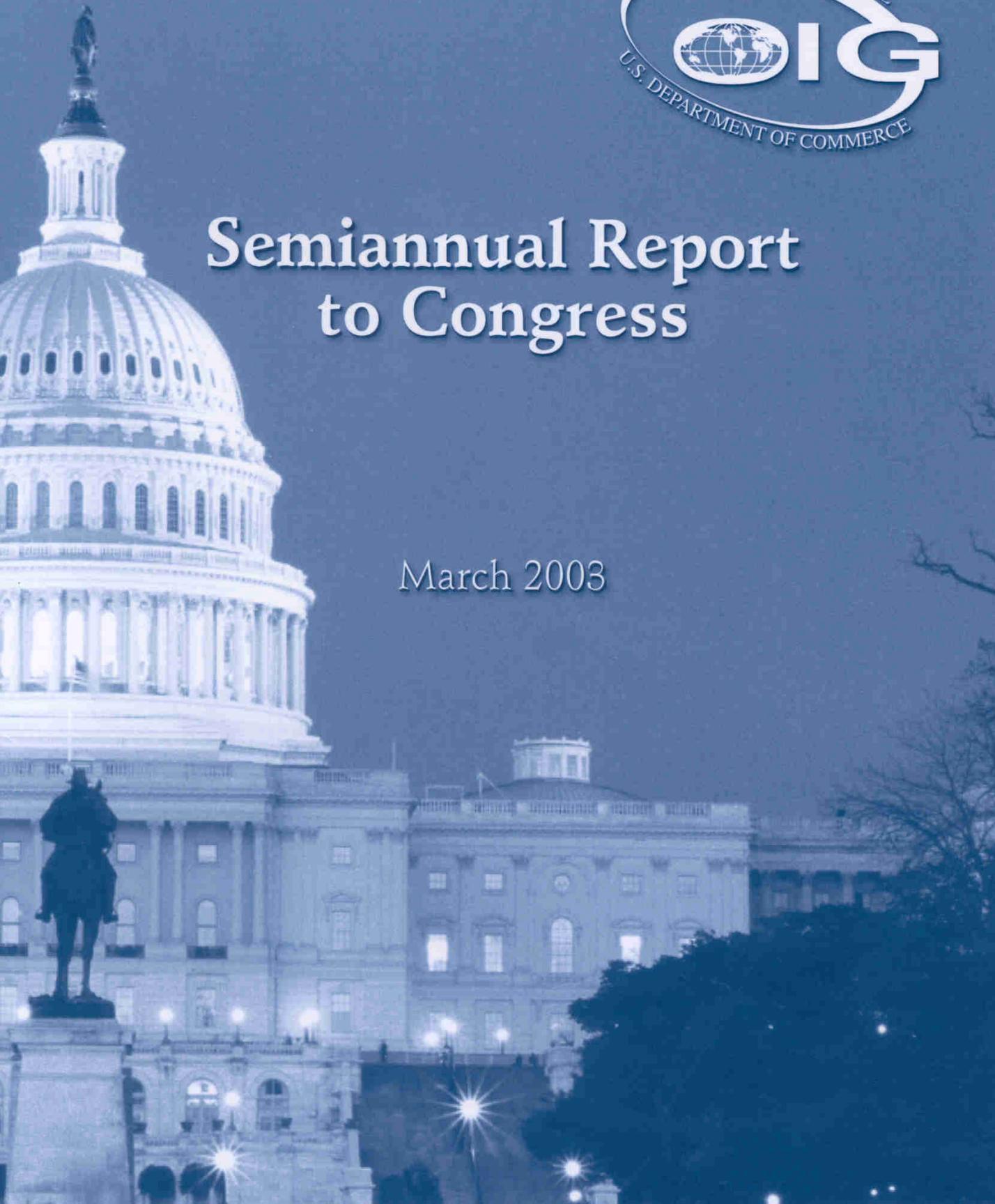




Semiannual Report to Congress

March 2003

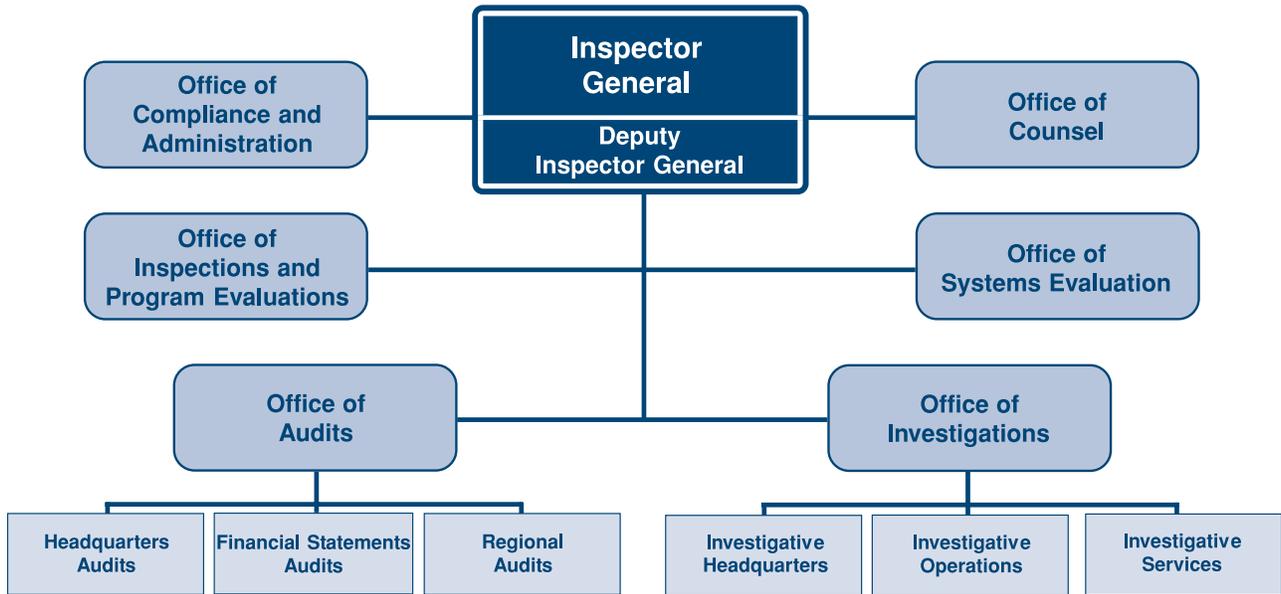




Semiannual Report to Congress

March 2003

Office of Inspector General Organizational Chart



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

March 2003

The Honorable Donald L. Evans
Secretary of Commerce
Washington, D.C. 20230

Dear Mr. Secretary:

I am pleased to provide you with the Inspector General's *Semiannual Report to Congress* for the first half of fiscal year 2003. Section 5 of the Inspector General Act requires that you transmit this report, with any comments you may wish to add, to the appropriate committees within 30 days of your receiving it.

Once again during these past months, Commerce's involvement in support of a range of national priorities—from assisting with recovery efforts for the Columbia shuttle and crew to providing vital weather information to our troops overseas—has underscored the great diversity and importance of this agency. We in the Office of Inspector General have done our part to ensure that the Department is well positioned to effectively handle its many roles. We note the strides it has made in addressing the challenges my office has determined to be most pressing and have provided recommendations for areas where more work is needed.

Our emphasis on high performance mirrors the expectations of both Congress and the administration and has prompted their ever-increasing scrutiny of the management and cost-effectiveness of Commerce programs and operations. We commend the Department for having fared well in the Office of Management and Budget's first use of the Program Rating Assessment Tool to inform FY 2004 budget decisions: Commerce demonstrated results for 8 of 10 programs evaluated, and none of the 8 was found to be ineffective. Our own performance assessments—which tend to probe more deeply—have also found successes but have raised questions about the reliability of some measures and, by extension, about related performance reporting. To ensure the validity of performance data, we believe this area requires continuing, careful attention from both our office and senior Commerce officials.

We believe the work of our office detailed in this semiannual report further supports your efforts to eliminate inefficiencies in management, programs, and operations. We look forward to assisting you and your senior managers in implementing changes we recommend and to keeping you apprised of the outcomes of those efforts.

Sincerely,

Johnnie Frazier

CONTENTS

IG’s Message to Congress	vii
Major Challenges for the Department	1
Strengthen Financial Management Controls and Systems	1
Strengthen Department-Wide Information Security	2
Enhance Export Controls for Dual-Use Commodities	3
Effectively Manage Departmental and Bureau Acquisition Processes	5
Enhance Emergency Preparedness, Safety, and Security of Commerce Facilities and Personnel	6
Successfully Operate USPTO as a Performance-Based Organization	7
Increase International Compliance with Trade Agreements and Expand Market Access for American Exporters	7
Increase the Effectiveness of Marine Resource Management	8
Continue to Improve the Department’s Strategic Planning and Performance Measurement in Accordance with GPRA	9
Effectively Manage Major Commerce Renovation and Construction Projects	10
Department of Commerce Organization Chart	11
Agency Overviews	
Bureau of Industry and Security	12
Economic Development Administration	16
International Trade Administration	19
National Oceanic and Atmospheric Administration	21
Technology Administration	28
United States Patent and Trademark Office	31
Department-Wide Management	32
Office of Inspector General	38
Office of Investigations	39
Reporting Requirements	42
Tables and Appendixes	44
Acronyms	51

IG'S MESSAGE TO CONGRESS

Events of this semiannual period have again highlighted the Department of Commerce's very visible role in the affairs of our nation, the widespread reach of its activities, and the imperative for the sound, reliable conduct of its operations. The work of the Office of Inspector General during these months has supported that imperative, as we have evaluated many of the Department's critical functions and pointed out, where warranted, needed improvements.

National security has remained a foremost concern, as conflict and tensions abroad have renewed fears of terrorist repercussions here at home. The Department of Commerce plays a significant role in advancing the nation's efforts to thwart such activity, and we have looked closely at its efforts in this regard. Together with the inspectors general of the departments of Defense, State, and Energy, and in consultation with the CIA and FBI, this office is responsible for reporting annually on the adequacy of export controls and counterintelligence measures aimed at preventing countries and entities of concern from acquiring sensitive U.S. technology and technical information, including weapons of mass destruction. In addition to participating in an interagency review, we assessed activities of the Bureau of Industry and Security (BIS), Commerce's primary agency involved in the export control process, and found a number of weaknesses in BIS' operations and system for enforcing controls (see page 12) and in its methods for overseeing and tracking firearms use and inventory (see page 14).

Financial soundness and accountability provide the foundation for proficient operations, and this area, too, has received much of our scrutiny. We are pleased to report that Commerce's FY 2002 consolidated financial statements—which were audited during this semiannual period—received an unqualified (clean) opinion for the fourth year in a row (see page 33). The auditors found that the Department had successfully resolved most of the financial management and reporting weaknesses noted in last year's audit and had made significant progress in implementing the Commerce Administrative Management System (CAMS). The Department maintains its focus on strengthening financial management by implementing CAMS both to comply with federal laws for a single, integrated financial management system and to generate accurate, timely, and reliable financial management and performance information.

In line with our emphasis on financial accountability, we conducted quality control reviews of selected audits of recipients of Commerce financial assistance (page 35). These audits,

performed by either state auditors or certified public accounting firms (CPAs), are intended to identify financial management and reporting weaknesses in a recipient's administration of federal funds. We chose five CPA audits of organizations operating EDA revolving loan funds and two audits involving NIST funding. We found that five of the seven audits were substandard and two were technically deficient, in that they did not meet the federal government's guidelines as detailed by the Office of Management and Budget (OMB). Depending on the nature of our findings, we either required the firms to conduct additional work on the audit we reviewed, to correct and reissue the related reports, or to submit subsequent audits to us for evaluation—before issuing them—so that we can ensure they comply with OMB requirements. In addition EDA has instituted procedures to ensure that its regional offices, officials, and RLF operators are fully aware of OMB's auditing guidelines.

The public rightfully demands assurance that it can rely on the capabilities and integrity of these CPAs who audit the vast majority of Commerce and other federal financial assistance recipients. Our efforts to monitor this work serve not only the interests of the Department, but also those of all taxpaying citizens.

We also conducted audits of eight EDA (page 16) and three NIST (page 28) financial assistance awards that resulted in our questioning more than \$6.7 million in claimed costs and recommending that more than \$14 million be put to better use.

Performance measurement continues to require departmental attention, as the government moves toward using performance data to make funding decisions. Although we believe the Department has made progress toward meeting the challenge of how best to plan and measure its performance, our series of audits in this area indicates that significant opportunities for improvement remain. Commerce must implement procedures to, among other things, ensure that (1) reported information is reconciled against supporting data and (2) only data from the appropriate time period is included in performance results. These issues have emerged time and again in our evaluations of performance measures, most recently in that of selected measures used by NOAA. We are concerned that—for the measures we evaluated—NOAA still needs to (1) improve internal controls, (2) restate data that was incorrectly reported in the past, (3) provide additional disclosures and explanations of performance results, and (4) assess the value of certain measures to determine whether they should be dropped or revised (see page 24). We also

found problems with the export success performance data reported by the US&FCS post in Turkey (see page 19). We will continue to evaluate performance measurement and reporting at Commerce bureaus and, as warranted, make recommendations regarding the accuracy, appropriateness, reliability, and usefulness of performance data.

Management and internal control weaknesses in varying degrees of severity perhaps are the most pervasive problems we noted in departmental programs and operations, as evidenced in the following sample of our other recent work:

- **NOAA's Corporate Costs** NOAA, with its five line offices and varied and complex set of program responsibilities, is the largest agency in Commerce. To manage the line offices and the many constituent divisions, NOAA has centralized much of the administrative work. "Corporate costs" refers to expenses associated with central executive management, administrative support, and policy setting. We conducted a performance audit to assess the process and practices NOAA used to develop and administer its corporate-costs budget for FYs 2000 and 2001. The audit identified numerous matters related to the policies, procedures, and cost-assessment methods that warrant management's attention (see page 21).
- **National Marine Fisheries Service's Enforcement of Regulations** NMFS' Office for Law Enforcement (OLE) and the U.S. Coast Guard share responsibility for enforcing federal fishery regulations that result from the fishery management council process. While the Coast Guard primarily handles enforcement at sea, OLE focuses on shoreside enforcement, which includes dockside monitoring and investigative work. Our findings suggest that by taking a more proactive approach, OLE could help make fishing management measures more understandable and enforceable and improve federal fisheries enforcement (see page 25).
- **Travel Card and Purchase Card Weaknesses** Our work at the National Weather Service (see page 23) and the Office of the Secretary (see page 32) revealed that stronger management controls would eliminate deficiencies and greatly improve compliance with both Department and government-wide guidelines on the use of these cards.

Investigations of suspected fraud and other illegalities have rounded out our audit and inspection work during these past months, as we have uncovered various instances of fraudulent activity involving Commerce funds and programs and have followed the cases through to resolution with consistently positive results (see page 39). We have also successfully collaborated with the FBI and other law enforcement groups on several investigative operations (see page 41).

I am pleased to say that this same spirit of cooperation has marked much of our interaction with the Department during this semiannual period, as Commerce managers and staff have been generally open and responsive to addressing the findings and recommendations we have made.

Further, we appreciate the interest shown by Congress in the work we have done, for your attention facilitates the process of improvement. During this past reporting period, we have had numerous opportunities to brief you on our work in such diverse areas as export controls and procurement; follow up on concerns you have expressed regarding fishery management, government employee improprieties, and a range of other issues; and respond to requests for reports and information about Commerce financial assistance awards. We will continue to keep you apprised of the Department's performance in the full range of critical activities in which it is involved, with confidence that each issue resolved will strengthen Commerce operations and enhance its service to the public.

MAJOR CHALLENGES FOR THE DEPARTMENT

At the close of this semiannual period the Top 10 Management Challenges the Department faces, as determined by OIG, comprise issues that (1) are important to the Department's mission or the nation's well-being, (2) are complex, (3) involve sizable expenditures, or (4) 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 efficiency and effectiveness; eliminate serious operational problems; decrease fraud, waste, and abuse; and achieve substantial savings.

TOP 10 MANAGEMENT CHALLENGES

1. Strengthen financial management controls and systems.
2. Strengthen Department-wide information security.
3. Enhance export controls for dual-use commodities.
4. Effectively manage departmental and bureau acquisition processes.
5. Enhance emergency preparedness, safety, and security of Commerce facilities and personnel.
6. Successfully operate the U.S. Patent and Trademark Office as a performance-based organization.
7. Increase international compliance with trade agreements and expand market access for American exporters.
8. Increase the effectiveness of marine resource management.
9. Continue to improve the Department's strategic planning and performance measurement in accordance with the Government Performance and Results Act.
10. Effectively manage major Commerce renovation and construction projects.

CHALLENGE 1: STRENGTHEN FINANCIAL MANAGEMENT CONTROLS AND SYSTEMS

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 the preparation of information needed by Congress, agency executives, and the public to assess management's performance and stewardship of federal programs and operations. Required information includes the findings of audits of agency financial statements, which present the entity's financial position and results of operations. Among other things, these audits must determine whether an agency's financial management systems comply with federal requirements.

Independent nonfederal auditors gave the Department an unqualified (clean) opinion on its FY 2002 consolidated financial statements—the fourth consecutive year for this accomplishment despite continuing obstacles, including the absence of a single, integrated financial management system. In FY 2002 the Department was successful in resolving most of the financial management and reporting weaknesses noted in the previous year's audit. Also it made significant progress in implementing the Commerce Administrative Management System (CAMS).

CAMS is a software package based on a commercial off-the-shelf accounting system application that has been extensively modified and substantially augmented with new capabilities to support departmental accounting and financial management needs as well as individual Commerce unit requirements. Census, NIST, and NOAA have already begun using CAMS as their financial system of record; NOAA used CAMS to close out and report for the first time its FY 2002 financial data. When fully deployed in 2003 CAMS will be the single system of record; NOAA used CAMS to close out and report for the first time its FY 2002 financial data. When fully deployed in 2003 CAMS will be the single system of record for Census, NIST, NOAA, and eight of the Department's operating units whose accounting functions are handled by either NIST or NOAA. The units serviced by NIST are the Bureau of Economic Analysis, Economic Development Administration, Economics and Statistics Administration (ESA),

Minority Business Development Agency, National Telecommunications and Information Administration, Technology Administration, Office of the Secretary, Office of Computer Services, and Office of Inspector General. NOAA services BIS.

