

# Semiannual Report *to the* Congress



September 30, 1998



U.S. DEPARTMENT OF COMMERCE  
Office of Inspector General

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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# *IG's Message for the Secretary*

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October 31, 1998

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 1998. 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.

In my first full semiannual reporting period, I am proud to note that the OIG has established its first formal strategic plan, a top priority of mine once I was appointed as Acting Inspector General. With our strategic plan in place, we are currently working to develop our biennial performance plan. As part of this process, we are soliciting input from Commerce officials and from OMB and the Congress. Our plan will focus on the top management challenges facing the Department, as well as the goals and objectives outlined in both our and the Department's strategic plans. We have also implemented a variety of ideas, techniques, and systems to improve OIG work performance and administrative operations, including identifying and correcting any Y2K deficiencies in our internal systems.

We have continued to work closely with departmental and bureau managers to identify and address the major management challenges facing Commerce and its operating units. This type of cooperation and action on the part of Commerce managers often makes a real difference between maintaining the status quo and implementing positive change. During this reporting period, for example, we issued eight audit, inspection, and evaluation reports pertaining to the 2000 decennial that have been highly influential in improving how the Census Bureau does business. Our cross-cutting analysis of Commerce's special agreements, such as memorandums of understanding and interagency agreements, is finding that although they generally appear to serve important and appropriate functions, they are frequently not written, approved, and executed properly. And midway through our review of discretionary funding in financial assistance programs, with individual program audits still underway, our preliminary results indicate that funding processes and practices can be improved in order to better ensure competition and merit-based selections. In response to these and most of our reviews, I am pleased to note that the Department's managers have taken, or committed to take, substantive actions to address our recommendations.

I am proud of the accomplishments of this office. I look forward to continuing to work with you and your management team to further improve the Department's operations.

Sincerely,

A handwritten signature in cursive script, reading "Johnnie E. Frazier".

Johnnie E. Frazier  
Acting Inspector General

Enclosure



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# *IG's Message for the Congress*

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## **FOREWORD**

As we observe the 20<sup>th</sup> anniversary of the Inspector General Act, I am proud of the contributions that the Commerce OIG has made over the past two decades in providing leadership and making objective recommendations for reducing fraud, waste, and abuse, and promoting economy, efficiency, and effectiveness in Commerce programs and operations. Notwithstanding these significant contributions, I believe there is always room for improvement. We continue to search for new and better ways to make our work more meaningful and productive and better accomplish our mission, while diligently adhering to the principles embodied in the IG Act.

Directing our efforts toward Commerce activities that offer the greatest potential for improvements and cost savings has remained one of our greatest challenges. One of the first actions I undertook after assuming my responsibilities as the Acting Inspector General was to begin developing a strategic plan for the Commerce OIG—the first such plan since our office was established in 1978. I am pleased to report that we now have a strategic plan in place and have begun developing a biennial performance plan. Both documents will go a long way toward ensuring that our resources are properly focused and that we are more effectively achieving our mission goals and objectives.

During this semiannual period, we have continued to provide independent, timely analyses of Commerce activities, emphasizing early identification of potential problems so that corrections can be made before schedules have slipped and significant funds have been spent. We have, for example, issued eight reports on various aspects of the Census Bureau's preparations for the 2000 Decennial Census. We believe that the observations and recommendations discussed in these reports will be useful to Census and departmental officials as they continue decennial planning. We also issued our first inspection report on the National Polar-orbiting Operational Environmental Satellite System acquisition program, a 10-year tri-agency initiative of Commerce, Defense, and the National Aeronautics and Space Administration.

Likewise, we have been involved in an array of other audits, inspections, and evaluations, the findings and recommendations of which have contributed to improving the way Commerce does business. Our inspections of selected operating units' use of memorandums of understanding and other special agreements have generated recommendations for improving their handling and management. Our financial statement audits have provided valuable insights to guide the Department in strengthening its financial management. And our reviews of ITA's foreign and domestic operations have identified ways to improve Commerce's important trade promotion efforts.

Looking ahead, we have initiated two major reviews at the request of the Congress. We recently began examining the Department's export licensing controls for dual-use commodities as part of a multi-agency Inspector General review of export licensing prompted by a request from the Senate Governmental Affairs Committee. We also are making great progress on our review of the Department's discretionary financial assistance programs, which was requested by the Chairman of the Senate Commerce, Science, and Transportation Committee.

We look forward to continuing to work with the Department and the Congress in addressing Commerce's current and emerging challenges.

## **MAJOR CHALLENGES FOR THE DEPARTMENT**

Commerce, with its many important and diverse programs and missions, is faced with its share of problems, concerns, and difficult issues that we view as key management challenges. This section highlights what we consider to be the major challenges for the Department. By addressing these challenges, the Department and the Congress can improve program management, eliminate serious operational problems, decrease vulnerability to fraud and waste, and achieve significant cost savings.

### ***Increase the Accuracy and Control the Cost of the 2000 Decennial Census***

Every 10 years, the Bureau of the Census conducts a census to count the nation's people. The decennial census is an enormous and complex task—one of the most difficult that the federal government has to undertake. The accuracy of decennial census data is critical because it is the basis for apportioning seats in the House of Representatives and is used to support a host of other activities, including federal and state redistricting and the distribution of billions of dollars of federal and state funds.

There is, for a variety of reasons, an unprecedented level of interest on the part of the public, the Congress, and other 2000 Decennial Census stakeholders in the bureau's planning for the 2000 decennial. The Department recognizes the challenges presented by the decennial and is providing increased oversight and management support. The decennial has also remained one of our top priorities during this semiannual period, as evidenced by our issuance of eight reports on various aspects of the bureau's decennial planning efforts. Six of the reports focus on operations at the three dress rehearsal sites—the city of Sacramento, California; an 11-county area near and including the city of Columbia, South Carolina; and the Menominee Indian Reservation near Keshena, Wisconsin ([see page 24](#)). A seventh report addresses the bureau's plans and procedures for the Local Update of Census Addresses program ([see page 30](#)), while an eighth discusses the adequacy of the bureau's security measures for the transmission of sensitive data ([see page 33](#)).

Our reviews of dress rehearsal operations disclosed that, as intended, the dress rehearsal was demonstrating which programs being considered for use in the decennial census were working well and which were not. We identified a number of programs and activities that were operating effectively, and were particularly impressed with the dedication of bureau

management and staff. However, we also identified a number of problems that need to be addressed in order to ensure efficient decennial operations.

The bureau still faces some formidable challenges in completing preparations for the decennial, which include (1) completing the design, development, and testing of major automated systems, (2) completing the development of an accurate master address file, and (3) developing a final decennial design, incorporating lessons learned from the dress rehearsal.

The bureau plans to use an unprecedented level of automation in the 2000 decennial. Although the bureau is developing a large amount of software itself, it is contracting out for much of the information technology, including the design, development, installation, and operation of a new data capture system that will use electronic imaging to read the data from census forms and convert it to electronic format for further processing. Our reviews of the dress rehearsal operations identified shortcomings in the bureau's requirements management and software development processes which produced problems that, if not addressed, could put the 2000 decennial schedule at risk.

In addition, in accordance with the "dual-track" agreement with the Congress, the bureau continues to plan for both a sampling and a non-sampling census. Although two recent federal court decisions prohibit the bureau from using statistical sampling techniques in estimating the population for the purpose of congressional apportionment, an appeal has been filed with the U.S. Supreme Court. The requirement to plan for both alternatives has placed an additional burden on bureau staff resources, and the continued uncertainty surrounding the ultimate design for the 2000 decennial certainly makes the upcoming decennial census one of the greatest management challenges to be addressed by the Department.

### ***Obtain a Clean Opinion on the Department's Consolidated Financial Statements***

The Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994 were designed to improve the financial management practices of federal agencies. The acts require audited financial statements that present an entity's financial position and results of operations and provide other information needed for the Congress, agency executives, the public, and others to assess management's performance and stewardship. The Department received "disclaimers of opinion" on its FY 1996 and 1997 consolidated financial statements. The Secretary, the Deputy Secretary, the Chief Financial Officer and Assistant Secretary for Administration, the General Counsel, and other senior Commerce officials

have emphasized the importance of the Department's receiving a clean opinion on its consolidated statements and have taken steps to ensure that this happens as soon as possible.

Although the Department has strengthened its financial management over the prior year, obtaining a clean opinion is not an easy task. In FY 1997, six bureaus received improved audit opinions, and the Department's reporting entities reduced the number of material weaknesses in their audit findings from 37 to 22. However, numerous qualifications on the balance sheets of NOAA and one for EDA, along with a disclaimer on ITA and disclaimers on many of the major bureaus' income statements, resulted in a disclaimer on the Department's consolidated statements. Until NOAA, Census, EDA, and other bureaus, which in aggregate are material to the Department, receive other than disclaimers on their remaining statements, the Department will be precluded from receiving a clean opinion on its consolidated statements. FY 1999 poses additional challenges with the implementation of new Financial Accounting Standards Advisory Board standards and OMB Bulletin 97-01, *Form and Content of Agency Financial Statements*, which require additional financial statements and disclosures.

### **Address Commerce's Year 2000 Computer Problem**

Many of the Department's program, financial, and administrative computer 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. As the year 2000 (Y2K) approaches, there is an increased demand on the Department's management to ensure that critical systems are operational and that contingency plans are in place for those that will not be ready by the deadline.

Our office, like the General Accounting Office and other OIGs, has already played a major role in highlighting some of the issues that need to be addressed. For example, in our October 1997 memorandum, "Observations on the Department's Year 2000 Efforts," we reported that the level of concern and urgency about meeting OMB's Y2K conversion deadlines was inadequate throughout the Department. As of August 17, 1998, the Department reported that 76 percent (348 of 455) of its mission-critical systems were Y2K compliant. However, our monitoring suggests that this statistic is neither reliable nor a good indicator of the amount of work remaining. Moreover, even systems that have been renovated, tested, and certified as compliant may encounter unanticipated Y2K problems.

The Department has recently hired a new Chief Information Officer, and we are working closely with him to better ensure that Y2K conversion efforts receive high-level attention. The Secretary, the Deputy Secretary, and the CFO, along with the Chief Information Officer, have stated their commitment to ensuring that an independent verification and validation of mission-critical systems is performed and that business continuity plans are developed to minimize the potential disruption of services due to the Y2K problem. The big challenge here is for all involved parties, including the secretarial officers and senior managers, to take the actions necessary to gain a reasonable level of assurance that systems with Y2K problems will operate correctly beyond 1999.

### ***Manage PTO's Space Requirements and Lease Costs***

The Patent and Trademark Office's space consolidation project presents a special challenge for the agency as it contends with the need to reinvent the way it operates its business practices to make them more efficient and effective. The project is expected to be one of the largest real estate ventures that the Department of Commerce, or the federal government, will undertake in the next decade. In October 1995, the agency received congressional approval to acquire a new or rehabilitated facility of up to 2.4 million square feet in northern Virginia to consolidate its facilities and operations and accommodate its future space requirements.

On behalf of PTO, the General Services Administration will award a contract to a private developer to construct a new facility or renovate an existing facility and lease it back to PTO for at least 20 years with the option to buy. The solicitation for offers calls for the construction of the building shell, to include basic electrical and mechanical systems, which will be "built out" upon completion of the interior design. The lease development project is expected to be awarded in December 1998 or January 1999, with occupancy to begin in November 2001.

Given the size and importance of the planned PTO consolidation project, we conducted a review to determine whether (1) the project was justified and (2) PTO was effectively managing the critical acquisition phase of the project. The review, which was discussed in our March 1998 issue (see page 54), concluded that the project was justified and should continue. We also found that PTO was managing many aspects of the lease/development procurement well.

However, we expressed several concerns about PTO's management and planning for this major procurement. For example, PTO had failed to finalize its space requirements or reach agreement with one of its major

unions concerning working conditions related to space requirements in a timely manner. Also, in determining its requirements, PTO had failed to factor in potential savings and efficiencies gained from systems reengineering and automation. Although PTO has since made progress in defining its requirements, it still has not reached agreement with all of the employee unions.

In addition, our March 1998 report concluded that the methods used to pursue the build-out of the facility needlessly exposed the government to increased cost risk, and recommended a contractual ceiling of \$29 million on the build-out. Recently, the Congress drafted legislation limiting PTO to a \$36-per-square-foot cap for office space and a \$29 million ceiling for an above-standard build-out, which GSA has agreed to manage.

Finally, we reported that PTO lacked an interagency agreement with GSA, and that the Department had not provided PTO with sufficient real estate management oversight. On September 4, 1998, PTO and GSA executed a memorandum of understanding, as we recommended, defining their working relationship, including the establishment of a fee structure capped by the terms of the prospectus, PTO's right to return unneeded space, and GSA's continuing role as construction manager.

In response to our report, the Department has increased its real estate management oversight of the PTO consolidation project. On behalf of the Department, a consultant reviewed and validated PTO's approach to its space requirements. Also, a senior departmental official is serving on the GSA/PTO Source Selection Board, which will make a recommendation to GSA's source selection official on the successful offeror.

In September, the Acting Inspector General testified before the Subcommittee on Transportation and Infrastructure of the Senate Committee on Environment and Public Works on our review of the space consolidation project ([see page 67](#)). The Acting IG noted that although some of the concerns raised in our report have been addressed by PTO and we remain satisfied that this project should continue, we believe that continuing management attention and OIG oversight will be needed to ensure that the project is completed in a timely, cost-effective manner and within the cost limits prescribed by the Congress.

### ***Successfully Implement NWS's Advanced Weather Interactive Processing System***

The Advanced Weather Interactive Processing System (AWIPS), the key integrating element of the National Weather Service's (NWS) modernization program and an essential ingredient to achieving operational

improvements and staff reductions, is also the last major system of the modernization to be implemented. AWIPS is to provide the capability to acquire data from advanced observing systems and to give forecasters tools to rapidly analyze the data, integrate it with the information provided by the weather service guidance centers, and prepare timely and accurate warnings and forecasts for dissemination to the public and the media.

AWIPS continues to warrant OIG oversight and departmental management attention. Amid concerns about escalating costs, discussion continues on exactly what the system will deliver and when it will be completed. The Congress, OMB, and Commerce have cause for concern. In March 1998, the Secretary certified to the Congress that AWIPS would be completed within the \$550 million cap and that the system would provide sufficient capabilities to replace the aging field office systems. Before certification, the Department received an independent assessment of the cost to complete AWIPS, which concluded that development of all capabilities identified in the requirements baseline would cost more than \$550 million. As a result, NOAA reduced the level of capabilities to be developed within the cap and created a new baseline, which was to maintain AWIPS's ability to replace aging systems. The Department also is working with NOAA to improve the management and organization of the program in order to help deliver the needed capabilities within the cap.

Also, in April 1998, the Secretary approved Key Decision Point-4, allowing NOAA to deploy AWIPS nationwide. This, the last Secretarial decision point for the program, signifies that the Department is confident that the system has reached a level of maturity, stability, and supportability sufficient to commit funds for hardware procurement.

A key certification requirement was that AWIPS should provide capabilities that are sufficient to replace the aging information processing systems at NWS field offices. We have had an ongoing concern about AWIPS's ability to fully replace Automation of Field Operations and Services (AFOS), NWS's primary system, because NOAA has been slow in identifying what capabilities are needed to do so. NOAA has recently assured us that these capabilities will soon be identified and that AWIPS will be able to almost fully replace AFOS. Operational test and evaluation of AWIPS, scheduled to begin in May 1999, should clearly demonstrate that AWIPS has the capabilities to allow AFOS, as well as other existing systems, to be removed from the field.

In addition, NOAA has not implemented the testing improvements that it committed to at Key Decision Point-4. NOAA recently told us that the improvements in stress testing and in testing the accuracy of the displayed meteorological and sensor data for the last incremental software release

will be completed within the legislatively mandated cost cap. However, as development activities are nearing completion, NOAA is still working to specify how system testing will be modified and strengthened.

The management challenge is for AWIPS to complete development and deployment activities within the cost cap. Although NOAA believes that it will meet the cap, as of September software development was one month behind schedule, and some planned testing had been modified to make up for the schedule slip. We are concerned that testing may be reduced in order to meet the schedule, which could affect software quality. We are also concerned that capabilities might be reduced due to time constraints or software development or testing problems. We will continue to monitor AWIPS's progress toward fully replacing AFOS.

### ***Successfully Implement a Department-wide Financial Management System***

The Department is not in compliance with the federal requirement for a single, integrated financial management system. Commerce's existing financial systems are seriously outdated and fragmented; unable to provide timely, complete, and reliable financial information; inadequately controlled; and costly and difficult to maintain. These systems have not proven to be effective in preparing and reporting the financial results of the Department and its bureaus. The Department reported this as a material weakness in the *Secretary's Annual Statement and Report - Federal Managers' Financial Integrity Act*, dated December 31, 1997.

Commerce has wrestled with this issue for many years, having begun developing a Department-wide financial system in 1992. Notwithstanding large investments of time, money, and effort, implementation of this system, known as the Commerce Administrative Management System (CAMS), proved more difficult than anticipated. In October 1997, the Department implemented a new CAMS implementation strategy, which consists of focusing implementation efforts at the Bureau of the Census on a pilot basis before implementing the system Department-wide. Although some issues remain, an independent verification and validation concluded in August 1998 that CAMS appeared viable and would provide a significant improvement over the previous control environment.

In September 1998, the Office of the Chief Financial Officer and Assistant Secretary for Administration completed its analysis of the CAMS development and implementation strategy. It examined the benefits, risks, and costs associated with several potential implementation options. The strategy identified as the best is continuing CAMS at Census, implementing

the system at NOAA and NIST, and having all other bureaus establish cross-servicing arrangements with other Commerce bureaus or other government agencies as appropriate. The Department is now working with NOAA to develop a specific implementation plan with cost, schedule, and technical performance requirements. This plan will be reviewed by an independent contractor before it is implemented. NIST intends to move to CAMS, and other bureaus are considering alternative solutions.

The challenge: Overcoming a history of deployment delays, confronting continuing skepticism, and controlling costs while implementing a Department-wide financial management system that is capable of producing accurate, timely, and reliable financial data.

### ***Expand Private Sector Participation in NOAA's Marine and Aeronautical Data Gathering***

#### **Marine Data**

The Congress, OMB, GAO, the Department's CFO, the OIG, and others have repeatedly urged NOAA to explore alternatives to its plan to maintain an agency-designed, owned, and operated fleet for acquiring marine data. We are pleased to note that NOAA has made some progress in this regard, namely in the area of nautical charting. NOAA has used recent increases in appropriations to expand its use of private hydrographic surveyors, and in March and April 1998, it issued four contracts for data collection worth \$10.8 million. While NOAA has traditionally obtained ship services from outside its own fleet to support some of its fishery stock assessments and oceanographic research, opportunities exist for more to be done, particularly in the area of fishery research.

We remain concerned that NOAA is still trying to buy and operate four new fishery research vessels (one each year from FY 2000 to 2003) without thoroughly assessing other viable alternatives. We believe that NOAA should not focus its efforts on designing, owning, maintaining, or operating ships. Instead, the agency should clearly articulate its program needs for ship services to the private sector, academia, and other government ship operators with the goal of identifying modern, more cost-effective platforms for its data collection needs. The Secretary and OMB have also recognized the need for NOAA to explore alternatives for acquiring marine data. For example, in their budget guidance to NOAA, they highlighted that the funding provided is for "equivalent fleet" resources, not necessarily to acquire, build, and operate ships.

While we acknowledge our long-standing disagreement with NOAA's approach to relying almost exclusively on its own in-house fleet of ships to

provide program data, NOAA appears to be overlooking some salient points made in a report it recently requested. The report, completed by a respected retired Navy admiral after extensive consultation with public and private sector experts, agrees that NOAA's aging fisheries research vessels need to be replaced, but questions NOAA's intent to acquire and operate the new fisheries research vessels without:

- a national plan for the use of the new vessels in conjunction with the nation's other oceanographic and fishery research and assets;
- a national plan for the development and fielding of technologies and techniques to improve the nation's fisheries, oceanography, and monitoring capabilities;
- an externally oriented approach to the acquisition and operation of the new vessels that provides for their full, efficient, and effective use in collaboration with other activities; and
- a commitment by NOAA, the Department, and OMB to request appropriate resources to fund the above three items, not just the acquisition of the ships.

It is our understanding that NOAA has prepared a detailed data acquisition plan for its fisheries mission and intends to acquire the new vessels through the Naval Sea Systems Command. The retired admiral's report describes this strategy as the least desirable approach and details many preferable competing alternatives, such as combinations of build and charter, and buying vessels and assigning them to members of the University National Oceanographic Laboratory System for use by academia and industry when not in use by NOAA. NOAA's challenge is to thoroughly assess viable alternative approaches to relying on its own in-house fleet.

### **Aeronautical Data**

Since its establishment in 1983, NOAA's Aircraft Operations Center (AOC), now located at MacDill Air Force Base near Tampa, has been responsible for gathering atmospheric, oceanographic, and other data for such programs as hurricane and major storm research, nautical and aeronautical charting, climate and global change, and snow and aerial surveys. As NOAA's major flight operations group, AOC operates a fleet of 14 aircraft, composed of two heavy craft, a mid-size jet, eight light fixed-wing aircraft, and three helicopters.

In December 1996, the President's Council on Integrity and Efficiency reviewed the management of the federal civilian aircraft fleet, including

NOAA's aircraft fleet, and found that it cost the government in excess of \$1 billion annually to operate its aircraft programs. Additional studies of operational efficiencies, commissioned by GSA, reported opportunities to reduce costs by \$92 million annually if most agencies consolidated their operations and entered into sharing arrangements.

