Tsunami Warning Program**

The first performance audit report, *NWS Tsunami Warning Program Should Be Consolidated*, STL-7066-6-0001 (see September 1996 issue, page 41), concluded that the tsunami warning centers in Hawaii and Alaska could be eliminated by transferring some duties to the Interior Department's U.S. Geological Survey, having some duties assumed by other NOAA offices, and leaving other duties to the states. NOAA disagreed with our findings and recommendations. NOAA believes that the recommended actions would reduce program effectiveness and increase program costs. We have suggested an alternative approach as a basis for resolution and are awaiting NOAA's response.

## Expanded Vessel Buyout Program

In another report, *Expanded Vessel Buyout Program Is Not Needed*, ENT-8657-7-0001 (see March 1997 issue, page 48), we recommended that NOAA cancel the buyout program, transfer appropriate funding to existing federal programs that can better meet the needs of the Northeast fishing community, and transfer any remaining unused funds to the Treasury.

NOAA disagreed with our findings and recommendations. NOAA believes that the Fishing Capacity Reduction Initiative is an integral part of a comprehensive disaster relief plan, offering significant conservation benefits. However, NOAA further indicated that it has no plans for another round of buyouts in the Northeast and there is no funding for buyouts in the FY 1998 and FY 1999 budgets. Because all program funds will soon be expended, the report's recommendations can no longer be implemented and resolution of those specific recommendations is a moot issue.

We remain unconvinced of the merits of the Fishing Capacity Reduction Initiative and strongly suggest that NOAA monitor it and measure its impact. We suggested that NOAA conduct an evaluation of the \$23 million initiative before expending any funds above that level for additional vessel buyouts. We are awaiting NOAA's response.

## Northwest Emergency Assistance Plan

In a third report, *Northwest Emergency Assistance Plan Funds Can Be Used More Effectively*, STL-8518-7-0001 (see March 1997 issue, page 46), we recommended that the plan be made more effective by reallocating funding of future permit buyback programs to salmon habitat restoration and data collection programs. In addition, we recommended that the project funding criteria be revised to ensure that habitat restoration and data collection projects comply with the requirements of the Interjurisdictional Fisheries Act and the Secretary's disaster declaration.

NOAA disagreed with our findings and recommendations. NOAA believes that the permit buyback program was a wise use of funds and it will consider buyback proposals if future funds are made available under the Northwest Emergency Assistance Plan. NOAA is satisfied that the habitat restoration and data collection projects comply with the act and the disaster declaration. Thus, there is no plan to revise the criteria.

We reaffirmed our recommendations and urged NOAA to reconsider its position. We are awaiting NOAA's revised audit action plan.

## **University of Hawaii**

This financial assistance audit report, ATL-9999-5-0753 (see September 1995 issue, page 99), questioned \$1.1 million of claimed costs. NOAA requested that resolution be deferred until (1) a final determination of the allowability of costs has been made by the Defense Contract Audit Agency (DCAA), and (2) negotiations regarding ship day rates and other costs for specialized service research are completed by the Office of Naval Research, the cognizant agency for the university in resolving issues identified in the audit. NOAA has received the DCAA report and is communicating with DCAA, the Office of Naval Research, and the university in an attempt to conclude this matter. We are awaiting NOAA's revised audit resolution proposal.

## **Preaward Contract Audit Report**

The NOAA preaward contract audit report is referenced on page 65.



# National Telecommunications and Information Administration

The mission of the **National Telecommunications and Information Administration** is to (a) serve through the Secretary of Commerce as the principal executive branch advisor to the President on domestic and international communications and information policies, (b) ensure effective and efficient federal use of the electro-magnetic spectrum, (c) develop with other federal agencies policies for international communications and standards-setting organizations, (d) serve as the federal telecommunications research and engineering center, and (e) administer grants under the Information Infrastructure Grants Program and the Public Telecommunications Facilities Program.

## **San Francisco-Based Awardee Did Not Achieve Grant Goals**

Under its Telecommunications and Information Infrastructure Assistance Program, NTIA awarded a \$450,000 grant to a San Francisco-based organization that works to meet the social and economic needs of the Hispanic community. The award required nearly \$675,000 in matching funds, bringing the total project budget to about \$1.125 million. The grant funded a demonstration project intended to show how minority communities could participate in the nation's advanced information infrastructure. Specifically, the organization's goals included operating as a national information provider on the Internet, developing an informational database generated and managed by Latino organizations, obtaining specified levels of subscribers, and establishing five regional offices in major U.S. cities.

The OIG performed an interim audit of the grant period of October 15, 1994, through March 31, 1996. We found that the grantee (1) did not achieve all of its grant goals, as it failed to attract the expected number of subscribers or to establish all proposed regional offices, (2) did not meet matching funds requirements, and (3) incurred questioned costs of nearly \$300,000.

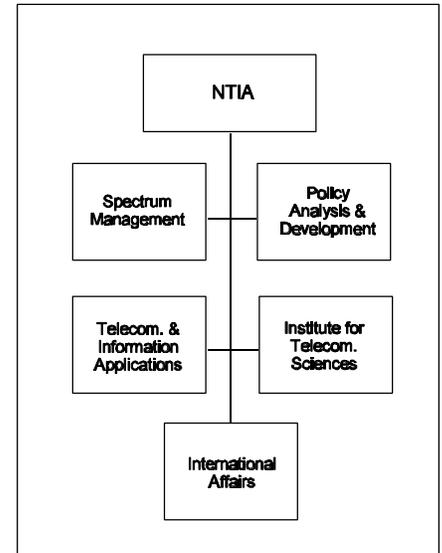
We recommended that the Department evaluate the feasibility of requiring the organization to complete all of its grant goals, require adequate support for all matching share contributions made to the project after the period covered by the audit, disallow the nearly \$300,000 in questioned costs, and recover more than \$94,000 in excess grant disbursements. The organization agreed that two grant goals had not been achieved and with the issues related to the availability of matching funds, but disagreed with the questioned costs. (*Seattle Regional Office of Audits: STL-8890-7-0001*)

## **Grantee Costs Questioned Because of Procurement Deficiencies**

In October 1994, a state government organization was awarded an NTIA grant for about \$400,000 to start a single statewide multipurpose voice, data, and video network. The grantee, which provided equal matching funds, was to develop a network of 20 communitywide points of presence in school districts throughout the state. In July 1996, the award was transferred to another state instrumentality and amended to expand the network to eight additional sites.

The OIG conducted a financial and compliance audit of the grant covering the period of October 15, 1994, to December 31, 1996. We found more than \$227,000 in improperly claimed project costs due to the failure to follow federal procurement rules, which require full and open competition. We recommended that the Department disallow the questioned costs and recover the federal share of more than \$113,000. In addition, we recommended that the Department require the grantee to implement and follow all applicable procurement procedures.

In response to our draft report, the grantee disagreed with our finding of procurement deficiencies, stating that it is exempt from state purchasing requirements and is only required to follow generally accepted good business practices. We reaffirmed our finding and recommendation since the grantee, in accepting the transfer of the grant, agreed to abide by federal procurement standards. (*Atlanta Regional Office of Audits: ATL-9631-7-0001*)



## **Telecommunications Network Grantee Improperly Claimed In-Kind Contributions**

In October 1995, NTIA awarded a \$225,000 grant to a nonprofit organization for a telecommunications network project to reduce disparities in access to the national information infrastructure for low income families in eight neighborhoods in a Connecticut city. The grant required a matching contribution of about \$470,000, making the total project budget approximately \$695,000.

The OIG completed a financial and compliance audit of the grant for the period of October 15, 1995, to June 30, 1996, and found approximately \$33,000 in project costs that had been improperly claimed. The questioned costs included nearly \$28,000 of in-kind contributions and about \$5,000 of inadequately supported costs. We also followed up on a complaint alleging misuse of federal funds by a project subcontractor, but found no evidence to substantiate the allegation.

We recommended that the Department disallow the improperly claimed project costs and recover more than \$24,000 in excess grant disbursements from the grantee, and include a requirement that support documentation for all claimed in-kind contributions for future grants be provided to the Grants Officer with each "Request for Reimbursement." The grantee's response to our final report has been received and is being evaluated by the Department. (*Atlanta Regional Office of Audits: ATL-8844-7-0001*)



# Patent and Trademark Office

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The 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, to invest in research, to commercialize new technology, and to draw attention to inventions that would otherwise go unnoticed. PTO also collects, assembles, publishes, and disseminates technological information disclosed in patents.

