

# Semiannual Report *to the* Congress



March 31, 1999



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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An electronic version of this report, as well as electronic versions of most performance audit and inspection reports issued during the semiannual period, can be obtained via the OIG's Internet Home Page at <http://www.oig.doc.gov/reports>.

# *IG's Message for the Secretary*



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

April 30, 1999

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

Mr. Secretary:

I am pleased to provide you with the Office of Inspector General's semiannual report to the Congress for the first half of fiscal year 1999. 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 of its receipt.

I would like to take this opportunity to express my appreciation for the leadership and commitment you have demonstrated in working with our office to address the major challenges facing the Department. I am encouraged by the support and cooperation that we have received from secretarial officers. Notwithstanding the differences of opinion that often surface as we confront difficult issues, the bureaus have generally agreed with our recommendations and have either taken or promised to take corrective actions to address them.

We look forward to continued cooperation between the Department and the OIG in working toward our common goal of improving the management and operation of Commerce programs. The benefits of such cooperation are exemplified by the results of the fiscal year 1998 financial statements audits. The improved audit opinions received by some operating units, along with a steady reduction in the number of material weaknesses identified, clearly indicate that Commerce is fast approaching your goal of achieving an unqualified opinion on its consolidated statements.

Sincerely,

A handwritten signature in black ink that reads "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***

During this semiannual period, we continued to emphasize the programs and operations that represent significant investments of Commerce resources and offer the greatest opportunities for improvements. To this end, most of our work has focused on what we consider to be the top management challenges facing the Department and other major Commerce activities. For example, we completed an evaluation of the dress rehearsal performance of Data Capture System 2000, the system that is being developed to extract data from an estimated 1 billion pages of forms during the decennial census. We also evaluated the Department's efforts to improve the accuracy of its reporting of Y2K compliance status. In addition, we issued 15 audit reports on the fiscal year 1998 financial statements of Commerce operating units and the Department's consolidated financial statements.

We conducted a number of reviews of the Department's administration of its trade-related responsibilities. Among these was a program evaluation of the Department's overall export promotion efforts, focusing on the effectiveness of ITA, the lead Commerce agency, in managing its trade programs and operations, and its involvement with other departmental units and federal agencies in helping expand trade opportunities for U.S. businesses. We also issued reports on our reviews of specific US&FCS offices that focus on trade promotion, including US&FCS posts in the European Union, Belgium, Portugal, and South Korea; and the U.S. Export Assistance Center in Seattle.

In addition, we made considerable progress in completing three major reviews, two of which were requested by the Congress. First, we are nearing completion of an evaluation of Commerce export licensing controls for dual-use commodities, part of a multi-agency OIG review requested by the Senate Governmental Affairs Committee. We have also made significant headway in our review of discretionary financial assistance programs, which was initiated at the request of the Chairman of the Senate Commerce, Science, and Transportation Committee. To date, we have issued reports on 15 programs, 13 during this period, representing 565 awards and \$365 million. In addition, we have nearly completed our Department-wide review of the use of memorandums of understanding and other special agreements. We have issued eight reports to date, two of which are discussed in this issue; the two remaining reports are underway.

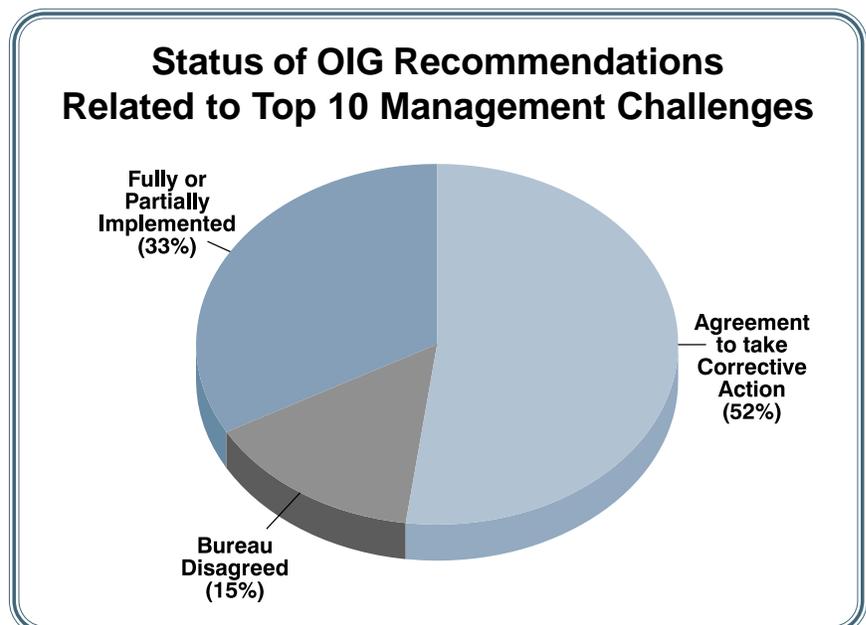
We plan to continue providing the Department and the Congress with independent, meaningful, and timely analyses that lead to improvements and positive changes for Commerce.

## **MAJOR CHALLENGES FOR THE DEPARTMENT**

In this section, we provide our perspective on the top 10 management challenges facing the Department of Commerce. We identified these challenges at the joint request of the House Majority Leader and the Chairman of the House Government Reform and Oversight Committee. The request was directed to the OIGs of the 24 departments and agencies subject to the Chief Financial Officers Act of 1990.

In February 1999, the Chairman further requested that each of these OIGs provide the Committee with a listing of its outstanding, or "open," recommendations relating to each challenge, as well as any legislative recommendations that would enable its agency to better address these issues. To provide the Committee with a more complete picture of the types of recommendations we have made and the Department's efforts to implement them, in April 1999 we submitted to the Committee a list of 285 of our recommendations that relate to these challenges.

We reported that for 33 percent of the recommendations, the operating units had already implemented corrective actions, and that for an additional 52 percent, the units had agreed to take corrective actions (see chart below). Collectively, we have agreement on 85 percent of our recommendations. Of the remaining unresolved recommendations (15 percent), almost all relate to NOAA's ships, aircraft, and advanced weather system.



Our work during this semiannual period focused on 4 of the top 10 challenges: (1) decennial census, (2) financial statements, (3) discretionary funding programs, and (4) year 2000 (Y2K) issues.

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

The accuracy of decennial data is critical because it is the basis for apportioning seats in the House of Representatives and is used by state legislatures for redistricting purposes. The data is also used to distribute billions of dollars of federal funds to state and local governments.

The decennial census is an enormous and complex task—certainly one of the most difficult that the federal government has to undertake. The Department recognizes the challenges presented by the 2000 Decennial Census and is providing increased oversight and management support to this important undertaking. And we are continuing to make the decennial census one of our top priorities. We have already issued more than a dozen reports on various aspects of the bureau's decennial planning efforts, and additional reviews are underway. We are also actively monitoring the bureau's efforts to address the recommendations from our various audits and inspections.

In our last issue, we reported on the results of our reviews of the critical "dress rehearsal" operations. We identified a number of programs and activities that were operating quite effectively, as well as a number of problems that need to be addressed in order to ensure efficient decennial operations. Overall, we concluded that the bureau still faces some formidable challenges in preparing for the decennial. For example, the bureau must (1) complete the design, development, and testing of major automated systems, (2) finish developing an accurate master address file, and (3) refine the decennial design by incorporating lessons learned from the dress rehearsal.

The Census Bureau has been working hard to address our findings and observations related to the dress rehearsal activities. We commend the bureau for its quick response to our concerns. In many cases, corrective action has already been implemented.

In this issue, we discuss the results of our evaluation of the dress rehearsal performance of Data Capture System (DCS) 2000, which is being developed for use in the decennial. DCS 2000 will use electronic imaging to read the information from census forms and convert it to electronic format for processing. Our review found that DCS 2000

experienced extensive problems during the dress rehearsal resulting from inadequate control of requirements and insufficient system testing. However, we believe that the system will be able to perform as needed during the decennial if the bureau continues to improve the functional capabilities of DCS 2000 and better manages the development process (see page 30).

The Department faces additional challenges in securing congressional funding for its planned methodology for conducting the 2000 decennial. The bureau planned to integrate statistical methods into the decennial census design to produce a single-number count, rather than two sets of census totals, as was done in 1990. However, in November 1998, the Administration agreed that the bureau would plan for both a sampling and a non-sampling census while awaiting a Supreme Court ruling on the legality of using sampling techniques as part of the decennial census methodology.

On January 25, 1999, the Court ruled that, according to the Census Act of 1986, statistical sampling techniques cannot be used for apportionment. However, the bureau still intends to provide a statistically adjusted number for non-apportionment purposes, arguing that the adjusted count is more accurate.

### ***Obtain an Unqualified Opinion on the Department's Consolidated Financial Statements***

The Chief Financial Officers Act of 1990, the Government Performance and Results Act of 1993, the Government Management Reform Act of 1994, and the Federal Financial Management Improvement Act of 1996 are designed to improve the financial management practices of federal agencies. The statutes 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, and the public to assess management's performance.

The Department received an unqualified opinion on its Consolidated Balance Sheet as of September 30, 1998. However, because the Department had received a disclaimer of opinion on its FY 1997 financial statements, we were unable to express an opinion on the Department's Consolidating Statements of Net Cost and Changes in Net Position and Combined Statements of Budgetary Resources and Financing for the year ended September 30, 1998 (see page 76).

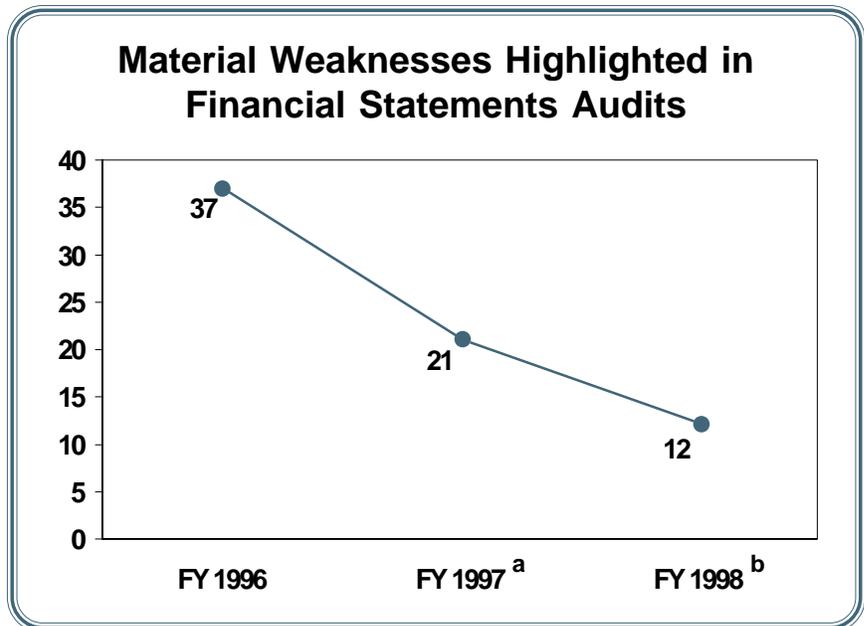
In addition, disclaimers on certain financial statements of NOAA and Census, along with a disclaimer on the Franchise Fund and the inability to audit ITA's statements, resulted in a disclaimer on the Department's other financial statements. Until NOAA and Census, in particular, receive other than disclaimers on their remaining statements, the Department will be precluded from receiving a clean (unqualified) opinion on its consolidated financial statements.

It is important to recognize, however, the progress that has been made this year in addressing many of the problems, weaknesses, and conditions that have undermined the reliability of some bureaus' financial management systems and precluded unqualified audit opinions on their financial statements. This is probably most apparent in the decrease in the number of material weaknesses over the past two years. Material weaknesses represent serious conditions where the design or operation of an internal control component does not minimize the risk that errors, fraud, or noncompliance in material amounts may occur and not be readily detected. Two years ago, we reported 37 material weaknesses.

Until these numbers were significantly reduced, the Department would have a difficult—if not impossible—task of establishing sound financial management systems and achieving unqualified audit opinions on its financial statements. The Secretary, the Deputy Secretary, and Commerce's Chief Financial Officer (CFO) concluded that traditional approaches were insufficient and made some important changes.

First and foremost, the Secretary made it clear to his senior managers that he expected them to get personally involved and monitor the progress in their bureaus. Second, the Department's CFO began to hold the bureaus' CFOs and other financial managers directly accountable for aggressively confronting the large number of material weaknesses and resolving the reportable conditions. Finally, in the past year, there have been what we view as unprecedented levels of cooperation between the Department, the bureaus, and the OIG and its contractors.

We believe that these changes, coupled with the renewed management commitments and increased cooperation, have been the catalyst for significant progress. And while it is clear that obtaining an unqualified audit opinion on the FY 1999 consolidated financial statements is a major challenge, it is equally clear that the aforementioned changes in approach and commitment are major reasons why, in less than two years, Commerce has reduced its number of material weaknesses from 37 to 12 (see chart on following page).



<sup>a</sup> The same material weakness was identified in the FY 1997 audit of both the WCF and S&E Fund. It is considered one material weakness for the Department as a whole.

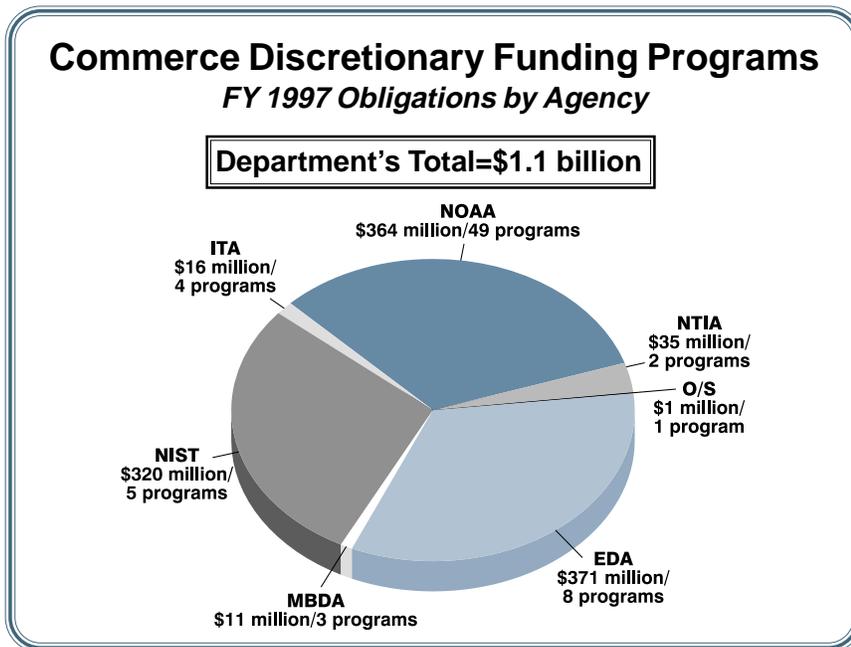
<sup>b</sup> Includes six material weaknesses identified in the FY 1997 audit of ITA. Since an audit was not performed in FY 1998, these weaknesses were carried forward.

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

In the September 1998 semiannual report (see page 12), we discussed our ongoing review of the criteria, procedures, and practices used to make funding decisions for the Department's discretionary financial assistance programs. Our review is being conducted, in large part, at the request of the Chairman of the Senate Commerce, Science, and Transportation Committee, who made similar requests of the OIGs of the Department of Transportation and the National Science Foundation. The Chairman asked that we examine the criteria developed, statutorily or administratively, to guide Commerce officials in making discretionary awards, as well as the extent to which such criteria were appropriately applied. He expressed an interest in ensuring that federal discretionary funding programs are administered fairly and without consideration of political or other non-merit-based criteria.

The use of competitive selection procedures is widely recognized 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 observations indicate that there are opportunities to enhance competition and improve the Department's discretionary funding practices.

Discretionary financial assistance programs involve a significant portion of the Department's budget and operations. Six Commerce agencies and the Office of the Secretary administer 72 programs that provide a total of about \$1 billion a year to state and local governments, educational institutions, nonprofit and for-profit organizations, and individuals. The chart below shows the amount of obligations and the number of programs by agency for FY 1997, the period we selected for review.



Technically, all Commerce financial assistance programs are discretionary, rather than entitlement, programs. However, our review is focusing on the FY 1997 award criteria, procedures, and practices of 33 programs we have classified as “full discretion.” For the purpose of our review, we classified as full discretion programs those programs whose authorizing legislation places no significant limitations on the Department's ability to independently determine the recipients or funding levels of the awards made under the programs. These programs, which account for over 1,700 awards and \$802 million, should be using competitive selection procedures designed to promote merit-based decisions.

To date, we have completed audits and issued reports on 15 programs, of which 7 were administered by NOAA, 3 by NIST, 2 by MBDA, 2 by NTIA, and 1 by ITA. These programs represent \$365 million in funding distributed through 565 awards.

We found that 8 of the 15 programs are administered competitively utilizing evaluation criteria designed to result in merit-based funding decisions. We did, however, identify opportunities for improvement in specific aspects of the various awards processes. Several of the programs could enhance the integrity of their procedures or bring more discipline to the award process by adopting the following practices:

- Expanding proposal solicitation efforts.
- Including participants from outside the Department as proposal reviewers to increase the objectivity of the selection process.
- Adequately documenting justifications for deviations from review panel recommendations.

The other seven programs we reviewed, all NOAA programs, did not use competitive selection procedures, but instead obligated discretionary funds through inadequately justified sole source awards.

We are recommending that NOAA ensure that financial assistance awards under its programs are made through a competitive merit-based process, unless otherwise mandated by law or adequately justified. We are pleased to report that NOAA agrees that more awards should be granted competitively for all discretionary funding programs and that a rigorous solicitation process should be used. The agency is continuing to look at its current processes and intends to provide more specific details as part of the audit resolution process. Summaries of the 13 audit reports issued during this period are presented in the agency overviews.

We expect to issue final reports on the remaining 18 financial assistance programs during the next semiannual period. Upon completing the audits, we plan to issue a capping report summarizing the results of the individual audits, identifying cross-cutting issues, highlighting “best practices,” and providing recommendations for improvement.

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

The OIG has played a major role in highlighting key issues related to resolving the Y2K problem. In this issue, we discuss the results of our March 1999 inspection of the Department's efforts to improve the accuracy of its reporting of Y2K compliance status. Our inspection examined whether the number of compliant systems reported to OMB accurately reflected the status of the Department's Y2K Program. We

found that the number reported was misleading, critical systems were not properly identified, and evidence was lacking to validate system compliance. Because the Department's Chief Information Officer had similar concerns, we were able to work together to improve the Department's Y2K program policies to address these weaknesses (see page 78).

The Department expected almost all of its mission critical systems to be compliant (461 out of 473, or 97 percent) by the March 31, 1999, deadline set by OMB. However, additional Y2K efforts will be required beyond that date. For the remainder of this year, the Department's major challenge is to continue to reduce the risk of crucial services being disrupted by Y2K failures. Management needs to ensure that risk-reduction activities—such as independent validation of computer systems, end-to-end business process testing, and contingency planning—receive high-level attention. The Secretary, the Deputy Secretary, the CFO, and the Chief Information Officer have clearly stated their commitment to ensuring that these activities are carried out. Our office is continuing to monitor the Department's Y2K program. For example, we are in the process of assessing the progress and effectiveness of selected Commerce bureaus' risk reduction efforts.

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

Shortly after the end of the semiannual period, the OIG's Assistant Inspector General for Auditing testified before the House Science Subcommittee on Energy and Environment on the OIG's work related to NOAA's approach to acquiring marine and aeronautical data and related research support. His testimony focused on three OIG reports issued since 1996: (1) an August 1998 audit report on NOAA's light aircraft fleet, (2) a September 1997 audit report on the NOAA Corps Transition Plan, and (3) a March 1996 inspection report on NOAA's then \$1 billion plan to repair, modernize, and replace its aging fleet of ships. In these reports, we generally point out that NOAA could achieve greater economy, efficiency, and effectiveness by increasing private sector participation in its marine and aeronautical data gathering efforts.

#### **Marine Data**

While NOAA has made some progress in expanding private sector participation in acquiring hydrographic data, we remain concerned about its plans to design, acquire, and operate four new fishery research vessels, from FY 2000 through FY 2003, without thoroughly assessing other viable alternatives. As we have said many times before, we believe that NOAA

should not focus its efforts on designing, owning, maintaining, or operating ships. Instead, NOAA 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.

We understand that NOAA has prepared a detailed data acquisition plan for its fisheries mission and intends to acquire the new fishery research vessels through the Naval Sea Systems Command. However, a NOAA consultant reported that the bureau's approach is far from the best available. His report details many preferable alternatives, such as using long-term charters of privately owned vessels or partnering with universities to operate the ships. NOAA's challenge is to thoroughly assess viable alternative approaches instead of relying on its own in-house fleet.

### **Aeronautical Data**

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, the center operates a fleet of 14 aircraft, composed of 2 heavy craft, 1 mid-size jet, 8 light fixed-wing aircraft, and 3 helicopters.

In December 1996, the President's Council on Integrity and Efficiency reviewed the management of the federal civilian aircraft fleet, including NOAA's, 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 concluded that the full in-house cost of operating NOAA's 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 to operate its in-house aircraft compared to private sector costs. We recommended that NOAA privatize its light aircraft operations. NOAA's challenge is to find and thoroughly assess the best ways to collect its aeronautical data.

### ***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 intended to provide the capability to acquire data from advanced observing systems and to give forecasters the tools to rapidly analyze the data, integrate it with information provided by NWS 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 because of its history of escalating costs and schedule delays. The program is currently operating under a congressionally mandated cost cap of \$550 million. Under the cap, AWIPS must provide sufficient capabilities to replace the aging field office systems, most notably the Automation of Field Operations and Services (AFOS). NOAA plans to complete AWIPS by June 1999. Operational testing and evaluation of AWIPS, scheduled to begin in May 1999, needs to clearly demonstrate that the system has the capabilities to allow AFOS to be removed from the field.

In our last issue, we noted that software development was a month behind schedule and needed improvements in testing were not yet implemented. According to NOAA, all activities are now on schedule to meet the June 1999 completion date. We will continue to monitor AWIPS's progress toward fully replacing AFOS, including observing a portion of the operational testing and evaluation.