The Department as a whole has made substantial improvements in financial management; nonetheless, maintaining a clean audit opinion remains a major challenge, especially under the accelerated financial reporting dates mandated by the Office of Management and Budget (OMB). The audit of the Department's FY 2002 statements identified two reportable conditions (one of which is considered a material weakness¹) and several instances of noncompliance with laws and regulations, all of which are repeat findings (see page 34). Further improvements in financial management systems and operations are essential to enabling the Department and its entities to correct the material weakness and other deficiencies identified in the audit of FY 2002 statements and to produce timely, useful financial information.

The Department recognizes the need for a financial management environment in which the reliability of financial and performance information and compliance with federal laws and regulations are assured. Therefore, Commerce continues to focus on strengthening its financial management systems by implementing CAMS, both to comply with federal laws and regulations and to provide Commerce with accurate, timely, and reliable financial management and performance information.

Full implementation of CAMS, completely replacing Commerce's outdated and fragmented systems, is expected by October 2003. Although most of the Department's operating units will use CAMS, three will not—International Trade Administration, U.S. Patent and Trademark Office, and National Technical Information Service. Those bureaus will submit data, along with other units, into a Commerce-wide database that serves as the source for the Department's consolidated financial reports. The Department expects that CAMS, in conjunction with the database, will bring Commerce into compliance with federal financial systems requirements, including that for a single, integrated financial management system.

¹ 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.

CHALLENGE 2: STRENGTHEN DEPARTMENT-WIDE INFORMATION SECURITY

The security of Department of Commerce information technology systems and data is important to not only the Department but also the entire nation: BIS' export license data helps control the release of dual-use commodities to countries and entities of concern; NOAA's satellite, radar, and weather forecasting data and systems provide information used to protect lives and property; ESA's economic indicators have policy-making implications that can affect the movement of global commodity and financial markets; and USPTO's patent and trademark information is essential to administering patent and trademark law, promoting industrial and technical progress, and strengthening the national economy.

Loss of or serious damage to any one of Commerce's critical systems could have devastating impacts; nevertheless, weaknesses in IT persist throughout Commerce. Thus, identifying those weaknesses and recommending solutions continue to be top priorities for the Office of Inspector General.

In December 2002 the Government Information Security Reform Act (GISRA) was replaced by the Federal Information Security Management Act (FISMA) of 2002. Like its predecessor, FISMA continues the requirements that each federal agency review its information security program annually and that each OIG perform an annual independent evaluation of that program. Agency heads must continue to provide both of these assessments to OMB; under FISMA, however, they are also required to provide the assessments to Congress.

The Department, continuing to focus on information security, recently issued two new policies—*Information Technology Program Policy and Minimum Implementation Standards* and *Policy and Implementation Standards for Remote Access Security*—to enhance its IT security foundation. These policy directives provide comprehensive rules and practices for protecting departmental systems and data. In addition the program policy establishes clear and specific requirements for accrediting departmental systems—accreditation being management's formal authorization to operate a system, including its explicit acceptance of risk.

As we reported in our last semiannual, most of the Department's operational systems have not been accredited; for those that have been, evidence of the requisite security testing and evaluation is frequently lacking, thus diminishing the assurance that accreditation is intended to impart. We reassert our position that the Department should continue to monitor systems implementation Commerce-wide to ensure that all have

approved security plans and are put through rigorous certification and accreditation processes, as specified by the new program policy.

In its last two Accountability Reports, the Department reported information security as a material weakness. Until systems that are part of the nation's critical infrastructure, as well as those that are mission critical, have been accredited, we believe that information security at the Department should continue to be reported as a material weakness.

SEPARATE INFORMATION SECURITY REVIEW FOR USPTO

As a performance-based organization, USPTO has conducted its own information security review and submitted its report separately from the Department. OIG therefore has conducted a separate assessment of USPTO.

As part of our FISMA evaluation for this fiscal year, we will again assess USPTO's progress in improving its information security organization and the measures it has taken to address the system security weaknesses we identified in our 2002 evaluations.

CONTRACT SECURITY WEAKNESSES

As we reported in our September 2002 semiannual report, provisions to safeguard the security of sensitive but unclassified systems and information were either insufficient or nonexistent in Department IT service contracts. We recommended that the Department (including USPTO) establish standard contract provisions to effectively protect the security of unclassified systems and disseminate a clear, detailed policy for acquiring these systems and services. We further recommended that the Department determine whether current contracts need to be modified to include information security provisions, recognizing that in some cases contract costs could increase as a result of such changes.

The Department is in the process of implementing our recommendations. Contract provisions have been written and are now undergoing departmental review. After the provisions are approved, Commerce plans to facilitate their implementation by providing appropriate training to acquisition staff. An assessment of current contracts found that more than 350 need modification to address the new security provisions. The Department is working to ensure that all future contracts include appropriate security provisions before being awarded.

CHALLENGE 3: ENHANCE EXPORT CONTROLS FOR DUAL-USE COMMODITIES

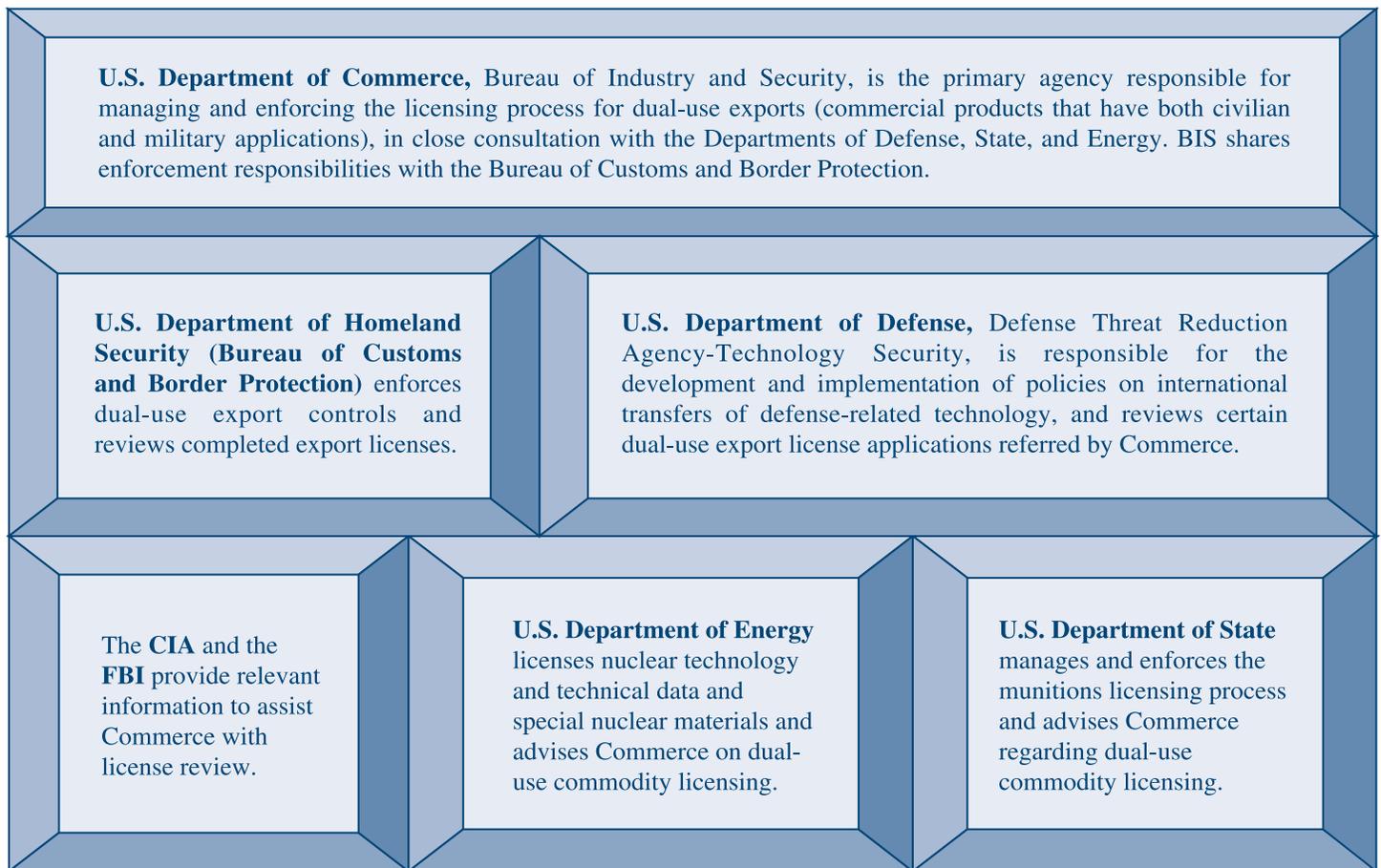
The adequacy of export controls is a continuing concern. Opinions vary on how well the government's export control policies and practices balance the need to protect U.S. national security and foreign policy interests with the desire to promote U.S. trade opportunities and competitiveness. Striking this balance is a significant challenge for the parties involved, particularly for Commerce's Bureau of Industry and Security, 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, hostile countries and terrorist groups seeking weapons of mass destruction and the systems to deliver them pose new threats to global security and U.S. foreign policy goals. Legislation is needed to address these threats, as well as to bolster BIS' regulatory authority, stiffen penalties for violations, 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. 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 Central Intelligence Agency and the FBI, to report to Congress by March 31, 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 FY 2001 requires the IGs 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 four reviews of export controls in compliance with the act as well as three separate follow-up reports. Together with the other IGs, we have also issued four interagency reports on export controls.

ENFORCEMENT OF DUAL-USE EXPORT CONTROLS

During the current reporting period we completed a review of BIS' export enforcement program, including its efforts to prevent the illegal export or diversion of dual-use items and investigate

Federal Agencies Participating in the Dual-Use Licensing Program



and assist in the prosecution of violators of Export Administration Regulations. To be effective, export controls must be enforced, and companies or individuals who conspire to evade those controls or illegally divert exports must be detected and prosecuted accordingly. Our report highlights weaknesses in Export Enforcement's investigative process and outlines specific issues that negatively impact the organization's ability to achieve its mission. To address those issues we recommended (1) stronger management oversight of the investigative process and cases, (2) better coordination between Export Enforcement and Export Administration as well as with other federal law enforcement and intelligence agencies (including the U.S. Customs Service,² the FBI, U.S. Attorney Offices, the CIA, and U.S. Postal Service), (3) better monitoring of license conditions, (4) strategically planned outreach efforts to U.S. exporters, and (5) better end-use checks to attempt to verify the legitimacy of

² On March 1, 2003, the Bureau of Customs and Border Protection (CBP) became an official agency of the Department of Homeland Security, combining employees from the Department of Agriculture, the Immigration and Naturalization Service, the Border Patrol, and the U.S. Customs Service. Customs Service is used in this report because the transition took place after our reporting period.

dual-use export transactions controlled by BIS. According to BIS, efforts to address these issues are already under way.

In addition to our assessment of Commerce's enforcement program, the interagency OIG review team (composed of Commerce, Defense, State, and the CIA) completed a cross-cutting review of the adequacy and effectiveness of the U.S. government's efforts to enforce controls on export of both dual-use items and munitions. Due to the nature of the review topic, both the Treasury and U.S. Postal Service OIGs participated in this year's assessment. The interagency OIG report was issued in early April 2003.

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 exports that present the greatest proliferation and national security risks, and (3) streamlining or eliminating controls that unnecessarily hamper trade and do not augment national security or foreign policy concerns. 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 4: EFFECTIVELY MANAGE DEPARTMENTAL AND BUREAU ACQUISITION PROCESSES

Federal acquisition legislation in the 1990s mandated sweeping changes in the way federal agencies buy goods and services. Today acquisition reform initiatives are well under way, and the task before Commerce has shifted from successfully implementing reform initiatives to effectively managing the processes those initiatives have fostered.

Effective acquisition processes are critical to the Department: Commerce annually spends more than \$1 billion through contracts and other procurement vehicles. The Department must balance the desire to streamline the acquisition process with the need to ensure that taxpayer dollars are wisely spent and laws and regulations followed.

Acquisition reform was intended to reduce the time and money spent purchasing needed goods and services and improve the efficiency of the process. To accomplish these goals, reform initiatives encourage contracting officers to (1) rely on performance-based service contracting and use performance-based measurement tools such as earned value and risk management, (2) consider past performance as a criterion for selecting contractors, and (3) make increased use of commercially available products. The initiatives emphasize results-based acquisition and promote life-cycle management of information technology as a capital investment. For high-volume, low-dollar purchases, they call for using the government purchase card whenever possible to eliminate lengthy procurement lead times.

The resulting streamlined processes must, however, include basic acquisition principles: careful planning, prudent review of competitive bids, adept contract negotiations, well-structured contracts, and effective contract management. These are the principles we focus on in evaluating the Department's performance in meeting this top 10 challenge.

PERFORMANCE-BASED CONTRACTING

With that focus in mind, and given the increasing reliance on contractors to provide services within the Department, we remain concerned about service contracting. We have identified

problems with the use of performance-based service contracting: specifically, 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 contracting officers/technical representatives (COTRs). We have also become increasingly aware of the need to conduct more audits of individual contracts to ensure that services and products provided under contract are cost-effective.

Last semiannual period, we completed 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. (See September 2002 issue, page 51.) We found that such provisions were either missing or inadequate and recommended that the Department develop policy, incorporate appropriate contract provisions, and require training to help ensure that contracts provide for adequate information security and that acquisition, program, and technical personnel know how to plan, implement, and manage such contracts. The Department concurred with our recommendations and is taking actions to address them.

The Department agrees that acquisition planning, formulation of contract strategies, and contract administration need greater emphasis. According to the Department, efforts by its Office of Acquisition Management (OAM) to improve procurement management include (1) establishing an acquisitions review board to oversee all major acquisitions and (2) evaluating Commerce's delegation and warrant program. The program is intended to establish contracting authority and accountability, with the goal of realigning contracting authorities to increase overall effectiveness and accountability throughout the Department's procurement community. OAM has reportedly also launched an initiative to restructure the Department-wide certification program for COTRs. This initiative includes a new training plan to enhance COTR performance and the addition of a performance plan element to improve their accountability. We have not evaluated the effectiveness of these actions.

PURCHASE CARD PROGRAM

The Commerce Department's purchase card program, established more than 15 years ago, is intended to expedite and simplify small purchases by reducing procurement-related administrative costs and improving management and internal controls. Over the years, purchase card use at the Department has increased significantly: in FY 2001, 91.1 percent of Commerce's 364,345 small purchases were made with purchase cards. As a result, we are continuing our Department-wide audit of the purchase card program in accordance with our audit goals for 2002-2003. Based on our reviews to date, we believe the vast majority of Commerce's 6,000 cardholders are using the cards responsibly

and adhering to guidelines. However, we also know that our work, along with that of Commerce officials and managers, must continue as we look for ways to improve the program and implement best practices to resolve problems, prevent and detect fraud, and encourage efficiencies.

During this semiannual period, we issued our final audit report on the Office of the Secretary's (O/S) purchase card program, assessing its compliance with departmental policies and procedures, and federal laws and regulations. While we noted no evidence of cardholder misuse of funds, we did find, as in past reviews of other departmental operating units, instances of noncompliance with provisions of the *Commerce Acquisition Manual*: cardholders failing to (1) document competitive bids for transactions exceeding \$2,500, (2) maintain a log of all purchase card transactions, (3) keep their cards properly secured, (4) purchase from specified vendors ("mandatory sources"), or (5) submit required documentation for purchases of accountable property (sensitive items such as computers, or any item costing \$5,000 or more). O/S generally agreed with our recommendations to remedy these problems and has initiated action to address our concerns.

In response to increased scrutiny from Congress, OMB, and OIG and in light of Commerce's increasing use of purchase cards, OAM is implementing a purchase card improvement plan to ensure the integrity and prudent use of the purchase card by departmental cardholders. One aspect of this plan involves mandatory refresher training for all cardholders and approving officials. In addition an intra-departmental cross-functional team has been formed under the auspices of the Chief Financial Officer and Assistant Secretary for Administration (CFO/ASA) to evaluate future options for further strengthening the Department's purchase, travel, and fleet card programs.

CHALLENGE 5: ENHANCE EMERGENCY PREPAREDNESS, SAFETY, AND SECURITY OF COMMERCE FACILITIES AND PERSONNEL

As the threat of terrorism against U.S. interests remains high at home and abroad, the need to strengthen security and emergency preparedness in both the public and private sectors remains urgent. Federal agencies have rededicated themselves to ensuring the integrity of their operations, the protection of their people, their ability to continue essential services and operations during a crisis, and the suitability of risk and sensitivity designations for

personnel and positions. As part of this national effort, the Department has identified and begun to address many of the vulnerabilities in its emergency preparedness plans and procedures and in the physical security of its facilities. It is also working to correct identified vulnerabilities in its procedures for designating positions according to risk and sensitivity and for conducting appropriate background investigations of the people hired to fill sensitive and security positions. Strengthening policies and procedures to ensure the thoroughness of personnel background checks is an important step that must be taken as departmental managers strive to improve Commerce security.

Homeland Security Presidential Directive-3 (HSPD-3), dated March 12, 2002, established a Homeland Security Advisory System for the nation and requires executive branch agencies to implement protective physical security measures to reduce vulnerability and increase response capability during periods of heightened alert. Subsequently the Department issued a memorandum to all Commerce operating units directing senior officials to survey their current safety status and implement any measures required by the directive that are not already in place, along with supplementary measures that local conditions may necessitate.