The OIG conducted an audit to determine whether outsourcing is more cost-effective than in-house operation in meeting NOAA's aircraft requirements. Our audit (see page 44) concluded that the full in-house cost of operating NOAA's fleet of eight light fixed-wing aircraft and two helicopters (the third helicopter was out of service at the time of our audit) averaged 42 percent more than the cost to operate similar aircraft in the private sector. In FY 1996, NOAA and interagency programs spent an additional \$1.9 million compared to private sector costs. We recommended that NOAA privatize its light aircraft operations. NOAA's challenge is to find the best way to collect its aeronautical data.

### ***Reassess NTIS's Mission and Financial Viability***

In our September 1997 issue (see page 52), we discussed our concerns about the proposed conversion of the National Technical Information Service to a performance-based organization (PBO). At that time, we included this matter on our list of the Department's top 10 management problems, since NTIS lacked the two key prerequisites for becoming a PBO: (1) a clearly defined mission and (2) the ability to generate sufficient revenues to support business operations. The Department subsequently decided not to support NTIS's conversion to a PBO, and this issue was removed from our list. Unfortunately, the issue now reappears on our list because of deepening concerns about NTIS's operational stability and financial viability.

Later in this report (see page 68), we discuss the results of our recent audit of NTIS's business operations. We found that as the agency continues to lose money, its ability to sustain itself through its traditional clearinghouse operations looks increasingly uncertain. NTIS lost \$3.8 million in FY 1997, and \$1.5 million in the first 11 months of FY 1998. If current trends continue, NTIS will run out of funds in FY 1999. Sales of publications from its clearinghouse declined from almost 2.3 million units in FY 1993 to 1.5 million in FY 1997. Moreover, federal agencies are increasingly bypassing NTIS as a distribution channel, instead offering their publications directly to the public over the Internet.

NTIS is attempting to curb its losses by raising prices, cutting costs, and developing new products and services. Although these actions should produce short-term benefits, we do not believe that they effectively

address the fundamental problem affecting its clearinghouse operations. We are also concerned that in order to replace lost sales, NTIS is seeking business opportunities on the perimeter of its statutory mission, where it risks competing against privately financed businesses.

NTIS's disappointing operating results highlight the Department's challenge because they raise questions not only about NTIS's ability to be self-sustaining, but also about the need for a single agency to serve as a clearinghouse for technical publications. As we recommended, the Department's challenge is to undertake a review of NTIS's operations to develop a plan for addressing the long- and short-term problems. The Department recently directed TA to obtain an outside consultant to perform an independent review of NTIS's operations.

### ***Maximize Competition in the Department's Financial Assistance Programs***

Discretionary financial assistance programs involve a significant portion of the Department's budget and operations. Six Commerce agencies administer 71 discretionary financial assistance programs providing about \$1 billion a year to state and local governments, educational institutions, nonprofit and for-profit organizations, and individuals. If not properly administered, such programs are susceptible to fraud, waste, and abuse of funds. For these reasons, we have long recognized the need to routinely invest OIG resources in the oversight and evaluation of such programs.

At the request of the Chairman of the Senate Commerce, Science, and Transportation Committee, we are conducting a review of Commerce's discretionary financial assistance programs to examine the processes and practices used to make funding decisions. The Chairman, who made similar requests of the IGs of the Department of Transportation, the National Aeronautics and Space Administration, and the National Science Foundation, asked that we evaluate the criteria developed, either statutorily or administratively, to guide Commerce officials in making discretionary funding decisions, as well as the extent to which such criteria are appropriately applied.

The use of competitive selection procedures is recognized by the Department and others as the most effective method of ensuring that financial assistance awards are made on the basis of merit. Although our review is still underway, our preliminary observations indicate that there are opportunities for improving the Department's discretionary funding processes and practices to enhance competition and better ensure merit-based selections.

On July 21, 1998, the Acting Inspector General and the Chief Financial Officer and Assistant Secretary for Administration testified before the Senate Commerce, Science, and Transportation Committee on the Department's discretionary financial assistance programs. The Acting IG discussed the results of the survey phase of our review and some early observations from the individual program audits then underway.

During this period, we also completed audits of the award processes for two MBDA financial assistance programs: the Minority Business Development Center Program and the Native American Business Development Center Program (see page 42). We plan to issue individual audit reports on each program selected for review, as well as a capping report (1) summarizing the results of the individual audits, (2) identifying cross-cutting issues and highlighting "best practices," and (3) providing recommendations for improvement to the Department and its bureaus.

### ***Emerging Challenges for the Department***

As we undertake new reviews of Commerce programs and activities, we recognize that we may identify additional management challenges. Among these potential challenges are the following:

#### **Ensure the Continued Adequacy of Export Controls for Dual-Use Commodities**

The United States controls the export of certain goods and technologies for national security and foreign policy (including nonproliferation) purposes. Within Commerce, BXA issues licenses authorizing the export of certain dual-use commodities—goods and technologies that have both civilian and military uses. Dual-use export controls are a subject of continuing controversy, generating a wide range of opinions on how well U.S. export control policies and practices balance the need to protect U.S. national security and foreign policy interests with the desire not to unduly hamper U.S. trade opportunities and competitiveness. Striking this balance can pose a significant challenge for the parties involved.

The Senate Committee on Governmental Affairs recently tasked us, along with the OIGs of the Departments of Defense, Energy, State, and the Treasury and the Central Intelligence Agency, to conduct an interagency review of the export licensing process. This review, which will include following up on findings and recommendations from a similar review completed five years ago (see September 1993 issue, page 15), will focus on the effectiveness of the Department's policies, procedures, and practices in its licensing of dual-use goods and technologies.

**Continue to Improve the Department's Strategic Planning and Performance Measurement in Accordance with GPRA**

The Commerce Department, along with other federal government agencies, faces many inherent challenges with respect to how to best plan and measure its performance in accordance with the Government Performance and Results Act of 1993 (GPRA). The Department's draft strategic plan, covering FY 1997 through 2002, drew criticism from GAO, the Congress, and other stakeholders. The Department substantially revised the plan to address this criticism before submitting it to OMB and the Congress in September 1997.

Commerce submitted its first annual performance plan in support of its strategic plan to OMB and the Congress in February 1998. The FY 1999 plan was criticized for providing an incomplete picture of intended performance across the Department and not adequately demonstrating that the data to be used in measuring performance would be accurate, complete, and credible. GAO and the OIG also reviewed the plan and had similar concerns. The Department plans to prepare an addendum to its FY 1999 plan to address criticisms received. The Department submitted its second annual performance plan, for FY 2000, to OMB in September 1998. The plan represents a significant improvement over the FY 1999 plan. It contains substantially fewer total performance measures, and the measures are more outcome-oriented, as intended by GPRA.

The challenge for the Department is to continue its efforts to improve its performance measurement by ensuring that its annual performance plans (1) present a complete picture of intended performance across the Department, (2) clearly articulate the strategies and resources to be applied in achieving the stated performance goals, and (3) provide assurance that the data to be used to measure performance will be accurate, complete, and credible. Senior Commerce officials should continue to make this effort a priority.

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**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, 1998) for which no management decision has been made by the end of the period (September 30, 1998). The following table presents the overall status.

Type of Audit Report	Unresolved
Performance	1
Financial Assistance	11
Financial Statements	0
Preaward Contract	2
Postaward Contract	0

The OIG and NOAA have met to discuss alternatives for resolving the one outstanding performance audit, and NOAA is preparing a revised audit action plan (see page 61). Two of the 11 unresolved financial assistance audit reports relate to NOAA awards. One of the reports was issued more than three years ago; the OIG commented on a draft audit resolution proposal over six months ago and is awaiting NOAA's final proposal. NOAA has not yet submitted a resolution proposal for the other audit report, which was issued six months ago. The other nine unresolved matters are audits of NIST awards under the Advanced Technology Program. Audit resolution proposals have been submitted for eight of the reports; however, discussions between OIG and NIST officials have not yet succeeded in resolving all issues. The OIG is awaiting a resolution proposal for the other NIST award. Additional details are presented on pages 61 and 71. Discussion of the two unresolved preaward contract audits can be found on page 82.

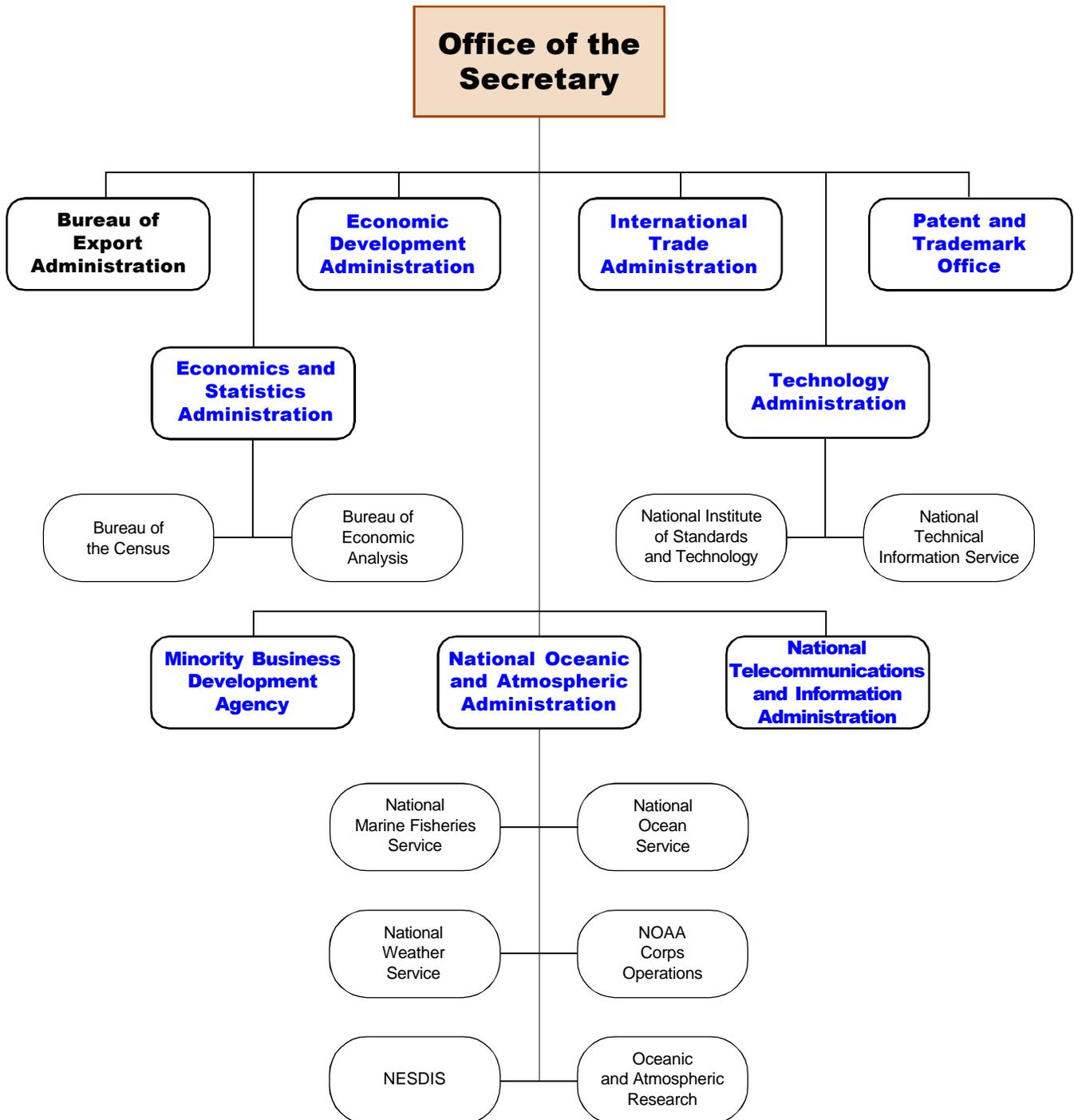
Department Administrative Order 213-5, "Audit Resolution and Follow-up," provides procedures for management to request a modification to an approved audit action plan, or for a financial assistance recipient to appeal an audit resolution determination. The following table summarizes modification and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

Report Category	Modifications	Appeals
Actions pending (April 1, 1998)	0	9
Submissions	1	5
Decisions	1	6
Actions pending (September 30, 1998)	0	8

The eight appeals pending final decisions by the Department include three EDA, one ITA, and four NIST financial assistance audits.



# Department of Commerce Organization Chart





## **Better Monitoring of Problem Projects Needed for Disaster Relief Awards**

In August 1992, Hurricane Andrew struck south Florida with winds up to 170 miles per hour, devastating a 20-mile-wide path across south Dade County. The Congress responded to this and other natural disasters by appropriating nearly \$1 billion to various federal agencies, including \$80 million to EDA for disaster relief grants. Between 1992 and 1995, EDA received 69 Hurricane Andrew relief proposals requesting a total of more than \$130 million and funded 28 projects totaling \$50.9 million.

The OIG performed an audit to evaluate EDA's effectiveness and efficiency in managing its Hurricane Andrew assistance program. In particular, we examined EDA's project selection process and its management and monitoring of the projects funded.

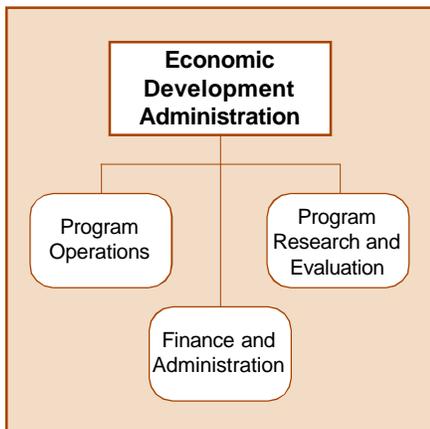
We concluded that EDA did a good job of quickly selecting the 28 hurricane relief projects and, for the most part, chose projects that were both sound in concept and appeared responsive to the economic recovery needs of the area. Nevertheless, we found that 9 of 16 construction projects experienced significant delays. These projects were late in starting and slow in completion. Several of them may never be finished. As shown on the following page, four years after the awards, EDA had disbursed 98 percent of the grant funds on the timely projects, while a year later, it had disbursed only 30 percent on the nine delayed projects. These problem projects unnecessarily tied up millions of dollars that might have been put to better use for other disaster recovery purposes. As of September 30, 1998, three of the nine projects remained incomplete.

Our analysis of the delayed construction projects revealed two common traits: all but three were located outside the direct path of the hurricane, and all nine were designed to mitigate or accommodate the out-migration of businesses or encourage tourism, rather than repair or replace storm-damaged or inadequate buildings and infrastructure. In contrast, all of the projects that were completed within a reasonable period were located within the 20-mile-wide path of destruction and were more traditional "repair-and-replace" public works projects. We concluded that the location and purpose of the nine delayed projects rendered them less urgent than the others and therefore more vulnerable to delays because they lacked sufficient local impetus to proceed on their own.

Although the delays among the nine projects were not attributable to EDA, the adverse impact of the delays was exacerbated by the agency's not taking timely action to eliminate or mitigate them, as required by EDA

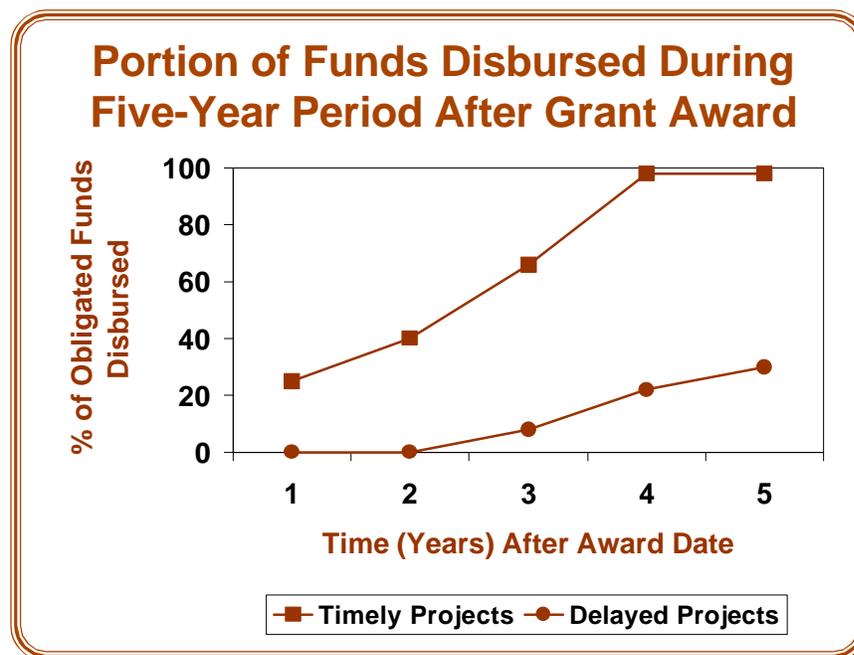
The **Economic Development Administration** was established under the Public Works and Economic Development Act of 1965 to generate new jobs, help protect existing jobs, and stimulate commercial and industrial growth in economically distressed areas of the United States. EDA does this by providing grants 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.

## Economic Development Administration



policies and procedures for managing and monitoring projects. Had EDA regional officials recognized the symptoms of problem projects earlier in the process, they might have been able to better focus the agency's scarce resources and financial leverage on assuring that those projects were either started and completed on time or were terminated in a timely fashion.

Focusing on future disaster assistance efforts, we recommended that EDA continue its successful use of on-site planning and award selection, and ensure that existing policies and procedures for managing and monitoring projects are followed. In addition, we urged EDA to develop supplemental policies and procedures for managing disaster relief projects that will assist the agency in identifying and more effectively monitoring those projects most vulnerable to delays.



EDA accepted our recommendations and agreed to review, and where appropriate develop, new post-approval procedures for all of its construction grant portfolio, including disaster projects, to ensure that projects with higher risks receive special monitoring and assistance. *(Atlanta Regional Office of Audits: ATL-8989-8-0001)*

## **Midwest Flood Program Provides Lessons for Future Disaster Relief Efforts**

In August 1993, the Congress enacted the Emergency Supplemental Appropriations for Relief from the Major, Widespread Flooding in the Midwest Act (Public Law 103-75), providing \$4.84 billion to federal agencies to assist victims of the Midwest floods and other disasters. Heavy flood damage across the Midwest that summer had left about 70,000 people homeless and millions of farm acres too wet to produce crops. The floods also damaged businesses and related public infrastructure, resulting in business disruptions, economic losses, and unemployment.

The act provided EDA with \$200 million to assist in the economic recovery of communities, industries, and firms adversely affected by the flooding. The agency utilized the grant programs of the Public Works and Economic Development Act of 1965, as amended, in carrying out its flood relief responsibilities. EDA implemented its flood relief program by awarding \$192.3 million in grants through four programs: technical assistance (\$8.1 million), construction (\$169.7 million), revolving loan fund (\$10.5 million), and emergency levee repairs (\$4.0 million).

The OIG conducted an audit to determine whether the projects awarded (1) complied with the stated purpose of the act, (2) were funded efficiently and served the legislative purpose, and (3) were performed in a timely manner to help mitigate the problems caused by the disaster. We found that all of the grants awarded complied with the Flood Relief Act and that the great majority of them mitigated the effects of the flood, utilized funds efficiently, and were performed in a timely manner. However, we also identified opportunities for EDA to improve its management of future disaster assistance programs.

- **Technical Assistance Program.** Most of the requests for EDA disaster assistance were generated through 99 technical assistance grants awarded early in the process. EDA's use of these grants to plan RLF and construction projects was a sound approach, although some of the projects proposed by the technical assistance grantees appeared unrelated to flood damages.

While encouraging EDA to pursue a similar approach in future disaster assistance efforts, we recommended that the agency provide technical assistance grant recipients with guidelines to better identify and place priorities on projects for disaster funding. EDA advised us that actions will be taken to provide these recipients with improved guidelines.

- **Construction Program.** The construction programs under the Public Works and Economic Development Act do not contain clear criteria for applying them to disasters. While the vast majority of the 160 construction projects funded for disaster relief have clearly helped mitigate the economic damage caused by the floods, we questioned the choice of some projects, and found that slow progress on others raised concerns about their priority.

We recommended that EDA develop construction program guidelines that will help applicants and decision-makers identify and appropriately consider projects that have the greatest potential to mitigate the effects of a disaster. EDA explained its philosophy, policy, and regulations related to disaster programs and advised that the grants we questioned were associated with recovering from the disaster or mitigating future disasters. In subsequent meetings with EDA officials, we discussed and verified some of the actions the agency has taken since the 1993 floods to better manage the selection of construction projects awarded for future disaster relief efforts.

- **RLF Program.** We noted that the 16 grants awarded under the RLF program will remain in place long after the disaster-related needs cease to exist and that grant funds will then be reused for other purposes rather than being returned to the U.S. Treasury. In addition, monies from two RLFs were loaned for purposes unrelated to economic dislocation caused by the flood, and five RLFs were ineffective because by the time they were implemented, no disaster-affected businesses attempted to borrow funds.

We recommended that EDA develop an RLF program to provide aid to disaster-affected businesses only as long as the need for recovery exists, consider using existing RLFs for disaster relief through temporary grant revisions, and deobligate \$773,000 in undisbursed disaster funds. EDA generally agreed that the nature of RLFs warrants additional consideration when awarding them for disaster mitigation and indicated that it is considering policy and procedural changes to address this matter.