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

We are continuing to monitor Commerce's efforts to develop an integrated financial management system. Commerce's existing financial systems are seriously outdated and fragmented; unable to provide accurate, timely, 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. Commerce began developing a Department-wide financial system in 1992.

## *IG's Message for the Congress*

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Notwithstanding large investments of time, money, and effort, implementation of the system, known as the Commerce Administrative Management System (CAMS), proved more difficult than anticipated. The difficulties occurred, in part, because the CAMS contractor did not meet established milestones and experienced problems in satisfying departmental requirements. These factors caused the Department to delay and revise its implementation strategy several times. In developing this system, the Department faced major challenges in reversing a pattern of deployment delays, overcoming skepticism, and controlling costs.

During FY 1998, the Department redefined the composition and functionality of CAMS, drastically revised the strategy for implementing it, and reorganized its management structure. The Department's revised strategy focused on implementing the redefined CAMS (core CAMS) at a pilot bureau (Census), a task that was completed during June 1998. An independent verification and validation concluded that core CAMS, as implemented at Census, met departmental requirements and was as good as or better than core financial management software that has been implemented at other large government agencies.

In September 1998, the Office of the CFO completed a business case analysis to compare and evaluate strategies for implementing core CAMS. The analysis recommended a modified approach, implementing core CAMS at the larger bureaus, with the smaller bureaus obtaining financial services using cross-servicing agreements. The Department developed a new strategy that involved implementing core CAMS at NOAA, followed by NIST. Also, EDA decided to implement certain aspects of core CAMS for its grant activity. Remaining organizational entities, however, will obtain financial systems support through cross-servicing arrangements.

NOAA developed a two-year plan to implement core CAMS. A Department-sponsored independent assessment concluded that NOAA's plan was too costly and could be done with fewer NOAA and contractor staff. The assessment also concluded that NOAA needed significant additional information technology resources and suggested that NOAA consider obtaining these resources from Census. In January 1999, NOAA established a limit on the funds available for implementing core CAMS, thereby causing the planned implementation to be extended to three years.

In February 1999, the Department's CFO inquired as to whether the Department of the Interior, using American Management System's Federal Financial System, could provide the same financial management services at a more competitive cost and with lower management risk. The Department and NOAA expect to decide whether to implement core CAMS or obtain financial management services from Interior in May 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 its business processes to make them more efficient and effective. PTO's project is expected to be one of the largest real estate ventures that the federal government will undertake in the next decade.

On behalf of PTO, the General Services Administration (GSA) 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 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 project has been delayed several months because one of the offerors has challenged certain requirements in federal court. GSA and PTO are contesting the offeror's claims and hope to award the lease development contract in the summer of 1999, with occupancy to begin as early as 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 (see March 1998 issue, page 54). The review 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. In addition, we expressed concern about the lack of a contractual cost ceiling on the build-out. Also, in determining its space requirements, PTO had failed to factor in potential savings and efficiencies gained from systems reengineering and automation.

PTO has responded favorably to all but two of our recommendations and has incorporated them into its planning and management of this project. PTO did not agree with establishing a contractual ceiling for the build-out. However, this is no longer an issue as the October 9, 1998, Solicitation for Offer placed a cap of \$29 million on the above standard build-out. The other recommendation that PTO did not agree with related to potential savings and efficiencies gained from systems engineering and automation.

In September 1998, 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. The Acting IG noted that although some of our recommendations have not yet been fully addressed by PTO, we remain satisfied that this project should continue. However, 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.

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

The Technology Administration and the Department need to develop a solution to the National Technical Information Service's longstanding financial problems. NTIS supports itself through fees charged for its products and services. In our September 1998 audit of NTIS's business operations, we reported that between FYs 1995 and 1998, the agency incurred a cumulative loss of \$4.8 million. We concluded that if this trend continued as expected, NTIS would have exhausted its retained earnings by the end of FY 1999 (see September 1998 issue, page 68).

NTIS has attempted to curb its losses by raising prices, cutting costs, and developing new products and services. However, a recent consultant study commissioned by TA, at our recommendation, concluded that even with significant efforts to improve its profitability, NTIS can no longer generate sufficient revenue to remain self-supporting. 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 private businesses.

To address NTIS's immediate fiscal problem, TA has requested a \$2 million appropriation for FY 2000. At best, this is a temporary fix. NTIS's financial problems are just a symptom of a much larger problem—a steady decline in demand for its products and services caused by fundamental changes in the marketplace. Sales of publications from its clearinghouse declined from almost 2.3 million units in FY 1993 to 1.3 million in FY 1998. Moreover, federal agencies are increasingly bypassing NTIS as a distribution channel, instead offering their publications directly to the public over the Internet.

NTIS's disappointing operating results raise questions not only about its ability to be self-sustaining, but also about the need for a single clearinghouse for technical publications. TA and the Department need to determine whether the functions performed by NTIS are still needed and, if so, whether they should be left at NTIS or transferred to another

agency. The National Archives and Records Service and the Library of Congress both have archiving functions.

To address all relevant concerns regarding the short- and long-term operations of NTIS, the Department and TA have formed a working group made up of senior managers from both departmental and bureau offices to consider options for taking corrective actions.

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

Like other federal agencies, the Commerce Department faces many inherent challenges in determining how to best plan and measure its performance in accordance with the Government Performance and Results Act of 1993 (GPRA). Commerce submitted its first annual performance plan in support of its five-year strategic plan to OMB and the Congress in February 1998. The FY 1999 plan, organized according to three strategic themes, was criticized for providing an incomplete picture of intended performance across the Department and not adequately discussing the Department's strategy for ensuring that the data to be used in measuring performance would be accurate, complete, and reliable. GAO and the OIG also reviewed the plan and had similar concerns.

The Department submitted its second annual performance plan, for FY 2000, to OMB and the Congress in February 1999. The plan represents a significant improvement over the 1999 plan and addresses many of the earlier concerns raised. The 2000 plan, for example, is more useful to decision-makers as it presents intended performance by departmental bureaus as opposed to the broader strategic themes used initially. The improved plan also contains substantially fewer process and output-oriented, and more outcome-oriented measures, as intended by GPRA. In addition, the plan includes an improved discussion of how the Department intends to validate and verify the accuracy, completeness, and reliability of the data to be used in assessing performance. Moreover, the Department is preparing an addendum to its 1999 plan that will identify a revised listing of performance measures consistent with those in the FY 2000 plan.

Although, by all accounts, significant progress has been made, the Department must continue to strengthen its strategic planning and performance measurement efforts. For example, the Department must continue to refine its performance measures to ensure that they emphasize achievement of program results and provide assurance that the data to be

used to measure performance will be accurate, complete, and reliable. By March 31, 2000, the Department will need to detail its FY 1999 actual results versus planned performance with the submission of its initial Annual Program Performance Report.

We have regularly provided advice and consultation to the Department on implementing GPRA. During the FY 1997 and FY 1998 audit cycles, for example, we reviewed the overviews to the financial statements for the Department and individual bureaus, providing comments to management. The overviews provide the linkage between GPRA and the financial statements. As a result of these reviews, we emphasized the need to improve performance measurement and reporting, and provided suggestions for improvement. The Department's FY 2000 performance plan incorporated many of our suggestions. In response to our concerns about its FY 1997 and 1998 consolidated financial statements, the Department revised its overview and statement of net cost to improve the linkage between strategic planning and financial reporting.

We will continue to look at the Department's efforts to implement GPRA, provide advisory comments regarding GPRA documents, and, where resources permit, perform targeted reviews.

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### ***OTHER ISSUES OF CONCERN***

The following sections highlight other important issues of concern for the Department and discuss our ongoing work related to these issues.

#### ***Export Controls for Dual-Use Commodities***

The United States controls the export of certain goods and technologies for national security and foreign policy purposes (including nonproliferation). 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 controls are a subject of continuing controversy, generating a wide range of opinions on how well the government's export control policies and practices balance the need to protect 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.

Last fall the Senate Committee on Governmental Affairs asked us, along with the OIGs of the Departments of Defense, Energy, State, and the Treasury and the Central Intelligence Agency, to conduct an inter-

agency review of the export licensing process for dual-use commodities and munitions. As part of this review, we followed up on findings and recommendations from a similar interagency review completed five years ago (see September 1993 issue, page 15). We also focused on the effectiveness of the Department's current policies, procedures, and practices in its licensing of dual-use goods and technologies.

Our reports on the export licensing process are expected to be completed in June 1999. Each OIG will issue a report on its agency's role in the licensing process. There will also be a cross-cutting report that will consolidate the findings and recommendations of the six OIGs' work on governmentwide management of the export licensing processes.

### ***Interagency and Other Special Agreements***

The Department relies heavily on interagency and other special agreements to perform its mission. For example, in FY 1997, Commerce had more than 4,700 agreements, involving over \$1 billion in funds received for reimbursable activities or obligated to acquire goods or services from other parties. These agreements can be between Commerce units or between a Commerce unit and another federal agency, a state or local government agency, a university or other educational institution, a not-for-profit organization, or a private party. While agreements involve a significant amount of federal resources, they are not subject to the same controls as traditional procurement contracts, grants, or cooperative agreements.

The OIG conducted a Department-wide review of agreements and identified several cross-cutting issues during our eight completed and two ongoing reviews of Commerce units' agreements. We also drew upon work performed under other OIG reviews of agreements conducted during recent years. In addition to identifying common problems that Commerce bureaus have experienced in preparing and administering agreements, we highlight several "best practices" for bureaus and line offices to consider adopting. Most agreements reviewed appeared to serve important and appropriate functions, given Commerce's varied missions. However, we noted the following problems:

- Some bureaus have improperly entered into informal arrangements without the benefit of a written agreement.
- The required legal reviews were often not requested or performed.
- Agreements have been used when traditional procurement contracts would have been more appropriate.

## IG's Message for the Congress

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- Agreements have been used when financial assistance awards (e.g., grants) would have been preferable.
- Bureaus generally do not adequately track and control agreements.
- Bureaus need to improve their systems and procedures to better ensure full cost recovery under reimbursable agreements.

### ***OIG Oversight of New FOIA Search Ordered by District Court***

In December 1998, the U.S. District Court for the District of Columbia ordered the Department to conduct a new search for documents responsive to various Freedom of Information Act requests at issue in a pending lawsuit filed against Commerce by a private organization. Pursuant to the court's order, the OIG is conducting a quality control review of the Department's search, including a review of employee declarations describing search efforts and spot checks of offices searched. At the conclusion of the process, we will provide a written report to the court on the results of our review.

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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 (October 1, 1998) for which no management decision had been made by the end of the period (March 31, 1999). The following table presents the overall status.

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

The two unresolved NOAA performance audits relate to the National Marine Fisheries Service's laboratory structure and NOAA's light aircraft operations. The first report has remained unresolved for more than one year, and the second for over six months. Negotiations are ongoing between the OIG and NOAA concerning alternative approaches to resolution (see page 60).

One of the financial assistance reports is a NOAA audit that has been unresolved for over three years. NOAA and the OIG are discussing whether the recipient's independent public accountants should be requested to perform additional cost verification. The other unresolved financial assistance audit relates to an NTIA grant award. The OIG is reviewing the audit resolution proposal recently received from the bureau (see pages 60 and 63).

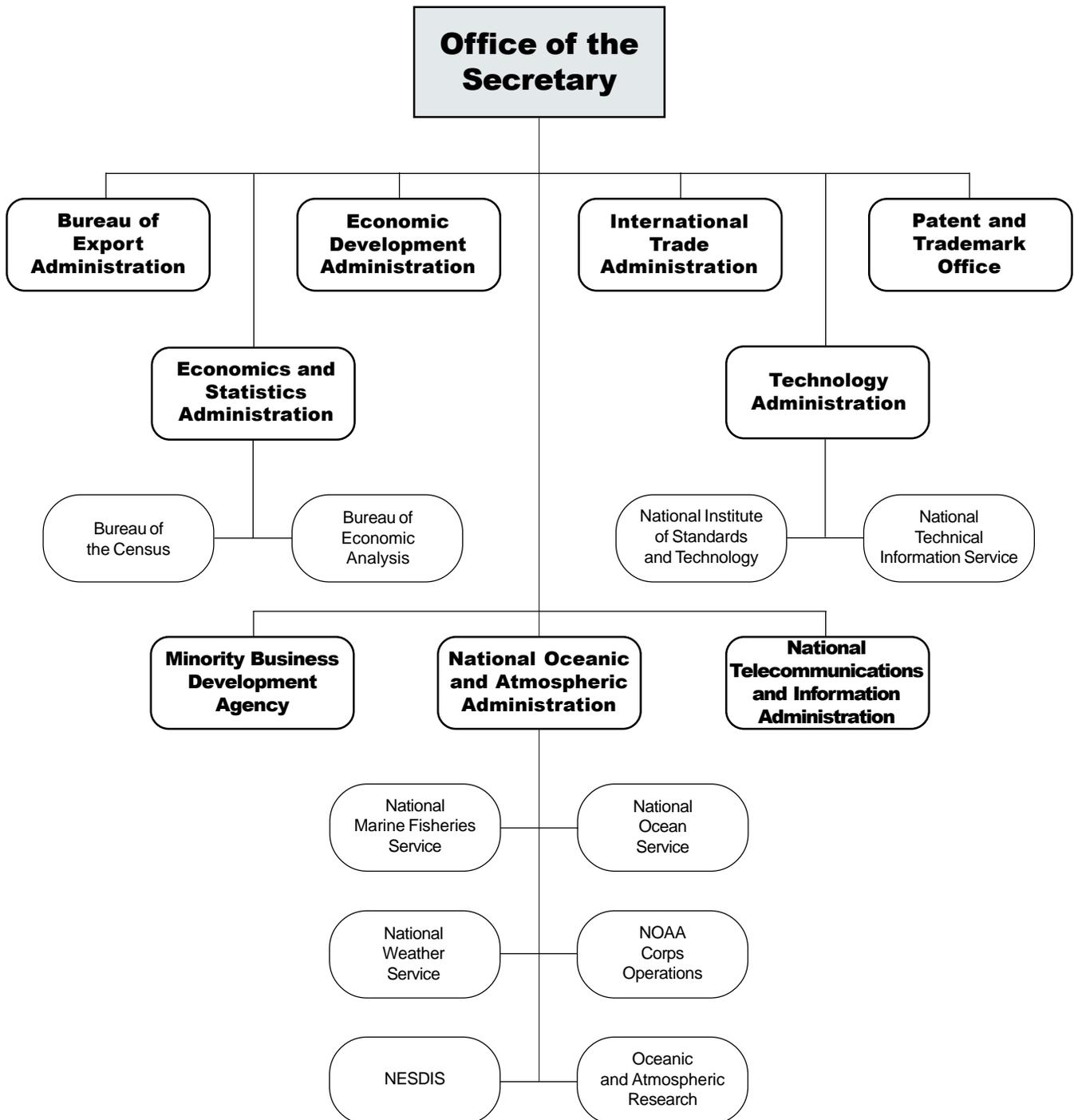
Department Administrative Order 213-5, "Audit Resolution and Follow-up," provides procedures for management to request a modification to an approved audit action plan, or for a financial assistance recipient to appeal an audit resolution determination. The following table summarizes modification and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

<b>Report Category</b>	<b>Modifications</b>	<b>Appeals</b>
Actions pending (October 1, 1998)	0	8
Submissions	3	3
Decisions	3	3
Actions pending (March 31, 1999)	0	8

The eight appeals pending final decision by the Department include three EDA and five NIST financial assistance audits.



# Department of Commerce Organization Chart



# Bureau of Export Administration



## Audit of FY 1998 Financial Statements

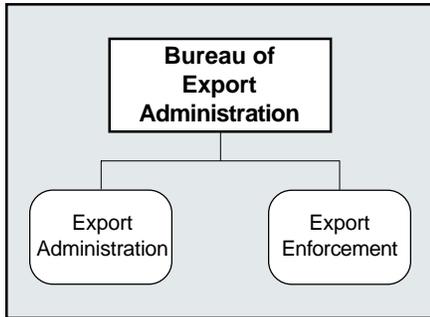
In accordance with the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994, the OIG contracted with an independent public accounting (IPA) firm for an audit of BXA's financial statements. We defined the audit scope, selected the contractor, and oversaw the performance and delivery of the audit.

The IPA firm issued an unqualified opinion on BXA's financial statements. This was an especially noteworthy achievement in light of the significant changes mandated by OMB Bulletin No. 97-01, which required the preparation of four new financial statements starting in FY 1998. The audit results indicate that BXA's internal control over financial reporting facilitates the preparation of reliable accounting and financial information. Although the firm's report identified no material weaknesses, a first for BXA, it did identify two reportable conditions in BXA's internal control structure: (1) accounts payable fiscal year-end cut-off procedures are not complete and (2) accounts receivable balances are unsupported.

The report also identified one instance of material non-compliance with laws and regulations related to the Federal Financial Management Improvement Act of 1996 (FFMIA), which requires auditors to report on whether an entity's financial management systems substantially comply with federal financial management system requirements, applicable federal accounting standards, and the U.S. Government Standard General Ledger. Under a reimbursable agreement, BXA receives financial and accounting support from NOAA, which uses financial management systems that do not substantially comply with federal financial management system requirements. This will continue to be an issue until NOAA's accounting system is replaced or BXA obtains finance and accounting support from another organization that has a compliant system.

We reviewed a draft of the overview to BXA's financial statements. The overview provides the linkage between the financial statements and GPRA, which requires government entities to collect and report information on their performance in meeting their goals and objectives. We found that BXA had incorporated many of our prior year suggestions for improving the clarity and conciseness of the overview. We provided BXA management with a memo containing our observations and recommendations on the draft. Management was responsive and also indicated that it plans to make additional revisions to strengthen the overviews for FY 1999 and beyond. We encourage BXA to strengthen next year's discussion of actual results and to continue efforts to improve performance measurement and reporting. (*Financial Statements Audits Division: FSC-10864-9-0001*)

The **Bureau of Export Administration** is primarily responsible for the administration and enforcement of the nation's system for controlling exports of sensitive dual-use goods and technologies. Under the Export Administration Act and regulations, BXA's major functions include formulating and implementing export control policy; processing export license applications; conducting various policy, technical, and economic analyses; promulgating regulations; conducting industry outreach; and enforcing the act and regulations. **Export Administration** implements U.S. export control and nonproliferation laws and policies through export licensing, commodity classifications, and advisory opinions; technical, economic, foreign availability, and policy analyses; promulgation of regulations; and industry outreach. It also conducts various defense industry base activities. **Export Enforcement** participates in reviews of export license applications and conducts criminal and administrative investigations of the export control portions of the Export Administration Act and regulations. It also administers and enforces the antiboycott provisions of the act and regulations.



### **Legislative and Funding Uncertainties Delay Implementation of Chemical Weapons Treaty**

The OIG conducted a survey of BXA's export control operations related to dual-use chemicals (those that have both military and commercial uses) as a follow-up to an earlier review that concentrated on the bureau's export controls over biological agents (see September 1995 issue, page 23). The purpose of our survey was to conduct an initial analysis of BXA programs and policies related to dual-use chemicals and determine whether an audit should be conducted of the bureau's operations in this area.

Our survey focused primarily on BXA's export control process and efforts to implement the Chemical Weapons Convention, a 1994 treaty signed by 169 countries as of October 1998, which is intended to eliminate the production, spread, and use of such weapons. We examined the bureau's procedures and its data on licenses approved and rejected during 1996-98; its resource planning and industry counseling in anticipation of legislation to implement the treaty; and its enforcement activities related to dual-use chemical exports.

At the time of our survey, BXA lacked the authority to implement the Chemical Weapons Convention without implementing legislation, which was pending. Therefore, it could not begin its mandated work under the treaty. We also found that the bureau's responsibilities and workload would be increased significantly by the treaty and that its resource level was insufficient to carry out its draft enforcement plan. Although the Congress has stated its intention to review BXA's resource level once the legislation is passed, we believe that the bureau should develop a contingency plan in case its full funding request is not granted. Such action would increase BXA's ability to comply with the treaty's main provisions under a restricted funding scenario.

We presented the results of our survey in an October 1998 memorandum to the Under Secretary. In view of the uncertainty surrounding the Chemical Weapons Convention legislation and BXA funding and staffing levels, we deferred our audit until the legislation has been passed and activities to implement the treaty have progressed.

On October 19, 1998, after our memorandum was issued, the Congress passed the implementation legislation in H.R. 4328, "Making Omnibus Consolidated and Emergency Appropriations for Fiscal Year 1999 (page 886)." BXA now has the authority to implement the treaty. (*Science and Technology Audits Division*)

# Economic Development Administration



## Audit of FY 1998 Financial Statements

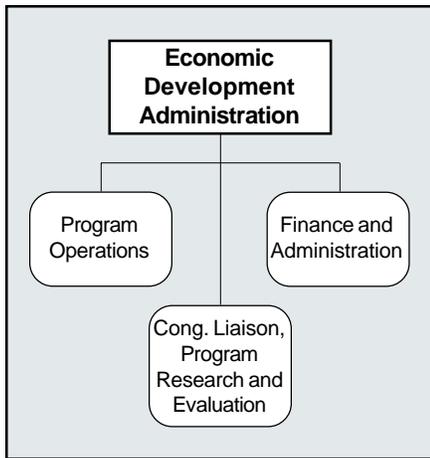
A contractor IPA firm issued an unqualified opinion on EDA's FY 1998 financial statements. This represents a marked improvement for EDA, which had received a qualified opinion on its balance sheet and a disclaimer of opinion on its statement of operations and changes in net position for FY 1997. The audit results indicate that EDA has now established an internal control structure that facilitates the preparation of reliable accounting and financial information.

However, the IPA firm did identify four reportable conditions in EDA's internal control over financial reporting, one of which constitutes a material weakness. Specifically, EDA (1) does not collect data from grantees to estimate its accrued grant expense, (2) lacks adequate controls over its financial accounting, reconciliation, and reporting process, (3) continues to have annual leave discrepancies, and (4) has control weaknesses in its financial management systems. Although EDA has made progress in financial management, the bureau must continue efforts to resolve these reportable conditions, particularly its methodology for determining accrued grant expense.

The firm also identified two instances of material non-compliance with laws and regulations: (1) the financial management system used for EDA's grant accounting does not comply with the U.S. Government Standard General Ledger at the transaction level, and (2) the financial management system used for salaries and expenses does not comply with certain system requirements of FFMIA.