In addition Presidential Decision Directive 67, dated October 1998, directs federal agencies to develop continuity of operations plans (COOPs) to ensure the performance of essential functions during any situation that may disrupt normal operations. The chaos of September 11 highlighted the need for each federal agency to have a COOP in place that details the orderly transition to emergency operations and ensures that essential services and functions continue during a crisis, be it generated by terrorist-related incidents, natural disasters, or other events.

In our March 2002 report on the status of emergency preparedness and security programs at a cross-section of Commerce facilities in the Washington, D.C., area and across the nation, we concluded that significant improvements had been made since September 11 in the Department's readiness to deal with future emergencies.

Complying with Directive 67 and other recent security-related guidance is a complex, resource-intensive undertaking for Commerce, given the size of its workforce, its diverse and important missions, and the geographical spread of its approximately 500 facilities across the 50 states and 160 overseas locations. In recent inspections of overseas posts operated by the U.S. and Foreign Commercial Service, we identified the need for more timely security upgrades, improved oversight of security operations, and better management of resources. Heightened security requires a variety of measures: infrastructure risk assessments, emergency backup sites, upgraded physical security, and employee awareness and training, to name a few. The Department's personnel are being asked to safeguard life and

property under emergency circumstances and to ensure that essential functions continue during any of a broad spectrum of emergencies. We believe Commerce is making progress on many of these fronts, but the challenge is massive.

Given the heightened awareness of our vulnerability to acts of terrorism, the Department will have to regularly revisit its procedures for ensuring the safety and security of its employees and operations, and modify them as needed. We will continue to monitor its efforts in this regard and report our findings accordingly.

CHALLENGE 6: SUCCESSFULLY OPERATE THE U.S. PATENT AND TRADEMARK OFFICE AS A PERFORMANCE-BASED 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 not only broader responsibility for managing its operations but also expanded control over its budget allocations and expenditures, personnel decisions and processes, and procurement operations.

In June 2002 the bureau responded to concerns of its many stakeholders by issuing its 21st Century Strategic Plan, which it believed would help guide the way to meeting the many challenges that have accompanied its transition to performance-based operations. The bureau must continue to 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 recently revised this 5-year strategic plan. According to the agency, the plan is still aggressive and far-reaching in that it provides a roadmap for major changes in patent and trademark processes, including steps to (1) move to a paperless environment and promote e-government, (2) enhance employee development, (3) explore competitive sourcing, and (4) improve and maintain quality assurance. USPTO's strategic plan also calls for the agency to work with worldwide intellectual property offices to create a global framework for enforcing intellectual property

rights. However, it anticipates that by 2008 patent pendency will be 27 months rather than the 18 months projected in the original plan. USPTO now anticipates it will need at least a decade to reach an 18-month pendency.

We plan to review some of the operational changes proposed in USPTO's plan. We view completion of USPTO's transition to a performance-based organization as critical to its operating success and ability to address other challenges we identified in recent years. Our office is currently reviewing whether and how the productivity of patent examiners can be improved to help decrease patent pendency. Specifically we are evaluating the effectiveness and efficiency of current production levels and goals and USPTO's awards system.

CHALLENGE 7: 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, violations of trade agreements, inadequate intellectual property protection, and other impediments to the import and export of goods and services, as well as trade disputes with foreign firms operating in U.S. markets. 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 or subsidized by foreign governments.

Commerce, through various offices within the International Trade Administration (ITA), 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. ITA 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 trade disagreements.

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 (IA) works with the International Trade Commission to enforce the nation's antidumping and countervailing duty laws.

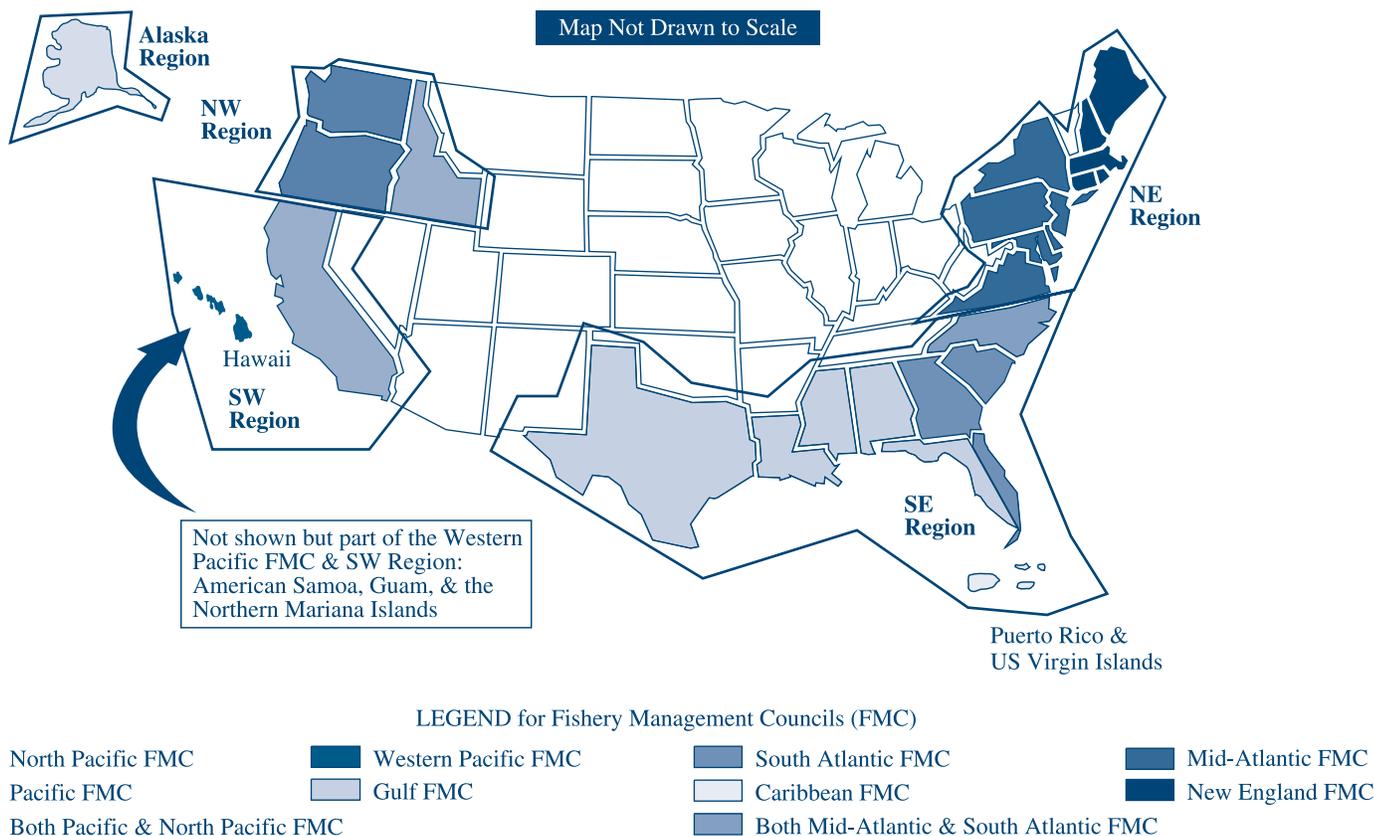
In 2001 GAO identified monitoring and enforcement of trade agreements as a major management issue for Commerce, citing two main reasons—one, the Department's shortage of staff with the expertise to monitor compliance with trade agreements, and two, its difficulty obtaining balanced, comprehensive input from the private sector. To address these issues the Secretary of Commerce has made monitoring and enforcing 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, and a recent audit found that with the increased funding, ITA's Market Access and Compliance unit was able to effectively recruit and hire sufficient staff for critical trade and compliance positions (see page 20).

To improve compliance with trade agreements, ITA also needs to promote a more coordinated federal effort. We noted that the bureau's trade agreement compliance process, as managed by the Trade Compliance Center, needs to better coordinate and track trade compliance and market access activities within ITA (see page 50 of our March 2002 *Semiannual Report to Congress*).

In the future, we intend to review other aspects of ITA's approach to market access and trade compliance, as well as its administration of the antidumping and countervailing duty regulations.

CHALLENGE 8: INCREASE THE EFFECTIVENESS OF MARINE RESOURCE MANAGEMENT

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



Boundaries for NMFS regions and fishery management councils.

Source: OIG.

marine life. The Marine Mammal Protection Act of 1972 and the Endangered Species Act of 1973 gave NMFS responsibility for rebuilding and maintaining sustainable fisheries, promoting the recovery of protected marine species, and protecting the health of coastal marine habitats. 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.

Eight regional fishery management councils, along with NMFS, are responsible for preparing plans to govern domestic fisheries in federal waters. These plans set forth conservation and management measures to prevent overfishing and rebuild overfished stocks and to protect, restore, and promote the long-term health and stability of the fishery.

COMPLEXITY OF REGULATIONS CONSTRAINS ENFORCEMENT

OIG recently evaluated the enforceability of fishing regulations in fishery management plans and the enforcement methods used by NMFS' Office for Law Enforcement (OLE). We found that the complexity of the regulations resulting from the fishery management process constrains the ability of OLE and the U.S. Coast Guard to enforce them. Although we recognize that the councils and NMFS must meet multiple challenges and requirements in developing fishery management plans, we believe that improving the clarity and, thus, the enforceability of management measures will enhance the overall effectiveness of both fishery management and enforcement efforts. We also found that NMFS' joint enforcement initiative with coastal states and territories is beneficial in supplementing federal enforcement efforts. However, priorities and funding guidelines for the joint enforcement agreement program, and a process to verify and document state performance, are needed. Finally, fishery enforcement efforts would benefit from greater information sharing within NOAA and among federal and state enforcement agencies.

STOCK ASSESSMENTS ARE OFTEN CONTROVERSIAL

Fish stock assessments—the collecting, analyzing, and reporting of demographic information about fish populations—are used to help develop conservation and management measures in fishery management plans. Stock assessments are a key element of the fishery management process because they are used to determine whether additional regulations are necessary to rebuild fish stocks or whether greater fishing opportunities can be allowed. Because of their potential impact on commercial and recreational fishing, these assessments are often controversial. The methods

used to create the estimates typically undergo intense scrutiny by fishers and conservation groups.

We are working on two reviews related to fish stock assessment. The first is in response to a congressional request to review the adequacy of NMFS' process to ensure equipment it uses to collect independent survey data is properly maintained and calibrated. Congressional concern stemmed from allegations of problems with the trawling equipment used to conduct NMFS' survey of New England groundfish. The second is a review of the NMFS observer program. Fishery observers are deployed on U.S. commercial fishing vessels to collect catch data, monitor bycatch and protected species interactions, and perform biological sampling. The data is used to supplement research and aid in the management of living marine resources. We are reviewing how NMFS ensures data quality and whether the data is meeting research and fishery management needs.

CHALLENGE 9: CONTINUE TO IMPROVE THE DEPARTMENT'S STRATEGIC PLANNING AND PERFORMANCE MEASUREMENT IN ACCORDANCE WITH THE GOVERNMENT PERFORMANCE AND RESULTS ACT

Congress and agency managers require relevant performance measures and credible performance data to effectively fulfill their oversight responsibilities with respect to federal programs. 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 government moves toward integrating budget and performance information and using performance data to make funding decisions, the validity of reported performance results will be increasingly important.

Although 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 for meeting GPRA and other reporting requirements. One such opportunity concerns data quality. Commerce should clearly articulate the level of reliability that can be placed on the performance data it provides in its annual *Performance & Accountability Report*.

Another opportunity for improvement involves performance measures: our audits of several such measures used by departmental units (BIS, NIST, NTIA, and USPTO) indicate a widespread need for stronger internal controls to ensure accurate reporting of performance data and improved explanations and disclosures of results. For example, procedures should be established to ensure that (1) reported information is reconciled against supporting data and (2) only data from the appropriate time period is included in performance results.

These issues again emerged in our recent audit of selected performance measures at NOAA. We are concerned that—for the measures we evaluated—NOAA may need to (1) improve internal controls, (2) restate data that was incorrectly reported in the past, (3) provide additional disclosures and explanations of performance results, and (4) assess the value of certain measures to determine whether they should be dropped or revised.

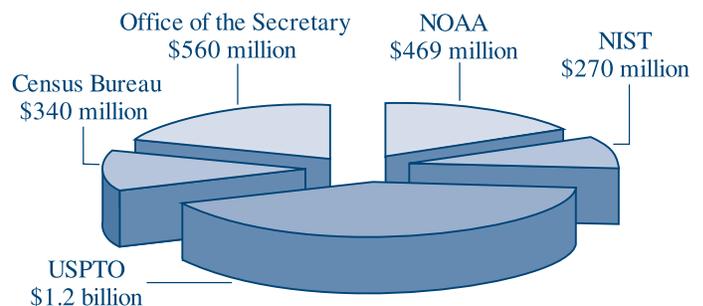
We will continue to evaluate performance measurement and reporting at NOAA and other bureaus and, as warranted, make recommendations to the Department and its operating units regarding the accuracy, appropriateness, reliability, and usefulness of performance data used.

CHALLENGE 10: EFFECTIVELY MANAGE MAJOR COMMERCE RENOVATION AND CONSTRUCTION PROJECTS

USPTO and GSA are currently undertaking one of the federal government's largest real estate ventures—construction of USPTO's state-of-the-art office complex in Alexandria, Virginia. When completed in 2005, the 5-building complex will consolidate USPTO employees and operations currently scattered among 18 buildings in nearby Crystal City, Virginia. With construction well under way, USPTO must aggressively hold the line on project expenditures to stay within the legislatively mandated cap on the cost of completing the build-out of the facility's shell. It must also monitor construction progress to help ensure the project stays on schedule, and carefully implement the relocation of its facilities to minimize costs and adverse effects on operations, employees, patent applicants, and the public. We will be monitoring this major challenge and will follow up on issues we identified during the project's planning and design, such as space planning and allocation, relocation strategies, and actual versus target costs and completion schedules.

In addition to USPTO's complex, the Department has plans for numerous major³ renovation and construction projects:

- NOAA has 20 projects scheduled or in process including the National Ocean Service's Marine and Environmental Health Research laboratory in South Carolina, a National Marine Fisheries Service laboratory in Hawaii, and a satellite operations facility in Suitland, Maryland.
- NIST will continue its multimillion-dollar program to upgrade existing laboratories in Gaithersburg, Maryland, and Boulder, Colorado, and to complete construction of the Advanced Measurement Laboratory building in Gaithersburg and a central utilities plant in Boulder.
- Included in the President's budget is the Census Bureau's construction of two new buildings at its Suitland, Maryland, headquarters, which will provide employees with safe, modern facilities.
- Commerce plans to modernize its headquarters, the Herbert C. Hoover Building in Washington, D.C.



The \$1.2 billion projected cost of USPTO's five-building complex represents more than 40 percent of the total planned major construction budget estimated for Commerce's five largest bureaus. Although USPTO's cost is proportionately larger, all these amounts represent sizeable expenditures of taxpayer dollars, emphasizing the importance of closely monitoring both project schedules and expenditures for all such projects.

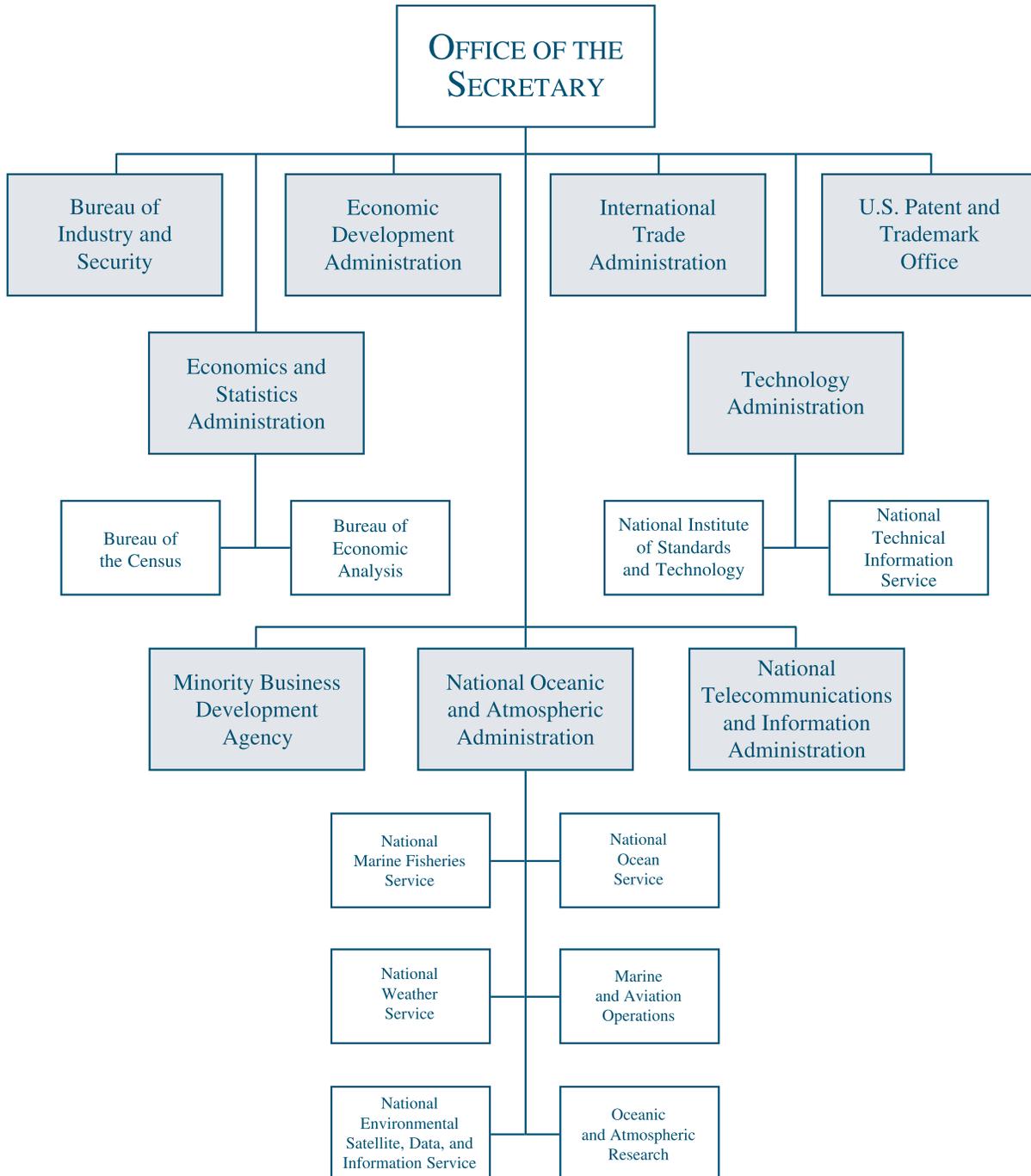
Source: Commerce Office of Real Estate Policy and Major Programs.