- **Levee Repair and Upgrade Program.** The Federal Interagency Task Force on Midwestern Flood Recovery, established by the Administration to coordinate 1993 flood relief efforts, directed EDA to participate in a levee repair program. In implementing the program, EDA awarded just 12 grants for a total of \$4 million, only 22 percent of the funding requested by the task force. The difficulty in awarding funds was not the result of inadequate EDA

management, but was attributable to the task force's questionable strategy to shift responsibility from agencies with experience in levee repairs to an agency with no such experience. The fact that EDA reviewed 108 levee grant applications but identified only 12 eligible applicants indicates that this effort was not the most effective use of EDA's limited resources. However, we made no recommendations to remedy this situation because it was clearly outside EDA's control. (*Denver Regional Office of Audits: DEN-8772-8-0001*)

### **West Virginia Awardee Needs to Improve Its Accounting System and Management Practices**

An OIG report issued during the prior semiannual period (see March 1998 issue, page 47) dealt with a West Virginia foundation incorporated in 1993 to promote high-technology industrial and research facilities in the state. Since its inception in 1993, the foundation has been awarded 15 grants and contracts totaling about \$22 million from federal, state, and private sources. These awards include two EDA grants—a \$1.44 million grant made in 1995 for site development on the foundation's campus, and a \$976,000 grant made in 1996 to construct an advanced telecommunications laboratory. Commerce became the agency responsible for audit oversight of the foundation's federal awards in 1996, with the award of a \$5.85 million NOAA cooperative agreement to the organization.

As noted in our earlier report, we were unable to negotiate an indirect cost rate for the foundation largely because of deficiencies in its accounting system and management practices. Although our recommendations relating to the NOAA project became moot when NOAA and the foundation agreed to terminate their cooperative agreement in July 1997, the issues discussed in the report remained viable for other federal awards. Therefore, we issued an audit report this period to EDA that presented our findings and recommendations for corrective actions.

Specifically, we found that the foundation (1) did not report the use of rental income to EDA, which violates agency requirements and ignores the significant federal participation in construction of the foundation's facilities; (2) improperly classified land improved with federal funds as investment property; (3) operated an accounting system that was cumbersome, inefficient, error prone, and lacking internal controls; and (4) used a procurement system that conflicted with federal standards requiring free and open competition.

We made several recommendations aimed at improving the foundation's accounting system and management practices. The foundation agreed with most of our recommendations. (*Atlanta Regional Office of Audits: ATL-9259-8-0002*)

### **Review of Applicant's Complaint About Trade Adjustment Assistance Certification Process**

In response to a congressional request, the OIG reviewed EDA's handling of a petition by an Oklahoma company for certification of eligibility to apply for assistance under the Trade Adjustment Assistance Program. To be eligible for assistance, a company must demonstrate that its sales have been adversely affected by imports. The company in this case complained about the amount of time EDA took to review the petition.

In a June 30, 1998, letter to the requestor, we reported that EDA had generally followed applicable regulations and procedures in processing the complainant's petition, except that it had failed to complete its determination of applicant eligibility within the 60-day period required by law. We found that although the company had been engaged in the petition process for about 12 months, EDA was involved for only about 3 months. For the other 9 months, the company had been working on its petition with a nonprofit organization that recruits applicants for the program under a cost reimbursable cooperative agreement with EDA.

We confirmed that EDA organizational changes, including staff reductions, contributed to the time it took the agency to process the petition, which exceeded the statutory time frame by about one month. However, the amount of time involved was primarily the result of how long it took the company to obtain, and EDA to verify, historical business information needed for the company to qualify for assistance. We also found that the nonprofit organization may have given the company an overly optimistic picture of its chances of qualifying.

We shared our observations with EDA and recommended that it emphasize to officials of the recruiting organization that they should give applicants a clear understanding of the requirements of the program's certification process and the fact that there is no guarantee of approval. EDA officials have since made changes in the petition review process that should help ensure that the 60-day deadline is met. (*Atlanta Regional Office of Audits*)

### **EDA Settles Issues Related to OIG Audit of Multimillion-Dollar New York State RLF**

In the September 1993 issue (page 18), we reported that a New York State agency had mismanaged a multimillion-dollar EDA revolving loan fund. Our audit disclosed that the agency had failed in its fiduciary responsibilities as trustee of the fund and wasted or abused substantial amounts of the RLF's capital. As a result, the RLF had been depleted by at least \$12 million and, unless corrective actions were taken, would lose at least another \$9.9 million in future years. Among other things, we recommended that EDA require the agency to replace about \$12 million in cash and other assets improperly removed from the RLF, develop a new RLF plan, and reinitiate periodic reporting to EDA.

EDA worked diligently to implement the recommendations and, in April 1998, brought the matter to a successful conclusion when the state replaced \$13 million in cash into the fund, developed a new and acceptable RLF plan, and reinitiated its reporting on RLF activities. (*Atlanta Regional Office of Audits*)

### **Funds Recovered from North Carolina County for Missing Equipment**

Last year (see September 1997 issue, page 21), we reported the results of an EDA-requested review of a project partially funded by three EDA grants totaling \$800,000 that were awarded to a North Carolina county to develop and equip a farmers' market. We found, among other things, that more than \$179,000 in equipment was inappropriately removed from the project site and could not be accounted for, and we recommended that EDA require the county to repay \$111,000 to the federal government for its share of the value of the missing equipment. Based on a number of factors, including the age and previous use of the equipment, EDA concluded that requiring repayment of half that amount would be equitable.

The county appealed EDA's decision, but failed to provide any new information to support a reduction in the repayment. In May 1998, the agency issued its final determination requiring the county to repay \$55,000 to the government. In September, the county remitted that amount to EDA. (*Atlanta Regional Office of Audits*)

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.

### ***Dress Rehearsal Activities Highlight Improvements Needed for 2000 Decennial***

Every 10 years, the Bureau of the Census conducts a population census to enumerate the entire country. Before each decennial census, the bureau traditionally performs a dress rehearsal of planned operations. Although the bureau tested some planned 2000 Decennial Census operations in 1995 and 1996, the 1998 Dress Rehearsal was designed to be the major test of many of its operations.

The dress rehearsal is being carried out from December 1997 to December 1998 at three sites—the city of Sacramento, California; an 11-county area including the city of Columbia, South Carolina; and the Menominee Indian Reservation near Keshena, Wisconsin. The bureau's strategy was to combine a large urban site, a small city-suburban-rural site, and an American Indian reservation to provide a comprehensive environment for testing and refining planned 2000 decennial methodologies and determine whether the procedures, systems, techniques, and workflow will work effectively in an operational setting.

To assess whether dress rehearsal operations were efficient and effective, and met scheduled deadlines, the OIG reviewed operations at all three sites and issued six reports discussing various aspects of the dress rehearsal. Our reviews disclosed that, as intended, the dress rehearsal was demonstrating which aspects of the decennial were working well and which were not. We identified a number of programs that were operating effectively, and we were impressed with the commitment of bureau staff to completing dress rehearsal operations on schedule.

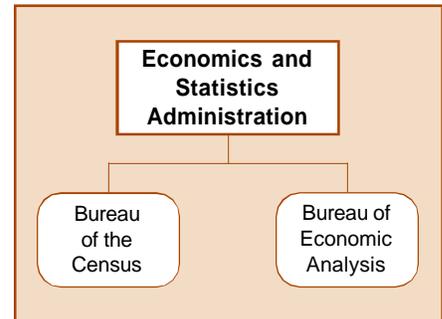
We also identified a number of areas needing improvement to better ensure a successful 2000 decennial. Below we present some of our more important findings and observations, divided into two broad areas: (1) operational and programmatic issues and (2) personnel and administrative issues.

#### **Operational and Programmatic Issues**

- **ICM procedures and reporting need improvement.** The integrated coverage measurement (ICM) operation is intended to act as an independent quality check on information being gathered by decennial enumerators. It is to accomplish this by creating an independent list of housing units and their occupants in certain areas for comparison with the list used for enumeration and by resolving differences through interviews at ICM housing units.

The resulting information will be used to estimate the number of people and housing units missed or double-counted during the 2000 decennial.

For ICM to succeed as a quality check, it must be kept independent of the regular enumeration operation because the design of the estimation procedure is predicated on the assumption that data collection activities of one operation have not affected the results of the other. To accomplish this, the ICM operation was to be conducted by staff involved only in ICM work at locations separate from the local enumeration offices.



We identified situations at Sacramento that appeared to jeopardize the independence of ICM operations from enumeration activities being carried out at local census offices. At that site, ICM staff were shipping materials from the local office, local office space was used for an ICM workstation, and ICM staff worked on hiring and testing census personnel at the local office between assignments. We believe that the bureau needs to implement strict guidance during the decennial to ensure that the two operations remain independent.

- **Many problems arose with enumerator maps.** Staff from all three dress rehearsal sites experienced serious problems with the maps they were provided. Among the problems were (1) inconsistencies between the maps and their associated address list printouts, (2) maps not drawn to a useful scale, and (3) delays in map production.
- **The quality and effectiveness of enumerator training and instructional materials could be improved.** Student training manuals contained errors and confusing acronyms, and lacked indexes. As a result, in observing non-response follow-up enumeration in Columbia and Sacramento, we found that enumerators were often unaware of required procedures and unprepared to handle questions and problems that arose.
- **Bureau software did not generate accurate information about “special places” at both Columbia and Sacramento.** The deficiencies in the software must be eliminated to ensure that enumerators have all relevant information about these sites, which include group quarters and other locations with people who lack traditional residences, such as homeless shelters, nursing homes, college dormitories, and migrant worker camps. In addition, the bureau must require more information to be collected at special

places to ensure easier identification of duplicate responses, and must decide whether to enumerate outdoor locations containing only a few people.

- **The “Be Counted” program and the questionnaire assistance centers need management attention.** At both Sacramento and Columbia, these programs experienced problems with their accessibility to respondents and ineffective implementation in the field. The bureau needs to evaluate the results and examine the cost-effectiveness of the Be Counted forms and the questionnaire assistance centers.
- **Menominee dress rehearsal operation was working as intended, but it was not necessarily representative of 2000 decennial operations.** Dress rehearsal operations were generally working as intended, and when problems arose, management and staff were able to handle them effectively. It is important to note, however, that the Menominee and regional center operation and lines of authority are different from those planned for the 2000 decennial and that this site was undoubtedly receiving much more management support than a local office will receive in 2000. Therefore, any extrapolations of lessons learned from Menominee to the 2000 decennial must be made carefully.
- **Advertising campaign at Menominee experienced some difficulties.** Television and radio spots and some print advertisements tested in the Menominee dress rehearsal were generally well received by Keshena staff, focus groups of local citizens, and the local complete count committee, a group appointed by the Menominee tribal chairman. But some advertising products, particularly paid print advertising, had content problems and were not placed as effectively as possible. Moreover, there was no prior consultation and coordination by the prime contractor and the subcontractor with the tribal chairman and the committee, which may have contributed to the content and placement problems.
- **Menominee partnership effort needs to be sustained throughout dress rehearsal activities.** The 2000 decennial will incorporate partnerships with state and local governments, businesses, community organizations, religious congregations, and the media to increase participation and reduce the undercount ([see page 30](#)). The partnership effort made significant early contributions to Menominee dress rehearsal operations. However, most members of the local complete count committee believed that their job was done after enumeration in April 1998 and were not aware

of the extent of dress rehearsal operations that would continue until mid-December. As a result, the committee was slow to support non-response follow-up and did not adequately understand ICM operations. The bureau needs to advise local complete count committees to continue their efforts throughout all decennial operations.

### **Personnel and Administrative Issues**

- **Payroll/personnel system for 2000 decennial needs management attention.** This system was designed to support payroll and personnel processing and to provide information required by the bureau's management and operational personnel. During the decennial, the system will process about 4 million personnel actions and about 30 million time and expense forms, provide management reports, and maintain historical data. However, during the Menominee dress rehearsal, scanning of payroll and personnel forms did not accurately capture data, forcing clerks to manually correct too much data and sometimes scan the same batch of forms more than once.
- **Payroll processing needs to be improved.** The Sacramento office's payroll processing system experienced several problems. The most serious was that the system accepted and processed duplicate time sheets and made duplicate payments to the employees involved, a problem also experienced by the Columbia office. In addition, documentation of employee time spent on training, overtime, and travel was not in compliance with bureau procedures. Also at Columbia, because Friday and Saturday time sheets from outlying rural areas were often not submitted on time for the main payroll run, a second run had to be made each week, increasing the workload for payroll processing personnel.
- **Supplemental payment process was slow and confusing.** This employee incentive program rewards field staff for achieving and maintaining a certain productivity level in completing questionnaires. Problems noted at either Sacramento or Columbia, or both, included the following: the program was not well understood by regional or local office staff, the automated system did not identify all employees eligible for payments, payments were made slowly and may have been inaccurate, and quality control procedures were not completely implemented. Unclear instructions and computer system problems were identified as the causes of the program's inefficient operations.

- **Employee evaluations were not done.** Of the 900 employees hired for the Sacramento dress rehearsal, many worked in several operations and will have the opportunity to be rehired for decennial 2000 work. But because the local office did not complete employee evaluations, the bureau cannot easily identify who are the best candidates for rehiring and who should not be rehired.
- **The reasons that employees separated or were terminated from employment at Columbia were not adequately documented.** Having accurate, complete information on why employees leave is important for adequately handling unemployment claims. A 1994 OIG review found that inadequate documentation was a common problem in the 1990 Decennial Census. The bureau received more than 100,000 requests for wage and separation information related to 1990 decennial employment, and the government paid \$64 million in claims for 1990 decennial-related unemployment compensation.
- **Problems were experienced by late delivery of supplies and office materials.** Preparations for non-response follow-up were hampered by late delivery of supplies in Columbia and Sacramento. In addition, computer equipment at Columbia had insufficient memory to print files of address lists received from bureau headquarters via the regional census center. At the Keshena and Chicago offices, (1) training manuals and initial supplies for new activities were not delivered until just as the operation was beginning, (2) some equipment, furniture, and supplies were delivered without advance notice, (3) estimates of supplies needed were incorrect, and (4) supplies sent by vendors to the Chicago census offices were not always routed to the correct office or person.

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We made numerous recommendations to the bureau to address our concerns. The bureau agreed with the majority of our findings and recommendations, and we commend it for its responsiveness in taking quick action to address most of our concerns. Many of the issues we raised have already been resolved, and for others, implementing actions are planned. Among the few issues that the bureau disagreed with were the following, which are presented with the bureau's comments followed by our response:

- While acknowledging the need to correct the software problems that reduced the effectiveness of special place listings, the bureau disagrees with our finding that procedures for identifying special places should be reevaluated because it believes that the current procedures are sound. We believe that the problems the bureau had in identifying special places demonstrate the need to both correct its software and reevaluate its procedures.
- The bureau believes that questionnaire assistance centers provide important assistance to individuals without telephones and that cost savings from reducing reliance on these centers would be minimal because space, and in some cases staffing, are normally provided on a volunteer basis by the local community. We believe that because the questionnaire assistance center locations are not publicized, respondents are not aware of them. Moreover, it may be easier for respondents without telephones to use a pay phone rather than arrange for transportation to a center. Finally, the bureau plans to use paid staff in the centers in 2000, which would increase their cost.
- The bureau believes that eliminating the flexibility of a second payroll run would impede its ability to pay its employees on time. We continue to believe that the bureau should consider the alternative actions we recommended to avoid a second payroll run.
- The bureau disagreed with our recommendations concerning performance evaluations. It pointed out that it had received approval from the Department and the Office of Personnel Management to exclude decennial field workers from the appraisal system to free temporary supervisors from the responsibility of evaluating employee performance that otherwise meets standards. The bureau added that guidance is available for supervisors on dealing with problem employees. We are not recommending that the bureau implement additional systems for evaluating temporary employees, only that it use an existing data field in a current form to document evaluation comments for all employees. We believe that the benefits—identifying good and poor performers and documenting information critical to unemployment calculations—are much greater than the cost of entering the data.

*(Economics and Statistics Audits Division: [ESD-10783-8-0001](#), [ESD-10784-8-0001](#), [ESD-10784-8-0002](#); Atlanta Regional Office of Audits: [ATL-11050-8-0001](#); Seattle Regional Office of Audits: [STL-11052-8-0001](#); and Office of Inspections and Program Evaluations: [IPE-10753](#))*

***Additional Steps Needed to Improve  
Partnership Program for 2000 Decennial***

The accuracy of decennial census data is critical because it is the basis for apportioning seats in the House of Representatives and is used to support a host of other activities, including the distribution of billions of dollars of federal and state funding each year.

In conducting the decennial census, the bureau attempts to deliver a questionnaire to every household, a task that requires determining the address of each housing unit in the nation. To accomplish this, the bureau compiles the addresses of housing units into its Master Address File (MAF) database for both “city-style” and “non-city-style” areas. City-style areas have addresses that contain a street name and a house number for mail delivery, while non-city-style areas generally have rural route numbers or postal box numbers. After analyzing data from a 1995 census test, the bureau discovered that MAF had both an under-coverage problem (missed units) and an over-coverage problem (duplicate and nonexistent addresses).

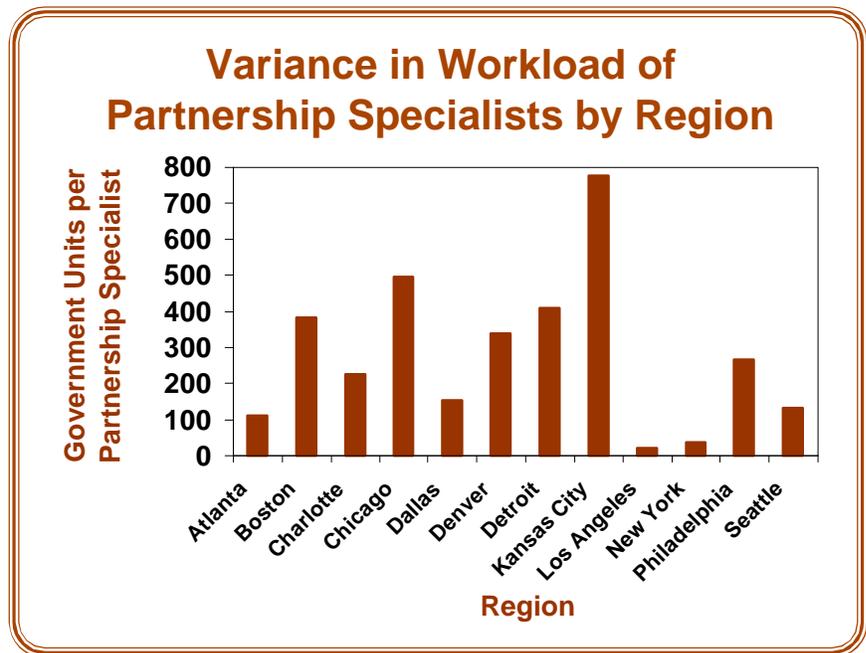
To deal with the MAF issues, one of the bureau’s approaches for its address list building strategy for the 2000 decennial involves establishing partnerships with local and tribal governments through a program that is designed to take advantage of those governments’ knowledge of actual address data: the Local Update of Census Addresses (LUCA) program. Under LUCA, the bureau provides its address list to such governments for review and revision.

In 1997 the bureau developed a reengineered address list building strategy for the 2000 decennial that included major changes to the partnership effort. The schedule for LUCA, which was tested successfully in 1995 and was already underway for the dress rehearsal in the fall of 1997, was advanced by nine months in city-style areas, to begin in early 1998. Block canvassing was expanded to cover 100 percent of city-style address areas and will be used to verify address data obtained from local/tribal review.

An OIG inspection of the plans and procedures for the partnership effort found that the bureau appeared to have procedures for preparing the city-style part of LUCA, but had not formally defined many of the procedures for accomplishing local/tribal review of the non-city-style part of the address list. We also made observations in the following three areas:

- **LUCA's start was slowed by reengineering efforts and budget constraints resulting from continuing resolutions.** With the nine-month advancement of the LUCA schedule, the bureau had to mail invitations to participate in the review of city-style addresses before the program had been fully defined or dress rehearsal feedback thoroughly evaluated. In addition, bureau staff responsible for LUCA planning were involved in the dress rehearsal, and little time and few resources were available for planning the decennial LUCA. Planning was also disrupted by the budget constraints imposed by a series of continuing resolutions that delayed the hiring and training of outreach staff and the hiring of temporary staff at the bureau's data processing center.
- **Resource planning and management can be improved.** The reengineered design has created a high demand for the services of both outreach and technical staff in the bureau's regional census centers during the early phases of local review operations. Outreach staff (called partnership specialists) contact local/tribal government officials to encourage them to participate, while technical staff train local/tribal staff in how to use the address lists and provide ongoing technical assistance.

However, the resources for these activities are not being distributed to the regions in proportion to their likely startup workloads. For LUCA activities, each regional center has roughly the same number of outreach and technical staff, despite large variances in the number of government units they contain. (The graph on the following page shows the workload variance among regions for partnership specialists.) Some regional officials believe that this situation will lead to disparate treatment of governmental units across regions.



- Additional steps are needed to ensure equitable treatment of suggestions for additions to city-style LUCA address lists.** The reengineered MAF strategy includes block canvassing to record the mailing address and physical location of every housing unit in areas with city-style addresses. The cost of this operation, scheduled for January through May 1999, is estimated to be as high as \$95 million. Given slippages in the LUCA program, it is unlikely that all suggestions for additions to LUCA address lists for city-style areas will be received in time to be verified during block canvassing. Thus, if the bureau relies solely on the block canvassing operation to provide verification data for LUCA suggestions, the quality of the bureau's decisions to accept or reject the suggestions may vary depending on when the suggestions are received. We believe there are steps the bureau can take to ensure that local review suggestions are treated equitably.