## ***Patent Quality Controls Are Inadequate***

PTO's Office of Patent Quality Review is responsible for monitoring and evaluating the quality of the patent examination process by reviewing a sample of allowed patents and reporting the results to PTO management. In a 1990 report, the OIG cited inefficiencies by PTO in its quality review process and in its use of OPQR data to make improvements in the patent examination process (see March 1990 issue, page 7). PTO implemented most of our recommendations and, between 1990 and 1996, experienced a steady decline in the percentage of possible patent errors and patent cases reopened.

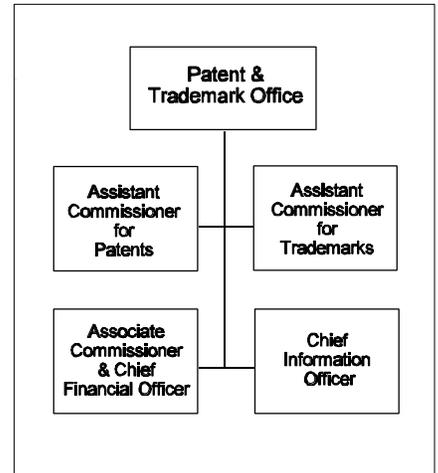
However, in 1994, PTO decided to eliminate OPQR in favor of a proposal called the Examination Quality Program (EQP), which was intended to reinvent the patent quality review process. We raised serious concerns about the proposal and recommended that PTO refrain from eliminating OPQR until it had confirmed the effectiveness of the replacement process. PTO agreed to maintain OPQR's staffing level and continue sampling examiner actions at a 4 percent sampling rate of allowed patents until EQP was proven to be equally effective.

We recently performed an audit to evaluate the effectiveness of OPQR and the status of PTO's efforts to implement a substitute quality review process. The audit disclosed that PTO had not carried out its previous assurances to us that it would retain enough patent reviewers within OPQR to continue sampling examiner actions. We found that PTO had both reduced OPQR's staff and sampling levels and delayed the implementation of EQP, seriously reducing the effectiveness of the quality control program. For instance, between FY 1992 and FY 1996, the number of patent reviewers was reduced from 16 to 9, while the sampling rate declined from 3.8 to 2.1 percent. In April 1996, PTO officially reduced the sampling rate to 2 percent without supporting statistical analysis; since then, error rates reported by OPQR have gradually increased.

We also learned that a recent pilot project to assess the viability of two major EQP components had identified serious weaknesses, and that EQP implementation may be further delayed by uncertain funding and negotiations with employee unions. Moreover, our 1990 recommendation that OPQR expand its sampling to include examiners' initial decisions (known as "first actions") had not been implemented.

We recommended that PTO reinstate the necessary OPQR staff to sample allowed applications at the previously validated rate of 4 percent, conduct a statistical analysis of the current sampling methodology to determine a level necessary to produce valid results, and expand the patent quality review process to include the review of initial decisions.

PTO agreed with our evaluation of the current quality review process, accepted our recommendations, and outlined actions to implement them. Specifically, PTO stated that it anticipated that the results of the analysis called for by the second recommendation would provide OPQR with the resources to carry out the first and third recommendations. (*PTO Audits Division: [PTD-9977-7-0001](#)*)





# Technology Administration

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 by industry. It includes three major organizations:

**Office of Technology Policy.**

OTP works to raise national awareness of the competitive challenge, promotes industry/government/university partnerships, fosters quick commercialization of federal research results, promotes dedication to quality, increases industry's access to and participation in foreign research and development, and encourages the adoption of global standards.

**National Institute of Standards and Technology.** NIST promotes U.S. economic growth by working with industry to develop and apply technology, measurements, and standards. NIST manages four programs: the Advanced Technology Program, the Manufacturing Extension Partnership Program, a laboratory-based measurement and standards program, and the National Quality Program.

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

## ***NIST's Advanced Technology Program Needs Financial and Management Improvements***

The Advanced Technology Program, one of four major programs managed by NIST, was established in 1988 to promote the economic growth and competitiveness of U.S. business by accelerating the development and commercialization of promising high-risk technologies. ATP is a cost-sharing program that provides funds to single companies and joint ventures for research and development on pre-competitive generic technologies.

In August 1994, NIST received departmental approval to designate ATP as a multi-year financial assistance program. Multi-year program designation enables departmental financial assistance programs to make awards for periods of more than one year even though the program does not have enough money to fund the entire award project. To be eligible for multi-year funding, a project must be severable into annual segments that have defined work products that represent tangible accomplishments. With this designation, funding agencies are permitted to obligate funds for a one-year budget period and anticipate options to renew for up to two additional years. ATP received an exception to the general rule and was given approval to renew award agreements for up to four additional years.

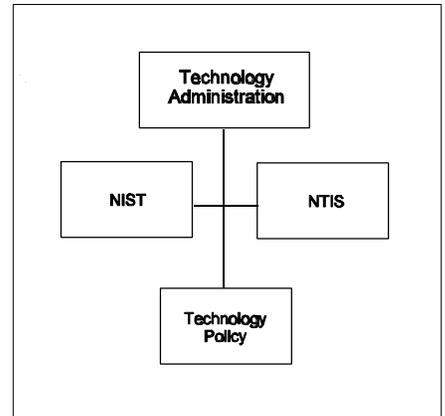
The OIG conducted an audit to assess NIST's use of multi-year funding for ATP projects, and the adequacy of management controls over NIST's FY 1995 ATP final award process. Our audit disclosed that NIST inappropriately used incremental funding for research awards that were not severable. NIST also failed to comply with departmental requirements for multi-year funding because the grants officer did not certify that project activities for FY 1995 awards were severable.

We found that by the end of FY 1996, NIST had accumulated approximately \$155 million of unfunded balances for ATP projects that should be disclosed in the overview and notes to its annual financial statements in order to provide management with more complete information for use in making financial management decisions. NIST also did not adequately control the FY 1995 final award process in several respects. We made the following recommendations to NIST:

- ! To correct the deficiencies related to incremental funding and ensure compliance with appropriate laws and regulations, NIST should require that all prior year ATP awards not funded for the entire project period be reviewed and (1) ensure that required certifications of severability are prepared for awards that are severable, and

(2) fully fund the remaining awards that are not severable before obligating funds for new ATP awards.

- ! For all new ATP awards, NIST should ensure that required certifications of severability are prepared for all awards that are severable, and fully fund in advance awards that are not severable.
- ! To provide for proper disclosure of the ATP unfunded balance, NIST should ensure that auditable records are maintained to track the \$155 million ATP unfunded balance, and fully disclose the unfunded balance in the overview and notes to NIST's annual financial statements.
- ! To strengthen management control over future ATP awards, NIST should ensure that (1) awards are announced and notifications sent to successful applicants only after grants specialists have completed their financial reviews and final award process work, (2) grants specialists are appointed to ATP source evaluation boards to emphasize the importance of their work and involve them more in the proposal review and selection process, and (3) a system is established to identify and track award agreements with contingency clauses to prevent funds from being disbursed to recipients before all contingencies are resolved.



NIST generally agreed with our recommendations and submitted an audit action plan for implementing them. (*Technology Audits Division: ENT-8984-7-0001*)

## **Accounting System Surveys and Audits of NIST Financial Assistance Recipients**

As noted in earlier issues of this report, the OIG has been performing a series of accounting system surveys of first-time recipients of financial assistance awards under NIST's Advanced Technology and Manufacturing Extension Partnership programs (see, for example, March 1997 issue, page 64). During this semiannual period, key aspects of our work on NIST financial assistance programs involved auditing ATP joint venture recipients and responding to a congressional request seeking information on potential "double billing."

## Advanced Technology Program

During the period, we reported on 20 audits covering two ATP joint ventures and one single recipient with award periods of up to five years, and having total estimated costs of more than \$68.8 million, with a federal share potentially as high as \$33.0 million.

More than 100 joint venture ATP awards involving over 500 companies have been issued with total estimated costs exceeding \$2.0 billion (federal and nonfederal). Our examination of two ATP joint venture awards with 19 participants and a total of \$64.3 million in federal and nonfederal funds identified questionable transactions of \$10.7 million, generally involving software development companies that provided licenses, software maintenance and support, or other items from a commercial product line for use on the project. Problems arose because federal cost reimbursement rules do not permit financial assistance award recipients to be reimbursed for previously invested development costs, corporate interest expenses, or profit—all of which are significant ingredients of software commercial prices.