Effective renovation and construction management is a critical challenge for the Department because of the numerous inherent risks involved in planning and managing 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 is begun or completed saves time and money. For this reason, we continue to actively monitor the progress of the Department's current and planned construction projects.

³ According to the U.S. Department of Commerce's Office of Real Estate Policy and Major Programs, as of fiscal year 2004, "major" projects are those costing \$2.3 million or more.



Department of Commerce Organization Chart





BUREAU OF INDUSTRY AND SECURITY

EXPORT CONTROL REVIEW REVEALS WEAKNESSES IN BIS' INVESTIGATIVE/ ADMINISTRATIVE PROCESSES

The Bureau of Industry and

Security 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 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.

The inspectors general of the Departments of Commerce, Defense, and State, the Central Intelligence Agency, and the U.S. Postal Service marked the fourth-year requirement of the National Defense Authorization Act for Fiscal Year 2000⁴ by conducting an interagency review of government-wide efforts to enforce export controls. They each, in turn, examined their own agency's enforcement activities.

At Commerce, we reviewed the Bureau of Industry and Security's (1) conduct of investigations, (2) interactions with the law enforcement and intelligence community, (3) monitoring of license conditions, (4) outreach to exporters, and (5) end-use checks. These activities are handled by BIS' two primary divisions—Export Enforcement and Export Administration. We found a number of deficiencies in each of these areas, several of which we had identified in our 1999 export licensing review.⁵

INVESTIGATIVE PROCESS NEEDS GREATER MANAGEMENT ATTENTION TO INCREASE CRIMINAL PROSECUTIONS AND ADMINISTRATIVE SANCTIONS

The Office of Export Enforcement (OEE) endeavors to identify, investigate, and apprehend violators of the Export Administration Regulations (EAR) and to obtain criminal and administrative sanctions against them. We uncovered systemic weaknesses at key points in the investigative process that, cumulatively, have negatively impacted Export Enforcement's ability to achieve its mission. In FY 2002, for example, just 3 of an average yearly caseload of 1,038 cases resulted in convictions, 25 were closed with administrative sanctions, and 208 were closed with warning letters—an informal action that imposes neither fines nor restrictions on export privileges but advises exporters that the warning may affect how OEE pursues any future violations.

⁴ NDAA mandates that the inspectors general, in consultation with the directors of Central Intelligence and the Federal Bureau of Investigation, assess the adequacy of export controls and counterintelligence measures for preventing countries and entities of concern from acquiring militarily sensitive U.S. technology and technical information. The legislation further mandates that the inspectors general report their findings to Congress by March 30 of each year until 2007.

⁵ *Improvements Are Needed to Meet the Export Licensing Requirements of the 21st Century*, U.S. Department of Commerce Office of Inspector General, IPE-11488, June 1999.

Some of the investigative weaknesses are the result of factors outside of BIS' control. For example, the bureau must rely on U.S. Attorneys to criminally prosecute its cases. We were told that some of them are reluctant to accept these cases because of their complexity, lack of jury appeal, and difficult enforceability in the absence of strong export control legislation. Regardless, we noted deficiencies in the following areas that warrant BIS' attention and improvement:

- case management and guidance,
- management oversight of the investigatory process,
- processing of license determinations,
- the administrative remedy process,
- collection of delinquent administrative penalties,
- agent training, and
- cooperation with other federal law enforcement and intelligence agencies.

EXPORT ADMINISTRATION AND EXPORT ENFORCEMENT ARE NOT ADEQUATELY MONITORING LICENSES OR STRATEGICALLY CONDUCTING OUTREACH TO U.S. EXPORTERS

We noted deficiencies in the following areas:

- **Licenses with Reporting Conditions** EAR allows BIS to further limit transactions and monitor shipments authorized under an export license by placing conditions on the license itself. There are 54 possible conditions, 7 of which have reporting requirements—that is, the licensee must provide BIS with various types of export documentation on the shipment. Export Administration is responsible for monitoring 6 of the 7 conditions, and Export Enforcement the remaining one. We found that Export Administration and Export Enforcement are not adequately monitoring licenses with reporting conditions—a problem we identified in our 1999 report. When license conditions are not carefully monitored, BIS cannot be certain that goods were not diverted to unauthorized end users or that exporters who fail to comply with conditions are denied subsequent licenses.
- **Outreach** While BIS does contact U.S. exporters to educate them about export controls, OEE has neither a national plan for proactively identifying and conducting outreach with manufacturers and exporters of critical commodities nor formal guidance for helping agents identify such firms. Export Enforcement did conduct nationwide outreach to chemical manufacturers in the immediate aftermath of September 11, 2001. Nonetheless, without an established, proactive, national

program, BIS may miss opportunities to prevent export violations through education and detect violations via company leads.

BIS SHOULD CONTINUE TO IMPROVE THE END-USE CHECK PROCESS

End-use checks, an important part of the license evaluation and enforcement process, verify the legitimacy of dual-use export transactions controlled by BIS. A pre-license check is used to validate information on export license applications by determining whether an overseas party is suitable for involvement in the transaction. Post-shipment verifications determine whether the exported goods were in fact received by the party named on the license and are being used in accordance with license provisions. Commerce's U.S. and Foreign Commercial Service (US&FCS) officers stationed at overseas posts conduct most pre-license checks, while OEE agents conduct most post-shipment verifications under the Safeguards Verification Program. BIS export control attaches stationed at Abu Dhabi, Beijing, and Moscow also conduct end-use checks.

Our evaluation found that end-use checks are a valuable tool but, despite improvements to the process, a number of the problems we identified in 1999 remain unresolved.

- **US&FCS checks** Officers have not received training needed to conduct effective end-use checks and can be slow to complete them—problems made worse by BIS' failure to sometimes provide adequate product information in its formal requests for end-use checks. In addition, the end-use check handbook needs to be revised to include instructions for coordinating checks with other U.S. agencies at a particular overseas post and made available on-line to ensure that officers have easy access to the most recent guidance.
- **Safeguards team checks** Overall we believe the Safeguards Verification Program is working reasonably well. However, improvements in several areas—such as the writing and dissemination of trip reports and coordination with other U.S. government agencies at post—would likely make the program more effective.
- **Pre-license checks** BIS and licensing referral agencies rely on the results of pre-license checks to determine the ultimate disposition of a license application. We identified instances in which Export Enforcement recommended rejection of license applications, but Export Administration returned them to applicants without action—neither approval nor denial. The two offices did not always attempt to reach consensus on license recommendations via the dispute resolution process outlined in a 1996 memorandum of understanding.

EXPORT ADMINISTRATION'S PROCESSING OF LICENSE DETERMINATIONS FOR CUSTOMS IS UNTIMELY

The Export Administration Act⁶ allows Customs to detain a shipment for up to 20 days, after which it must formally seize or release the goods. Within this 20-day window, Customs must ascertain whether the commodity requires a valid license for export and—for dual-use items—will request a license determination from Export Administration. As in 1999 we found that Export Administration is slow to process these requests: less than 50 percent of the FY 2002 requests we examined were processed within 20 days. We also found that the determination referral process is not automated and that the two agencies had insufficient guidance on the standard procedures and format for (1) submitting license determination requests, (2) processing them in a timely manner, and (3) providing recourse when they are late.

BIS indicated that bureau managers had already identified many of the issues raised in our report and either had addressed them or were in the process of doing so. Specifically BIS indicated that it will be devoting greater management attention to the investigatory process by tracking caseloads through its new Investigative Management System and conducting periodic caseload reviews, ensuring that license determinations are completed on a more timely basis through BIS tiger teams,⁷ streamlining case processing, reviewing and taking appropriate actions on delinquent accounts, and strengthening case management procedures. BIS has said it will also improve its monitoring of license conditions by programming automated license reminders in its Export Control Automated Support System to follow up on licenses with post-shipment verification conditions 1 year after issuance and send automated reminders to exporters. To improve the end-use check process, and consistent with funding availability, BIS will provide training to US&FCS officers at seminars in the United States and through regional training programs and individual briefings overseas. BIS will also place the end-use check handbook on US&FCS's protected intranet site.

As indicated in our report, BIS management has been consistently receptive to our concerns and recommendations, had

⁶ Although the Export Administration Act is expired, the President's executive order invoking emergency authority under the International Emergency Economic Powers Act directs the executive branch to continue to comply with the provisions of EAA to the extent possible.

⁷ A "tiger team" is a group of users who volunteer or are hired to expose errors or security holes in new systems, programs, processes, software, etc., or to find out why a system's security is being broken. In the U.S. military, a tiger team is a group charged with trying to break through security around a military base or special restricted area.

begun some of the recommended corrective actions before completion of the reviews, and is committed to taking vigorous action to enforce federal dual-use export control laws. (OFFICE OF INSPECTIONS AND PROGRAM EVALUATIONS: IPE-15155)

STRONGER MANAGEMENT CONTROLS ARE NEEDED FOR EXPORT ENFORCEMENT'S FIREARMS

As part of our review of the Bureau of Industry and Security's enforcement of dual-use export controls, we looked at OEE's handling of firearms used by its special agents to determine whether the bureau (1) complies with established laws, regulations, and directives; (2) maintains adequate internal controls; and (3) operates its firearms program with proper management oversight and accountability.

We found the physical security of firearms to be generally satisfactory at the four field offices we visited. However, we uncovered several systemic weaknesses resulting from ineffective management controls and lack of accountability over possession and use of BIS weapons at both headquarters and field locations.

- **Outdated Guidance** OEE's firearms policies and procedures are codified in its *Special Agent Manual*, which was issued in 1989. Although much of the manual was revised in 2002, the firearms section was not updated. Thus, some of its guidance is inconsistent with current law enforcement requirements as well as with recent directives put forth by the OEE director. During our review we briefed OEE about our findings, and it has recently drafted new firearms guidance to be incorporated into the *Special Agent Manual*, which we believe addresses most of the internal control weaknesses we identified.
- **Lax Inventory Controls** Neither the current nor previous national firearms coordinator could provide us with up-to-date inventory records or document to whom specific firearms were assigned. We identified other lapses as well, such as instances in which weapons' transfers among offices were not reflected in inventory records, and weapons listed in inventory records could not be readily located. In some instances special agents in charge (SACs) or their designated alternates claimed to have conducted the required weapons inspections and spot-checks and to have updated inventories accordingly but could not document these actions.

- **Unreported Lost or Stolen Weapons** We found two instances in which an OEE field office reported a lost or stolen weapon to the local police department but failed to report it to the National Crime Information Center (NCIC)—considered the primary nationwide system for tracking stolen or recovered firearms. In response to this finding, BIS did report one of the weapons to NCIC. However, failure to report the incidents in a timely manner exposed OEE to negative publicity, had the missing weapons been misused, and disclosed weaknesses in OEE’s internal controls.
- **Failure to Meet Weapon Qualification Requirements** Records covering the period October 2000 through June 2002 showed that 16 of 89 special agents (18 percent) did not consistently qualify with their weapons and that OEE did not remove weapons from those who failed to qualify. In its comments on our draft report, BIS noted it believes this is misleading in that agents are authorized a 30-day make-up period and, in the vast majority of cases, all special agents qualified within that 30-day period. However, BIS could not provide us any supporting documentation that such a 30-day grace period was BIS policy or that the agents we identified had, in fact, qualified within the 30 days.
- **Use of Unauthorized Firearms** We identified a need for improvement in the following areas:
 - Firearms used for official duty did not always
 - (1) conform to equipment standards or
 - (2) have approval for use or documentation to support that approval.
 - Some OEE agents were carrying personal weapons without documented approval.
- **Excess Firearms Were Neither Surplused nor Destroyed** OEE issued new weapons to agents in February 1998 but retained 135 of the retired weapons as backups or replacements. We found that 103 of these remain unused and should therefore be surplused or destroyed.

We made a number of recommendations to improve the firearms program. BIS has since reported that it took action on all of them, noting that it has properly authorized and documented all OEE-issued or personally owned firearms, is now maintaining a comprehensive list of firearms that agents are authorized to carry, and is destroying unused backup weapons; and is issuing a comprehensive, new firearms policy consistent with best practices in the law enforcement community. (OFFICE OF INSPECTIONS AND PROGRAM EVALUATIONS: IPE-15155-1)



ECONOMIC DEVELOPMENT ADMINISTRATION

REVOLVING LOAN FUNDS

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

EDA's Economic Adjustment Program provides, among other things, grants to capitalize revolving loan funds (RLFs). Currently more than 600 RLFs are operating throughout the country, with a total capital base of about \$1 billion. This includes EDA's share of the initial investment and matching funds contributed by state and local governments, nonprofit organizations, and other eligible recipients that operate RLFs. The program focuses on communities and regions that have experienced or are threatened by serious structural damage to their underlying economic base. The purpose of an RLF is to leverage other public and private investment in key sectors of the local economy and to stimulate employment for the local workforce. RLFs offer loans to local businesses that otherwise cannot secure sufficient private financing, providing a continuous infusion of economic development funds into the affected community.

Because RLFs manage cash and other liquid assets, they are particularly susceptible to fraud, waste, and abuse if not adequately managed and monitored. Recognizing the sizable federal investment in these funds, we have worked cooperatively with EDA over the past 2 years to identify high-risk investments and have conducted a series of RLF audits targeting projects on the basis of a variety of factors that typically suggest heightened vulnerability. Such factors include minimal use of grant funds, large uncommitted cash balances, and lack of single audit coverage. Our audits have identified several recurring issues, the most serious of which are

- unneeded funds from recapitalization grants,
- excessive cash reserves,
- inappropriate loans,
- inadequate accounting for RLF assets (cash and loans), and
- inadequate audit coverage.

Based on findings in individual audits, we have made recommendations, as appropriate, to recoup unused grant funds, remedy fiscal and administrative deficiencies, and ensure compliance with applicable laws and program requirements. In all cases, EDA has required grant recipients to take prompt corrective action.

Summarized below are the results of the eight RLF audits we conducted this semiannual period, which include recommendations that more than \$14 million of revolving loan funds be put to better use. EDA is reviewing the audit findings and recommendations to develop corrective action plans.

AUDIT RECOMMENDS TERMINATION OF SOUTH CAROLINA RLF THAT DUPLICATES EXISTING FUNDS

In the aftermath of 1989's Hurricane Hugo, EDA awarded a \$1 million RLF grant to a South Carolina economic development organization, intended to create long-term employment opportunities for workers displaced by the hurricane by increasing the inventory

of industrial buildings in rural areas of the state. The RLF provided first mortgage loans to nonprofit local development corporations to finance the speculative construction of industrial buildings in the 24 South Carolina counties declared a disaster area after the hurricane. Seven loans totaling \$2,599,771 were made between 1991 and 1996 to finance the construction of seven buildings.

At the request of the recipient, EDA amended the grant in July 2001 to modify the original RLF plan and eligibility area. The amendment increased the number of counties covered by the RLF to 41 of the state’s 46 counties and changed the lending strategy from construction loans for speculative industrial buildings to loans for business expansion and the acquisition of fixed assets—a purpose routinely employed by EDA-funded RLFs to meet long-term economic development objectives.

Our audit found that the RLF, as modified, unnecessarily duplicates and competes with 13 existing RLF projects that collectively cover the entire state of South Carolina and have sufficient capital available to meet lending needs. The RLF has made only two loans under its new operating plan—both of which could have been made by one of the other funds—and has failed to meet EDA’s 75 percent capital utilization standard for at least 3 years, resulting in an excess cash balance of \$713,637 as of March 31, 2002.

Based on the RLF’s apparent inability to make loans and the lack of need for its services, we recommended that EDA terminate the award, transfer administration of the two outstanding loans to the RLFs serving the borrowers’ areas, and recover EDA’s \$606,790 share of the fund balance. (ATLANTA REGIONAL OFFICE OF AUDITS: ATL-14915)

CONTINUING PATTERN OF MISMANAGEMENT REQUIRES TERMINATION OF WASHINGTON, D.C., RLF

An economic development corporation established to raise educational, social, and economic levels of residents of southeast Washington, D.C., received a \$500,000 grant from EDA in 1979 to capitalize an RLF. Since its inception, the RLF has been plagued by poor performance and inadequate financial management. Problems such as inaccurate records, improper loans, and questionable administrative expenses were previously documented by this office in audit reports issued as early as 1985 (OIG report no. 5AD-5-0469). In a 1990 report (FMD-0022-0-0008), we recommended that EDA terminate the award and take action to recover \$204,357 in fund assets used to make improper loans and pay for undocumented administrative expenses. The final audit determination required the economic development corporation to repay \$50,000 to the RLF over a period of 3 years.

No payments were made during the agreed-upon period, and in March 2002, EDA sent the recipient a payment demand and requested an OIG audit of the project. Our audit revealed that corporation officials had engaged in a continuing pattern of neglect and mismanagement warranting termination of the award for cause. In addition to the dereliction with respect to the \$50,000 reimbursement, we found that the fund administrators were remiss in pursuing collections of defaulted loans, were unable to properly account for RLF assets, and had otherwise failed to meet their fiduciary responsibilities to the RLF.