In reviewing a draft of the overview to EDA's financial statements, we found that EDA had incorporated many of our prior year suggestions for improving the clarity and conciseness of the overview. We provided EDA management with a memo containing our observations and recommendations on the draft. Management was responsive and also indicated that it plans to make additional revisions to strengthen the overviews for FY 1999 and beyond. We encourage EDA to strengthen next year's discussion of actual results and to continue efforts to improve performance measurement and reporting. (*Financial Statements Audits Division: [FSD-10997-9-0001](#)*)

The **Economic Development Administration** was established under the Public Works and Economic Development Act of 1965, as amended, including the comprehensive amendments by the Economic Development Administration Reform Act of 1998, 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.



### **Defense Adjustment Assistance Program Found to Be Well Focused**

During the 10-year period ended in 1997, the Department of Defense eliminated an estimated 550,000 military and 230,000 civilian jobs. In addition, reductions in defense acquisition programs and military construction caused private industry job losses of at least 1 million. In 1990 the Congress passed Public Law 101-510, the National Defense Authorization Act, to assist communities that were substantially and seriously affected by defense cutbacks by lessening their dependence on defense spending, thereby providing for their transition to non-defense-dependent businesses, employment, and revenue.

From 1991 through 1997, EDA awarded 300 defense adjustment assistance grants under Title IX of the Public Works and Economic Development Act of 1965, providing program funds in excess of \$500 million, some of which came from transfers of funds from the Defense Department.

The OIG conducted an audit to determine whether the projects awarded by EDA with defense adjustment assistance funds complied with the purpose of Public Law 101-510 and met Title IX program objectives. We reviewed the project files for 196 (about 65 percent) of the awards, representing \$435 million (about 87 percent) of the funding.

We concluded that nearly all the grants met EDA Title IX and Defense Department objectives to mitigate economic losses and create jobs, thereby fulfilling the requirements of Public Law 101-510. Moreover, EDA's program was well focused on the economic losses caused by cutbacks, and the approved projects were generally consistent with the transition to non-defense economies.

We did, however, identify four grants (about 2 percent of the total reviewed) that did not demonstrate defense-related economic dislocations or did not significantly relate to creating jobs that were lost as a result of defense cutbacks. Because these projects were minor exceptions to EDA's strong performance under the program, we made no recommendations. (*Denver Regional Office of Audits: DEN-9806-9-0001*)

## ***Recipient Violated Grant Terms and Conditions***

To alleviate the economic disruptions caused by defense program reductions at a private sector engineering laboratory, in 1994 EDA awarded a \$6 million defense adjustment assistance grant to a county, city, and nonprofit corporation in Idaho. The corporation supports, develops, and promotes entrepreneurial talent and start-up businesses, and encourages the participation of financial, business, educational, and governmental organizations.

The grant was divided into three components: (1) \$4.55 million to construct a 35,000-square-foot technology incubator building to house high-technology start-up companies, (2) \$1 million to capitalize a business revolving loan fund (RLF) targeting new and emerging high-technology business development and businesses started by dislocated workers, and (3) \$450,000 for technical assistance to manage the incubator and the RLF and assist high-technology start-up companies. The county was responsible for constructing the technology building; the city assisted in the construction and provided some matching funds; and the corporation was responsible for managing the building and implementing the RLF and the technical assistance component.

The OIG conducted an audit of the grantees' activities in completing the defense adjustment assistance project. We did not identify any cost or performance issues related to the county's and the city's construction of the incubator. However, we identified several areas of concern related to the corporation's management of the RLF and its technical assistance program. Specifically, the corporation deviated from grant objectives by leasing space to some companies and providing loans to some borrowers not targeted by the grant; violated grant requirements by obtaining more than \$25,000 in federal reimbursement than allowed; deposited \$61,000 of program income from leasing building space into its general operating fund; and did not contribute or could not document nearly \$50,000 in required matching funds.

We recommended that EDA require the corporation to restrict leases and RLF loans to workers dislocated from the laboratory or companies that focus on transferring technology from the laboratory; disallow questioned costs of about \$20,000 and recover \$25,000 in excess grant disbursements; require the corporation to classify \$61,000 in rental revenues as program income; and document or provide the \$50,000 in matching funds.

The corporation generally agreed that it had leased space and provided loans to borrowers who were not targeted by the grant program, and that excess loan funds had been retained. However, it did not agree with our findings and recommendations regarding its use of program income as general revenue and its failure to provide all required matching funds. (*Seattle Regional Office of Audits: STL-10482-9-0001*)

### **Flood Act Grantee Did Not Disclose Application for Other Federal Funds**

The Emergency Supplemental Appropriations for Relief from the Major Widespread Flooding in the Midwest Act of 1993 (Public Law 103-75) provided EDA with \$200 million to award disaster assistance grants to assist in the economic recovery of communities, industries, and firms harmed by the 1993 floods. In September 1994, EDA awarded an Emergency Flood Act grant to a city in Kansas under Title I of the Public Works and Economic Development Act of 1965, as amended. The purpose of the grant was to construct a new water treatment plant to replace capacity lost at the existing plant as a result of the flooding. The total approved cost of the project was \$28.5 million, consisting of \$7.5 million from EDA and a \$21 million matching share from the city.

At the time the award was made, EDA was unaware that the city had also applied to the Federal Emergency Management Agency (FEMA) for funds to repair or replace its water treatment plant. It was understood by EDA that its grant would pay for the entire cost of constructing the facility.

In February 1998, FEMA awarded \$10.1 million to the city to finance a \$17.7 million project, consisting of about \$4.7 million to demolish the existing plant and \$13 million to construct a new one. FEMA estimated the cost of the entire water system project to be about \$45 million.

An OIG audit determined that the city had violated the terms and conditions of the EDA award by not disclosing in its grant application that it had earlier applied for FEMA funding to repair or replace the water treatment plant. We found that the overlapping scopes of the EDA and FEMA projects could lead to duplicative claims and reimbursements. In addition, the city improperly claimed reimbursement for nearly \$125,000 in costs incurred prior to the grant period for work that was planned before the floods, resulting in over \$32,000 in excess disbursements from EDA.

We recommended that EDA require the city to explain its non-disclosure of the FEMA grant application, determine if any administrative action is required as a result of this non-disclosure, and require the city to

prepare a revised project budget clearly delineating the scopes of the EDA and FEMA projects. We also recommended that EDA seek recovery of over \$32,000 in excess disbursements. (*Denver Regional Office of Audits: DEN-9652-9-0001*)

### **Florida Grantee Made Improper Drawdowns and Financed Ineligible Loan Activities**

In June 1993, EDA awarded a \$2 million Long-Term Economic Deterioration implementation grant to a Florida city to capitalize a revolving loan fund to help the city's economic recovery after Hurricane Andrew's severe devastation in August 1992. In July 1998, EDA deobligated \$268,000 of the award funds, reducing the grant amount to about \$1.7 million. The grant, which required no matching share, was funded under Title IX of the Public Works and Economic Development Act of 1965, as amended.

The grant required the city to use the RLF to create and retain jobs, develop innovative financing for higher credit risk businesses, and attract new businesses. As of February 1998, the RLF had a capital balance of over \$2 million, consisting of outstanding loans of about \$1.3 million and a cash reserve of \$700,000.

The OIG conducted an audit of the award to determine the RLF's financial status and the city's compliance with federal rules and regulations and EDA grant terms and conditions. We found that the city had improperly retained \$490,000 in premature grant drawdowns for almost one year, and that two borrowers had used \$214,000 in loan proceeds to finance ineligible loan activities. Also, because the city did not follow all applicable grant administration requirements, it incurred \$90,000 in questionable grant administration costs, submitted inaccurate financial reports, and failed to provide required RLF plan certifications or to record nearly \$8,000 in RLF income. We believe a frequent turnover of RLF administrators contributed significantly to these problems.

We recommended that EDA require the city to (1) remit to EDA \$26,000 in accrued interest on the premature drawdowns, (2) reimburse the RLF \$90,000 for the questioned administrative costs and \$214,000 for the outstanding balances of the ineligible loans, and (3) ensure the accuracy of its financial and performance reports and the adequacy of its accounting records, submit all RLF plan certifications and modifications as required, and inform EDA of any significant changes in administrative personnel. (*Atlanta Regional Office of Audits: ATL-10730-9-0001*)

### **Grantee Disregarded Procurement Standards in Contract Award**

In September 1996, a Texas nonprofit organization received a technical assistance grant under EDA's Defense Conversion Assistance program to enable it to assist companies located in Arkansas, Louisiana, New Mexico, Oklahoma, and Texas to move from dependence on defense-related activities to reliance on commercial markets. The total approved project cost was \$450,000, consisting of a 75-percent federal share and a 25-percent local match. Based on claimed project costs of more than \$500,000, EDA disbursed the full federal share of \$337,500 to the grantee. Most of the project work was performed through a contract with a for-profit consulting firm.

The OIG conducted an audit to determine whether the costs claimed by the grantee were allowable, reasonable, and allocable and whether the parties complied with the grant terms and conditions. Following is a summary of our audit results:

- We found that the grantee disregarded procurement standards in awarding a \$244,250 contract to the consulting firm. Specifically, the grantee's procurement files did not show that it had obtained competitive bids for the contract or justified the sole-source award. We recommended that EDA require any future awards to the grantee to contain special conditions to ensure that applicable procurement requirements are followed.
- Of the \$513,646 in total costs claimed by the grantee, we questioned \$258,838, primarily related to contractor costs for salaries (\$149,710) and in-kind contributions (\$72,500). We recommended that EDA disallow the questioned costs and seek recovery of \$146,394 in excess federal disbursements.

The grantee maintained that the questioned salary costs were supported by reconstructed time distribution records submitted in response to our draft report, but we found the records to be insufficient to support the costs claimed. The grantee also asserted that the procurement requirements were not applicable because the consulting firm was a subrecipient rather than a contractor. This assertion, however, is contradicted by the terms of the agreement between the two parties, which clearly identified the firm as a contractor. In addition, the consulting firm, as a for-profit company, cannot legally be a recipient of EDA Title IX funds. (*Denver Regional Office of Audits: DEN-10586-9-0001*)

### **Legislation Requires Funds Disbursement Despite City's Violations of Grant Terms**

In September 1994, EDA awarded a \$912,000 Title IX disaster assistance grant to a city in Kansas to help mitigate the effects of the Midwest floods of 1993. The grant funds were to be used to make street and water system improvements and to support a new technology center being built at a local university. The grant required the city to provide a \$2.7 million matching share from the state transportation department and general obligation bonds, bringing the total estimated project cost to about \$3.6 million.

An OIG audit disclosed that the city had violated several terms of the grant award. However, in October 1998, after we had completed our audit fieldwork, the Congress enacted Public Law 105-277, which provided that upon completion of this project, EDA was to disburse the full \$912,000 to the city, notwithstanding any other provision of law. In view of this legislation, we reported the grant violations to EDA, but did not make any recommendations for corrective action. The project has been completed, and EDA has disbursed the funds to the city. (*Denver Regional Office of Audits: DEN-10587-9-0001*)

### **In Brief**

**Conviction.** In March 1999, a former economic development representative was convicted of one count of bribery based on a joint OIG/FBI/IRS investigation, which revealed that he had accepted \$3,000 in November 1995 from two individuals representing an applicant for EDA grant funds. Sentencing is scheduled for May 1999 in U.S. District Court for the Western District of Texas. (*Denver Field Office of Investigations*)

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.

## ***Data Capture System Requirements and Testing Problems Experienced During Dress Rehearsal***

In the spring of 2000, the Census Bureau will begin collecting and processing data from approximately 120 million households as part of its decennial census operations. These operations will require the capture of data from an estimated 1 billion pages of census forms within a four-month period. To accomplish data capture, the bureau will use a state-of-the-art system, Data Capture System 2000.

In contrast to previous decennial censuses, DCS 2000 is being developed by a contractor, rather than by the bureau. The DCS 2000 contract is divided into two overlapping phases: Phase I was the design and development of a pre-production version of the system for use in the 1998 Dress Rehearsal. Phase II is the development of the full-scale production version, which will be used for the 2000 Decennial Census.

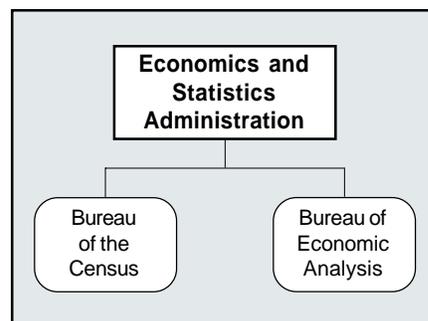
An OIG review of Phase I of DCS 2000 operations disclosed that the system experienced serious problems in processing dress rehearsal forms as a result of inadequate control of requirements and insufficient testing. Specifically, growth and change in system requirements caused the data capture contractor to abandon its well-defined system engineering procedures. Instead, concurrent development, testing, and deployment activities were performed on a short cycle that did not allow enough time to consistently apply sound system engineering practices, including software and system testing.

In addition, funding shortfalls and the disruption to the system engineering approach caused by requirements instability made it necessary to reduce the size and scope of the bureau's test program, which was designed to identify and correct problems and validate that the system was functioning properly *before* the dress rehearsal. As a result of the less rigorous and comprehensive testing, many problems were not identified until *during* the dress rehearsal.

Despite these difficulties, the system met all of its processing deadlines, due largely to the noteworthy efforts of the bureau and the contractor in addressing the unexpected problems. However, the size, complexity, and performance requirements of the decennial census mean that similar problems in 2000 would introduce a high risk of not being able to complete data capture operations on time and could produce data of questionable accuracy. We believe, nevertheless, that with strict requirements management, comprehensive testing, and sufficient funding, the problems experienced with DCS 2000 during the dress rehearsal can be

solved, and the system will be capable of performing as needed during the decennial census.

We recommended that the bureau strengthen the requirements management process for DCS 2000, and establish schedules with sufficient time and provide adequate funding to perform complete and improved testing of the system, including operational testing. The bureau agreed with our findings and is taking steps to implement our recommendations. For example, the bureau has recently convened a steering group composed of decennial operational managers to implement a requirements control process. (*Office of Systems Evaluation: OSE-10846*)



### **Audit of Census's FY 1998 Financial Statements**

An IPA firm issued an unqualified opinion on Census's FY 1998 balance sheet, but a disclaimer of opinion on its remaining financial statements because the bureau did not adequately perform reconciliations or produce accurate financial statements on a timely basis with sufficient quality assurance procedures. This situation was caused by the bureau's lack of adequate financial management systems, reports, and oversight, which prevented it from preparing timely and accurate statements.

Census's inability to produce timely and accurate financial statements hampered the Department's ability to meet the legislatively mandated March 1, 1999, deadline for producing its audited consolidated financial statements. High-level bureau managers must continue to make financial management improvement a top priority, and must intensify their efforts to improve the bureau's internal control over financial reporting and promptly implement corrective actions for the preparation of the 1999 financial statements so that the Department can meet the March 1, 2000, deadline.

The IPA firm's report identified two material weaknesses:

- Lack of adequate financial management systems, reports, and oversight to prepare timely and accurate financial statements.
- Lack of adequate support for accounts payable and undelivered orders balances.

As a result of the second material weakness, the firm identified \$3.3 million in invalid obligations. Census agreed that the obligations were not valid and made adjustments to its financial records. This sum represents funds available to be put to better use.

In addition to the material weaknesses, there were four other reportable conditions, related to (1) differences between fixed asset subsidiary records and periodic inventory results, (2) policies and procedures for determining the actual cost of items held in inventory for sale, (3) the application of the Working Capital Fund surcharge, and (4) general controls related to CAMS.

The firm also identified one instance of material non-compliance with laws and regulations: Census's financial management systems did not comply with certain requirements of FFMIA.

Our office reviewed a draft of the overview to Census's financial statements and informally provided management with our suggestions for improvement. While the final overview incorporated some of our suggestions from the previous year's review, it is generally not responsive to this year's comments. The overview lacks historical data for trend analysis and target data for FY 1998, and contains only a limited discussion of the challenges the bureau faces and management efforts to address them. (*Financial Statements Audits Division: FSD-10865-9-0001*)

### ***Census Needs Policies for Preparing, Reviewing, and Tracking Its Agreements***

Interagency and other special agreements are mechanisms for federal agencies to define terms for performing work for others, acquiring work from others, or coordinating complementary programs (without the transfer of funds). The Bureau of the Census uses such agreements—consisting of reimbursable agreements, obligation agreements, or agreements not involving the transfer of funds—to pursue several aspects of its mission to collect and provide timely, relevant, and quality data about the people and the economy of the United States. In FY 1997, Census had 586 reimbursable agreements, 81 obligation agreements, and 40 agreements not involving the transfer of funds that were active.

The OIG evaluated the policies, procedures, and practices being followed by the bureau in its preparation, review, and management of obligation agreements and agreements not involving the transfer of funds. (We did not review the bureau's individual reimbursable agreements because they were partially included in an OIG audit of the FY 1997 financial statements.) This was one in a series of reviews in the OIG's Department-wide examination of agreements (see page 17).

Overall, we found that the bureau used agreements to support its mission by obtaining and exchanging data, conducting joint statistical projects, and acquiring information technology. However, we also identified the need for significant improvements in the agreements themselves, the review process, the policies that govern agreements, and the tracking of agreements.

Specifically, our review disclosed that:

- **Agreements were not always properly prepared.** The bureau did not consistently cite an applicable legal authority, prepare written justifications, include total project costs and budget summaries, or define termination dates or review periods.
- **Oversight process for reviewing agreements was inadequate.** Only 2 of the 26 sampled agreements from FY 1997 received Office of General Counsel review. In addition, the bureau did not have any policy or procedure that stipulated when legal review was required before an agreement could be signed.
- **The bureau lacked a central database to inventory and track agreements.** Although the bureau has separate financial systems for tracking reimbursable and obligation agreements, there is neither a repository nor a central listing of all agreements.

We recommended that Census develop a comprehensive set of guidelines for preparing and reviewing all types of bureau agreements that is consistent with departmental guidance. In addition, relevant information for preparing and processing agreements should be distributed internally through the bureau's intranet and at appropriate bureau management and administrative meetings. We also recommended that the bureau provide training to program and administrative staff responsible for preparing, processing, and reviewing agreements, and establish a centralized system to adequately inventory, track, and control agreements.

The bureau acknowledged that improvements in the agreement processes are necessary and agreed with all of our recommendations. (*Office of Inspections and Program Evaluations: IPE-10523*)

### **Census Denver Office Needs to Improve Internal Controls over Bankcard Purchases**

In conjunction with an OIG plan to periodically review Commerce units' use of bankcards, we conducted an audit of FY 1997 bankcard transactions at the Census Bureau's Denver Regional Office to determine whether purchases were made in compliance with applicable federal and departmental requirements. The objectives of the bankcard program, established government-wide in 1989, are to reduce administrative procurement costs, improve cash management by expediting and simplifying small purchases, and strengthen internal controls to eliminate the vulnerabilities to fraud and abuse of other small purchase methods.

We identified a number of deficiencies in the regional office's internal controls over bankcards: (1) the contracting office head did not perform the required annual review of bankcard activity, (2) six of the seven office bankcards were not stored in a secure location, (3) two unauthorized employees were permitted to use a bankcard at least four times, (4) one prohibited service was purchased monthly with a bankcard, (5) purchases were routinely made without preapproval, (6) accounts were not properly closed when cardholders left the office, (7) several records for a cardholder who had left the office were not retained, and (8) mandatory training was not provided to two cardholders. As a result, the office was at risk for unauthorized and improper procurements.

We recommended that the bureau ensure that the Denver office follows effective internal control practices and conduct a follow-up review of the office's bankcard activity within 18 months of our report and provide us with the results of that review. Bureau officials agreed with our recommendations, stating that the contracting office head will complete the annual review within 12 months to ensure that the internal control deficiencies we identified are corrected. In addition, cardholders and approving officials will be instructed regarding the importance of these matters. (*Denver Regional Office of Audits: DEN-11030-9-0001*)

### **Audit of ESA and BEA's FY 1998 Financial Statements**

An IPA firm issued an unqualified opinion on ESA and BEA's FY 1998 financial statements. The firm did not identify any material weaknesses, but did cite two reportable conditions in the agencies' internal control over financial reporting.

One condition involved the controls surrounding the Department's Office of Computer Services mainframe system, on which the Financial Accounting and Reporting System (FARS) application is processed. The firm considers these issues to be a reportable condition to ESA and BEA because FARS processes the financial information used in preparing the financial statements. However, the reportable condition is not under the control of ESA and BEA management.

The second reportable condition relates to annual leave discrepancies that continue to exist between the Department's time and attendance system and the National Finance Center's payroll system and the fact that reconciliations between the systems are not being performed regularly. Although the number and value of the discrepancies are not material to the financial statements, the lack of adequate reconciliation could result in the reporting of inaccurate payroll expenses in the statements.

The firm also identified one instance of material non-compliance with laws and regulations related to FFMIA. Specifically, FARS does not maintain sufficient commonality of data elements and transactions processing to ensure timely, accurate, and effective financial reporting, as required by federal guidance.

In reviewing a draft of the overview to ESA and BEA's financial statements, we found that the agencies had incorporated many of our prior year suggestions for improving the clarity and conciseness of the overview, which resulted in an improved discussion of their activities and results. However, ESA and BEA need to provide additional discussion of performance goals, such as a comparison of actual results to benchmarks and a discussion of variances. ESA and BEA management were also responsive to the observations and recommendations we made on the draft. We encourage the agencies to strengthen next year's discussion of actual results and to continue efforts to improve performance measurement and reporting. (*Financial Statements Audits Division: FSD-10863-9-0001*)



# International Trade Administration

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. Its main objectives are to obtain market access for American firms and workers and to achieve full compliance by foreign nations with trade agreements signed with the United States.

**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.

## ***FY 1998 Financial Statements Reviewed Under Agreed-Upon Procedures***

During the prior four fiscal years, the OIG contracted with an IPA firm to perform a full-scope audit of ITA's financial statements. These audits resulted in disclaimers of opinion due to material weaknesses in ITA's internal control over financial reporting. Because ITA management indicated that substantive corrective actions had not been fully implemented for FY 1998, the OIG altered the scope of work from conducting a full-scope audit to performing certain agreed-upon procedures. The purpose of these procedures, which we defined, was to perform limited testing of corrective actions made to date and to support the FY 1998 Department of Commerce consolidated financial statements audit. This approach was also designed to afford ITA an opportunity to focus its efforts toward the FY 1999 financial statements audit.