We have worked closely with NIST grant and program officials on a proposed rule (published in the *Federal Register* on September 17, 1997) that will address the valuation of transfers of goods and services, including computer software, between separately owned joint venture members. The rule would permit 75 percent of the participant's best commercial price or its actual cost, whichever is greater, to be claimed as an allowable cost to future ATP awards. (*Denver Regional Office of Audits: DEN-8932-7-0001, DEN-9752-7-0001, DEN-9758-7-0001, DEN-9759-7-0001, DEN-9760-7-0001, DEN-9761-7-0001, DEN-9762-7-0001, DEN-9763-7-0001, DEN-9764-7-0001, DEN-9765-7-0001, DEN-9766-7-0001, DEN-9767-7-0001, DEN-9768-7-0001, DEN-9774-7-0001, DEN-9775-7-0001, DEN-9776-7-0001, DEN-9777-7-0001, DEN-9779-7-0001, DEN-9827-7-0001*)

The single recipient had two awards for \$4.5 million, with an estimated federal share of \$4.0 million. The audit identified weaknesses in the recipient's financial management and accounting systems, in particular the failure to adequately account for federal funds, to properly claim and document only allowable costs, and to implement adequate policies and procedures. Questioned costs on this audit exceeded \$100,000. (*Denver Regional Office of Audits: DEN-9002-7-0001*)

## Manufacturing Extension Partnership Program

The three surveys completed during this period covered MEP projects having total estimated costs for the two- to three-year award periods exceeding \$8.9 million, with a federal share that could ultimately be as much as \$4.1 million. We found that the accounting and financial management systems of all three recipients complied with federal regulations. (*Denver Regional Office of Audits: DEN-9490-7-0001, DEN-9828-7-0001, and DEN-9857-7-0001*)

## Congressional Request Related to Double Billing

At the request of the Chairman of the House Science Committee, we provided information on the operations of three Department programs: ATP, MEP, and the Small Business Innovation Research (SBIR) program. The ATP and MEP programs are unique to the Department of Commerce, while the SBIR program operates governmentwide.

The Committee's concern was that companies may apply for and receive financial assistance from more than one federal source for the same or similar proposals, thereby increasing the risk that the companies will engage in illegal double billing. Within the Department, we identified 568 companies and nonprofit organizations that had received 871 awards from the ATP, MEP, or SBIR program between 1991 and 1996.

We did not identify any small business or nonprofit organization that had received awards from all three programs. Only nine recipients, or less than 2 percent, were funded under two programs: eight small businesses received awards from both the ATP and SBIR programs; one entity received awards from the MEP and SBIR programs, but did not make any cost claims under the SBIR award, which was canceled. The funding patterns for the eight small businesses were as follows:

- ! Three companies had ATP awards totaling \$4,911,000 that were completed before SBIR awards totaling \$149,794 were received.
- ! One company had an SBIR award of \$48,285 that was completed before an ATP joint venture award totaling \$8,148,000 was received.
- ! Four companies received ATP and SBIR awards in the same fiscal years.

Our audits of the four small businesses receiving ATP and SBIR awards in the same year found no double billing. Complete results of these audits will be reported during the next semiannual period. (*Denver Regional Office of Audits*)

### ***NIST Properly Handled Superfund Interagency Agreements with EPA***

Under interagency agreements with the Environmental Protection Agency, NIST conducts technical research to counteract the effects of toxic waste spills. Funds appropriated for these agreements are made available through the Hazardous Response Trust Fund, known as the Superfund.

The Superfund Amendments and Reauthorization Act of 1986 requires the OIG to audit all payments, obligations, reimbursements, or other uses of the Superfund annually to ensure that it is being properly administered. During this semiannual period, we conducted two audits to determine whether NIST had properly managed the financial aspects of the Superfund agreements entered into with EPA during FYs 1995 and 1996.

We determined that NIST had accurately accumulated, documented, and charged the Superfund reimbursable costs for the funds received, and that the funds had been received in advance for all work performed. Our evaluation of NIST's compliance with laws and regulations indicated that the agency was in compliance with the relevant financial provisions of the legislation that created the Superfund.

NIST was also in compliance with the terms and conditions of the interagency agreements, and controls over Superfund activities were adequate. During both years, NIST properly traced EPA Superfund monies by providing segregated cost centers for the expenditures. As a result, we made no recommendations. (*Economic Development Audits Division: [EDD-9836-7-0001](#) and [EDD-10062-7-0001](#)*)

### ***OIG Work at NTIS Indicates That PBO Legislation Should Be Put on Hold***

During this semiannual period, we responded to a request for comments from the Department's Office of General Counsel on legislation to convert NTIS to a performance-based organization. NTIS was selected to be converted to a PBO due, in large part, to its successes during the 1990s in adopting a more businesslike atmosphere, establishing an improved

integrated accounting and order processing system, and receiving fewer customer complaints. The PBO concept is designed to provide certain federal agencies with greater flexibility in procurement and more control over finances and personnel, in exchange for stricter accountability for performance.

A clearly defined mission and the ability to generate sufficient revenues to support business operations are the two key prerequisites for becoming a PBO. We are concerned about whether NTIS currently meets either of these prerequisites.

We recently completed an analysis of NTIS financial data for the period FY 1991 through FY 1997. Our analysis concluded that NTIS will not meet its mandate to be self-supporting unless revenues increase and/or operating costs decrease. NTIS has suffered a net loss in two of the last three years, including an estimated loss of \$3.0 million in FY 1997 due to decreased sales and increased costs, and current trends indicate that NTIS will run out of funds in FY 1998.

In early 1997, we conducted a program evaluation that examined NTIS's operations and expansionary activities (see March 1997 issue, page 58). In our report, we noted that NTIS's traditional mission appeared to fit the PBO concept, but we expressed concerns that the agency was undertaking activities based on a very broad interpretation of its mission and authority under the American Technology Preeminence Act of 1991.

Our inspection of one such activity, the joint NTIS-Internal Revenue Service CyberFile project, found that NTIS lacked the requisite in-house technical and management expertise to handle such a project (see March 1997 issue, page 59). NTIS's role in the project was also criticized by the General Accounting Office, the IRS internal audit office, and the Congress. Based on these concerns, we recommended that NTIS establish written criteria and a process for thoroughly reviewing all "expansionary" projects to avoid taking on projects that are potentially outside of the agency's mission or capabilities and to ensure that ample time is afforded to effectively plan, manage, and complete any undertaking that meets the established criteria. NTIS agreed to implement this recommendation.

However, the draft PBO bill includes a provision that would further expand NTIS's mission to allow the agency to provide "information-related services to other federal agencies." This provision would place virtually no limits on the types of information-related activities NTIS would be authorized to undertake, some of which may not be appropriate government

activities and could put the agency in direct competition with the private sector. We recommended that the Department not proceed with legislation to convert NTIS to a PBO until an appropriate mission for the agency has been clearly defined and the agency is able to demonstrate, through short- and long-term business plans, that it will be able to generate sufficient revenues to remain financially self-supporting and position itself for the future. (*Office of Audits and Office of Inspections and Program Evaluations*)

### **OIG Helps NTIS and IRS Reach \$1.75 Million Settlement of CyberFile-Related Debt**

In our previous *Semiannual Report* (see March 1997 issue, page 59), we discussed the management and procurement problems related to CyberFile, a \$20 million on-line tax-filing system that NTIS was developing for IRS. Because of the many problems associated with CyberFile, IRS refused to pay NTIS the \$1.9 million balance for costs incurred on the project. Having so poorly managed the project, NTIS officials were in a difficult position to convince IRS that it should pay the funds owed. The potential consequences to NTIS were serious, including the possibility of becoming “anti-deficient” (that is, incurring obligations in excess of amounts available in appropriations) if IRS did not pay the balance due.