Based on these findings, we calculated the amount due to the federal government as follows:

Fund cash balance as of March 29, 2002	\$ 21,816
Defaulted loans unaccounted for	519,010
Balance due from 1990 audit	50,000
Interest on \$50,000 through 12/31/02	10,792
Amount to be refunded to EDA	\$ 601,618

We recommended that EDA take immediate action to terminate the grant and recover \$601,618 from the corporation. (ATLANTA REGIONAL OFFICE OF AUDITS: ATL-15124)

NEW YORK RLF HAS MILLIONS IN EXCESS CASH RESERVES

A 1993 OIG audit of a \$10 million RLF grant to a New York State agency (ATL-4603) revealed substantial waste and misuse of the RLF capital, and the state was required to reimburse the fund for \$13 million. By July 2002 the RLF’s capital balance had grown to \$25 million, distributed between two subsidiary funds administered by the two counties intended to benefit from the award.

Our 2003 audit of the RLF found that it had a total of almost \$6.3 million of uncommitted cash on hand. While permissible under EDA’s 75 percent capital utilization standard, we concluded that a portion of this amount could be put to better use by increasing capital utilization. This action is consistent with EDA guidelines for RLFs with capital bases in excess of \$4 million, which are expected to maintain a proportionately higher percentage of their funds loaned out. The 90 percent standard we recommended would result in an additional \$3.8 million committed to loans, while still leaving \$2.5 million as allowable cash on hand.

The audit also disclosed multiple instances of noncompliance with applicable RLF administrative requirements on the part of the state and both beneficiary counties. (ATLANTA REGIONAL OFFICE OF AUDITS: ATL-15390)

SIGNIFICANT DEFICIENCIES FOUND IN ADMINISTRATION OF CALIFORNIA RLF

Our audit of an RLF serving three California cities disclosed significant management deficiencies and multiple instances of noncompliance with grant requirements, including the award of prohibited loans and loans to ineligible borrowers; failure to maintain adequately documented loan files and an approved RLF plan; a \$1.9 million leveraging shortfall for the loan portfolio; and failure to properly account for fund expenditures or to ensure required audit coverage. (DENVER REGIONAL OFFICE OF AUDITS: DEN-15181)

INADEQUATE MANAGEMENT OF RLF IN ALASKA

During this semiannual period, we audited two RLFs operated by a nonprofit organization in Alaska, finding serious indications of inadequate management. Excess cash reserves totaling \$256,000 were being maintained in the funds, and both loan portfolios have performed poorly: 41 loans representing 93 percent of the funds' total outstanding loan principal were in default, and there was little evidence of collection efforts. In addition, loan files lacked proper documentation; loans had been made in violation of applicable conflict of interest provisions; the RLF plan was obsolete; and required organizational audits did not properly report RLF expenditures. (DENVER REGIONAL OFFICE OF AUDITS: DEN-15182)

EXCESS CASH RESERVES AND UNDERREPORTING OF INTEREST INCOME AT CALIFORNIA RLF

Our audit of an RLF operated by a major California city disclosed that the city had not met EDA's capital utilization standard for the fund during the past 4 years, resulting in nearly \$1.2 million in excess cash reserves. In addition, the city did not properly account for RLF cash and underreported program income by failing to credit the RLF with all interest earned. (DENVER REGIONAL OFFICE OF AUDITS: DEN-15183)

EXCESS CASH RESERVES AND INADEQUATE AUDIT COVERAGE OF ILLINOIS RLF

Our audit of a 1984 RLF grant to a city in Illinois revealed that the recipient had not met EDA's 75 percent capital utilization standard for several reporting periods and was maintaining nearly \$1.7 million in excess cash reserves. We also found that annual audits of the city's financial statements were not conducted in accordance with the Single Audit Act and OMB Circular A-133, and that \$95,000 in administrative expenses had been improperly charged to the RLF on the basis of estimates rather than actual costs incurred. (DENVER REGIONAL OFFICE OF AUDITS: DEN-15183)

WISCONSIN RLF MADE INAPPROPRIATE LOANS

We audited an RLF grant awarded to a Wisconsin regional planning commission in 1983 and found that the recipient had made loans totaling \$250,000 to obtain an equity position in an affiliated venture capital company, which violates program proscriptions on conflicts of interest and the use of RLF funds to acquire an interest in a business. We also found that the recipient had failed to contribute its full matching share to the fund. (DENVER REGIONAL OFFICE OF AUDITS: DEN-15308)



INTERNATIONAL TRADE ADMINISTRATION

The International Trade Administration

is responsible for 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.

MANAGEMENT WEAKNESSES AT US&FCS OFFICES IN TURKEY REQUIRE ATTENTION

The U.S. Foreign and Commercial Service (US&FCS) post in Turkey is the 21st largest of its overseas offices, in terms of operating budget (\$1.34 million in fiscal year 2002). US&FCS Turkey maintains offices in Ankara, Istanbul, and Izmir, and constituent posts in Armenia and Turkmenistan. It has a diverse portfolio of programs, including one of the agency's most active advocacy programs for helping U.S. firms compete for large projects.

We conducted an inspection of US&FCS Turkey operations from July through November 2002, focusing on post operations during fiscal years 2001 and 2002. We assessed the post's management, program, financial, and administrative practices as well as its coordination with other organizations in achieving ITA and Commerce goals. Our purpose was to determine whether the post plans, organizes, and controls its work and resources effectively; meets the needs of U.S. exporters; is helping increase U.S. export levels and market access; and uses appropriate internal controls and financial management procedures. We also sought to identify best practices that could be useful for other Commercial Service posts, assess US&FCS Turkey's participation in trade compliance efforts, and evaluate infrastructure issues such as information technology and physical security.

WHAT WE FOUND

Our inspection revealed a post in transition in the face of key management changes and economic uncertainties: a new senior commercial officer had recently arrived in Ankara and a new principal commercial officer in Istanbul. They faced an array of weaknesses in post operations. We believe that US&FCS Turkey's future success will depend on strong post management and administration by both the senior commercial officer in Ankara and the Commercial Service's Office of International Operations (OIO) in Washington. Our key findings and recommendations are summarized below.

Management of the Post Needs to Be Strengthened

Ineffective management practices and oversight in recent years had fostered a number of problems: products and services were sometimes untimely and inadequate, reports of export successes were inaccurate, and some performance appraisals were not prepared in a timely manner. OIO oversight also had been lacking in that the office did not address post problems or provide sufficient training and development for senior officers.

US&FCS Turkey Is Meeting the Needs of Most Customers but Could Do Better

Many of the clients we spoke with during our inspection were pleased with the post's efforts to support U.S. trade and business interests in Turkey. Even so, we found that (1) some services and market research products were delivered late and did not meet guidelines in the *Commercial Service Operations Manual* and (2) reporting on market developments in Turkey was poor—particularly in key sectors like telecommunications and energy, which are being privatized.

Financial Operations and Administrative Matters Are Generally in Order but Identified Problems Require Attention

US&FCS Turkey's financial management and administrative operations are functioning effectively, but we did note deficiencies such as the following: (1) representation (entertainment) funds may have been used for nonofficial entertainment, (2) government vehicles may have been used inappropriately and logs of their use not properly maintained, and (3) oversight of the travel card program was inadequate and procedures not always followed. We also noted problems with management of Izmir's petty cash fund and some costs associated with International Cooperative Administrative Support Services (ICASS)⁸ that could be reduced.

US&FCS Describes Actions Taken

The Commercial Service concurred with all but one of our recommendations and described actions it is taking to strengthen oversight of its Turkey operations as well as to address the potentially systemic problems we identified with senior commercial officer training and development. At the close of the semiannual period it was still considering the one remaining

recommendation—that it revise its *Operations Manual* to explicitly require posts to provide U.S. client confirmation of export successes. (OFFICE OF INSPECTIONS AND PROGRAM EVALUATIONS: IPE-15370)

MARKET ACCESS AND COMPLIANCE SUCCESSFULLY INCREASED STAFF CAPACITY TO IMPROVE MONITORING AND ENFORCEMENT

In response to growing concern over ITA's ability to monitor and enforce trade agreements, Congress authorized a significant increase in funding for trade compliance activities in FY 2001. With these additional funds, ITA's Market Access and Compliance (MAC) unit added 35 full-time equivalent positions under the Trade Compliance Initiative to help monitor and enforce trade compliance agreements.

We conducted an audit to determine whether MAC was able to recruit, hire, and retain staff to fill these positions. Overall, we found that MAC was able to do so—attracting staff with varying degrees of experience and expertise without having to request special hiring authority and without having to offer any other type of recruitment incentives.

To fill the 35 new vacancies, the agency promoted internal candidates; hired from outside the federal government; reassigned current ITA staff; hired employees from other federal agencies; and reinstated prior career civil service employees. By the end of the fiscal year, selections had been made to fill all 35 job vacancies. (ECONOMICS AND STATISTICS AUDITS DIVISION: ESD-15499)

⁸ ICASS is the State Department's system for providing administrative services—on a cost-sharing basis—to U.S. agencies' overseas operations.



NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION

The National Oceanic and Atmospheric Administration

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

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

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

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

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

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

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

ADDITIONAL IMPROVEMENTS NEEDED IN NOAA'S "CORPORATE COSTS" PROCESS

NOAA is the largest agency in the Department of Commerce and has a varied and complex set of program responsibilities. The agency's combined environmental mission—to predict atmospheric changes and manage coastal marine resources—helps ensure sustainable economic opportunities. NOAA's "corporate costs" refer to expenses associated with central executive management and policy setting and to costs associated with administrative services provided by the Office of Finance and Administration (OFA).

Within OFA, the Office of Budget's Business Management Fund Division is responsible for managing corporate costs. NOAA's Corporate Board—composed of the Deputy Undersecretary for Oceans and Atmosphere, NOAA's chief financial officer, and the deputy assistant administrators of the National Marine Fisheries Service; National Ocean Service; Office of Oceanic and Atmospheric Research; National Weather Service; National Environmental Satellite, Data, and Information Service; and Office of Marine and Aviation Operations—is responsible for reviewing and approving the corporate-costs budget.

Corporate costs are funded from a variety of sources: the Procurement, Acquisition and Construction account; the Operations, Research and Facilities account; line office appropriated funds; and an overhead charge applied to NOAA's reimbursable projects as a percentage of total reimbursements. In FY 2000 corporate costs totaled \$153 million—\$92.5 million came from either assessments or direct billings to the line office appropriations; \$50 million from the Operations, Research and Facilities account Program Support appropriation; and \$10.9 million from overhead charges applied to NOAA's reimbursable projects.

PROCESS AND PRACTICES USED TO DEVELOP THE BUDGET

We conducted a performance audit of the process and practices NOAA used to develop its corporate-costs budgets for fiscal years 2000 and 2001, focusing on NOAA's management and funding of costs for centrally controlled administrative services. Our objectives were to determine whether (1) the methodologies used to distribute the corporate-costs budget throughout NOAA were systematic and rational, (2) the planning process for developing the annual corporate-costs budget was reasonable, and (3) the deficiencies identified in previous studies had been addressed through corrective action.

Distribution of Cost Assessments Are Based on an Inappropriate Methodology

According to its *Budget Handbook*, NOAA should be funding most corporate-costs activities by assessing line offices according to "direct labor rates," that is, the number of full-time employees. Our audit showed, however, that assessments were based on what could best be described as a hybrid of historical practices and direct labor assessments. Unfortunately, neither the prescribed direct labor methodology nor the hybrid approach is appropriate because neither results in a fair and transparent correlation between costs assessed and services provided.

"Direct Billing" Algorithms Are Not Always Reasonable

NOAA also funds a portion of corporate-costs activities by directly billing line offices for special services. A proper direct billing methodology should trace the services provided to the actual associated costs and bill the specific entity benefiting from those services. Under NOAA's system, various allocation methodologies are used to distribute the "direct" costs to the line offices, in some cases to offices that may not have derived any benefit from the services at issue. Also, the methodologies applied different algorithms depending on the services provided—algorithms that were sometimes inequitable, unreasonable, or inappropriate as well as inconsistent in correlating costs to services received. Consequently there was questionable assurance that the line offices were paying an appropriate and reasonable portion of the costs.

No Formal Policies and Procedures Exist for Governing the Corporate-Costs Budget Process

We found that NOAA had no formal, documented policies and procedures for managing the corporate-costs process. Without such policies and procedures, there can be no assurance that these costs are developed and managed in a consistent and equitable manner throughout the budget cycle; also, internal controls are inadequate to ensure that the corporate-costs budget is properly developed and consistently managed and that costs are effectively contained. In addition, because there are no formal requirements to create and maintain supporting documentation, there is no assurance that the information the Corporate Board uses to make funding decisions is accurate and fully supported. Another issue concerning the board involves its lack of a charter. Although established in 1999 to provide oversight for the corporate-costs process, no charter identifying board membership, responsibilities, objectives, or activities was developed. A formal, well-defined charter is key to effective internal controls that address cost containment responsibilities and outline the issues the board must address.

Previous Studies Identified Problems That Have Yet to Be Fully Addressed

NOAA, aware of many of the problems with its budgetary and financial systems, commissioned several studies of these issues. Between 1996 and 1998 several NOAA internal studies resulted in recommendations regarding accountability and operational issues affecting the corporate-costs process such as tying assessments to services received, increasing the involvement of top NOAA officials in the process, and enhancing customers' involvement in the process. In 2000 the National Academy of Public Administration (NAPA), at NOAA's request, reviewed NOAA's budget and financial management processes. Its report addressed accountability issues, incorporated issues from NOAA's previous studies, and made consolidated recommendations to address the problems.

NOAA'S CORRECTIVE ACTIVITIES

NOAA responded to some of the recommendations by undertaking important improvements including

- creating and filling the position of deputy chief financial officer/ director of budget at the Senior Executive Service level,
- involving the line offices in the budget process,
- establishing a budget office division to oversee the corporate-costs process,
- restructuring NOAA's budget to fund executive management and policy direction from Program Support appropriation funds and not from line office assessments, and
- issuing revised indirect cost policies and procedures.

In addition, so that activity-based costing can be used as a methodology for distributing the costs, NOAA contracted with a private firm to define the central administrative services provided to line offices and their associated service costs. The agency has also taken action to establish a Business Management Fund, structured as a working capital fund, as the financing mechanism for the costs.

Despite this progress, NOAA has more to do. In addition to addressing the issues outlined in our audit report, the agency should develop a formal plan to address, as appropriate, each of the as-yet unresolved NAPA report recommendations, which were designed to improve accountability, ensure a clear and formal requirements process, develop a methodology to correlate costs to services provided, and convert nonservice activities, currently funded by assessments, to appropriations-based funding.

RECOMMENDATIONS AND THE AGENCY'S RESPONSE

Overall, NOAA concurred with the findings and recommendations of our audit, but stated that the report does not adequately acknowledge all the work currently under way and near completion. The response noted that many of the problems identified in our report covering FYs 2000 and 2001 had been corrected for the FY 2002 process and that the Business Management Fund division is now guided by principles that will result in converting cost allocation from an assessment-based methodology to an activity-based methodology. NOAA further stated that it is developing a clear and formal requirements process for FY 2004 and had

- established an open corporate-cost development process in which customers participate and support proposals;
- created a charter for the Corporate Board (currently under review by NOAA senior management);
- improved its Corporate Board review process so that it now culminates in final decisions early in the fiscal year;
- developed a funds-control process in OFA that includes monthly budget reports, adherence to a table of organization encompassing OFA's authorized personnel as well as publicly reported year-end closeouts; and
- completed a comprehensive activity-based costing review of all of OFA's services that will align services to customer needs and bill for them accordingly.

(SCIENCE AND TECHNOLOGY AUDITS DIVISION: STD-14427)

TIGHTER MANAGEMENT CONTROLS NEEDED FOR NWS' TRAVEL CARD PROGRAM

The Travel and Transportation Reform Act of 1998 and the Federal Travel Regulation (FTR) mandate that federal employees use a contractor-issued travel card to pay expenses related to official government travel, unless an employee is otherwise exempted.

The Department of Commerce maintains two types of travel card accounts: (1) centrally billed accounts are used by Commerce agencies to obtain travel services from a commercial travel contractor, and the government is liable for these charges; (2) individually billed accounts are issued directly to employees, who are personally responsible for all charges and payments.

We audited a sample of individually billed accounts in NWS headquarters—evaluating transactions made during the 13-month period from February 2001 through March 2002—to determine whether cardholders were complying with the FTR, the *DOC Travel Handbook*, and NOAA-issued travel regulations and policies, and whether NWS' internal controls for the travel card program were adequate and fully implemented. We concluded that most cardholders used their travel cards properly and paid their bills promptly. We did, however, identify several instances of misuse and a number of internal control weaknesses in NWS' oversight of the program, and we made recommendations to resolve these deficiencies.

NOAA—Commerce's largest agency—had 10,275 travel cardholders in December 2001. Forty-two percent of these (4,320) were NWS employees whose annualized cash advances and travel expenses were estimated at \$6.4 million.

- **Unallowable Uses** Our examination of records for 73 cardholders identified 8 who had taken cash advances when not on official travel, including one who obtained advances totaling \$20,600, and another who had withdrawn \$14,300. We also identified 14 employees who used their cards for personal expenses—ranging from dinner to dog kennel fees.
- **Delinquencies** The *DOC Travel Handbook* requires cardholders to pay monthly balances in full no later than 25 calendar days from the closing date of the statement. As of October 1, 2000, 5 of the 536 NWS headquarters accounts were 61 days or more past due, with delinquent balances totaling \$7,863. Between October 2000 and December 2001, 15 headquarters cardholders were 61 days or more past due on amounts ranging from \$6 to \$3,500. However, during our review NWS' chief financial officer revised existing procedures for review of delinquent accounts with the result that by December 2001, only 2 NWS accounts were 61 days or more in arrears (with a total balance due of \$615).

