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SEMIANNUAL REPORT *to* CONGRESS

MARCH 31, 2002



U.S. DEPARTMENT OF COMMERCE
OFFICE OF INSPECTOR GENERAL

IG's Message to the Secretary



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

April 30, 2002

The Honorable Donald L. Evans
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 Congress* for the first half of fiscal year 2002. 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 your receiving it.

The work detailed here builds on the course we set during our last semiannual reporting period, made all the more urgent by events that have so deeply shaken our sense of national and personal safety. You will note in these pages a strong emphasis on assessing the security of the Department's most critical operations, systems, and assets—including its people. Thus, we have completed comprehensive reviews of emergency preparedness, physical and information security, the export licensing process, and trade compliance activities, to name a few. We have identified some deficiencies that must be rectified to keep the Department strong in its operations and ever ready to meet the unexpected challenges that lie ahead.

Given the Department's highly visible role in matters of national and international consequence, the need to monitor these security-related concerns will likely be ongoing. I look forward to working closely with you and your senior officials to ensure that these and all other challenges confronting Commerce are met head-on and resolved—for the good of the Department, the public, and the nation.

Sincerely,

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

Johnnie E. Frazier

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FOREWORD

“Given the events of the past year, federal agencies have rededicated themselves to ensuring the integrity of their operations, the protection of their employees, and their best service to the American public.”

This semiannual reporting period has been one of introspection unlike any other in the 24 years that Offices of Inspector General have been fulfilling their mandate. Given the events of the past year, federal agencies have rededicated themselves to ensuring the integrity of their operations, the protection of their employees, and their best service to the American public. OIGs, for their part, have looked with new vigor at their responsibilities beyond ensuring that taxpayer dollars are well spent, as they evaluated the success of their agencies’ efforts to protect their people, their assets, and their core mission activities.

This intensified focus has had special resonance at the Department of Commerce and in our work of the last 6 months. Many of the Department’s missions have implications

for the integrity of the nation as a whole and for the well-being of each of its citizens. Thus, we have redoubled our efforts to ensure the security of Commerce data, systems, and programs; to uncover lapses in accountability and inefficiencies in financial management; and to assess human capital needs that are crucial to maintaining a strong, well-functioning Department. We have also worked with other OIGs to ensure that interagency efforts achieve these same ends. Of particular relevance is our work in the following areas:

Homeland/Physical Security. We conducted four reviews of the integrity of Commerce’s critical systems and physical space: an interagency assessment of the export licensing process for dual-use commodities and munitions (see page 11); an evaluation of BIS’ effort to modernize its export licensing operations via the Export Control Automated Support System (see page 21); a study of USPTO’s information security program (see page 74); and an examination of emergency preparedness and physical security at selected Commerce facilities (see page 77). All of these reviews revealed varying degrees of weaknesses in existing policies, procedures, facilities, and operations. And in all cases, we recommended actions to correct the deficiencies.

Performance Measurement/Financial Accountability. We continued during this semiannual period to evaluate efforts by Commerce operating units to implement effective performance measures, as mandated by the Government Performance and Results Act—examining measures used by NIST and USPTO (see pages 6 and 7, respectively). We were pleased to find that both bureaus have made a serious effort to establish comprehensive performance measurement systems. We found that their



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systems require only minor improvements, and both bureaus have already implemented many of our recommendations.

We also report in this issue on the results of our annual financial statements audits. The Department and the individually audited units continue to receive unqualified opinions on these statements, although they still must overcome weaknesses in controls on related reporting and information technology systems. Sound financial management is key to sound operations. We are pleased with the strides the Department and its entities have made toward achieving stability in this regard. (Findings from the Department's consolidated audit appear on page 83. Findings from our financial audit of the Census Bureau appear on page 47; of NIST, on page 63; of NOAA, on page 59; and of USPTO, on page 76.)

Other Areas of Focus. Other pertinent activities included the following:

- **A special evaluation of Census 2000** (page 37). In a departure from our typical audit and inspection work, we issued a report that shares the lessons we gleaned from our nearly 10 years of monitoring and assessing the preparation for and execution of Census 2000. Our purpose was to provide meaningful and user-friendly guidance for improving census planning and operations. The report *Improving Our Measure of America: What Census 2000 Can Teach Us in Planning for 2010* highlights a series of management and operational issues that need careful attention in preparing for the next decennial and suggests ways for addressing them.
- **Reviews of 15 financial assistance awards made by EDA** (page 37) **and NIST** (page 62). Financial assistance awards are a key tool used by the Department to promote economic growth and productivity, and awardees' proper use of these funds must be assured. Our examination of 15 financial assistance recipients resulted in our questioning more than \$2.6 million in federal claimed costs and in recommending \$2.3 million in funds to be put to better use as well as identifying opportunities to improve the management and operation of these financial assistance programs.
- **An assessment of ITA's trade agreement compliance activities** (page 51). Several units within ITA handle market access and compliance work, as does the Trade Compliance Center—a component of ITA's Market Access and Compliance unit created in 1996. Our review of the compliance-related activities of these units and the center revealed the need for better coordination among them, as well as for improved reporting and tracking systems and a reexamination of the measures they use to evaluate their performance.

These activities and the others detailed in the pages of this *Semiannual Report to Congress* convey the broad approach we have taken toward fulfilling our responsibility for monitoring the efficiency and effectiveness of Commerce programs and operations. Mindful of the new set of exigencies that guide our efforts and those of the Department, we respectfully submit this report and press ahead with work in progress for the next.

MAJOR CHALLENGES FOR THE DEPARTMENT

This section highlights OIG's list of Top 10 Management Challenges that faced the Department at the close of this semiannual period. We view these issues as Commerce's top challenges because they meet one or more of the following criteria: they are important to the Department's mission or the nation's well-being; they are complex; they involve sizable expenditures; or they require significant management improvements. Given the diverse nature of Commerce activities, many of these issues cut across bureau and program lines. We believe that by addressing these challenges the Department can enhance program effectiveness; eliminate serious operational problems; decrease fraud, waste, and abuse; and achieve substantial savings.

Top 10 Management Challenges

- 1. Successfully implement a Department-wide financial management system.**
- 2. Strengthen Department-wide information security.**
- 3. Successfully transition the U.S. Patent and Trademark Office to a performance-oriented organization.**
- 4. Increase international compliance with trade agreements and expand market access for American exporters.**
- 5. Enhance export controls for dual-use commodities.**
- 6. Increase the effectiveness of fishery management.**
- 7. Continue to improve the Department's strategic planning and performance measurement in accordance with the Government Performance and Results Act.**
- 8. Strengthen financial management controls to maintain a "clean" opinion on the Department's consolidated financial statements.**
- 9. Successfully implement acquisition reform initiatives.**
- 10. Effectively manage major facilities renovation and construction projects.**

CHALLENGE 1

Successfully Implement a Department-Wide Financial Management System

In 1992 the Department of Commerce began planning the development of the Commerce Administrative Management System (CAMS), an ambitious effort to improve and unify financial management throughout the Department. At that time, Commerce's financial systems were outdated and fragmented, could not provide reliable financial information, and did not comply with federal financial management requirements.

CAMS is a major capital investment for the Department. Expenditures for developing CAMS from 1995 through the end of fiscal year 2002 will reach an estimated \$195 million, and the Department plans to spend an additional \$42 million in FY 2003 to complete the system. However, additional work remains before Commerce is in compliance with OMB Circular A-127, which requires federal agencies to have a single, integrated financial system with standard information and electronic data exchange formats. CAMS is scheduled to be fully deployed by the beginning of FY 2004. The cost of operating and maintaining the completed system is expected to exceed \$25 million annually.

Commerce has faced considerable difficulties in pursuing the Department-wide implementation of CAMS. In December 1994, it contracted for an off-the-shelf accounting software package and related implementation and administrative services. In 1997, after the vendor had difficulty modifying its accounting software to meet Commerce's requirements, the Department took responsibility

for the package and hired a new contractor to complete the modifications. In 1998 continuing cost growth and schedule delays prompted the Department to review the CAMS program and revise the implementation strategy, implement a reduced set of core functions, and reorganize the project management structure.

The revised strategy called for four separate implementations of CAMS to service the varying financial management needs of the operating units: the first—a pilot implementation at the Census Bureau—would be followed by implementation for the units whose accounting functions are handled by the National Institute of Standards and Technology, then for the National Oceanic and Atmospheric Administration, and finally for NIST's own financial management functions. The Census pilot was completed in June 1998. An independent review of the pilot concluded that the CAMS accounting software could support federal accounting and management functions and was as good as or better than other federal accounting packages available at that time.

CAMS is now the official accounting system for Census and several units serviced by NIST, which include the Bureau of Economic Analysis, Economic Development Administration, Economics and Statistics Administration, Minority Business Development Agency, Office of the Secretary, and Office of Inspector General. Commerce has also installed a Department-wide financial database, into which all operating units submit financial statement data for consolidated reporting. The current plan is to complete implementation of CAMS at NOAA by October 2002. NIST will complete implementation a year later. Commerce expects that by October 2003, all of its operating units will be using integrated financial management systems that comply with federal requirements. Twelve units will use CAMS. The remaining three—the International Trade

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Administration, U.S. Patent and Trademark Office, and National Technical Information Service—will not be using CAMS, but will submit financial data to the Department-wide financial database.

Since 1995 the Office of Inspector General has conducted reviews of the CAMS program, assessed the operational system in its annual financial statements audits, and monitored program progress on a continuing basis. In recent semiannual reports, we expressed concern about the management of CAMS development and maintenance as well as the efficiency and economy of four CAMS implementations.

In the last semiannual period, we reviewed CAMS contracting at the CAMS Support Center (see September 2001 issue, page 66). We found that although contract administration has improved steadily since late 1999, additional actions are needed such as greater use of performance-based task orders, documented analyses of prices and costs, additional training for contracting officer technical representatives, and avoidance of contracts that appear to provide personal services. The Department is implementing an action plan to address these recommended improvements.

The Department has already taken steps to address many of our recommendations. For example, the Department has increased its oversight of the operating units' budget requests for CAMS and obtained contractor support to provide a longer-term assessment of financial systems development, operations, and management.

During this semiannual period we continued our review of program management controls at the CAMS Support Center. In our draft report to

senior officials, we highlighted needed planning and management improvements. Although the Department had not officially responded to our draft report in this semiannual period, we understand that, consistent with our recommendations, it is working to improve the budget process as CAMS moves into the operations and maintenance phase, has begun tracking actual costs as of this fiscal year, and is working toward a performance-based management system. Nonetheless, because of the importance of CAMS to improving the Department's financial management and the significance of the work remaining, CAMS will continue to warrant the close attention of senior Department officials and our office.

CHALLENGE 2

Strengthen Department-Wide Information Security

Information security is vital to Commerce: the Department operates many complex computer systems that provide essential public services and support critical mission activities, such as national and local weather forecasting; environmental stewardship; and promotion of trade and economic growth, scientific research, and technological development. Weaknesses in information security throughout Commerce have prompted us to identify this problem as a top management challenge.

During this semiannual period, OIG began its second year of security evaluations under the Government Information Security Reform Act (GISRA). GISRA requires each federal agency to review its information security program annually,

and each OIG to perform an annual independent evaluation of that program. Agency heads must provide both of these assessments to OMB along with their annual budget submission.

In last year's GISRA evaluation, we reported that the Department is striving to improve information security and make it an integral component of Commerce's business operations. Nevertheless, we concluded that inadequate attention to this issue in the past has required substantial efforts by the Department to develop and oversee an effective security program (see September 2001 issue, page 59). The Department identified inadequate information technology (IT) security controls as a material weakness in its FY 2001 statement on financial and management controls prepared pursuant to the Federal Managers' Financial Integrity Act (FMFIA).

As required by OMB under GISRA, the Department has developed a plan and schedule for improving information security. For this year's evaluation, we will assess the Department's progress in implementing this plan, review the information security programs of selected operating units, and hold discussions with chief information officers and senior IT security managers at all units. We will also examine the assessments of IT security controls that were conducted as part of our audits of FY 2001 financial statements (see page 83). We are currently evaluating the information security program at the National Institute of Standards and Technology, using NIST's *Security Self-Assessment Guide for Information Technology Systems*, as recommended by OMB.

GISRA REVIEW FOR USPTO

Last year the U.S. Patent and Trademark Office submitted its budget materials and security review separate from the Department's: USPTO has the freedom to do so under the American Inventors Protection Act of 1999, which gives it greater independence and flexibility to meet federal mandates. We submitted the same GISRA evaluation for USPTO and the Department because the issues it addressed were applicable to both. However, because USPTO has initiated its own actions to manage information security, we conducted a separate review of its information security policies and procedures this year.

This evaluation covered the management, technical, and operational control areas identified in the NIST IT security self-assessment guide, focusing on the controls for which implementation could be evaluated on a bureau-wide basis. We found that although USPTO generally has policies and procedures that are consistent with accepted security practices, many are not implemented. Thus, the bureau lacks assurance that its operational systems and sensitive data are adequately protected. We noted that senior management's awareness, support, and proactive involvement are essential to establishing the environment and ensuring the commitment of resources to promote an effective information security program. In responding to our report, USPTO agreed with all of our recommendations and, more important, described in detail actions it is taking or plans to take to implement them. The Under Secretary and Director of USPTO expressed his commitment to developing a strong information security program, and significant efforts are under way to address the weaknesses we identified. These include providing increased attention and resources to upgrading security

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awareness training, improving planning and budgeting for information security requirements, and hiring personnel with information security expertise. (See page 74.)

Currently, we are assessing USPTO's implementation of system-specific security controls, particularly focusing on the Patent Application Capture and Review System (PACR). The bureau relies on PACR for day-to-day operations and has identified it as a high-security system. We will report the results of this review in the next semiannual period.

BUREAU AND DEPARTMENT-WIDE IT SECURITY WEAKNESSES

The system security reviews conducted as part of the audits of FY 2001 financial statements of NOAA, Census, NTIS, and USPTO, as well as of the Department's consolidated financial statements, disclosed weaknesses in information security controls over major financial management systems. Taken together, these deficiencies are considered a material weakness—a serious flaw in the design or operation of an internal control component that increases the risk that errors, fraud, or noncompliance in material amounts may occur and not be readily detected (see page 74). Specifically, our system security reviews found that some locations need to improve in the following areas:

- * entitywide security program planning and management,
- * access controls,
- * application software development and change controls,
- * system software,
- * segregation of duties and responsibilities, and
- * service continuity plans.

Our audit reports made recommendations to correct the control weaknesses identified at each location. Responsible entities are required to prepare audit action plans to address these recommendations.

CONTRACT SECURITY WEAKNESSES

In last year's GISRA report, we identified problems with information security in IT service contracts. In particular, we noted a lack of sufficient policy and guidance to ensure that contract documents for IT services contain adequate information security provisions. In this semiannual period, we examined this weakness in greater detail: we reviewed 40 of the Department's IT service contracts and found that security provisions to ensure the safeguarding of sensitive but unclassified systems and information were either insufficient or nonexistent. While some contracts contained minimal coverage, none had adequate provisions to safeguard the Department's computer systems and networks from unauthorized access and its data from unauthorized disclosure or modification. All but two lacked evidence that information security was considered during the acquisition planning process. Based on the results of this review, we concluded that the majority of IT service contracts throughout the Department likely lack needed information security provisions. In the next semiannual period, we will issue a report discussing these findings and recommending actions that the Department should take in the areas of policy, contract requirements, and training to help ensure that adequate provisions are included in contracts. Our next semiannual report will also detail the results of our other GISRA reviews, including our ongoing evaluation of the information security functions associated with classified systems.

CHALLENGE 3**Successfully Transition USPTO to a Performance-Oriented Organization**

The American Inventors Protection Act of 1999 established the U.S. Patent and Trademark Office as a performance-based organization, giving it greater flexibility and independence to operate more like a business. As such, USPTO has broader responsibility for managing its operations and expanded control over its budget allocations and expenditures, personnel decisions and processes, and procurement operations.

Despite the act's potential benefits, the transformation it allows is a formidable one. USPTO must develop the necessary personnel, procurement, and administrative policies, as well as performance-oriented processes and standards for evaluating cost-effectiveness, while meeting its performance goals under the Government Performance and Results Act (GPRA) and the timeliness standards of the American Inventors Protection Act. USPTO management views the passage of the act and the successful transition to a performance-oriented organization as critical to the operating unit's success at addressing other challenges identified by OIG in recent years, as described below.

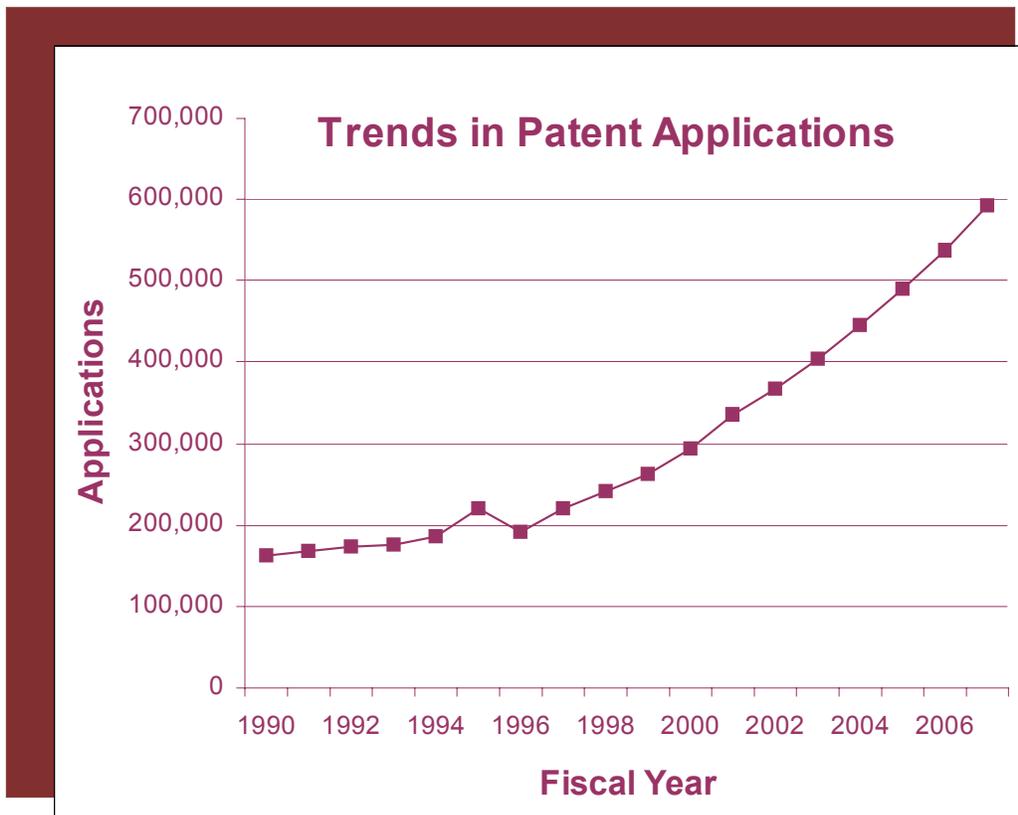
Meeting staffing needs to handle increases in patent activity. The number of patent application filings has skyrocketed in recent years, leading USPTO to hire hundreds of new patent examiners and administrative judges. Trademark filings, on the other hand, have been on the decline. In FY 2001, for example, USPTO received more than 326,000 applications for patents—an increase of 11 percent over FY 2000. However, 296,000 trademark requests were received in

FY 2001, a decrease of 21 percent. To address the expanding patent application workload, USPTO hired 789 patent examiners, but lost 706 through attrition during fiscal years 2000 and 2001.

Our prior audits of the Office of Patent Publications and the Board of Patent Appeals and Interferences reported on some of the challenges facing USPTO in recruiting and training examiners and in hiring additional administrative judges to hear appeals. As a performance-oriented organization, USPTO has greater flexibility to design incentives to attract and retain these highly skilled employees. During this semiannual period, we completed a review of attrition problems in two patent examiner work groups (see page xx). We made a number of recommendations for improving the screening and hiring process and thereby ultimately improving retention.

Managing construction of new facility. During these next few years, USPTO and the General Services Administration must oversee one of the largest real estate ventures that the federal government will undertake this decade—construction of USPTO's new 2.4 million-square-foot office complex in Alexandria, Virginia. When completed in 2005, the 5-building complex will provide space for USPTO employees and operations currently scattered among 18 buildings in nearby Crystal City. Now that construction has begun, USPTO must aggressively hold the line on project costs and stay within the legislatively mandated cap on the cost of completing the build-out of the facility's shell.

Maintaining state-of-the-art information technology capabilities. USPTO continues to face significant challenges in delivering essential IT capabilities. The American Inventors Protection



USPTO's patent workload is projected to increase by roughly 30 to 50 percent annually from FY 2002 through FY 2006. Historically high turnover among patent examiners has made it difficult for the bureau to process applications in a timely and efficient manner.

Source: USPTO Business Plan February 2002. 2001. Washington, D.C.: United States Patent and Trademark Office. Accessed at <http://www.uspto.gov/web/menu/fin03presidbudg1.doc>.

Act of 1999 requires greater operational efficiency from the bureau, further intensifying the demands placed on IT solutions and USPTO's ability to develop new and upgrade existing systems. Our March 2002 evaluation of USPTO's information security program found that in general, USPTO's documented policies and procedures are consistent with accepted security practices, but many important security requirements are not implemented, and fundamental responsibilities are

frequently not carried out (see page 71). USPTO concurred with our findings and has already begun working to implement our recommendations. While the results of our evaluation suggest that information security has yet to become an integral part of USPTO's business operations, the bureau's response to our recommendations indicates genuine concern about the security of its IT systems and commitment to a stronger security program.

CHALLENGE 4**Increase International Compliance With Trade Agreements and Expand Market Access for American Exporters**

To compete effectively in today's global marketplace, U.S. companies need help addressing unfair trade practices and violations of trade agreements, inadequate intellectual property protection, and other barriers to the export of U.S. goods and services. Commerce must ensure that its trade compliance and market access efforts adequately serve U.S. companies by helping expand trade, open world markets, and eliminate unfair competition from imports priced at less than fair market value.

Commerce, through various International Trade Administration offices, works with the Office of the U.S. Trade Representative, the Departments of State and Agriculture, and numerous other federal agencies to monitor and enforce trade agreements. The number and complexity of agreements have increased substantially in recent years.

To help in its compliance efforts, ITA created the Trade Compliance Center in 1996. The center monitors U.S. trade agreements and reviews complaints from a variety of sources. When warranted, it forms a compliance team to bring a case to satisfactory conclusion. Team members are drawn from center staff and other ITA operating units including Market Access and Compliance, Trade Development, the U.S. and Foreign Commercial Service, and other Commerce agencies, as appropriate. In addition to the activities coordinated by the center, ITA's other operating units perform a substantial amount of market access and trade compliance work.

Overall, ITA's approach to trade compliance and market access is to try to solve problems at the lowest level possible—avoiding formal dispute settlement structures such as the World Trade Organization, which can take years to resolve cases.

On the import side, unfair foreign pricing and government subsidies can disrupt the free flow of goods and adversely affect U.S. companies' global competitiveness. ITA's Import Administration works with the International Trade Commission to enforce the nation's antidumping and countervailing duty laws. IA investigates complaints from U.S. industries regarding foreign producers and governments to determine whether dumping or subsidization has occurred and, if so, to what extent. The commission determines whether U.S. industry is suffering material injury as a result of the dumped or subsidized products. If both agencies determine that dumping and injury have occurred, IA instructs the U.S. Customs Service to assess duties against imports of those products.