In May 1997, OIG staff prepared an analysis for IRS internal auditors describing NTIS procurement lapses, but also noting the great extent to which IRS shared in these problems. We also analyzed how much NTIS had spent on the project and what work products had been delivered to IRS. Despite the procurement deficiencies that we reported, we believed IRS owed the disputed amount. The Inspector General and the Department’s Under Secretary for Technology later met with the IRS Deputy Commissioner to try to resolve the payment issue. In July, IRS agreed to repay NTIS about \$1.75 million of the disputed amount related to CyberFile. (*Office of Inspections and Program Evaluations*)

### **In Brief**

A procurement official received a letter of reprimand and was required to donate 56 hours of annual leave to the agency’s leave transfer program after an OIG investigation disclosed that he was obtaining equipment for his own use from a NIST vendor at no cost or discounted prices. The employee was also relieved of all procurement responsibilities and directed to attend supplemental ethics training. (*Denver Field Office of Investigations*)

# Departmental Management



## **ASCs Need Functional Realignment and Focus on Essential Services**

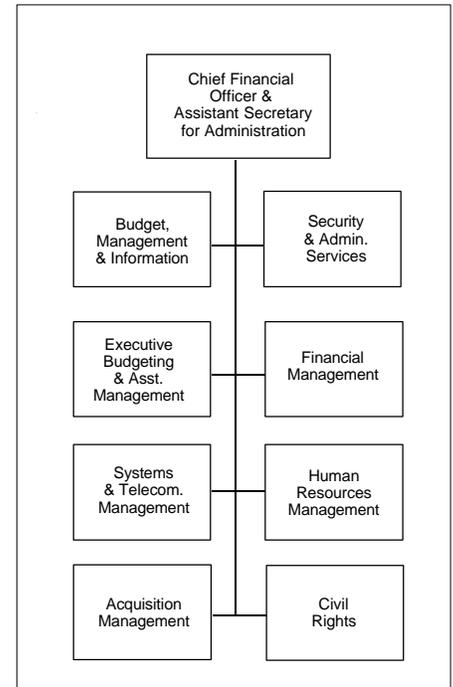
Commerce's Administrative Support Centers (ASCs) were created in 1983 to provide more cost-effective administrative services for the Department's many field units, thereby relieving the bureaus of that burden, reducing the duplication of administrative units, and providing more effective services. The Department established ASCs in four cities: Norfolk, Virginia; Kansas City, Missouri; Boulder, Colorado; and Seattle, Washington. Because NOAA is the Department's largest bureau and has the most field offices, it was selected to provide this "Commerce" service, with substantial departmental oversight.

An OIG inspection of the ASCs was conducted to examine their efficiency and effectiveness in supporting the Department's field units, with a special focus on (1) the oversight and leadership provided by NOAA and the Department, and (2) the ASCs' current operations, as well as their future viability.

We found that the ASCs, their clients' expectations, and the delivery of administrative services are changing dramatically because of technological advances, organizational realignments, budget cuts, and shifting management initiatives. Because of these changes and the ASCs' uncertain status, senior Commerce and NOAA officials must ensure that administrative services are provided to the field units as efficiently, economically, and effectively as possible.

We also found that although ASC personnel seemed committed to providing high-quality service and clients gave them high marks for their work, there has been significant client concern about billing and funding issues. Moreover, departmental and NOAA management voids have complicated ASC operations by fostering inefficiencies and weakening the ASCs. This has resulted in one major bureau, Census, abandoning the centers, and another, ITA, considering doing the same.

Concerning specific ASC units, we concluded that (1) some human resources division functions should be consolidated, automated, or moved, (2) procurement division operations could be improved by certain changes and a consolidation, (3) much of the finance division work should be outsourced, (4) some streamlining would benefit the systems divisions, and (5) the functions of the facilities and logistics divisions need management attention. Moreover, we recommended that the ASC deputy director positions be eliminated, a change later implemented by NOAA.



An important part of our inspection dealt with Commerce's implementation of one of the six franchise pilot projects authorized by the Government Management Reform Act of 1994 to provide financial support to agencies that provide common administrative services in an entrepreneurial manner. The purpose of this initiative is to promote governmentwide competition among administrative services providers, leading in theory to better, more cost-effective services. One of the proposed Commerce franchises involves the ASCs.

At the time of our review, two ASCs were offering their procurement services on a franchise basis to other agencies, and discussions were underway to expand franchising activities at all four centers. However, we identified a shortage of staff, the need for major operational improvements, a potential for overextending resources to support non-Commerce agencies, and uncertain systems support. As a result, we believe that further franchising initiatives at the ASCs should be curtailed until NOAA and the Department address the concerns discussed in our report, and clearly demonstrate, through benefit-cost analyses, the advantages of allowing the ASCs to pursue franchising initiatives at this time.

Although we believe that all four ASCs should remain open for now, Department and NOAA management should begin reviewing all Commerce administrative functions, with a view toward maximizing consolidation and outsourcing, and reducing staffing. We also made recommendations to improve the delivery of administrative support services to Commerce field operations.

NOAA disagreed with certain of our recommendations. For example, in response to one major recommendation, to outsource the administrative payments function, NOAA has assured us that the implementation of CAMS will resolve our concerns. We are giving NOAA the benefit of the doubt, but will closely monitor developments.

In response to a second major recommendation, to curtail further expansion of the franchise initiatives, NOAA and the Department both disagreed. In fact, NOAA wants to expand its ASC franchise to include *all* administrative services. We continue to believe that NOAA and the Department should not expand the use of their outdated computer systems or hire additional personnel to support non-Commerce agencies until they can conclusively demonstrate cost-effectiveness. We also have concerns about the ASCs' ability to provide proper procurement oversight to many new customers and the lack of an analysis of the market for administrative services. (*Office of Inspections and Program Evaluations: IPE-8569*)

### ***OIG Leads Project to Identify Best Practices for Prescreening Financial Assistance Recipients***

The Commerce OIG recently undertook a project for the President's Council on Integrity and Efficiency's Committee on Inspection and Evaluation intended to benefit both the Offices of Inspector General and their agencies' respective financial assistance award processes. The project involves conducting a survey to identify successful techniques used by OIGs and agency grant and loan offices to identify and screen out potentially problematic recipients of federal grants, loans, loan guarantees, or cooperative agreements before they receive federal funding.

The project goal is to highlight the best practices used by individual organizations, so that other OIGs and agencies will have an opportunity to adopt such practices in their review procedures for federal assistance awards. By sharing this information, the OIG community should be able to establish a more effective, efficient, and focused effort to prevent, as well as detect, waste, fraud, and abuse by financial assistance recipients. We are preparing a draft report on our findings. (*Office of Inspections and Program Evaluations*)

### ***OPM Issues New AUO Guidelines Based on OIGs' Findings***

In June 1997, the Office of Personnel Management issued new guidelines on administratively uncontrollable overtime (AUO) pay, following governmentwide OIG audits of each agency's AUO program. Agencies are authorized to disburse premium pay for AUO, ranging from 10 to 25 percent of basic pay, when three criteria are met: (1) an employee's hours cannot be controlled administratively, (2) the employee's position requires substantial amounts of irregular, unscheduled overtime duty, and (3) the employee is responsible for recognizing, without supervision, circumstances that require him or her to remain on duty.

The OIG audits found several problems and deficiencies, including insufficient documentation of payments, inadequate guidance on implementing the policy, errors in the computation of AUO percentage rates, and misinterpretations of the benefit's relationship to premium pay. The OPM guidelines address the OIG concerns, as well as work scheduling requirements, pay limitations, and payment for seasonal and temporary assignments.

Our audit found that all Department of Commerce AUO payments for the year ending October 12, 1996, were made to 55 NOAA employees, who received a total of about \$228,000 (see March 1997 issue, page 74). We recommended that the Department and NOAA ensure that units authorizing AUO payments for employees maintain and review records of overtime worked, determine the average weekly hours of irregular or occasional overtime, assess work requirements, and set the proper rate of premium pay based on the Department's *Pay Handbook*, and determine if payment for AUO is cost-effective compared to payment for regular overtime. (*Economic Development Audits Division*)

### ***In Brief***

An employee in the Office of Administration received a letter of reprimand and was ordered to attend supplemental ethics training after an OIG investigation disclosed that he had cashed numerous personal checks with a contractor while serving as contracting officer's technical representative on the contract, and had used government time and equipment to conduct business for a private company he owned. (*Washington Field Office of Investigations*)

### ***Processed Preaward/Postaward Contract Audits***

The Department's bureaus require many types of supplies and services to meet their mission needs. Procurement offices must help the bureaus obtain the best products or services at the best prices. To that end, preaward audits are routinely requested, through the OIG, to assist the contracting officer in evaluating an offeror's proposed costs, accounting system, financial capability, management ability, and technical competence. These audits are usually performed by the Defense Contract Audit Agency.