NWS concurred with our recommendations that, among other things, it reinforce the importance of adhering to the FTR and the *DOC Travel Handbook*, take steps to ensure that employees fully comply with these requirements and take action against those who do not, and require cardholders and their supervisors to annually complete refresher training. The agency subsequently issued a memorandum instructing cardholders and their supervisors to follow travel card regulations, including those for new card applications and those for assessing penalties for card misuse. NWS noted that the Department, per the *DOC Travel Card Program Remedial Action Plan*, is revising the existing table of penalties and that NWS will require its financial

management centers to use the revised table once it is issued. (BUSINESS AND TRADE AUDITS DIVISION: BTD-14972)

ACCURACY AND RELIABILITY OF SOME NOAA PERFORMANCE MEASURES ARE QUESTIONABLE

In pursuing its strategic goal to "observe and manage the Earth's environment to promote sustainable growth," the Department of Commerce relies on the work of the National Oceanic and Atmospheric Administration. To support the Department's goal, NOAA established seven performance goals of its own that focus on

a range of environmental research, management, and stewardship activities. Within each of its goals are measures for assessing performance of NOAA programs. Commerce includes the results of these assessments in its annual *Performance & Accountability Report*, which is prepared, in part, to meet requirements of the Government Performance and Results Act of 1993.

As part of our continuing series of performance measurement audits, we evaluated measures for two NOAA goals during this last semiannual period—(1) promote safe navigation and (2) sustain healthy coasts. We assessed NOAA's methods for collecting and reporting performance information and sought to determine whether internal controls over data collection ensured accurate, consistent, and reliable reporting. We found that existing internal controls could not always provide such assurance and noted several other deficiencies common to the measures, including lack of enough relevant detail to make the data clear and useful to interested parties.

Performance Goals

Common Problems	Promote Safe Navigation		Sustain Healthy Coasts		
	Measure		Measure		
	Percent reduction in hydrographic survey backlog (cumulative)	Percent of National Spatial Reference System completed (cumulative)	Number of acres of coastal habitat benefited (cumulative)	Percent of U.S. shoreline/inland areas with improved ability to reduce coastal hazard impacts	Reduced introductions and effects of invasive species in a total of six regions within the U.S.
Results include nonuniform data		●		●	
Results include data from outside reporting period	●	●	●		
Results not reconciled with supporting documentation	●	●	●	●	●
Supporting documentation lacking	●	●			●
Standard verification/validation procedures not documented	●	●	●	●	●
Cumulative resources not linked with annual funding	●	●	●	●	
Discussion of verification procedures unclear	●	●	●	●	●
Additional disclosures needed	●	●	●	●	●

We also identified a number of weaknesses specific to each measure—for example, NOAA's FY 2001 reporting of critical backlog reductions under "promote safe navigation" included miles surveyed outside the backlog area, did not make clear that the results were based on a revised backlog, and counted areas designated for survey by contractors before the surveys were completed.

Because the accuracy and reliability of reported information is largely a function of adequate internal controls, NOAA needs to promptly correct internal control weaknesses and inaccurately stated results. In doing so, it will enhance the credibility and usefulness of the performance information it reports to Congress, OMB, and other stakeholders. NOAA concurred with our recommendations. (FINANCIAL STATEMENTS AUDITS DIVISION: FSD-14998)

PROACTIVE MEASURES NEEDED TO IMPROVE FEDERAL FISHERIES ENFORCEMENT

The Magnuson-Stevens Fisheries Conservation and Management Act of 1976 placed under federal jurisdiction all living and nonliving marine resources within 200 miles of the U.S. coastline in what is now known as the U.S. Exclusive Economic Zone (EEZ). The act instituted a regional system for allocating harvesting rights to domestic fisheries, and gave responsibility for fisheries management to the Secretary of Commerce (through the National Marine Fisheries Service) and eight regional councils. The councils, along with NMFS, prepare management plans that govern domestic fisheries in the EEZ.

The U.S. Coast Guard and NMFS' Office for Law Enforcement (OLE) share responsibility for enforcing federal fishery regulations that result from the fishery management council process. The Coast Guard primarily handles enforcement at sea. OLE focuses on shoreside enforcement, which includes dockside monitoring and investigative work.

We assessed not only OLE's methods of enforcing fishery management plans developed by the councils but also the enforceability of the measures. We examined OLE's role in the council process; the emerging role of coastal states and territories in federal fisheries enforcement; and the status and importance of information sharing within NMFS and across federal and state enforcement agencies. Within each area, we identified a number of concerns that, taken together, may compromise the effectiveness of fisheries enforcement.

SUMMARY OF FINDINGS

Enforceability of fishery management measures. The Magnuson-Stevens Act sets 10 national standards for fishery management plans, but many of the standards address competing interests. For example, the councils and NMFS are charged with preventing overfishing—usually accomplished by limiting some type of fishing activity—while minimizing the economic impacts of restrictions on fishing communities. In trying to meet the national standards and regional fishery priorities, the councils often develop complex plans that contain numerous regulatory exemptions, which both confuse fishers and complicate enforcement.

OLE involvement in the council planning process. Given OLE's substantial fisheries enforcement expertise, its involvement in the council planning process is essential to ensuring that enforcement issues are adequately considered early on. Although OLE representatives are not permitted to sit on a council, they may seek membership on a council subgroup: each has an advisory panel or law enforcement committee or both. However, the role and influence of these groups vary from one council to the next: some meet sporadically, some do not give enough focus to enforcement, and some do not consult with the full council early enough to impact final decision making. By encouraging these groups to meet regularly, seek out multiagency membership, adopt a charter to document their purpose, and request a standing time slot on the full council's meeting agenda, OLE can help enhance their effectiveness—and its own—in communicating enforcement concerns to the full councils.

Use of vessel monitoring systems to police closed areas. Closing areas to certain fishing activities and equipment has proven to be a successful strategy for rebuilding stocks. A number of council plans require fishing vessels to carry a vessel monitoring system (VMS) so that OLE can monitor fishing activity electronically 24 hours a day, 7 days a week. VMS is implemented differently across the country. We noted that NMFS needs to provide leadership to ensure that lessons are learned and VMS best practices are shared across the councils and NMFS regions. In addition, the high cost of VMS, a general industry aversion to such electronic monitoring, and the inequitable distribution of VMS costs have generated some continuing resistance to using the technology. Fishers are well aware that NMFS shares VMS costs in some areas, pays them entirely in others, and looks to fishing vessels to bear all costs in still other fisheries. We also raised the issue that scientific interest in VMS data is growing. Because guidelines for collecting research data are less stringent than those for gathering enforcement information, we were concerned that ships might wind up carrying two sets of VMS equipment—one to collect research, one to collect enforcement information.

Enforceability of Selected Fishery Management Measures

	Methods of Fisheries Enforcement				
	At-sea vessel	At-sea air	Dockside	Complex investigations	VMS
KEY					
×	Impossible or Impractical				
●	Reasonable				
★	Excellent				
FISHERY MANAGEMENT MEASURES					
Closed Seasons - Specific times of the year during which fishing is prohibited.	★	●	●	●	●
Days -At-Sea - A specified number of days that a fishing vessel is absent from port to fish for, possess, or land regulated species.	×	×	●	★	★
Fully Closed Area - Areas of the sea where all vessels are prohibited.	★	★	×	×	★
Gear-Restricted Areas - Areas where the use and/or possession of specific fishing gear is prohibited.	●	●	×	×	×
Gear Regulations - Prohibitions or requirements related to gear. "Gear" includes the methods and tools to harvest the resource, vessels, horsepower, number of traps, and gear modifications used to protect certain marine species (e.g., turtle excluder devices).	★	×	●	●	×
Individual Fishing Quota - Allocation of a specified amount of particular fish species to an individual, vessel, or group of vessels.	×	×	★	●	×
Limiting Amount/Percent Bycatch Landed - Limits on the amount or percentage of nontargeted species allowed on board a fishing vessel.	×	×	×	×	×
Permits - Prohibits fishing for specific species unless authorized by the issuance and possession of a permit.	★	×	★	★	×
Prohibiting Bycatch Retention - Prohibits the retention of nontargeted species aboard fishing vessels.	●	×	★	●	×
Prohibited Species - Prohibits possession or retention of specific species.	●	×	★	●	×
Record Keeping and Reporting - Tracks fishing effort and catch as input to future management decisions (e.g., vessel logbooks).	●	×	●	★	×
Size Restrictions - Prohibits possession of fish below or above a specified size.	★	×	★	●	×
Bag/Possession Limits - Specifies amount of a particular species that may be landed per trip. Low volumes are generally measured by numbers of fish that can be easily counted on-board.	●	×	★	●	×
Trip Limits - Specifies amount of a particular species that may be landed per vessel per trip.	×	×	●	★	×
Vessel Monitoring System - Requires vessels to keep a positioning transmitter (transponder) on board.	★	×	●	★	★

Source: OLE responses to OIG questionnaire, documentation from the Coast Guard and Atlantic States Marine Fisheries Commission, and interviews.

We recommended that NMFS become more proactive in addressing fishers' concerns, develop a strategy for implementing VMS in the various NMFS regions, and establish minimum standards that would satisfy both scientific and enforcement needs for future VMS applications.

Joint enforcement agreements. Congress gave NMFS \$15 million in fiscal year 2001 to fund state assistance with federal fisheries enforcement in the EEZ. OLE transferred these funds to participating states via joint enforcement agreements and currently has such agreements with 20 coastal states and territories. OLE relies on joint agreements to fill some gaps left by shifting federal enforcement priorities. OLE had to develop the program and allocate funding under considerable time constraints and now needs to prepare clear and specific guidance about the program, including federal fishery enforcement priorities and funding options and processes. It also needs to adequately verify and document state-submitted performance information.

Inter- and intra-agency information sharing and cooperation. To have maximum impact on enforcement efforts,

fisheries data should be available to and circulated among all relevant management and enforcement organizations, including the various components of NMFS and federal and state agencies.

NMFS' regional offices, science centers, and fishery observer programs collect a wealth of fishery data within each region—an important resource for identifying potential violations. However, OLE agents cannot quickly access and analyze this data because NMFS' numerous data collection systems do not interface, and some observer program managers are reluctant to share data collected for scientific purposes with enforcement officials. Data sharing between NMFS and the Coast Guard is also hampered by incompatible IT systems. And information exchange between these agencies and their state enforcement counterparts is significantly limited by the Magnuson-Stevens Act.

NOAA fully concurred with our recommendations and is taking a number of actions to address our concerns. (INSPECTIONS AND PROGRAM EVALUATIONS: IPE-15154)

NATIONAL INSTITUTE OF STANDARDS AND TECHNOLOGY

The Technology Administration

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

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

National Institute of Standards and Technology promotes U.S. economic growth by working to develop and apply technology, measurements, and standards. NIST manages four programs: NIST Laboratories, the Advanced Technology Program, the Manufacturing Extension Partnership program, and the Baldrige 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 information collection and dissemination to the public and through information and production services to federal agencies.

As part of its efforts to spur technological development, NIST administers the Advanced Technology Program (ATP) to provide financial assistance through cooperative agreements, with the goal of transferring cutting-edge technology to industrial uses. During this semiannual period we audited costs claimed under three ATP awards. Two of the audits questioned a total of \$11.5 million in costs claimed, of which \$6.5 million were federal funds. The remaining audit recommended that \$300,000 in federal funds be put to better use. Summarized below are the results of the audits.

Audit of California Joint Venture Questions \$9.5 Million in Costs Claimed by the Administrator

NIST awarded an ATP cooperative agreement to a San Jose, California, semiconductor manufacturing corporation as the administrator of a five-member joint venture established to develop a special technology for next-generation lithography. The 4-year award period was from May 1999 through May 2003; total estimated costs for the project were \$41,596,073, with the federal government's share not to exceed \$18,143,595, or 43.6 percent of allowable costs.

We conducted an interim audit of the first 3 years of the award, for which total joint venture costs of \$29,453,333 were claimed, including \$27,538,680 claimed by the administrator.

Our audit questioned \$13,127,470 of the administrator's costs, consisting of \$9,497,053 claimed for equipment produced by the corporation, which was charged to the award at commercial sales prices instead of actual production cost; \$3,599,707 in indirect costs that were calculated using an unreasonable allocation method; and \$30,710 in material and supplies costs that were not adequately supported.

We also found that the administrator's financial management system did not comply with federal requirements. The primary deficiency of the system involved inconsistent treatment of project costs within the division performing work on the project, which resulted in the nearly \$3.6 million of questioned indirect costs noted above. We recommended that NIST disallow all questioned costs, recover \$5,705,751 in excess federal disbursements, and take appropriate action to ensure that the administrator implements an adequate financial management system. (DENVER REGIONAL OFFICE OF AUDITS: DEN-14219)

\$2 MILLION IN INDIRECT COSTS QUESTIONED IN AUDIT OF JOINT VENTURE ADMINISTRATOR

In 1995 NIST made a \$21.3 million ATP award to a Pittsburgh nonprofit corporation acting as administrator of a joint venture developing a searchable multimedia database for the healthcare industry. The award required a combined cost share of \$30 million from joint venture members, bringing total estimated project costs to \$51.3 million. Over the 5-year award period, the administrator claimed \$11.7 million as its total project expenditure, consisting of \$8.6 million in direct costs and \$3.1 million in indirect costs.

A September 2002 OIG audit report (ATL-13993-1, see September 2002 *Semiannual Report to Congress*, pages 41-42) addressed the administrator's claim for direct costs: we questioned approximately \$3.3 million of the \$8.6 million claimed. During this semiannual period, we audited the administrator's indirect costs for the award period, finding that of the \$3.1 million charged to the award, more than \$2 million in indirect costs was improperly claimed. We also found that the administrator had claimed indirect costs on its reimbursement requests to NIST that it knew to be greater than the actual costs incurred. Our specific audit findings were as follows:

- For the 3-year period from July 1996 to June 1999, the administrator claimed indirect costs using a provisional rate that resulted in higher claims than its actual costs could support. We questioned costs of \$1,887,150 for this period.
- For the balance of the award period, the administrator used indirect cost rates approved by the Department of Health and Human Services. However, in our September 2002 audit report we reduced the total direct cost base used to calculate indirect costs for that period, resulting in additional questioned indirect costs of \$145,563.

We recommended that NIST disallow a total of \$2,032,713 in questioned indirect costs and recover \$869,268 in excess federal funds disbursed to the administrator corporation. (ATLANTA REGIONAL OFFICE OF AUDITS: ATL-13993-2)

\$300,000 IN FEDERAL FUNDS PREMATURELY DRAWN DOWN BY ATP RECIPIENT

In October 2001 NIST awarded a \$1.9 million ATP cooperative agreement to a California engineering firm to develop a unique high-speed manufacturing process for a new generation of electrical conductors for power transmission lines.

Our limited-scope audit of the award revealed that the firm had drawn down approximately \$781,000 in award funds between October and December 2002, but used only \$475,000 to cover project costs and could not account for the \$306,000 balance.

We recommended that NIST require the company to immediately repay the government for \$306,447 in award funds that were prematurely drawn down and designate the company as a "high-risk" organization, thereby allowing it to obtain funding only on a reimbursement basis. (ATLANTA REGIONAL OFFICE OF AUDITS: ATL-15922)

AUDIT OF NTIS' FY 2002 FINANCIAL STATEMENTS

The audit of NTIS' FY 2002 financial statements marked the 10th consecutive year of unqualified opinions for the bureau and showed continued improvements in financial management: there were no reportable conditions in the bureau's internal control over financial reporting and no instances of noncompliance with laws and regulations.

WEAKNESS IN GENERAL IT CONTROLS

The auditors' assessment of IT controls associated with NTIS' information systems found that NTIS had resolved four of five weaknesses identified in FY 2001 but noted new weaknesses in five of the six areas noted in the *Federal Information Systems Controls Audit Manual* (FISCAM). Those areas are entitywide security program planning and management, access control, application software development and change control, system software, and service continuity.

These internal control weaknesses threaten 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-15212)

COST-BENEFITS OF NTIS' NEW BUSINESS MODEL REMAIN QUESTIONABLE

As a self-supporting agency, the National Technical Information Service must generate revenue to cover its operating costs. To do so, it leases its database of unclassified scientific, technical, engineering,

and business-related information to vendors, and charges users for its products and services. In an effort to increase demand for, access to, and income from its products, NTIS developed a new business model (see figure) that expands products and services available on the Internet via a “virtual library.” This new component offers abstracts and downloads of reports dated 1997 and later.

We reviewed the financial viability of the new business model and the soundness of its cost and revenue projections, and determined that the model itself was built on assumptions derived from intuitive estimates rather than verifiable forecasting

methods. As a result, NTIS had no hard data to support its projections. Even so, anticipated revenue from the virtual library during its first 3 years of operation is so low that it will do little to improve NTIS’ overall financial position in the short term. Whether the new virtual library will have the anticipated or any positive impact in the long run remains unclear.

In response to our concerns, NTIS has established procedures for monthly assessments of the success of the model and feasibility of its projections. (FINANCIAL STATEMENTS AUDITS DIVISION: FSD-15100)

OLD BUSINESS MODEL	NEW BUSINESS MODEL
NTIS Help Desk: Accepts mail, phone, fax, or e-mail orders from the general public.	Same
<p>Database lease arrangements:</p> <p>a. Commercial entities that pay NTIS annual lease fees and 40% of its customer usage fees.</p> <p>b. Commercial entities that pay NTIS 60% of its customer usage fees. No annual lease fees paid.</p> <p>c. Government agencies that have free access to the database for internal use.</p> <p>d. Universities that use the database for internal use only. Pay NTIS annual lease fees only.</p>	Same
Web access to database: Citations and ordering information on holdings from 1990 to present are available at the NTIS web site.	Same
	NEW SERVICE: Virtual library on NTIS’ web site. Fully annotated post-1996 portion of the NTIS collection provides downloads of reports available in electronic format and links to actual reports offered for free at other agencies’ web sites.



UNITED STATES PATENT AND TRADEMARK OFFICE

AUDIT OF USPTO'S FY 2002 FINANCIAL STATEMENTS

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

USPTO received an unqualified opinion on its FY 2002 financial statements from the independent certified public accounting firm that conducted the audit. The audit identified no reportable conditions in its internal control over financial reporting or instances of noncompliance with laws and regulations. USPTO has received clean opinions for the last 9 years.