In 2001 GAO identified monitoring and enforcement of trade agreements as a major management issue for Commerce. It cited two main reasons for this problem: (1) the Department's shortage of staff with the expertise to monitor compliance with trade agreements, and (2) its difficulty obtaining balanced, comprehensive input from the private sector.

The Secretary of Commerce has taken steps to address the concerns of both Congress and GAO by making the monitoring and enforcement of trade agreements a top priority for ITA and for the Department as a whole. Commerce received additional funding for trade compliance activities in FY 2001 under the Compliance Initiative.

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We agree that a more coordinated federal effort is needed to improve compliance. Our review of ITA's trade agreement compliance process, as managed by the Trade Compliance Center, found that the bureau needs to enhance its coordination and tracking of trade compliance and market access activities within ITA. The results of this review are described on page 50.

In the future, we intend to review other aspects of ITA's approach to market access and trade compliance, as well as key import administration issues. In the meantime, ITA must continue to work closely with U.S. companies and other federal agencies to identify trade compliance problems, develop workable solutions for them, and thus enhance American firms' access to foreign markets.

CHALLENGE 5 **Enhance Export Controls for Dual-Use Commodities**

The adequacy of export controls is a continuing concern. Opinions vary on how well the government's export control policies and practices balance the need to protect U.S. national security and foreign policy interests with the desire to promote U.S. trade opportunities and competitiveness. Striking this balance is a significant challenge for the parties involved, particularly for Commerce's Bureau of Industry and Security (BIS), which oversees the federal government's export licensing and enforcement system for dual-use commodities (goods and technologies that have both civilian and military uses).

Strengthening dual-use export licensing and enforcement requires new, comprehensive legislative authority to replace the expired Export Administration Act of 1979 and appropriately address current export control needs and realities. Passed during the Cold War, the act sought to prevent the export of critical goods and technologies to Communist bloc countries. In today's political climate, rogue countries and terrorist groups seeking weapons of mass destruction and the systems to deliver them pose new threats to U.S. national security and foreign policy goals. Legislation is needed to address these threats, as well as to bolster BIS' regulatory authority, stiffen penalties, and demonstrate America's commitment to maintaining strong export controls while encouraging other countries to do the same.

Given the importance of export controls to national security, we have devoted considerable attention to the challenges facing BIS. Specifically, we responded to a request from the Senate Governmental Affairs Committee to follow up on a 1993 interagency OIG review of the export licensing process. At the conclusion of that follow-up work, we, along with OIGs from the Central Intelligence Agency and the Departments of Defense, Energy, State, and the Treasury, issued a special interagency report in June 1999 on the export licensing process for dual-use commodities and munitions.

Subsequently, the National Defense Authorization Act (NDAA) for Fiscal Year 2000, as amended, directed the inspectors general of the Departments of Commerce, Defense, Energy, and State, in consultation with the directors of the CIA and FBI, to report to Congress by March 30, 2000, and annually until the year 2007, on the adequacy of export controls and counterintelligence

measures to prevent the acquisition of sensitive U.S. technology and technical information by countries and entities of concern. In addition, the NDAA for Fiscal Year 2001 requires the OIGs to discuss in their annual interagency report the status or disposition of recommendations made in earlier reports submitted in accordance with the act. To date, we have completed three additional reviews of export controls in compliance with the act, as well as two separate follow-up reports.

Overall, our 1999 report described the licensing of U.S. dual-use exports as a balanced multiagency collaboration that attempts to bring divergent policy views and information to bear on the license decision-making process. In addition, we found that the four-level escalation procedure for resolving license disputes among the referral agencies was working relatively well.

While our assessments have identified significant improvements in export controls since 1993, the 1999 report detailed some weaknesses in the licensing process. First, the processes for commodity classification and commodity jurisdiction were not timely and did not clearly specify the role of each agency. Second, the intelligence community did not review all dual-use export license applications or consistently conduct a comprehensive analysis of applications it did review, and license applications were not screened against a key database maintained by the U.S. Customs Service. Third, there were some recurring problems with BIS' monitoring of licenses that had reporting requirements.

Subsequent reviews have added items to the list of areas that need BIS' attention: the bureau needs to clarify the licensing policy and regulations regarding the release of controlled technology to foreign nationals—commonly referred to as

“deemed exports.” It also needs to conduct more outreach to federal and private research facilities to ensure that they are cognizant of this regulation and apply for deemed export licenses, when appropriate.

The bureau also needs to improve its management of the list of controlled dual-use commodities and technologies, known as the Commerce Control List. We have recommended that BIS make the list more user-friendly, improve the timeliness with which it implements agreed-upon multilateral changes to the list, and address the inappropriate use of national security controls on some items.

Furthermore, we have several concerns about the overall effectiveness of the Committee on Foreign Investment in the United States (CFIUS), specifically CFIUS' lack of mandatory foreign investment reporting and low number of investigations conducted on company filings; the role of the Treasury in overseeing CFIUS activities; and—within Commerce—the division of responsibilities between BIS and ITA for the CFIUS program.

The interagency OIG review team has agreed to conduct an in-depth examination of the Committee's effectiveness as part of its future work under the National Defense Authorization Act.

UPGRADES TO AUTOMATED SYSTEMS

During this reporting period, we completed a review of BIS' efforts to upgrade its automated licensing and enforcement systems. These enhancements are important for the Department because BIS needs a more efficient system for processing export license applications. Our review found that BIS has made some progress on its redesign effort. For example, two components of

the system are expected to be ready for implementation in 2002. However, our review also highlighted several areas needing improvement to ensure the long-term success of the project, including (1) planning, (2) implementation of established information technology management best practices, and (3) coordination with the interagency export licensing community.

In addition to our assessment of Commerce's system, the interagency OIG review team looked at the various automated dual-use and munitions export licensing systems maintained by Commerce, Defense, Energy, and State to determine whether the systems could better interact and whether system modernization initiatives were in accordance with federal policies and regulations (See page 21).

FOCUSED PRIORITIES

The challenges for BIS, as well as for the administration and Congress, remain (1) passing a new Export Administration Act, (2) targeting federal licensing and enforcement efforts on those exports that present the greatest proliferation and national security risks, and (3) streamlining or eliminating controls that unnecessarily hamper trade. We will continue to monitor BIS' efforts to improve dual-use export controls through the annual reviews required by the National Defense Authorization Act.

CHALLENGE 6

Increase the Effectiveness of Fishery Management



Source: NOAA

The Northwest Fisheries Science Center in Seattle, Washington—one of five research facilities operated by NOAA's National Marine Fisheries Service—provides scientific and technical support for management, conservation, and development of the Pacific Northwest's anadromous and marine fishery resources.

For nearly 30 years, the National Marine Fisheries Service (NMFS) has had to balance two competing interests: promoting commercial and recreational fishing as vital elements of our national economy and preserving populations of fish and other marine life. The Marine Mammals Protection Act of 1972 and the Endangered Species Act of 1973 gave NMFS responsibility for preventing the extinction of marine fish, mammals, and turtles, as well as anadromous fish, such as Pacific salmon, which migrate between the ocean and inland waterways. The Magnuson-Stevens Act of 1976 made NMFS the primary federal agency for managing marine fisheries and established a regional fishery management system to help the agency carry out its mission. A 1996 amendment

to the act strengthened NMFS' role in protecting and sustaining fisheries.

The Department has reported that billions of dollars in economic growth, thousands of jobs, and countless fishing opportunities have been lost as a result of overfishing and overcapitalization in commercial and recreational fisheries. While certain fisheries appear to be well managed and produce positive benefits, others are severely depleted and must therefore be restored and properly managed to realize their long-term potential. At the same time, fish species listed as threatened or endangered need to be recovered. Among 52 distinct groups of Pacific salmon, for example, 26 are threatened or endangered.

NMFS has recently taken steps intended to help restore Pacific salmon runs. The agency's specific interest under the Endangered Species Act is to manage protected species through conservation programs and recovery plans. Its Federal Columbia River Power System 2000 Biological Opinion and the broader Federal Caucus Basin-wide Salmon Recovery Strategy established performance standards to guide recovery of Pacific salmon in the Columbia River Basin. NMFS has also put together teams to develop recovery plans for threatened and endangered Pacific salmon species.

We are currently evaluating the role of NMFS' Northwest Fisheries Science Center in supporting salmon recovery efforts. Specifically, we are assessing the Center's implementation of its Salmon Research Plan, which established priorities to ensure that the most important scientific work is conducted. If our review identifies deficiencies in the process the center uses to guide its research, we will recommend appropriate corrective action.

We are also completing a review of NMFS' plans to design and construct the first of possibly four acoustically quiet, state-of-the-art fisheries research vessels. These ships will be used to perform a wide variety of scientific activities, such as implementing advanced technologies for assessing fish stocks. We are assessing management controls on the acquisition to ensure the vessels are procured on schedule and within cost and that they meet NMFS' requirements. We will detail our findings for both of these reviews in the next *Semiannual Report to Congress*.

CHALLENGE 7

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

Sound oversight of federal programs by Congress and agency managers requires relevant performance measures and credible performance data. The Government Performance and Results Act of 1993 was designed to ensure the availability of such data by mandating that agencies set goals for program performance and report outcomes measured against those goals. As the administration moves toward integrating budget and performance information and using performance data to make funding decisions, the credibility of reported performance results will be even more critical.

Like other federal agencies, the Department of Commerce faces the challenge of producing data that is accurate, appropriate, reliable, and useful. To this end, OIG has been involved with

FY 2001 Annual Program Performance

Bureau	Number of Goals	Number of Measures	Measures Met	Measures Not Met
EDA	2	12	10	2
ESA	3	8	7	1
ITA	4	7	2	5
BIS	4	10	4	6
MBDA	2	3	2	1
NOAA	7	29	22	7
USPTO	3	7	4	3
TA	6	12	7	5
NTIA	3	3	2	1
Departmental Management	3	20	17	3
Totals	37	111	77	34

Source: Department of Commerce FY 2001 Annual Program Performance Report and FY 2003 Annual Performance Plan. Commerce operating units continue to improve their performance track record.

Commerce's efforts to implement GPRA since 1997 and has taken the following steps to ensure the collection and reporting of such information to decision makers:

- * provided implementation advice and assistance,
- * monitored reviews by certified public accounting firms of performance data contained in the annual financial statements,
- * made presentations to departmental officials on the importance of ensuring that performance-related information is reliable,
- * provided informal comments to the Department on various GPRA-related documents, and
- * audited internal controls for selected data on bureau performance.

Commerce is operating under its second strategic plan, which covers fiscal years 2000 to 2005.

While we believe the Department has made progress toward meeting the challenge of how best to plan and measure its performance, significant opportunities for improvement remain. Our most recent audits of performance measurement and reporting at two Commerce bureaus, NIST and USPTO, confirmed the need for additional improvements in the reporting of performance results—and improvements have followed. For example, NIST responded to our findings of inadequate reporting by providing a more informative discussion of performance results in the Department's *FY 2001 Accountability Report* and correcting reported results from prior years to reflect our audit findings.

We are currently evaluating performance measurement and reporting at NOAA and, if warranted, will make recommendations to the Department and its operating units regarding the accuracy, appropriateness, reliability, and usefulness of its performance data.

CHALLENGE 8

Strengthen Financial Management Controls to Maintain a “Clean” 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 were designed to improve financial management and accountability in the federal government. These statutes require, among other things, the preparation and audit of agency financial statements that present an entity’s financial position and results of operations, as well as other information needed by Congress, agency executives, and the public to assess management’s performance and stewardship. The audit report must state whether an agency’s financial management systems comply with federal requirements.

The Department received an unqualified (clean) opinion on its FY 2001 consolidated financial statements—the third consecutive year for this accomplishment despite continuing obstacles, including the absence of a single, integrated financial management system. During FY 2001, the Department and its reporting entities made significant progress toward resolving a previously reported material weakness regarding prompt recognition and recording of appropriations, and this weakness has thus been eliminated. In addition, some improvement in accounting balance reconciliations eliminated that matter as a separate reportable condition; the remaining weaknesses associated with that condition are now addressed in the reportable condition on financial management and reporting. Notwithstanding

substantial improvements in financial management, maintaining a clean audit opinion remains a major challenge, especially under the accelerated financial reporting dates mandated by OMB for FY 2002 and beyond. Further improvements are essential to enable the Department and its entities to correct the material weaknesses and other deficiencies identified in the audits of FY 2001 statements. Material weaknesses are serious flaws in the design or operation of an internal control component that increase the risk that errors, fraud, or noncompliance in material amounts may occur and not be readily detected.

The audits of the Department’s FY 2001 statements identified two reportable conditions (one of which is considered a material weakness) and several instances of noncompliance with laws and regulations, none of which was a new matter (See page 83). The number of deficiencies is lower than in previous years, but still represents an obstacle Commerce must overcome to avoid jeopardizing future clean opinions.

The Department recognizes the need for ongoing efforts to create a financial management environment that provides timely, accurate financial and performance information and complies with federal laws and regulations; it continues to focus on strengthening financial management controls.

CHALLENGE 9

Successfully Implement Acquisition Reform Initiatives

Acquisition reform initiatives, such as the Federal Acquisition Streamlining Act of 1994 and the Clinger-Cohen Act of 1996, were intended to reduce the time and money spent in purchasing needed goods and services. To accomplish this goal, reform initiatives (1) rely on performance-based service contracting, (2) consider past performance in awarding contracts, and (3) promote greater use of commercially available products. They also emphasize results-based acquisition and promote life-cycle management of IT as a capital investment. Performance-based measurement tools such as earned value and risk management are key features of acquisition reform efforts.

With the implementation of acquisition reform initiatives well under way in the Department of Commerce, OIG's focus is shifting to the effectiveness of the overall acquisition process. The Department annually spends more than \$1 billion, or about one-quarter of its appropriation, through large contracts and other procurement vehicles. The challenge for Commerce is to balance the desire to streamline the acquisition process with the need to ensure that taxpayer dollars are wisely spent and laws and regulations are followed. A streamlined process should not neglect basic acquisition principles: careful planning, appropriate levels of competition, adept negotiations, well-structured contracts, and effective contract management.

Federal oversight organizations, such as GAO and OMB's Office of Federal Procurement Policy (OFPP), along with the OIG community, continue to

identify deficiencies in agencies' acquisition practices. For example,

- * GAO and various OIGs have reported problems with some agencies' use of purchase cards, primarily weak internal and administrative controls, improper purchases, lack of proper accountability, and inadequate training for card users and the officials who approve their purchases.
- * OFPP, GAO, and others have expressed concerns about the use of government-wide agency contracts and other multiple-award agreements, such as failure to obtain competitive quotes when using GSA schedule contracts.
- * With federal spending on services exceeding \$87 billion in fiscal year 2000, GAO and OFPP have criticized the way the government buys services, noting in particular the failure of many agencies to focus on results.

We, too, have had ongoing concerns about service contracting within the Department, and in recent reports have identified problems with performance-based service contracting. Issues include failure to use performance-based task orders where they would be beneficial, insufficient planning for contract administration and monitoring, and the need for increased training of contract technical representatives.

In this semiannual period, we completed the fieldwork for a review of IT service contracts throughout the Department to determine whether they contain information security provisions that adequately safeguard sensitive but unclassified systems and information. We found that such

provisions were either inadequate or nonexistent. We recommended that the Department develop policy, incorporate appropriate contract requirements, and require training to help ensure that contracts contain adequate information security provisions, and that acquisition, program, and technical personnel are knowledgeable about how to plan, implement, and manage such contracts. We also have continuing concerns with management of the purchase card program within the Department and are conducting a series of audits of that program.

The complex nature of certain streamlining initiatives such as performance-based service contracting increases the importance of using a multidisciplinary team approach to procurement. Teams should include not only experienced contracting and procurement staff, but also program, technical, budget, financial, logistics, and legal personnel. We believe that the lack of adequate security provisions in IT service contracts is attributable, in part, to insufficient involvement of program managers and IT personnel during acquisition planning, requirements definition, and contract award.

Commerce has continued to implement various acquisition reform initiatives and has taken steps to improve procurement procedures and oversight. Its Office of Acquisition Management (OAM) has automated the procurement process and conducted an analysis of the acquisition workforce, focusing on the quality of that workforce within the Department and its need for tools and training. The office has taken steps to provide oversight and measure performance of acquisition activities, using a risk management program to monitor the effectiveness of reform initiatives Department-wide. It has also reviewed procedures used by operating units to issue task

and delivery orders under GSA Federal Supply Schedules and other multiple-award contracts, and is reviewing interagency agreements and memorandums of understanding, as well as purchase card policy. Finally, OAM is working with the Office of the Chief Information Officer and the Commerce budget office to integrate budget and planning for IT acquisitions. We will continue to periodically assess the status of these efforts.

CHALLENGE 10

Effectively Manage Major Facilities Renovation and Construction Projects

The Department has plans for several major construction projects that warrant OIG monitoring and review:

- * NOAA has 33 renovation and construction projects scheduled or in process to ensure that its facilities remain state of the art and thus fully support its missions of environmental monitoring and protection. These include modernization of a National Weather Service facility in Alaska, the National Ocean Service's Marine and Environmental Health Research lab in South Carolina, and a National Marine Fisheries Service lab in Hawaii.
- * NIST will continue its multimillion-dollar program to upgrade existing laboratories in Gaithersburg, Maryland, and Boulder, Colorado, including construction of the advanced measurement laboratory in Gaithersburg.

Current and Planned Construction Projects

Operating Unit	Number of Projects	Estimated Costs (in millions)
NOAA	33	\$625
NIST	1	235
USPTO	1	1,200
Census Bureau.	1	340
Office of the Secretary	1	285

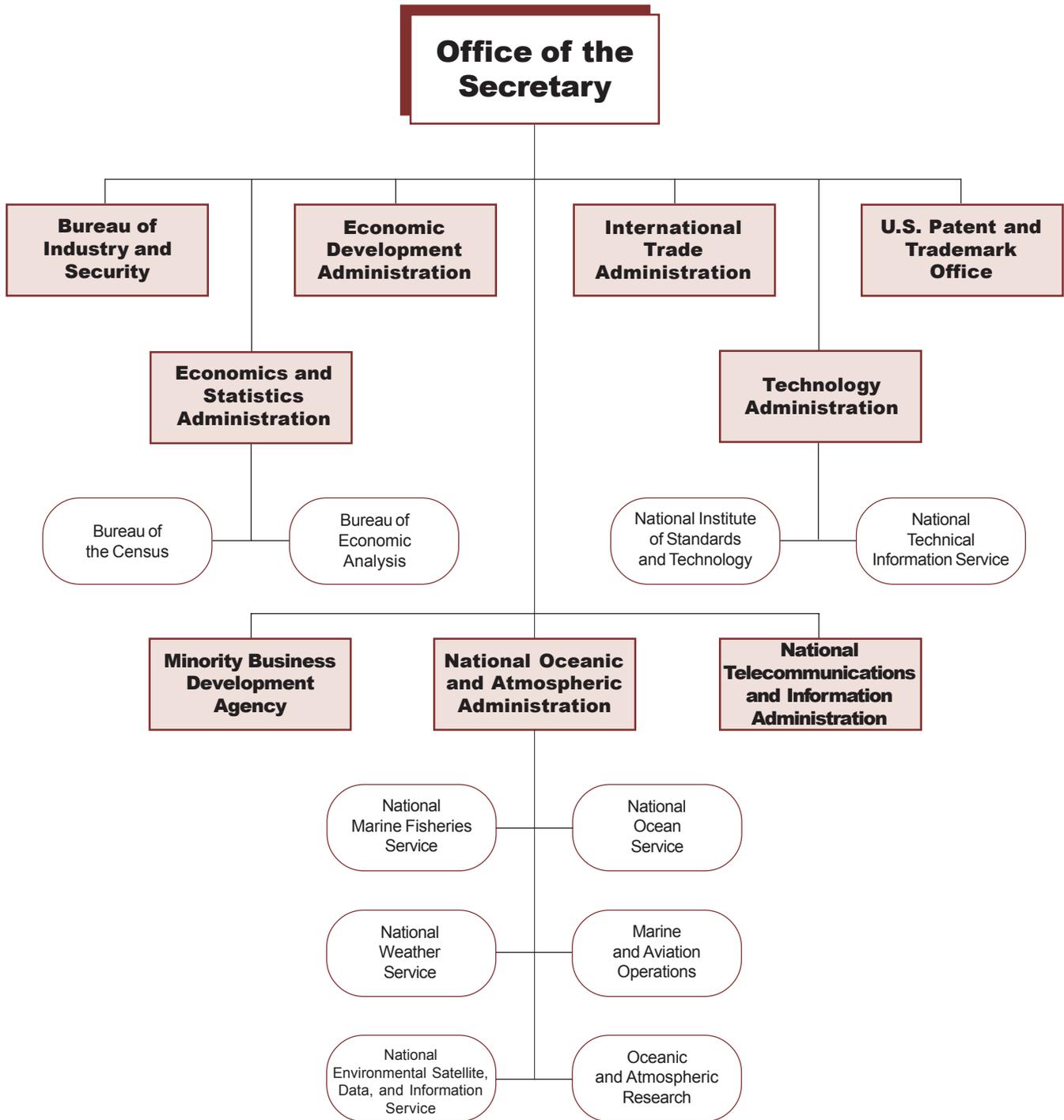
Source: Commerce Office of Real Estate Policy and Major Programs

- * USPTO is implementing its billion-dollar plan to consolidate employees and operations in a new facility under construction in Alexandria, Virginia. This is one of the largest real estate ventures to be undertaken by the federal government in this decade.
- * The Census Bureau intends to construct two buildings at its headquarters in Suitland, Maryland, to provide employees with safe, modern facilities.
- * Future Commerce plans include efforts to completely modernize its headquarters in Washington, D.C.

Effective renovation/construction management is a critical challenge for the Department because of the numerous inherent risks involved in the planning and management of large, costly, and complex capital improvement and construction projects. Departmental leadership and OIG oversight are needed to maximize Commerce's return on its investment in these projects. Past OIG reviews of major renovation and construction ventures have demonstrated that up-front oversight—that is, close monitoring during planning and implementation—is essential. Detecting and addressing potential problems during the developmental stages rather than after a project's completion saves untold time and money. For this reason, we plan to actively monitor the progress of some of the Department's current and planned construction projects.