We made several recommendations to the bureau to address our concerns. The bureau agreed with our recommendations. It also (1) provided a list of the operations that would be potentially affected by funding delays or restrictions in possible continuing resolutions for FY 1999 or 2000, (2) described outreach and technical staff increases planned for FY 1999, and (3) outlined its progress with LUCA for the 2000 decennial. (*Office of Inspections and Program Evaluations: IPE-10756*)

## **Computer Security over the Transmission of Sensitive Census Data Needs Strengthening**

Under Title 13 of the U.S. Code, the Census Bureau is responsible for protecting from disclosure the data it collects about individuals and establishments. Disclosure of Title 13 data could be seriously damaging to the 2000 Decennial Census—as well as to other bureau work—because securing the cooperation of people and organizations depends on an assurance of data confidentiality. Therefore, the computer and telecommunications systems that handle decennial data must have security measures to prevent unauthorized access. Because the bureau's operations are geographically dispersed, Title 13 data is routinely transmitted over telecommunications media.

The OIG recently conducted an evaluation of the adequacy of the security measures that the bureau uses in transmitting Title 13 data over its dedicated circuits (wide area network) and dial-up lines. Our evaluation identified several concerns about the bureau's protection of transmissions of Title 13 data, and we made recommendations to reduce the risk of disclosure of this sensitive data. Recognizing the importance of these matters, bureau officials were extremely responsive to our recommendations and began taking actions to implement them as soon as the security weaknesses were brought to their attention. (*Office of Systems Evaluation: OSE-10773*)

## **Resource Improvements Recommended for CAMS Pilot Implementation**

As part of our ongoing monitoring of the Census Bureau's financial management activities, we reviewed the bureau's pilot implementation of the Commerce Administrative Management System. The bureau was selected for the CAMS pilot partly because of its pressing need to support the 2000 Decennial Census with an updated, capable accounting system. We focused our monitoring efforts on the components designated by the Department for the pilot, specifically the core financial system, purchase card, and small purchases modules.

In a May 29, 1998, memorandum to the Department and the bureau, we concluded that the June 1998 deadline for completing the CAMS pilot at Census was achievable. Despite missing some milestone deadlines, the Department had been successful in restructuring its management of CAMS and redirecting resources to the pilot implementation. We did, however, highlight several key areas that needed focused attention by the bureau and the Department to promote the continued success of the pilot's

## *Economics and Statistics Administration*

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implementation: system development methodology, capacity planning, system architecture and performance, problem/deficit tracking, software configuration management, and service continuity planning.

Implementation of the CAMS pilot was successfully completed by the June deadline, and the Department is exploring its options for wider implementation of the system. (*Financial Statements Audits Division*)

# International Trade Administration



## **OIG Reviews Assess the Effectiveness of US&FCS's Overseas Posts**

The OIG has undertaken a series of reviews of selected Commerce overseas posts, which are under the direction of ITA's U.S. and Foreign Commercial Service (US&FCS). The reviews are designed to evaluate the posts' operational effectiveness and determine whether they are efficiently accomplishing their mission: to assist U.S. companies, especially small and medium-sized ones, with export assistance. In reporting the results of these reviews, we divide our findings into three broad areas: (1) general management and organizational issues, (2) program activities and performance measurement, and (3) internal control environment. In the following sections, we summarize the results of two audit reports issued during this semiannual period.

### **Japan**

Japan, representing 75 percent of the entire Asian economy, is the United States' largest overseas trading partner. Consequently, US&FCS has dedicated more resources to Japan than to any other overseas post. In the 1980s, when the United States emphasized opening up the Japanese market, US&FCS's Japan post focused more on helping other federal agencies in trade negotiations and policy formulation than on assisting individual U.S. exporters. More recently, while continuing its efforts to gain access to the Japanese market, the United States has placed greater emphasis on increasing exports through trade promotion activities. At the time of our audit, US&FCS Japan employed 60 people at five offices (in Tokyo, Osaka, Nagoya, Fukuoka, and Sapporo), and had a FY 1997 operating budget of \$8.4 million.

Our review of US&FCS operations in Japan found that during the years preceding our review, the post had done an exemplary job in the areas of deregulation, market access, major projects, government procurement, advocacy, and other policy-type matters. Notwithstanding these accomplishments, we identified the following issues that warrant management attention:

- **General management and organizational issues.** US&FCS Japan's management and organizational environment need improvements. Current resource allocation, particularly the heavy concentration of staff in Tokyo, appears to reflect US&FCS's former priorities, which focused on gaining market share in a relatively closed market. The agency should consider reducing

The **International Trade Administration** is responsible for most nonagricultural 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.** US&FCS promotes the exports of U.S. companies and helps small and medium-sized businesses market their goods and services abroad. It has 98 domestic offices and 138 overseas posts in 75 countries.

## International Trade Administration



resources in Tokyo and Osaka and increasing them in Sapporo, Fukuoka, and Nagoya to more fully take advantage of exporting opportunities.

- **Program activities and performance measurement.** Because of its emphasis on policy matters, US&FCS Japan's trade promotion efforts have suffered. The post has reduced its contact with some types of businesses, especially small and medium-sized exporters, by contracting out some of its core products and services. US&FCS Japan needs to be reoriented to better serve U.S. exporters by reintroducing core products and services so that staff maintain close contact with the U.S. business community. The post should also pay increased attention to serving firms that are just beginning to export or are new to the Japanese market. Post management also needs to develop a strategic commercial plan that includes a countrywide marketing plan. As part of that effort, the post needs to reassess the value of its trade center in Tokyo.
- **Internal control environment.** US&FCS Japan's internal controls need to be improved. Specifically, we observed significant redundancies within the administrative units and a lack of coordinated oversight by management. In addition, there is no effective internal control structure to separate critical administrative functions, and account balances were not fully reconcilable between ITA, State Department, and Treasury Department records. Finally, in a matter that affects reporting requirements under the Chief Financial Officers Act, the post had accumulated over \$2.3 million in unfunded liabilities for personnel benefits for its foreign service national employees.

We made a number of recommendations to ITA to address the identified deficiencies. The bureau did not expressly disagree with any of our findings or recommendations, but it did question several conclusions and some of the data in the report. Most specifically, ITA questioned whether the audit team had requested, obtained, and reviewed all of the pertinent documentation regarding the report findings. We were able to assure ITA that the OIG team interviewed all US&FCS Japan personnel and reviewed all pertinent documentation concerning the matters discussed. (*International Audits Division: IAD-10218-8-0001*)

### Spain

Enjoying excellent bilateral relations with Spain, the United States during 1996 achieved a \$3.4 billion trade surplus with that country, resulting from \$7.7 billion in exports and \$4.3 billion in imports. Yet U.S.

companies continue to face obstacles to doing business there, including higher import tariffs than those imposed on European firms. At the time of our audit, US&FCS Spain maintained two offices, in Madrid and Barcelona, and employed 4 foreign commercial officers and 15 foreign service nationals. It had an operating budget of about \$1.2 million in FY 1997.

Our review of the post's operations covered the following areas:

- **General management and organizational issues.** The senior commercial officer who arrived at the post in 1996 effected several positive changes, such as strengthening interagency relationships, reasserting program controls, and redesigning strategic planning. Nevertheless, further improvements are needed in several areas, most notably the post's organizational structure, which fragments the responsibilities and supervision of administrative staff. The absence of a clear assignment and supervision hierarchy for administrative functions hampers the post's ability to effectively support operations.
- **Program activities and performance measurement.** The post's FY 1997 focus on addressing internal staff problems and improving its coordination with other U.S. agencies resulted in a lack of attention to US&FCS customers. To remedy this weakness, the post needs to place greater emphasis on generating and documenting "success stories," US&FCS's primary performance measure. In addition, the post needs to better exploit opportunities for small and medium-sized firms in the Spanish economy and to improve its market research reporting to make it a more effective trade promotion tool.
- **Internal control environment.** Although US&FCS Spain had adequate controls in place, many of these controls should be strengthened to better meet the requirements of the Federal Managers' Financial Integrity Act of 1982. For example, improved communication and information flow are needed between US&FCS and the State Department's budget and finance section, especially in light of increasing administrative support costs.

We made recommendations to address the weaknesses we identified. ITA generally agreed with our findings and conclusions, and the actions it has planned or taken should begin to address many of our concerns. (*Business and Trade Audits Division: IAD-10593-8-0001*)

### ***Dallas USEAC Is Rebuilding to More Aggressively Provide Trade Services***

ITA's U.S. and Foreign Commercial Service, the federal government's most visible export promotion agency, operates an export assistance center network of 19 U.S. Export Assistance Centers (USEACs) connecting 100 smaller EACs in a series of "hub and spoke" arrangements. The primary objective of the USEACs is to enhance and expand federal export marketing and trade finance services through greater cooperation and coordination between federal, state, and local partners. USEACs are the hubs: "one-stop shops" that offer U.S. businesses a single point of contact for federal export promotion and finance programs operated by US&FCS, the Small Business Administration, and the Export-Import Bank.

The OIG conducted an inspection of the Dallas USEAC to assess the quality of its services and its effectiveness in delivering those services to business clients. We also focused on how well the USEAC coordinates activities with state and local organizations involved in export promotion and how well the staff of the various agencies at the USEAC interact and jointly assist business clients. In addition, we assessed the adequacy of internal controls and the USEAC's compliance with selected departmental and ITA policies and procedures.

Our review found that clients are generally satisfied with the quality of the services provided. The proximity of the office to federal, state, and local partners—one of US&FCS's primary objectives for the USEAC concept—allows for close cooperation, and the partners generally have a positive impression of the services provided by the USEAC.

However, several deficiencies affecting USEAC operations need to be addressed by management: (1) staff were not aggressively pursuing new clients or trade promotion activities, (2) staffing vacancies were adversely affecting operations, (3) recent computer upgrades were not completed properly and have caused problems, and (4) user fee collection procedures lack independent reconciliation and funds were not adequately secured.

Among our recommendations were that US&FCS develop a plan for the Dallas USEAC to more aggressively pursue initiatives and activities, minimize delays in filling vacant positions, ensure that the newly installed information technology is operating properly, provide staff training on the new computer technology, improve internal controls over user fee collections, and reconcile bank statements with collection transaction records.

In response to our report, US&FCS outlined steps it is taking to comply with the intent of most of our recommendations. (*Office of Inspections and Program Evaluations: IPE-11006*)

### **Improvements Are Needed in ITA's Management of Interagency and Other Special Agreements**

As part of its Department-wide review, the OIG performed an inspection of ITA's management of interagency and other special agreements. We reviewed and selected 73 out of 164 agreements that ITA entered into with various agencies, including MBDA, BEA, the Small Business Administration, the Environmental Protection Agency, the Export-Import Bank, and the U.S. Agency for International Development.

We found that these agreements supported ITA's mission to promote U.S. exports and to coordinate the export promotion efforts of other federal agencies. However, the bureau has some shortcomings in its overall management of agreements. Specifically, we observed that (1) ITA has no formal written policy for handling agreements, (2) it has no central repository for agreements, and (3) there were inconsistencies among U.S. Export Assistance Centers as to whether they use and how they process agreements in their trade promotion coordination efforts.

We recommended that ITA develop internal policies and procedures for its operating units that outline steps for preparing and implementing agreements and include coordination with ITA's Office of Financial Management and the Department's Office of Acquisition Management and Office of General Counsel (OGC); distribute relevant guidance and information for preparing and processing agreements through its computer network and at appropriate conferences; provide training to staff on how to properly prepare, process, and administer agreements; and establish a centralized system to adequately inventory, track, and control its agreements.

ITA concurred with most of our findings and recommendations and is drafting administrative guidance to its operating units to aid them in preparing interagency agreements. OGC agreed with the recommendations and is working with ITA to resolve the issues identified. (*Office of Inspections and Program Evaluations: IPE-10752*)

***Employee's Telephone Misuse  
Results in Theft Conviction***

In April 1998, an international trade specialist was convicted of theft in U.S. District Court for the District of Columbia after an OIG investigation disclosed that he had made more than \$17,000 of personal telephone calls over a two-year period using his office telephone and his government-issued calling card. In July 1998, he was sentenced to three years' probation and 100 hours of community service, and ordered to make full restitution to the government. (*Washington Field Office of Investigations*)

# Minority Business Development Agency



## Community-Based Enhanced Services Pilot Project Not Effectively Monitored

The OIG audited MBDA's monitoring and management of its \$240,000 cooperative agreement with a nonprofit organization, and its subrecipient, for the establishment of a comprehensive minority business development program in a Maryland metropolitan area. This award was a pilot project of the Community-Based Enhanced Services initiative—a pilot to test alternative ways to deliver management and technical assistance services to a specific minority business community. Our earlier audit of the cooperative agreement (see September 1997 issue, page 30) found that the recipient had not fully met its responsibilities to provide high-quality services to minority-owned businesses.

In this second audit, we concluded that MBDA's monitoring and assessment of the pilot project was ineffective because the agency did not fully comply with its own written policies and procedures for oversight. For example, MBDA (1) did not adequately communicate with subrecipient officials, (2) ensure that its monitors prepared and submitted quarterly performance assessment reports, (3) perform source sampling verification of the subrecipient's documentation, or (4) adequately review the subrecipient's progress in completing supplemental performance goals established by senior MBDA management. The lack of effective oversight caused confusion on the part of subrecipient officials about MBDA's reporting and documentation requirements and led to MBDA officials' not being aware of the extent of the subrecipient's lack of performance.

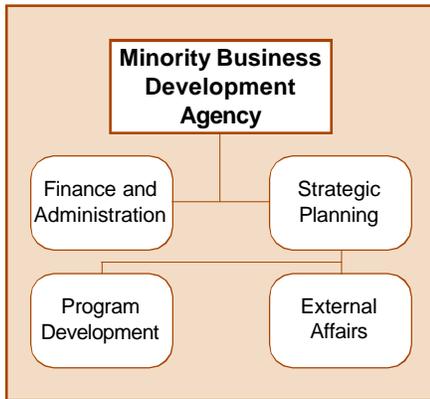
With respect to the oversight of future awards under the initiative, we recommended that MBDA (1) assign staff with technical and business experience who will, at a minimum, provide the level of oversight and monitoring outlined by the agency, (2) ensure that future pilot projects are effectively assessed and evaluated in a timely and thorough manner to ascertain whether they should be continued, and (3) develop project-specific performance measures and reporting requirements to reflect the nature of the business development assistance.

MBDA generally agreed with our findings and conclusions, but took exception to our observation that it did not effectively monitor the project and outlined a number of monitoring actions it had taken. In our opinion, these actions did not constitute sufficient and effective oversight. However, after the end of the semiannual period, MBDA submitted an audit action plan that will implement our recommendations. (*Business and Trade Audits Division: [EDD-9406-8-0002](https://www.oig.dhs.gov/audit-reports/EDD-9406-8-0002)*)

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.

## Minority Business Development Agency

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### **Awards in Discretionary Funding Programs Followed Departmental Procedures**

The OIG performed audits of MBDA's solicitation, review, and selection processes for discretionary grants under its Native American Business Development Center and Minority Business Development Center programs for FY 1997. The two MBDA programs provide business development services to clients to aid in the creation, expansion, and preservation of Native American- and minority-owned enterprises. During FY 1997, the Native American program awarded 2 new cooperative agreements and 8 continuations or renewals of prior awards, totaling about \$2 million, and the Minority program awarded 12 new cooperative agreements and 29 renewals, totaling about \$9 million.

Our two audits were part of our ongoing Department-wide review of discretionary financial assistance programs, which was prompted by a request from the Chairman, Senate Committee on Commerce, Science, and Transportation ([see page 12](#)). He requested that the Inspectors General of the Departments of Commerce and Transportation, the National Aeronautics and Space Administration, and the National Science Foundation review their agencies' discretionary funding programs to assess how funding decisions are made. Discretionary funding programs are those for which federal agencies have the authority to independently determine the recipients and the funding levels of the awards made.

We found that MBDA's procedures and practices for awarding the cooperative agreements under both programs met the Department's requirements and were generally adequate. Specifically, MBDA followed established procedures in soliciting and reviewing applications, and has adequate procedures and practices for selecting awardees and renewing prior awards. Yet we also identified several opportunities for improving the programs' award procedures and practices, such as:

- Expanding the solicitation process, through announcements in additional media outlets and in target population areas, to obtain a larger pool of eligible applicants.
- Including officials from outside MBDA and the Department as proposal reviewers to increase the independence and objectivity of the review panels involved in the merit-based selection process.

MBDA agreed with our recommendations and is modifying its award process to implement them along with other improvements. (*Business and Trade Audits Division: [BTD-10955-8-0001](#) and [BTD-10956-8-0001](#)*)

**Awardee Found Not Financially Responsible,  
Postaward Costs Should Be Disallowed**

In September 1994, MBDA awarded a \$188,000 cooperative agreement to a Connecticut company to operate a Minority Business Development Center during FY 1995. The award required the company to provide a \$37,000 cash match. When MBDA proposed to fund the center for a second year, the Department declined to approve the award for several reasons: the company had failed to disclose a federal tax delinquency in its original application, had received Dun and Bradstreet's worst business risk ranking, and faced potential bankruptcy. However, the company continued to operate the center without an agreement for six months until the proposed award was formally declined in March 1996.

The Department also declined to approve MBDA's proposed retroactive award to compensate the company for the additional six months of operation. The award would have included a \$94,000 federal share and a \$16,000 combined cash and non-cash recipient match. The Department then requested an OIG audit to determine the extent to which the company should be reimbursed for the entire 18 months that it operated the center.

We concluded that the company should be reimbursed for the federal portion of the center's allowable first-year costs; however, it is not entitled to any federal funds for the last six months, and is due no additional disbursements. The company incurred the second period costs at its own risk and did not perform as a financially responsible federal award recipient.

We recommended that the Department disallow \$113,000 in questioned costs and fees for the first year, disallow the full \$75,000 in claimed costs and fees for the last six months, and recover \$88,000 in unearned federal disbursements. The company asserts that the questioned costs are too high and that it is due an additional \$73,000 in federal funds earned, based in part on its contention that all personnel and related fringe benefit costs should be allowed because the center operated at a "good" to "commendable" level. (*Atlanta Regional Office of Audits: ATL-8923-8-0001*)



# National Oceanic and Atmospheric Administration

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.

## NOAA Should Privatize Light Aircraft Operations and Pursue Full Cost Recovery

Since its establishment in 1983, NOAA's Aircraft Operations Center, now located at MacDill Air Force Base near Tampa, has been responsible for gathering atmospheric, oceanographic, and other data for such programs as hurricane and major storm research, nautical and aeronautical charting, climate and global change, and snow and aerial surveys. As NOAA's major flight operations group, AOC operates a fleet of 14 aircraft, composed of two heavy craft, a mid-size jet, eight light fixed-wing aircraft, and three helicopters.

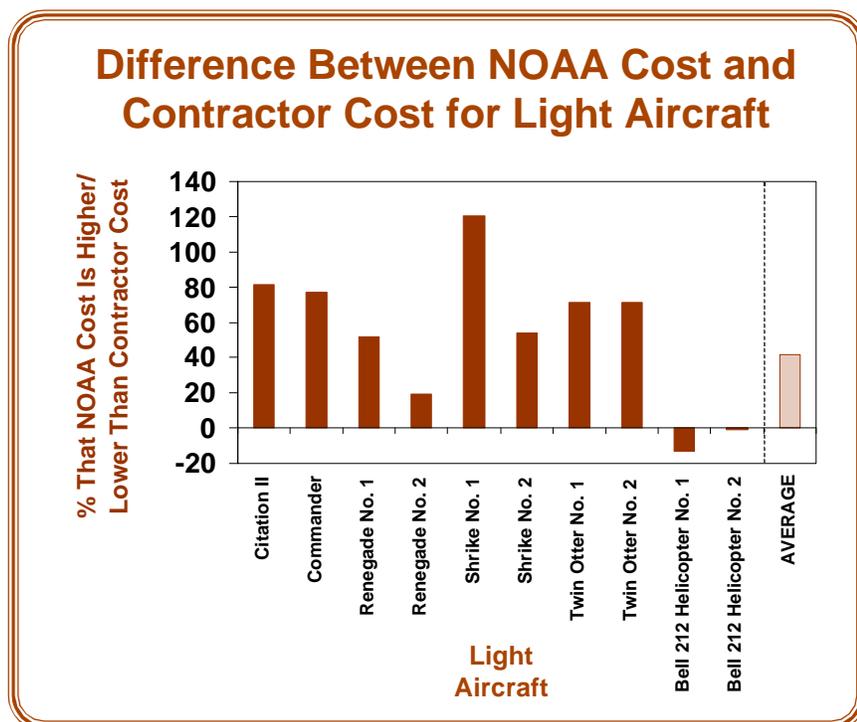
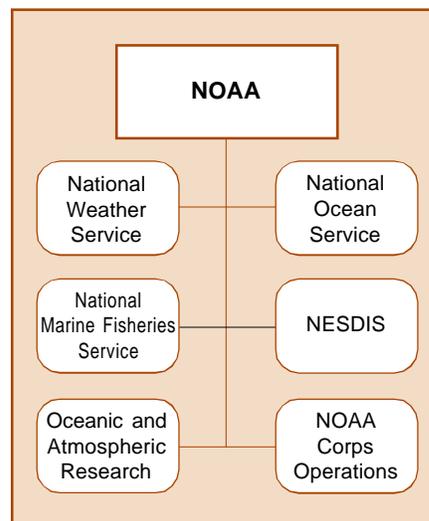
In December 1996, the President's Council on Integrity and Efficiency reviewed the management of the federal civilian aircraft fleet, including NOAA's fleet, and found that it cost the government in excess of \$1 billion annually to operate its aircraft programs. Additional studies of operational efficiencies, commissioned by the General Services Administration, reported that costs could be reduced by \$92 million annually if most agencies consolidated their operations and entered into sharing arrangements.