In its report, the IPA firm noted that ITA had completed the planning and early implementation stages of two major initiatives that should dramatically improve the bureau's financial management:

- ITA has a contract with an IPA firm to develop standardized financial policies and procedures for overseas posts in support of CFO Act requirements. Such policies and procedures should correct two of the six material weaknesses identified in the firm's FY 1997 report on ITA's financial statements (see March 1998 issue, page 31).
- ITA is in the process of outsourcing its accounting operations and financial system support services to the Department of the Interior. Since Interior's Federal Financial System meets all relevant federal requirements, this outsourcing should help correct the four remaining material weaknesses.

In addition, the firm reported that because these corrective actions were not fully implemented during FY 1998, many of the deficiencies noted in FY 1997 remain. Although a Chief Financial Officer and a Deputy were appointed, ITA was still unable to produce auditable financial statements, and material internal control weaknesses continued to exist. In addition, except for transferring sufficient cash to fund the voluntary foreign service national separation pay accrual, ITA continued to be noncompliant with certain laws and regulations.

We commend ITA for its efforts to correct its material weaknesses and encourage continued implementation of these corrective actions. However, constant oversight is still needed. The mid-year conversion to Interior's Federal Financial System is especially critical as the conversion process will be complex and difficult. (*Financial Statements Audits Division: FSC-10866-9-0001*)

### **Better Management and Coordination Needed to Improve Export Promotion**

The OIG conducted a review of the Department's export promotion efforts, focusing on the effectiveness of ITA, as the lead Commerce agency, in managing its export promotion programs and operations, and its involvement with other departmental units and other federal agencies to expand trade opportunities for U.S. businesses.

We found that ITA has accomplished a great deal in the area of export promotion. Among the steps ITA is taking are (1) establishing a government-wide strategy for export promotion services, (2) providing U.S. firms with a greater awareness of export opportunities, and (3) offering improved services and support at its domestic and overseas offices. However, our review disclosed several issues regarding ITA's internal structure and the guidance and direction provided by its senior managers that warrant management attention:

- **Periodic voids in leadership and general direction.** Too often in the past, the Under Secretary position has been vacant and the Deputy Under Secretary has filled in, in effect performing two jobs.
- **Fragmented approach to providing export promotion services.** ITA's organizational structure has encouraged a fragmented, often duplicative approach to providing support to U.S. firms. Senior officials have indicated that they recognize the need to make changes in this area.
- **Inadequate integration of US&FCS's domestic and overseas personnel.** Although US&FCS's decision to better integrate its staff was sound, initial efforts to implement the decision were not well planned and did not adequately consider employees' concerns. The agency's recently revised approach addresses many of those concerns, but may not go far enough.



- **Limited use of US&FCS's "Teams Initiative."** This initiative, which involves teams of trade specialists located throughout the United States who work to promote exports for a particular industry or a specific geographic region, has the potential to be an important tool in improving ITA's effectiveness and coordination worldwide. But teams could be more effective if they routinely leveraged staff resources from other ITA units to address specific trade-related issues. The initiative would also benefit from having its manager located at Commerce headquarters.
- **Ineffective information technology strategies for both in-house operations and service delivery.** US&FCS does not (1) have a permanent office with leadership responsibilities in information technology, (2) have an adequate system development methodology, or (3) adequately plan or budget for its information technology modernization. Efforts underway to upgrade the agency's office automation infrastructure, improve client tracking, and develop a standard system platform for sharing information appear promising, but more work is needed.

We also found problems related to ITA's interaction within the Department on export promotion activities. Although ITA appears to be working well with BXA and the National Marine Fisheries Service (NMFS), the bureau needs to better coordinate with (1) EDA to prioritize and maximize the use of its grant funds for export promotion efforts, (2) MBDA to provide more effective export promotion services to its clients throughout the nation, and (3) NTIA to promote international market access and trade opportunities for U.S. telecommunications companies. In addition, NIST should continue to work closely with ITA in furthering Commerce's efforts to help developing nations shape their industry standards.

In an earlier report on export promotion (see March 1993 issue, page 28), we expressed concerns about inadequate governmentwide interagency coordination. Since then, ITA has improved interagency coordination through the Trade Promotion Coordinating Committee (TPCC), which includes senior-level representatives from 20 federal agencies, and has established a TPCC Secretariat to provide a point of contact for federal or private sector parties. We found, however, that there was often inadequate cooperation among the various TPCC agencies operating at overseas posts, which can result in missed trade opportunities, inefficient operations, and overlap and duplication.

Among our recommendations were that ITA (1) refine and implement its reorganization plan and, as appropriate, revise its policies to redefine the roles and responsibilities of the agency and its components in relation to exporters' needs, (2) designate a permanent office that has the necessary capabilities and authority to address bureauwide information technology issues, (3) seek to strengthen the role of the TPCC as a tool to encourage greater government cooperation and coordination on trade issues, (4) periodically evaluate the integration initiative to ensure that it is delivering the desired results, and (5) ensure that the Teams Initiative includes, where appropriate, industry and country specialists from other ITA units. We also made recommendations to both ITA and senior officials at those Commerce agencies—EDA, MBDA, and NTIA—with which better coordination is needed.

ITA generally agreed with our recommendations. (*Office of Inspections and Program Evaluations: IPE-9904*)

### **Acting IG Testifies on Commerce Export Promotion Initiatives**

On March 25, 1999, the Acting Inspector General appeared before the House Government Reform and Oversight Subcommittee on Criminal Justice, Drug Policy, and Human Resources to discuss the results of the OIG's recent work related to the Department's—and particularly ITA's—efforts to promote U.S. exports. He observed that ITA has accomplished much in the area of export promotion in recent years. Current and potential U.S. exporters, as well as related associations, are increasingly acknowledging ITA's success in making U.S. firms better aware of export opportunities, offering a wide range of services and support at its domestic and overseas offices, and pursuing an effective government-wide strategy for export promotion services.

The Acting IG highlighted a recent OIG report that both assessed the Department's export promotion efforts and described some of the challenges facing Commerce managers as they continue to improve their export promotion activities (see page 37). In conducting this review, the OIG attempted to address two primary questions: (1) What is the Department doing to meet the objectives of the Omnibus Trade and Competitiveness Act of 1998? (2) Are U.S. exporters, and potential exporters, being well served by the Department?

The testimony focused on the efforts of the U.S. and Foreign Commercial Service—the Department's largest, and most visible export promotion unit—describing in particular the results of OIG reviews of

US&FCS's overseas posts (see below). The Acting IG also presented observations relating to the export promotion efforts of other ITA units and other Commerce agencies, and discussed the OIG's views on how certain trade promotion activities are, or should be, coordinated among the many federal agencies with responsibilities in this area.

### ***OIG Continues Its Reviews of US&FCS's Overseas Posts***

During this semiannual period, the OIG continued its series of reviews of selected Commerce overseas posts (see September 1998 issue, page 35), which are under the direction of ITA's U.S. and Foreign Commercial Service. The reviews evaluate a post's operational effectiveness and determine whether it is efficiently accomplishing its mission: to assist U.S. companies, especially small and medium-sized ones, with export assistance. In reporting the results of each review, we generally divide our findings into some combination of the following areas: general management and organizational issues, program activities and performance measurement, and internal control environment. In the following sections, we summarize the results of the five audit reports issued during this semiannual period.



#### **US&FCS European Union**

The European Union (EU) comprises 15 countries, referred to as member states, having a total population of about 370 million people, roughly 1½ times that of the United States. The United States maintains diplomatic relations with EU through the U.S. Mission to the EU, whose staff includes representatives from the Departments of Agriculture, Commerce, Justice, State, and the Treasury; the Office of the U.S. Trade Representative; the U.S. Information Agency; the Customs Service; and the Agency for International Development. Commerce's operations are managed by US&FCS and also include programs of NIST and NOAA.

- **General management and organizational issues.** Although US&FCS's EU operation is an atypical post, with activities directed primarily at supporting the U.S. mission's policy and regulatory-reporting initiatives, we believe that it needs to more fully integrate its operations with the agency's core mission of providing export marketing assistance to U.S. firms. To do this, the post must develop a strategic commercial plan and identify primary and secondary target markets for its output.

- **Program activities and performance measurement.** US&FCS EU has supported mission efforts in advancing mutual recognition agreements to improve access for U.S. and EU firms to each other's markets, and both the NIST standards program and the NOAA fisheries program were providing valuable services to the U.S. business community and other US&FCS posts in Europe.

However, the development of core US&FCS products and services needed attention, and NIST's and NOAA's programs should be better integrated into Showcase Europe, the Department's strategy to approach Europe on a regional basis and to help U.S. firms already exporting in one market to move into others. Moreover, the post needed to establish an outreach program, develop marketing materials, and explore untapped service markets, especially for small and medium-sized enterprises.

- **Internal control environment.** US&FCS EU's administrative structure was inadequate, and appropriate internal controls had not been established, primarily because of changes in management and turnover in personnel. As a result, the post was not actively monitoring its finances; significant discrepancies in accounting data existed between State and ITA financial reports, as well as prior year unobligated authorizations and unliquidated obligations; and physical asset management had deficiencies.

US&FCS generally agreed with the recommendations we made and described measures already taken to implement them. These include developing a FY 1999 strategic action plan to coordinate the post's marketing efforts with other US&FCS European posts and Showcase Europe and taking steps to strengthen the post's internal control system. (*Business and Trade Audits Division: BTD-10588-9-0001*)

### US&FCS Belgium

One of the leading trading nations in the world, Belgium offers a central location for reaching the major European markets, a first-rate infrastructure, a skilled multilingual workforce, and an open economy. Belgium is a major market for American products, importing an estimated \$12.5 billion in 1996. U.S. direct investment in Belgium was \$17.8 billion at the end of 1995, and more than 1,200 American companies have operations there. The post is also responsible for commercial affairs at the U.S. embassy in Luxembourg.



Our audit of US&FCS operations disclosed the following:

- **Organizational issues.** Under the office structure in place at the time of our review, the deputy senior commercial officer directly supervised only two of the six foreign service nationals responsible for industry sector coverage. Giving the deputy more responsibilities would enable the commercial staff to benefit more readily from his substantive expertise and would likely improve final work products.
- **Program activities.** To complement its Europe-wide commercial strategy, US&FCS has considered adopting a regional approach to the three countries making up the Benelux region—Belgium, the Netherlands, and Luxembourg. However, US&FCS had not taken decisive action on such an approach at the time of our review. A single-management approach to Benelux, managed by US&FCS Belgium, could provide more coordinated services for U.S. companies seeking to do business in the region.

We also found that two-thirds of the post's "success stories"—a performance measure of export actions in which the Department played a role—were the result of four US&FCS-coordinated or supported trade events held each year. We believe that with the size and experience of its commercial staff, US&FCS Belgium should implement an action plan to increase the number of success stories generated through other than event-related products and services. US&FCS should also better coordinate and streamline its two distinct operations in Belgium—the Belgium post and EU.

- **Internal control environment.** US&FCS has established generally good internal control systems to meet the intent of the Federal Managers' Financial Integrity Act. Systems were in place to document and record transactions and events and to safeguard assets, and the post had proper physical asset management procedures over inventory. However, we did find some weaknesses in accounting controls that needed to be addressed. Specifically, account balances recorded by the State Department and ITA differed significantly, and the total unfunded severance liability for the post was over \$1 million at the end of FY 1997.

We made several recommendations to US&FCS to address the identified deficiencies. The agency generally agreed with our recommendations and described measures it has taken to implement them. (*Business and Trade Audits Division: [BTD-10595-9-0001](#)*)

### US&FCS Portugal

In 1997 direct U.S. exports to Portugal amounted to about \$1 billion. However, as only the 34th largest market for direct U.S. exports of goods and services, Portugal is not ranked highly by U.S. businesses as a new market to explore. US&FCS Portugal consists of two offices—in Lisbon and Porto.

- **Program activities and general management.** Because U.S. exporters consider Portugal to be peripheral to other European markets, US&FCS Portugal has focused on servicing Portuguese companies interested in importing or distributing U.S. products. The post's primary goals for FY 1997-98 were to increase success stories resulting from assistance to importers and to coordinate regional promotion of Portugal through Showcase Europe.

However, while the Porto office was generating a large number of success stories, the quantity and sector coverage represented by these stories, as well as the lack of a strong working relationship with the local branch of the American Chamber of Commerce, indicated that the office's activity might be too narrowly focused. Moreover, the Agent/Distributor Service—a customized overseas search for qualified agents, distributors, and representatives for U.S. firms—needed improvement in management and timeliness.

- **Internal control environment.** US&FCS Portugal played an active role in administering the International Cooperative Administrative Support Services, the administrative cost system for U.S. overseas operations, and maintained an adequate internal control environment. The minor internal control weaknesses we found involved asset management control over vehicles and inventory, controls over cash collections, and the amount of the severance cost liability.

Again, to correct the identified deficiencies, we made a series of recommendations, which US&FCS generally agreed with. It also described measures taken to implement them, including improving the relationship with the Porto branch of the American Chamber of Commerce, increasing the number of visits to Lisbon by the Porto foreign service national, processing all Agent/Distributor Service requests within US&FCS time frames, and maintaining an up-to-date inventory of office and residential property. (*Business and Trade Audits Division: [BTD-10594-9-0001](#)*)





### US&FCS South Korea

Until its recent economic troubles, the Republic of South Korea's economic growth over the last 30 years had been spectacular. South Korea has grown from one of the poorest to among the largest economies in the world, and one of the largest U.S. export markets. However, the South Korean market is difficult for U.S. companies to penetrate for several reasons, among them the amount of pirated and counterfeit goods in the marketplace, the sometimes inconsistent enforcement of laws and regulations, the dominance of domestic conglomerates, cumbersome customs clearance procedures and regulations, and non-tariff trade barriers. US&FCS South Korea operates in two facilities in Seoul: an office in the embassy and a business center in an adjacent building.

We concluded that in general, US&FCS's management team was effective and morale was high among the staff. The post was operating an ambitious outreach program and delivering high-quality products and services to U.S. exporters. Clients and export organizations who work with the post had positive comments about its operations, and it generated a large number of success stories.

- **General management and organizational issues.** Despite its overall strong performance, the post needed to address certain weaknesses to sustain its effectiveness. For example, continuity of operations is at risk due to the scheduled departure of most commercial officers during the summer of 1999, the high turnover of FSN staff in recent years, and the lack of emphasis on staff training. In addition, management of the U.S.-Asia Environmental Partnership program (a joint US&FCS-Agency for International Development program to promote U.S. environmental exports in Asia) has been inadequate.
- **Program activities and performance measurement.** Notwithstanding its many successes, the post's management and staff expressed concern that too much time and resources may have been spent on its trade policy functions, at the expense of its trade promotion responsibilities. Moreover, US&FCS South Korea needed to improve its coordination with other ITA elements; the trade promotion effort was too focused on large companies; and the post performed no formal planning or cost analysis in preparation for the opening of the business center, which lost nearly \$44,000 in FY 1997.

- **Internal control environment.** Although we found the post's internal control environment to be generally strong, we did find some administrative weaknesses, including the need to reconcile account balances on a timely basis, examine prior year unliquidated obligations and unobligated authorizations, properly identify and account for inventory, and address certain information technology issues.

US&FCS generally agreed with our recommendations and identified corrective actions being taken to implement them. For example, the post has initiated a schedule of staggered departures of commercial officers, increased its training for officers and foreign service nationals, increased its oversight of the U.S.-Asia Environmental Partnership program, and prepared a cost and marketing strategy for the business center. (*Business and Trade Audits Division: [BTD-10221-9-0001](#)*)

### American Institute in Taiwan

Over four decades, Taiwan, an important component of the big emerging market that also includes China and Hong Kong, has transformed itself from an underdeveloped, agricultural island to an economic power that is both a leading producer of high-technology goods and a heavy importer of goods for domestic consumption and industrial needs. To maintain ties with Taiwan after recognizing the People's Republic of China as the sole legal government of China, the United States established the American Institute in Taiwan (AIT). AIT is a nonprofit, private corporation that functions much like an embassy, undertaking a wide range of activities representing U.S. interests, including commercial services.

AIT has an office in the capital of Taipei, a branch office in the Taiwanese city of Kaohsiung, and a headquarters office in Arlington, Virginia. The AIT Commercial Section receives most of its funding through AIT (which receives funds through the Department of State) and a portion through a memorandum of understanding with the Department of Commerce. The section operates similarly to US&FCS posts in terms of the delivery of products and services to U.S. exporters.

We found that the Commercial Section maintains strong, productive relations with its clients and other AIT sections, and has produced a high volume of quality research products and timely services for its clients. However, our review also identified the following issues warranting management attention:



- **General management and organizational issues.** The relationships between the Department, the Commercial Section, and AIT/Washington need improvement. Most notably, the memorandum of understanding is unclear and ineffective, and needs to be renegotiated. In addition, the commercial officers' lack of experience and adequate Chinese language skills threatens the operation's effectiveness, while management weaknesses in trade promotion leadership and the U.S.-Asia Environmental Partnership program need to be addressed.
- **Program activities and performance measurement.** The Commercial Section was devoting significant time and resources to trade policy matters at the expense of its trade promotion program, as manifested in the low level of attention being paid to its trade center, the most public and visible component of its operations. In addition, while the section generated a high dollar figure of success stories, the number of such stories was small and reflected too many large company, advocacy-related projects and too few programs that assist small and medium-sized companies. The section was also providing inadequate support to BXA's licensing and export programs.
- **Internal control environment.** The Commercial Section's internal controls and financial management practices were inadequate, ineffective, and insufficiently emphasized by management. Specifically, (1) source financial documentation was not maintained efficiently, (2) key duties were not separated and supervisory review of internal controls was ineffective, (3) proper imprest fund procedures were lacking, (4) proper procedures on the reporting and use of funds generated by trade events were not being followed, and (5) obligations and disbursements were not being systematically analyzed.

US&FCS agreed with nearly all of our recommendations and identified actions being taken to implement them, most notably amending the memorandum of understanding with AIT to make it more specific. (*Business and Trade Audits Division: [BTD-10220-9-0001](#)*)

## **Seattle USEAC Provides Quality Service, but Some Improvements Are Needed**

US&FCS operates a network of 19 U.S. Export Assistance Centers (USEACs) connecting 100 smaller centers in a “hub and spoke” arrangement. 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 “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 Seattle USEAC to assess the quality of its services and its effectiveness in delivering those services to business clients. Our review focused on program operations as well as some of the financial and administrative practices being followed at the USEAC. We found that the Seattle USEAC is doing a good job of providing export assistance to Washington state businesses. The USEAC is staffed with capable, dedicated, and knowledgeable trade specialists who have developed strong partner relationships with state and local trade organizations. In addition, it works well with overseas posts, and its financial affairs appear to be in order.

However, we also found several issues that warrant attention:

(1) USEAC management was in transition, as the former director had resigned and the acting director was nearing the end of his term; (2) although clients generally gave positive feedback on the USEAC’s services, their mixed feedback on the products of the US&FCS overseas posts made the USEAC reluctant to market some post products; (3) efforts to market the USEAC’s services were not as effective as they could be; and (4) some internal controls need improvement.

We recommended that US&FCS fill the Seattle USEAC director position as soon as possible; reassess the effectiveness of the current quality control procedures at headquarters; develop a better system to ensure the quality and timeliness of products and services provided by overseas posts to the USEACs and their clients; and improve Seattle USEAC marketing efforts through advertising, external promotion and seminars, and an Internet web page tailored to the needs of businesses in the state. We also made recommendations to address the internal control deficiencies. US&FCS largely agreed with our recommendations and is working to implement them. (*Office of Inspections and Program Evaluations: IPE-11007*)

### **Award Process for ABC Program Designed to Promote Merit-Based Funding Decisions**

The OIG conducted an audit of the FYs 1997 and 1998 award criteria, procedures, and practices for soliciting, reviewing, and selecting financial assistance applications under US&FCS's American Business Center (ABC) Program. The audit was conducted as part of a Department-wide review of Commerce's discretionary financial assistance programs initiated at the request of the Chairman of the Senate Committee on Commerce, Science, and Transportation (see page 6).

Discretionary funding assistance programs are those programs for which federal agencies have the authority to independently determine the recipients and funding levels of the awards. These programs involve a significant portion of the Commerce Department's budget and operations, representing approximately \$1 billion annually.

Through the ABC Program, US&FCS assists U.S. firms in overcoming many of the obstacles to entry into the markets of Russia and the Newly Independent States, including the lack of commercial, economic, and legal information; affordable office space; and adequate transportation and telecommunications facilities. In FYs 1997 and 1998, the program awarded or renewed 14 cooperative agreements totaling more than \$2.4 million.

We found that US&FCS's criteria, procedures, and practices for the solicitation, review, and selection of ABC awards and renewals complied with statutory, departmental, and agency requirements and were designed to promote merit-based funding decisions. Specifically, US&FCS (1) developed and used merit-based award criteria to evaluate applications for financial assistance, (2) complied with requirements and procedures for soliciting, reviewing, and selecting applications for new ABC awards, and (3) followed established procedures for renewing prior awards.

We did, however, find one deficiency: The program was not listed in the *Catalog of Federal Domestic Assistance* for FY 1998, although US&FCS had requested its inclusion. The *Catalog* contains vital information on financial and nonfinancial assistance programs administered by federal agencies. We recommended that US&FCS work with GSA to ensure that the ABC Program is promptly included in the *Catalog*. US&FCS agreed to take action to correct this problem, and the program was added to the *Catalog* as of the December 1998 update. (*Business and Trade Audits Division: [BTD-10957-9-0001](#)*)

### ***In Brief***

**Suspension.** A senior US&FCS officer received a 10-day suspension for misuse of official time and property and conduct unbecoming a federal employee after an OIG investigation established that the officer had used government telephones, facsimile machines, delivery services, and vehicles to conduct personal business. We also found that the officer frequently directed subordinate employees to perform his personal business during work hours, and was rude and abusive in his dealings with office staff. (*Washington Field Office of Investigations*)

# Minority Business Development Agency

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.