Department of Commerce Organization Chart





The **Bureau of Industry and Security**¹ is primarily responsible for administering and enforcing the nation's system for controlling exports of sensitive dual-use goods and technologies. BIS' 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 Export Administration Act and regulations. BIS' activities also include promoting federal initiatives and public-private partnerships across industry sectors to protect the nation's critical infrastructures. BIS is divided into two units:

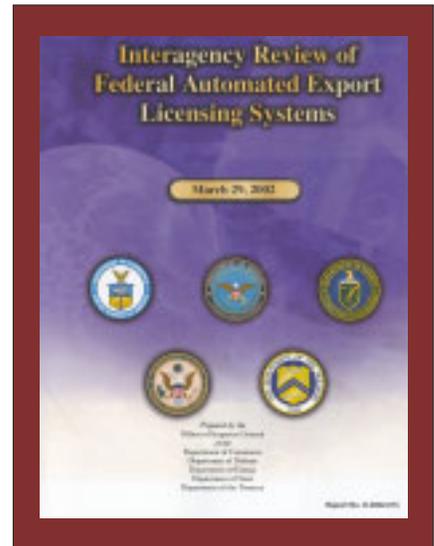
Export Administration implements U.S. export control and nonproliferation laws and policies through export licensing, commodity classifications, and advisory opinions; technical, economic, foreign availability, and policy analyses; promulgation of regulations; and industry outreach. It also conducts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

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

JOINT REVIEW BY FIVE IG OFFICES CALLS FOR GREATER INTERAGENCY COOPERATION ON EXPORT LICENSE SYSTEMS DEVELOPMENT

To prevent countries and entities of concern from acquiring militarily sensitive U.S. technology and technical information, the Departments of Commerce, Defense, Energy, Justice, and State review export license applications for approval or denial. The National Defense Authorization Act for Fiscal Year 2000 directs the Inspectors General of Commerce, Defense, Energy, and State, in consultation with the Directors of the Central Intelligence Agency and the Federal Bureau of Investigation, to assess the adequacy of export controls and counterintelligence measures and submit a report to Congress by March 30 of each year through 2007.

In 2002, to comply with the third-year requirement of the act, the OIGs conducted an interagency review of the automated systems that support the export licensing and enforcement processes. The objective was to determine how effective the systems are and how well they interact, and whether it is feasible to develop a single federal automated export licensing network or other alternatives.



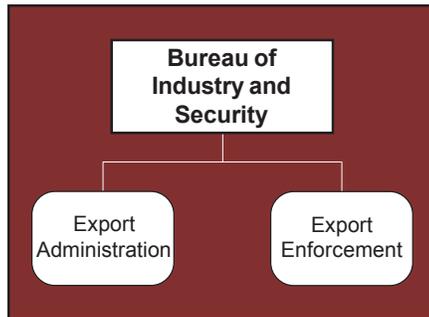
Review Results

Dual-use export licensing involves multiple automated systems owned and operated independently by the licensing and review agencies. Many of these systems were developed prior to some of today's information-sharing technologies, so are not optimally effective given present-day information-processing capabilities. Dual-use licensing agencies have

¹In April 2002, the Bureau of Export Administration (BXA) changed its name to the Bureau of Industry and Security (BIS).



Bureau of Industry and Security



made progress in modernizing their automated systems; however, current systems limitations include (1) differing security standards among agencies, (2) cumbersome manual and paper-based processes, and (3) lack of a comprehensive export-information database that can be used to assess the cumulative effect of multiple exports. Improvement alternatives, beyond enhancing existing system interfaces, may not have been adequately considered. Commerce is the agency primarily responsible for licensing dual-use exports.

Munitions export licensing, like dual-use licensing, involves multiple, independently owned and operated, and nonintegrated automated systems. State, the agency primarily responsible for munitions licensing, has taken steps to upgrade aspects of its automated internal processes, but much of the licensing process remains manual or paper based. In addition, State's inspector general found that the agency's systems development approach does not include adequate risk management, identification of requirements, or coordination with industry and other federal agencies involved in the licensing process.

U.S. Export Systems (USXPORTS), a Defense initiative, was established in 2000 to address interoperability concerns across agency lines. Partnering with Commerce, the USXPORTS Interagency Program Management Office has planned and implemented significant improvements in the export licensing processes for dual-use commodities. However, USXPORTS has been unable to fully address inefficiencies, identify requirements, and streamline the munitions export licensing process. As a result, its original goal—to modernize the entire federal export licensing process by providing participating agencies with electronic access to pertinent export data—has not yet been achieved.

Recommendations Summary

The interagency report recommended that the Secretary of Commerce, in conjunction with the Secretaries of Defense, Energy, State, and the Treasury, establish accountability for developing, integrating, and modernizing federal automated dual-use export licensing systems without unnecessary duplication. Establishing accountability would include forming a senior-level organizational structure, such as an interagency steering committee, to oversee the development effort.

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For munitions export licensing, the team recommended that the Secretary of State develop a memorandum of understanding with the Secretaries of Defense, Energy, and the Treasury to develop integrated and modernized automated munitions licensing systems without unnecessary duplication and with an organizational structure to oversee the development effort.

For both dual-use and munitions licensing, it was recommended that the Secretary of Defense continue to work with Commerce, Energy, and State to better integrate Defense's role in reviewing and processing licenses.

For the USXPORTS Interagency Program Management Office, the recommendation was that the Secretary of Defense redirect USXPORTS' primary focus to automating, integrating, and modernizing Defense's processes for disseminating and reviewing export license applications and associated technical documentation within that agency. (*Offices of Inspector General of the Departments of Commerce, Defense, Energy, State, and the Treasury: IPE-14977; Department of Defense: D-2002-074*)

STRENGTHENING ECASS MODERNIZATION EFFORTS WOULD HELP ENSURE THE PROJECT'S LONG-TERM SUCCESS

In addition to the multiagency review, each OIG looked at its own agency's efforts to modernize its export licensing system. We reviewed BIS' Export Control Automated Support System (ECASS) to determine whether BIS had (1) adequately considered business process changes and appropriate resources for the life of the project; (2) established an infrastructure capable of monitoring project costs, schedule, and deliverables; (3) developed a realistic, achievable system-design schedule; and (4) implemented previous OIG recommendations pertaining to modernization of the export licensing system and other internal control issues.



Bureau of Industry and Security

What We Found

Since 1998, when the ECASS 2000+ redesign began, BIS has made progress in four key areas. First, appointing a project manager in March 2000 brought direction and stability to the project. Second, BIS is working with Defense's USXPORTS office to develop a "front-end" licensing subsystem, called the Simplified Network Application Processing (SNAP)²/Electronic Support Documentation (ESD) system that allows export license applicants to submit all types of applications and supporting documentation on-line. Third, BIS' new export enforcement investigative tracking system is scheduled to be implemented in June 2002. Fourth, during its fiscal year 2003 budget planning cycle, BIS established a Capital Planning Team to coordinate its strategic planning, annual budgeting, and information technology functions. Still, there is much to be done.

EVALUATION REVEALS ISSUES REQUIRING RENEWED ATTENTION

Planning, Resources, and Oversight by BIS Management and the Department

BIS' business process reengineering (BPR) study, completed in 1998, is too narrow in scope; this deficiency was not adequately addressed by BIS management. A BPR study yields information used to define or redefine requirements that must be met by an automated system. A flawed BPR study can mean a flawed benefit-cost analysis. Also, the ECASS redesign is based on a benefit-cost analysis that is outdated in terms of both cost and proposed requirement changes. Complicating this issue is the fact that BIS increased its baseline for ECASS from \$6 million in 1998 to \$7.5 million in 2001 without preparing adequate cost estimates. As a result, BIS does not know what funding levels are needed or whether the \$7.5 million will be sufficient to complete ECASS 2000+ by fiscal year 2006. Another planning issue concerns stakeholder participation. Not all ECASS 2000+ users' specific needs and requirements have been adequately specified and documented. We found minimal user involvement in the preparation of requirements for the licensing subsystem, and the information technology security requirements had not been specified.

²SNAP is currently being beta tested at <http://www.bxa.doc.gov/SNAP/default.htm>; it is scheduled for release in mid 2002.

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Documentation of Security Requirements and Implementation of IT Best Management Practices

Although the ECASS 2000+ project officially began in March 2000, as of September 30, 2001, BIS had not completed the design of key system management processes or the documentation needed to better manage the redesign. At that time, ECASS 2000+ lacked adequate management tools, including (1) a configuration management process, (2) a risk management process, (3) a software acquisition training program for its project team members, (4) a project management plan, and (5) a target architecture. OMB, GAO, and the Department's Office of Chief Information Officer have all noted that these management tools are requisite for systems development.

Interagency Cooperation on Planning, Design, and Development

Our 1999 export licensing report raised concerns about the multiple, discrete automation efforts under way by the various export licensing agencies and recommended that BIS coordinate its system development efforts with the other agencies to maximize efficiencies and savings as well as acquire a more integrated licensing system. Since then, BIS has been involved in some interagency modernization efforts but has not involved the other agencies in its own redesign effort beyond SNAP/ESD. Also, BIS may not be adequately considering system improvement alternatives beyond enhancing interfaces with the existing licensing systems.

Recommendations Summary

As a result of our findings, we made 13 recommendations to the Under Secretary for Industry and Security, essentially suggesting that BIS do the following:

- * Determine whether changes proposed in the 1998 business process reengineering study, as well as those in a 2001 internal licensing task force report, should be factored into ECASS 2000+ design and requirements.
- * During the second quarter of FY 2002 (January-March 2002), implement the ECASS 2000+ configuration management and risk management processes, revise and approve the program



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management plan, complete the target architecture, and select the location for ECASS.

- * Develop a central multiagency data repository for records pertaining to all applications reviewed, ensuring that the repository has appropriate access controls yet permits agencies to retain control of their respective databases.
- * For FYs 2002 through 2005, determine what resources are needed and how to secure adequate funding for them, and whether it is necessary to extend the project time frame. Also, document security requirements and determine how to fund them.
- * Ensure that relevant interagency stakeholders validate system requirements. Also, determine whether Defense can use ECASS 2000+ for its export licensing needs. To promote the accord essential to developing an effective decision-making process for export licensing and security policy, document the responsibilities of all dual-use licensing agencies, including Treasury and the Central Intelligence Agency, and the best approach to coordinating the ECASS 2000+ redesign effort with each agency's automation initiatives. (*Office of Inspections and Program Evaluations: IPE-14270*)

Economic Development Administration



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

During this reporting period, we completed audits of five EDA revolving loan funds and four public works projects. Our findings of improper and excess claims, noncompliance with funding regulations, and lack of need resulted in recommendations for funds to be put to better use totaling about \$1.9 million and questioned costs totaling approximately \$1.7 million.

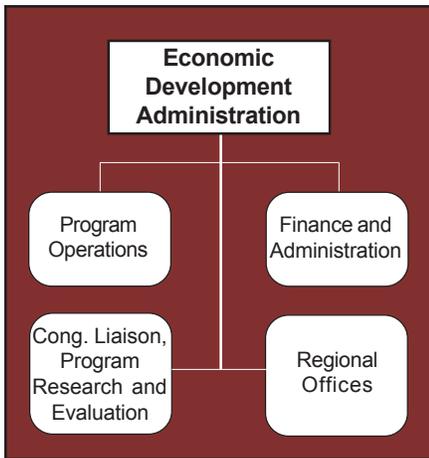
NONCOMPLIANCE AND QUESTIONABLE COSTS FOUND IN AUDIT OF UTAH CORPORATION'S DEFENSE CONVERSION GRANT

In our March 2001 issue (page 28), we reported on our interim audit of a defense conversion grant awarded to a Utah city in 1996 to help redevelop a closed army depot for commercial use. The EDA-funded project included construction of both a sewer line from the depot to the city's new wastewater treatment plant and collector sewers at the depot. The total approved project cost was \$5,371,000: \$2,500,000 in federal funds (47 percent) and \$2,871,000 as the city's matching share (53 percent).

In our interim audit report, we questioned \$3,416,014 in costs claimed under the EDA award as unsupported. As part of the audit resolution, we agreed to perform a final cost audit of the grant in coordination with a Department of the Interior audit of a related Bureau of Reclamation grant.

Our final audit, completed this period, revealed that the city (1) did not complete the original grant project because it failed to construct the collector sewers, (2) used project underrun funds to impermissibly expand the scope of the project, (3) claimed unbudgeted and unsupported in-kind land costs, (4) allocated excessive wastewater treatment plant costs to the EDA grant, and (5) failed to maintain an adequate financial management system, which resulted in duplicative cost claims to the EDA and Bureau of Reclamation awards. We questioned a total of \$3,042,324 in claimed project costs, which included approximately \$2,500,000 in costs also billed to the Bureau of Reclamation grant.

We recommended that EDA (1) provide no additional funds to finance the incomplete portion of the grant, (2) disapprove any expansion of the grant scope through the use of underrun funds, (3) disallow unsupported



in-kind contributions of land and excessive allocations of wastewater treatment plant costs, (4) require the city to maintain an adequate financial management system for future awards, and eliminate duplicative project costs from its claims on the EDA and Bureau of Reclamation grants, and (5) seek recovery of EDA’s share of questioned costs. *(Denver Regional Office of Audits: DEN-14874-2)*

RLF IN PUERTO RICO WAS NOT RECORDING PROGRAM INCOME

We performed a financial and compliance audit of an RLF established in 1987 through a \$500,000 EDA grant to an institution in Puerto Rico. EDA recapitalized the RLF twice, providing an additional \$1 million for the fund in both 1989 and 1990. When combined with the recipient’s required matching contribution of \$1.75 million, total capitalization for the RLF was \$4.25 million. In 1999 EDA awarded another \$1 million to the RLF; however, use of these funds was restricted to providing assistance to businesses adversely impacted by Hurricane Georges, which hit Puerto Rico the previous year. The primary objective of our audit was to determine the institution’s compliance with applicable federal laws and regulations, EDA guidelines, and grant terms and conditions in administering the RLF.

We issued two reports on the audit: one dealing with the 1999 recapitalization award and a second addressing the overall administration of the RLF under the three earlier awards. At the time of our audit, no funds had been drawn down on the 1999 award and no loans had been made. Under the circumstances, we recommended that EDA terminate the grant and deobligate the \$1 million in undisbursed federal funds. The agency agreed and subsequently implemented our recommendation. *(Atlanta Regional Office of Audits: ATL-13955-1)*

We reported jointly on the other three awards because they shared the same general purpose and were administered as one RLF project. Our audit determined that \$204,276 in cumulative RLF income had not been recorded, which caused the institution to understate the fund’s actual balance and may have unnecessarily restricted its RLF lending over the years. We also found instances of improper lending; unsupported administrative charges; inaccurate loan, income, and cost data in reports to EDA; and failure to file required annual RLF plan certifications.



The recipient took steps to resolve certain of the audit findings after we issued our draft report. In view of these developments, our final recommendations were that EDA require the institution to (1) record and deposit into the RLF account an additional \$51,988 in income, (2) record all future income in accordance with grant regulations, (3) annually submit a properly executed RLF plan certification, and (4) ensure that future status reports to EDA are accurate. (*Atlanta Regional Office of Audits: ATL-13955-2*)

UNCERTAINTIES, QUESTIONED COSTS DISCLOSED IN AUDIT OF ARIZONA WATER SYSTEM PROJECT

In August 1999, EDA awarded a public works grant to a town in Arizona for construction of the second phase of a five-phase water distribution master plan. Phase II was intended to provide a new infrastructure to replace contaminated portions of the existing water system in the town's commercial section.

The total cost of phase II was \$2,584,500, of which the EDA grant would fund a maximum of \$1.2 million, with the balance to be covered by \$1,384,500 in local matching funds. EDA asked us to conduct an interim audit of the project to determine whether the town had sufficient funds for the match, had obtained required easements and rights-of-way, and had claimed only those project costs allowed under the terms of the grant. Our audit examined project activities and costs claimed under the award for the period of August 25, 1999, through January 11, 2001.

We verified that the town had the easements and rights-of-way for part of the construction contract that was under way. However, it was still trying to secure the easements necessary to complete the current contract and obtain approval to start the remaining two contracts for phase II.

We also determined that the town had failed to comply with federal procurement and financial management standards, and with federal cost principles applicable to the award. Specifically, we found the town had (1) selected the town engineer to serve as the phase II project engineer rather than submit the architectural engineering contract to competitive bidding, (2) developed an incomplete and inconsistent engineering agreement, and (3) failed to implement procedures to adequately



manage the contract. We also found that the town's financial management system could not generate accurate data about results of the award. This noncompliance weakened the recipient's control over EDA funds and caused us to question almost the entire amount of costs claimed through the interim audit cutoff date—\$212,388 of \$214,398.

Finally, we concluded that the town had the required matching funds, as well as sufficient funds, to complete the remaining three phases of the master plan, if actual costs stayed within the January 1999 estimate of \$5.3 million. We cautioned, however, that further delays in obtaining easements and rights-of-way and EDA's determination regarding questioned costs could jeopardize completing the project within budget.

Based on our findings, we recommended that EDA disallow the questioned costs, offset the federal share of disallowed costs against the recipient's future requests for reimbursement, and take several additional actions including the following:

1. Prohibit the town from advertising future contracts until it obtains all required easements and rights-of-way.
2. Advise town officials that all costs incurred under the project engineering agreement are unallowable for EDA participation, and offset the federal share of all engineering expenses claimed subsequent to the interim audit against future reimbursement requests.
3. Determine whether the town has sufficient funds to complete the EDA portion of the project once it deals with our recommendations. If it does not, EDA should terminate the award and recover all federal funds disbursed.

In general, the town agreed with the findings of our audit and took action on several recommendations. Although it agreed with our questioning of \$212,388 in claimed costs, it disagreed with our recommendation that EDA disallow these costs and recover the federal share, citing mitigating circumstances. EDA sustained our findings and recommendations. (*Seattle Regional Office of Audits: STL-14253*)



AUDIT OF LOUISIANA RLF REVEALS FAILURE TO COMPLY WITH AWARD TERMS AND CONDITIONS

EDA awarded a \$500,000 Long-Term Economic Deterioration (LTED) grant to a Louisiana economic development organization in 1989 to establish a revolving loan fund to assist businesses and support economic development in the local area. In 1996 the organization received a second EDA grant to recapitalize the RLF. We issued an audit report, in March 2001 *Atlanta Regional Office of Audit: ATL-13214-1* that addressed the lack of need for the recapitalization award. (See March 2001 issue, page 26.) As a result, in September 2001, EDA deobligated the unused grant balance of \$253,388.

During this semiannual period we issued a second report addressing the organization's financial management of the RLF and its compliance with applicable administrative requirements. We found that the organization's cost allocation plan was incomplete and failed to meet technical requirements and that annual organizational audits were not performed as required. In addition, our review of RLF loan files revealed that they were not always documented in accordance with EDA requirements and that loans may have been made to unqualified borrowers.

We recommended that EDA require the organization to implement procedures to remedy these deficiencies. The organization generally agreed with our findings, noting that actions were already under way to ensure future compliance. (*Atlanta Regional Office of Audits: ATL-13214-2*)

AUDIT CONFIRMS MULTIPLE COMPLIANCE ISSUES AT SOUTH CAROLINA RLF

In April 2001, EDA suspended the lending authority of an RLF operated by a South Carolina city, based on the city's failure to comply with various grant terms and RLF administrative requirements. At that time, EDA also requested that our office audit the fund. We performed a financial and compliance audit to review the issues cited in EDA's audit request and to determine the current financial status of the RLF. Our



audit confirmed that the city was not complying with numerous administrative requirements. Specifically we found the following:

- * The RLF had more than \$47,000 in excess cash reserves resulting from a lack of loan activity in recent years.
- * Three loans were made during 1998 and 2000 that violated provisions of the city's RLF plan and were not properly documented.
- * The city's RLF plan did not meet EDA guidelines, and its most recent RLF plan certification was incomplete and inaccurate.
- * The status of the RLF loan portfolio was materially misrepresented in the city's latest semiannual report to EDA.
- * A minor amount of unallowable administrative costs were charged to the EDA RLF and two other federally funded RLFs.



To remedy these problems, we recommended that EDA require the city to do the following:

- * Use the excess cash to make new RLF loans within 6 months or remit all excess cash on hand to the U.S. Treasury.
- * Ensure that future loans strictly comply with the RLF plan and document RLF loan files in accordance with EDA requirements.
- * Revise the RLF plan to comply with EDA's December 1998 plan guidelines and ensure that future annual plan certifications are complete and correct.
- * Ensure that future semiannual RLF reports submitted to EDA are complete and accurate.
- * Reimburse the federally funded RLFs for their respective shares of the unallowable administrative costs.

City officials have agreed to correct the problems noted and have already reimbursed the EDA RLF for its share of unallowable costs.
(Atlanta Regional Office of Audit: ATL-14690-1)

COSTS QUESTIONED IN AUDIT OF GRANT TO NEW YORK ECONOMIC DEVELOPMENT ORGANIZATION

A \$1,240,000 Defense Economic Adjustment grant was awarded to a local economic development organization in New York in 1995 to help fund the renovation of an industrial facility to create incubator space for



small start-up companies and develop job opportunities for workers displaced by defense industry downsizing in the area.

In March 1997, the grantee advised EDA that it could not continue with the project as planned and requested the agency's permission to use the award to develop an industrial park and multi-tenant industrial building. EDA denied the request and subsequently notified the grantee that the award would be terminated. The Economic Development Reform Act of 1998, however, provides relief for projects obligated with FY 1995 funds, specifically giving grantees the opportunity to modify a project's scope of work. In August 1999, the organization requested an amendment to the award that would permit it to use the grant proceeds to develop a countywide training program. EDA approved the request in February 2000, but by August 2000 it was clear that the project could not be completed before the funds expired on September 30, 2000. EDA closed the award, effective on the expiration date.

Our audit of the award found that the recipient had improperly claimed costs totaling \$194,657, including an inadequately supported in-kind costs claim of \$157,415 for salaries and fringe benefits, and operations and maintenance. The corporation also violated the terms and conditions of the award by failing to return, on a timely basis, interest earned on EDA disbursements.

Before we issued our final report, the grantee remitted \$165,889 to EDA: \$159,137 in grant funds and \$6,752 in earned interest. Based on the questioned costs, however, we determined that an additional \$42,011 was owed to the federal government. We recommended that EDA disallow the full amount of questioned costs and recover the \$42,011 balance of excess disbursements. (*Atlanta Regional Office of Audits: ATL-14033-1*)

AUDIT OF WASHINGTON RLF DISCLOSES ADMINISTRATIVE ISSUES AND FAILURE TO COMPLY WITH MATCHING SHARE REQUIREMENTS

In September 1998, EDA awarded a Washington nonprofit association a \$300,000 grant, to be matched by \$100,000 in recipient funds, to establish an RLF intended to provide increased resources to low- and

moderate-income persons expanding or creating businesses in the area. More than 2 years after the award was made, however, 50 percent of the grant funds remained undisbursed.

We performed a limited-scope, financial-related audit of the award to determine why fund disbursement had been delayed and to assess whether a valid need for the RLF continued to exist. We found that despite having missed two interim disbursement milestones, the association had sufficient projects in the pipeline to use the remaining funds and meet the final disbursement deadline, and that the original justification for the award remained valid. Our audit did, however, disclose a number of significant administrative issues that jeopardized RLF operations and required action by the association. We also determined that the recipient had failed to comply with award provisions and EDA guidance governing the nonfederal share by claiming funding sources that were restricted or otherwise ineligible for that purpose.



We recommended that EDA disallow \$75,000 in claimed nonfederal matching funds and recover \$53,500 in excess disbursements. We also recommended that the agency do the following:

1. Require the association to submit evidence of the availability of sufficient eligible matching funds to complete the award disbursement phase within a reasonably revised deadline, or terminate the award and deobligate the unused award funds if those conditions are not met.
2. Require the association to promptly hire a full-time, experienced loan officer and develop contingency plans to protect and manage the RLF should its president/CEO become unavailable or incapacitated.

After reviewing the recipient's response to our report, EDA sustained the audit findings and recommendations. The association is currently working on corrective actions to preserve the full award. (*Seattle Regional Office of Audits: STL-14140-2*)



ILLINOIS RLF NEEDS TO IMPROVE ITS ACCOUNTING AND REPORTING OF FUNDS

In September 1996, EDA awarded an Illinois local development organization a \$375,000 grant to create a \$500,000 RLF to help mitigate unemployment caused by a sharp decrease in the area's industrial sector and a 25-year dearth of investment in the local community. The RLF was to be used to award low-interest, gap financing loans to small industrial and commercial businesses located within the organization's 10 square-mile service area.