The OIG conducted an audit to determine whether outsourcing is a more cost-effective alternative to in-house operation in meeting NOAA's aircraft requirements. We excluded from our comparison four aircraft that either were not in service or had unique capabilities not available elsewhere. We found that the full in-house cost to operate NOAA's fleet of eight light fixed-wing aircraft and two helicopters (the third helicopter was out of service at the time of our audit) averaged 42 percent more than the cost to operate similar aircraft in the private sector, as shown in the chart on the next page. As a result, in-house inefficiencies during FY 1996 cost NOAA and interagency programs an additional \$1.9 million, or 1,840 flight hours, compared to private sector costs.

To restructure its aircraft operations, ensuring more cost-effective aircraft services support, we recommended that NOAA:

- Retain the two heavy craft and the mid-size jet.
- Discontinue operating the eight fixed-wing light aircraft and the three helicopters and release them, in accordance with OMB Circular A-126, along with related parts.
- Fully comply with the established policy that program offices are to rely on the private sector, when economically advantageous, to provide aircraft services support.

- Transfer AOC base funding for aircraft support to NOAA's line organizations, and implement procedures to ensure that they procure aircraft support from the most cost-effective private-sector sources.
- Pending release of aircraft and transfer of funding, report the full cost of each aircraft to GSA in accordance with federal accounting guidelines.



Implementation of our recommendations will put up to \$11.8 million of government funds to better use. These funds will involve cost avoidance of \$3.8 million through program procurement of light aircraft services from the most cost-effective sources over a two-year period, and up to \$8 million from the sale of the light aircraft and helicopters.

Our review also disclosed that AOC is not recovering the full cost of work that it performs under reimbursable agreements with outside government agencies. As a result, in FY 1996, NOAA appropriations in effect subsidized over half the total cost of most sampled interagency reimbursable agreements, resulting in a cost underrecovery of \$573,000 and the diverting of essential resources from its core mission.

To remedy these concerns, we recommended that NOAA discontinue interagency reimbursable work related to the NOAA-owned light aircraft and helicopters. Pending the discontinuance of reimbursable work, NOAA should (1) complete current agreements in accordance with its policy of full cost recovery, (2) revise AOC's billing practices to be consistent with, and achieve, full cost recovery, and (3) seek reimbursement of the unrecovered full cost balances on all current reimbursable projects.

NOAA disagreed with most of our conclusions and recommendations because it believes that the report contained incomplete data, excluded costs that should have been included, and did not take into account the benefits derived by NOAA and its partners from federal cooperative projects. Specifically, NOAA did not agree with our principal conclusion that its group of light aircraft are significantly more costly to operate when their true or full costs are compared with the private sector. Regarding recovering the costs on reimbursable agreements, NOAA asserts that although its policy calls for full cost recovery, the policy also permits the agency to waive certain costs when reimbursable projects are beneficial to it. After careful review of NOAA's comments, we reaffirmed our conclusions regarding both matters. (*Science and Technology Audits Division: [STD-9952-8-0001](#)*)

### **Satellite Acquisition Well Planned, but Some Life-Cycle Cost Estimates Overstated**

Since 1994, the Department of Commerce, the Department of Defense, and the National Aeronautics and Space Administration have been working to develop the National Polar-orbiting Operational Environmental Satellite System (NPOESS), the nation's first polar-orbiting system that will meet both civilian and defense environmental data needs. NPOESS is expected to save \$1.3 billion over 10 years by reducing the number of U.S.-owned operational satellites from four to two, increasing the useful life of each satellite from 42 to 84 months, and combining support functions. The acquisition is being managed by an Integrated Program Office (IPO), which reports to an Executive Committee consisting of representatives of the three agencies' senior management.

To reduce overall program costs and risk, in 1996 program managers and agency decision-makers developed a restructured program, called "optimized convergence," that delayed the date that the first satellite would be needed from 2004 to 2007. A key aspect of the new program is

early risk reduction for critical payload sensors and algorithms. Sensors are the components of meteorological satellite instruments that convert input signals into quantitative information, and algorithms are computational procedures used to process this information. As part of the risk reduction effort, in July 1997 IPO awarded multiple contracts for the competitive design of the sensors and algorithms.

In an evaluation of IPO's acquisition process and NPOESS life-cycle cost estimates, the OIG found that the requirements process, the acquisition strategy, and satellite availability planning were well defined and should reduce program risk. We also found, however, that IPO awarded the contracts for the preliminary design and risk reduction of the sensors and algorithms for significantly less than its budgeted cost, largely because of certain inflated factors contained in its life-cycle cost estimates.

We recommended that NOAA begin working with the Executive Committee and IPO as soon as possible to produce new baseline cost, schedule, and goals that correct the identified life-cycle cost estimating anomalies. NOAA agreed that its short-term estimates were inaccurate, but believes that its cost estimating difficulties are not related to its long-term estimates. (*Office of Systems Evaluation: OSE-9593*)

### ***Additional Cost Reductions Identified for Proposed Goddard Facility***

Since 1991 NOAA has been planning to build a world class science center that would consolidate certain operations and research functions of NWS's National Centers for Environmental Prediction and the National Environmental Satellite, Data, and Information Service. These NOAA components are currently located at the World Weather Building in Camp Springs, Maryland, and Federal Building 4 (FB-4) in Suitland, Maryland. NOAA's latest requirements analysis, completed in May 1997, called for a 365,000-square-foot facility, designed to house nearly 1,300 personnel, at a cost of \$97.6 million. NOAA wanted to construct the facility, called the Operations and Research Center, at the National Aeronautics and Space Administration's Goddard Space Flight Center in Greenbelt, Maryland.

An OIG audit of plans to build the Goddard center found that the project's justification did not provide convincing evidence of the need to consolidate the two environmental prediction components to improve productivity or efficiency of operations. In addition, SSMC-1 had sufficient vacant space to accommodate the staff and equipment of the

World Weather Building, and GSA had determined that earlier environmental problems with SSMC-1 had been fixed and that it was safe for occupancy.

We were not opposed to constructing a Goddard facility, but believed that NOAA could have significantly reduced the cost by reexamining its staffing projections and the amount of raised-floor space and the floor loading capacity it needs for automated data processing equipment. We were planning to recommend that NOAA (1) reexamine SSMC-1 as a possible site, (2) reduce the square footage of the proposed Goddard facility by using supportable staff projections, and (3) reduce the raised floor space and floor-loading requirements. These actions would have resulted in tens of millions of dollars in savings.

NOAA was proposing to finance construction through direct appropriations. However, because the Congress did not appropriate FY 1998 funding for an architectural and engineering study and directed that planning efforts be suspended, NOAA is no longer pursuing the project. Thus, our planned recommendations dealing with reducing the size and cost of the facility could not be implemented, and we did not include them in our report. Nevertheless, should the Congress provide future funding for the facility, NOAA will need to consider the ways to reduce the size and cost of the facility that were identified in our report.

Although the facility project is no longer being pursued, NOAA commented on some of our findings. Specifically, it claimed that we failed to consider information concerning serious infrastructure problems and threats to personal security at the World Weather Building and FB-4. Although we agree that the infrastructure of the buildings is dated, we found no evidence that it posed a threat to operations. Moreover, despite NOAA's concerns about security problems, it was unable to provide any documentation substantiating its concerns. NOAA did not comment on the issue of reevaluating SSMC-1 as a possible site for World Weather Building staff because it plans to keep the staff in their current location. (*Science and Technology Audits Division: [NAD-9574-8-0001](#)*)

### ***New Supercomputer to Be Located at Federal Building 4 in Suitland, Maryland***

The OIG conducted an audit of NOAA's proposal to locate a new Class VIII supercomputer at the Goddard Space Flight Center in Greenbelt, Maryland, where it also proposed to build its new Operations and Research Center ([see page 47](#)). NOAA wanted to install the Class VIII in Building No. 28 at Goddard, rather than FB-4 in Suitland,

Maryland, where its current Class VII supercomputer is located, because the bureau's cost proposal indicated that it would be less expensive to do so. The Class VII, which is used exclusively by the National Weather Service and is critical to its mission of protecting life and property, is about five years old, and its lease will expire in February 1999. The Class VIII, the next generation of supercomputers, will provide NWS with continuous on-line weather information.

The OIG audit found that FB-4 and Goddard were the only federal sites in the Washington, D.C., area that could accommodate the supercomputer. We also found that NOAA's time line for making the transition to the Class VIII was reasonable. NOAA awarded the contract for the supercomputer on October 9, 1998, and hopes to have it fully operational by August 1, 1999.

However, NOAA's comparison of the costs of locating the supercomputer at Goddard versus FB-4 was flawed because it overestimated the total life-cycle costs of the FB-4 site by as much as \$1.1 million. Although the initial installation costs at FB-4 are higher, its leasing, renovation, and maintenance contract costs are lower. As a result, we estimate that NOAA could save about \$780,000 over five years by locating the supercomputer at FB-4. That building has adequate space and infrastructure to house the supercomputer once upgrades are made to the electrical and cooling systems. And we found no evidence, based on an assessment made by GSA at our request, that the electrical upgrades will necessitate the removal of asbestos, as NOAA originally thought.

After we completed our field work, NOAA advised us that it was suspending its planning efforts for a new Operations and Research Center because of a lack of FY 1998 funding, and was now focusing on FB-4 as the site for the Class VIII supercomputer. We recommended that NOAA take the necessary actions to initiate installation of the Class VIII supercomputer in FB-4.

Although NOAA agreed with our recommendation to locate the supercomputer at FB-4, it did not agree with the attendant findings on costs associated with the infrastructure, including space, asbestos, and equipment. NOAA also stated that it has engaged GSA in discussions concerning adequate facility support to ensure the continuous operation of the supercomputer during the transition, including the provision of backup electrical and cooling systems until upgrades can be completed. These discussions are to be finalized in a memorandum of understanding. (*Science and Technology Audits Division: [STD-10925-8-0001](#)*)

### ***NMFS Should Divest Itself of the Seafood Inspection Program***

The National Marine Fisheries Service's (NMFS) voluntary, fee-for-service seafood inspection program, operated by the Inspection Services Division (ISD), provides quality assurance services to approximately 2,200 fishery product companies through both in-plant quality assurance testing and product lot inspections and certifications. In 1995 ISD estimated that it inspected more than 1 billion pounds of seafood products, representing about 23 percent of the fishery products consumed in the United States.

A new inspection methodology, the Hazard Analysis Critical Control Point (HACCP), was developed during the 1980s. NMFS instituted its own HACCP-based system in 1992. HACCP reduces the need for ongoing inspections and allows the processor to monitor its own operations, while inspectors periodically ensure compliance. Under the HACCP program, a plant needs only 480 hours of inspection services during the first year, and potentially as few as 116 hours annually in later years. The full in-plant inspection program requires 2,080 hours or more annually. NMFS reports that many plants have converted from ongoing inspections to the new system, creating a shortage of revenue that contributed to financial losses for the program. ISD's losses for FY 1994-97 were more than \$1.7 million.

Several years ago, NOAA and the Department were proposing to convert ISD to a performance-based organization. In December 1996, the OIG informed NMFS of several deficiencies that needed to be corrected before the proposed PBO was established (see March 1997 issue, page 50). Since then, discussions have taken place between NOAA and officials of the Food and Drug Administration regarding the establishment and transfer of the proposed PBO to that agency.

In response to a request from NOAA's Assistant Administrator for Fisheries, the OIG conducted an audit of ISD's operational and financial management. As a result of our review, we reached two primary conclusions:

- **NMFS should divest itself of the seafood inspection program.** The program has little, if any, relationship to NMFS's other responsibilities and functions, and would be better privatized or placed within another federal or state agency. A voluntary program to determine the quality of seafood by inspecting, measuring, testing, and certifying its wholesomeness is not an inherently governmental function. We recommended that NOAA propose legislation to immediately divest NMFS of ISD.
- **ISD should correct program mismanagement.** This mismanagement has resulted in large fund losses, misdirection of efforts, and a serious lack of control over internal functions. Specific management deficiencies were observed in the areas of training policies, services and payments, and foreign travel and billing. We recommended that, until the division is divested, NOAA require that ISD set rates so that it recovers full costs; eliminate foreign travel that is not fully reimbursed; follow established policies for billing and travel; and ensure that adequate contractual procedures are followed for all training services.

NOAA agreed with our recommendations that NMFS divest itself of the seafood inspection program and recover full costs until that point. (*Seattle Regional Office of Audits: STL-9607-8-0001*)

### **Management Improvements Needed in NMFS Enforcement Office**

The OIG conducted an audit of the National Marine Fisheries Service's Office of Law Enforcement to evaluate its operations and its coordination efforts with related agencies. The mission of the enforcement office is to achieve an acceptable level of compliance with statutes and regulations affecting the living marine resources and marine habitat of the nation. To accomplish its mission, the office conducts investigations, patrols, and inspections throughout the United States and its territories, and on the high seas; engages in public outreach to increase understanding of marine laws; provides coordination and support to states, tribes, and territories enforcing regulations that protect marine resources; and provides training to other federal and state officers who participate in fisheries enforcement.

During our review, the enforcement office was implementing numerous management improvements. However, we identified several areas where additional improvements are warranted. For example,

(1) NMFS needs to provide the office with more specific policy guidance to assist it in addressing its goals and objectives and allocating its resources, (2) the office should establish more specific performance measures, and (3) a recent office-sponsored “role and deployment” study did not evaluate all options due to planning constraints placed on the study.

We recommended that NMFS develop specific agency priorities and outcome-related goals for the enforcement office for FY 1999. We also recommended that NMFS direct the enforcement office to develop performance measures for FY 1999 that link strategic goals, resources, and daily activities; evaluate the impact of the predetermined constraints on the role and deployment study and determine if they are appropriate before implementing its recommendations; and initiate a deployment staffing plan that includes all 164 personnel for FY 1999.

NOAA agreed with our findings and recommendations. (*Seattle Regional Office of Audits: [STL-9835-8-0001](#)*)

### ***OAR Needs Additional Management Processes to Meet the Intent of GPRA***

The Office of Oceanic and Atmospheric Research (OAR) conducts and directs NOAA research programs in coastal, marine, and atmospheric sciences through its own laboratories and offices, networks of university-based programs throughout the country, and international activities. OAR has three major components: Environmental Research Laboratories, the National Sea Grant College Program, and the National Undersea Research Program.

We reviewed OAR’s managerial organization to determine if its current systems and processes meet the intent of the Government Performance and Results Act of 1993. We identified three areas where the current structure is inadequate and developed guidelines for OAR to use in developing the necessary systems and processes. Specifically:

- OAR has no strategic plan to clarify its mission, goals, and objectives; to formally communicate agency priorities to the field level; and to use as a basis for resource allocation plans. Several attempts to create a plan failed because formal strategic planning has not been an OAR priority. Sound management practices, as embodied in GPRA, require agencies to use a strategic planning process.

- OAR needs to integrate its budgeting process with a strategic planning process. This will allow the agency to comprehensively analyze its planning goals and funding needs, and present a clearer picture of its operations. Currently, OAR develops its budget in response to the NOAA planning and budget process. A comprehensive, integrated approach to planning and budgeting will result in a more complete description of how OAR's goals and objectives are to be achieved and how it can meet the intent of GPRA.
- OAR lacks a unified management information system to evaluate project performance. Such a system is necessary to allow managers to more effectively define and communicate project objectives, report on progress, and track resource expenditures.

We made recommendations to OAR for establishing the needed systems and the links between them. NOAA concurred with our recommendations and stated that it plans to implement them through (1) its strategic plan reporting system, (2) improved crosswalks between NOAA's strategic planning structures and OAR's program structure, and (3) better strategic plan linkages in the budget development process. (*Seattle Regional Office of Audits: [STL-8519-8-0001](#)*)

### ***As Sea Grant Program Changes, Administrative Improvements Needed***

The National Sea Grant College program is designed to address marine and coastal issues and practical problems by applying both the natural and social sciences and by transferring technology. The program, established in 1967, provides annual "umbrella" grants to 29 primary member universities, which in turn manage projects at more than 300 educational institutions. Sea Grant is a cost-sharing program, with the primary universities contributing one-third of the total cost of the project. During FY 1997, these universities received \$52 million in federal sea grant funding, provided \$32 million in matching funds, and accepted another \$10 million in pass-through funds, which are provided by NOAA line offices or other federal agencies. The program is administered by a 17-person National Sea Grant Office (NSGO) in OAR.

After initiating an inspection of the Sea Grant program, the OIG found that widespread changes were underway, as NSGO was implementing a number of recommendations of a 1994 National Research Council (NRC) study. Therefore, we focused our review on

certain administrative issues, and postponed a full-scale review until the agency was further along in implementing the NRC recommendations. Our observations and recommendations included:

- **Sea Grant program is making progress in implementing NRC recommendations.** As a result of the NRC study, NSGO is shifting its efforts away from a project selection role to a more results-oriented review of the program. While implementing this and a number of other NRC recommendations, NSGO has undergone a 26-percent reduction in staff. We question whether NSGO will be able to fulfill its oversight responsibilities under a five-percent cap on administrative expenses and are concerned that its diminished role could result in NSGO's abdicating its responsibility to ensure that program funds are spent appropriately and directed to NOAA's overall objectives.
- **Marine extension program should benefit from the new results-oriented program review process.** A NSGO evaluation process is underway to look at "best practices" across all the sea grant universities. NSGO needs to ensure that the evaluation focuses on the effectiveness of marine extension programs, and recommends improvements at the sea grant universities whose organizational arrangements and techniques have not been identified as being the most effective.
- **Improved coordination between the Sea Grant program and other line offices must become a NOAA priority.** Sea Grant needs to be more deeply involved in bringing scientific talent from the universities to bear on the management problems of the nation's coastal areas and adjacent oceans. To accomplish this, more effective coordination is needed between Sea Grant and the NOAA line offices devoted to resource management—the National Ocean Service and NMFS.
- **Grant processing workload can be better managed.** Because all 29 sea grant awards are made on February 1 or March 1, NOAA's grants management division (GMD) and NSGO must process all sea grant university proposals from November through February, with much of the division's work having to be completed during the December-January holiday season. For better management of the grants processing workload, grants need to be received by NSGO on time, properly reviewed, and forwarded to GMD on a staggered basis.

- **GMD's oversight role needs to be strengthened.** Each sea grant award is a four-year grant that covers numerous university projects, is often amended to include new projects, and draws on multiple funding sources. As a result, it is difficult for NSGO and GMD to track the obligation of funds from the multiple sources to the individual projects. NSGO must take steps to ensure that the sea grant universities are spending Sea Grant program and pass-through funds appropriately. Possible steps to strengthen oversight include issuing pass-through funds as separate grants and including GMD staff on the topical assessment teams.
- **Policy on grantee matching funds needs to be clarified.** A sea grant proposal must identify how its nonfederal share will be met. NSGO, however, has no written policy on the nonfederal match and does not provide a convenient summary of matching information. As a consequence, it is difficult to determine whether match requirements have been properly met. To ensure a more accurate, traceable recording and accounting for matching funds, NSGO should issue written guidance clarifying its matching policy.

In both its response to our report and its recently submitted action plan, NOAA has cited actions taken or planned that will satisfy seven of our eight recommendations. For an eighth recommendation, regarding pass-through funds, OAR has proposed to conduct an analysis of steps to be taken to strengthen oversight of these funds. (*Office of Inspections and Program Evaluations: IPE-10150*)

### **Further Changes Needed to Improve NMFS's Agreement Procedures**

The National Marine Fisheries Service's mission is to build sustainable fisheries, recover protected species, and sustain healthy coasts. To accomplish its mission, NMFS undertakes special projects, reimbursable activities, and programmatic efforts with other governmental and non-governmental entities. The agency frequently employs interagency and other special agreements to formalize the terms of these arrangements.

We examined 49 out of 243 NMFS agreements as part of an OIG Department-wide review of interagency and other special agreements. Unlike our reviews of other bureaus' agreements, however, we did not evaluate NMFS's financial, managerial, and programmatic oversight of agreements because new policies and procedures for agreements were being implemented by NOAA at that time. NOAA issued its final guidance for NMFS agreements on January 28, 1998, in response to a previous

audit we performed (see September 1995 issue, page 54). NMFS and the Department's Office of General Counsel reported notable improvements to the agreements that were prepared after the draft guidance was issued in June 1997.

Since the new guidance was not fully implemented at the time of our review, we limited the scope of our inspection to determining (1) the appropriateness and advisability of the agreements as funding mechanisms for specific projects, (2) the extent to which NMFS offices are supported through and rely on these agreements, (3) the relevance of these agreements to departmental goals and objectives, and (4) the degree to which any of these agreements may have circumvented procurement or financial assistance regulations.

We supported NMFS's new guidance for the review and clearance of interagency agreements and memorandums of agreement or understanding. However, we found several problems in existing agreements that need to be addressed:

- Legal review requirements are unclear and not periodically evaluated.
- NMFS does not always recover full costs.
- More than a dozen agreements do not cite legal and/or funding authority.
- Four agreements are invalid because they lack authorizing signatures.
- Eight agreements are not regularly reevaluated.
- The duration of agreements is not always defined.