To streamline the procurement process and meet the intent of the National Performance Review, the OIG is transferring certain audit-related activities to the Department's contracting officers, allowing them to request audits directly from cognizant audit offices. Eliminating this step in the contract audit process will save time and increase efficiency. As a result of this change, future contract audit savings will be reported by the cognizant audit agency rather than this office. The change, which took effect on October 1, 1997, does not modify the OIG audit authority and responsibility.

During the second half of FY 1997, 57 audit requests were received and processed by the OIG. The requests comprised the following:

- ! 8 preaward audit requests with an audited value of \$49,238,400.
- ! 23 postaward audit requests with an audited value of \$10,455,373.
- ! 26 miscellaneous audit requests, including rate reviews and accounting system reviews.

The number of processed audit reports issued total 48:

- ! 16 preaward audit reports cited \$1,078,785 in potential funds to be put to better use.
- ! 19 postaward audit reports.
- ! 13 special audit reports.

Recommendations made in three preaward contract audits were resolved in contract negotiations, resulting in \$367,238 in funds to be put to better use. As of September 30, 1997, one preaward contract audit issued before April 1997 had recommendations awaiting a final management decision by the contracting officer. (*Office of Compliance and Administration*)

### ***Preaward Financial Assistance Screening***

We continue to work with the Office of Executive Assistance Management, NOAA and NIST grant offices, and EDA program offices to screen all of the Department's grants, cooperative agreements, and loan guarantees before award. Our screening (1) provides information on whether the applicant has unresolved audit findings and recommendations on earlier awards, and (2) determines whether a name check or investigation has revealed any negative history on individuals or organizations connected with a proposed award.

During this period, we screened 1,953 proposed awards. On 37 of these awards, we found major deficiencies affecting the ability of the proposed recipients to maintain proper control over federal funds. On the basis of information we provided, the Department delayed the awards, inserted special conditions in award agreements, or designated certain recipients as "high risk" and required that the disbursement of federal funds be on a cost reimbursement basis. (*Office of Audits*)

Preaward Screening Results		
Results	Number	Amount
Awards delayed	7	\$4,208,535
Special award conditions	2	1,094,434
Cost reimbursement basis	28	16,630,545

### **Indirect Cost Reviews**

OMB has established a policy whereby a single federal agency is responsible for the review, negotiation, and approval of indirect cost rates for federal programs. Normally, the federal agency providing the most direct funding is the cognizant agency. OMB has designated Commerce as the cognizant agency for 280 economic development districts. In turn, the Department authorized the OIG to negotiate indirect cost rates and review cost allocation plans for each of its agencies. The OIG approves the methodology and principles used in pooling indirect costs and establishing a common base for distributing those costs to ensure that each federal, state, and local program bears its fair share.

During this period, the OIG negotiated 39 indirect cost rate agreements with nonprofit organizations and governmental agencies, and reviewed and approved 24 cost allocation plans. We also provided technical assistance to recipients of Commerce awards regarding the use of rates established by other federal agencies and their applicability to our awards. Further, we have worked closely with first time for-profit recipients of Commerce awards to establish indirect cost proposals that are acceptable for OIG review. (*Atlanta Regional Office of Audits*)

### **Nonfederal Audit Activities**

In addition to OIG-performed audits, the Department's financial assistance programs are audited by state and local government auditors and by independent public accountants. OMB Circulars A-128, *Audits of State and Local Governments*, and A-133, *Audits of Institutions of Higher Education and Other Non-Profit Institutions*, set forth the audit requirements for most of these entities. Entities that are for-profit organizations and receive ATP 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.

During this semiannual period, we received 519 audit reports prepared by nonfederal auditors. We also had 96 unprocessed reports from the last semiannual period. For 295 of these reports, the Department is responsible for monitoring compliance with the two OMB circulars and NIST requirements. The other reports are from entities for which other federal agencies have oversight responsibility. We examined 531 reports during this period to determine whether they contained audit findings on any Department programs.

Report Category	Number
Pending (March 31, 1997)	96
Received	519
Examined	531
Pending (September 30, 1997)	84

The following table shows a breakdown by bureau of the \$445 million in Commerce funds audited.

Bureau	Funds
EDA	\$91,254,163
ITA	4,637,172
MBDA	6,003,952
NOAA	171,295,066
NTIA	15,774,389
PTO	53,026
TA	51,035,730
NIST	104,922,899
<b>Total</b>	<b>\$444,976,397</b>

We identified a total Commerce share of \$1,345,800 in questioned costs. In most reports, the Department's programs were considered non-major, resulting in limited transaction and compliance testing against laws, regulations, and grant terms and conditions. The 19 reports with Commerce findings are listed in Appendix B-1. (*Atlanta Regional Office of Audits*)



# Reporting Requirements

## INDEX

The Inspector General Act of 1978, as amended (1988), specifies reporting requirements for semiannual reports. The requirements are listed below and indexed to the applicable pages.

Section	Topic	Page
4(a)(2)	Review of Legislation and Regulations	63
5(a)(1)	Significant Problems, Abuses, and Deficiencies	18-61
5(a)(2)	Significant Recommendations for Corrective Action	18-61
5(a)(3)	Prior Significant Recommendations Unimplemented	63
5(a)(4)	Matters Referred to Prosecutive Authorities	18-61
5(a)(5) and 6(b)(2)	Information or Assistance Refused	64
5(a)(6)	Listing of Audit Reports	72-79
5(a)(7)	Summary of Significant Reports	18-61
5(a)(8)	Audit Reports—Questioned Costs	68, 71
5(a)(9)	Audit Reports—Funds to Be Put to Better Use	69, 70
5(a)(10)	Prior Audit Reports Unresolved	15, 64
5(a)(11)	Significant Revised Management Decisions	16, 65
5(a)(12)	Significant Management Decisions with Which the OIG Disagreed	65

### ***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 that 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 in the administration 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.

Our comments and recommendations regarding the proposed legislation that would establish NTIS as a government corporation are discussed on pages 14 and 52. Other draft legislation and regulations discussed relate to the NOAA Corps (see pages 4 and 33) and the ATP program (see page 8).

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

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

Prior Inspector General semiannual reports have explained that to include a list of all significant unimplemented recommendations in this report would be duplicative, costly, unwieldy, and of limited value to the Congress. Any list would have meaning only if explanations detailed whether adequate progress is being made to implement each agreed-upon corrective action. Also, as this Inspector General's semiannual report is being prepared, management is in the process of updating the Department's Audit Tracking System as of September 30, 1997, based on semiannual status reports due from the bureaus in mid-October. An accurate database is therefore not available to the OIG for reference. However, additional information on the status of any audit recommendations may be obtained through the 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 such 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 commencement 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 the reasons such management decision has not been made, and a statement concerning the desired timetable for achieving a management decision on each such report.

As of September 30, 1997, three performance audits, three financial assistance audits, one financial statements audit, and one preaward contract audit were in this category, as discussed below.

#### **Performance Audits**

One unresolved report addresses the NWS Tsunami Warning Program. This report is discussed on page 41. The other two reports address NMFS's vessel buyout and Northwest Emergency Assistance Plan permit buyback programs. Details can be found on page 42.

#### **Financial Assistance Audits**

The unresolved audits relate to financial assistance awards made by EDA, MBDA, and NOAA. Audit resolution proposals have been submitted; however, the OIG and the three bureaus were not able to resolve the reports on a timely basis. Additional details are presented on pages 23, 32, and 43.

#### **Financial Statements Audit**

The unresolved audit involves the Bureau of the Census Financial Statements for Fiscal Year 1996. Details can be found on page 26.

### **Preaward Contract Audit**

The Department's Audit Tracking System recorded one preaward contract audit unresolved in excess of six months. The audit, based on a DCAA review of a contract proposal, will be resolved when the contracting officer takes final action on the pending procurement, such as awarding a contract or issuing a contract modification. The unresolved preaward contract audit is listed below.

!        ADD-8350-6-0082, August 6, 1996

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

This section requires a description and explanation of the reasons for any significant revised management decision made during the reporting period. Department Administrative Order 213-5, *Audit Resolution and Follow-up*, provides procedures for revision of a management decision. For performance audits, the OIG must be consulted and must approve, in advance, any modification to an audit action plan. For financial assistance audits, the OIG must concur with any decision that would change the audit resolution proposal in response to an appeal by the recipient.