We performed an interim financial and compliance audit during June 2001 to evaluate the recipient's financial management of the RLF and determine whether it was complying with applicable RLF administrative and loan documentation requirements. Our audit disclosed that the organization (1) was not properly accounting for RLF funds because assets, liabilities, and balances had been commingled with accounts of similar loan programs; (2) was charging the RLF with estimated administrative expenses rather than actual costs incurred; and (3) had not achieved any of the grant disbursement milestones specified in the award.

We recommended that EDA direct the organization to separately account for each asset, liability, income, and expense comprising the RLF fund and claim only actual, supportable RLF administrative costs, in accordance with grant requirements. The organization proposed to correct its inadequate record keeping by establishing a separate account solely for RLF funds effective January 1, 2002; and when its 2001 calendar year audit is complete, will deposit \$3,953 into the RLF account to correct the charge for administrative expenses. As for the required disbursement milestones, the organization worked with EDA to develop a realistic time schedule extension and by September 30, 2001, had disbursed and obligated the entire grant. (*Denver Regional Office of Audit: DEN-14321-2*)



NO DEFICIENCIES FOUND IN WASHINGTON STATE PORT PROJECT'S HANDLING OF EDA FUNDS



A port in Washington State was established in 1966 after local authorities acquired an Air Force base from the federal government during base closures in 1965. The port operates a small airfield, a foreign trade zone, and an industrial park of about 5,000 acres. In September 1998, EDA awarded a grant to the port to construct a wastewater collection, storage, and disposal system to permit future industrial expansion at the facility. The total project cost was estimated at \$4,014,000, with the EDA award contributing about 37 percent of the project (not to exceed \$1.5 million). The award period was from September 1998 to September 2000.

Our audit did not disclose any deficiencies. All project costs claimed through December 2000 were supported and appeared reasonable and necessary for the project. Although a problem with pump station monitoring caused a delay in project completion, the problem was resolved and the project is now functioning as designed. The port was in compliance with federal award requirements and with EDA award terms and conditions.

Source: Washington State Port

Four runways meet to form the "X" in this aerial photograph of a port in Washington state that includes an international airport, an industrial park, and a foreign trade zone. The port used EDA funding to construct an on-site system for collecting, storing, and disposing of industrial wastewater, thereby relieving an overburdened municipal treatment system.

Most of the project costs had been claimed for reimbursement at the time of our review, and the project was 87 percent complete. There appear to be sufficient funds available to cover the construction contract retainage and miscellaneous project closing costs. Therefore, unless EDA has reason to question the final reimbursement claim on project closeout, we consider the award closed for audit purposes. (*Seattle Regional Office of Audits: STL 14790-2*)

Economics and Statistics Administration



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

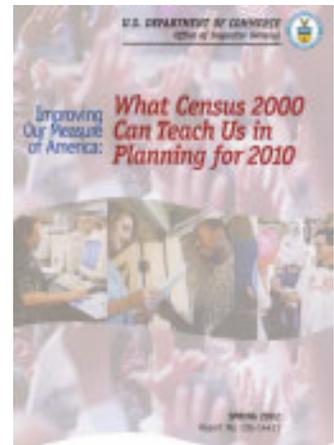
Bureau of the Census is the country's preeminent statistical collection and dissemination agency. It publishes a wide variety of statistical data about the nation's people and economy, conducting approximately 200 annual surveys, in addition to the decennial census of the U.S. population and the decennial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

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

SPECIAL OIG REPORT EMPHASIZES THAT CENSUS BUREAU NEEDS TO CAPITALIZE ON SUCCESSES OF CENSUS 2000 AND IMPROVE WEAKNESSES AS IT PREPARES FOR 2010

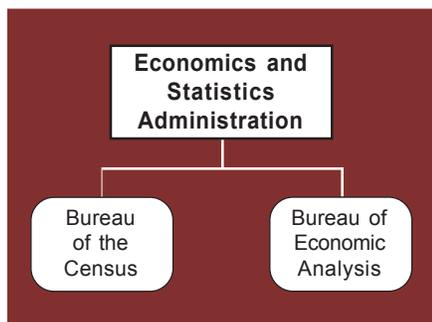
At an estimated cost of \$6.5 billion, the 2000 decennial census was the most expensive to date. Yet it is generally considered a success—participation was higher than anticipated, especially among the historically undercounted, and operations concluded on time. Census 2000 counted approximately 281 million people living in 116 million housing units.

OIG monitored the bureau's planning of Census 2000 through the decade preceding it and has since evaluated its execution: we issued more than 30 reports and memorandums regarding the 2000 decennial; listened to the concerns and insights of Census Bureau officials and Commerce managers; conferred with census enumerators and managers; talked with congressional members and staff, as well as state and local elected officials; and sought input from census experts both within and outside the government. During this semiannual period, we issued our report, entitled *Improving Our Measure of America: What Census 2000 Can Teach Us in Planning for 2010*, which summarizes the findings of this work, organized around 10 lessons learned, to help the bureau capitalize on its successes, improve areas of weakness, and anticipate emerging challenges as it plans for Census 2010.



Lesson 1: Reach Early Consensus on the 2010 Design to Facilitate Effective Planning and Obtain Sufficient Funding.

An undertaking as huge and complex as the decennial census requires long lead times to allow for proper development and testing of the overall design and to define and procure systems. Therefore, an agreed-upon design with sufficient funding to support its development must be in place early. The drawn-out dispute over sampling precluded early agreement on Census 2000's design and increased problems in its execution.



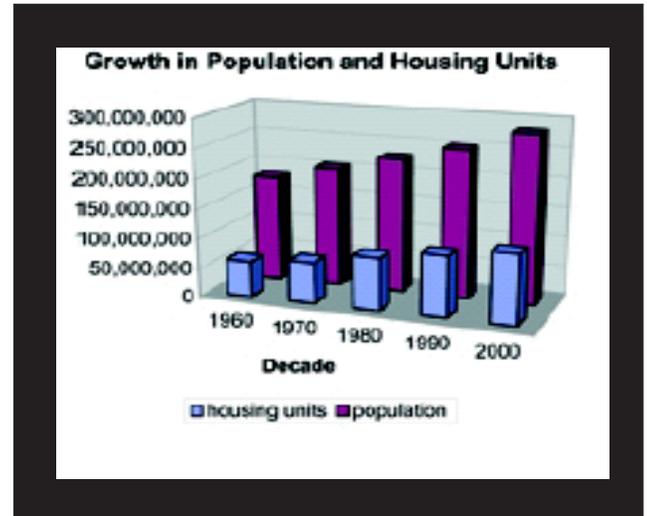
Our review of the bureau’s readiness to conduct the 2000 decennial revealed that as late as 1995 Census still did not have a design that was sufficiently finalized to undergo full-scale testing. In 1998, as the dress rehearsal approached, many in Congress were opposed to the use of sampling and required the bureau to test two census designs—one that relied on sampling and one that did not. A final decision on the design did not come until 1999, when the United States Supreme Court ruled that sampling could not be used to apportion the House of Representatives, in effect, telling Census that it must concentrate on the traditional approach of enumerating every household in the nation.

Eager to avoid the design-related problems experienced during Census 2000, the bureau is already developing its plan for 2010, which includes a reengineered address file and associated maps, as well as a design that collects data using only the short form questionnaire. The bureau currently intends to replace the decennial long form with data collected from a continuous measurement system called the American Community Survey (ACS). We commend the bureau for these early planning efforts, but are concerned about its intention to rely on this new design because of the uncertainty of funding for it: if the bureau does not receive sustained ACS funding throughout the decade, it may be unable to eliminate the long form for 2010. We believe that Census’ plan for the next decennial should (1) standardize the long form and ACS questionnaires so that they are compatible in content and layout, sample design, and data collection, capture, and processing methods and technologies; and (2) include a contingency plan for use of the long form.



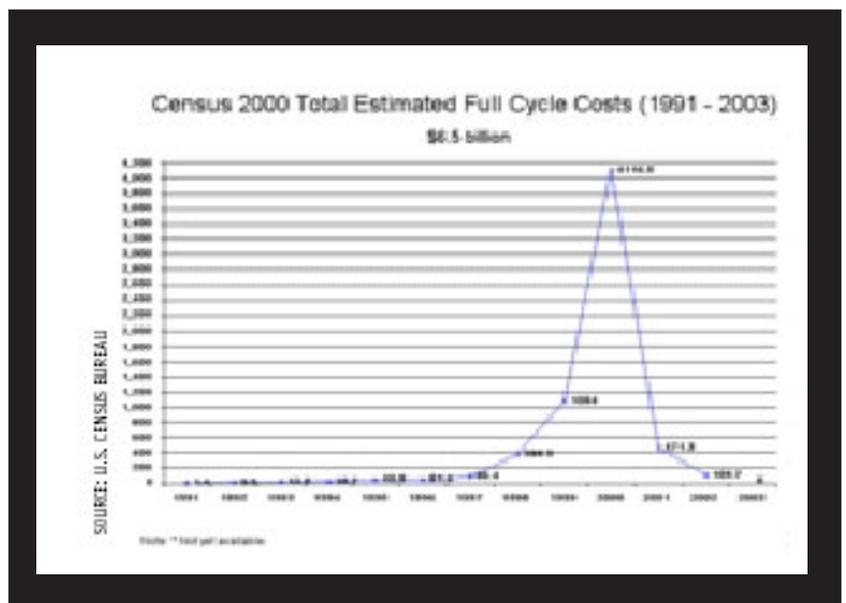
Lesson 2: Produce Accurate, Complete Address Lists and Maps.

Knowing where the nation’s people are and how to reach them is fundamental to the decennial census. The Master Address File (MAF) is the bureau’s primary tool for accomplishing this task. Accuracy and



Source: U.S. Census Bureau

The huge increases in population and number of households requiring enumeration from decade to decade have increased the complexity—and costs—of conducting the decennial census. Total costs for the 2000 decennial reached \$6.5 billion—roughly five times the \$563 million spent on the 1960 census.



completeness are vital to the reliability of the MAF and associated maps; hence, the bureau's ongoing planning must include special efforts to create a more reliable address file and mapping system. Over the course of the last decade, we issued several reports on these critical operations; some of these reports identified serious problems with the MAF, such as missing, duplicate, and inaccurate addresses, and noted that maps were often neither current nor drawn to appropriate scale. To help avoid these problems in the next decennial, the bureau should continue working to improve the MAF and mapping system throughout the decade, establishing performance measures for accuracy and completeness, testing against these goals, and reporting to decision makers on the progress made toward meeting performance objectives.



Lesson 3: Conduct a Carefully Targeted and Aggressive Public Awareness Campaign.

The bureau had set goals for Census 2000 of increasing public awareness and improving the mail response rate. To achieve these goals, Census conducted a two-part publicity campaign: (1) national paid advertisements began 6 months before census forms were mailed out; and (2) partnerships between the bureau and state and local organizations developed community-specific initiatives to publicize the decennial. Both components were designed to educate individuals about the census and encourage them to return census forms. The 2000 response rate of 67 percent surpassed that of 1990 (65 percent) and far exceeded the projected rate of 61 percent. Considering the general downward trend in return rates from one census to the next, we commend the bureau for having done an excellent job in motivating the American public to participate. The higher-than-anticipated response rate in 2000 also reduced the overall cost of the decennial because enumerators had to visit fewer households for nonresponse follow-up.

We reviewed the bureau's public awareness campaign prior to kickoff of the 2000 decennial. We found that the advertising message was developed using a sound methodology and that the partnership effort had resulted in a comprehensive, effective nationwide program of education aimed at increasing the mail response rate and thereby reducing the undercount. Given the apparent success of these programs at getting people to respond, we believe the bureau should incorporate similar components into its 2010 decennial design.



Lesson 4: Strengthen Quality Control of Nonresponse Follow-up.

For 2010, Census must do a better job of overseeing data collection at local offices to avoid costly reenumeration and ensure the public's confidence in census results. More specifically, the Census Bureau needs to improve its quality assurance efforts to better identify inaccurate or falsified information. Inaccurate or falsified data submitted by enumerators threatens the integrity of the entire census and when identified, results in the costly exercise of having to reenumerate the affected area. Highly questionable data and shortcuts used to collect census information were problems at a number of local census offices, particularly at three Florida locations where suspect data required the bureau to reenumerate much of the coverage areas. The negative publicity surrounding these events raised the public's concern about the accuracy of the census.



Lesson 5: Implement Clear Policies and Guidance for Managing Temporary Staff.

The bureau hired more than 950,000 temporary workers to conduct various field operations at its 520 local census offices. Hiring and managing large numbers of temporary employees was a challenge for all these offices, and created some significant problems at a few. Although the task of recruiting, training, and effectively managing a large number of people during the decennial census is inherently difficult, our findings and observations suggest nonetheless that the process can be improved. The bureau needs to examine and strengthen personnel policies and procedures regarding such matters as employee safety, overtime, termination for cause, and reassignment of staff among census offices.



Lesson 6: Determine Whether Sampling Has a Role Beyond Measuring Coverage.

The proposed use of sampling to improve coverage was perhaps the most controversial aspect of Census 2000. In 1999, after the United States Supreme Court ruled that sampling could not be used to apportion the House of Representatives for the upcoming decennial, the bureau proceeded with sampling operations for other potential uses, such as allocating federal funds and redistricting. The bureau initially believed it could improve the accuracy of census counts by adjusting them via sampling. But extensive data analysis has not demonstrated

that the statistically adjusted counts are more accurate than the unadjusted ones. As early as possible for 2010, we believe the bureau must determine whether sampling has a purpose beyond providing a quality check to measure coverage.



Lesson 7: Implement Rigorous System and Software Development Processes and Effective Information Security Measures.

The bureau needs to strengthen its management of information technology and its approach to software development. Data collected from the decennial must be processed within severe time constraints, and results must be accurate. During Census 2000, the bureau often used an ad hoc approach to software development that provided inadequate controls, insufficient testing, and poor or no documentation. In several instances, these unsystematic methods led to disruptive errors that had to be corrected as the census was being conducted.

In addition, with the inevitable expansion of Internet use and the bureau's plans to increase electronic transmission of census questionnaire data, information security will be ever more critical in 2010. Title 13 of the U.S. Code prohibits the Census Bureau from disclosing data it collects about individuals and establishments. Unintentional disclosure of this data could seriously damage the decennial by undermining confidence in the bureau's ability to keep information confidential and thus diminishing the public's willingness to respond. The bureau, with its unique mission, must incorporate strong security mechanisms that will safeguard its census-related computer systems and networks from unauthorized access and its data from unauthorized disclosure or modification.



Lesson 8: Upgrade and Maintain Contracting and Program Management Expertise.

For Census 2000, the bureau contracted out various important projects including development and operation of its largest, most complex IT systems and its advertising campaign. However, it did not have sufficient contracting and program management staff with the training and experience to properly acquire systems and manage the contracts. Ultimately, the contracts supported decennial census operations but at a

higher cost than necessary. For 2010, when contractors will likely play a larger role, the bureau must have a sufficient number of highly skilled and properly trained personnel who are dedicated to the planning and management of decennial contracts.



Lesson 9: Generate Timely, Accurate Management and Operational Information.

In a program as time sensitive as the decennial census, the importance of having timely and accurate information about management activities and operational functions cannot be overstated. Without such data, Census management is unable to effectively oversee and evaluate performance, make informed management decisions, and improve the execution of future censuses. For example, the bureau failed to track and analyze proxy questionnaire data—thus depriving itself of a critical management tool for assessing the integrity of nonresponse follow-up operations. Had the bureau monitored proxy data, perhaps it would have recognized enumeration irregularities in Hialeah, Florida, where local management sanctioned inappropriate use of proxy questionnaires and other procedural abuses. As a result of these actions, Census had to completely reenumerate the Hialeah district. The number of LCOs that experienced similar improprieties will never be known because data from proxy questionnaires is unavailable. In 2010, the bureau must closely monitor this data collection operation to avoid repetition of these abuses.

Furthermore, providing timely information to the unprecedented number of organizations that tracked the progress of the census, including GAO, the Census Monitoring Board, and our office, proved difficult. For 2010, the bureau should be prepared for the scrutiny and interest of outside parties and therefore should ensure effective procedures for providing them with accurate, timely data while the decennial is being conducted.



Lesson 10: Mitigate Potential Disruptions and Distractions to the Work Environment and Workforce.

Although the decennial is the bureau's most costly and labor-intensive function, Census has other important initiatives and responsibilities that it must handle as well. The bureau must be prepared to overcome

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challenges that affect all of its operations. Time and again, the bureau has proven its ability to do so, and its handling of one potential problem for the 2000 decennial showed particular foresight. The bureau needed to hire nearly 1 million temporary employees to support decennial operations at a time when unemployment was at historically low levels. Concerned that it would have difficulty hiring sufficient personnel, the bureau increased wage levels across the country. As a result of this and other efforts, Census successfully hired enough temporary workers.

During this decade of preparation for 2010, Census must handle at least two major challenges that could impact decennial activities. (1) The bureau could lose, through retirement, up to half of its current decennial staff. As soon as possible it must have strategies in place to retain institutional knowledge and expertise so as to ensure the smooth continuity of decennial management and operations. (2) Census is scheduled to move into its new headquarters building in 2008. Given the timing of the move, which is set for the same year as the planned dress rehearsal, and the frequent delays associated with many construction projects, the bureau must have a solid relocation plan to minimize disruptions to its operations, and to identify and ameliorate potential problems while keeping costs in check and decennial preparations on track. (*Office of Audits: OIG-14431*)

ASPECTS OF ACCURACY AND COVERAGE EVALUATION NEED IMPROVEMENT BEFORE 2010

During a decennial census, the Census Bureau attempts to gather information about every resident in the country. Inevitably, some enumerations that should be excluded (like duplicates or people enumerated at incorrect addresses) are included, and some that should be included are missed. The first error leads to an overcount; the second, to an undercount. To measure these coverage errors, the bureau conducts a separate survey known as the Accuracy and Coverage Evaluation (A.C.E.). A.C.E. obtains an independent sample of the population and matches it with census enumerations to identify persons missed or incorrectly counted in the census. It is important that the A.C.E. enumerations, or “person records,” be correctly matched with census person records because even small mistakes can affect the bureau’s ability to measure the overcount and undercount precisely.

Although the U.S. Supreme Court ruled that sampling could not be used for congressional apportionment, it was silent on its use for state redistricting and allocation of federal funds. The Census Bureau therefore conducted A.C.E. and evaluated the data to determine whether it could be released to the states for redistricting. It subsequently recommended that the unadjusted counts be used for redistricting and allocating federal funds because of disparities in data from two sources: A.C.E. and population counts from the prior census, adjusted by subsequent births, deaths, and immigration statistics.

OIG reviewed two A.C.E. components that are critical to the integrity of the survey's outcome: computer matching of A.C.E. enumerations with those from the 2000 decennial ("person computer matching") and follow-up in the field ("person follow-up") to attempt to resolve any discrepancies revealed in the computer matching that analysts could not explain. We sought to determine how efficient and effective these operations were and how well the systems supporting them worked. Our review revealed a number of weaknesses.

The A.C.E. independent sample may have omitted residents of retirement homes. A.C.E. included people living in individual housing units, such as houses, apartments, or mobile homes, but excluded people living in group quarters (nursing homes, dormitories, prisons, and other communal facilities). However, A.C.E. and census definitions of group accommodations for the elderly differed, and that difference could have skewed A.C.E. results. The census definition of group quarters includes "nursing homes or convalescent homes" but not "homes for the elderly." Under this definition, a retirement home that had separate accommodations for its occupants and direct access from the outside of the building or through a common or public hall would have been considered an apartment building—as containing individual housing units—and enumerated as such in the census. A.C.E. specifically included "homes for the elderly" in its definition of group quarters, and thus did not enumerate them. As a result, retirement home residents counted in the census would not have been counted in A.C.E.

We recommended that Census evaluate whether residents of retirement homes were systemically omitted from the A.C.E. independent sample and if so, what impact this had on estimates of the elderly population. We also recommended that the definition of housing units, group

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quarters, and all nontraditional living situations (“special places”) be standardized for both surveys.

The process for defining A.C.E. requirements should be improved. Many systems designed to support various headquarters and field operations were subsequently defined and developed for A.C.E. However, the bureau did not always take steps to ensure that all requirements for A.C.E. were appropriate, sufficiently defined, and clearly communicated. Specifically, the bureau did not always follow its own standards for developing software requirements, and sometimes relied on dress rehearsal specifications that did not adequately define requirements for A.C.E. In one case, it did not adequately define and communicate the schedule for delivering census enumeration data to A.C.E., which meant that follow-up operations were conducted late in some high-risk areas and required extra staff to accomplish. In a second case, the bureau provided field supervisors overseeing A.C.E. follow-up with laptops programmed for other surveys but not updated to adequately support A.C.E. Finally, we found that certain requirements for the computer matching operation could have been better defined and documented.

We recommended that for future A.C.E. operations, the bureau document and clearly communicate IT requirements for systems needed to support both the census and A.C.E., improve planning for A.C.E. field operations among its divisions and regions, better define and document computer matching requirements, and update laptops to fully support user needs.

Automated tools need better testing, documentation, and quality assurance. The bureau’s use of a trusted, much-used software tool (the “computer matcher”) and a questionnaire printing system enhanced the efficiency of matching enumerations and producing person follow-up questionnaires. Although the computer matcher was not newly developed software, the bureau was using it in a new way and should have documented the results of its testing. With respect to the questionnaire printing system used for person follow-up, errors occurred in production that we believe resulted from an insufficient verification of printed questionnaire data after last minute software changes.

In the future, the bureau should ensure that computer systems are developed and modified in accordance with rigorous, documented system and software engineering standards that, at a minimum, address requirements specification, design and development, testing, documentation, and quality assurance.

Quality assurance for person follow-up needs to be automated. The bureau conducted quality assurance on selected person follow-up questionnaires to detect interviewing problems, including data falsification, but the system, which was added after the 1998 census dress rehearsal, was not tested before being used in the decennial. Tracking the quality assurance workload was paper—and labor—intensive. For A.C.E., the bureau had planned to conduct the person follow-up operation using a computer-assisted system similar to that used to collect the A.C.E independent sample, but lacked the resources to develop and appropriately test such a system.

For the 2010 decennial, the bureau should ensure the efficiency of quality assurance procedures by integrating them into an automated person follow-up operation.

AGENCY RESPONSE

The bureau generally agreed with all but one of our recommendations—that A.C.E. results should be examined to determine whether retirement home residents were systematically omitted. Bureau officials stated that cross-checking A.C.E. data for the elderly against census data would be difficult because the census data did not identify whether a specific housing unit was in fact in a retirement home, and because residents may no longer live in the housing units in question, given that 2 years have elapsed since the decennial was conducted. The bureau added that it is considering including group quarters in the A.C.E. for Census 2010, which should reduce the potential for this error.

We still maintain that not knowing the extent to which missed coverage of retirement homes impacted this population’s net undercount diminishes confidence in the A.C.E. results for the elderly. (*Office of Inspector General: OIG-14226*)

AUDIT OF THE CENSUS BUREAU'S FY 2001 FINANCIAL STATEMENTS

For the third consecutive fiscal year, the Census Bureau received an unqualified opinion on its financial statements. However, as in years past, this success was tempered by continuing deficiencies in the bureau's internal control structure and its failure to develop and maintain financial management systems that substantially comply with federal requirements for such systems.