In addition, NMFS does not maintain a comprehensive database or tracking system for its agreements.

We recommended that NOAA (1) regularly monitor the effectiveness and efficiency of NMFS's guidance on agreements, including conducting a comprehensive review one year from implementation of the new guidance, to ensure that adequate management controls are in place, (2) in consultation with OGC, revise NMFS's guidance to clarify which agreements require legal review and clearance, (3) in coordination with OGC, evaluate the full impact of the OGC review process and thresholds no more than

one year from implementation, and revise those thresholds as necessary, (4) amend NMFS's current guidelines to ensure that agreements are reviewed, at least every three years, to determine whether they should be revised, renewed, or canceled, and (5) develop a centralized database of all NMFS agreements.

NMFS agreed with our findings and noted that some of the recommendations will be resolved as a matter of course by continuing its implementation of the newly developed policy and procedures on interagency agreements, while others will be the focus of an action plan to be developed in response to our report. In addition, OGC agreed with the majority of our findings and recommendations. (*Office of Inspections and Program Evaluations: IPE-10775*)

### **OAR Agreement Practices Require Additional Improvements**

As part of our review of interagency and other special agreements, we also reviewed 99 out of 506 agreements finalized by the Office of Oceanic and Atmospheric Research from June 1996 to September 1997. Agreements are one method for OAR to formalize relationships through which it shares information, provides needed services, or coordinates its programs with other federal agencies and non-federal organizations in fulfilling its mission.

The purpose of our inspection was to evaluate policies, procedures, and practices being followed at OAR headquarters and field locations in carrying out the agency's responsibilities under these agreements. Overall, we found that OAR does appropriately use agreements to support its mission. Procedurally, OAR has made some improvements in how it prepares, reviews, approves, and administers agreements. However, additional changes are needed to comply with federal, departmental, and agency guidance.

Specifically, we recommended that OAR develop policies and procedures for preparing and processing agreements that are consistent with forthcoming departmental guidance. In addition, formal procedures should be developed to notify other agencies of what terms are required in OAR agreements and to modify or amend incomplete agreements. Once the policies and procedures are finalized, OAR should provide training to all appropriate staff on how to properly prepare and process agreements. We also recommended that OAR, in consultation with OGC, draft policies and procedures for obtaining legal review of its agreements. In addition,

OAR should develop (1) standard language or form agreements for use by its programs, and (2) a centralized database of all of its agreements.

NOAA concurred with our findings and recommendations and noted that, in some cases, OAR has taken preliminary steps to develop policies and procedures for preparing and processing its agreements and to work with OGC to outline guidelines for legal review of the agreements. (*Office of Inspections and Program Evaluations: IPE-10310*)

### **West Virginia Awardee Needs to Improve Its Handling of Indirect Costs**

In March and May 1998 (see March 1998 issue, page 47, and this issue, [page 21](#)), we provided audit reports to NOAA and EDA, respectively, describing inadequacies we found in the accounting and financial management system of a West Virginia foundation, which prevented us from negotiating an indirect cost rate for FY 1997. Instead, we audited the foundation's actual indirect costs and their allocation to its various cost centers.

In July 1997, NOAA and the foundation agreed to terminate their cooperative agreement for the convenience of both parties. The foundation submitted its termination settlement proposal to NOAA in September 1997. At NOAA's request, we are also auditing the foundation's cost claims, including its termination settlement claim, and will report our findings later.

Our audit of the foundation's indirect costs found that the organization did not identify, as a separate cost center, affiliate services (such as personnel, printing, and postage) that it provides to its members. Instead, the expenses related to such services were being inappropriately accumulated as part of the indirect cost pool, resulting in an overcharge to federal agencies. We questioned more than \$110,000 of the indirect cost pool, and determined that the foundation owes the government about \$166,000 for unallowable or unallocable costs.

We recommended that NOAA require the foundation to establish affiliate services as a separate cost center, allocate to this center its fair share of indirect costs, and refund to the appropriate federal agencies the \$166,000 in excess indirect costs claimed for FY 1997. (*Atlanta Regional Office of Audits: ATL-10792-8-0001*)

## **Financial Expertise Needed to Improve Personal Property Reporting**

Because Property, Plant, and Equipment is the largest account on NOAA's balance sheet, representing nearly 65 percent of the bureau's total assets as of September 30, 1997, it is imperative that adequate resources are devoted to this account. NOAA's personal property team, composed of about 10 employees, is responsible for ensuring that all accountable and capitalizable personal property is accurately reported in the National Finance Center database, where NOAA maintains its personal property data. However, NOAA has received disclaimers in each of its past audits in part due to unsupported property balances, and its lack of adequate controls over property has been deemed a material weakness.

An OIG limited-scope audit of NOAA's capitalized personal property files disclosed that the bureau had made a significant effort to improve its accounting for and reporting of personal property, and that it had begun to take the steps needed to effectively track and account for capitalizable personal property. However, we identified two areas where further improvements are needed:

- **Financial manager is needed for NOAA's personal property team.** Staff on the personal property team are trained in acquiring and maintaining physical accountability for personal property, but none of them has the experience to account for personal property in accordance with applicable accounting standards. Given the importance of personal property accountability and the complex accounting issues that NOAA faces on a daily basis, we recommended that the bureau either hire a full-time accounting or financial manager or use a contractor or personnel from its finance office to help compile property data for the financial statements.
- **Capitalization and bulk purchase thresholds needed attention.** We found that by using the Department's \$25,000 capitalization threshold, the personal property team was expending more than 75 percent of its effort to account for less than 7 percent of its property, in terms of acquisition value. Moreover, NOAA did not have a specific bulk purchase policy to capitalize significant acquisitions of property and equipment items individually costing less than the capitalization threshold.

NOAA agreed with our observations and recommendations, stating that corrective actions will be taken. In particular, NOAA has (1) obtained a departmental waiver to implement a \$200,000 capitalization threshold and (2) used our analysis to establish a bulk purchase threshold of \$1 million. While supporting NOAA's actions, we also recommended that it issue written policies and procedures concerning the thresholds and provide training on applying them. (*Financial Statements Audits Division: FSC-10875-8-0001*)

### ***NOS Should Further Expand Use of Alternative Methods in Its Hydrographic Survey Program***

As a follow-up evaluation to our 1996 review of NOAA's fleet replacement and modernization plan, which concluded that private contractors could begin accommodating the bureau's hydrographic needs (see March 1996 issue, page 43), we reviewed the National Ocean Service's activities and strategies for building an effective partnership with private sector hydrographic survey firms and ensuring the quality of survey data collected under contracts by those companies.

We found that NOS has begun to more actively engage the private sector hydrographic surveying community in an attempt to better examine how best to perform its mission of promoting safe navigation. In addition, we are encouraged by many of the steps NOS has pledged to take during the next year, as it prepares to complete a long-term hydrographic data acquisition plan by April 1, 1999. Likewise, we are pleased that NOS has recently awarded several contracts for hydrographic survey data.

Because of the progress over the last year and NOS's planned actions in the coming year, we made no recommendations. However, we encouraged NOS to continue to explore and expand its use of alternative methods, including contracts for data, to meet its nautical charting needs and reduce its survey backlog. In addition, the critical issue that NOS must address as it develops its long-term plan is how best to maintain the in-house expertise necessary to ensure the quality of hydrographic data. We believe that there are alternative ways for NOS to provide the quality assurance necessary to contract for data without retaining its current level of in-house resources. (*Office of Inspections and Program Evaluations*)

### **Former Employee Convicted of \$70,000 Imprest Fund Theft**

A former NOAA budget analyst was convicted of theft after an OIG investigation confirmed that she had obtained more than \$70,000 from various departmental imprest funds by submitting a series of fraudulent claims for reimbursement of small purchase and travel expenses. In August 1998, she was sentenced in U.S. District Court for the District of Columbia to six months' imprisonment and three years' probation, and was ordered to make restitution of \$73,767 to the government. (*Silver Spring Field Office of Investigations*)

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

As of September 30, 1998, one performance audit report, two financial assistance audit reports, and two preaward contract audit reports had recommendations unresolved for more than six months.

### **NMFS Laboratory Structure**

The performance audit report, *NMFS Laboratory Structure Should Be Streamlined*, STL-8982-8-0001 (see March 1998 issue, page 39) identified several opportunities for NMFS to streamline its field structure. Specifically, we recommended closing six laboratory facilities and transferring their programs and personnel to other NMFS laboratories. In another instance, we recommended that a laboratory and most of its programs be transferred to the State of Maryland. We also recommended that the proposed Santa Cruz, California, facility be expanded to accommodate programs and personnel from another of the California laboratories. In addition, we disagreed with NMFS's plans to transfer some programs from a Seattle laboratory to the proposed Auke Cape facility in Alaska. NOAA disagreed with our findings and recommendations. We have discussed alternatives for audit resolution with NOAA, and we are awaiting a revised audit action plan.

### **University of Hawaii**

This financial assistance audit report, ATL-9999-5-0753 (see September 1995 issue, page 99) was an OMB Circular A-133 audit that questioned \$1.1 million of claimed costs. We provided comments on NOAA's draft audit resolution proposal in January 1998 and are now awaiting its response.

### **Northeastern Coastal Zone Management Project**

The second financial assistance audit report, ATL-10278-8-0001 (see March 1998 issue, page 43) covered the two-year performance period of a cooperative agreement with a Northeastern state to assist in the development and implementation of a coastal zone management program. We concluded that the state did not accurately and completely report its federal expenditures and cash disbursements to NOAA. The report also questioned \$48,275 in claimed costs, and recommended deobligating the remaining \$26,465 in award funds. We are awaiting NOAA's response.

### **Preaward Contract Audit Reports**

The two preaward contract audit reports are discussed on [page 82](#).

# National Telecommunications and Information Administration



## Supporting Documentation Lacking for Costs Claimed Under Telecommunications Grant

In September 1995, NTIA awarded a \$225,000 grant to a nonprofit organization that provides advocacy and direct services to people with certain disabilities. The grant agreement required about \$372,000 in matching funds, bringing the total project budget to almost \$600,000. As of October 1996, the end of the project period, the total cost claimed was more than \$612,000, and the total federal amount disbursed was nearly \$225,000.

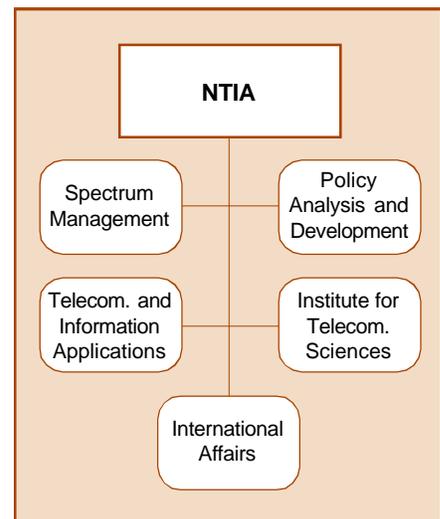
The purpose of the grant was to provide funding for an experimental telecommunications network, which was to be implemented with the assistance of six contractors approved in the award agreement. The project consisted of establishing a disability information bulletin board network with sites in Alaska, Colorado, Iowa, Maine, Nebraska, and North Carolina.

By the end of the project period, the grantee had enlisted only about half of its goal of 6,000 subscribers. Based on the high cost per subscriber and various other factors, NTIA officials concluded that the project was not a good choice for replication, and grantee officials decided that such a network could be better achieved by partnering with existing Internet service providers.

An OIG audit disclosed that the grantee's financial management system did not comply with federal standards in that it did not provide adequate assurance that only reasonable, allowable, and allocable costs were claimed. Largely because of this, we questioned about \$298,000 in project costs, attributable primarily to a lack of supporting documentation for more than \$273,000 in contract costs. We also questioned certain indirect, equipment, and travel costs. We recommended that the Department disallow the questioned costs and recover about \$106,000 in excessive grant disbursements.

In response to our findings, the grantee contended that the contracted work was performed and that the price paid was reasonable, but did not provide any additional documentation to support the questioned costs. (*Atlanta Regional Office of Audits: ATL-10378-8-0001*)

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 electromagnetic 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.





## Patent and Trademark Office

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.

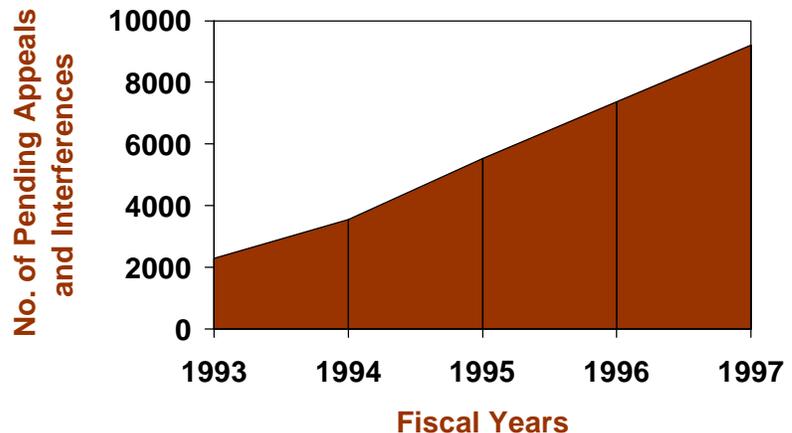
### **Effectiveness of Appeal Process Threatened by High Inventory and Inadequate Monitoring**

PTO's Board of Patent Appeals and Interferences decides appeals from adverse decisions of patent examiners concerning applications for patents and makes determinations concerning interferences, which are questions concerning the priority of invention and patentability. The board's administrative judges may affirm or reverse an examiner's decision or remand the application for further consideration. The board had 43 patent judges and 40 support personnel at the end of FY 1997, and had an FY 1998 operating budget of about \$9.5 million.

In a performance audit of the board's operations, we found two major areas of concern:

**High inventory has resulted from productivity and staffing problems.** In the past five years, the number of pending appeal and interference cases at the board has increased by more than 350 percent—from 2,668 to 9,649, an average increase of almost 1,400 cases per year (see graph below). The growing caseload is attributable primarily to patent judges' not maximizing their productivity, declines in the quality of decisions appealed to the board, unclear case review policies, and inadequate resource planning. Despite recent initiatives to combat the growing inventory, the effectiveness of the appeals process is threatened, posing a greater risk of patent infringement. PTO needs to (1) develop a strategy to reduce the inventory to a manageable level within five years,

### **Inventory of Pending Patent Appeals and Interferences**



(2) clarify its case review policies, (3) pursue the planned hiring of additional judges, and (4) develop a professional track for examiners to become judges.

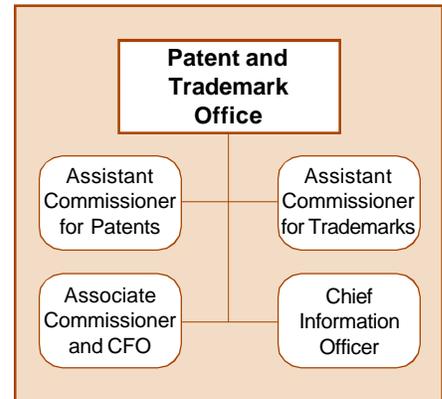
**Case monitoring has been inadequate.** The board is not adequately tracking and assigning cases or maintaining a reliable filing and retrieval system. As a result, the board's ability to manage its workload efficiently and effectively is being compromised. The board needs to (1) process all cases on a first-in, first-out basis and develop a rationale for assigning new cases and (2) conduct an annual physical inventory of case files, giving the highest priority to active cases and archiving inactive ones. These and other factors led us to conclude that the board should hire a Chief Administrator to better manage its workload.

In response to our report, PTO agreed to or has initiated action consistent with 12 of the report's 16 recommendations. PTO has begun to address many of the issues cited in the report through the creation of the Board of Patent Appeals and Interferences Strategic Plan, which outlines several strategies to reduce the high inventory and eliminate other risks that threaten the effectiveness of the appeal process. PTO recently informed us that the inventory was slightly reduced during FY 1998. However, significant reductions will result only if PTO implements the recommendations. (*Business and Trade Audits Division: [BTD-10628-8-0001](#)*)

### **Complaints Against Practitioners Must Be Investigated More Expeditiously**

PTO regulates the recognition and ethical conduct of individuals practicing before it. Although only attorneys can practice in trademark cases, patent practitioners may be either attorneys or non-attorneys, called agents. The Office of Enrollment and Discipline (OED) was created in 1985 to administer the rules for admission to practice before PTO. OED's responsibilities include (1) determining the qualifications of individuals applying for registration to practice before PTO, (2) administering the examination for registration and maintaining a roster of registered practitioners, and (3) investigating complaints of unethical conduct by practitioners and taking disciplinary action when appropriate. OED has seven full-time and one part-time staff plus three vacant positions.

In an audit conducted to evaluate OED's effectiveness and to identify any factors that might be affecting its performance, the OIG found that complaints against PTO practitioners are not pursued expeditiously enough. The number of completed OED investigations declined from 45 in FY 1995 to 4 in FY 1997. By the end of 1997, the inventory of pending complaints and investigations was 296, up from 145 at the end of 1995.



The delays in pursuing violators are caused primarily by the tremendous growth in the enrollment workload, which has “crowded out” much of OED’s discipline work in recent years. This workload growth is being driven by the rising number of candidates who take the registration examination. Since 1986, that number has increased from 722 to 3,162, while the number of OED enrollment staff—three—has remained the same.

We also identified other problems that affect satisfactory program performance. For example, relying on the Solicitor’s Office to prosecute disciplinary cases tends to complicate and prolong OED’s investigative process. In addition, OED’s practice requirements and disciplinary rules have loopholes that allow attorneys disciplined by state bars to continue to practice at PTO. Finally, highly graded OED staff attorneys spend much of their time reviewing test applicants’ technical requirements, a task that does not require legal skills.

We recommended that PTO (1) dedicate three personnel to discipline work, (2) immediately fill three vacant OED positions, (3) allow OED to hire an attorney to prosecute disciplinary actions, (4) change its rules regarding attorneys who are disciplined by the states, and (5) assign the review of applicants’ technical qualifications to non-attorneys. PTO has submitted an audit action plan, which we approved, for implementing our recommendations. (*Business and Trade Audits Division: [PTD-10627-8-0001](#)*)

### ***New Cost Accounting System Appropriately Considers Reporting Requirements***

In 1996, PTO hired a contractor to perform an agencywide cost management initiative. The objective of this initiative was to implement an activity-based cost accounting system throughout the bureau. The new cost accounting system was used to provide expenses by program in the “Supplemental Information” section of PTO’s FY 1997 financial statements. Since that time, modifications have been made to the system to enhance the accuracy of the financial data, and provide management with the ability to make key decisions related to setting fees, recovering full costs, and improving customer satisfaction. Data from the cost accounting system will be used to create the FY 1998 financial statements.

The OIG conducted an audit of the methodologies used by PTO’s contractor to develop the new cost accounting system. We found that PTO has undertaken a significant effort to develop and implement the system and believe that it has taken the needed steps to begin to effectively identify and manage costs related to its business lines.

We made recommendations to PTO to enhance the accuracy and reliability of its financial data, including that (1) new program codes be linked to activities to facilitate direct input into the cost system, (2) proper prevention and detection controls be developed and monitored regularly to validate time and attendance data, (3) procedures surrounding the implementation and use of the cost accounting system be adequately documented, and (4) the new system be in compliance with federal and departmental regulations and guidance. PTO officials have agreed with our findings and recommendations, and have already taken some corrective actions. (*Financial Statements Audits Division: FSD-10782-8-0001*)

### ***Bureau Should Proceed with Consolidation Project While Emphasizing Cost Containment***

The Acting Inspector General recently testified before the Subcommittee on Transportation and Infrastructure of the Senate Committee on Environment and Public Works to discuss the OIG's review of PTO's plan to consolidate its facilities and operations and accommodate its future space requirements (see March 1998 issue, page 54). This space consolidation project, expected to be one of the largest federal real estate ventures in the next decade, involves acquiring a new or renovated facility of more than 2 million square feet in northern Virginia and leasing it for at least 20 years at a total cost of about \$1.3 billion.

In his testimony, the Acting IG reiterated the review's conclusion that the project was justified and that PTO was managing many aspects of it well. But he also noted that the OIG had found that (1) PTO had not finalized its space planning, (2) its strategy for "building out" the facility from a shell to finished form exposed the government to potential cost overruns and program delays, (3) the roles and responsibilities of PTO and GSA had not been defined in a memorandum of understanding, and (4) the Department needed to improve its oversight of the project.

In the six months since the review's completion, PTO has taken some corrective actions to address the OIG's concerns. Among other things, it has accelerated its space planning efforts and issued draft space planning documents, executed a memorandum of understanding with GSA, and made progress in mitigating the build-out risk. Moreover, the Department has become much more involved in overseeing the project.

The Acting IG concluded by stating that although challenges remain, the greatest risk now lies in delaying the project. It is therefore in the best interests of the government and the inventing public to proceed with the consolidated facilities development, while paying close attention to containing costs. (*Office of Inspections and Program Evaluations*)

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 promotes 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.

## ***NTIS May Lack Revenues and Reserves to Operate in FY 1999***

The OIG conducted an audit to determine if the National Technical Information Service, a component of the Technology Administration, would have sufficient revenue and cash reserves to cover the cost of its operations for FY 1998 and beyond. This issue was initially raised when, at the request of the Department, we evaluated NTIS's August 1997 proposal to become a performance-based organization (see September 1997 issue, page 52). That evaluation found that NTIS was experiencing serious financial difficulties to the extent that we questioned whether it could remain self-sustaining.