## Audit of FY 1998 Financial Statements

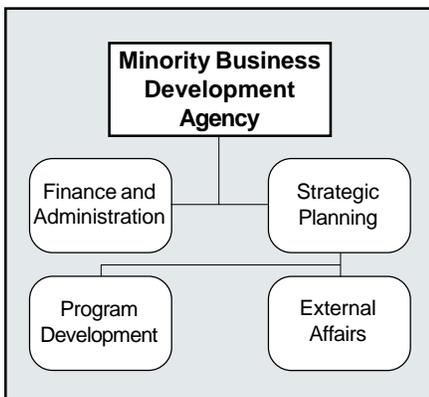
An IPA firm issued an unqualified opinion on MBDA's FY 1998 financial statements. However, the firm's report identified four reportable conditions in MBDA's internal control over financial reporting, which involved weaknesses in the following areas: (1) controls surrounding its financial management systems, (2) the presentation of its performance in the overview, (3) the deobligation process for inactive grants and agreements, and (4) annual leave recording.

The first reportable condition is not under the control of MBDA management. It relates instead to deficiencies surrounding internal controls in the Department's Office of Computer Services mainframe system, on which MBDA's financial data is processed, and compliance problems of EDA's financial management system, which performs certain accounting functions involving MBDA's grant funds.

The IPA firm also identified two instances of material non-compliance with laws and regulations. First, the financial management system of EDA, discussed above, does not comply with the U.S. Government Standard General Ledger at the transaction level. Second, NIST's Financial Accounting and Reporting System, which performs some financial transaction processing and reporting for MBDA, does not maintain appropriate commonality of data elements and transaction processing to ensure timely, accurate, and effective financial reporting.

Both the OIG and the IPA firm conducting the audit reviewed a draft version of the overview to MBDA's financial statements. The firm's review identified serious weaknesses, including performance measures not in accordance with the Department's annual performance plan, inconsistencies between the overview and the bureau's strategic plan, the lack of a clear mission statement, and an incomplete discussion of the Y2K situation. These findings were consistent with our review of the overview. As a result, the firm cited the overview as a reportable condition.

We sent MBDA management a memorandum containing our observations regarding the weaknesses with the overview, and our recommendations for strengthening this component of the financial statements. Management was responsive to our recommendations. (*Financial Statements Audits Division: FSD-10867-9-0001*)



# National Oceanic and Atmospheric Administration



## Audit of FY 1998 Financial Statements

An IPA firm issued an unqualified opinion on NOAA's FY 1998 consolidated balance sheet but a disclaimer of opinion on the remaining financial statements because of the effects of the previous year's qualified opinion. The unqualified opinion is especially noteworthy and recognizes the many corrective actions the bureau has taken to eliminate most of its material weaknesses and reportable conditions. From the 1997 to the 1998 audit, NOAA reduced the number of material weaknesses from 6 to 2 and the number of other reportable conditions from 11 to 5.

The two FY 1998 material weaknesses involved deficiencies in accounting for construction work in progress and in monitoring grant recipients. The five other reportable conditions related to the need to: (1) improve the preparation, analysis, and monitoring of financial information; (2) improve procedures for year-end accounts payable accruals; (3) improve controls over budgeting monitoring; (4) implement procedures to comply with the Statement of Federal Financial Accounting Standards No. 2; and (5) follow policies and procedures related to interagency agreements.

The firm also identified two instances of material non-compliance with laws and regulations: (1) NOAA did not fully fund its capital leases and (2) the bureau's financial management system does not substantially comply with FFMIA in that it does not support the preparation of timely, accurate financial statements and does not adequately support the budget execution process.

The firm also performed agreed-upon procedures related to NOAA's FY 1997 and 1998 Superfund transactions to determine whether related costs billed to the Environmental Protection Agency under interagency agreements were properly accounted for in accordance with the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 and the Superfund Amendments and Reauthorization Act of 1986. The firm noted no exceptions.

We recognize NOAA's commitment to preparing high-quality, reliable, and meaningful financial statements. It has made progress in many areas, but still needs to address the remaining material weaknesses and reportable conditions, which continue to inhibit accurate and timely financial reporting. Certain reportable conditions can be corrected by allocating additional personnel resources, providing more training, and changing policies and procedures. However, the remaining conditions can only be addressed with the replacement of NOAA's current financial system.

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.

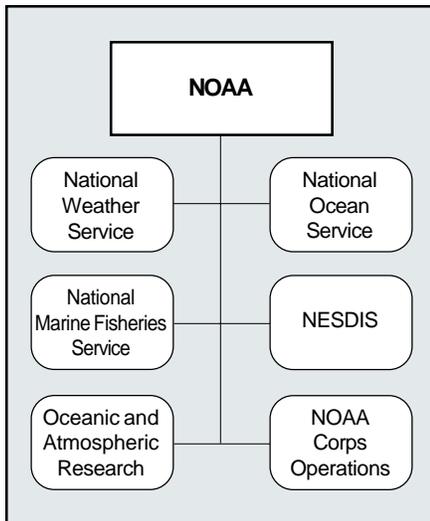
**National Marine Fisheries Service.** NMFS conducts a program of management, research, and services related to the protection and rational use of living marine resources.

**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.

# National Oceanic and Atmospheric Administration



NOAA is evaluating the feasibility of acquiring financial services through a cross-servicing agreement with the Department of the Interior. If cross-servicing is not feasible and cost effective, NOAA will proceed with the implementation of the Commerce Administrative Management System.

We reviewed a draft of the overview to NOAA's financial statements and sent NOAA management a memo containing our observations and suggestions to strengthen their presentation of performance results. We encourage NOAA to strengthen next year's discussion of results and to continue its efforts to improve performance measurement and reporting. (*Financial Statements Audits Division: FSD-10869-9-0001*)

## **Proposed NPOESS Demonstration Satellite Reduces Risk, but Excludes Critical Sensor**

A 1994 Presidential Decision Directive called for the Departments of Commerce and Defense, along with the National Aeronautics and Space Administration, to jointly develop the National Polar-orbiting Operational Environmental Satellite System (NPOESS). The system will combine the Defense Meteorological Satellite Program and the Commerce/NASA-supported Polar-orbiting Operational Environmental Satellite Program to create the nation's first polar-orbiting system that will meet both civilian and defense environmental data needs.

NPOESS is expected to save taxpayers \$1.3 billion over 10 years by reducing the number of U.S.-owned operational satellites from four to two, increasing the useful life span of each satellite from 42 to 84 months, and combining the support functions. Program implementation is the responsibility of an Integrated Program Office under the direction of a Commerce system program director.

The NPOESS acquisition strategy developed in 1996 includes the early development of five critical sensors, which presents significant technological challenges. However, the methodology for demonstrating the sensors was revised in 1998 as a result of increased cost estimates, Integrated Program Office budget cuts, and other concerns.

The Commerce and NASA OIGs conducted a joint inspection of the risks and costs associated with critical sensor technology that is being transferred to NPOESS from NASA and other sources. The inspection identified a risk reduction issue concerning a proposed joint Integrated Program Office/NASA NPOESS Preparatory Project mission developed under the 1998 revised methodology. We found that preliminary planning assumptions for the proposed project do not include evaluating the

feasibility of demonstrating the Ozone Mapper Profiler Suite, one of the Integrated Program Office's critical sensors. Excluding the sensor from flight demonstration will significantly increase the risk of a disruption in vital ozone data continuity.

We recommended that the Integrated Program Office (1) request NASA to include the sensor as a possible payload in its Preparatory Project feasibility study, (2) defer the decision to include or exclude the sensor for flight demonstration until mission costs are fully analyzed and a cost sharing arrangement is negotiated with NASA, and (3) assess the operational risk of not demonstrating the sensor.

The Integrated Program Office generally concurred with the findings and recommendations in the report and indicated that actions have been taken or are planned to address our concerns. The office expressed some concern about the report's suggestion that the NPOESS program should be responsible for ensuring continuity of global ozone mapping data, which is currently a NASA responsibility. We would note, however, that the Clean Air Act of 1990 gives Commerce and NASA equal responsibility for monitoring and reporting on the condition of the earth's ozone. (*Office of Systems Evaluation: OSE-11103*)

### ***Discretionary Program Awards Were Not Competitively Selected***

As part of its Department-wide review of Commerce's discretionary financial assistance programs (see page 6), the OIG conducted performance audits of the seven NOAA discretionary funding programs listed below to assess the FY 1997 criteria, procedures, and practices for soliciting, reviewing, and selecting applications for financial assistance.

- Cooperative Science and Education Program (National Marine Fisheries Service).
- Habitat Conservation Program (National Marine Fisheries Service).
- Unallied Management Projects Program (National Marine Fisheries Service).
- Unallied Science Program (National Marine Fisheries Service).
- Hydrologic Research Program (National Weather Service).

## National Oceanic and Atmospheric Administration

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- Ocean Resources Conservation and Assessment Program (National Ocean Service).
- Research in Remote Sensing of the Earth and Environment Program (National Environmental Satellite, Data, and Information Service).

Upon examining NOAA's and its components' criteria, procedures, and practices for the solicitation, review, and selection of awards, we found that all seven programs failed to fully comply with departmental and NOAA requirements. The programs were not administered as competition-based financial assistance programs, as encouraged by federal law and regulations and mandated by Commerce policies and procedures. In addition, the sole-source justifications for new non-competitive awards made in FY 1997 were inadequate. Specifically, we found that the NOAA components responsible for the programs:

- Did not comply with the Department's and NOAA's requirements that a notice be placed in the *Federal Register*, at least annually, announcing the availability of funding and specifying the criteria and the process to be used in reviewing and selecting applications for funding.
- Did not develop and publish merit-based evaluation criteria against which program applications for financial assistance could be reviewed.
- Did not comply with the requirements that (1) all financial assistance awards be made on the basis of a competitive review process, unless a special waiver is obtained, and (2) the competitive review process meet minimum standards established by the Department.

As a result of these deficiencies, NOAA and its components cannot provide reasonable assurance that awards made under these programs are merit-based and represent the most effective means of achieving program objectives. Not following competitive procedures creates a greater potential for the components to make questionable or even inappropriate non-competitive program awards in instances where other sources are available.

We also found that NOAA's Grants Management Division did not provide adequate oversight of the components' administration of the award selection process.

## National Oceanic and Atmospheric Administration

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We recommended that the NOAA officials responsible for the seven discretionary funding programs ensure that all financial assistance awards are made through a competitive, merit-based process, unless otherwise mandated by law or adequately justified, and that the award process complies with Department policies and procedures and includes the following four elements:

1. Widespread solicitation of eligible applications and disclosure of essential application and program information in written solicitations.
2. Independent application reviews that consistently apply written program evaluation criteria.
3. Written justifications for award decisions that deviate from recommendations made by application reviewers.
4. Adequate written justifications for noncompetitive awards that document appropriate market search efforts to validate the determination that there is only one source for the anticipated award. The market search should include, at a minimum, a preaward notice in the *Federal Register* stating that the agency expects to make a noncompetitive award and inviting other qualified parties to inquire.

We also recommended that NOAA's Office of Finance and Administration, which includes the Grants Management Division, require that grants officer reviews of proposed noncompetitive awards include procedures designed to objectively determine compliance with departmental and NOAA competitive requirements. NOAA agreed that more awards should be granted competitively for all discretionary funding programs and that a rigorous solicitation process should be used. (*Atlanta Regional Office of Audits: [ATL-10944-9-0001](#), [ATL-11084-9-0001](#), and [ATL-11140-9-0001](#) and Seattle Regional Office of Audits: [STL-10947-9-0001](#), [STL-10951-9-0001](#), [STL-10952-9-0001](#), and [STL-10953-9-0001](#)*)

### ***Insufficient Planning for Supercomputer Acquisition Risked Funding Availability***

NOAA is currently using a Class VII supercomputer at its National Centers for Environmental Prediction to generate data that assists the National Weather Service in forecasting weather and meeting its mission goals of collecting, analyzing, and disseminating data related to the Earth's oceans and atmosphere. In May 1997, NOAA proposed to acquire a Class

VIII system to replace its current supercomputer. According to NOAA, this upgrade is critical to achieving many of its environmental modeling and forecasting goals for the next four years.

NOAA had originally planned to award the contract for the Class VIII supercomputer by April 15, 1998, with installation of the system at the Goddard Space Flight Center in Greenbelt, Maryland, in July 1998, seven months before the February 1999 lease expiration of the Class VII system, which is located in Suitland, Maryland. However, the award date was delayed due to concerns raised by the House Appropriations Subcommittee on Commerce, Justice, State, the Judiciary and Related Agencies regarding the proposed location of the new supercomputer, the adequacy of NOAA's justification for early delivery, and the financial terms pertaining to early delivery outlined in the solicitation. Also questioned was the basis for the funding of lease services to be provided from the award date through September 30, 1998.

Although NOAA's analysis of potential sites for the new system indicated that Goddard was the most cost-effective alternative, the OIG determined that the analysis was deficient and that the current site in Suitland was adequate with some modifications (see September 1998 issue, page 48). NOAA agreed to install the Class VIII system in Suitland, and a contract was awarded on October 9, 1998, for installation before February 1999.

At the request of the Subcommittee, we conducted a review of the new system's acquisition funding and advanced lease payments. We made two major observations that we brought to the attention of NOAA management:

- **Because the program office did not sufficiently plan for the acquisition of the supercomputer, it did not provide adequate assurance that funding would be available.** The program office did not generate a procurement request, provide an accurate program budget, or develop a schedule for obtaining the necessary funds. Lack of funding could cause delays in the supercomputer's delivery, which could in turn lead to delayed programmatic benefits.
- **Solicitation provisions for advanced lease payments for the new system were unclear.** The National Centers for Environmental Prediction included notes in the solicitation stating that pricing should be broken out by fiscal year and giving the funding limitations by year. The intent of these notes was to provide lease payment for the equipment in advance of the period of

performance. The solicitation's provisions for these advanced payments were unclear and could have affected how offerors priced their proposals, leading to inaccurate or uncomparable proposals.

We recommended that NOAA ensure that for all National Centers acquisitions, (1) there is adequate acquisition planning so that funding and budgeting issues are identified, (2) an approved procurement request is forwarded to the contracting officer before contract award indicating that funds will be available at the time of award, and (3) any decision to provide advanced payments is adequately justified and that criteria cited in the *Federal Acquisition Regulation* are adhered to and reflected in the solicitation and contract. NWS and the National Centers agreed with our recommendations. (*Office of Systems Evaluation: OSE-10969*)

### ***NWS Agreements Need Better Management and Oversight***

NOAA's National Weather Service consists of 20 program offices that support the agency's mission of protecting human lives and property from severe storms by issuing weather and flood warnings, public forecasts, and advisories for the United States, its territories, adjacent waters, and ocean areas. To accomplish their mission, NWS program offices often undertake special projects, reimbursable activities, and programmatic efforts with other governmental and non-governmental entities through interagency and other special agreements. In FY 1997, NWS had 454 agreements in effect.

As part of an OIG Department-wide review, we conducted an evaluation of the effectiveness and efficiency of NWS's process for entering into agreements with departmental offices and outside parties (see page 17). Based on our review of a sample of NWS's agreements, we found that they supported its mission, were appropriate funding mechanisms, and did not constitute a substantial proportion of its budget resources. However, we also found several aspects of the agreements processes that warrant management attention:

- **Processes, policies, and guidance for preparing agreements need improvement.** Agreements sometimes had deficiencies, including uncited programmatic or funding authorities, inadequate sole-source justifications, missing or unauthorized signatures, and no statement of specific duration. In addition, guidelines, policies, and procedures were limited in their usefulness for preparing agreements, were not up-to-date, and were not centrally located for easy reference.

- **Process for reviewing agreements also needs improvement.** Agreements were not consistently reviewed during preparation, written justifications were not required, no formal criteria existed for the review of agreements by the Department's Office of General Counsel, and policies on the need for periodic review to determine whether an agreement should be renewed, amended, or canceled were not consistent or adequate.
- **Financial management of agreements needs attention.** Some agreements experienced financial problems, including unrecovered costs on Economy Act agreements, inequitable apportionment of costs for joint projects, and improper billing.
- **A database to inventory and track agreements is needed.** NWS had no comprehensive database or tracking system for its agreements. Existing lists were incomplete and not easily sorted by relevant type of information, such as legal authority or type of agreement.

We recommended that NOAA require that NWS, when entering into interagency agreements akin to traditional procurement contracts, adhere to federal requirements for procurements by preparing proper justifications and advertising sole-source contracts over \$25,000. In addition, a comprehensive set of guidelines for preparing agreements that is consistent with departmental guidance should be developed. Once these new guidelines have been established, appropriate NWS staff should be trained on how to properly prepare and process agreements.

Among our other recommendations were that NOAA disseminate information for preparing and processing agreements through NWS's intranet and at appropriate NWS management and administrative meetings and that it establish a centralized system to inventory, track, and control NWS's agreements that is compatible with the proposed Department-wide agreements database. NOAA agreed with all of the report's recommendations. (*Office of Inspections and Program Evaluations: IPE-10417*)

### **West Virginia Awardee Overstated Termination Settlement Costs**

In March and May 1998, the OIG issued audit reports to NOAA and EDA, respectively, describing inadequacies found in a West Virginia foundation's accounting and financial management system, which, along with unforeseen delays, prevented us from negotiating an indirect cost rate (see March 1998 issue, page 47, and September 1998 issue, page 21). In September 1998, we issued a report on our audit of the foundation's actual

## National Oceanic and Atmospheric Administration

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indirect costs for FY 1997 (see September 1998 issue, page 58). Meanwhile, in July 1997, NOAA officials and the foundation agreed to terminate their cooperative agreement. The foundation claimed a total of \$2.5 million for the award period and termination costs associated with this agreement.

Our audit of the foundation's claims, including its termination settlement costs, disclosed \$442,000 in improperly claimed costs. We questioned \$387,000 as a result of the foundation's overstatement of termination settlement costs, including \$292,000 associated with the loss of projected grant revenues. In addition, we questioned \$55,000 of unallowable project costs claimed for the approximately 17-month period of the award prior to termination.

We recommended that NOAA disallow the \$442,000 in questioned costs, disburse \$325,000 to the foundation as its final award payment, and deobligate the remaining \$39,000 in award funds. In response to our draft report, the foundation disagreed with the disallowance of the \$292,000 claimed as unrecovered indirect costs. In addition, it disagreed with our calculations of indirect costs and requested an additional \$36,000 in legal expenses to be included as direct project costs. However, the foundation did not provide any new evidence or documentation sufficient to cause us to change our findings and recommendations. (*Atlanta Regional Office of Audits: ATL-10634-9-0001*)

### ***In Brief***

**Conviction.** In March 1999, a Florida fisherman and his wife pleaded guilty to a one-count indictment charging them with conspiracy to defraud the government through the filing of false claims under the Gulf of Mexico Fisheries Disaster Program. Sentencing is scheduled for June in U.S. District Court for the Northern District of Florida. (*Denver Field Office of Investigations*)

**Suspension.** A senior NOAA official was given a 30-day suspension for misuse of a government vehicle when an OIG investigation revealed that he had used cars assigned to his office to commute between home and work on numerous occasions over a period of approximately three years. (*Washington Field Office of Investigations*)

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

As of March 31, 1999, two performance audit reports and one financial assistance audit report had recommendations unresolved in excess of six months.

### **Light Aircraft Operations**

The first performance audit report, *Light Aircraft Fleet Should be Privatized*, STD-9952-8-0001 (see September 1998 issue, page 44), recommended that NOAA cease operating its eight light fixed-wing aircraft and three helicopters and release them, along with related spare parts. We also recommended that NOAA discontinue all interagency reimbursable work related to its fixed-wing light aircraft and helicopters.

NOAA did not concur with our findings and recommendations. NOAA believes that discontinuing use of the aircraft would compromise its ability to continue uninterrupted data collection efforts required to protect lives and property, increase the risk of accidents, and increase the cost of aircraft support. In addition, NOAA believes that interagency agreements have proven to be cost-effective for meeting some of its data collection needs. Nevertheless, NOAA has submitted an audit action plan, which we are reviewing.

### **NMFS Laboratory Structure**

The second performance audit report, *NMFS Laboratory Structure Should Be Streamlined*, STL-8982-8-0001 (see March 1998 issue, page 39), 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 California laboratory. In addition, we differed 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. In April 1998, the OIG requested NOAA to submit a revised audit action plan, and subsequent meetings were held between OIG and NOAA officials. NOAA submitted a revised plan in November 1998, but did not change its initial position. Negotiations are ongoing between OIG and NOAA concerning alternative approaches to resolution.

### **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. In September 1998, NOAA provided the OIG with another draft revision to the audit resolution proposal, which is under review.

# National Telecommunications and Information Administration



## Audit of FY 1998 Financial Statements

An IPA firm issued an unqualified opinion on NTIA's FY 1998 financial statements. This is a noteworthy achievement, considering that four new financial statements were mandated by OMB Bulletin 97-01. The firm's report did not identify any material weaknesses but did cite one reportable condition in the bureau's internal control over financial reporting: EDA's financial management system, which is used to account for NTIA's grant activity, does not comply with the U.S. Government Standard General Ledger at the transaction level. Although this issue is considered to be a reportable condition to NTIA, corrective actions related to EDA's system are not within the purview of NTIA management.

The firm also identified one issue of non-compliance with laws and regulations, which related to FFMIA. This issue also involves the above-mentioned deficiency in EDA's grant accounting system.