Our audit, conducted by an independent certified public accounting firm, identified three reportable conditions, the first two of which are material weaknesses. These same three conditions were identified as problems in the audit of FY 2000 statements and have yet to be resolved.

Financial systems, management, and reporting. The two material weaknesses were in the following areas:

- * **Financial reporting and management.** It is important to note that Census improved its financial management and reporting over the previous year. However, it continues to experience significant difficulties in using CAMS to produce routine and timely reports that meet the bureau's internal management and audit requirements. In addition, Census did not conduct a sufficient, detailed supervisory review of the FY 2001 financial statements to detect potential errors and omissions and to ensure the statements and related footnotes were prepared in accordance with OMB guidelines.

To correct these deficiencies, Census must continue to work closely with the Department to fully implement Hyperion (a software for financial reporting) and produce timely reports from CAMS. It must also perform a more detailed supervisory review of the financial statements.

- * **Account reconciliations.** Certain key account balances in the FY 2001 financial statements were not properly reconciled, and bureau-specific feeder systems were not fully integrated or electronically interfaced with CAMS. These weaknesses required the bureau to conduct extensive manual account

reconciliations. Specifically, deferred revenue and accounts receivable were not properly reconciled throughout the fiscal year and at year-end, and subsidiary ledgers for undelivered orders and accounts payable contained debit balances at a summary fund level and offsetting credit balances at a detailed transaction level. Census has begun eliminating these entries in FY 2002, but further cleanup is needed.

To correct these weaknesses, the auditors recommended, among other things, that Census perform accurate and timely account reconciliations, and review and support these on a monthly basis; reconcile all deferred revenue and accounts receivable financial transactions to the general ledger on a timely basis throughout the year; purge unmatched transactions from the undelivered orders and accounts payable balances; and inventory all open obligations to determine if any should be deobligated or accrued. The auditors also recommended that Census personnel receive training in how to determine, estimate, and document accrued liabilities.

Information technology controls. The third repeat condition was identified during the audit's separate review of general controls against the six criteria outlined in GAO's *Federal Information System Controls Audit Manual* (FISCAM): entitywide security program planning and management; access controls; application software development and change control; system software; segregation of duties; and service continuity. The auditors continued to report certain control deficiencies and identified two new weaknesses—entitywide security planning and management, and access controls. If not resolved, these weaknesses could adversely affect the accuracy and security of Census data as well as the security of its programs and hardware, and could negatively impact financial statements for both the bureau and the Department.

Compliance with laws and regulations. The FY 2001 audit revealed one instance of noncompliance with applicable laws and regulations: Census' financial management systems do not comply with system requirements and accounting standards stipulated in the Federal Financial Management Improvement Act of 1996. In fact, many of the deficiencies noted in the bureau's financial management and reporting processes and account reconciliations (above) are the same conditions

that rendered its financial systems noncompliant with federal requirements.

The bureau concurred with the audit findings and recommendations regarding general control weaknesses and reported that corrective action is under way. However, it disagreed with the findings regarding financial management and reporting, account reconciliations, and noncompliance with federal laws and regulations. (*Financial Statements and Audits Division: FSD-14473-2*)



International Trade Administration

The **International Trade Administration** is responsible for the trade promotion and policy issues associated with most nonagricultural goods and services. ITA works with the Office of the U.S. Trade Representative to coordinate U.S. trade policy. ITA has four principal units:

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

Trade Development 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 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. and Foreign Commercial Service promotes the export of U.S. products and helps small and medium-sized businesses market their goods and services abroad. It has 105 domestic offices and 157 overseas posts in 84 countries.

ITA OPERATING UNITS NEED TO BETTER COORDINATE TRADE COMPLIANCE ACTIVITIES

U.S. companies that want to compete effectively in today's global business arena often need assistance to address unfair trade practices or violations of trade agreements, inadequate protection of intellectual property, or other barriers to the export of goods and services. The Department of Commerce provides such assistance through various offices in the International Trade Administration that work with other federal agencies to monitor and enforce trade agreements. Overall, ITA endeavors to settle trade compliance and market access problems quickly and at the lowest level possible, in order to avoid formal dispute settlement structures such as the World Trade Organization, which can take years to resolve cases.

Market access and compliance work is handled by three units within ITA: Market Access and Compliance (MAC), Trade Development, and the U.S. and Foreign Commercial Service (US&FCS), with other offices involved as appropriate. In response to a substantial increase in the number and complexity of trade agreements over the years, the Department reorganized its international economic policy staff in July 1996 to give greater focus to market access and trade compliance issues. It created the MAC unit, and housed within that unit a new Trade Compliance Center (TCC). The center coordinates access and compliance efforts throughout ITA, monitors trade agreements, and reviews compliance complaints from a variety of sources. When warranted, the center forms a compliance team to work to resolve complaints and achieve a satisfactory outcome for U.S. exporters. Team members are drawn from the center and various other ITA components.

We examined ITA's trade compliance efforts, with a specific focus on the activities of the TCC, to determine whether the trade agreement compliance process, as managed by the center, was efficient, effective, and responsive to client needs. We analyzed how the compliance activities of the various units and the TCC could best be coordinated and tracked so as to avoid duplication and ensure full reporting of compliance work. We also examined whether ITA's compliance efforts were successful at promoting adherence to trade agreements and



International Trade Administration

addressing market access problems. Specifically, we found the following:

Trade agreement compliance work needs better coordination within ITA. To ensure the success of compliance activities, ITA's operating units must collaborate. Each has unique areas of expertise that are important to the positive resolution of trade compliance complaints. We found, however, that many staff members did not understand the role of the center and thus were not making effective use of its services in working trade compliance complaints. Moreover, organizational rivalries among the various ITA units further hindered collaboration, as did the lack of written guidance about the need for and importance of working together to ensure that U.S. exporters receive complete, timely, and accurate responses to compliance complaints. In addition, we pointed out that the TCC lacked the authority to require cooperation from the units, and managers in the various units did not make use of ITA's incentive awards program, which encourages and rewards interunit cooperation and teamwork.

We recommended a number of actions that ITA management should take to address these problems, including development of guidance that clearly delineates the role of the TCC and defines the types of complaints and issues that overseas and domestic staff from the other ITA units should bring to the center's attention or should coordinate with the center to resolve. We also recommended that the center market itself as a resource for other ITA units, and that ITA managers use all available awards and incentives to encourage collaboration among employees from the various components that handle compliance work. Subsequent to our fieldwork, ITA agreed to expand its use of awards programs to recognize team performance, and the TCC developed a trade compliance manual and distributed it to all ITA staff. The manual does a good job of explaining how the compliance program works and of defining the roles of the various ITA components. However, it does not provide clear direction on what types of complaints require coordination between a component and the TCC. We asked ITA to address this important issue in its action plan.

A central database of trade compliance work is needed. The TCC is responsible for tracking ITA-wide compliance-related activities and reporting this work monthly to the Secretary. The center relies on the





individual units to provide information about their activities, but the units often fail to report all of their compliance work. As a result, the reports are incomplete. There is no single database for tracking ITA-wide compliance activity; the units use several databases to record their own work. Therefore, ITA should establish a single database that tracks all compliance work conducted by the center and other ITA staff.

Subsequent to our fieldwork, MAC created a compliance database that became operational on February 1, 2002. However, the database is primarily used by MAC units—the country desks and the TCC; its use in tracking market access and compliance work performed by US&FCS and Trade Development was unclear. We asked ITA to address this issue in its action plan.

ITA's compliance performance measures should be reexamined.

ITA proposed two measures for assessing the effectiveness of its trade compliance activities: (1) the number of market access and compliance cases initiated, and (2) the dollar value of trade barriers addressed. We understand that ITA came up with the first measure in part to encourage staff to focus more on compliance issues, on the theory that people will follow through on actions that are being measured. We questioned, however, what bearing the number of initiated cases has on ITA's goal of ensuring fair competition in international trade. As for the second measure, we noted that this data is difficult to collect and the values obtained may not be reliable. In addition, US&FCS may already be collecting and reporting this data, which would make the center's efforts duplicative. We recommended that ITA reexamine its market access and trade compliance measures, with an eye to developing and implementing measures that clearly focus on the results of compliance efforts and the agency's goal of ensuring fair competition in international trade.

The TCC complaint process has improved over time, but some aspects still require adjustment. We found that TCC's process for reviewing trade compliance work has improved since the center began handling such matters in 1997. Over time, the staff's knowledge and experience have grown, and the results achieved by the compliance teams have enhanced ITA's efforts to increase access to foreign markets and improve compliance with trade agreements. In addition, TCC staff does a good job of tracking compliance issues and complaints, ensuring work is accomplished, and meeting deadlines. However, we found that



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some aspects of the center and its operations require adjustment. For example, the Rapid Response Team initiative, which calls for TCC staff members to travel to overseas US&FCS posts to help with market access and compliance issues, was developed without a clear plan. ITA should reevaluate the initiative in 9 to 12 months to determine whether it should be continued. In addition, we made recommendations to improve the TCC web site. Some of our concerns have been addressed by the site's recent redesign.

US&FCS ITALY POST IS WELL RUN, BUT NEEDS TO IMPROVE SEVERAL MANAGEMENT AND PROGRAM PRACTICES

Italy is one of America's most important trade partners. Its market is mature, highly competitive, and open to innovative U.S. products, services, and technologies. However, a sizeable trade imbalance exists between the two countries. In 2000, for example, the United States exported approximately \$11 billion in goods to Italy, but imported \$25 billion.

US&FCS Italy is the agency's eleventh largest overseas post, in terms of operating budgets. The post's resources are focused in Rome and Milan, with smaller offices located in Florence, Naples, and Genoa. US&FCS provides a range of assistance to American firms interested in the Italian market, such as trade events, technical assistance, and market research.

The Omnibus Trade and Competitiveness Act of 1988 requires OIG to periodically evaluate US&FCS overseas operations. Under this authority, we inspected the agency's Italy post, conducting our fieldwork from April to June 2001. We examined the post's management, program, financial, and administrative practices and its coordination with other trade-related organizations and agencies. Specifically, we sought to determine whether the post was using its resources efficiently and effectively, meeting the needs of U.S. exporters, helping increase U.S. export levels and market access, and using appropriate financial management procedures.

In general, we found that US&FCS Italy is a well-run, effective overseas operation. It delivers high-quality products and services to its clients and has good working relationships with the U.S. embassy and



US&FCS Italy



consulates and American organizations located there, such as the American Chambers of Commerce. We did note some weaknesses, however. These were in certain aspects of the post's strategic planning process, reporting procedures, client follow-up, financial operations, and information technology infrastructure. Our key findings and recommendations are summarized below.

Strategic direction and resource management. We noted three strategic and resource management processes that inhibit the post's

Source: OIG

US&FCS Italy's five offices are strategically located throughout the country to provide support to U.S. firms seeking access to the Italian market.

efficiency and productivity. (1) The one-page strategic plan that guides post operations, although required to be so brief by US&FCS headquarters, lacks sufficient detail to be very useful for post management or staff. We recommended that the post include more specifics about how it intends to attain its goals. (2) US&FCS Italy currently uses an ad hoc approach to allocating resources. It needs to develop a countrywide strategy for resource allocation that is based on strategic goals and priorities. (3) The post has not developed ways to deal with the explosive growth in e-mail requests for information and assistance from outside entities. Post management claimed that this workload increase has hurt the post's core services and quality control over work products. US&FCS Italy must develop policies and strategies to deal with the e-mail workload efficiently and maintain quality operations overall.

Reporting of export successes. US&FCS Italy's procedures for reporting activities, particularly export successes, do not meet established agency criteria, and reports are often inconsistent and inaccurate. For example, 19 percent of the export success entries in the post's Client Management System (CMS) database that we reviewed did not meet US&FCS criteria, and the post's tallies of its performance



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often differed from those contained in headquarters' databases. CMS may therefore not be a reliable gauge of the post's performance—a problem we suspect is primarily the result of weak internal controls or inadequate oversight of export success reporting by both the post and US&FCS headquarters.

Systematic client follow-up. US&FCS Italy does not systematically follow up with clients, as required by US&FCS policy, to track their satisfaction with services rendered, monitor the outcome of their export activity, and determine whether they require further assistance. Post staff indicated that other, higher priorities generally take the time that might otherwise be spent following up with clients. By failing to conduct systematic client follow-up, US&FCS Italy may be overlooking opportunities to capture valuable customer feedback on the post's products and services, and may be missing potential "export successes"—a key measure of the post's performance.

Collections management. The US&FCS Rome office does not make weekly deposits of revenue from trade services or product sales, as required by ITA policy and U.S. Treasury regulations. Instead, the office accumulates this revenue until it totals \$100 in order to minimize processing costs. Although the practice makes sense, the post should request a waiver from the current ITA and Treasury policy rather than simply ignore it.

Also, to comply with ITA regulations, US&FCS Rome must further segregate collection responsibilities among staff to safeguard against misuse of receipts and ensure accurate reporting of income.

Use of trade event funds to purchase capital assets. The post used some funds generated from trade events to purchase capital assets without proper authorization to do so. ITA does permit these funds to be used in this way—as long as the purchase supports the post's trade events program—but has specific authorization policies for capital equipment purchases. We found that the Italy post did not consistently follow these policies, although all purchases did support the trade events program. Post management must ensure that requests to use these funds for capital equipment purchases are submitted to the appropriate headquarters officials.



Cost allocation system. US&FCS Milan does not have an effective cost allocation system to identify and allocate direct and indirect costs between fee-for-service expenditures and operations and administration costs. Without such a system, US&FCS Italy cannot determine the full cost of trade events and, by extension, whether fees collected recover the full cost of those events, as required.

Information technology. The post has a myriad of IT support and infrastructure problems that could hinder operations. For example, the Client Management System frequently malfunctions, and there is inadequate local technical support for IT systems.

A fully functioning information technology infrastructure and support system are critical to maintaining the post's operations and ensuring its peak performance. US&FCS Italy must work with the ITA Office of the Chief Information Officer to find viable, cost-effective solutions to the multitude of IT problems it faces.

We made a total of 34 recommendations to address these and other deficiencies we noted. The director general of US&FCS generally concurred with them, cited many instances in which the post and US&FCS headquarters have already taken action, and noted other areas in which corrective action is planned. (*Office of Inspections and Program Evaluation: IPE-14243*)

National Oceanic and Atmospheric Administration



OIG INSPECTIONS OF WEATHER FORECAST OFFICES CONTINUE

The National Weather Service's 121 weather forecast offices (WFOs) provide weather information services and products for local, national, and international users. Through a variety of technologies (including radar, satellites, and automated surface observing systems) and programs, WFOs provide warnings and continuous updates of weather conditions and impacts, particularly in relation to severe weather—tornadoes, severe thunderstorms, floods, hurricanes, extreme winter weather, and intense summer heat.

Since 2000, OIG has been conducting inspections of WFOs nationwide. The first three were conducted at Raleigh, North Carolina (see September 2000 issue, page 52), Missoula, Montana, and San Angelo, Texas (see September 2001 issue, pages 43-49). During this semiannual period, OIG completed its fourth WFO inspection, this one in Minnesota.

Chanhassen, Minnesota

The Chanhassen, Minnesota, WFO staff of 25 is responsible for a warning area covering 51 counties in southern and central Minnesota and west central Wisconsin. In May 2000, NWS implemented the Advanced Weather Interactive Processing System in Chanhassen to integrate NWS's meteorological and hydrological data with its satellite and radar data, enabling forecasters to prepare and issue more accurate and timely forecasts and warnings.

From August through November 2001, we conducted an inspection of the Chanhassen WFO to determine how effectively it (1) delivers warnings, forecasts, and other information to its service users; (2) coordinates its activities with state and local emergency managers; and (3) supervises its network of observers and volunteer spotters. We also assessed the office's management and internal controls; its

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

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

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

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

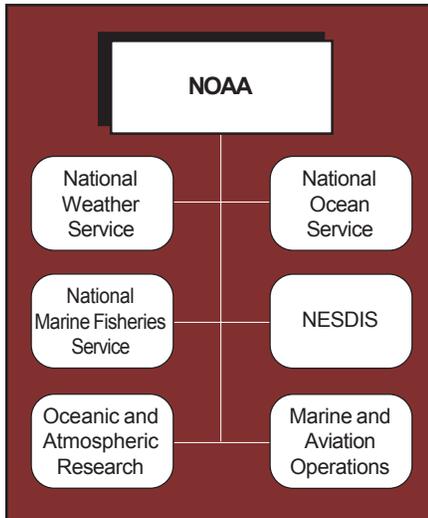
National Environmental Satellite, Data, and Information Service observes the environment by operating a national satellite system.

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

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



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compliance with Department, NOAA, and NWS policies and procedures; and the effectiveness of NWS’ regional oversight.

We found that the Chanhassen office generally provides excellent weather products and drew the following conclusions:

- * the WFO’s weather forecasts and warnings are timely and accurate, except that, in general, lead time for flash-flood warnings is significantly shorter than times provided by other area weather offices;
- * the Outreach Program to emergency managers, the media, local schools, and community groups is effective and popular;
- * the Skywarn and Cooperative Observer Programs are well run and particularly successful as a result of staff outreach to the community, but the Cooperative Observer Program may, because of staff attrition, face a future decline in support;
- * information technology resources are well maintained; and
 - * Chanhassen’s statewide forecast contains information that is readily available from other sources.



We also, however, found managerial and administrative deficiencies that need prompt attention by NWS and WFO managers:

- * the office’s training program could be improved by giving staff a more comprehensive list of available training and ensuring that all staff have a completed individual development plan;
- * administrative operations lack adequate internal controls to ensure proper use of purchase cards and convenience checks, and accurate inventories of accountable property; and
- * regional oversight should be improved by having the Central Region Headquarters in Kansas City conduct on-site reviews of management, program, technical, and administrative operations.

Source: www.nws.noaa.gov



Recommendations Summary

To address the deficiencies we noted, we recommended that the assistant administrator for NWS instruct the regional director to (1) work with Chanhassen forecasters and Central Region staff to determine how best to increase the lead time for flash-flood warnings; (2) ensure that the Cooperative Observer Program is adequately supported by trained staff, given anticipated attrition; (3) ensure that the meteorologist-in-charge, the administrative support assistant, and all appropriate staff receive necessary training in the use of purchase cards and convenience checks, and in tracking accountable property; (4) develop a schedule to periodically visit the Chanhassen and other Central Region WFOs to comprehensively review their programs, management, and technical and administrative operations; and (5) evaluate the costs and benefits of producing the statewide forecast and decide how or whether it should be continued.

In addition, we recommended that the regional director instruct the meteorologist-in-charge to (1) implement individual development plans for all Chanhassen employees and ensure that all have access to and information about appropriate training courses; (2) ensure that adequate internal controls are in place regarding the use of purchase cards and convenience checks and that all uses are in accordance with departmental and NOAA guidelines; (3) evaluate reducing the number of purchase card holders; and (4) secure sensitive property and maintain an accurate, complete, and official inventory.

NOAA concurred with all of our recommendations and has already acted on three of them. Specific to the question of duplicative statewide forecasts, Chanhassen canvassed its users and found that its forecast is still a valued product it should continue to produce. NOAA has developed an implementation plan for the remaining six recommendations. (*Office of Inspections and Program Evaluations: IPE-14423*)

AUDIT OF NOAA'S FY 2001 FINANCIAL STATEMENTS

For the third year running, NOAA received an unqualified opinion on its consolidated financial statements. The FY 2001 audit was conducted by an independent certified public accounting firm under contract with OIG.



National Oceanic and Atmospheric Administration

The auditor's assessment of internal control (including IT controls) over financial reporting identified one new condition and two repeat conditions, none of which is a material weakness.

Financial Systems, Management, and Reporting

The two conditions identified in this portion of the audit are as follows:

- * **Accounting for construction work in progress (CWIP) should be improved** (new). NOAA has made improvements in its accounting for CWIP over the past few years; however, we noted certain deficiencies in FY 2001 regarding NOAA's monitoring and accounting for CWIP that need to be resolved. During FY 2001, NOAA did not receive detailed spreadsheets for certain construction projects to complete year-end reconciliation of costs; many of those it did receive were late and incomplete, and often contained inconsistent information from one to another. The auditing firm and the NOAA Finance Office had to conduct extensive research to resolve discrepancies and collect complete information, and ultimately had to make numerous adjustments to the financial statements. To avoid this situation in the future, the independent auditor recommended that NOAA take steps to ensure that CWIP managers enforce policies and procedures for providing complete documentation and improve their oversight of these processes.

- * **Controls over monitoring the budget should be improved** (repeat). Although NOAA has implemented certain manual procedures to detect overobligations, it needs to automate procedures or system controls within its accounting system (known as the Financial Management System, or FIMA) to prevent overobligation of apportioned funds. Currently, NOAA relies on budget officers and program managers to detect overobligations by reconciling entries in FIMA against available funds—which means that the overobligation is only revealed after the fact. An automated system would allow for features to alert budget officers to a given entry or request that would exceed available funds before the funds are promised.



Information technology controls

The repeat condition identified in the assessment of IT controls was the failure of NOAA's accounting system (including CAMS) to meet five of the six criteria outlined in GAO's *Federal Information System Controls Audit Manual* (FISCAM): entitywide security program planning and management; access controls; application software development and change control; segregation of duties; and service continuity. No deficiencies were noted in system software.

Compliance with laws and regulations

The review of NOAA's compliance with applicable laws and regulations identified two matters, both of which were cited in the prior-year audit: (1) NOAA again did not fully fund its capital leases during FY 2001; and (2) its financial management systems still do not comply with federal requirements for such systems because they do not adequately support the budget execution process or the preparation of timely and accurate financial statements via an integrated system.

NOAA's Response

NOAA concurred with the findings and recommendations contained in the audit report and commented that certain of them will be resolved as CAMS implementation proceeds. The agency is taking action to correct other deficiencies. (*Financial Statements and Audits Division: FSD-14475-2*)

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

By partnering with industry, NIST seeks to tap private sector creativity to bring promising innovations to market swiftly and helps firms modernize, improve productivity, and enhance efficiency to achieve or maintain a competitive advantage.

The Advanced Technology Program (ATP) and the Manufacturing Extension Partnership (MEP) program both support this collaborative relationship.

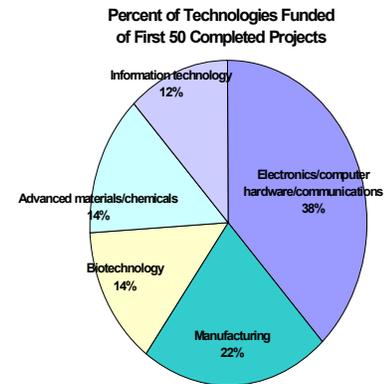
ATP uses an early stage investment strategy to accelerate development of innovative technologies that offer significant commercial payoffs and widespread benefits for the nation. MEP—a nationwide network of more than 400 nonprofit centers—provides small and medium-sized manufacturers with the technical and business assistance they need to succeed.

During this semiannual reporting period, we conducted audits of four ATP awards and two MEP cooperative agreements. Our findings of inadequate financial management and improper claims resulted in our questioning \$900,000 in federal claimed costs and recommending \$400,000 in funds to be put to better use.