NTIS operates a central clearinghouse that collects and disseminates scientific, technical, and engineering information from international and domestic sources. Its operations include three core lines of business: clearinghouse operations, FedWorld on-line services, and production and brokerage services for other federal agencies. NTIS is required by law to cover the costs of these lines of business through revenues generated by the sale of its products and services.

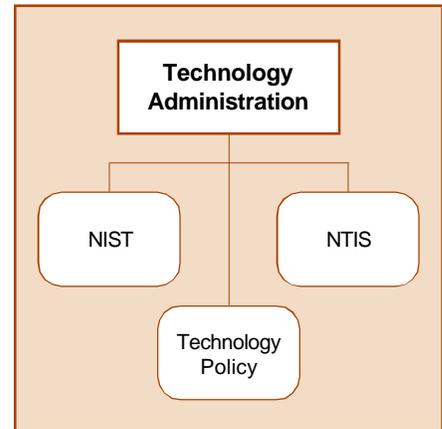
Our review found that because of a decline in sales for its clearinghouse products and services, the fees collected no longer are sufficient to cover costs. Consequently, NTIS has incurred revenue shortfalls for two of the past three years. The loss was almost \$4 million for FY 1997 and over \$1.5 million for the first 11 months of FY 1998.

To help eliminate its operating loss, NTIS has developed new products and services, raised prices, and taken cost-cutting steps, such as reducing staffing levels and closing one of its warehouses. These steps may help reduce the size of the loss in the short-run; however, we do not believe these actions will be effective in the long term because they do not address the fundamental problems associated with the clearinghouse business. The decline in sales of its publications is caused by a general decrease in the number of publications issued by federal agencies, and agencies' increasing use of the Internet to disseminate information at no charge.

While we believe NTIS has sufficient cash reserves to carry it through the remainder of FY 1998, we question whether it will have enough cash to operate in FY 1999. Yet because it is required by law to provide clearinghouse services, NTIS cannot simply close its doors when the money runs out. In a September 1997 memorandum providing our comments on NTIS's draft PBO proposal, we recommended that NTIS senior managers develop a business plan to address the agency's short- and long-term program and financial operations. We had been advised,

however, that NTIS officials were unable to agree on a course of action. Consequently, we believe that the Technology Administration should step in to assist the agency in addressing its problems.

We recommended that TA obtain an independent comprehensive review of NTIS's operations with an emphasis on (1) developing a business plan for NTIS that addresses both its short- and long-term financial and business problems, and (2) seeking relief from legislative mandates as appropriate. This business plan should be completed as soon as possible to ensure that NTIS will have sufficient funds to pay its liabilities for FY 1999. TA agreed and has arranged for an independent review of NTIS's operations as we recommended. (*Science and Technology Audits Division: STD-10592-8-0001*)



### ***NIST Needs Tighter Controls in Working with Non-Federal Researchers***

The OIG reviewed NIST's use of interagency and other special agreements to encourage and formalize its collaborations with other parties. We found that NIST has established and maintains a reliable process, with the necessary policies and procedures, to monitor its agreements. Specifically, NIST has a comprehensive set of guidelines for processing agreements and maintains databases of its agreements that provide such information as party, dollar amounts, and relevant dates.

In conducting our review, however, we did identify a related issue that warrants management attention: NIST's policy of allowing informal short-term collaborations with non-federal researchers without a signed, written agreement. We believe that the main risks identified by NIST—protecting individual property rights, safeguarding proprietary information, and avoiding liability for personal and property damages—that led to written agreements for long-term researchers also apply to short-term researchers. In addition, because NIST does not keep a log or other record of visitors working without a written agreement, it cannot determine whether it is in compliance with its own requirement to enter into written agreements with researchers who stay longer than 10 days.

We recommended that NIST require its laboratories to document informal interactions with non-federal researchers where work is performed in its laboratory facilities without a written agreement. Data should be collected at the division level and consolidated at the laboratory level. This additional data should be used by NIST to periodically evaluate its policy of not requiring formal agreements for these short-term researchers. NIST agreed with our recommendation. (*Office of Inspections and Program Evaluations: IPE-10854*)

### **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 1998 issue, page 62). During this semiannual period, key aspects of our work on NIST financial assistance programs involved conducting surveys and audits of the accounting systems of recipients under both programs.

#### **Advanced Technology Program**

During the period, we reported on 11 NIST-requested audits performed pursuant to a memorandum of understanding. We conducted audits of two joint venture partners and nine single recipients. In its effort to improve the financial management of the multibillion-dollar ATP program, NIST requested that we perform seven accounting system surveys and interim cost audits, and four final cost audits of specific cooperative agreements. The cooperative agreements we reviewed averaged about \$2 million each. Accounting system surveys and interim cost audits are intended to prevent future problems of noncompliance with the terms and conditions of NIST cooperative agreements. Final cost audits provide information to enable NIST to close out agreements in a timely fashion.

The surveys and the interim and final cost audits disclosed only minor costs questioned and adequate compliance with NIST financial requirements. (*Denver Regional Office of Audits: DEN-10689-8-0001, DEN-10831-8-0001, DEN-10904-8-0001, DEN-10912-8-0001, DEN-10922-8-0001, DEN-10941-8-0001, DEN-10975-8-0001, DEN-10981-8-0001, DEN-11020-8-0001, DEN-11085-8-0001, DEN-11087-8-0001*).

#### **Manufacturing Extension Partnership Program**

The six surveys reported on during this semiannual period covered projects that had award periods of two to three years, and total estimated costs exceeding \$15.3 million, with a federal share that could ultimately be as much as \$8.3 million. Five of the surveys identified weaknesses in the recipients' financial management and accounting systems—most commonly the failure to supply or document matching share funds, to properly claim and document allowable costs, and to implement adequate administrative policies and procedures.

Almost without exception, the recipients concurred with our findings and agreed to take prompt corrective actions. Identifying these weaknesses early in the award periods will help prevent future problems and avoid questioned costs in later audits. (*Denver Regional Office of Audits: DEN-9618-8-0001, DEN-9955-8-0001, DEN-10112-8-0001, DEN-10552-8-0001, DEN-10632-8-0001, and DEN-10648-8-0001*)

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

As of September 30, 1998, there were nine NIST financial assistance audit reports with recommendations unresolved for more than six months.

Seven of the nine reports involve joint venture ATP awards, concerning which we questioned a total of \$9.8 million in claimed costs generally involving transactions by software development companies that provided licenses, software maintenance and support, or other items from a commercial product line for use on the projects (DEN-9752-7-0001, DEN-9760-7-0001, DEN-9767-7-0001, DEN-9774-7-0001, DEN-9776-7-0001, DEN-9779-7-0001, and DEN-9827-7-0001—see September 1997 issue, page 50).

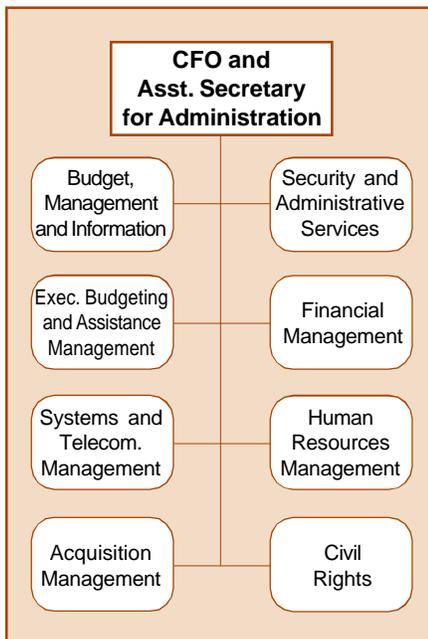
The main issue concerns the valuation of commercial products, particularly software, that are contributed to a joint venture by one of its participants. Although we have worked closely with NIST officials to develop a new rule that affects the valuation of transfers of good and services between separately owned joint venture members, we have been unable to reach agreement on the disposition of the questioned costs in these reports. We will continue to work with NIST officials to resolve these reports.

Another joint venture ATP award audit disclosed that a New York corporation undercharged the award by \$311,133 in compensation costs and \$56,565 in fringe benefits, but also questioned \$274,066 in travel, materials, and indirect costs. NIST submitted an audit resolution proposal with which we did not concur. We are awaiting NIST's revised response.

In the remaining joint venture ATP award audit report, the certified public accounting firm that conducted the audit questioned a net \$92,924 as undercharges to the award. The net amount is a result of \$220,271 in undercharges to direct labor, fringe benefits and other direct costs and \$127,347 in overcharges to equipment and software purchases, material and supplies, and subcontracts. We are awaiting an audit resolution proposal from NIST.



## Departmental Management



### **Stronger Oversight Needed of Both Bureau and Office of the Secretary Agreements**

As part of the OIG's Commerce-wide review of interagency and other special agreements, we specifically addressed the Department's management and oversight of the bureaus' agreements, as well as its own agreements processed through the Office of the Secretary. In FY 1997, Commerce had more than 4,700 agreements, involving approximately \$1.1 billion in funds received for reimbursable activities or obligated to acquire goods or services from other parties. We analyzed more than 250 of those agreements and found that they appear to serve important and appropriate functions. However, while the agreements may be appropriate, they are frequently not written, approved, or executed properly. Specifically, we identified five major deficiencies in the agreements, including the failure to cite the proper or any legal authority, inadequate justifications, incomplete budget information, lack of signatures of authorized officials, and no clear or defined termination or review periods.

Early in our review, we found that the Department does not have a comprehensive set of policies and procedures to guide the bureaus in undertaking and formulating agreements. As a result, many agreements are improperly assembled. In addition, agreements often do not receive adequate budget, procurement, legal, and programmatic review. We also found that few Commerce bureaus are able to adequately track and control their agreements.

We recommended and the Department agreed to prepare formal policies and procedures outlining the types of agreements that can be entered into by Commerce bureaus; the minimum necessary content and steps for preparing agreements; standard language or form agreements; and the review, approval, and renewal policies and procedures that should be followed by all bureaus. We also recommended that the Department disseminate all guidance and other information relevant to preparing and processing agreements through Commerce's intranet and at departmental conferences; upgrade or change the format of OGC's and the bureau counsels' tracking systems to ensure that legal reviews of agreements are timely and to provide information about the status of the legal review; and establish a new Department-wide database for all agreements.

In our sample of 32 Office of the Secretary agreements, which did not include any of the 109 Office of Computer Services agreements, we found that, generally, they covered appropriate activities, were properly funded under applicable laws and legal authorities, and were not used to circumvent procurement or financial assistance guidelines. We did,

however, find that over 60 percent of the 32 agreements had at least one of the five major deficiencies cited above. In addition, the office's review process for agreements was inadequate, resulting in poor oversight, incomplete agreements, and other deficiencies. Finally, no unit within the office has established an automated database for tracking its agreements.

We recommended and the Office of the Secretary agreed to prepare internal policies and procedures for its offices that outline the contents and steps for preparing and implementing agreements; distribute relevant information for preparing and processing agreements through its network and at internal conferences; provide training to all program and administrative staff responsible for agreements; and establish a centralized system to adequately inventory, track, and control its agreements. This system should be compatible with the proposed Department-wide database. The Department and OGC generally agreed with our findings and recommendations. The Department's CFO was especially quick to recognize the need for stronger Department-wide guidance and oversight for the agreements and is committing resources to address our concerns. (*Inspections and Program Evaluations: IPE-10418*)

### **Concerns About Commercial Law Development Program's Use of USAID Funds Unfounded**

Because of allegations concerning the use of U.S. Agency for International Development (USAID) funds by OGC's Commercial Law Development Program, the OIG conducted a review of the handling of those funds. While our review uncovered no evidence to support the contention that program officials misused USAID funds, we did find that OGC did not follow proper procedures in the awarding of cash bonuses to program employees. We also found that communication between program officials and State and USAID officials with regard to program progress reports and expenditures was inadequate. Finally, we questioned the program's use of personal service contracts to hire staff. (*Inspections and Program Evaluations: IPE-11027*)

### **OMB Bulletin 97-01 Requires Greater Departmental Attention**

The OIG performed a limited-scope audit to assess the Department's early efforts to implement OMB Bulletin 97-01, *Form and Content of Agency Financial Statements*, which relates to the preparation of the FY 1998 statements. The new bulletin will present challenges to the Department and its bureaus because it requires modifications to the

presentation of financial information, including the preparation of six statements as opposed to the two previously required under OMB Bulletin 94-01. Recognizing the challenges involved in implementing the bulletin, we provided briefings to senior management at the various bureaus on the bulletin's requirements.

Our review disclosed that because the Department and the bureaus had focused their financial management resources on completing the FY 1997 financial statements, adequate attention had not been devoted to implementing the bulletin. We found that (1) the bureaus were unclear on how to prepare the statement of net cost, (2) the Department had not provided them with comprehensive written guidance on the FY 1998 statements, (3) some bureaus were uncertain about the Department's request for interim statements, and (4) cost accounting systems and processes were not well documented. Although the Department has recently started demonstrating the leadership essential to preparing consolidated financial statements by issuing preliminary and supplemental guidance on preparing the FY 1998 statements and arranging for training on the new bulletin, a number of issues still needed to be addressed.

Specifically, we recommended that the Department (1) perform immediate follow-up reviews of the bureaus' plans to prepare the statement of net cost, and (2) evaluate the bureaus' interim financial statements for compliance with the bulletin's reporting requirements and the Department's guidance, and provide written feedback. In addition, we recommended that the Department issue a written memorandum reminding the bureaus of the need to document cost accounting activities, processes, and procedures related to the preparation of the statement of net cost. The Department expressed its intent, and has already taken some actions, to implement our recommendations. (*Financial and Performance Analysis Division: FPD-10876-8-0001*)

### **Audit of Office of Administrative Services Found No Major Problems**

The OIG conducted a performance audit of the operations of three components of the Department's Office of Administrative Services: the Offices of Administrative Operations, Budget and Procurement Services (since eliminated as a separate office), and Real Estate Policy and Major Programs. Our field work revealed no significant issues warranting the issuance of an audit report, but did identify two issues warranting management attention, which we reported to the Department in a memorandum: (1) Three Working Capital Fund activities were not managed at their break-even positions during the period audited. (2) The

Office of Administrative Services unnecessarily allowed significant unliquidated obligations of procurement funds of its clients, components of the Office of the Secretary, to accumulate. The Department replied to our memorandum by noting that (1) the three Working Capital Fund projects are now operating at a break-even level, and (2) almost \$3.4 million has been deobligated, of which approximately \$2.8 million was in the Office of Administrative Services. *(Business and Trade Audits Division)*

**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 1,760 proposed awards. On 27 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 denied or delayed the awards, inserted special conditions in the award agreement, or designated certain recipients as “high risk” and required that the disbursement of federal funds be on a cost reimbursement basis. *(Office of Audits)*

<b>Preaward Screening Results</b>		
<b>Results</b>	<b>Number</b>	<b>Amount</b>
Awards denied/delayed	19	\$14,864,038
Special award conditions	4	7,736,886
Cost reimbursement basis	4	2,028,367

**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

## Departmental Management

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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 reviews and approves the methodology and principles used in pooling indirect costs and establishing an appropriate base for distributing those costs to ensure that each federal, state, and local program bears its fair share.

During this period, we negotiated 26 indirect cost rate agreements with nonprofit organizations and governmental agencies, and reviewed and approved 18 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 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-related awards are audited by state and local government auditors and by independent public accountants. OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, sets forth the audit requirements for most of these 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. (Before June 30, 1996, when the requirements for nonfederal audits were consolidated in the new OMB Circular A-133 referenced above, such audits were subject to the requirements of Circular A-128, *Audits of State and Local Governments*, and the former Circular A-133, *Audits of Institutions of Higher Education and Other Non-Profit Institutions*. Some of the audits discussed below were conducted in accordance with these earlier circulars.)

A tool for assessing the quality of work performed by independent public accountants is the quality control review. The purpose of such a review is to determine that audits were conducted in accordance with applicable standards and requirements.

## Departmental Management

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During this semiannual period, our office participated in a multi-agency quality control review of a report by an independent public accountant on its audit of a major metropolitan city. Although we are not the cognizant federal agency for the city, the Department of Commerce was responsible for conducting a program-specific review of the working papers relating to internal control and compliance testing of Commerce programs. We found a problem concerning the city's reporting on one Commerce program that we brought to the city's attention. In our review of the accountant's working papers for internal control and compliance testing, we found no deficiencies in its testing of Commerce programs. We plan to conduct at least five such quality control reviews of non-federal audits each year.

We examined 157 reports during this semiannual period to determine whether they contained audit findings on any Department programs. For 89 of these reports, the Department is the cognizant agency and monitors the auditee's compliance with the applicable OMB circular and NIST program-specific reporting requirements. The other 68 reports are from entities for which other federal agencies have oversight responsibility.

<b>Report Category</b>	<b>OMB A-133 Audits</b>	<b>ATP Program- Specific Audits</b>	<b>Total</b>
Pending (March 31, 1998)	55	43	98
Received	94	26	120
Examined	119	38	157
Pending (September 30, 1998)	30	31	61

## Departmental Management

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The following table shows a breakdown by bureau of the \$76 million in Commerce funds audited.

Bureau	Funds
EDA	\$12,792,946
ITA	497,261
MBDA	1,377,230
NIST	51,698,130 <sup>a</sup>
NOAA	6,294,943
NTIA	2,070,841
NTIS	13,926
PTO	52,621
Agency not identified	859,754
<b>Total</b>	<b>\$75,657,652</b>

<sup>a</sup> Includes \$37,920,969 in ATP program-specific audits.

We identified a total of \$642,684 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 award terms and conditions. The 19 reports with Commerce findings are listed in Appendix B-1. (*Atlanta Regional Office of Audits*)

# Office of Inspector General

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## **Quality Assurance**

### **External Peer Review of Audit Operations**

A team from the Department of Justice OIG completed an external peer review of our audit operations. In its report, the Justice team concluded that our Office of Audits has an adequate internal quality control system. More important, the team reported that as designed, our quality control system complied with the standards established by the President's Council on Integrity and Efficiency and that we were materially complying with professional standards in the conduct of our audits.

The Justice team performed a comprehensive review, including both an examination of our policies and procedures and a critique of the internal quality assurance program managed by our Office of Compliance and Administration. The team evaluated a number of completed audit assignments and the audit files at Office of Audits divisions in the Washington, D.C., area and regional offices in Denver and Seattle.

The final report's recommendations centered on updating the OIG manual to reflect changes to the standards since the last peer review and encouraging the Office of Audits to thoroughly document adherence to established policies. The Office of Audits has already responded, and the Office of Compliance and Administration will emphasize these areas during future internal quality reviews.

During this semiannual period, we completed a similar peer review of the audit activities of the Social Security Administration OIG. Our final report, presented in July, concluded that the agency's OIG also had a quality control system that complied with professional standards, which constituted a validation of the quality of its operations and audit reports.

### **GAO Review of Financial Statement Audit Work**

Also during this semiannual period, the General Accounting Office completed a review of our financial statement audit work. GAO reviewed computer controls, the Department's consolidated financial statements audit, and selected individual bureau audits. In the area of computer controls, GAO concluded that all major general control areas were properly covered and the procedures to monitor contractor performance contributed to the completion of a full-scope review of these controls. In addition, GAO noted its acceptance and reliance on the work performed in our audits for use in its government-wide financial statement audit.



## *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	81
5(a)(1)	Significant Problems, Abuses, and Deficiencies	17-78
5(a)(2)	Significant Recommendations for Corrective Action	17-78
5(a)(3)	Prior Significant Recommendations Unimplemented	81
5(a)(4)	Matters Referred to Prosecutive Authorities	17-78
5(a)(5) and 6(b)(2)	Information or Assistance Refused	82
5(a)(6)	Listing of Audit Reports	90-96
5(a)(7)	Summary of Significant Reports	17-78
5(a)(8)	Audit Reports—Questioned Costs	86, 89
5(a)(9)	Audit Reports—Funds to Be Put to Better Use	87, 88
5(a)(10)	Prior Audit Reports Unresolved	14, 82
5(a)(11)	Significant Revised Management Decisions	15, 83
5(a)(12)	Significant Management Decisions with Which the OIG Disagreed	83

The OIG is also required by section 804(b) of the Federal Financial Management Improvement Act of 1996 to report on instances and reasons when an agency has not met the dates of its remediation plan. We will discuss this matter in the March 1999 issue as part of our financial statement audit reporting.

### **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 recommendations on legislative and regulatory initiatives affecting Commerce programs are discussed throughout the report.

### **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 semiannual report is being prepared, management is in the process of updating the Department's Audit Tracking System as of September 30, 1998, based on semiannual status reports due from the bureaus in mid-October. An up-to-date database is therefore not available to the OIG for reference here. 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 beginning of the reporting period for which no management decision has been made by the end of the reporting period (including the date and title of each such report), an explanation of 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, 1998, 1 performance audit, 11 financial assistance audits, and 2 preaward contract audits were in this category, as discussed below.

#### **Performance Audit**

The unresolved report addresses the NMFS laboratory structure. This report is discussed on [page 61](#).

#### **Financial Assistance Audits**

The 11 unresolved audits relate to financial assistance awards made by NIST (9) and NOAA (2). Audit resolution proposals have been submitted in response to nine of the final audit reports; however, the OIG and the bureaus were not able to resolve the reports on a timely basis. The OIG is awaiting audit resolution proposals for the other two reports. Additional details are presented on [pages 61](#) and [71](#).