During the reporting period, no modifications were submitted to the OIG for review. The decisions issued on the five appeals of audit-related debts were finalized with the full participation and concurrence of the OIG.

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

This section requires information concerning any significant management decision with which the Inspector General is in disagreement.

DAO 213-5 provides procedures for the elevation of unresolved audit recommendations to higher levels of Department and OIG management, including an Audit Resolution Council. During this period, no audit issues were referred to the Council.



# Statistical Highlights

## Audit and Inspection Statistical Highlights

Questioned costs this period .....	\$8,867,591
Value of audit recommendations this period that funds be put to better use .....	\$6,167,791
Value of audit recommendations agreed to this period by management .....	\$113,824,657
Value of inspection recommendations this period that funds be put to better use .....	\$95,900,000

## Investigative Statistical Highlights

Arrests .....	1
Indictments and informations .....	1
Convictions .....	1
Personnel actions <sup>1</sup> .....	5
Administrative actions <sup>2</sup> .....	8
Fines, restitutions, judgments, and civil and administrative recoveries .....	\$153,652

<sup>1</sup>Includes suspensions, reprimands, demotions, removals, reassignments, and resignations or retirements in lieu of adverse action.

<sup>2</sup>Includes actions to recover funds, new procedures, and policy changes that result from investigations.

## Allegations Processed by OIG Investigators



37 Accepted for Investigation  
40 Referred to Operating Units  
33 Evaluated But Not Accepted for Investigation or Referral

110 Total

In addition, numerous other allegations and complaints were forwarded to the appropriate federal and nonfederal investigative agencies.

### OIG HOTLINE

**Telephone:** (202) 482-2495 or 1-800-424-5197  
**Commerce E-mail:** OIG Hotline@OI@OIG  
**Internet:** oighotline@doc.gov

# Tables and Appendixes



Tables	Page
1. Audits with Questioned Costs	68
2. Audits with Recommendations That Funds Be Put to Better Use	69
3. Preaward Contract Audits with Recommendations That Funds Be Put to Better Use	70
4. Postaward Contract Audits with Questioned Costs	71
Appendixes	
A. Office of Inspector General Reports	72
A-1. Performance Audits	72
A-2. Inspections	73
A-3. Financial Statements Audits	74
A-4. Financial Assistance Audits	74
B. Processed Reports	77
B-1. Processed Financial Assistance Audits	78
B-2. Processed Contract Audits with Questioned Costs or Funds to Be Put to Better Use	79
Definitions	
<p>The term <b>questioned cost</b> refers to a cost that is questioned by the 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.</p>	
<p>The term <b>unsupported cost</b> refers to a cost that, at the time of the audit, is not supported by adequate documentation. Questioned costs include unsupported costs.</p>	
<p>The term <b>recommendation that funds be put to better use</b> refers to a recommendation by the OIG that funds could be used more efficiently if Commerce management took action to implement and complete the recommendation, including (1) reductions in outlays; (2) deobligation 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 that are specifically identified.</p>	
<p>The term <b>management decision</b> refers to 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.</p>	

Table 1: Audits with Questioned Costs			
Report Category	Number	Questioned Costs	Unsupported Costs
A. Reports for which no management decision had been made by the commencement of the reporting period	10	\$4,620,497	\$832,368
B. Reports issued during the reporting period	42	8,867,591	824,853
Total reports (A + B) requiring a management decision during the reporting period	52	13,488,088	1,657,221
C. Reports for which a management decision was made during the reporting period	10	3,485,505	50,855
i. Value of disallowed costs		1,194,866	32,200
ii. Value of costs not disallowed		2,290,639	18,655
D. Reports for which no management decision had been made by the end of the reporting period	42	\$10,002,583	\$1,606,366
<p><b>Notes and Explanations:</b></p> <p>In Category C, lines i and ii do not always equal the total on line C since resolution may result in values greater than the original recommendations.</p> <p>Three audit reports included in this table are also included in the reports with recommendations that funds be put to better use (see Table 2). However, the dollar amounts do not overlap.</p> <p>No postaward contract audits are included in this table; instead, any such audits are listed in Table 4.</p>			

Table 2: 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 commencement of the reporting period	13	\$196,049,964
B. Reports issued during the reporting period	4	5,140,470
Total reports (A + B) requiring a management decision during the reporting period	17	201,190,434
C. Reports for which a management decision was made during the reporting period	11	154,492,615
i. Value of recommendations agreed to by management		112,262,553
ii. Value of recommendations not agreed to by management		42,230,062
D. Reports for which no management decision had been made by the end of the reporting period	6	\$46,697,819
<p><b>Notes and Explanations:</b></p> <p>In Category C, lines i and ii do not always equal the total on line C since resolution may result in values greater than the original recommendations.</p> <p>Three audit reports included in this table are also included in the reports with questioned costs (see Table 1). However, the dollar amounts do not overlap.</p> <p>No preaward contract audits are included in this table; instead, those audits are listed in Table 3.</p>		

Table 3: Preaward Contract 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 commencement of the reporting period	2	\$478,090
B. Reports issued during the reporting period	7	1,027,321
Total reports (A + B) requiring a management decision during the reporting period	9	1,505,411
C. Reports for which a management decision was made during the reporting period	5	442,952
i. Value of recommendations agreed to by management		367,238
ii. Value of recommendations not agreed to by management		119,991
iii. Value of reports on proposals that were not awarded contracts		--
D. Reports for which no management decision had been made by the end of the reporting period	4	\$1,062,459
<p><b>Notes and Explanations:</b></p> <p>Preaward audits of contracts include results of audits performed for the OIG by other agencies.</p> <p>In Category B, six reports were prepared for the OIG by the Defense Contract Audit Agency; one report was prepared by the Department of Health and Human Services.</p> <p>When there are multiple proposals for the same contract, we report only the proposal with the lowest dollar value for funds to be put to better use; however, in Category C, lines i-ii, we report the value of the awarded contract.</p> <p>In Category C, lines i-iii do not always equal the total on line C since resolution may result in values greater than the original recommendations.</p>		

Table 4: Postaward Contract Audits with Questioned Costs			
Report Category	Number	Questioned Costs	Unsupported Costs
A. Reports for which no management decision had been made by the commencement of the reporting period	--	--	--
B. Reports issued during the reporting period	--	--	--
Total reports (A + B) requiring a management decision during the reporting period	--	--	--
C. Reports for which a management decision was made during the reporting period	--	--	--
i. Value of disallowed costs		--	--
ii. Value of costs not disallowed		--	--
D. Reports for which no management decision had been made by the end of the reporting period	--	--	--
<p><b>Notes and Explanations:</b> In Category C, lines i and ii do not always equal the total on line C since resolution may result in values greater than the original recommendations.</p>			

## Tables and Appendixes

Appendix A. Office of Inspector General Reports		
Type	Number	Appendix
Performance Audits	5	A-1
Inspections	10	A-2
Financial Statements Audits	1	A-3
Financial Assistance Audits	39	A-4
<b>Total</b>	<b>55</b>	

Appendix A-1. Performance Audits				
Agency	Subject	Number	Date	Funds to Be Put to Better Use
Economics and Statistics Administration	2000 Decennial Census: Expanded Targeted Questionnaire Program May Be Unnecessary and Counterproductive	<a href="#">ESD-9610-7-0001</a>	09/97	--
Patent and Trademark Office	Patent Quality Controls Are Inadequate	<a href="#">PTD-9977-7-0001</a>	09/97	--
Technology Administration - NIST	Advanced Technology Program Needs Financial and Management Improvements	<a href="#">ENT-8984-7-0001</a>	07/97	--
	FY 1995 Superfund Charges to the Environmental Protection Agency	<a href="#">EDD-9836-7-0001</a>	07/97	--
	FY 1996 Superfund Charges to the Environmental Protection Agency	<a href="#">EDD-10062-7-0001</a>	08/97	--