ADVANCED TECHNOLOGY PROGRAM (ATP)

AWARDEE'S FINANCIAL MANAGEMENT SYSTEM FAILED TO MEET MINIMUM REQUIREMENTS

An ATP cooperative agreement to fund a 3-year research project was awarded to a Massachusetts firm in September 2001. The budget called for federal funding of \$1,890,596 for direct costs of the project, with first-year funding of \$570,449.



Source: www.atp.nist.gov/eao/factsheet/facts-01.htm

In December 2001, we conducted a survey of the firm's financial management system. We wanted to ensure that federal funds would be expended in accordance with the award's general and special terms and conditions and that the firm's financial management system met federal standards. Because no federal funds had yet been expended, we did not review the firm's performance under the award.

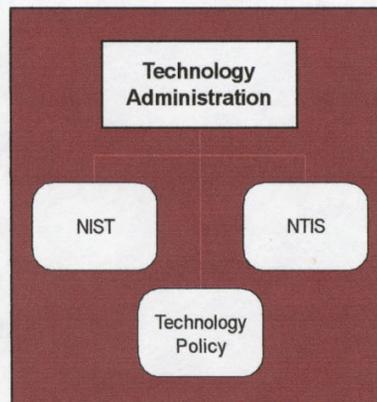
We found that the firm's financial management system did not meet minimum federal requirements and recommended that NIST withhold approval for costs to be incurred on the ATP-funded research until receiving verification that the firm's financial management system meets essential provisions and is capable of protecting federal interests as required. We also determined that the firm had not obtained a federally negotiated indirect cost rate and advised that it submit a proposal to its cognizant agency for review and approval. Although the ATP award does not allow reimbursement for indirect costs, the firm's proposal included a contribution of about \$677,000 in indirect costs over the course of the project; in addition, the firm has received research grants from another federal agency which provide for the recovery of indirect costs.

Finally, based on concerns about the need for strict adherence to special award conditions, we recommended that NIST program and grants officials closely monitor the project. NIST concurred with our recommendations. (*Atlanta Regional Office of Audits: ATL-14928-2*)

AUDIT FINDS INADEQUATE FINANCIAL MANAGEMENT SYSTEM AND \$61,425 IN QUESTIONED COSTS

We performed an accounting system survey and interim financial and compliance audit of the lead firm in a joint venture that had received a 3-year ATP award with a total estimated cost of \$11,304,010, with federal funding not to exceed \$5,595,485. For the period of January 1, 2001, through September 30, 2001, the firm submitted three reimbursement requests to NIST totaling \$1,754,613, representing combined costs claimed by both joint-venture members, including \$697,448 claimed by the lead firm.

The purpose of our review was to (1) determine whether the firm's accounting and financial management system complied with federal regulations and NIST/ATP requirements, (2) examine costs incurred to



date, and (3) identify any instances of noncompliance with the award terms and conditions. We determined that the firm's financial management system was not adequate for purposes of the award. We also questioned \$61,465 in claimed costs.

We recommended that NIST require the firm to implement a project cost accounting system that segregates the cost of each project and allocates indirect costs to research projects, disallow questioned costs of \$61,425, and recover \$30,425 in excess federal disbursements. (*Denver Regional Office of Audits: DEN-14403*)

QUESTIONED COSTS TOTALING NEARLY \$400,000 AND COMPLIANCE ISSUES ARE UNCOVERED DURING AUDIT

In September 2000, NIST awarded an ATP cooperative agreement to a California company. Total estimated costs for the 3-year project were \$7,926,506, with the total federal funding not to exceed \$2,000,000, and a first-year limit of \$1,246,549. The company submitted two requests to NIST for reimbursement totaling \$493,551.

We conducted an interim audit of the award and found that the company's accounting system was generally adequate for purposes of the award and that the firm was adhering to award terms and conditions in all material respects. Our audit disclosed, however, \$395,208 of questioned costs, including \$393,937 for general and administrative costs not applicable to the ATP award. We also noted several compliance issues that needed to be corrected, including the failure to have adequate agreements in place for three subcontractors.

We recommended that NIST disallow the \$395,208 in questioned costs, recover disbursed federal funds totaling \$182,780, and require the firm to correct its current subcontract agreements. (*Denver Regional Office of Audits: DEN-14516-2*)

AUDIT OF ADMINISTRATOR OF \$10 MILLION JOINT VENTURE PROJECT DISCLOSES NO COST OR COMPLIANCE ISSUES

We audited the operations and records of the joint venture administrator for a \$4.8 million ATP cooperative agreement awarded in 1997 to a consortium located in California. The award was intended to partially fund a proposed 2-year, \$10,155,543 project. The original project

period was extended to June 30, 2000, at no additional cost to the federal government.

Our audit verified that the records were adequate to support the major elements of costs claimed and did not find any cost issues. We noted no other audit issues related to award compliance or project performance. *(Seattle Regional Office of Audits: STL-14370-2)*

MANUFACTURING EXTENSION PARTNERSHIP (MEP)

MORE THAN \$2.5 MILLION IN QUESTIONED COSTS FOUND

An MEP cooperative agreement was awarded to a nonprofit corporation in 1999 to provide manufacturing extension services to small and mid-size businesses in a designated service area in Utah. Total estimated costs for the 2-year award period were \$6,670,892 with federal funding not to exceed \$2,240,713 or 33.6 percent of allowable costs. The award recipient is located on a college campus, and all project costs are processed through the institution's accounting system.

In April 2000, we received a request from the NIST Grants Office to examine the recipient's use of the college's indirect cost rate. During the course of our limited-scope audit, it became apparent that the organization had not based its claimed costs on actual costs incurred for the program. When we advised corporation officials of our concerns in this regard, they elected to amend their claims. In August 2001, the recipient submitted two revised requests for reimbursement, claiming total costs of \$7,271,330 including a federal share of \$2,240,713.

In November 2001, we returned to complete our original review and to conduct a cost and compliance audit of the award. We determined that program income had not been reported accurately and that the recipient's revised claims included questioned costs of \$2,538,305 including (1) \$1,482,551 in costs that were not adequately supported,

(2) \$1,003,854 in contract costs that were outside the scope of the NIST award, (3) \$4,380 in unapproved foreign travel costs, (4) \$20,700 in duplicate claims, and (5) \$26,820 in other unallowable costs.

We recommended that NIST disallow the questioned costs and recover \$650,417 in excess federal disbursements. (*Denver Regional Office of Audits: DEN-13088*)

MEP RECIPIENT'S IMPROVED FINANCIAL MANAGEMENT SYSTEM GENERALLY COMPLIES WITH REGULATIONS AND REQUIREMENTS

In December 1995, NIST awarded a 5-year MEP cooperative agreement to a nonprofit corporation located in Puerto Rico to provide manufacturing assistance to small and medium-sized manufacturers. Estimated costs for the award period—January 1, 1996, through June 30, 2001—were \$5,345,774 with the federal share not to exceed \$2,312,186.

We conducted an interim financial and compliance audit of costs claimed during the fifth year and found that the recipient's financial management system generally complied with federal regulations and MEP requirements. Three areas, however, required improvement: (1) unnecessary general ledger expense accounts, (2) overdue accounts payable, and (3) program income reporting. Based on the organization's response to our draft audit report, we are satisfied that appropriate actions were under way to improve its financial management system, and we made no recommendations in that regard in our final report. We did, however, question a total of \$38,425 in claimed costs, and recommended that NIST recover \$27,485 in excess federal disbursements. (*Denver Regional Office of Audits: DEN-14275-2*)

OIG REVIEWS ATP PROGRAM-SPECIFIC AUDITS PERFORMED BY PUBLIC ACCOUNTANTS

During this semiannual period, OIG reviewed 83 audit reports from independent public accountants that performed program-specific audits of ATP research and development awards made to for-profit companies. The audited dollars in these reports totaled \$121,213,193.

Ten of the 83 reports we examined had questioned costs totaling \$3,778,301. The federal portion of the questioned costs amounted to \$1,648,457 and resulted from violations of cost principles established by federal acquisition regulations and other terms and conditions of the ATP awards. A complete list of the audit reports is included in Appendix B-1. Below are summaries of some of the significant findings:

- * A Delaware company charged \$639,834 in indirect costs to the project in excess of the approved indirect cost budget.
- * A California company incurred \$1,066,617 in subcontracting costs without obtaining required approvals from the NIST Grants Office.
- * A Pennsylvania company overstated its direct costs by \$533,468 because direct labor was charged at average rates and not actual rates. The company also overstated indirect costs by \$368,841 by using previously approved rates rather than current rates.
- * A Massachusetts company overstated direct salary and fringe benefit costs by \$124,012 because it charged too great a percentage of certain employees' time to the award.

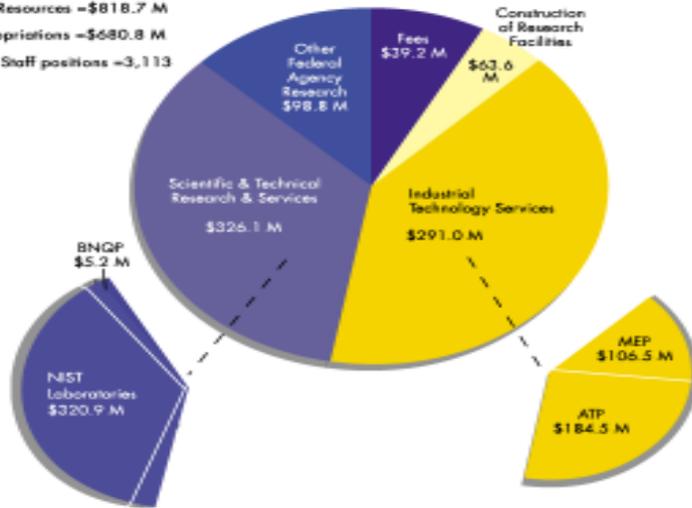
In addition to the 10 reports that had questioned costs, we reviewed and informed NIST of another 19 that included administrative findings. The two most common administrative findings reported by the independent public accountants were (1) failure to maintain written procurement policies and procedures that conform to federal procurement standards and (2) failure to include provisions in subcontracts requiring subcontractors to adhere to federal laws and regulations. The remaining 54 audit reports reviewed did not include any findings.

NIST'S REPORTING OF PERFORMANCE MEASURES NEEDS IMPROVEMENT

Our evaluation of NIST's procedures for measuring and reporting performance was the second of two such audits we completed during this semiannual period, in assessing the Department's efforts to comply with the Government Performance and Results Act. (See USPTO, page 71.)

NIST Resources Fiscal Year 2002 *

Total Resources –\$818.7 M
 Appropriations –\$680.8 M
 FTE** Staff positions –3,113



* All numbers rounded
 ** Full-time equivalent

Source: www.nist.gov/public_affairs/budget/budgetpiechart.htm

OIG assessed performance measures that pertain to NIST laboratories, MEP, and ATP. These three operations account for nearly three-fourths of NIST's budgetary resources. *Baldrige National Quality Award Program

We conducted fieldwork from July to December 2001 and submitted our final report in March 2002.

Commerce submits NIST's performance information as part of its Department-wide performance and accountability reports. The Department includes in those reports the following goals that are specific to NIST:

- * Provide technical leadership for the nation's measurement and standards infrastructure and ensure the availability of essential reference data and measurement capabilities.
- * Accelerate technological innovation and development of new technologies that will underpin economic growth.
- * Improve the technological capability, productivity, and competitiveness of small manufacturers.

NIST has implemented a comprehensive set of performance measures that include a range of indicators to assess progress in meeting bureau goals: output and outcome measures, peer reviews, and impact studies, to name a few. NIST collects data and reports on 15 measures, including (1) the number of technical publications produced, (2) cumulative number of technologies under commercialization, (3) cumulative number of patents filed, and (4) increased sales attributed to assistance from the Manufacturing Extension Partnership (MEP) program. We limited our review to these four measures as they pertain to MEP, NIST laboratories, and the Advanced Technology Program (ATP). We evaluated NIST's reporting of performance information in documents submitted to meet GPRA requirements as well as the adequacy of internal controls for ensuring the data's accuracy, consistency, and reliability.

While we found that the bureau had a comprehensive approach to reporting results, we noted several deficiencies.

MEP. NIST’s reporting of MEP performance to quantify its assistance to small manufacturers includes data for clients of all sizes, and the data it collects regarding increased sales attributable to MEP assistance is unverifiable. The bureau must restate its performance goal to reflect the data reported and clearly articulate which percentages of claimed results do not come from small manufacturers, or report only the data that pertains to the goal. It must also implement procedures for ensuring that sales information collected from program awardees is verified.

NIST laboratories. The labs slightly understate the number of technical publications they produce because for certain years, they do not include documents produced at two of their locations. Also, the measure’s use of the term “publication” is misleading because the manuscripts counted have not necessarily been published. The bureau must improve its collection methods to ensure that data is consistently gathered from all labs, and revise the discussion of the measure with terminology that reflects the fact that unpublished documents are included in the count.

ATP. Reported results for cumulative numbers of patents filed for fiscal years 1998 and 1999 were slightly overstated because the results included copyrights. Additionally, the bureau reports cumulative numbers of patents and cumulative technologies under commercialization on a multiyear rather than a current-year basis, which does not permit comparison against its annual budget. Again, the bureau should either revise its reporting procedures to include cumulative ATP expenditures that match the multiyear accounting of patents and technologies or provide single-year totals for these measures.

The director of NIST generally agreed with our recommendations and noted that the bureau was already exploring ways to improve performance measurement and reporting systems, and had taken steps to revise the text of performance reports to accurately reflect the data collected. (*Financial Statements and Audits Division: FSD-14430*)

AUDIT OF NTIS' FY 2001 FINANCIAL STATEMENTS

NTIS received an unqualified opinion on its fiscal year 2001 financial statements—the ninth year in a row for this accomplishment. The independent certified public accounting firm that performed the audit found no material weaknesses in the bureau's internal controls over financial reporting and no instances of noncompliance with laws and regulations.

INFORMATION TECHNOLOGY CONTROLS

In conjunction with the review of financial statements, the auditors assessed the adequacy of IT controls associated with NTIS' information systems against the six criteria outlined in GAO's *Federal Information System Controls Audit Manual*: entitywide security program planning and management; access controls; application software development and change control; system software; segregation of duties; and service continuity. While it found no new weaknesses in the integrity of these controls, it reissued four outstanding findings still unresolved from FY 1999 in the areas of access control, application software development and change control, and service continuity. It reiterated its FY 1999 recommendations for correcting these weaknesses, with modifications to reflect changes in the bureau's computing environment.

These internal control weaknesses continue to pose a threat to the security of NTIS' data, programs, and hardware, and could have a negative effect on the financial statements of both the bureau and the Department. (*Financial Statements and Audits Division: FSD-14476-2*)



United States Patent and Trademark Office

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

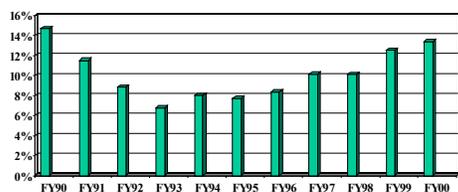
WHILE PATENT APPLICATIONS INCREASE, EXAMINERS NEEDED TO PROCESS THEM DECREASE

The number of patent applications filed has been growing rapidly for several years, and this trend is expected to continue. In FY 2000, USPTO received 293,244 patent applications, a 12.3 percent increase over FY 1999. For fiscal year 2001, the number of patent applications rose another 11 percent, roughly the same as is expected in fiscal year 2002. To keep up with the increasing number of patent applications, USPTO is attempting to increase the number of patent examiners.

However, high attrition rates have been a concern for the agency for some time. They rose steadily from 6.8 percent in FY 1993 to 13.4 percent in FY 2000. Of particular concern is the number of examiners who leave during their first few years of USPTO employment. Between fiscal years 1990 and 2000, 56 percent of attrition was among examiners in their first 3 years with the agency; 30 percent left within their first year. The loss of these employees within such a short period is especially troubling because USPTO makes a sizable investment in training new employees.

In December 2001, we completed an audit to determine whether USPTO's attrition rates could be reduced through improved hiring and retention practices. Our review focused on two patent examiner work groups: the group with the lowest attrition rate and another that had a rate among the highest during FY 2000.

Rate of Patent Examiner Attrition
FY 1990-2000



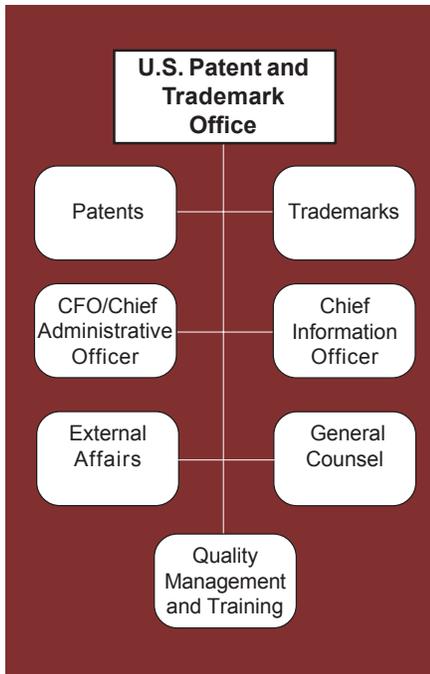
Source: USPTO

Unacceptably high rates of attrition among patent examiners plagued USPTO throughout the 1990s and continue unabated. The bureau is attempting to counter the problem with better screening methods, flexible work schedules, and more competitive salaries and benefits.

Our review confirmed what other studies had shown—that job dissatisfaction, poor performance, and higher pay are the primary reasons why patent examiners leave USPTO. Patent examination requires individuals with a variety of unique skills, particularly technical expertise in such areas as engineering, computer science, and law. Competition from private industry and other federal agencies for this highly skilled group is strong, and the pool of eligible workers is



United States Patent and Trademark Office



relatively small. USPTO's ability to retain highly skilled patent professionals is also hampered by lower-than-private-sector salaries and job pressure, including the need to meet rigorous production standards.

The agency has begun a series of initiatives to improve patent examiner recruitment and retention. For example, the Office of Personnel Management has authorized special salary rates for patent examiners, and USPTO has implemented numerous family friendly programs, such as more flexible work hours, to encourage examiners to stay. A special pilot telework program is also being evaluated.

Although not much more can be done to reduce the number of employees leaving for higher pay, we believe that attrition resulting from job dissatisfaction and terminations resulting from poor performance can be reduced through an improved screening process during the hiring phase. We therefore recommended that the agency reexamine its process and determine whether recruiting techniques can be developed to (1) better identify applicants best suited for examiner positions and (2) better inform applicants about USPTO's production-oriented work environment. (*Business and Trade Audits Division: BTD-14432-2*)

MINOR IMPROVEMENTS NEEDED IN REPORTING PERFORMANCE RESULTS

GPRA was enacted to improve federal programs' effectiveness, efficiency, and accountability to Congress and to the American public. It requires federal agencies to set goals for program performance and to annually compare their performance against those goals and report the results. Each year, all agencies gather from their units and bureaus the measurement data to be used to quantify and qualify their previous year's accomplishments. To be useful, however, the data has to be accurate, timely, comprehensive, and credible.

To ensure that the data users, such as Congress and OMB, can have confidence in the reported performance information, GPRA requires data verification and validation as quality control measures. During this last reporting period, we examined USPTO's efforts to ensure that its reported performance results are reliable.



We performed our audit from July to September 2001. Our final report, issued in March 2002, notes USPTO's strong commitment to report accurate data but also recommends that the bureau take additional steps to enhance the credibility of its data.

For example, one area of responsibility on which USPTO is measured is its outreach efforts to developing countries. USPTO conducts seminars and provides technical training to officials from those countries on how to reform their intellectual property structures to comply with World Trade Organization provisions. Measurements used to quantify these training/technical assistance activities include the number of (1) sessions performed at USPTO, (2) sessions performed in developing countries, (3) radio or televised broadcasts to developing countries, and (4) instances of legal advice provided.

Yet, USPTO has no clear criteria for determining which countries qualify as "developing." USPTO's list of developing countries for a given reporting period may come from one of a variety of sources—the United Nations, the World Bank, the Department of State—and varies year to year depending on the source and the country's development status. Because no one source was consistently used, and because USPTO did not consistently use the most current list from any of the sources, the reported data could have been misinterpreted.

As a result of our finding, we recommended that USPTO ensure that criteria used to measure technical assistance to developing countries clearly document and update on a regular basis those countries eligible to be on USPTO's developing countries list.

In responding to our report, USPTO agreed with our recommendation, and the agency's Office of Legislative and International Affairs is now updating the list of developing countries on a regular basis and documenting additions or deletions as needed.



GUIDANCE FROM SENIOR MANAGEMENT COULD STRENGTHEN USPTO'S INFORMATION SECURITY PROGRAM

USPTO's day-to-day operations increasingly depend on information technology: patent and trademark applications are filed, fees are paid, and some USPTO employees telework via the Internet, and these are only a few examples of the impact IT has on the agency. Information technology promises to improve and expand delivery of USPTO services, but expanded delivery also increases the vulnerability of and risk to USPTO's computer systems and networks. Greater access escalates the risk of unauthorized access and exposure of USPTO's data to improper disclosure or modification.

Under GISRA, each agency head is charged with ensuring the security of information and information systems by promoting security as an integral component of that agency's business operations. From October through December 2001, we evaluated USPTO's information security program for unclassified systems to determine whether it complies with GISRA, which mandates that federal agencies have effective security for the information resources supporting their operations and assets. Our findings suggest that information security has not yet become an integral part of USPTO's business operations. As a result, fundamental responsibilities are frequently not carried out.

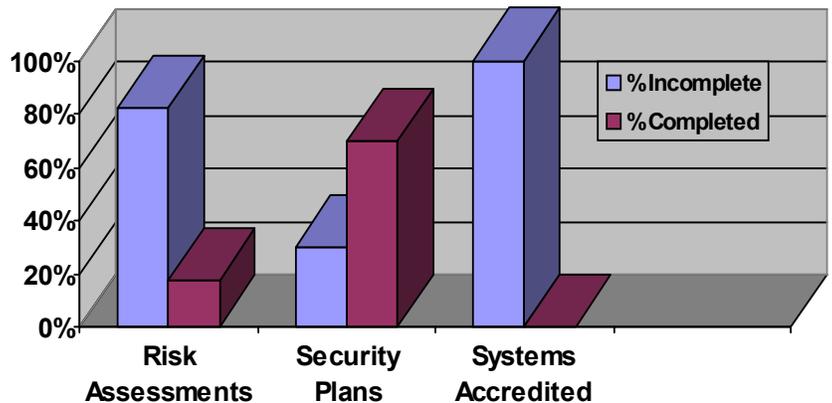
We evaluated USPTO's information security policies and procedures, roles and responsibilities, and adherence to applicable laws, regulations, and guidance and found that although USPTO generally has documented policies and procedures in place that are consistent with accepted security practices, many other important security requirements are not satisfied. Our evaluation identified the following issues:

- * Eighty-two percent of USPTO's 78 operational systems do not have documented risk assessments, 30 percent of its security plans are outdated, and none of its operational systems have current accreditation³ as required by OMB. Lack of accreditation means that USPTO management has not officially authorized any of these systems for use. Moreover, USPTO officials do not conduct periodic reviews of information policies and security controls and techniques.

³Accreditation is the formal authorization by management for system operation, including an explicit acceptance of risk.