#### **Preaward Contract Audits**

The Department's Audit Tracking System recorded two preaward contract audits unresolved in excess of six months. The audits, based on Defense Contract Audit Agency reviews of contract proposals, are resolved when a contracting officer takes final action on the pending procurement, such as awarding a contract or issuing a contract modification.

The unresolved preaward contract audits are:

- ARA-08350-6-0082, August 6, 1996
- OCA-08350-7-0025, June 13, 1997

### ***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, one modification was submitted to the OIG for review. The modification did not involve an issue with current significance, and the OIG concurred with the proposed adjustment.

The decisions issued on the six 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.

Department Administrative Order 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

<b>Audit Statistical Highlights</b>	
Questioned costs this period .....	\$2,411,214
Value of audit recommendations made this period that funds be put to better use .....	\$15,332,863
Value of audit recommendations agreed to this period by management .....	\$3,395,219

<b>Investigative Statistical Highlights</b>	
Indictments and informations .....	2
Convictions .....	2
Personnel actions* .....	6
Administrative actions** .....	6
Fines, restitutions, judgments, and other civil and administrative recoveries .....	\$91,347
* Includes removals, suspensions, reprimands, demotions, reassignments, and resignations or retirements in lieu of adverse action.	
** Includes actions to recover funds, new procedures, and policy changes that result from investigations.	

<b>Allegations Processed by OIG Investigators</b>	
	Accepted for investigation .....
	30
	Referred to operating units .....
	41
	Evaluated but not accepted for investigation or referral .....
	<u>38</u>
	<b>Total .....</b>
	<b>109</b>
In addition, numerous other allegations and complaints were forwarded to the appropriate federal and nonfederal investigative agencies.	
<b>OIG HOTLINE</b>	
Telephone:	(202) 482-2495 or (800) 424-5197
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# Tables and Appendixes



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<b>DEFINITIONS</b>	
<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>	

## Tables and Appendixes

**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	35	\$9,523,703	\$1,576,577
B. Reports issued during the reporting period	22	2,411,214	1,247,580
Total reports (A+B) requiring a management decision during the reporting period	57	11,934,917	2,824,157
C. Reports for which a management decision was made during the reporting period	32	3,508,795	1,643,701
i. Value of disallowed costs		1,499,166	696,692
ii. Value of costs not disallowed		2,030,272	955,540
D. Reports for which no management decision had been made by the end of the reporting period	25	\$8,426,122	\$1,180,456

**Notes and Explanations:**

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.

Five 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.

No postaward contract audits are included in this table; instead, any such audits are listed in Table 4.

**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	5	\$8,571,588
B. Reports issued during the reporting period	6	15,332,863
Total reports (A+B) requiring a management decision during the reporting period	11	23,904,451
C. Reports for which a management decision was made during the reporting period	4	2,394,588
i. Value of recommendations agreed to by management		1,873,378
ii. Value of recommendations not agreed to by management		521,210
D. Reports for which no management decision had been made by the end of the reporting period	7	\$21,509,863

**Notes and Explanations:**

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.

Five 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.

No preaward contract audits are included in this table; instead, any such audits are listed in Table 3.

## Tables and Appendixes

**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	3	\$537,340
B. Reports issued during the reporting period	—	—
Total reports (A+B) requiring a management decision during the reporting period	3	537,340
C. Reports for which a management decision was made during the reporting period	1	16,075
i. Value of recommendations agreed to by management		22,675
ii. Value of recommendations not agreed to by management		—
iii. Value of reports on proposals that were not awarded contract		—
D. Reports for which no management decision had been made by the end of the reporting period	2	\$521,265
<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>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	—	—	—

**Notes and Explanations:**

As noted in the September 1997 issue (page 58), the OIG transferred certain audit-related activities to the Department's contracting officers, allowing them to request audits directly from the cognizant audit offices. As a result, data on contract audit savings is now maintained by the cognizant audit office rather than by the OIG.

## Tables and Appendixes

### Appendix A. Office of Inspector General Reports

Type	Number	Appendix
Performance Audits	24	A-1
Inspections	12	A-2
Financial Assistance Audits	21	A-3
<b>Total</b>	<b>57</b>	

### Appendix A-1. Performance Audits

Agency	Subject	Number	Date	Funds to Be Put to Better Use
EDA	Hurricane Andrew Disaster Assistance: EDA Made Fast, Sound Project Selections but Could Have Better Managed Problem Projects	<a href="#">ATL-8989-8-0001</a>	09/98	\$2,200,000
	Midwest Flood Program: Opportunities Exist to Improve Management of Future Disaster Programs	<a href="#">DEN-8772-8-0001</a>	09/98	773,000
ESA	Columbia Dress Rehearsal Experience Suggests Changes to Improve Results of the 2000 Decennial Census	<a href="#">ESD-10783-8-0001</a>	09/98	—
	Columbia Dress Rehearsal Identifies Needed Improvements in Personnel Administration	<a href="#">ATL-11050-8-0001</a>	09/98	—
	Quality Check Survey Should Be Kept Independent of Other Decennial Operations	<a href="#">ESD-10784-8-0002</a>	09/98	—
	Sacramento Dress Rehearsal Experience Suggests Changes to Improve Results of the 2000 Decennial Census	<a href="#">ESD-10784-8-0001</a>	09/98	—
	Sacramento Dress Rehearsal Identifies Needed Improvements in Personnel Administration	<a href="#">STL-11052-8-0001</a>	09/98	—
ITA	US&FCS Spain's Leadership Has Improved Operating Environment, but Some Program Activities Need More Emphasis	<a href="#">IAD-10593-8-0001</a>	07/98	—
	US&FCS Japan Should Be Restructured to Better Meet the Needs of U.S. Exporters	<a href="#">IAD-10218-8-0001</a>	09/98	—

**Appendix A-1. Performance Audits — Continued**

Agency	Subject	Number	Date	Funds to Be Put to Better Use
MBDA	Community-Based Enhanced Services Pilot Project Not Effectively Monitored	<a href="#">EDD-9406-8-0002</a>	06/98	—
	Discretionary Funding Decision Process: Minority Business Development Center Program CFDA No. 11.800	<a href="#">BTD-10956-8-0001</a>	09/98	—
	Discretionary Funding Decision Process: Native American Business Development Center Program CFDA No. 11.801	<a href="#">BTD-10955-8-0001</a>	09/98	—
NOAA	Light Aircraft Fleet Should Be Privatized	<a href="#">STD-9952-8-0001</a>	08/98	\$11,800,000
	NMFS Office of Law Enforcement Needs Management Improvements	<a href="#">STL-9835-8-0001</a>	09/98	—
	NMFS Seafood Inspection Program Should Be Divested	<a href="#">STL-9607-8-0001</a>	09/98	462,000
	NWS's New Supercomputer Should Be Located at Federal Building 4 in Suitland, MD	<a href="#">STD-10925-8-0001</a>	09/98	—
	OAR Needs Additional Management Systems to Meet the Intent of the Results Act	<a href="#">STL-8519-8-0001</a>	09/98	—
	Personal Property Balance Requires Significant Attention to Be Properly Stated in Financial Statements	<a href="#">FSC-10875-8-0001</a>	09/98	—
	Proposed Goddard Facility Presented Cost Reduction Opportunities	<a href="#">NAD-9574-8-0001</a>	09/98	—
O/S	OMB Bulletin 97-01 Implementation Requires Additional Efforts by the Department	<a href="#">FPD-10876-8-0001</a>	09/98	—
PTO	New Cost Accounting System Appropriately Considers Reporting Requirements	<a href="#">FSD-10782-8-0001</a>	06/98	—
	Office of Enrollment and Discipline Must Conduct More Timely Investigations of Complaints Against Practitioners	<a href="#">PTD-10627-8-0001</a>	06/98	—
	Board of Patent Appeals and Interferences: High Inventory and Inadequate Monitoring Threaten Effectiveness of Appeal Process	<a href="#">BTD-10628-8-0001</a>	09/98	—
TA - NTIS	Operations Jeopardized by Revenue Shortfall	<a href="#">STD-10592-8-0001</a>	09/98	—

## Tables and Appendixes

<b>Appendix A-2. Inspections</b>				
<b>Agency</b>	<b>Subject</b>	<b>Number</b>	<b>Date</b>	<b>Funds to Be Put to Better Use</b>
ESA	Additional Steps Needed to Improve Local Update of Census Addresses for the 2000 Decennial Census	<a href="#">IPE-10756</a>	09/98	—
	Computer Security for Transmission of Sensitive Data Should Be Strengthened	OSE-10773	09/98	—
	Dress Rehearsal Activities at Menominee Indian Reservation and Chicago Regional Census Center Show That Improvements Are Needed for Census 2000	<a href="#">IPE-10753</a>	09/98	—
ITA	Dallas USEAC Is Rebuilding to More Aggressively Pursue Export Promotion Activities	<a href="#">IPE-11006</a>	09/98	—
	Improvements Are Needed in ITA's Management of Interagency and Other Special Agreements	<a href="#">IPE-10752</a>	09/98	—
NOAA	OAR's Interagency and Other Special Agreements Require Additional Improvements for Compliance	<a href="#">IPE-10310</a>	05/98	—
	Administrative Improvements in the National Sea Grant College Program Should Accompany Program Changes	<a href="#">IPE-10150</a>	07/98	—
	NMFS's Interagency and Other Special Agreements Require Additional Improvements	<a href="#">IPE-10775</a>	09/98	—
	NPOESS Acquisition Well Planned, but Life-Cycle Cost Estimates for Critical Sensors Are Overstated	OSE-9593	09/98	—
O/S	Concerns About the Commercial Law Development Program Largely Unfounded	IPE-11027	09/98	—
	Interagency and Other Special Agreements Require Better Management and Oversight	<a href="#">IPE-10418</a>	09/98	—
TA - NIST	Policy of Allowing Informal Collaborations with Non-Federal Researchers Requires Additional Controls	<a href="#">IPE-10854</a>	09/98	—

**Appendix A-3. Financial Assistance Audits**

Agency	Auditee	Number	Date	Questioned Costs	Unsupported Costs	Funds to Be Put to Better Use
EDA	West Virginia High Technology Consortium Foundation	ATL-9259-8-0002	05/98	—	—	—
MBDA	W&R Associates, CT	ATL-8923-8-0001	09/98	\$95,199	\$2,735	\$94,434
NOAA	West Virginia High Technology Consortium Foundation	ATL-10792-8-0001	09/98	166,101	—	—
NTIA	United Cerebral Palsy Associations, Inc., DC	ATL-10378-8-0001	09/98	112,243	103,380	—
TA - NIST	Vermont Technological College	DEN-9955-8-0001	05/98	57,438	57,438	—
	CNgroup, Inc., CA	DEN-10689-8-0001	06/98	—	—	—
	Boise State University, ID	DEN-10648-8-0001	08/98	—	—	—
	Calmac Manufacturing Corporation, NJ	DEN-10975-8-0001	08/98	—	—	—
	Consilium, Inc., CA	DEN-10831-8-0001	08/98	—	—	—
	Data Access Technologies, Inc., FL	DEN-10922-8-0001	08/98	—	—	—
	DeMaria ElectroOptics Systems, Inc., CT	DEN-10912-8-0001	08/98	—	—	—
	Galileo Corporation, MA	DEN-10904-8-0001	08/98	6,693	6,693	—
	Isis Pharmaceuticals, CA	DEN-10941-8-0001	08/98	—	—	—
	Lamb Technicon, MI	DEN-11085-8-0001	08/98	—	—	—
	Puerto Rico Manufacturing Extension, Inc.	DEN-10112-8-0001	08/98	—	—	—
	Alexion Pharmaceuticals, Inc., CT	DEN-10981-8-0001	09/98	—	—	—
Delaware Valley Industrial Resource Center, PA	DEN-9618-8-0001	09/98	993,532	947,942	—	

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-3. Financial Assistance Audits — Continued**

<b>Agency</b>	<b>Auditee</b>	<b>Number</b>	<b>Date</b>	<b>Questioned Costs</b>	<b>Unsupported Costs</b>	<b>Funds to Be Put to Better Use</b>
TA - NIST	Industrial Technology Institute, MI	DEN-10632-8-0001	09/98	—	—	3,429
	Iterated Systems, Inc., GA	DEN-11087-8-0001	09/98	12,085	—	—
	Maxygen, Inc., CA	DEN-11020-8-0001	09/98	—	—	—
	West Virginia Manufacturing Extension Partnership	DEN-10552-8-0001	09/98	325,239	116,865	—

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

Agency	Audits
Economic Development Administration	42
International Trade Administration	1
Minority Business Development Agency	8
National Institute of Standards and Technology	48*
National Oceanic and Atmospheric Administration	5
National Telecommunications and Information Administration	6
Multi-Agency	11
Agency Not Identified	36
<b>Total</b>	<b>157</b>

\* Includes 38 ATP program-specific audits.

## Tables and Appendixes

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

Agency	Auditee	Number	Date	Questioned Costs	Unsupported Costs	Funds to Be Put to Better Use
EDA	Heart of Georgia Altamaha Regional Development Center	ATL-9999-8-0193	09/98	—	—	—
	City of Fremont, MI	ATL-9999-8-0340	09/98	\$81,195	—	—
	Del Norte Economic Development Corporation, CA	ATL-9999-8-1039	09/98	—	—	—
MBDA	All Indian Pueblo Council, NM	ATL-9999-8-0309	09/98	7,257	\$7,257	—
NTIA	Urban League of Metropolitan Seattle, WA	ATL-9999-8-0209	09/98	30,177	1,461	—
TA - NIST	Real-Time Innovations, Inc., CA	ATL-9999-8-0009	06/98	6,307	—	—
	ATx Telecom Systems, Inc., IL	ATL-9999-8-0021	06/98	24,273	—	—
	Vysis, Inc., IL	ATL-9999-8-0026	06/98	3,704	3,704	—
	Vysis, Inc., IL	ATL-9999-8-0027	06/98	10,237	—	—
	Honeywell, Inc., MN	ATL-9999-8-0043	06/98	5,799	—	—
	FED Corporation, NY	ATL-9999-8-0050	06/98	4,011	—	—
	The Black Emerald Group, Inc., MA	ATL-9999-8-0087	06/98	6,339	—	—
	International Cancer Alliance for Research and Education, MD	ATL-9999-8-0037	07/98	10,430	—	—
	Allied Signal, Inc., NY	ATL-9999-8-0049	07/98	7,171	—	—
	M&M Precision Systems Corporation, OH	ATL-9999-8-0057	07/98	13,924	105	—
	Cerner Corporation, MO	ATL-9999-8-0004	09/98	—	—	—
	Molecular Dynamics, Inc., CA	ATL-9999-8-0010	09/98	431,860	—	—
	Advanced Modular Solutions, Inc., MA	ATL-9999-8-0029	09/98	—	—	—
Thomas Electronics, Inc., NJ	ATL-9999-8-0048	09/98	—	—	—	

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

# Definitions of Types of OIG Reviews and Financial Statements Audit Terms



## OIG Reviews

### 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 CFO Act, as amended by Government Management Reform Act, 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.

### 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, acquisitions, 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 reengineering, system definition, system development, deployment, operations, and maintenance.

## Financial Statements Audit Terms

**Overview** — This required component of financial statements is to provide a clear, concise description of the entity's programs, activities, and results. It contains the entity's performance measures and serves as a link between the statements and the requirements of GPRA.

**Trend Analysis** — This analysis of performance data from multiple years allows conclusions to be drawn about an entity's progress over time in improving its results. To facilitate this analysis, the entity should present data from several prior years, projected data for the following year, and a comparison of actual versus targeted performance.

**Unqualified Opinion** — The financial statements present fairly, in all material aspects, the entity's financial position and results of operations.

**Qualified Opinion** — Except for the effects of the matter(s) to which the qualification relates, the financial statements present fairly, in all material respects, the entity's financial position and results of operations.

**Adverse Opinion** — The financial statements do not present fairly the entity's financial position or results of operations.

**Disclaimer of Opinion** — The auditor does not express an opinion on the financial statements.

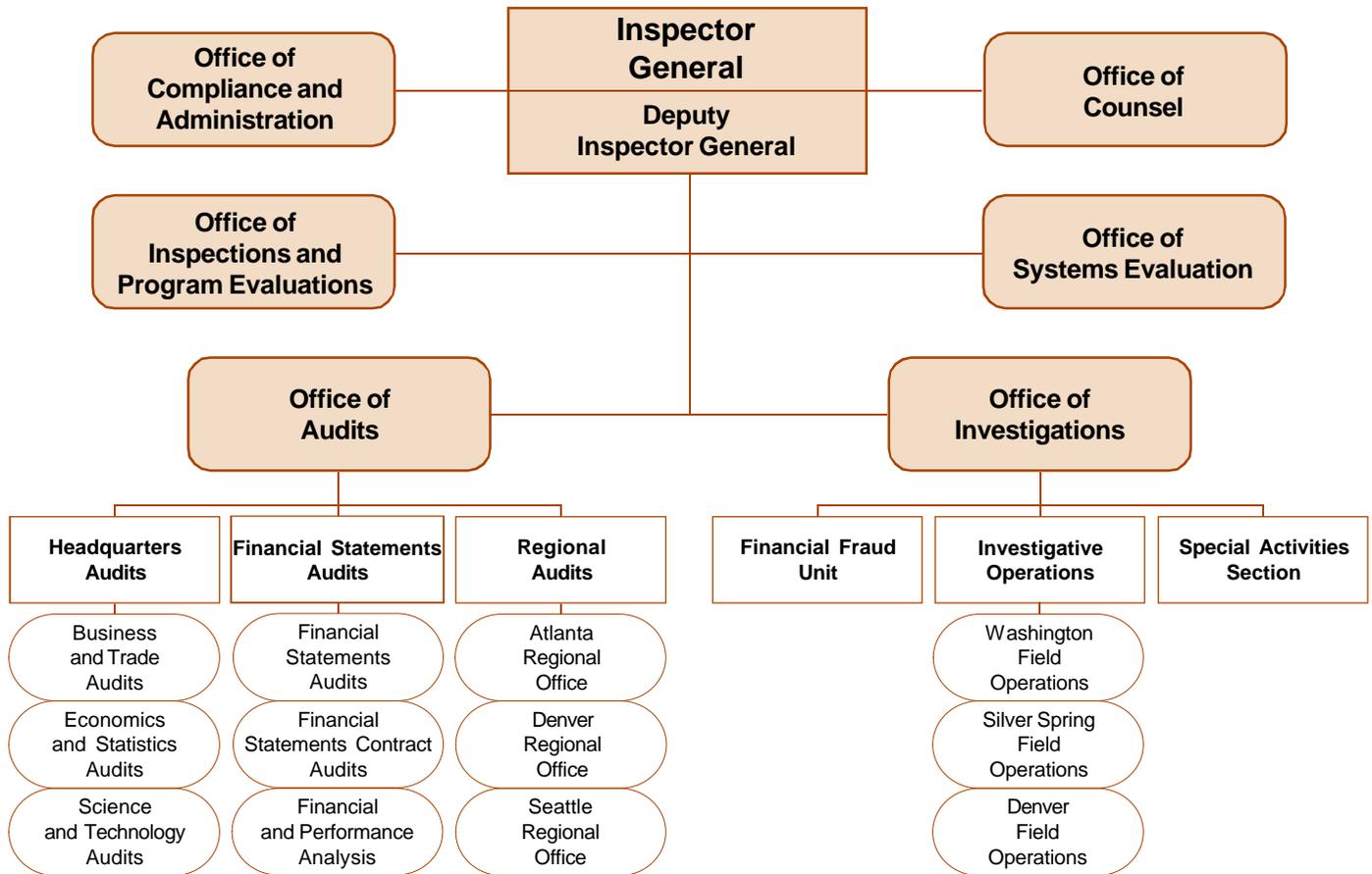


## Glossary of Abbreviations

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AFOS	Automation of Field Operations and Services
AOC	Aircraft Operations Center
ATP	Advanced Technology Program
AWIPS	Advanced Weather Interactive Processing System
BEA	Bureau of Economic Analysis
BXA	Bureau of Export Administration
CAMS	Commerce Administrative Management System
EDA	Economic Development Administration
ESA	Economics and Statistics Administration
FB-4	Federal Building 4
GAO	General Accounting Office
GMD	grants management division
GPRA	Government Performance and Results Act
GSA	General Services Administration
HACCP	Hazard Analysis Critical Control Point
ICM	integrated coverage measurement
IPO	Integrated Program Office
ISD	Inspection Services Division
ITA	International Trade Administration
LUCA	Local Update of Census Addresses
MAF	Master Address File
MBDA	Minority Business Development Agency
NIST	National Institute of Standards and Technology
NMFS	National Marine Fisheries Service
NOAA	National Oceanic and Atmospheric Administration
NOS	National Ocean Service
NPOESS	National Polar-orbiting Operational Environmental Satellite System
NRC	National Research Council
NSGO	National Sea Grant Office
NTIA	National Telecommunications and Information Administration
NTIS	National Technical Information Service
NWS	National Weather Service
OAR	Office of Oceanic and Atmospheric Research
OED	Office of Enrollment and Discipline
OGC	Office of General Counsel
OIG	Office of Inspector General
OMB	Office of Management and Budget
PBO	performance-based organization
PTO	Patent and Trademark Office
RLF	revolving loan fund
TA	Technology Administration
US&FCS	U.S. and Foreign Commercial Service
USAID	U.S. Agency for International Development
USEAC	U.S. Export Assistance Center
Y2K	year 2000

# Office of Inspector General Organization Chart



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