In reviewing a draft version of NTIA's overview to its financial statements, we noted that NTIA incorporated many of our prior year suggestions to strengthen this integral component of the statements. Bureau management was also responsive to our suggestions for improving the overview for the FY 1998 statements. We encourage NTIA to make continued improvements in performance measurement and reporting. (*Financial Statements Audits Division: FSC-10870-9-0001*)

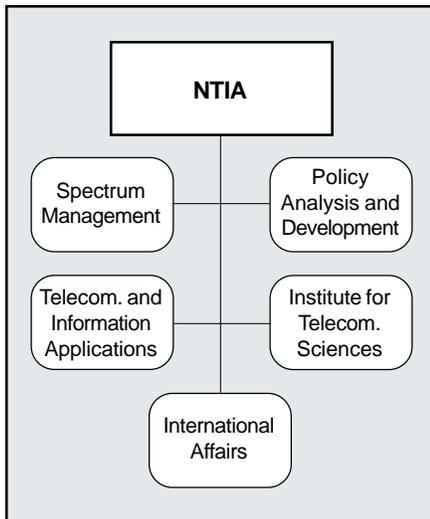
## Grant Process Designed to Promote Merit-Based Funding Decisions, but Needs More Discipline

The OIG conducted audits of the FY 1997 award criteria, procedures, and practices for soliciting, reviewing, and selecting financial assistance applications under the Public Telecommunications Facilities Program (PTFP) and the Telecommunications and Information Infrastructure Assistance Program (TIIAP), as part of its Department-wide review of discretionary financial assistance programs (see page 6).

PTFP provides financial assistance in planning, acquiring, installing, and modernizing public telecommunications facilities. The program targets public or noncommercial education broadcast stations; noncommercial telecommunications entities; systems of public telecommunications entities; private nonprofit organizations established primarily for educational or cultural purposes or that plan for the provision of public telecommunications services; state, local, and Indian tribal governments; and other governmental agencies and subdivisions. In FY 1997, the program awarded 97 grants totaling \$14.1 million.

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 Telecommunications and Information Infrastructure Assistance Program and the Public Telecommunications Facilities Program.

# National Telecommunications and Information Administration



TIIAP provides financial assistance to nonprofit organizations, colleges and universities, and state, local, and Indian tribal governments to promote the widespread use of telecommunications and information technologies in the public and non-public sectors. By providing targeted matching demonstration and planning grants, the program helps develop nationwide, interactive multimedia information infrastructures that are accessible to citizens in both rural and urban areas. In FY 1997, the program awarded 55 grants totaling almost \$20.9 million.

We examined NTIA's criteria, procedures, and practices for soliciting, reviewing, and selecting awards under both programs and found that they generally complied with statutory, departmental, and agency requirements and appeared designed to promote merit-based funding decisions. We found that NTIA (1) developed and published merit-based technical and public policy criteria that were consistent with the programs' objectives and (2) complied with the Department and agency requirement to place a notice in the *Federal Register*, at least annually, announcing the availability of funds, soliciting award applications, and specifying the criteria and process to be used in reviewing and selecting applications.

We also found that NTIA followed established requirements for the competitive review of applications for TIIAP, but not totally for PTFP. Specifically, NTIA program staff participated in review panels for PTFP awards and routinely adjusted the independent reviewers' scores or composite evaluation scores without consulting with the reviewers. The staff's unilateral adjustment of evaluation scores has the potential to undermine the independence and objectivity of the review process.

Moreover, although departmental and NTIA requirements for selecting applications were followed for both programs, documentation was lacking to explain the reasons for deviations from the program directors' lists of applications recommended for funding. For the year reviewed, we found that the Assistant Secretary for Communications and Information, as the selecting official, added nine applications to and deleted seven from the TIIAP recommended funding list, and added three applications to the PTFP list.

A memorandum concerning the additional PTFP applications noted that the selecting official's decision was made to achieve greater geographical distribution, but did not provide specific reasons why certain applicants were selected over others. In addition, there were no written justifications for any of the seven deleted TIIAP applications, although the official did provide justifications for the nine added applications.

We recommended that NTIA ensure that the bases for making awards that deviate from the program director's recommendations are adequately documented. Additionally, we recommended that PTFP staff ensure that independent reviewers' scores are not adjusted by program staff during the review process. NTIA agreed with our findings and recommendations and has modified its financial assistance award process to implement our recommendations. (*Atlanta Regional Office of Audits: [ATL-10945-9-0001](#) and [ATL-10946-9-0001](#)*)

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

#### **Telecommunications Network Grant**

A financial assistance audit report, ATL-10378-8-0001 (see September 1998 issue, page 63), found that a nonprofit grantee's financial management system did not comply with federal standards because it did not provide adequate assurance that only reasonable, allowable, and allocable costs were claimed. We questioned \$298,000 in costs, due mainly to a lack of documentation, and recommended that the Department recover about \$106,000 in excessive grant disbursements. We recently received the audit resolution proposal and are reviewing it.



# 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.

## **Audit of FY 1998 Financial Statements**

For the sixth straight year, the OIG issued an unqualified opinion on PTO's financial statements. We commend PTO for its successful implementation of both OMB Bulletin No. 97-01 and its new cost accounting system. Our audit identified only one reportable condition, which related to the general controls associated with its Revenue Accounting and Management system (see below).

We recognize PTO's hard work and commitment to sound financial management and high-quality, meaningful financial reporting. As a result of the bureau's actions taken during FY 1998 to improve internal controls, there are no longer reportable conditions relating to controls over property, analysis and monitoring of financial information, or timely deposits of cash receipts.

In performing tests of compliance with applicable laws and regulations that have a material effect on PTO's financial statements, we found no instances of noncompliance. (*Financial Statements Audits Division: FSD-10898-9-0001*)

## **Revenue Accounting and Management System Needs Stronger General Controls**

PTO's data center provides data processing support for the Revenue Accounting and Management system, which is used to process and account for fees collected. These fees totaled about \$890 million in FY 1998. As part of its FY 1998 audits of PTO's and the Department's consolidated financial statements, the OIG conducted a review of the general controls associated with the system. Effective controls provide assurance that the data used to prepare the financial statements is reliable.

We assessed the general controls related to the integrity, confidentiality, and availability of information associated with the Revenue Accounting and Management system. Our review focused on the adequacy and effectiveness of general controls in the following areas: (1) entity-wide security program planning and management; (2) access controls; (3) application software development and change controls; (4) system software controls; (5) segregation of duties; and (6) service continuity controls.

Although our review disclosed certain weaknesses in all of these areas, we did not identify any instances of unauthorized access to the financial data. Nevertheless, the weaknesses, if not corrected, could hamper PTO's ability to accurately record and report revenues on its financial statements.

And any adverse effect on PTO's statements could also affect the Department's consolidated statements.

We made a number of recommendations to address the identified deficiencies. PTO agreed with our recommendations and has already initiated corrective actions in several areas. (*Financial Statements Audits Division: FSD-10898-9-0002*)

### **Minor Internal Control Deficiencies Found in Bankcard Program**

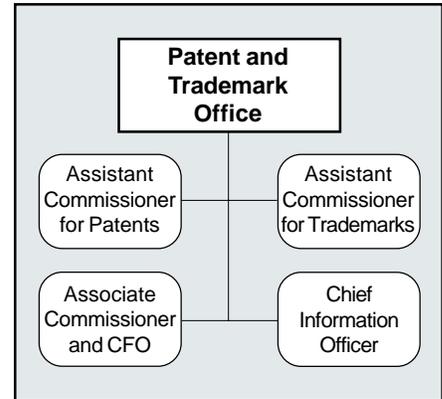
In conjunction with an OIG plan to periodically review Commerce units' use of bankcards, we conducted an audit of FY 1997 PTO bankcard transactions to determine whether purchases were made in compliance with applicable federal and departmental requirements. During FY 1997, PTO made more than 4,600 bankcard transactions, totaling nearly \$3.9 million.

Our review disclosed minor internal control deficiencies in PTO's bankcard program that we believe can be prevented by strengthening oversight by cognizant agency officials. Specifically, cardholders were not always (1) maintaining statement records as required, (2) storing cards in a secure location, and (3) maintaining training documentation on site. However, PTO was properly following other program requirements, such as conducting an annual review of bankcard use and engaging in competitive bidding when required. Moreover, we found few instances of split purchases to avoid cardholder limits.

Among our recommendations were that PTO ensure that cardholders maintain statements and invoice documentation, physically secure cards at all times, and keep training documentation on site. PTO agreed with our findings and recommendations. (*Business and Trade Audits Division: BTD-10901-9-0001*)

### **In Brief**

**Suspension.** A patent examiner was suspended for 14 days after an OIG investigation determined that he had expended official funds for an unauthorized purpose and created the appearance of a loss of impartiality when he ordered a translation of a foreign document to assist an applicant with an international patent application while her U.S. patent application was pending at PTO. The examiner also repaid the government \$223 for the cost of the unauthorized translation. (*Washington Field Office of Investigations*)



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.

## **Audit of TA's FY 1998 Financial Statements**

As it had in the past three fiscal years, TA received an unqualified opinion on its FY 1998 financial statements. The IPA firm conducting the audit did not identify any material weaknesses, reportable conditions, or instances of noncompliance with laws or regulations.

We reviewed a draft version of TA's overview to its financial statements. The bureau has incorporated many of our prior year suggestions to strengthen this integral component of the statements, and was also responsive to our suggestions for improving the overview for the FY 1998 statements. We encourage TA to strengthen next year's discussion of actual results and to continue efforts to improve performance measurement and reporting. (*Financial Statements Audits Division: FSC-10872-9-0001*)

## **Acting IG Testifies on Audit and Inspection Work at TA Agencies**

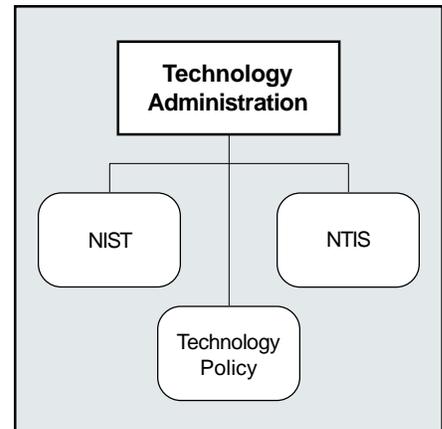
On February 11, 1999, the Acting Inspector General testified before the House Science Subcommittee on Technology to discuss the OIG's recent audit and inspection work on the Technology Administration's programs and operations. He appeared a year earlier before the same Subcommittee to discuss TA's FY 1999 budget request (see March 1998 issue, page 63).

His recent testimony focused on OIG work in six areas of TA's operations:

- **NIST's Facilities Improvements Program**, which includes renovation and construction of facilities at its Gaithersburg, Maryland, and Boulder, Colorado, locations. The OIG has concluded that most of NIST's facilities plans were justified and necessary and that they had improved markedly in recent years. Nevertheless, given the magnitude of these expenditures, it is essential that NIST, OIG, and Department officials continue to scrutinize the plans to ensure that all construction, renovation, and maintenance plans are fully justified.
- **NIST's financial assistance programs**, which we examined through several approaches, most notably as part of a Department-wide review of Commerce discretionary funding programs (see page 6). We had reviewed three NIST programs at that time and found that they were using appropriate merit-based

criteria and competitive procedures in selecting applications for funding (see page 68). In addition, in the past year, we completed 29 financial-related audits of first-time recipients of financial assistance awards under the ATP and MEP programs (see page 71). We also have begun two performance audits of various aspects of NIST's administration of ATP.

- **NIST's and NTIS's systems compliance with federal Y2K requirements.** NIST recently reported to the Department that 107 of its 109 mission-critical systems were Y2K compliant and that the other 2 systems were scheduled for conversion by the March 31, 1999, deadline. NTIS, on the other hand, recently raised its number of noncompliant systems to 10. The Department's Chief Information Officer expressed concern about NTIS's ability to repair its systems by the deadline and has taken steps to closely monitor the agency's progress. The OIG plans to do the same.
- **TA's implementation of Government Performance and Results Act** requirements in planning and measuring performance. Based on our review of the TA agencies' overviews to their FY 1998 financial statements, we concluded that the Office of Technology Policy should continue to refine its performance measurement and reporting, that NIST continues to make improvements in addressing the formidable challenge of measuring the results of its investments in science and technology by using diverse sources of performance data, and that NTIS should continue to explore methods other than the number of products for measuring and reporting on its performance.
- **NTIS's mission and its financial stability**, which raise concerns about whether the organization will have sufficient funds to cover its operations in FY 1999 and beyond. We recommended that TA commission an outside review of NTIS's operations for use in developing a business plan to address short- and long-term financial and business problems, and seeking relief from any of its legislative mandates, as appropriate (see page 14).
- **The FY 1998 financial statement audits** of TA, NIST, and NTIS, all of which were expected to receive unqualified opinions, with no material weaknesses (see pages 66, 68, and 73).



### **Audit of NIST's FY 1998 Financial Statements**

The IPA firm issued an unqualified opinion on NIST's FY 1998 financial statements, representing the sixth straight year of clean opinions. The firm did not identify any material weaknesses, reportable conditions, or instances of noncompliance with laws or regulations.

In reviewing a draft version of NIST's overview to its financial statements, we noted that the bureau had incorporated many of our prior year suggestions to strengthen this integral component of the statements. We believe that NIST has made significant progress in its presentation of performance results. NIST management was also responsive to our suggestions for improving the overview for the FY 1998 and future statements. (*Financial Statements Audits Division: [FSC-10868-9-0001](#)*)

### **NIST Discretionary Award Process Promotes Merit-Based Funding Decisions**

The OIG conducted audits of the FY 1997 award criteria, procedures, and practices for soliciting, reviewing, and selecting financial assistance applications under NIST's Advanced Technology Program (ATP), Manufacturing Extension Partnership (MEP) program, and National Standard Reference Data System (NSRDS) program as part of its Department-wide review of Commerce's discretionary financial assistance programs (see page 6).

#### **Advanced Technology Program**

ATP is a cost-sharing program designed to help U.S. industry pursue high-risk technologies with significant broad-based commercial and economic benefits for the nation. The program enables award recipients to pursue research and development projects that, because they are high-risk, are unlikely to be developed without federal government financial support.

In FY 1997, NIST awarded 64 ATP cooperative agreements from seven 1997 competitions and 8 additional cooperative agreements from a 1996 competition that were not funded in 1996 due to budget constraints. NIST also processed 74 renewals of prior year cooperative agreements. In total, NIST funded more than \$216 million in FY 1997 ATP awards and renewals.

Our review found that the criteria, procedures, and practices used by NIST to solicit, review, and select ATP applications met the Department's minimum requirements and were generally adequate to support merit-

based funding decisions. Specifically, we found that NIST (1) used merit-based technical and public policy criteria, (2) established adequate procedures for reviewing ATP applications, and (3) followed established procedures in soliciting, reviewing, ranking, and selecting applications for funding.

At the same time, we identified opportunities for improving the program's award procedures and practices. We found that NIST had a minor deficiency in documenting the review of ATP applications. Although established procedures were generally sufficient to provide an independent and qualified competitive review of each applicant, the program staff failed to mention 12 proposals submitted for four ATP competitions in the Source Evaluation Board minutes. This issue was brought to the program staff's attention, and they have revised their procedures to prevent this from happening again.

In addition, NIST did not report the correct *Catalog of Federal Domestic Assistance* category code number for three new ATP awards and six award renewals. We recommended that NIST ensure that all future ATP cooperative agreement award and renewal actions are reported under the correct *Catalog* number. NIST agreed with our recommendation.

As part of our review, we also followed-up on NIST's handling of recommendations included in three prior OIG audit reports (see September 1995 issue, page 71; March 1996 issue, page 60; and September 1997 issue, page 48) and a GAO report concerning NIST's administration of the ATP award selection process. We found that NIST had adequately addressed the specific audit findings, including its failure to (1) document the bases for selecting successful proposals, (2) document the rationale by which Source Evaluation Boards overturned recommendations of proposal reviewers, (3) adequately track award contingencies, and (4) sufficiently involve grant office personnel in the review process. (*Denver Regional Office of Audits: DEN-10960-9-0001*)

### **Manufacturing Extension Partnership Program**

The MEP program provides financial assistance to a nationwide network of 75 not-for-profit centers to provide business assistance to small and medium-sized manufacturers. The MEP-funded centers, located in all 50 states and Puerto Rico, are linked together through NIST, making it possible for even the smallest manufacturers to have access to more than 2,000 manufacturing and business specialists.

In FY 1997, MEP processed 55 cooperative agreement actions, all renewals, totaling nearly \$79.5 million. Since NIST did not conduct a competition for new awards in FY 1997, we focused our review on FY 1996 competitive criteria, procedures, and practices, including follow-up on NIST's actions in implementing previous audit report recommendations, and NIST's procedures for granting the renewal awards in FY 1997.

We found that NIST (1) had taken appropriate steps to improve its MEP center selection process, as we recommended earlier (see September 1994 issue, page 56), (2) used merit-based criteria for funding decisions, and (3) followed established procedures in reviewing, selecting, and renewing awards.

However, NIST failed in its 1996 solicitation notice to meet the minimum departmental requirements for identifying the intended funding instrument and discussing the proposal review criteria and process. NIST did mitigate this failure by mailing supplemental information packages to 278 interested parties.

In addition, all proposal reviewers were members of the MEP program staff, a situation that could raise questions about the independence and objectivity of the process. We also noted an additional minor deficiency as NIST recorded several 1997 MEP award renewals under an incorrect *Catalog of Federal Domestic Assistance* code number. As a result, the Department received inaccurate data for tracking awards.

We recommended that NIST ensure that future MEP solicitation notices meet the Department's minimum requirements, invite participants from outside NIST and the Department to serve as proposal reviewers to enhance the objectivity of the selection process, and report award renewals under the correct *Catalog* number.

NIST agreed with our findings and recommendations and will ensure that any future MEP center solicitations comply with the minimum requirements and will involve outside proposal reviewers. In addition, NIST will report the proper *Catalog* category number on all future MEP award actions. (*Denver Regional Office of Audits: DEN-10959-9-0001*)

### **National Standard Reference Data System Program**

Under the NSRDS program, NIST offers grants and cooperative agreements to academic institutions, nonfederal agencies, and independent and industrial laboratories. The aim of the program is to provide critically evaluated numerical data to the scientific and technical community in a convenient, accessible form.

In FY 1997, NSRDS processed only one award action—a \$57,896 renewal of a cooperative agreement initially awarded on a competitive basis in 1994. Since NIST did not conduct a competition for new awards in FY 1997, we focused our audit on the FY 1994 competition procedures and practices. This was the most recent NSRDS competition, and NIST does not anticipate conducting any competitions in the foreseeable future.

We found that although NIST developed appropriate merit-based criteria for evaluating NSRDS applications and followed adequate procedures and practices for selecting awardees, there were four minor deficiencies in the solicitation and review processes. Specifically, NIST (1) failed to comply with departmental guidance by inappropriately identifying two types of funding instruments in its 1994 solicitation notice, (2) did not publish annual program notices in the *Federal Register*, (3) did not maintain written records of the findings of one of three proposal evaluators, and (4) weakened the objectivity of the review process by only using in-house reviewers. We made recommendations to correct these minor deficiencies.

Although there are no current plans to solicit applications for NSRDS funding, NIST agreed to implement our recommendations in the event of future award competitions. (*Denver Regional Office of Audits: DEN-10962-9-0001*)

### **Accounting System Surveys and Audits of NIST Financial Assistant 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, September 1998 issue, page 70). During this semiannual period, key aspects of our work on NIST financial assistance programs involved conducting surveys and audits of recipients under ATP. No audits or surveys were performed of MEP program recipients.

During the period, we reported on eight NIST-requested audits performed pursuant to a memorandum of understanding. We conducted audits of five joint venture partners and three single recipients. In its effort to improve the financial management of its multibillion-dollar ATP program, NIST requested that we perform seven accounting system surveys and interim cost audits, and one final cost audit of a specific cooperative agreement. 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. The final cost audit provided information to enable NIST to close out the agreement in a timely fashion.

The surveys and the interim cost audits disclosed only minor costs questioned and adequate compliance with NIST financial requirements in all but one case, in which we recommended terminating an agreement for noncompliance. The final cost audit disclosed significant questioned costs. (*Denver Regional Office of Audits: DEN-10737-9-0001, DEN-10763-9-0001, DEN-10791-9-0001, DEN-10909-9-0001, DEN-10921-9-0001, DEN-10934-9-0001, DEN-10980-9-0001, and DEN-11121-9-0001*)

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

Under interagency agreements with the Environmental Protection Agency (EPA), NIST conducts technical research to develop methods to counteract the effects of toxic waste spills. Funds appropriated for these agreements are made available through the Hazardous Substance Response Trust Fund, known as the Superfund, which is used to identify the nation's hazardous waste sites, assign priorities to the risks they create, and work to eliminate those risks. During FY 1998, one NIST operating unit—the Technology Laboratory—received Superfund monies under an interagency agreement. The total of \$862,000 received was obligated during the year.

The Superfund Amendments and Reauthorization Act of 1986 requires the OIG to audit all Commerce payments, obligations, reimbursements, and other uses of the Superfund annually to ensure that it is being properly administered. During this semiannual period, we conducted an audit to determine whether NIST had properly managed the financial aspects of the Superfund agreement entered into with EPA during FY 1998.

We determined that NIST had accurately accumulated, documented, and charged the Superfund for reimbursable costs under the agreement; funds had been received in advance for all work performed; the agency was in compliance with the relevant financial provisions of the legislation that created the Superfund and the terms and conditions of the agreement; and controls over Superfund activities were adequate. As a result, we made no recommendations. (*Business and Trade Audits Division: [BTD-11485-9-0001](#)*)

## **Audit of NTIS's FY 1998 Financial Statements**

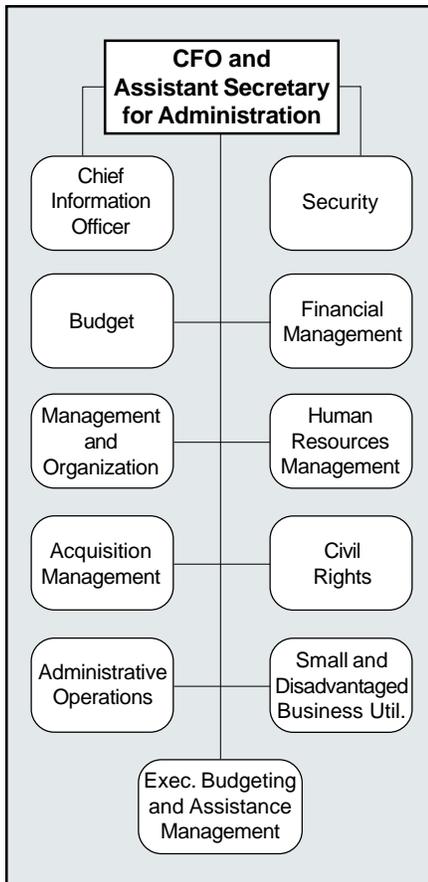
An IPA firm issued an unqualified opinion on NTIS's FY 1998 financial statements. The firm did not identify any material weaknesses in the agency's internal control over financial reporting. However, the firm did cite one reportable condition and one instance of material noncompliance under FFMIA. These problems both involved NTIS's failure to use the proper U.S. Government Standard General Ledger accounts to summarize the results of its budgetary transactions. As a result, the bureau's financial management systems do not comply with the requirements of FFMIA.