- * USPTO provides information security-awareness training to new employees, but does not have a program to provide appropriate training and education to personnel who need specialized security skills and competencies. Thus, USPTO cannot ensure that employees who have significant security responsibilities understand or apply effective information security practices.
- * USPTO’s incident response procedures do not include any requirement to report incidents to GSA, as required by GISRA and OMB.
- * USPTO’s funding requests for information security do not appear to be based on a thorough analysis of its security needs or the cost of satisfying them.
- * Although senior management’s awareness and support are essential to establishing the environment and ensuring the resources needed to promote an effective information security program, such awareness and support have been minimal and senior management’s proactive involvement is absent.



We made numerous recommendations for improving information security at USPTO. Most important is our recommendation that the Under Secretary of Commerce for Intellectual Property and Director of USPTO ensure that senior management officials give information security high priority, sufficient resources, and their personal attention and that they work closely with their CIO to improve information security at the agency.

Source: OIG. Status of USPTO’s Key Information Security Management Controls. Lack of documented risk assessments, outmoded security plans, and no accreditation leave USPTO’s 78 systems’ vulnerability in question.

In response, USPTO agreed with all of our recommendations and described corrective actions it is taking or has planned. The Under Secretary affirmed the agency’s commitment to develop a strong information security program to protect the information assets of USPTO and its customers. As regards accreditation, the response indicated that whether the agency can complete system accreditations according to the timetable we recommended depends on the resources required and their availability. Because of the importance of



accreditation in ensuring that operational systems are adequately protected, we urge USPTO, when allocating resources, to give this matter high priority. Since our evaluation, the agency has been making a concerted effort to improve information security, devoting increased management attention and resources to this area and taking steps to implement policies and procedures to enhance the integrity and confidentiality of its information assets. (*Office of Systems Evaluations: OSE-14816*)

Audit of USPTO's FY 2001 Financial Statements

In FY 2001, USPTO received an unqualified opinion on its financial statements from the independent certified public accounting firm that conducted the audit. The audit identified no reportable conditions in its internal controls over financial reporting or instances of noncompliance with laws and regulations. USPTO has received clean opinions for the last 8 years.

INFORMATION TECHNOLOGY CONTROLS

As part of the overall audit, the auditors conducted separate reviews of the bureau's IT controls. The first review assessed USPTO's financial management systems against the six criteria outlined in GAO's *Federal Information System Controls Audit Manual* (entitywide security program planning and management; access controls; application software development and change control; system software; segregation of duties; and service continuity). The review identified one new weakness in entitywide security program planning and management, and noted that two weaknesses identified in the FY 2000 audit remained unresolved. These were in the areas of access control and service continuity.

In the second IT review, the auditors assessed whether the financial management systems were vulnerable to unauthorized access. They identified two new weaknesses in access controls and made five recommendations to address them. (*Financial Statements and Audits Division: FSD-14477-2*)

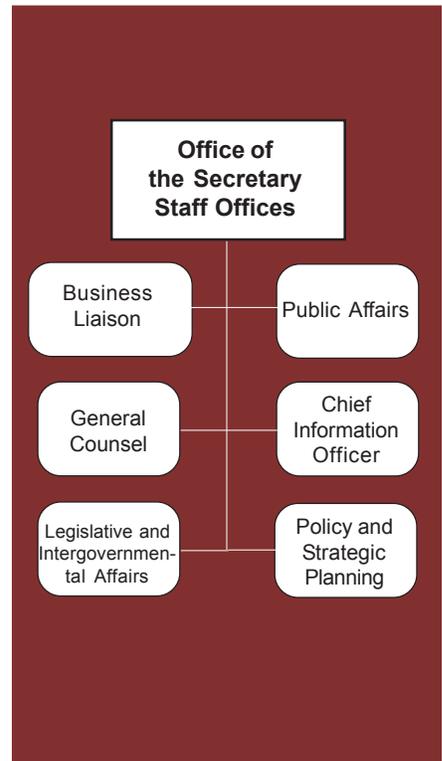
Department-wide Management



VULNERABILITIES IN EMERGENCY PREPAREDNESS AND PHYSICAL SECURITY ARE EVIDENT AT MANY COMMERCE FACILITIES

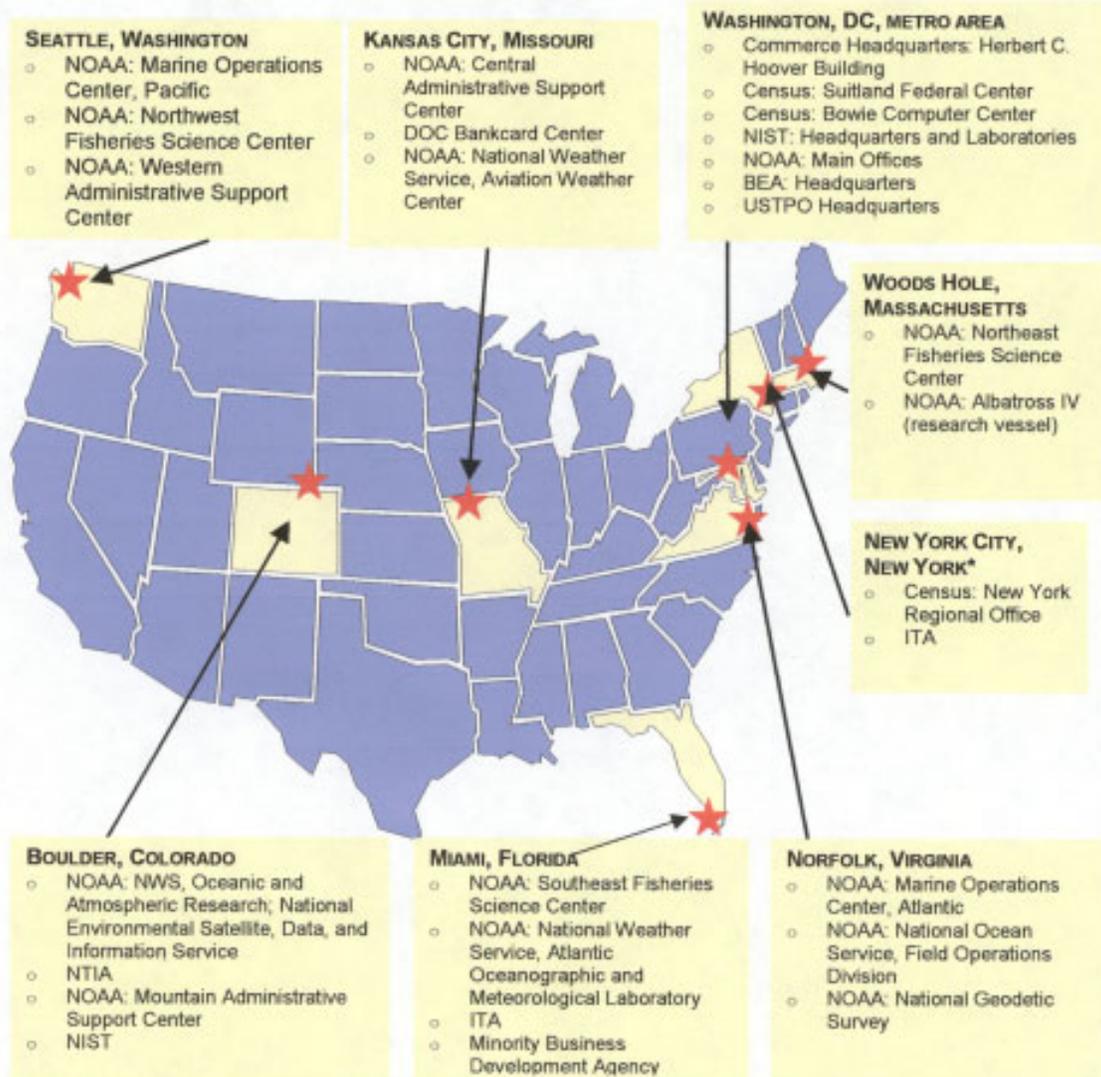
The intensified national focus on personal and homeland security has prompted all federal agencies to reconsider the safety of their facilities and the adequacy of their emergency procedures. During this semiannual period, OIG evaluated emergency preparedness and physical security measures at 27 Commerce facilities (see map on the following page), including the Department’s headquarters (Herbert C. Hoover Building) in Washington, D.C., to quickly determine the following for each site:

1. The level of emergency preparedness. We ascertained whether facilities had viable Continuity of Operations Plans (COOPs), Occupant Emergency Plans (OEPs), or similar guidance, and emergency response structures in place.
2. The status of physical security. We assessed the extent to which each site conforms to the minimum standards for physical security established by the Department of Justice in 1995 (designed to ensure that federal facilities prevent unauthorized access and protect personnel, assets, and sensitive information). We identified specific vulnerabilities in security frameworks at individual locations.
3. Agency and facility responses to the events of September 11, 2001, including changes in and new initiatives for emergency preparedness and physical security. We also looked to see whether there were any best practices or specific lessons learned from the Department’s handling of the events on September 11 and emergency preparedness initiatives taken since then.





Department-wide Management—Emergency Preparedness article, p. 77



Source: OIG

Commerce sites surveyed by OIG inspection teams. Every facility—from NOAA ships to Department headquarters—had some physical security weaknesses, and many had emergency preparedness vulnerabilities.

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We found that, to a greater or lesser degree, all sites we visited have devoted more attention and resources to emergency procedures and physical security since September 11. However, there were often inconsistencies from site to site within the same agency or among sites within the same geographic location.

SUMMARY OF FINDINGS

Continuity of operations plans. Most of the agencies we visited reported that prior to September 11, they either had no COOP or had put a low priority on developing one, although most have since increased efforts to complete these plans. The majority of sites reported that they have backup plans for protecting critical information technology systems.

After September 11, the Chief Financial Officer and Assistant Secretary for Administration established an interdisciplinary team to coordinate the finalization of COOP plans for the Department and its bureaus. From November 2001 through February 2002, this group worked with bureau staff to review existing plans and make appropriate refinements. A consolidated plan for the Department has been prepared and reviewed by the Federal Emergency Management Agency, which has found it to be responsive to and in compliance with Federal Preparedness Circular 65. However, Department officials agreed that no bureau's COOP is deemed complete until its management has identified specific resources to test and implement the plan and until plans for the bureau's field offices are included.

Emergency and evacuation planning. Most sites had emergency evacuation plans; however, many plans dealt only with fire emergencies. Some facilities have expanded their plans to address a wider range of potential emergencies since September 11. Many sites have established formal emergency and evacuation teams as well as training to implement their plans. Some sites had no plans to evaluate or upgrade their current procedures. In addition, many employees were not aware of specific evacuation plans, nor could they identify the members of their emergency support team.



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The operating units and their individual sites typically have emergency plans for people with disabilities. But some sites need to establish procedures for quickly locating those with special needs and to evaluate the adequacy of equipment for evacuating these employees.

Physical security. Some deficiencies in physical security were evident at every Commerce operation we visited.

SUMMARY OF SUGGESTED IMPROVEMENTS

Our review revealed a number of important principles that we believe should form the foundation of a responsible security and emergency preparedness program for the Department.

Management support and leadership are crucial. Agencies need to develop clearly stated emergency preparedness and security policies that have unambiguous goals and the visible involvement of top management. We found that in the most effective programs, senior managers had prominent roles.

Employees should be involved. Employee involvement in the development and implementation of emergency preparedness and security programs complements management leadership and promotes staff commitment to these initiatives. Management should encourage employee involvement in related decision making and operations, and must clearly assign and communicate staff responsibilities for program implementation. Employee awareness of and support for emergency preparedness/security efforts are best reinforced through periodic training, e-mail reminders, posting of security tips, distribution of relevant materials, and participation on building evacuation teams.

Hiring and termination practices should enhance security. Security and emergency preparedness briefings should be mandatory for all new hires. In addition, management must retrieve keys and identification badges from departing employees and contractors, change their computer passwords, and block key-card access to ensure that they cannot access Department facilities and IT systems after leaving Commerce employment.



Plans and facilities need to be reassessed periodically. Because conditions affecting security and emergency preparedness can change, managers should examine security measures regularly by updating risk assessments and site surveys, reviewing employee/contractor compliance with security protocols, and regularly testing and maintaining security and emergency plans and procedures. (*Office of Inspections and Program Evaluations: IPE-14825*)

Beyond these general observations, we provided a number of specific suggestions to improve Department-wide emergency preparedness and physical security.

SAFETY VULNERABILITIES IDENTIFIED AT DEPARTMENT HEADQUARTERS AND NOAA SEATTLE

Our review of emergency preparedness and security at Commerce facilities also uncovered a number of safety concerns at the Department's headquarters (Herbert C. Hoover Building) and NOAA's Seattle facilities. We brought these concerns to the attention of departmental and NOAA management, and are pleased to report that corrective action is being taken.

HERBERT C. HOOVER BUILDING

We observed numerous safety vulnerabilities that could endanger occupants, including the following:

- * **Fire and health hazards.** Parts of the building's basement and subbasement were littered with cigarette butts, empty food and soda containers, uneaten food, and other trash, indicating that people were using these areas for eating, smoking, loitering, and possibly lodging. One unlocked subbasement storage room contained paint, painting equipment, unidentified solvents, and other potentially hazardous materials scattered about. The condition of these areas poses significant health and fire hazards.



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- * **Security of basement areas.** In a number of locations, property and equipment were not properly secured.
- * **Isolated office space.** Offices in some parts of the building are very isolated and poorly monitored, and—in the event of an emergency—it may be difficult to communicate with staff located in these areas.

We presented this list of safety issues to the Department's managers, who swiftly moved to address most of our concerns. (Memorandum to the Deputy Secretary and the Chief Financial Officer, January 24, 2002)

NOAA SEATTLE

In February 2001, an earthquake measuring 6.8 on the Richter scale rocked NOAA's Seattle facilities. The quake damaged NOAA's Western Regional Center and Northwest Fisheries Science Center. Although critical repairs were immediately made to protect employee health and safety, the buildings needed a thorough assessment by a qualified seismic engineer to ensure that they were in fact safe for occupancy and able to withstand future earthquakes.



When we visited the site, lingering damage to the buildings was readily apparent: concrete walls and foundations had fissures; roofs had twisted rafters; rivets and bolts were missing from equipment repair facilities.

Source: OIG

NOAA's Western Regional Center, Seattle, Washington (pictured) and several ancillary facilities sustained varying amounts of damage in a February 2001 earthquake that measured 6.8 on the Richter scale.

Cost of the seismic survey was estimated at \$261,000. Seattle management requested this funding from NOAA headquarters and, after our report was issued, received the funding in February 2002. The current plan is to award a contract for the survey in June 2002 and receive the contractor's draft damage report the following September. The seismic survey will assess the structural integrity of the buildings, identify safety issues that need to be resolved, and prioritize and estimate the cost of required and recommended repairs or demolition. (Memorandum to the Deputy Secretary and NOAA Deputy Under Secretary, January 18, 2002)



AUDIT OF DEPARTMENT'S FY 2001 CONSOLIDATED FINANCIAL STATEMENTS

The Department's consolidated financial statements for fiscal year 2001—representing the financial condition of all Commerce reporting entities—received an unqualified opinion from the independent certified public accounting firm that conducted the audit. The auditors noted that the Department had significantly improved financial management over the past several years. This is the sixth year that consolidated audits have been conducted, and the third consecutive year for which these statements received a clean opinion. Four operating units included in the consolidated audit—NOAA, USPTO, Census, and NTIS—were audited separately and received unqualified opinions on their FY 2001 financial statements.

The review noted that during the fiscal year, the Department and its reporting entities had resolved and thus eliminated a material weakness identified in the prior-year audit (failure to promptly recognize and record appropriations) and had improved a reportable condition (weak reconciliation procedures) so that it was no longer identified as a separate problem. Nevertheless, the firm identified two repeat reportable conditions that continue to warrant aggressive management attention. One of these conditions affects two aspects of general controls: (1) internal control over financial management systems and (2) internal control over information technology. Taken together, the deficiencies noted in these controls constitute a material weakness.

FINANCIAL SYSTEMS, MANAGEMENT, AND REPORTING

The repeat conditions noted in the Department's internal control over financial reporting are as follows:

- * **Financial management systems.** Commerce still lacks a single, integrated financial management system; its legacy systems are ineffective tools for preparing and reporting Department-wide or entity-specific financial data. This deficiency constitutes part of the material weakness identified in



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the audit. The Department responded that, as implementation of CAMS progresses, this condition will be resolved.

- * **Financial management and reporting.** Weak management and reporting capabilities persist at several entities and hamper the Department's efforts to produce accurate and timely financial reports. These weaknesses, which constitute a reportable condition, were noted in reporting processes at three operating units (Census, EDA, and NIST), in data reconciliations at two (Census and NOAA), and in procedures for producing information to support financial data at one (NOAA). The auditors recommended that the Department's Office of Financial Management monitor the entities' efforts to resolve the cited conditions and ensure timely and effective implementation of corrective actions. The firm also made specific recommendations to two of the bureaus (EDA and NIST) for addressing the reportable condition as it specifically pertains to them.

INFORMATION TECHNOLOGY CONTROLS

The review of the Department's IT controls over major financial systems against the six criteria outlined in GAO's *Federal Information System Controls Audit Manual* revealed problems in all six areas: entitywide security program planning and management; access controls; application software development and change control; system software; segregation of duties; and service continuity. These deficiencies combine with the lack of a single, integrated financial system, noted above, to constitute the material weakness.

COMPLIANCE WITH LAWS AND REGULATIONS

As part of the audit, the Department's financial management procedures and systems were assessed for compliance with select provisions of applicable federal laws and regulations. Several instances of noncompliance were, in fact, identified:

- * NOAA's failure to fully fund its capital leases (see page 60) is contrary to requirements in OMB Circular A-11, Preparation

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and Submission of Budget Estimates, which mandates that agencies have sufficient budgetary resources up-front to cover the present value of lease payments for capital assets and lease purchases.

- * ITA's failure to fully recover the total cost of providing goods and services is contrary to OMB Circular A-25, User Charges, which requires that federal agencies recover the total cost of providing goods and services.
- * The Department's lack of a single, integrated financial management system rendered Commerce noncompliant with federal requirements for financial management systems stipulated under the Federal Financial Management Improvement Act (FFMIA) of 1996.

The appropriate departmental managers reviewed all of the findings and recommendations contained in the consolidated audit report as well as those in the separate audit reports for Census, NIST, and NOAA. They generally concurred with the findings, although they took exception to the weakness in financial reporting noted at NIST and the determination of FFMIA noncompliance for Census. (*Financial Statements and Audits Division: FSD-14474-2*)

Section 803 of FFMIA requires agencies that are not in compliance with the act to prepare a remediation plan outlining actions to achieve compliance. The Department prepared such a plan in FY 2001 to address noncompliance issues identified in the FY 2000 audit. It intends to update the plan to reflect its progress in moving toward compliance. Section 804(b) requires OIG to notify Congress when the Department does not meet the plan's intermediate target dates for implementing actions. We did not identify any instances in which Commerce failed to meet these dates.



Preaward Financial Assistance Screening

As part of our ongoing emphasis on prevention of fraud and mismanagement, we continue to work with the Office of Executive Budgeting and Assistance Management, NOAA and NIST grant offices, and EDA program offices to screen the Department’s proposed grants and cooperative agreements before award. Our screening serves two functions: it provides information on whether the applicant has unresolved audit findings and recommendations on earlier awards, and it determines whether a name check or investigation has revealed any negative history on individuals or organizations connected with a proposed award.

During this period, we screened 803 proposed awards. For 8 of the awards, we found major deficiencies that could affect the ability of the prospective recipients to maintain proper control over federal funds. On the basis of the information we provided, the Department delayed the awards until concerns were satisfactorily resolved, and established special conditions for two awards to adequately safeguard federal funds. *(Office of Audits)*

Preaward Screening Results		
Results	Award	
	Number	Amount
Awards delayed to resolve concerns	6	\$3,723,500
Special award conditions established	2	\$1,092,119



Indirect Cost Rates

Under OMB policy, a single federal agency—the “cognizant” or general oversight agency—is responsible for reviewing, negotiating, and approving indirect cost rates for public and private entities that receive funds under various federal programs. Normally, the federal body that provides the most direct funding to an entity is chosen as its cognizant or general oversight agency. OMB has designated Commerce as the cognizant agency for about 280 economic development districts, as well as for a number of state and local governments receiving federal funds. From time to time, the Department also has oversight responsibilities for other recipient organizations.

Commerce has authorized the Office of Inspector General to negotiate indirect cost rates and review cost allocation plans on its behalf. OIG reviews and approves the methodology and principles used to pool indirect costs and establish an appropriate base for distributing those costs to ensure that each partnering federal, state, and local program bears its fair share.

During this period, we negotiated 36 indirect cost rate agreements with nonprofit organizations and government agencies, and reviewed and approved 45 cost allocation plans. To recipients of Commerce awards, we also provided technical assistance regarding the use of rates established by other federal agencies and their applicability to our awards. We continued to work closely with first-time for-profit and nonprofit 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 undergoing OIG-performed audits, certain recipients of Commerce financial assistance are periodically examined by state and local government auditors and by independent public accountants. OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, sets forth the requirements for most of these audits. For-profit organizations that receive Advanced Technology Program funds from NIST are audited in accordance with *Government Auditing Standards* and *NIST Program-Specific Audit Guidelines for ATP Cooperative Agreements*, issued by the Department.

We examined 162 audit reports during this semiannual period to determine whether they contained any findings related to Department programs. For 130 of these reports, the Department acts as oversight agency and monitors the audited entity's compliance with the OMB circular or NIST's program-specific reporting requirements. The other 32 reports are from entities for which other federal agencies have oversight responsibility.

Nonfederal Audit Activities

Report Category	OMB A-133 Audits	ATP Program-Specific Audits	Total
Pending (October 1, 2001)	36	62	98
Received	49	78	127
Examined	79	83	162
Pending (March 31, 2002)	6	57	63

Department-wide Management



The following table shows a breakdown by bureau of the \$225 million in Commerce funds audited this period.

Breakdown by Bureau	
Bureau	Funds
EDA	\$ 41,838,121
MBDA	2,486,259
NIST	131,385,815*
NOAA	13,798,627
NTIA	1,442,197
Multiagency	33,343,631
Agency not identified	961,198
Total	\$225,255,848

* Includes \$121,213,193 in ATP program-specific audits.

We identified a total of \$2,225,201 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 20 reports with Commerce findings are listed in Appendix B-1. (Atlanta Regional Office of Audits)



Investigative Highlights

OIG's Office of Investigations (OI) investigates allegations of fraud and other wrongdoing that impacts Commerce programs and operations, including criminal or otherwise prohibited activities engaged in by employees, contractors, or recipients of financial assistance. Staffed by special agents located in Washington, D.C., Denver, Colorado, and Silver Spring, Maryland, OI works closely with the Department of Justice and with U.S. Attorneys' offices throughout the country to prosecute criminal and civil actions to punish offenders and recover losses suffered by the government as a result of fraud and misconduct.

Like their counterparts in most OIG offices, our special agents have full law enforcement powers as special deputy U.S. marshals under a deputation agreement with the Department of Justice. We also work with the FBI and other federal law enforcement agencies to investigate matters of mutual interest. The results of OIG investigations of employee misconduct are provided to agency officials to support appropriate disciplinary and administrative actions.

During this semiannual period, OIG investigations led to one arrest, two convictions, and the filing of indictments, informations, or criminal complaints against four individuals. Two other matters were referred to the Department of Justice for prosecution. In addition, there were four personnel actions taken by the Department as a result of OI case work. The following are highlights of our investigative activity over the past 6 months.