Appendix A-2. Inspections				
Agency	Subject	Number	Date	Funds to Be Put to Better Use
Bureau of Export Administration	Export Application Screening Process Could Benefit from Further Changes	IPE-9524	09/97	--
International Trade Administration	US&FCS Post in Malaysia	IPE-9284	04/97	--
	US&FCS Post in Thailand	IPE-9286	04/97	--
	US&FCS Poland: Effective Post Needs Attention to Certain Management Issues	IPE-9288	04/97	--
	US&FCS Post in Indonesia	IPE-9285	05/97	--
	US&FCS Germany: While Generally Productive, Its Priorities, Resources, and Activities Require Reassessment	IPE-9287	07/97	--
	Recent Overseas Inspections Found US&FCS Delivering Services Effectively but Facing Internal Constraints	IPE-9178	09/97	--
National Oceanic and Atmospheric Administration	The NOAA Corps Transition Plan Should Convert No More Than 170 Officers	NAD-9087	09/97	\$16,600,000
	Excess Satellite Funding Indicates Need for Better Financial Controls	OSE-8797(2)	09/97	79,300,000
Office of the Secretary	Administrative Support Centers Need Functional Realignment and Focus on Essential Services	IPE-8569	08/97	--

## Tables and Appendixes

### Appendix A-3. Financial Statements Audits

Agency	Subject	Number	Date
International Trade Administration	USTTA Close-Out Procedures as of April 25, 1997	<a href="#">FSD-8711-7-0001</a>	06/97

### Appendix A-4. Financial Assistance Audits

Agency	Auditee	Number	Date	Questioned Costs	Unsupported Costs	Funds to Be Put to Better Use
Economic Development Administration	Miami Downtown Development Authority, FL	ATL-9297-7-0001	06/97	\$1,422,846	--	\$942,651
	West Virginia Economic Development Authority	ATL-8969-7-0001	09/97	--	--	3,843,380
	Cherokee County, NC	ATL-9614-7-0001	09/97	--	--	111,000
Minority Business Development Agency	Dodd & Associates, Ltd., TX	DEN-9575-7-0001	04/97	--	--	--
	IMPACT Business Consultants, Inc., OR	STL-8823-7-0001	07/97	--	--	--
	Operation of the Portland MBDC – Year One, IMPACT Business Consultants, Inc., OR	STL-8823-7-0002	07/97	89,047	\$88,086	--
	Operation of the Salt Lake City MBDC – Year One, IMPACT Business Consultants, Inc., OR	STL-8823-7-0003	07/97	25,508	22,290	--
	Operation of the Seattle MBDC – Year One, IMPACT Business Consultants, Inc., OR	STL-8823-7-0004	07/97	18,940	15,498	--
	Operation of the Phoenix MBDC – Year One, IMPACT Business Consultants, Inc., OR	STL-8823-7-0005	07/97	30,523	20,446	--
	Operation of the Tucson MBDC – Year One, IMPACT Business Consultants, Inc., OR	STL-8823-7-0006	07/97	28,554	25,370	--

Note: The questioned costs and unsupported costs include only the federal share of the total questioned and unsupported costs cited in the reports.

Appendix A-4. Financial Assistance Audits — Continued

Agency	Auditee	Number	Date	Questioned Costs	Unsupported Costs	Funds to Be Put to Better Use
Minority Business Development Agency	Empower Baltimore Management Corporation, with Council for Economic and Business Opportunity, Inc., MD	EDD-9406-7-0001	09/97	33,103	16,755	--
National Oceanic and Atmospheric Administration	Mississippi Department of Marine Resources	ATL-9632-7-0001	08/97	151,985	87,644	243,439
	Ortech Engineering, Inc., TX	ATL-9905-7-0001	08/97	--	--	--
National Telecommunications and Information Administration	Bridgeport Futures, CT	ATL-8844-7-0001	08/97	10,542	2,680	--
	LatinoNet, CA	STL-8890-7-0001	08/97	118,991	65,315	--
	Massachusetts Corporation for Educational Telecommunications	ATL-9631-7-0001	09/97	113,781	--	--
Technology Administration - NIST	Alabama Technology Network	DEN-9490-7-0001	04/97	--	--	--
	University of Southern Mississippi	DEN-9857-7-0001	06/97	--	--	--
	Genosys Biotechnologies, Inc., TX	DEN-9760-7-0001	06/97	1,152,465	--	--
	Genometrix Incorporated, TX	DEN-9758-7-0001	07/97	67,702	--	--
	National Center for Manufacturing Sciences, MI	DEN-9766-7-0001	07/97	109,671	--	--
	Texas Instruments, Inc., TX	DEN-9768-7-0001	07/97	92,160	40,909	--
	Aphios Corporation, MA	DEN-9002-7-0001	08/97	108,454	416	--
	Concentra Corporation, MA	DEN-9752-7-0001	08/97	789,817	--	--
	Spatial Technology, Inc., CO	DEN-9776-7-0001	08/97	934,553	--	--

Note: The questioned costs and unsupported costs include only the federal share of the total questioned and unsupported costs cited in the reports.

## Tables and Appendixes

### Appendix A-4. Financial Assistance Audits — Continued

Agency	Auditee	Number	Date	Questioned Costs	Unsupported Costs	Funds to Be Put to Better Use
Technology Administration - NIST	Cimplex Corporation, CA	DEN-9779-7-0001	08/97	535,488	711	--
	Teknowledge Corporation, CA	DEN-9827-7-0001	08/97	526,023	--	--
	Cleveland Advanced Manufacturing Program, Inc., OH	DEN-9828-7-0001	08/97	--	--	--
	Houston Advanced Research Center, TX	DEN-8932-7-0001	09/97	--	--	--
	Aronex Pharmaceuticals, Inc., TX	DEN-9759-7-0001	09/97	--	--	--
	Beckman Instruments, Inc., CA	DEN-9761-7-0001	09/97	--	--	--
	Massachusetts Institute of Technology/Lincoln Laboratory	DEN-9762-7-0001	09/97	--	--	--
	Laboratories for Genetic Services, Inc., TX	DEN-9763-7-0001	09/97	--	--	--
	Baylor College of Medicine, TX	DEN-9764-7-0001	09/97	--	--	--
	General Motors Corporation, MI	DEN-9765-7-0001	09/97	138,634	85,774	--
	Ford Motor Company, MI	DEN-9767-7-0001	09/97	114,177	--	--
	MacNeal-Schwendler Corporation, CA	DEN-9774-7-0001	09/97	857,352	--	--
	United Technologies Corporation, CT	DEN-9775-7-0001	09/97	--	--	--
	MicroFab Technologies, Inc., TX	DEN-9777-7-0001	09/97	--	--	--

Note: The questioned costs and unsupported costs include only the federal share of the total questioned and unsupported costs cited in the reports.

Appendix B. Processed Reports

The Office of Inspector General reviewed and accepted 566 financial related audit reports prepared by independent public accountants and local, state, and other federal auditors. The reports processed with questioned costs or with recommendations that funds be put to better use are listed in Appendixes B-1 and B-2.

Agency	OMB A-128 and A-133 Audits	Contract Audits		Total
		Preaward	Postaward	
Economic Development Administration	178	--	--	178
International Trade Administration	8	--	--	8
Minority Business Development Agency	13	--	--	13
National Oceanic and Atmospheric Administration	45	14	12	71
Patent and Trademark Office	--	2	--	2
Technology Administration	25	--	7	32
National Institute of Standards and Technology	78	--	--	78
Multi-Agency	78	--	--	78
Agency Not Identified	106	--	--	106
<b>Total</b>	<b>531</b>	<b>16</b>	<b>19</b>	<b>566</b>