INFORMATION TECHNOLOGY CONTROLS

The auditors' review of the bureau's IT controls against the six FISCAM criteria identified two new weaknesses in entitywide security program planning and management and one unresolved issue from FY 2001. A total of six new weaknesses were noted in the areas of access control, change control, and service continuity. (USPTO had fully resolved the other two IT issues from FY 2001, which were in the areas of security controls and unauthorized access.) (FINANCIAL STATEMENTS AND AUDITS DIVISION: FSD-15213)



DEPARTMENT-WIDE MANAGEMENT

OFFICE OF THE SECRETARY'S PURCHASE CARD PROGRAM NEEDS STRONGER MANAGEMENT OVERSIGHT, IMPROVED COMPLIANCE

The United States

Department of Commerce

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

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

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

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

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

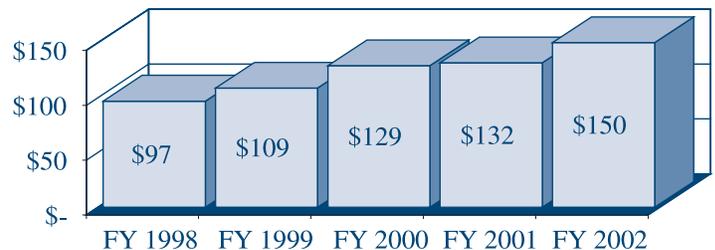
The Commerce Department's purchase card program, established more than 15 years ago, is intended to expedite and simplify small purchases by reducing procurement-related administrative costs and improving management and internal controls. Over the years, purchase cards at the Department have become the primary vehicle for making small purchases: in FY 2001, for example, 91.1 percent of Commerce's 364,345 small purchases were charged to these cards. However, with the simplified process has come greater opportunity for fraud and abuse, as staff who monitor these purchases now scrutinize them after the fact rather than approve them in advance.

The Department's Office of Acquisition Management is charged with overseeing administration of the purchase card program within Commerce and, in turn, has delegated that authority to the Head of the Contracting Office (HCO) for each of its operating units. The Commerce Bankcard Center, in Kansas City, Missouri, is responsible for maintaining purchase card data for all Commerce units, reporting on Department-wide program activity, and administering other program oversight and support functions. HCOs, the Commerce Bankcard Center, approving officials, and cardholders all share responsibility for ensuring that purchase card use complies with requirements of the Federal Acquisition Regulation (FAR) and *Commerce Acquisition Manual*.

From January through August 2002 we audited the Office of the Secretary's (O/S) purchase card program to assess its compliance with departmental policies and procedures and federal laws and regulations. While we noted no evidence of cardholder misuse of funds, we did find instances of noncompliance with provisions of the *Commerce Acquisition Manual*. Taken together, these weaknesses increase the program's vulnerability to fraud and abuse.

O/S generally agreed with the recommendations we made to address our concerns and has initiated action in response to them. Mandatory refresher training for all purchase card holders and approving officials will be provided to ensure they understand the various requirements of the *Commerce Administrative Manual*. In addition, among other things, O/S will review random samples of cardholder accounts on a quarterly basis and report findings of noncompliance; conduct annual reviews of the program; and adopt procedures to ensure that purchases made for entertainment purposes receive prior written approval. Finally, O/S has taken the lead in establishing an intra-departmental cross-functional team intended to further strengthen not only the Department's purchase card program, but

Purchases Through Card Program (in millions)



Source: FY 2002 Performance & Accountability Report: American Jobs, American Values. 2002. U.S. Department of Commerce, p. 381.

also its travel and fleet card programs. (BUSINESS AND TRADE AUDITS DIVISION: BTD-14971)

AUDIT OF DEPARTMENT'S FY 2002 CONSOLIDATED FINANCIAL STATEMENTS

The Department received an unqualified opinion on its consolidated financial statements⁹ for FY 2002—the fourth consecutive year for this achievement. The independent certified public accounting firm that performed the audit noted continuing improvements in Department-wide financial management and progress toward eliminating weaknesses identified in prior years.

The auditors found that the Department had resolved weaknesses in financial reporting capabilities identified at several operating units in FY 2001 and had moved closer to an integrated financial system, having made substantial progress in deploying CAMS at NOAA. However, they noted several problems in the Department's internal control over financial reporting that, taken together, constitute one material weakness and one reportable condition. And they cited several instances of noncompliance with laws and regulations.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The conditions that constitute the material weakness are as follows:

- **General IT Controls** Despite corrective actions to address IT vulnerabilities, the auditors noted that significant weaknesses still exist in Commerce's IT control environment—most notably related to information security. As was the case in last year's audit, the Department's IT controls over financial systems are vulnerable in the six areas 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. These weaknesses threaten the integrity, confidentiality, and availability of financial data processed by departmental systems.

- **Integrated Financial Management System** Commerce still does not fully comply with OMB requirements for a single, integrated financial management system, although progress was made during FY 2002, most notably by NOAA, which converted its legacy system to CAMS in October 2002. However, its accounting system for the audit period, as well as that operated by NIST, was not integrated and required numerous manual adjustments. These two systems process their own financial transactions and those of three other bureaus (NOAA handles BIS; NIST handles NTIA and the Technology Administration). Together, these bureaus accounted for 72 percent of the Department's total consolidated assets as of September 2002. The auditors noted that improving overall system integration will be key to the Department's ability to meet expedited financial reporting due dates in future years. Commerce expects to have CAMS fully implemented by October 2003 and expects that CAMS, when interfaced with the Commerce Corporate Database, will bring the Department into substantial compliance with federal requirements for a single, integrated financial management system.
- **Automated Budgetary Controls** The legacy systems operated by NOAA and NIST did not have procedures or controls to prevent bureau officials from overobligating funds. The bureaus therefore monitored funding availability manually but at points in the process that did not prevent overobligations.

In addition to the material weakness in internal control, the auditors noted the following reportable condition:

- **Accounting for Personal Property** NOAA, which maintains \$3.8 billion of the Department's \$4.5 billion in personal property, was found deficient in the following areas:
 - *Construction work in progress (CWIP)*—NOAA identified \$171.5 million in project costs that had been incorrectly reported as expenses in prior years; failed to adjust its CWIP balances by \$2.6 million to reflect overhead costs; included two projects in both the CWIP and real property accounts; failed to transfer a completed project from the in-progress account and to remove an abandoned project from its CWIP balance; classified as CWIP, projects that were not; and for six projects, did not adequately explain or correctly post CWIP reconciliations.
 - *Personal property ledgers*—Unexplained differences totaling approximately \$3 million existed between NOAA's general and personal property subsidiary ledgers, as did inaccuracies in schedules that roll forward personal property balances.

⁹ The consolidated statements cover all reporting entities within Commerce. However, two of those entities—NTIS and USPTO—were also audited separately; they received unqualified opinions on their FY 2002 financial statements as well (see pages 29 and 31, respectively).

- **Capital leases**—NOAA revised its lease determination worksheets for existing capital asset leases but did not maintain adequate documentation to support the adjustments or properly review the lease calculations. It thus recorded incorrect values of assets acquired through capital leases that ultimately required adjustments of \$1.7 million to personal property capital lease accounts and \$4 million to capital lease liabilities.

- **OMB Circular A-25, User Charges** As noted in prior-year audits, ITA did not fully recover the total cost of providing certain goods and services.
- **Federal Financial Management Improvement Act (FFMIA) of 1996** The Department’s lack of a single, integrated financial management system, inadequate budgetary controls, and weaknesses in IT controls rendered Commerce noncompliant with FFMIA’s requirements for financial management systems.

The appropriate departmental managers reviewed and agreed with all of the findings and recommendations contained in the consolidated audit report.

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 2002 to address noncompliance issues identified in the FY 2001 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. (FINANCIAL STATEMENTS AND AUDITS DIVISION: FSD-15214)

COMPLIANCE WITH LAWS AND REGULATIONS

During FY 2002, the Department’s financial management procedures and systems were noncompliant with the following federal laws and regulations:

- **OMB Circular A-11, Preparation and Submission of Budget Estimates** NOAA again did not fully fund its capital leases during FY 2002, which is contrary to OMB requirements that agencies have sufficient budgetary resources up-front to cover the present value of lease payments for capital assets and lease purchases.

Reported Issue in FY 2001	Status in FY 2002
Material Weakness	
Lack of a single, integrated financial management system and weak IT controls.	Both issues continue to constitute a material weakness.
Reportable Condition	
a. Weak financial reporting capabilities at Census, EDA, and NIST.	a. Resolved.
b. Extensive reconciliations needed to resolve errors in NOAA (CWIP) and Census data provided for inclusion in departmental financial sheets.	b. For Census, no longer a reportable condition. For NOAA, weakness persists and combines with other property-related matters to constitute a reportable condition.
c. Nonautomated budget controls.	c. Weaknesses persist and combine with the material weakness regarding the financial management system.

PREAWARD FINANCIAL ASSISTANCE SCREENING

As part of our ongoing emphasis on prevention of fraud, waste, and abuse, we continue to work with the Office of 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 they are awarded. Our screening serves two functions: it provides information on whether the applicant has unresolved audit findings and recommendations on earlier awards, and it identifies any negative financial or investigative history on individuals or organizations connected with a proposed award.

During this period we screened 525 proposed awards. For 20 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 20 awards. (OFFICE OF AUDITS)

Preaward Screening Results		
Results	Award	
	Number	Amount
Awards delayed to resolve concerns	20	\$6,316,699

NONFEDERAL AUDIT ACTIVITIES

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

We examined 142 audit reports during this semiannual period to determine whether they contained any audit findings related to Department programs. For 115 of these reports the Department acts as oversight agency and monitors the audited entity's compliance with OMB Circular A-133 or NIST's program-specific reporting requirements. The other 27 reports are from entities for which other federal agencies have oversight responsibility. We identified 18 reports with findings related to the Department of Commerce.

Report Category	OMB A-133 Audits	ATP Program-Specific Audits	Total
Pending (October 1, 2002)	42	52	94
Received	70	78	148
Examined	95	47	142
Pending (March 31, 2003)	17	83	100

The following table shows a breakdown, by bureau, of the nearly \$138 million in Commerce funds audited.

Bureau	Funds
EDA	\$ 48,417,099
MBDA	597,874
NIST*	68,628,281
NOAA	3,643,497
Office of the Secretary	337,606
Multiagency	15,125,738
Agency not identified	802,428
Total	\$ 137,552,523

* Includes \$62,352,799 in ATP program-specific audits.

We identified a total of \$2,513,392 in questioned costs. In most reports the subject programs were not considered major programs; thus the audits involved limited transaction and compliance testing against laws, regulations, and grant terms and conditions. The 18 reports with Commerce findings are listed in Appendix B-1. (ATLANTA AND DENVER REGIONAL OFFICES OF AUDITS)

QUALITY CONTROL REVIEWS OF SINGLE AUDITS

The Single Audit Act requires that state and local governments and nonprofit organizations expending \$300,000 or more in federal financial assistance in a single year be audited in accordance with the act and its implementing regulations, OMB Circular A-133. Single audits are generally conducted by either state audit agencies or private certified public accounting firms and play an integral role in the government's efforts to provide oversight and ensure accountability for federal assistance funds. As the audit oversight agency for the Department of Commerce,

we conduct quality control reviews (QCRs) of selected single audits performed on organizations that receive most of their funding from the Department. The objective of a QCR is to determine whether the nonfederal audit was conducted in accordance with *Government Auditing Standards* and Circular A-133 requirements.

Responding partly to recent revelations of serious lapses on the part of public accounting firms, we expanded our QCR program during this semiannual period, conducting quality control reviews of seven single audit engagements. We selected for review the audits of five organizations that administer EDA revolving loan funds because RLFs are particularly vulnerable to fraud, waste, and abuse. The remaining two QCRs examined single audits performed for recipients of NIST Manufacturing Extension Partnership funds.

We found serious deficiencies in the quality of the single audits performed by the CPA firms and made appropriate recommendations to remedy them. The following summarizes our findings for each of the QCRs.

CPA Firm Performs Substandard Audits of Nebraska Organization

A quality control review of a public accounting firm's fiscal year 2000 and fiscal year 2001 audits of an EDA grantee in Nebraska found that, while the firm had conducted the audits according to generally accepted auditing standards, the audits were substandard for purposes of meeting the Single Audit Act and A-133 requirements. Single audits require additional audit procedures to assess the adequacy of internal controls over federal funds and to conduct substantive testing of support for costs charged to major federal programs. The firm failed to perform any of the required procedures. (DENVER REGIONAL OFFICE OF AUDITS: DEN-15506)

Inadequate Audits of South Dakota Grantee Fail to Disclose Federal Reporting Deficiencies

Our quality control review of the fiscal year 2000 and fiscal year 2001 single audits of a South Dakota organization supported by grants from EDA and NTIA found that, although the independent auditing firm's working papers supported its audit reports, the audits were technically deficient in two respects: (1) the schedules of federal awards expenditures were prepared improperly and did not reconcile to the organization's financial statements; and (2) the firm had not conducted a sufficient assessment of the organization's compliance with federal reporting requirements, and therefore failed to detect or disclose

violations in fiscal year 2000. (DENVER REGIONAL OFFICE OF AUDITS: DEN-15507)

Single Audits Not Performed Because CPA Firm Miscalculated Federal Expenditures

Our QCR of the fiscal years 2000 and 2001 audits for an EDA grantee in Central Texas disclosed that the public accounting firm had incorrectly calculated federal expenditures for an EDA revolving loan fund and, consequently, did not conduct the required single audits. As a result, (1) the Schedule of Expenditures of Federal Awards was not prepared and presented, (2) the RLF was not tested as a major program or for adequate internal controls, (3) no risk assessment was conducted, and (4) the audits were not submitted to the Federal Audit Clearinghouse. (DENVER REGIONAL OFFICE OF AUDITS: DEN-15508-1)

The same CPA firm audited an economic development organization with geographic boundaries crossing the Arkansas and Texas state line, which was the recipient of an EDA revolving loan fund grant. Once again, we found that the firm had incorrectly calculated the organization's RLF federal expenditures and did not include the RLF in its single audit, resulting in the same auditing and reporting deficiencies discussed above. (DENVER REGIONAL OFFICE OF AUDITS: DEN-15508-2)

CPA's Deficient Internal Controls Review Fails to Detect Significant Problems

Our QCR of the fiscal year 2001 single audit for an EDA grantee in Western Pennsylvania found that the CPA firm auditing the corporation did not properly evaluate internal controls for 2 of the 14 compliance requirements, resulting in internal control deficiencies not being identified as either reportable conditions or material weaknesses. In addition, the CPA firm failed to use the required A-133 Compliance Supplement to plan and conduct the audit, so that significant audit findings were not appropriately identified or disclosed. We also determined that the CPA firm's working papers required significant improvements to be fully compliant with the standards of both the American Institute of Certified Public Accountants and *Government Auditing Standards*. (ATLANTA REGIONAL OFFICE OF AUDITS: ATL-15546)

Substantial Questioned Costs Go Unreported Because of Deficient Audit

Our quality control review disclosed that a CPA's audit of a Minnesota nonprofit organization operating a NIST MEP

project was substandard and contained significant audit deficiencies, including the failure to disclose certain reportable conditions involving federal financial reporting. Specifically, the audit failed to disclose the organization's improper cost allocation and labor distribution system—which resulted in more than \$1.3 million in questioned costs—or its unreported income—which amounted to more than \$300,000. In addition, the CPA firm did not comply with all applicable review requirements set forth in the Circular A-133 Compliance Supplement. (DENVER REGIONAL OFFICE OF AUDITS: DEN-15500)

Substandard Audit Fails to Disclose Noncompliance with Federal Regulations

A quality control review of a Connecticut nonprofit corporation's fiscal year 2000 single audit revealed that the CPA firm's audit was substandard and did not disclose multiple instances of noncompliance with federal regulations, including the corporation's failure to report \$1,830,577 of program income, inaccurate reporting of program costs, inaccurate accounting for \$177,736 in service provider discounts, and an unallowable \$50,000 stock purchase. (DENVER REGIONAL OFFICE OF AUDITS: DEN-15501)



OFFICE OF INSPECTOR GENERAL

OIG LOGO UNVEILED

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

This *Semiannual Report to Congress* is the first to carry the Office of Inspector General emblem—our newly developed visual identifier that symbolizes our duty to promote economy, efficiency, and effectiveness, and prevent and detect fraud and abuse in programs and operations of all the bureaus and units of the U.S.

Department of Commerce. We chose the emblem's design, which differs markedly from other Commerce bureau emblems, to convey our unique role within the Department and our combined auditing, evaluative, and investigative duties. Commerce activities encompass the gamut of public and economic interests worldwide—from measuring population growth and well-being to monitoring natural resource management to supporting national and global commercial and manufacturing endeavors. Our emblem depicts this all-encompassing range of activities and our responsibility for assessing them. The emblem will appear on our publications and other OIG media to readily distinguish our work from that of other Commerce entities.



IN THIS SECTION

The audits and inspections detailed throughout this semiannual report were complemented by a vigorous investigative agenda, which resulted in numerous judicial and administrative actions. We discuss those activities in the following pages. We also summarize the reporting requirements for this report, as specified by the Inspector General Act of 1978, as amended (page 42), and present tables and appendixes listing the statistical details of our work (page 44).



OFFICE OF INVESTIGATIONS

OIG's Office of Investigations (OI) investigates allegations of fraud and other wrongdoing that impact 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.; Silver Spring, Maryland; Denver, Colorado; and Atlanta, Georgia, OI works closely with the Department of Justice and with U.S. Attorney 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 IG investigations of employee misconduct are provided to agency officials to support appropriate disciplinary and administrative actions.

During this semiannual reporting period, OIG investigations led to seven arrests, seven convictions, and the filing of indictments, informations, or criminal complaints against nine individuals. In addition, there were nine personnel actions taken by the Department as a result of OI casework.

Investigative Statistical Highlights

Criminal Investigative Activities

Arrests	7
Indictments/informations	9
Convictions	7
Personnel actions*	9
Fines, restitutions, judgments, and other civil and administrative recoveries	\$39,762

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

Allegations Processed

Accepted for investigation	62
Referred to operating units	47
Evaluated but not accepted for investigation or referral	45
Total	154

INVESTIGATIVE HIGHLIGHTS

Following are some of the highlights of our investigative activity over the past 6 months.