SECOND NOAA EMPLOYEE SENTENCED ON CONSPIRACY CONVICTION

In previous issues, we reported the conspiracy convictions of two former NOAA employees, stemming from an OIG investigation that uncovered their arrangement to falsify payroll records to enable one of them to receive more than \$9,800 in unearned pay, a portion of which she kicked back to the second employee. (See March 2001 issue, pages 81-82, and September 2001 issue, page 80.) As noted in our last semiannual report, one defendant was sentenced in May 2001. On October 10, 2001, her co-conspirator was sentenced in U.S. District Court for the District of Columbia to 2 years' probation, and ordered to make restitution to the government. (*Silver Spring Field Office of Investigations*)



Investigative Highlights

MISUSE OF GOVERNMENT PURCHASE CARD RESULTS IN THEFT CONVICTION

On January 2, 2002, a former employee of an NWS regional office in Alaska was convicted of theft of government property after an OIG investigation confirmed that she had engaged in at least 50 unauthorized transactions on a government purchase card, charging nearly \$7,500 in goods and services for her personal use. Sentencing is scheduled for early April 2002 in U.S. District Court for the District of Alaska. *(Denver Field Office of Investigations)*

FORMER CENSUS EMPLOYEE SENTENCED FOR THEFT OF GOVERNMENT PROPERTY

A clerk with access to an automated banking system that enables Census customers to purchase publications by credit card used the system to issue nearly \$6,200 in credits to her personal debit card. Under the terms of a plea agreement, she was convicted of one count of theft of government property in December 2001. On February 15, 2002, she was sentenced in U.S. District Court for the Eastern District of Virginia to 2 years' probation and ordered to make full restitution to the government. *(Washington Field Office of Investigations)*

CENSUS EMPLOYEES CHARGED WITH THEFT OF DEBIT CARDS

On March 27, 2002, a former Census field representative was arrested by an OIG special agent and local law enforcement officials in Santa Ana, California, for cashing debit cards provided to her for use as incentive payments to participants in a Census survey. The former employee failed to perform any survey-related work, but cashed 16 cards with a total value of more than \$1,100. She has been charged with grand theft and embezzlement by the district attorney in Santa Ana, and was arraigned in Orange County Superior Court on March 29, 2002.

In a similar case, 11 debit cards were stolen from the Detroit Regional Census office and cashed at various ATM machines in and around the city. An OIG investigation identified a recently retired Census employee and a current employee as the responsible parties. In March 2002, the retired employee entered into a 1-year pretrial diversion agreement in



Detroit municipal court, conditioned upon her agreement to make full restitution to the government. Charges are pending against the other employee, who repaid the government for the value of the cards and resigned from federal service.

As a result of these investigations, OIG recommended new security measures for the Census debit card program, which both the Los Angeles and Detroit regional offices have since implemented. (*Denver Field Office of Investigations*)

FORMER MASC EMPLOYEE INDICTED FOR WIRE FRAUD

A warrant has been issued for the arrest of a former finance accounting technician at NOAA's Mountain Administrative Support Center, who was indicted on March 12, 2002, in the District of Colorado on six counts of wire fraud, based on her manipulation of the Commerce Administrative Management System (CAMS) to make personal credit card payments with government funds. An OIG investigation revealed that between November 2000 and June 2001, the employee transferred a total of approximately \$19,000 to her government travel card account to cover improper personal charges. The employee stopped reporting to work when she learned of management's suspicions; she was subsequently removed from federal service for absence without official leave and misappropriation of government funds. As a result of the investigation, MASC has implemented new procedures for daily review of vendor payments reported in CAMS. (*Denver Field Office of Investigations*)

THIRTY-DAY SUSPENSION FOR PERSONAL USE OF GOVERNMENT TELEPHONE

A patent examiner was suspended for 30 days and ordered to repay the government more than \$500 after an OIG investigation revealed that he had run up nearly 200 hours of personal long distance charges on his office telephone over a 1-year period. (*Washington Field Office of Investigations*)

Investigative Highlights



SENIOR BIS EMPLOYEE SUSPENDED FOR FAILURE TO FILE COMPLETE ACCIDENT REPORT

A senior BIS employee was suspended for 5 days based on the filing of an incomplete and misleading report on an accident in a government-owned vehicle. An OIG investigation found that the employee had reported the accident, but failed to provide the agency with a copy of the police report, which assigned responsibility for the collision to her. Her supervisor received a written reprimand for approving the report even though he had witnessed the accident and knew the report was incomplete. (*Washington Field Office of Investigations*)



Office of Inspector General

Audit Resolution and Follow-up

The Inspector General Act Amendments of 1988 require us to present in this report those audits issued before the beginning of the reporting period (October 1, 2001) for which no management decision had been made by the end of the period (March 31, 2002). We are pleased to report that there are no audit reports that have been unresolved over 6 months.

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.

Audit Resolution Follow-up		
Report Category	Modifications	Appeals
Actions Pending (October 1, 2001)	0	14
Submissions	2	14
Decisions	2	12
Actions Pending (March 31, 2002)	0	6

Statistical Highlights



Audit and Inspection Statistical Highlights

Questioned costs this period	\$4,859,584
Value of audit recommendations made this period that funds be put to better use	\$2,297,145
Value of audit recommendations agreed to this period by management	\$7,865,531
Value of inspection recommendations that funds be put to better use made this period	\$0

Investigative Statistical Highlights

Matters referred for prosecution	1
Indictments, informations, and criminal complaints	4
Convictions	2
Personnel actions*	4
Fines, restitutions, judgments, and other civil and administrative recoveries	\$14,166

* Includes removals, suspensions, reprimands, demotions, reassignments, and resignations or retirements in lieu of adverse action.

Allegations Processed by OIG Investigators

OIG Hotline (202) 482-2495 (800) 482-5197 hotline@oig.doc.gov	Accepted for investigation	12
	Referred to operating units	26
	Evaluated but not accepted for investigation or referral	76
	Total	114

Note: Numerous other allegations and complaints were forwarded to the appropriate federal and nonfederal investigative agencies.



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 of this report.

Section	Topic	Page
4(a)(2)	Review of Legislation and Regulations	97
5(a)(1)	Significant Problems, Abuses, and Deficiencies	21-93
5(a)(2)	Significant Recommendations for Corrective Action	21-93
5(a)(3)	Prior Significant Recommendations Unimplemented	97
5(a)(4)	Matters Referred to Prosecutive Authorities	90-93
5(a)(5) and 6(b)(2)	Information or Assistance Refused	99
5(a)(6)	Listing of Audit Reports	104-111
5(a)(7)	Summary of Significant Reports	21-93
5(a)(8)	Audit Reports—Questioned Costs	101
5(a)(9)	Audit Reports—Funds To Be Put to Better Use	102
5(a)(10)	Prior Audit Reports Unresolved	94
5(a)(11)	Significant Revised Management Decisions	94
5(a)(12)	Significant Management Decisions with which OIG Disagreed	94

OIG is also required by section 804(b) of the Federal Financial Management Improvement Act of 1996 to report on instances and reasons when an agency has not met the dates of its remediation plan. We discuss this matter in the March 2002 issue as part of our financial statements audit reporting.



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

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

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

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

To include a list of all significant unimplemented recommendations in this report would be duplicative, costly, unwieldy, and of limited value to Congress. Any list would have meaning only if explanations detailed whether adequate progress is being made to implement each agreed-upon corrective action. Management updates the Department's Audit Tracking System on an annual basis, based on annual status reports due from the bureaus in mid-October. The last update was as of September 30, 2001. However, additional information on the status of any audit recommendations can be obtained through OIG's Office of Audits.



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

These sections require a summary of each report to the Secretary when access, information, or assistance has been unreasonably refused or not provided. There were no 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 why such decision has not been made, and a statement concerning the desired timetable for delivering a decision on each such report.

As of March 31, 2002, there were no audit reports unresolved over 6 months.

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

This section requires an 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 revising a management decision. For performance audits, OIG must be consulted and must approve in advance any modification to an audit action plan. For financial assistance audits, OIG must concur with any decision that would change the audit resolution proposal in response to an appeal by the recipient.

The decisions issued on the 12 appeals of audit-related debts were finalized with the full participation and concurrence of OIG.



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

This section requires information concerning any significant management decision with which the Inspector General disagrees.

Department Administrative Order 213-5 provides procedures for elevating unresolved audit recommendations to higher levels of Department and OIG management, including their consideration by an Audit Resolution Council. During this period, no audit issues were referred to the council.



Tables and Appendixes

TABLES

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DEFINITIONS

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

The term **unsupported cost** refers to a cost that, at the time of the audit, is not supported by adequate documentation. Questioned costs include unsupported costs.

The term **recommendation that funds be put to better use** refers to a recommendation by 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 specifically identified.

The term **management decision** 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.

Audits with Questioned Costs

Table 1



Report Category	Number	Questioned Costs	Unsupported Costs
A. Reports for which no management decision had been made by the commencement of the reporting period	17	\$4,189,759	\$507,290
B. Reports issued during the reporting period	29	4,859,584	806,815
Total reports (A+B) requiring a management decision during the reporting period ¹	46	9,049,343	1,314,105
C. Reports for which a management decision was made during the reporting period ²	18	4,289,581	514,913
i. Value of disallowed costs		1,802,827	480,975
ii. Value of costs not disallowed		3,158,237	361,316
D. Reports for which no management decision had been made by the end of the reporting period	28	4,759,762	799,192

Notes:

¹ Ten 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.

² In Category C, lines i and ii do not always equal the total on line C because resolution may result in values greater than the original recommendations.



Audits with Recommendations That Funds Be Put to Better Use

Table 2

Report Category	Number	Value
A. Reports for which no management decision had been made by the commencement of the reporting period	13	\$6,549,846
B. Reports issued during the reporting period ¹	8	2,297,145
Total reports (A+B) requiring a management decision during the reporting period ²	21	8,846,991
C. Reports for which a management decision was made during the reporting period ³	19	7,669,846
i. Value of recommendations agreed to by management		6,062,704
ii. Value of recommendations not agreed to by management		2,605,303
D. Reports for which no management decision had been made by the end of the reporting period	6	1,177,145

Notes:

¹ One report was resolved last reporting period but inadvertently missed in our calculations.

² Ten audit reports included in this table are also included in the reports with questioned cost (see table 1). However, the dollar amounts do not overlap.

³ In Category C, four reports had funds to be put to better use identified during the resolution process. Also, in Category C, lines i and ii do not always equal the total on line C because resolution may result in values greater than the original recommendations.

Office of Inspector General Reports

Appendix A



Type	Number	Appendix
Performance Audits	4	A-1
Inspections	7	A-2
Financial Statements Audits	12	A-3
Financial -Related Audits	16	A-4
Total	39	



Performance Audits Appendix A-1

Agency	Subject	Number	Date	Funds to Be Put to Better Use
ESA-CENSUS	Improving Our Measure of America: What Census 2000 Can Teach Us in Planning for 2010 ¹	ESD-14431	03/02	--
TA-NIST	Reporting of Performance Measures Needs Improvement	FSD-14430	03/02	--
USPTO	Minor Improvements Needed in Reporting Performance Results	FSD-14429	03/02	--
	Patent Examiner Hiring Process Should Be Improved	BTD-14432	03/02	--

¹Multi-unit review that includes the work of auditors, inspectors, system evaluators, and investigators.

Inspections

Appendix A-2



Agency	Subject	Number	Date	Funds to Be Put to Better Use
BIS (formerly BXA)	BXA Needs to Strengthen its ECASS Modernization Efforts to Ensure Long-Term Success of the Project	IPE-14270	02/02	--
	Interagency Review of Federal Automated Export Licensing Systems	IPE-14977	03/02	--
ESA-CENSUS	Selected Aspects of Census 2000 Accuracy and Coverage Evaluation Need Improvements Before 2010	OIG-14226	03/02	--
ITA	Trade Agreement Compliance Process Needs Better Coordination Within ITA	IPE-14282	03/02	--
	US & FCS Italy's Effectiveness Can be Further Enhanced by Focusing on Management and Program Improvements	IPE-14234	03/02	--
NOAA	Chanhansen Weather Forecast Office Generally Provides Effective Forecasts, but Office Management and Regional Oversight Need Improvement	IPE-14423	03/02	--
USPTO	Additional Senior Management Attention Needed to Strengthen USPTO's Information Security Program	OSE-14846	03/02	--



Financial Statements Audits Appendix A-3

Agency	Subject	Number	Date
CENSUS	Improvements Needed in the General Controls Associated with Census' Financial Management Systems	FSD-14473(1)	02/02
	Financial Statements for FY 2001	FSD-14473(2)	02/02
NOAA	Improvements Needed in the General Controls Associated with Financial Management Systems	FSD-14475(1)	02/02
	Financial Statements for FY 2001	FSD-14475(2)	02/02
TA-NTIS	Improvements Needed in the General Controls Associated with NTIS' Financial Management Systems	FSD-14476(1)	02/02
	Financial Statements Fiscal Year 2001	FSD-14476(2)	02/02
O/S	Department of Commerce Consolidated Financial Statements for FY 2001	FSD-14474(2)	02/02
	Improvements Needed in the General Controls Associated with the Department's Financial Management Systems	FSD-14474(1)	02/02
	FY 2001 Agreed-upon Procedures Federal Agencies' Centralized Trial-Balance System Data	FSD-14474(3)	03/02
USPTO	Financial Statements for FY 2001	FSD-14477(2)	02/02
	Improvements in the General Controls Associated with USPTO's Financial Management Systems	FSD-14477(1)	02/02
	Network Vulnerability Assessment: Improvements Needed in the General Controls Associated with USPTO's Financial Management Systems	FSD-14477(3)	03/02

Financial-Related Audits

Appendix A-4



Agency/Auditee	Number	Date	Questioned Costs	Unsupported Costs	Funds to Be Put to Better Use
EDA					
Town of Quartzsite, AZ	STL-14253	10/01	\$99,822	\$7,623	--
Washington Association of Minority Entrepreneurs	STL-14140	10/01	53,500	--	--
Port of Moses Lake, WA	STL-14790	01/02	--	--	--
Economic Development Bank for Puerto Rico	ATL-13955(1)	01/02	--	--	1,000,000
City of Lake City, SC	ATL-14690	02/02	111	--	193,405
Dutchess County Economic Development Corporation, NY	ATL-14033	03/02	134,703	134,703	--
Jefferson Parish Economic Development Commission, LA	ATL-13214	03/02	--	--	--
Economic Development Bank for Puerto Rico	ATL-13955(2)	03/02	22,283	22,283	204,276
Greater North-Pulaski Local Development Corporation, IL	DEN-14321	03/02	2,965	--	500,000
City of Tooele, UT	DEN-14874	03/02	1,429,892	166,726	--
TA-NIST					
Commerce One, Inc., CA	STL-14370	12/01	--	--	--
Office of Inspector General Survey of Selected Aspects of Advance Technology Program Awarded to ACT Group, Inc., MA	ATL-14928	12/01	--	--	120,000
Puerto Rico Manufacturing Extension, Inc.	DEN-14275	02/02	27,485	--	72,741



Financial-Related Audits Appendix A-4 (Continued)

Agency/Auditee	Number	Date	Questioned Costs	Unsupported Costs	Funds to Be Put to Better Use
TA-NIST					
SurroMed, Inc., CA	DEN-14403	03/02	30,425	--	--
Etec Systems, Inc., CA	DEN-14516	03/02	182,780	--	30,000
WestCAMP, Inc., UT	DEN-13088	03/02	650,417	295,683	176,723

Processed Reports

Appendix B



The Office of Inspector General reviewed and accepted 162 financial-related audit reports prepared by independent public accountants and local and state auditors, and federal auditors. The reports processed with questioned costs, recommendations that funds be put to better use, and/or nonfinancial recommendations are listed in Appendix B-1.

Agency	Audits
Economic Development Administration	42
Minority Business Development Agency	5
National Institute of Standards and Technology	87*
National Oceanic and Atmospheric Administration	8
National Telecommunications and Information Administration	4
Multiagency	14
Agency not identified	2
Total	162

*Includes 83 ATP program-specific audits.



Processed Financial-Related Audits Appendix B-1

Agency/Auditee	Number	Date	Questioned Costs	Unsupported Costs
EDA				
Trade Task Group, WA	ATL-09999-2-0826	03/02	\$85,041	\$85,041
Benton-Franklin Council of Governments, WA	ATL-09999-2-0987	03/02	231,000	--
Northeast Council of Governments Development Corporation, SD	ATL-09999-2-0966	03/02	83,128	--
Armstrong County Industrial Development Authority, PA	ATL-09999-2-1016	03/02	20,567	--
Northwest Regional Planning Commission, WI	ATL-09999-2-1052	03/02	27,652	--
TA-NIST				
True North Composites, LLC, AZ	DEN-09999-2-0316	02/02	497,629	22,430
UTC-Carrier Corporation, CT	DEN-09999-2-0339	02/02	19,776	--
Extrude Hone Corporation, PA	ATL-09999-2-0957	03/02	348,506	11,042
Organogenesis, Inc., MA	ATL-09999-2-0980	03/02	83,001	--
MicroDexterity Systems, Inc., MI	ATL-09999-2-0850	03/02	16,284	--
New England Aquarium Corporation, MA	ATL-09999-2-1000	03/02	--	--
PE Biosystems, CA	DEN-09999-2-0378	03/02	561,794	--
E.I. duPont de Nemours and Company, High Performance Materials, OH	ATL-09999-2-0482	03/02	18,212	--
Acorda Therapeutics, Inc., NY	ATL-09999-2-0364	03/02	27,622	--
PerkinElmer Optoelectronics, CA	ATL-09999-2-0830	03/02	61,009	--
Praxair, Inc., CT	ATL-09999-2-0868	03/02	14,624	--

Processed Financial-Related Audits (Continued) Appendix B-1



Agency/Auditee	Number	Date	Questioned Costs	Unsupported Costs
NOAA				
North Pacific Marine Science Foundation, WA	ATL-09999-2-0430	03/02	\$63,331	\$2,326
South Carolina State Budget and Control Board	ATL-09999-2-0996	03/02	7,067	--
New England Aquarium Corporation, MA	ATL-09999-2-1000	03/02	--	--
State of Alaska	ATL-09999-2-1069	03/02	58,958	58,958



Definitions: Types of OIG Reviews

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

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.

Investigations

These are investigations conducted to collect facts needed to resolve an allegation that someone has violated a federal criminal or civil law or administrative regulation.

If an investigation discloses employee misconduct or evidence of waste or abuse, the facts are reported to agency officials for appropriate disciplinary or administrative actions. If criminal or civil wrongdoing is found, the case is referred to the U.S. Department of Justice.



Acronyms

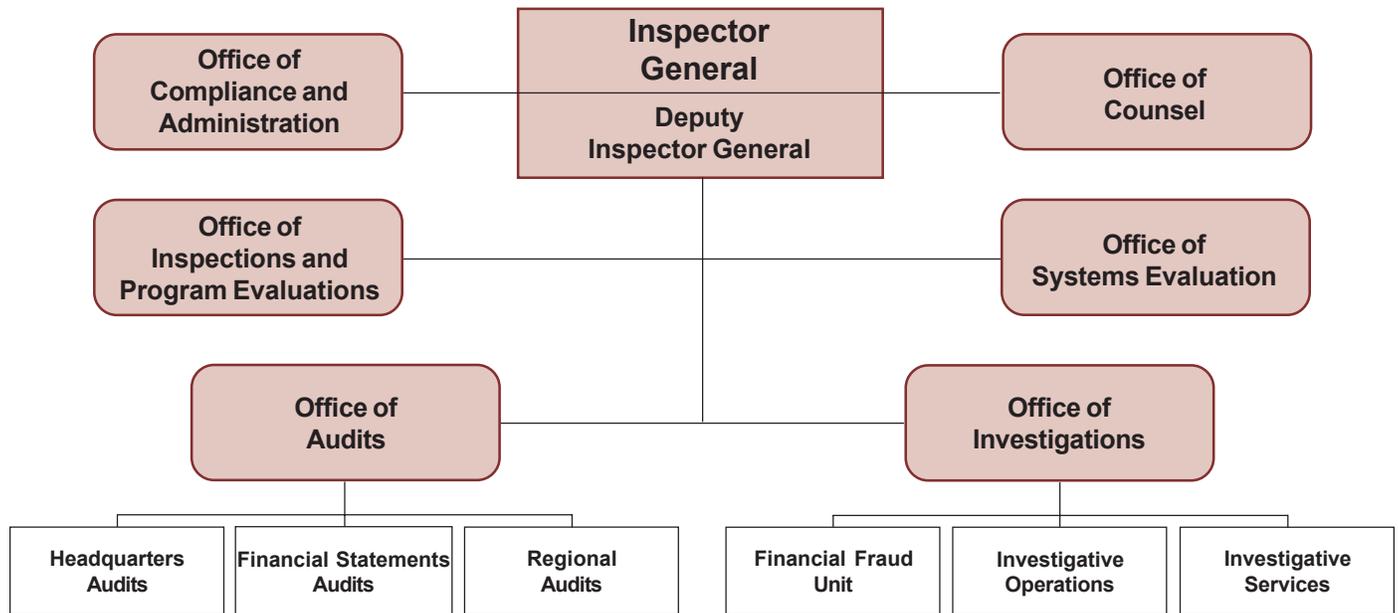
A.C.E.	Accuracy and Coverage Evaluation
ACOTR	Alternate Contracting Officer's Technical Representative
A&R	Advances and Reimbursements Program
ATP	Advanced Technology Program
BIS	Bureau of Industry and Security
CAMS	Commerce Administrative Management System
CFIUS	Committee on Foreign Investment in the United States
CIO	Chief Information Officer
DAO	Department Administrative Order
EDA	Economic Development Administration
ESA	Economics and Statistics Administration
ESU	Evolutionarily Significant Unit
FAA	Federal Aviation Administration
FMFIA	Federal Managers' Financial Integrity Act
GAO	General Accounting Office
G&B	Gifts and Bequests Fund
GISRA	Government Information Security Reform Act
GPRA	Government Performance and Results Act
GSA	General Services Administration
GWAC	Governmentwide Agency Contract
IA	Import Administration
IG	Inspector General
IT	Information Technology
ITA	International Trade Administration
MASC	Mountain Administrative Support Center
MAF	Master Address File

Acronyms



MBDA.....	Minority Business Development Agency
MEP.....	Manufacturing Extension Partnership
NESDIS.....	National Environmental Satellite Data and Information Service
NIST.....	National Institute of Standards and Technology
NMFS.....	National Marine Fisheries Service
NOAA.....	National Oceanic and Atmospheric Administration
NTIA.....	National Telecommunications and Information Administration
NTIS.....	National Technical Information Service
NWS.....	National Weather Service
OBL.....	Office of Business Liaison
OCS.....	Office of Computer Services
OGC.....	Office of General Counsel
OHRM.....	Office of Human Resources Management
OI.....	Office of Investigations
OIG.....	Office of Inspector General
OMB.....	Office of Management and Budget
OPM.....	Office of Personnel Management
OSY.....	Office of Security
RLF.....	Revolving Loan Fund
TA.....	Technology Administration
TAAC.....	Trade Adjustment Assistance Center
TIGER.....	Topologically Integrated Geographic Encoding and Referencing
US&FCS.....	U.S. and Foreign Commercial Service
USPTO.....	U.S. Patent and Trademark Office
WCF.....	Working Capital Fund
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