NTIS's unfavorable financial position at the end of FY 1998 and prior year trends in costs and revenues caused the IPA firm to increase its audit scope to include procedures to determine whether the bureau had a "going concern" issue for FY 1999. After reviewing NTIS's financial position and its FY 1999 annual plan, the firm concluded that the bureau did not have a going concern issue for 1999. However, we believe that management should closely monitor NTIS's financial position. If the bureau continues to post losses at the current rate, it will not have sufficient funds to sustain itself. NTIS has requested a FY 2000 appropriation of about \$2 million.

In reviewing a draft version of NTIS's overview to its financial statements, we noted that the bureau had incorporated many of our prior year suggestions to strengthen this integral component of the statements. NTIS management was also responsive to our suggestions for improving the overview for the FY 1998 and future statements. (*Financial Statements Audits Division: FSC-10871-9-0001*)



# Departmental Management



## Financial Statements Audits

The OIG is responsible for performing the annual audit of the Department of Commerce's consolidated financial statements under the provisions of the CFO Act, as amended by the Government Management Reform Act of 1994. During this semiannual period, the Department prepared its third set of consolidated financial statements. We issued an unqualified opinion on the consolidated Balance Sheet and a disclaimer of opinion on the consolidating Statements of Net Cost and Changes in Net Position, and the combined Statements of Budgetary Resources and Financing (see page 76).

In addition to reporting on the Department's consolidated financial statements, we issued individual audit reports on the Department's 14 reporting entities. Eleven entities (BXA, EDA, ESA/BEA, MBDA, NIST, NTIA, NTIS, PTO, TA, the Department's Working Capital Fund, and its Salaries and Expense Fund) received unqualified opinions on their financial statements. Two other entities, Census and NOAA, received unqualified opinions on their balance sheets with a disclaimer of opinion on their remaining statements. The Department's Franchise Fund received a disclaimer of opinion on all financial statements. We did not audit ITA's financial statements due to the continued existence of material weaknesses. Instead, certain procedures were performed to support our audit work on the Department's consolidated financial statements.

The Department made significant improvements in financial management during FY 1998, as evidenced by the Department and four bureaus receiving improved audit opinions on their financial statements (see chart on the following page). In addition, there was a significant reduction in the number of material weaknesses and reportable conditions at both the Department and bureau levels. Despite the improvements in internal control and the receipt of an unqualified opinion on the consolidated Balance Sheet, obtaining an unqualified opinion on all statements will not be easy. Until NOAA and Census, whose statements are material to the Department, receive other than disclaimers on their remaining statements, the Department will be precluded from receiving an unqualified opinion on its FY 1999 consolidated statements.

Section 803 of FFMIA requires agencies to determine whether they are in substantial compliance with the act. If not, they are required to prepare a remediation plan outlining the actions needed to bring them into substantial compliance within three years. Based in part on our audit of the FY 1997 financial statements, the Department concluded it was not in substantial compliance with FFMIA. Accordingly, the Department developed an action plan to correct the material weaknesses and reportable

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Entity	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Department			Disclaimer	Disclaimer	Balance Sheet Unqualified; All Other Statements Disclaimer
BXA	Survey	Disclaimer	Disclaimer	Balance Sheet Unqualified; Income Statement Disclaimer	Unqualified
Census	Disclaimer	Balance Sheet Qualified	Balance Sheet Qualified; Income Statement Disclaimer	Balance Sheet Unqualified; Income Statement Disclaimer	Balance Sheet Unqualified; All Other Statements Disclaimer
EDA	Disclaimer	Disclaimer	Disclaimer	Balance Sheet Qualified; Income Statement Disclaimer	Unqualified
ESA/BEA	Balance Sheet Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
Franchise Fund				Disclaimer	Disclaimer
ITA	Disclaimer	Disclaimer	Disclaimer	Disclaimer	*
MBDA	Survey	Balance Sheet Unqualified	Unqualified	Unqualified	Unqualified
NIST	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
NOAA	Disclaimer	Disclaimer	Disclaimer	Balance Sheet Qualified; Income Statement Disclaimer	Balance Sheet Unqualified; All Other Statements Disclaimer
NTIA	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
NTIS	Unqualified	Unqualified	Balance Sheet Qualified; Income Statement Disclaimer	Balance Sheet Unqualified; Income Statement Disclaimer	Unqualified
PTO	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
S&E Fund		Disclaimer	Balance Sheet Qualified; Income Statement Disclaimer	Unqualified	Unqualified
TA		Balance Sheet Unqualified	Unqualified	Unqualified	Unqualified
WCF	Balance Sheet Unqualified	Unqualified	Unqualified	Unqualified	Unqualified

Note: Definitions of the types of opinions appear on page 104.  
 \* Unaudited - certain agreed upon procedures were performed.

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conditions, with the goal of getting an unqualified opinion on its FY 1999 financial statements. Each quarter, the Department reports the current status of its corrective actions to OMB.

In our view, the action plan, along with the quarterly status reports to OMB, meets the definition of a remediation plan. For the quarter ending March 31, 1999, the Department planned to revise its report to OMB to reflect actions needed to correct material weaknesses and reportable conditions identified in the FY 1998 financial statements audits. The OIG, under Section 804(b) of FFMIA, is required to notify the Congress when the Department does not meet intermediate target dates in the remediation plan. We did not identify any instances that would necessitate our notifying the Congress.

During the FY 1997 and FY 1998 audit cycles, we reviewed the overview to the financial statements for the Department and individual bureaus, providing comments to management. The overviews serve as a link between GPRA and the financial statements. We emphasized the need to improve performance measurement and reporting, providing suggestions where improvements could be made. We have also provided advice and consultation to the Department on the implementation of GPRA and linkage to the financial statements. The Department's FY 2000 performance plan reflected many of our suggestions. The Department was responsive to our comments on its consolidated financial statements. In particular, the Department revised its overview and statement of net cost to improve the linkage between strategic planning and financial reporting. Senior Commerce officials should continue to improve financial management and make GPRA implementation one of their top priorities.

### ***Audit of the Department's FY 1998 Consolidated Financial Statements***

The OIG issued an unqualified opinion on the Department's FY 1998 consolidated Balance Sheet and a disclaimer of opinion on the consolidating Statements of Net Cost and Changes in Net Position, and the combined Statements of Budgetary Resources and Financing. The disclaimer of opinion on the FY 1997 financial statements precluded us from issuing an opinion on these FY 1998 financial statements because the October 1, 1997, opening financial statement balances were not audited.

Although significant improvements have been made in financial management, further improvements are needed. Our review of internal control at the Department for FY 1998 disclosed six material weaknesses, which involved the need for improvements in (1) financial management,

(2) financial systems, (3) controls over property, (4) controls over undelivered orders and accounts payable, (5) controls over grants, and (6) reconciliations. There were two other reportable conditions, relating to needed improvements in the preparation of the overview and controls over cash receipts and accounts receivable.

The unqualified opinion on the Department's FY 1998 Balance Sheet represented a marked improvement from the disclaimer of opinion on its FY 1997 financial statements. There was also a reduction of departmental material weaknesses and reportable conditions, and we did not identify any new material weaknesses or reportable conditions at the Department level.

In performing tests of compliance with certain provisions of applicable laws and regulations, we noted several material instances of noncompliance. Specifically, the Department was not in substantial compliance with the requirements of FFMIA, in part because it does not meet the requirements for a single, integrated financial system. The Department reporting entities did not fully comply with federal accounting standards, and four financial systems did not meet the requirement of complying with the U.S. Government Standard General Ledger at the transaction level. In addition, our tests of compliance with other applicable laws and regulations at the individual entities disclosed material instances of noncompliance at ITA (see page 36) and NOAA (see page 51).

The Department concurred with our recommendations for corrective action and will prepare an audit action plan to address them. To achieve an unqualified opinion in future years, the Department must focus on meeting three challenges:

- Although two of the Department's most significant reporting entities, NOAA and the Census Bureau, received unqualified opinions on their Balance Sheets, their four remaining financial statements received disclaimers of opinion. These entities must identify and resolve any potential impediments in the preparation and audit of these statements.
- ITA's FY 1999 financial statements will be audited. Because the FY 1998 statements were not audited, this will constitute, in essence, a first year audit. Typically, federal organizations are not able to receive an opinion on all financial statements on a first-year audit.
- Existing material weaknesses at the Department and entity levels need to be corrected. (*Financial Statements Audits Division: FSD-10899-9-0001*)

### **Department Is Working to Improve Accuracy of Reporting on Y2K Compliance Status**

Like other governmental and private organizations, Commerce needs to fix its year 2000 computer problem to ensure that its business operations are not disrupted as a result of the improper functioning of its critical systems. If these systems are not Y2K compliant, services crucial to our nation's well-being—such as weather forecasting, the 2000 Decennial Census, economic reporting, export license enforcement, and intellectual property protection—could be jeopardized.

In May 1997, OMB began requiring federal agencies to file quarterly reports on their progress in making critical systems Y2K compliant. In November 1998, Commerce reported that 80 percent (367 of 458) of its critical systems were compliant. In February, after our report was completed, Commerce reported that 86 percent of its critical systems were compliant and that 97 percent were expected to be compliant by the March 31, 1999, deadline set by OMB.

As part of a series of OIG reviews focusing on the Department's Y2K Conversion Program, we examined whether the number of compliant systems reported to OMB accurately reflected the status of the Department's systems. We identified several deficiencies that diminished the accuracy of the Department's reporting:

- **The reported number of compliant systems was misleading.** This number was biased by a combination of factors: in some cases, bureaus reported systems to be compliant that were not; in other cases, bureaus included non-critical systems that were easily made compliant.
- **Critical systems were not properly identified.** The bureaus may not have adequately performed a criticality assessment and have had difficulty identifying their critical systems. Five of the 14 systems we assessed were not critical.
- **Evidence is lacking to validate compliance.** When we asked the bureaus for test documentation to substantiate that systems were compliant, very little documentation was available for 8 of the 14 systems.

We are concerned that the inaccurate statistics on compliant systems can give the impression that the bureaus are making significant progress when the most difficult Y2K conversions may still remain.

Commerce has begun addressing its weaknesses, as identified by both the OIG and the Department's Chief Information Officer, by emphasizing sound business management practices in its Y2K Conversion Program and establishing a process for validating compliance. This effort should increase confidence that the bureaus' most critical systems are selected for Y2K conversion, compliance is substantiated, and officials receive the status information they need to manage their Y2K programs.

To reinforce the Department's actions, we recommended that it ensure that (1) the bureaus prioritize their Y2K efforts by identifying and focusing resources on the most critical systems within core business functions that have the greatest risk of Y2K failures, (2) the bureaus comply with the requirements to provide test documentation for compliant systems and have operating unit heads attest that systems are compliant, (3) special efforts are taken to ensure the accuracy and completeness of the Department's quarterly report to OMB, and (4) progress of the most critical, high-risk systems is monitored through frequent Department reviews.

The Department agreed with our findings and said it would implement two of our four recommendations. As for the other two, it suggested alternative courses of action that we considered responsive to the recommendations. (*Office of Systems Evaluation: OSE-10924*)

### ***Audit of the WCF's and S&E Fund's FY 1998 Financial Statements***

An IPA firm issued an unqualified opinion on the FY 1998 financial statements of General Administration's Working Capital Fund (WCF) and Salaries and Expenses (S&E) Fund. One management team operates both funds under the same internal control structure and procedures for compliance. The IPA firm did not identify any material weaknesses, but did identify two reportable conditions in WCF and S&E's internal control over financial reporting. They involved the need for improved controls surrounding the Financial Accounting and Reporting System and property.

Concerning the first reportable condition, an FY 1997 OIG review performed at the Department's Office of Computer Services identified several issues relating to the general controls surrounding the mainframe system used to process FARS. The majority of these issues were not corrected during FY 1998. Therefore, the IPA firm considers these issues to be a reportable condition to WCF and S&E because FARS processes the financial information used in preparing the two agencies' financial statements. However, the reportable condition is not under the control of WCF and S&E management.

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The second condition relates to problems in the WCF and S&E property retirement process that resulted in discrepancies between the subsidiary property ledger and the capitalized property records in the FARS accounting system. Because these discrepancies dealt with property that was fully depreciated, the impact on the financial statements was not material. However, corrections should be made to bring the ledger and FARS into agreement.

The firm also identified one instance of material non-compliance with laws and regulations related to FFMIA. Specifically, FARS does not maintain sufficient commonality of data elements and transactions processing to ensure timely, accurate, and effective financial reporting, as required by federal guidance.

In reviewing a draft of the overviews to WCF's and S&E's financial statements, we found that the agencies had incorporated many of our prior year suggestions for improving the clarity and conciseness of the overview. Management was also responsive to our comments on the FY 1998 overviews. WCF and S&E should strengthen discussion of performance, such as by providing comparisons of actual results to benchmarks and explanations of variances. (*Financial Statements Audits Division: FSC-10873-9-0001*)

### **Audit of the Franchise Fund's FY 1998 Financial Statements**

An IPA firm issued a disclaimer of opinion on the FY 1998 Balance Sheet of General Administration's Franchise Fund because of deficiencies in the Fund's accounting records and internal control over financial reporting, as well as the unknown financial impact of an ongoing review of certain aspects of its procurement process. The Fund's remaining financial statements were not audited, having been excluded from the scope of the audit because of the effects of the previous year's disclaimer of opinion.

Despite the contractor's disclaimer of opinion, the Fund's management and staff have made progress since the previous year's audit. The FY 1997 audit identified four material weaknesses and two other reportable conditions, whereas the FY 1998 audit had only one material weakness and three other reportable conditions. The material weakness involved the need for improvement in controls surrounding accounts payable and year-end estimated expenses. The other reportable conditions dealt with needed improvements in controls over the financial accounting and reporting system, accounts receivable and collections, and the recording and documentation of fixed assets.

The IPA firm also identified one instance of material non-compliance with laws and regulations in that the Fund's financial management system was not in substantial compliance with federal financial systems requirements. We also reviewed and commented on a draft version of the Fund's overview to its FY 1998 financial statements. Fund management was responsive to our observations and recommendations and indicated its plans to make additional revisions to strengthen its future overviews. (*Financial Statements Audits Division: FSC-11029-9-0001*)

### **Office of Security Needs to Improve Planning and Procedures As It Reorganizes**

Real and perceived lapses in security involving a former political appointee brought a great deal of attention to the management of security at Commerce. To restore any loss of confidence in the Department's security program, Secretary Daley called for both internal and external reviews of security operations. These reviews concluded that the Department's entire security function should be strengthened.

The Secretary responded by establishing a high-level position of Deputy Assistant Secretary for Security and ordering the consolidation of nearly all departmental security personnel who were formerly employed by various Commerce bureaus and operating units. A phased implementation of this consolidation began in August 1998.

At the request of the new Deputy Assistant Secretary for Security, the OIG conducted a review of the Office of Security's administrative operations to help identify problems that could be solved as the office undergoes its reorganization. We also assessed the office's readiness to take on an expanded role in the security of the Department's bureaus.

We found a dedicated security management team and staff who were working hard to redefine relationships with the bureaus and to improve the office's effectiveness. For example, the Department reduced its number of security clearances by 27 percent between August 1997 and February 1998, and has established a system of periodic, unannounced reviews of security practices and regularly scheduled inspections of Commerce offices that handle classified information.

Despite this progress, we found several operational and administrative problems that could reduce the efficiency and effectiveness of the Office of Security as it consolidates and takes on new administrative responsibilities. To address these problems, we recommended, among other things, that the office (1) complete its consolidation plans for the Department's

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field security functions; (2) revise its draft organizational plan so that the budget and administrative operations functions report as one entity to senior officials; (3) draft an information technology plan that considers a full range of practical applications to maximize the use of office resources; (4) implement incident tracking software to help track, record, and analyze incidents Department-wide; (5) increase the pool of special agents available for protecting the Secretary; and (6) assess all options thoroughly before selecting a central inventory control system.

In response to our report, the Office of Security identified steps that it was taking to comply with the intent of most of our recommendations. (*Office of Inspections and Program Evaluations: IPE-11331*)

### **Classified Document Tracking System Needs Improvements**

During our review of Office of Security functions, we identified several vulnerabilities in the Department's classified documents tracking system that could allow unauthorized individuals access to the system. Because of the sensitivity of these issues, we decided to deal with them in a separate report, in which we discussed the issues and made recommendations for correcting them. (*Office of Inspections and Program Evaluations: IPE-11630*)

### **In Brief**

**Settlement.** In December 1998, the U.S. Treasury received \$2.25 million from a major government contractor under the Defense Department's Voluntary Disclosure Program, resulting from the company's earlier disclosure that its automated inventory system contained a defect that caused delivery of reworked computer equipment or parts under contracts awarded by the Departments of the Army, the Navy, the Air Force, and Commerce. The payment included \$92,000 in damages and accrued interest allocable to several NOAA and Census contracts. In support of the Justice Department's investigation of the disclosure, the OIG identified noncompliant parts delivered on the Commerce contracts and recommended an appropriate discount figure for calculating the damages. (*Financial Fraud Unit*)

**Demotion.** An Office of Administration employee was demoted and removed from his responsibilities as a contracting officer's technical representative after an OIG investigation revealed that he had borrowed a substantial amount of money from a contract employee working on the contract for which he served as technical representative. In addition, we

established that he had lied in a sworn statement given in a prior investigation in which he denied ever borrowing money from a contract worker. The employee had been previously disciplined for engaging in improper financial dealings with the contractor and for misusing government time and equipment. (*Washington Field Office of Investigations*)

### **Federal Managers' Financial Integrity Act**

Under the Federal Managers' Financial Integrity Act of 1982 (Public Law 97-255), executive agency heads are required to report annually to the President and the Congress on the adequacy of their accounting and management control systems. The annual report identifies material weaknesses and actions being taken to correct them.

Personnel from the OIG and the Department's Office of the CFO work together to assist bureaus in identifying their material weaknesses. For 1999 the Secretary reported the four material weaknesses listed below, all of which were reported in previous years and all of which are on our list of the top 10 management challenges facing the Department. Although progress has been made in each of these areas, they remain areas of serious concern for the Department.

- Modernization of the National Weather Service (NOAA).
- Development of a plan to explore alternative ways of meeting marine and aeronautical data gathering needs (NOAA).
- Financial Systems (Department-wide).
- Management of the Design and Implementation of the 2000 Decennial Census (Census).

### **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.

## Departmental Management

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During this period, we screened 671 proposed awards. On 12 of these awards, we found that the required information for name checks had not been provided, and/or that there was adverse information in the name check file that required us to obtain and review additional information. All the concerns were satisfactorily resolved and the awards were subsequently made. (*Office of Audits*)

<b>Preaward Screening Results</b>		
<b>Results</b>	<b>Number</b>	<b>Amount</b>
Awards denied/delayed	12	\$80,185,673
Special award conditions	0	0
Cost reimbursement basis	0	0

### ***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 public and private entities receiving funds under various federal programs. Normally, the federal agency providing the most direct funding to an entity is designated as its cognizant agency. OMB has designated Commerce as the cognizant agency for 280 economic development districts, as well as a number of state and local government units. From time to time, the Department also has oversight responsibilities for other recipient organizations. The Department has authorized the OIG to negotiate indirect cost rates and review cost allocation plans on its behalf. 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 19 indirect cost rate agreements with non-profit organizations and governmental agencies, and reviewed and approved 28 cost allocation plans. We also provided technical assistance to recipients of Commerce awards regarding the use of rates established by other federal agencies and their applicability to our awards. Further, we have worked closely with first-time for-profit recipients of Commerce awards to establish indirect cost proposals that are acceptable for OIG review. (*Atlanta Regional Office of Audits*)

**Nonfederal Audit Activities**

In addition to OIG-performed audits, the Department’s financial assistance programs are audited by state and local government auditors and by independent public accountants. OMB 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.)

We examined 288 audit reports during this semiannual period to determine whether the reports contained audit findings on any Department programs. For 129 of these reports, the Department acts as cognizant agency and monitors the auditee’s compliance with the applicable OMB circulars or the NIST program-specific reporting requirements. The other 159 reports are from entities for which other federal agencies have oversight responsibility.

Report Category	OMB A-133 Audits	ATP Program-Specific Audits	Total
Pending (October 1, 1998)	30	31	61
Received	296	89	385
Examined	248	40	288
Pending (March 31, 1999)	78	80	158

## Departmental Management

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The following table shows a breakdown by bureau of the \$270 million in Commerce funds audited.

Bureau	Funds
EDA	\$78,176,365
ITA	1,229,915
MBDA	1,350,112
NIST	97,105,576 <sup>a</sup>
NOAA	78,220,777
NTIA	7,809,342
Agency not identified	6,996,318
<b>Total</b>	<b>\$270,888,405</b>

<sup>a</sup> Includes \$57,565,897 in ATP program-specific audits.

We identified a total of \$2,507,316 in questioned costs. In most reports, the Department's programs were considered nonmajor, resulting in limited transaction and compliance testing against laws, regulations, and grant terms and conditions. The 17 reports with Commerce findings are listed in Appendix B-1. (*Atlanta Regional Office of Audits*)

# Reporting Requirements



## INDEX

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

Section	Topic	Page
4(a)(2)	Review of Legislation and Regulations	88
5(a)(1)	Significant Problems, Abuses, and Deficiencies	21-86
5(a)(2)	Significant Recommendations for Corrective Action	21-86
5(a)(3)	Prior Significant Recommendations Unimplemented	88
5(a)(4)	Matters Referred to Prosecutive Authorities	21-86
5(a)(5) and 6(b)(2)	Information or Assistance Refused	89
5(a)(6)	Listing of Audit Reports	97-103
5(a)(7)	Summary of Significant Reports	21-86
5(a)(8)	Audit Reports—Questioned Costs	93,96
5(a)(9)	Audit Reports—Funds to Be Put to Better Use	94,95
5(a)(10)	Prior Audit Reports Unresolved	18,89
5(a)(11)	Significant Revised Management Decisions	19,89
5(a)(12)	Significant Management Decisions with Which the OIG Disagreed	90

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. This matter is discussed on page 74.