## Tables and Appendixes

### Appendix B-1. Processed Financial Assistance Audits

Agency	Auditee	Number	Date	Questioned Costs	Unsupported Costs	Funds to Be Put to Better Use
Economic Development Administration	Indian Development District of Arizona, Inc.	ATL-9999-7-0007	06/97	\$9,657	--	--
	City of Chillicothe, MO	ATL-9999-7-0757	06/97	--	--	--
International Trade Administration	American Electronics Association and Subsidiaries, CA	ATL-9999-7-0319	09/97	269,880	\$10,650	--
National Oceanic and Atmospheric Administration	Bering Sea Fisherman's Association, AK	ATL-9999-7-0274	06/97	3,209	--	--
	Martha's Vineyard Shellfish Group, Inc., MA	ATL-9999-7-1062	09/97	24,225	--	--
Technology Administration - NIST	Semantic Designs, Inc., TX	ATL-9999-7-0592	09/97	3,958	--	--
	Lennox Industries Inc., TX	ATL-9999-7-0598	09/97	79,894	--	--
	The Budd Company, MI	ATL-9999-7-0749	09/97	111,025	--	--
	The Budd Company, MI	ATL-9999-7-0750	09/97	112,995	--	--
	Extempo Systems, Inc., CA	ATL-9999-7-0863	09/97	4,337	1,241	--
	Concept Five Technologies, Inc., VA	ATL-9999-7-0868	09/97	109,354	--	--
	Honeywell Technology Center, MN	ATL-9999-7-0884	09/97	4,897	--	--
	Honeywell Technology Center, MN	ATL-9999-7-0885	09/97	5,336	--	--
	W.R. Grace & Co., MD	ATL-9999-7-0909	09/97	201,947	--	--
	The Lincoln Electric Company, OH	ATL-9999-7-0923	09/97	15,000	--	--
	SI Diamond Technology, Inc., TX	ATL-9999-7-0924	09/97	46,999	14,040	--
	General Motors Corp., MI	ATL-9999-7-0967	09/97	16,059	--	--
	Cullen Engineering Research Foundation, TX	ATL-9999-7-1032	09/97	280,863	280,863	--
	Amoco Corporation, IL	ATL-9999-7-1135	09/97	46,165	46,165	--

Note: The questioned costs and unsupported costs include only the federal share of the total questioned and unsupported costs cited in the reports.

Appendix B-2. Processed Contract Audits with Questioned Costs or Funds to Be Put to Better Use						
Agency	Number	Type	Date	Questioned Costs	Unsupported Costs	Funds to Be Put to Better Use
National Oceanic and Atmospheric Administration	OCA-8350-7-0019	Preaward	05/97	--	--	\$53,755
	OCA-8350-7-0020	Preaward	05/97	--	--	178,634
	OCA-8350-7-0021	Preaward	05/97	--	--	9,243
	OCA-8350-7-0025	Preaward	06/97	--	--	53,440
	OCA-8350-7-0026	Preaward	06/97	--	--	51,464
	OCA-8350-7-0029	Preaward	07/97	--	--	191,055
	OCA-8350-7-0030	Preaward	08/97	--	--	16,075
	OCA-8350-7-0031	Preaward	09/97	--	--	525,119
Notes: These audits were performed for the OIG by DCAA. This list contains all processed preaward contract audits with funds to be put to better use. However, when there are multiple proposals for the same contract, only the proposal with the lowest dollar value is reported in Table 3, page 70.						



# Definitions of OIG Reviews

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## AUDITS

The OIG conducts three types of audits:

### **Performance Audits**

These audits look at 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.

### **Financial-Related Audits**

These audits review the Department's contracts, grants, cooperative agreements, loans, and loan guaranties. They assess compliance with laws, regulations, and award terms; adequacy of accounting systems and internal controls; allowance of costs; and the degree to which a project achieved the intended results.

### **Financial Statements Audits**

The Chief Financial Officers Act of 1990 requires federal agencies to prepare annual financial statements and to subject them to audit. The OIG is responsible for conducting these audits and reporting the results to the Secretary of Commerce.

## INSPECTIONS

The OIG conducts three types of inspections:

### **Operational Inspections**

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

### **Program Evaluations**

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

### **Systems Evaluations**

These are reviews of system development, acquisition, operations, and policy in order to improve efficiency and effectiveness. They focus on Department-wide computer systems and other technologies and address all project phases, including business process engineering, system definition, system development, deployment, operations, and maintenance.

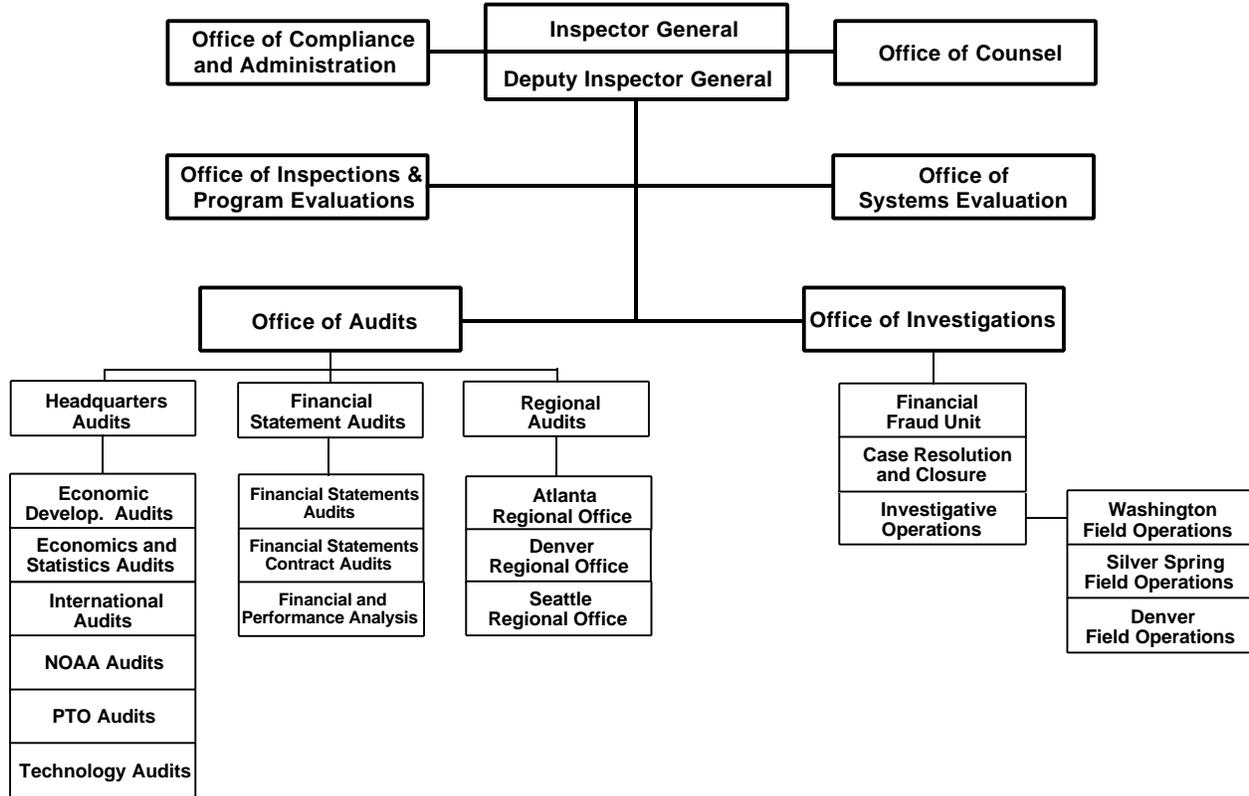
# Glossary of Abbreviations

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ASC	Administrative Support Center
ATP	Advanced Technology Program
AUO	administratively uncontrollable overtime
AWIPS	Advanced Weather Interactive Processing System
BEA	Bureau of Economic Analysis
BXA	Bureau of Export Administration
CAMS	Commerce Administrative Management System
CFO	Chief Financial Officer
CIFP	Capital Improvements Facilities Program
DCAA	Defense Contract Audit Agency
EDA	Economic Development Administration
EPA	Environmental Protection Agency
EQP	Examination Quality Program
ESA	Economics and Statistics Administration
GAO	General Accounting Office
ICASS	International Cooperative Administrative Support Services
IRS	Internal Revenue Service
ISD	Inspection Services Division
ITA	International Trade Administration
MBDA	Minority Business Development Agency
MEP	Manufacturing Extension Partnership
NASA	National Aeronautics and Space Administration
NIST	National Institute of Standards and Technology
NMFS	National Marine Fisheries Service
NOAA	National Oceanic and Atmospheric Administration
NTIA	National Telecommunications and Information Administration
NTIS	National Technical Information Service
NWS	National Weather Service
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OPQR	Office of Patent Quality Review
PAM	Patent Application Management
PBO	performance-based organization
PTO	Patent and Trademark Office
RLF	revolving loan fund
SBIR	Small Business Innovation Research
TA	Technology Administration
TECS	Treasury Enforcement Communications System
US&FCS	U.S. and Foreign Commercial Service
USTTA	U.S. Travel and Tourism Administration

# Office of Inspector General Organization Chart



## OIG Points of Contact

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Office of Counsel	(202) 482-5992	Office of Investigations	(202) 482-0934
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