### ***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, and 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. Recommendations on legislative or regulatory initiatives affecting Commerce programs are discussed in relevant sections of 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.

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 March 31, 1999, based on semiannual status reports due from the bureaus in mid-April. An accurate 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 March 31, 1999, two performance audits and two financial assistance audits were in this category, as discussed below.

#### **Performance Audits**

The two NOAA unresolved reports address the bureau's light aircraft operations and NMFS's laboratory structure. These reports are discussed on page 60.

#### **Financial Assistance Audits**

The two unresolved audits relate to financial assistance awards made by NOAA and NTIA. Audit resolution proposals have been submitted; however, the OIG and the two bureaus were not able to resolve the reports on a timely basis. Additional details are presented on pages 60 and 63.

### **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.

## Reporting Requirements

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During the reporting period, three modifications were submitted to the OIG for review. The modifications did not involve issues with current significance, and the OIG concurred with the proposed adjustments.

The decisions issued on the three 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 .....	\$3,759,051
Value of audit recommendations made this period that funds be put to better use .....	\$6,314,806
Value of audit recommendations agreed to this period by management .....	\$9,077,291

<b>Investigative Statistical Highlights</b>	
Arrests .....	2
Indictments and informations .....	3
Convictions .....	3
Personnel actions* .....	8
Administrative actions** .....	5
Fines, restitutions, judgments, and other civil and administrative recoveries .....	\$99,020
Savings and avoidance of unnecessary expenditures .....	\$28,759
* 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 .....	21
	Referred to operating units .....	28
	Evaluated but not accepted for investigation or referral .....	<u>57</u>
	<b>Total .....</b>	<b>106</b>
	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	
Internet E-Mail:	oighotline@doc.gov	



# Tables and Appendixes

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1. Audits with Questioned Costs	93
2. Audits with Recommendations That Funds Be Put to Better Use	94
3. Preaward Contract Audits with Recommendations That Funds Be Put to Better Use	95
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B-1. Processed Financial-Related Audits	103
<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>	

**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	25	\$8,426,122	\$1,180,456
B. Reports issued during the reporting period	24	3,759,051	2,413,548
Total reports (A+B) requiring a management decision during the reporting period	49	12,185,173	3,594,004
C. Reports for which a management decision was made during the reporting period	28	7,815,608	1,224,292
i. Value of disallowed costs		3,455,987	1,216,862
ii. Value of costs not disallowed		4,601,309	8,718
D. Reports for which no management decision had been made by the end of the reporting period	21	\$4,369,565	\$2,369,712
<b>Notes and Explanations:</b>			
In Category C, line i contains two reports that had disallowed costs identified during the resolution process.			
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.			
Three audit reports included in this table are also included in the reports with recommendations that funds be put to better use (see Table 2). However, the dollar amounts do not overlap.			
No postaward contract audits are included in this table; instead, any such audits are listed in Table 4.			

## Tables and Appendixes

**Table 2: Audits with Recommendations That Funds Be Put to Better Use**

<b>Report Category</b>	<b>Number</b>	<b>Value</b>
A. Reports for which no management decision had been made by the commencement of the reporting period	7	\$21,509,863
B. Reports issued during the reporting period	4	6,314,806
Total reports (A+B) requiring a management decision during the reporting period	11	27,824,669
C. Reports for which a management decision was made during the reporting period	6	5,793,665
i. Value of recommendations agreed to by management		5,340,039
ii. Value of recommendations not agreed to by management		471,626
D. Reports for which no management decision had been made by the end of the reporting period	5	\$22,031,004
<p><b>Notes and Explanations:</b></p> <p>In Category C, line i contains one report that had funds to be put to better use identified during the resolution process.</p> <p>In Category C, lines i and ii do not always equal the total on line C since resolution may result in values greater than the original recommendations.</p> <p>Three audit reports included in this table are also included in the reports with questioned costs (see Table 1). However, the dollar amounts do not overlap.</p> <p>No preaward contract audits are included in this table; instead, any such audits are listed in Table 3.</p>		

**Table 3: Preaward Contract Audits with Recommendations That Funds Be Put to Better Use**

Report Category	Number	Value
A. Reports for which no management decision had been made by the commencement of the reporting period	2	\$521,265
B. Reports issued during the reporting period	—	—
Total reports (A+B) requiring a management decision during the reporting period	2	521,265
C. Reports for which a management decision was made during the reporting period	2	521,265
i. Value of recommendations agreed to by management		281,265
ii. Value of recommendations not agreed to by management		240,000
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	—	—
<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>		

*Tables and Appendixes*

<b>Table 4: Postaward Contract Audits with Questioned Costs</b>			
<b>Report Category</b>	<b>Number</b>	<b>Questioned Costs</b>	<b>Unsupported Costs</b>
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	—	—	—
<b>Notes and Explanations:</b>			
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.			

<b>Appendix A. Office of Inspector General Reports</b>		
<b>Type</b>	<b>Number</b>	<b>Appendix</b>
Performance Audits	22	A-1
Inspections	10	A-2
Financial Statements Audits	16	A-3
Financial Assistance Audits	14	A-4
<b>Total</b>	<b>62</b>	

<b>Appendix A-1. Performance Audits</b>				
<b>Agency</b>	<b>Subject</b>	<b>Number</b>	<b>Date</b>	<b>Funds to Be Put to Better Use</b>
EDA	Defense Adjustment Assistance Program Is Well Focused	<a href="#">DEN-9806-9-0001</a>	01/99	—
ESA	Internal Controls Over Denver Bankcard Purchases Need Improving	<a href="#">DEN-11030-9-0001</a>	02/99	—
ITA	US&FCS Belgium Needs to Make Organizational Modifications to Maximize Export Promotion Efforts	<a href="#">BTD-10595-9-0001</a>	12/98	—
	US&FCS European Union Mission Should Develop a Europe-wide Commercial Strategy	<a href="#">BTD-10588-9-0001</a>	01/99	—
	US&FCS South Korea Needs to Augment Effective Program with Stronger Internal Controls	<a href="#">BTD-10221-9-0001</a>	01/99	—
	US&FCS Portugal Is Effectively Providing Services, But Should Strengthen Program Management	<a href="#">BTD-10594-9-0001</a>	03/99	—
	The American Institute in Taiwan Commercial Section Needs to Place Greater Emphasis on Trade Promotion and Improve Internal Controls	<a href="#">BTD-10220-9-0001</a>	03/99	—
	US&FCS American Business Center Program Funding Decisions Were Merit Based, CFDA No. 11.115	<a href="#">BTD-10957-9-0001</a>	03/99	—

## Tables and Appendixes

<b>Appendix A-1. Performance Audits — Continued</b>				
<b>Agency</b>	<b>Subject</b>	<b>Number</b>	<b>Date</b>	<b>Funds to Be Put to Better Use</b>
NOAA	NESDIS's Research in Remote Sensing of the Earth and Environment Program Awards Were Not Competitively Selected, CFDA No. 11.440	<a href="#">ATL-10944-9-0001</a>	03/99	—
	NMFS's Cooperative Science and Education Program Awards Were Not Competitively Selected, CFDA No. 11.455	<a href="#">STL-10951-9-0001</a>	03/99	—
	NMFS's Habitat Conservation Program Awards Were Not Competitively Selected, CFDA No. 11.463	<a href="#">STL-10953-9-0001</a>	03/99	—
	NMFS's Unallied Management Projects Program Awards Were Not Competitively Selected, CFDA No. 11.454	<a href="#">STL-10952-9-0001</a>	03/99	—
	NMFS's Unallied Science Program Awards Were Not Competitively Selected, CFDA No. 11.472	<a href="#">STL-10947-9-0001</a>	03/99	—
	NOS's Ocean Resources Conservation and Assessment Program Awards Were Not Competitively Selected, CFDA No. 11.426	<a href="#">ATL-11084-9-0001</a>	03/99	—
	NWS's Hydrologic Research Program Awards Were Not Competitively Selected, CFDA No. 11.462	<a href="#">ATL-11140-9-0001</a>	03/99	—
NTIA	Public Telecommunications Facilities Program Award Process Promotes Merit-Based Decisions, But Process Needs More Discipline	<a href="#">ATL-10945-9-0001</a>	03/99	—
	Telecommunications and Information Infrastructure Assistance Program Award Process Promotes Merit-Based Decisions, But Process Needs More Discipline	<a href="#">ATL-10946-9-0001</a>	03/99	—
PTO	Minor Internal Control Deficiencies Found in Bankcard Program	<a href="#">BTD-10901-9-0001</a>	03/99	—
TA-NIST	NIST Properly Tracked FY 1998 Superfund Charges to the Environmental Protection Agency	<a href="#">BTD-11485-9-0001</a>	01/99	—
	Advanced Technology Program Award Process Promotes Merit-Based Decisions, CFDA No. 11.612	<a href="#">DEN-10960-9-0001</a>	03/99	—
	Manufacturing Extension Partnership Program Award Process Promotes Merit-Based Decisions, CFDA No. 11.611	<a href="#">DEN-10959-9-0001</a>	03/99	—
	National Standard Reference Data System Program Award Process Promotes Merit-Based Decisions, CFDA No. 11.603	<a href="#">DEN-10962-9-0001</a>	03/99	—

<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	Data Capture System 2000 Requirements and Testing Issues Caused Dress Rehearsal Problems	<a href="#">OSE-10846</a>	01/99	—
	Interagency Agreements Require Improvements	<a href="#">IPE-10523</a>	03/99	—
ITA	Seattle USEAC Is Providing Its Clients Excellent Service, but Some Improvements Are Needed	<a href="#">IPE-11007</a>	11/98	—
	Management Improvements Needed to Better Prepare for the Export Challenges of the 21st Century	<a href="#">IPE-9904</a>	03/99	—
NOAA	NWS Requires Better Management and Oversight of Interagency and Other Special Agreements	<a href="#">IPE-10417</a>	03/99	—
	Proposed NPOESS Preparatory Project Reduces Operational Risk, but Excludes Demonstration of Critical Ozone Suite	<a href="#">OSE-11103</a>	03/99	—
	Supercomputer Acquisition Had Inadequate Assurance of Funding and Unclear Provisions for Advanced Payments	<a href="#">OSE-10969</a>	03/99	—
O/S	Department Is Working to Improve Accuracy of Reporting Y2K Compliance Status	<a href="#">OSE-10924</a>	03/99	—
	Office of Security Needs to Improve Planning and Procedures As It Reorganizes	<a href="#">IPE-11331</a>	03/99	—
	Vulnerabilities in the Department's Classified Document Tracking System Need to Be Corrected	<a href="#">IPE-11630</a>	03/99	—

## Tables and Appendixes

<b>Appendix A-3. Financial Statements Audits</b>				
<b>Agency</b>	<b>Subject</b>	<b>Number</b>	<b>Date</b>	<b>Funds to Be Put to Better Use</b>
BXA	Financial Statements for FY 1998	<a href="#">FSC-10864-9-0001</a>	03/99	—
EDA	Financial Statements for FY 1998	<a href="#">FSD-10997-9-0001</a>	03/99	—
ESA	ESA's and BEA's Combined Financial Statements for FY 1998	<a href="#">FSC-10863-9-0001</a>	03/99	—
	Census's Financial Statements for FY 1998	<a href="#">FSC-10865-9-0001</a>	03/99	\$3,300,000
ITA	Financial Statements for FY 1998	<a href="#">FSC-10866-9-0001</a>	03/99	—
MBDA	Financial Statements for FY 1998	<a href="#">FSC-10867-9-0001</a>	03/99	—
NOAA	Financial Statements for FY 1998	<a href="#">FSC-10869-9-0001</a>	03/99	—
NTIA	Financial Statements for FY 1998	<a href="#">FSC-10870-9-0001</a>	03/99	—
O/S	General Administration's Franchise Fund's FY 1998 Financial Statements	<a href="#">FSC-11029-9-0001</a>	03/99	—
	General Administration's WCF and S&E Fund's FY 1998 Financial Statements	<a href="#">FSC-10873-9-0001</a>	03/99	—
	Department of Commerce's Consolidated Financial Statements as of September 30, 1998	<a href="#">FSD-10899-9-0001</a>	03/99	—
PTO	Financial Statements for FY 1998	<a href="#">FSD-10898-9-0001</a>	03/99	—
	Revenue Accounting and Management System - General Controls Review	<a href="#">FSD-10898-9-0002</a>	03/99	—
TA	TA's Financial Statements for FY 1998	<a href="#">FSC-10872-9-0001</a>	03/99	—
	NIST's Financial Statements for FY 1998	<a href="#">FSC-10868-9-0001</a>	03/99	—
	NTIS's Financial Statements for FY 1998	<a href="#">FSC-10871-9-0001</a>	03/99	—

**Appendix A-4. Financial Assistance Audits**

<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>
EDA	Bonneville County Technology Park, ID	STL-10482-9-0001	12/98	\$15,377	\$15,377	\$131,985
	City of Kansas City, KS	DEN-9652-9-0001	02/99	32,864	—	—
	City of Homestead, FL	ATL-10730-9-0001	03/99	—	—	622,019
	City of Pittsburg, KS	DEN-10587-9-0001	03/99	—	—	—
	Texas Engineering Extension Service	DEN-10586-9-0001	03/99	194,129	194,129	—
NOAA	West Virginia High Technology Consortium Foundation	ATL-10634-9-0001	03/99	358,199	—	—
TA-NIST	Apex Medical, Inc., MA	DEN-10921-9-0001	10/98	1,347	—	—
	Precision Castparts Corporation, OR	DEN-10737-9-0001	10/98	41,194	—	—
	The East Development Group, Inc., MA	DEN-11121-9-0001	10/98	728	—	—
	IBIS Associates, Inc., MA	DEN-10909-9-0001	11/98	42,870	42,870	—
	U.S. Surgical Corporation, CT	DEN-10980-9-0001	12/98	—	—	—
	Scientific Measurement Systems, Inc., TX	DEN-10763-9-0001	01/99	15,132	—	2,260,802
	GenPharm International, Inc., CA	DEN-10791-9-0001	03/99	504,465	307,236	—
	MultiCell Associates, Inc., RI	DEN-10934-9-0001	03/99	45,430	3,212	—

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

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<b>Appendix B. Processed Reports</b>	
The Office of Inspector General reviewed and accepted 288 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.	
<b>Agency</b>	<b>Audits</b>
Economic Development Administration	100
International Trade Administration	4
Minority Business Development Agency	4
National Institute of Standards and Technology	51 *
National Oceanic and Atmospheric Administration	16
National Telecommunications and Information Administration	25
Multi-Agency	25
Agency Not Identified	63
<b>Total</b>	<b>288</b>
* Includes 40 ATP program-specific audits.	

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

Agency	Auditee	Number	Date	Questioned Costs	Unsupported Costs	Funds to Be Put to Better Use
EDA	Del Norte Economic Development Corporation, CA	ATL-9999-9-1009	02/99	\$145,667	—	—
	Town of Troy, NC	ATL-9999-9-1029	02/99	14,553	—	—
	California Association for Local Economic Development	ATL-9999-9-1039	02/99	12,059	12,059	—
	City of Chula Vista, CA	ATL-9999-9-1040	02/99	11,727	—	—
	City of Waterville, ME	ATL-9999-9-1070	02/99	—	—	—
	Kittitas-Yakima Economic Resource Development District, WA	ATL-9999-9-1107	02/99	407,800	407,800	—
	City of Savannah, GA	ATL-9999-9-1137	02/99	—	—	—
	Gadsden County Board of Commissioners, FL	ATL-9999-9-1196	02/99	—	—	—
	Virginia Biotechnology Research Park Authority	ATL-9999-9-1237	03/99	891,350	891,350	—
	ITA	Environmental Export Council, DC	ATL-9999-9-1045	03/99	2,439	2,439
NOAA	Massachusetts Biotechnology Research Institute, Inc.	ATL-9999-9-1001	02/99	3,312	—	—
	University of Southern Mississippi	ATL-9999-9-1161	03/99	12,275	12,275	—
	State of Wisconsin	ATL-9999-9-1188	03/99	14,056	—	—
	State of Connecticut	ATL-9999-9-1191	02/99	—	—	—
TA-NIST	Kent Seafarms Corporation (dba Aquatic Systems), CA	ATL-9999-9-0001	10/98	377,585	377,585	—
	InStream Corporation, MA	ATL-9999-9-0004	10/98	467,277	—	—
	Tropel Corporation, NY	ATL-9999-9-0008	10/98	147,216	147,216	—

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.

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## 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.

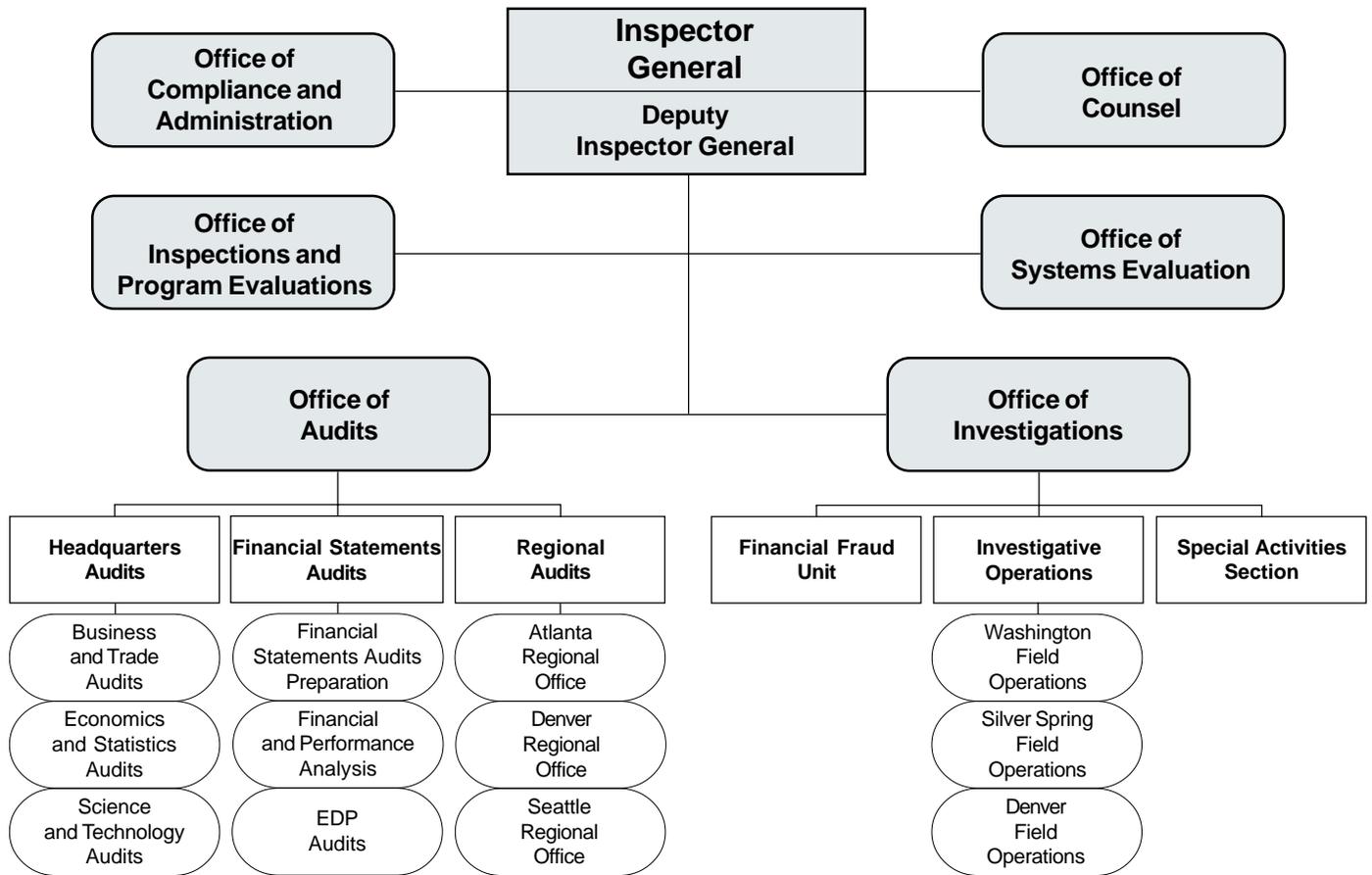
**Disclaimer of Opinion** — The auditor does not express an opinion on the financial statements.

# Glossary of Abbreviations



ABC	American Business Center
AFOS	Automation of Field Operations and Services
AIT	American Institute in Taiwan
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
CFO	Chief Financial Officer
DCS 2000	Data Capture System 2000
EDA	Economic Development Administration
EPA	Environmental Protection Agency
ESA	Economics and Statistics Administration
EU	European Union
FARS	Financial Accounting and Reporting System
FEMA	Federal Emergency Management Agency
FFMIA	Federal Financial Management Improvement Act
GAO	General Accounting Office
GPRA	Government Performance and Results Act
GSA	General Services Administration
IPA	independent public accountant
ITA	International Trade Administration
MBDA	Minority Business Development Agency
MEP	Manufacturing Extension Partnership
NASA	National Aeronautics and Space Administration
NIST	National Institute of Standards and Technology
NMFS	National Marine Fisheries Service
NOAA	National Oceanic and Atmospheric Administration
NPOESS	National Polar-orbiting Operational Environmental Satellite System
NSRDS	National Standard Reference Data System
NTIA	National Telecommunications and Information Administration
NTIS	National Technical Information Service
NWS	National Weather Service
OIG	Office of Inspector General
OMB	Office of Management and Budget
PTFP	Public Telecommunications Facilities Program
PTO	Patent and Trademark Office
RLF	revolving loan fund
S&E	Salaries and Expenses
TA	Technology Administration
TIAP	Telecommunications and Information Infrastructure Assistance Program
TPCC	Trade Promotion Coordinating Committee
US&FCS	U.S. and Foreign Commercial Service
USEAC	U.S. Export Assistance Center
WCF	Working Capital Fund
Y2K	year 2000

# Office of Inspector General Organization Chart



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