RLF Grant Fund Administrators Indicted

On March 24, 2003, special agents from Commerce OIG, the Federal Bureau of Investigation, the Small Business Administration OIG, and Internal Revenue Service Criminal Investigations arrested four individuals in Massachusetts following their indictment for misuse of EDA and other federal grant funds administered by a municipal economic development organization. Among other activities, the organization operates an EDA-funded revolving loan fund and a Small Business Administration loan program. The organization's two administrators and a board member, along with its outside auditor, were charged in an 88-count indictment with conspiracy, federal program fraud, false statements, and money laundering. According to the indictment, the four conspired to embezzle organization funds through a variety of schemes, including the diversion of funds from the EDA RLF to the administrators and their business associates. The indictment also charged that an auditor hired by the fund administrators provided false statements to the government to conceal the illegal activities of the fund administrators. (WASHINGTON FIELD OFFICE OF INVESTIGATIONS)

Former Census Employee Enters Guilty Plea for Accepting a Bribe

In our March 2001 semiannual report (page 79), we reported on the indictment of a former community partnership specialist in the Census Bureau's Dayton, Ohio, regional office, which arose out of a joint OIG/FBI investigation: the partnership specialist had misused his position to solicit and receive \$1,700 from four vendors in exchange for favorable treatment in purchasing promotional items for the 2000 Decennial Census campaign. Under the terms of a plea agreement, on November 8, 2002, the defendant was convicted in U.S. District Court for the Southern District of Ohio on one count of violating 18 U.S.C. § 201, based on his acceptance of an illegal gratuity. Sentencing is scheduled for spring of 2003. (WASHINGTON FIELD OFFICE OF INVESTIGATIONS)

Commercial Service Foreign National Employee Removed

OIG, the FBI, and Department of State Diplomatic Security Service jointly investigated allegations that a foreign service national (FSN) employee of the U.S. and Foreign Commercial

Service at a U.S. embassy in Europe had solicited and accepted cash payments from an American company as consideration for the official act of organizing a promotional activity to market the company's services in the country. The investigation disclosed that the employee had solicited and accepted an \$1,100 cash payment in violation of embassy procedures for the receipt and disbursement of funds. When subsequently interviewed, the employee admitted accepting the cash, and claimed that he had used it to pay another national, not employed by the U.S. government, to participate in promotional activities for the company. As a result of the investigation, the employee was terminated in December 2002 under Department of State procedures for the removal of FSN employees. The grounds supporting the termination included indiscretions affecting the conduct of the embassy's mission, misappropriation and improper disbursement of funds, misrepresentation or concealment of material facts, and misuse of official authority. (WASHINGTON FIELD OFFICE OF INVESTIGATIONS)

Former ITA Employee Arrested for Misuse of Government Purchase Card

In February 2003 a former ITA employee was arrested and charged in the Superior Court of the District of Columbia with credit card fraud. The charge was based on OIG investigative findings, which documented that the employee had used her government purchase card to acquire goods and services for personal use worth more than \$2,000. On March 17, 2003, the former employee entered into a pretrial diversion agreement, by which she agreed to perform 40 hours of community service and make restitution to the government. The employee resigned from the Department of Commerce in January 2003. (WASHINGTON FIELD OFFICE OF INVESTIGATIONS)

Former NOAA Employee Convicted on Wire Fraud Charges

In our September 2002 semiannual report (page 37), we reported the arrest of a former finance accounting technician at NOAA's Mountain Administrative Support Center following her indictment in the District of Colorado on six counts of wire fraud. The charges were based on an OIG investigation, in which it was disclosed that the individual had manipulated the accounting system to make it appear that approximately \$19,000 of legitimate agency expenses were being paid, when in reality, the payments were made to cover her personal credit card charges. The defendant pleaded guilty to all six counts in October 2002. On February 21, 2003, she was sentenced to 4 years' probation and ordered to make full restitution to the government. (DENVER FIELD OFFICE OF INVESTIGATIONS)

NOAA Contract Employee Arrested in Connection with Misuse of Fleet Card

On March 7, 2003, special agents from the Commerce and General Services Administration OIGs arrested a contract employee at the NOAA facility in Silver Spring, Maryland. The arrest was made after discovery of a scheme through which the contract employee allegedly charged more than \$6,000 in fraudulent purchases to a GSA Fleet Vehicle Fuel Card. As part of the scheme, a number of people obtained gasoline for their personal vehicles at the government's expense. The contract employee was charged in the U.S. District Court for the District of Maryland with one count of theft of government property. (SILVER SPRING FIELD OFFICE OF INVESTIGATIONS)

Former National Weather Service Employee Pleads Guilty to Misusing a Government Purchase Card

In February 2003, a former NOAA employee pleaded guilty in U.S. District Court for the Eastern District of Virginia to one count of theft of government property. The plea followed a joint OIG/FBI investigation into allegations that the employee, while an administrative assistant with the National Weather Service, had misused a government purchase card to acquire items for personal use. Records obtained in the investigation showed a long-term pattern of government credit card abuse, resulting in the unauthorized purchase of more than \$70,000 worth of personal items. The employee has resigned from government service. Sentencing is scheduled for spring of 2003. (WASHINGTON FIELD OFFICE OF INVESTIGATIONS)

Fraudulent Use of Government Purchase Card Ends in Theft Conviction

On January 29, 2003, a former USPTO automation clerk pleaded guilty in U.S. District Court for the Eastern District of Virginia to a one-count criminal information charging her with theft of government property. The plea was the result of an OIG investigation, which disclosed that the former employee had used her supervisor's government purchase card number to make unauthorized purchases totaling more than \$2,000 for her personal benefit. Sentencing is scheduled for spring of 2003. (SILVER SPRING FIELD OFFICE OF INVESTIGATIONS)

Falsified Time and Attendance Records Result in Theft Conviction

In the last issue (September 2002, page 48) we reported the filing of a criminal complaint against a former USPTO employee based on the results of an OIG investigative disclosure that, in her role as office timekeeper, she had inflated her reported hours of work over a 7-month period to obtain approximately \$7,000 in salary payments to which she was not entitled. On November 18, 2002, the defendant was convicted in U.S. District Court for the Eastern District of Virginia on one count of theft of government property. On February 11, 2003, she was sentenced to 1 year supervised probation, conditioned on 20 days' incarceration, and 4 years' unsupervised probation. In addition, the court ordered her to pay restitution to the government in the amount of \$5,930. (SILVER SPRING FIELD OFFICE OF INVESTIGATIONS)

OCIO Supervisor Reminded of Policy on Referrals to OIG

We investigated allegations that a supervisor in the Office of the Chief Information Officer (OCIO) had directed her subordinates not to contact OIG regarding herself or another supervisor, and had attempted to learn the source of an anonymous allegation previously made to OIG. During our investigation it was disclosed that the supervisor had made comments that could be interpreted by OCIO employees as threats of retaliation for reporting matters to OIG, in violation of statutory and administrative prohibitions. Based on the results of the investigation, the supervisor was reminded that employees are not to restrict other employees' communications with OIG. (WASHINGTON FIELD OFFICE OF INVESTIGATIONS)

Misrepresentation of Status as OIG Employee Leads to Conviction

On January 6, 2003, a former OIG employee, now working in private industry, pleaded guilty to a one-count misdemeanor charge of violating 18 U.S.C. § 712 (misuse of names, words, emblems, or insignia) after our investigation confirmed that he had falsely represented himself as an OIG employee in telephone conversations and e-mail in an attempt to obtain proprietary information from a business competitor. Sentencing is scheduled for spring of 2003 in U.S. District Court for the District of Columbia. (SILVER SPRING FIELD OFFICE OF INVESTIGATIONS)

ADDITIONAL INVESTIGATIVE ACTIVITIES

During the past 6 months OI has conducted outreach activities within Commerce that focused on informing Department personnel about our investigative role and educating employees to recognize and report suspected fraudulent activity related to their programs. OI is also planning to conduct proactive investigative activities to identify fraud and program weaknesses. This approach is consistent with our statutory responsibility to detect and prevent fraud and promotes interaction with the Department's operating components. In addition, OI is continuing to partner with the various operating units in Commerce and OIG to ferret out fraud and address systemic problems that impede the efficacy of departmental programs.

In addition to conducting criminal, civil, and administrative investigations that directly impact the Department of Commerce, OIG special agents have assisted other law enforcement agencies in a variety of ways this year, as highlighted below.

OIG Participates in Sniper Investigation

During the fall of 2002 the Washington, D.C., metropolitan area was plagued by what appeared to be random shootings by a serial killer. In response to the killings, the FBI established a Sniper Tip-Line that received, documented, and promptly forwarded leads and other intelligence to the appropriate investigating agencies. The Tip-Line enabled the public to quickly report information that would lead to the identification and apprehension of those responsible for the shootings. Commerce OIG and other federal, state, and local law enforcement personnel staffed the FBI Sniper Tip-Line in support of what has been described as the most intensive multiregional investigation ever undertaken in the metropolitan area.

Carjacking Suspect Apprehended by OIG and FBI Agents

In December 2002 local law enforcement authorities notified OIG and FBI agents working in Florida that a suspect in a recent carjacking had been last seen in their vicinity. While driving in the identified area, the agents observed an individual fitting the suspect's description and apprehended and detained the individual

until local law enforcement authorities arrived to take custody. The local authorities reported that the suspect was a known gang member and had several outstanding felony warrants.

Robbery Suspect Arrested

An OIG investigation of an individual suspected of theft disclosed that the individual had an outstanding robbery warrant in Georgia. Using a variety of traditional and sophisticated

investigative techniques, the OIG agent assigned to the case located the suspect and advised the Atlanta Police Department of the suspect’s whereabouts. The police arrested the individual on the robbery warrant without incident.

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

REPORTING REQUIREMENTS

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

Section	Topic	Page
4(a)(2)	Review of Legislation and Regulations	42
5(a)(1)	Significant Problems, Abuses, and Deficiencies	12-37
5(a)(2)	Significant Recommendations for Corrective Action	12-37
5(a)(3)	Prior Significant Recommendations Unimplemented	42
5(a)4	Matters Referred to Prosecutive Authorities	12-37
5(a)(5) and 6(b)(2)	Information or Assistance Refused	43
5(a)(6)	Listing of Audit Reports	44-50
5(a)(7)	Summary of Significant Reports	12-37
5(a)(8)	Audit Reports—Questioned Costs	45
5(a)(9)	Audit Reports—Funds to Be Put to Better Use	46
5(a)(10)	Prior Audit Reports Unresolved	43
5(a)(11)	Significant Revised Management Decisions	43
5(a)(12)	Significant Management Decisions with which OIG Disagreed	43

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 it explained whether adequate progress is being made to implement each agreed-upon corrective action. Management updates the Department's Audit Tracking System annually, based on status reports due from the bureaus in mid-October. The last update was as of September 30, 2002. 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 a decision has not been made, and a statement concerning the desired timetable for delivering a decision on each such report.

As of March 31, 2003, the following single audit report was unresolved for more than 6 months:

Questioned Costs for State of Nebraska Total \$616,611

An OIG review of the FY 2001 single audit report for the state of Nebraska (listed in our September 2002 report, page 69,

ATL-09999-2-1114) questioned a total of \$616,611 in costs charged to a NIST cooperative agreement. The costs were questioned because the state did not report actual expenditures on federal reports and, as a result, received excess federal funds. The report also contained some nonfinancial findings. NIST and OIG are actively working to resolve this audit as expeditiously as possible.

SECTION 5(a)(11): SIGNIFICANT REVISED MANAGEMENT DECISIONS

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

TABLES	PAGE
1. Audit Resolution Follow-Up .....	.44
2. Audit and Inspection Statistical Highlights for this Period .....	.45
3. Audits with Questioned Costs .....	.45
4. Audits with Recommendations that Funds Be Put to Better Use .....	.46
APPENDIXES	
A. Report Types this Period .....	.47
A-1. Performance Audits .....	.47
A-2. Financial-Related Audits .....	.48
A-3. Financial Statements Audits .....	.48
A-4. Quality Control Reviews .....	.49
A-5. Inspections and Systems Evaluations .....	.49
B. Processed Reports .....	.50
B-1. Processed Financial-Related Audits .....	.50

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, 2002) for which no management decision had been made by the end of the period (March 31, 2003). One NIST audit report remains unresolved for this reporting period (see page 43).

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

Table 1. Audit Resolution Follow-Up

Report Category	Modifications	Appeals
Actions pending (October 1, 2002)	0	8
Submissions	0	13
Decisions	0	8
Actions pending (March 31, 2003)	0	13

Table 2. Audit and Inspection Statistical Highlights for this Period

Questioned costs	\$9,246,105
Value of audit recommendations that funds be put to better use	\$14,454,402
Value of audit recommendations agreed to by management	\$15,827,347
Value of inspection recommendations that funds be put to better use	\$323,366

DEFINITIONS OF TERMS USED IN THE TABLES

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

documentation; or (3) a finding that an expenditure of funds for the intended purpose is unnecessary or unreasonable.

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

Recommendation that funds be put to better use: an OIG recommendation that funds could be used more efficiently if Commerce management took action to implement and complete the recommendation, including (1) reductions in outlays; (2) 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.

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

Table 3. Audits with Questioned Costs

Report Category	Number	Questioned Costs	Unsupported Costs
A. Reports for which no management decision had been made by the beginning of the reporting period	30	\$ 10,742,091	\$ 4,742,041
B. Reports issued during the reporting period	19	9,246,105	2,202,809
Total reports (A+B) requiring a management decision during the reporting period ¹	49	19,988,196	6,944,850
C. Reports for which a management decision was made during the reporting period ²	33	11,523,494	5,271,005
i. Value of disallowed costs		7,401,692	2,838,929
ii. Value of costs not disallowed		4,668,417	2,455,201
D. Reports for which no management decision had been made by the end of the reporting period	16	8,464,702	1,673,845

¹Five audit reports included in this table are also included among reports with recommendations that funds be put to better use (see table 2). However, the dollar amounts do not overlap.

²In 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.

Table 4. Audits with Recommendations that Funds Be Put to Better Use

Report Category	Number	Value
A. Reports for which no management decision had been made by the beginning of the reporting period	10	\$ 9,904,829
B. Reports issued during the reporting period	9	14,454,402
Total reports (A+B) requiring a management decision during the reporting period ¹	19	24,359,231
C. Reports for which a management decision was made during the reporting period ²	10	9,904,829
i. Value of recommendations agreed to by management		8,425,655
ii. Value of recommendations not agreed to by management		1,567,723
D. Reports for which no management decision had been made by the end of the reporting period	9	14,454,402

¹Five 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.

²In 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.

Appendix A. Report Types this Period

Type	Number of Reports	Appendix Number
Performance audits	6	A-1
Financial-related audits	18	A-2
Financial statements audits	6	A-3
Quality control reviews	7	A-4
Inspections and systems evaluations	5	A-5
Total	42	

Appendix A-1. Performance Audits

Report Title	Report Number	Date Issued	Funds to Be Put to Better Use
International Trade Administration			
International Trade Administration's Market Access and Compliance Unit Successfully Recruited for Trade Compliance Positions	ESD-15499-3-0001	3/31/03	—
National Oceanic and Atmospheric Administration			
Improvements Needed in the Reporting of Performance Measures Related to Promoting Safe Navigation and Sustaining Healthy Coasts	FSD-14998-3-0001	2/28/03	—
NOAA's "Corporate-Costs" Process Needs Improvement	STD-14427-3-0001	3/10/03	—
Travel Card Program at National Weather Service Headquarters Needs Additional Management Controls	BTD-14972-3-0001	3/18/03	—
National Technical Information Service			
National Technical Information Service's New Business Model	FSD-15100-3-0001	12/31/02	—
Office of the Secretary			
Office of the Secretary's Oversight of Its Purchase Card Program Needs Heightened Monitoring and Enforcement	BTD-14971-3-0001	3/28/03	—

Appendix A-2. Financial-Related Audits

Auditee	Report Number	Date Issued	Federal Amount Questioned Costs	Federal Amount Unsupported Costs	Funds to Be Put to Better Use
Economic Development Administration					
Community Investment Corporation of Decatur, Inc., IL	DEN-15184-3-0001	2/6/03	\$ 44,536	\$ 44,536	\$ 1,689,393
City and County of San Francisco, CA	DEN-15183-3-0001	2/7/03			2,027,326
Northwest Regional Planning Commission, WI	DEN-15308-3-0001	3/7/03			260,236
South Carolina Jobs-Economic Development Authority	ATL-14915-3-0001	3/25/03			606,790
City of Baldwin Park, CA	DEN-15181-3-0001	3/28/03			708,711
Alaska Village Initiatives	DEN-15182-3-0001	3/28/03			324,587
Anacostia Economic Development Corporation, DC	ATL-15124-3-0001	3/31/03			601,618
Empire State Development Corporation, NY	ATL-15390-3-0001	3/31/03	145,583		7,929,294
National Institute of Standards and Technology					
Allegheny-Singer Research Institute, PA	ATL-13993-3-0002	3/27/03	832,145	832,145	
W. Brandt Goldsworthy & Associates, Inc., CA	ATL-15922-3-0001	3/27/03			306,447
KLA-Tencor Corporation, CA	DEN-14219-3-0001	3/31/03	5,710,499	13,359	

Appendix A-3. Financial Statements Audits

Report Title	Report Number	Date Issued
National Technical Information Service		
Improvements Needed in the General Controls Associated with NTIS' Financial Management Systems	FSD-15212-3-0001	12/30/02
Financial Statements Fiscal Year 2002	FSD-15212-3-0002	1/9/03
Office of the Secretary		
Department of Commerce's Fiscal Year 2002 Consolidated Financial Statements	FSD-15214-3-0002	1/16/03
Review of IT Controls to Support the FY 2002 Consolidated Financial Statement Audit	FSD-15214-3-0001	1/21/03
United States Patent and Trademark Office		
Improvements Needed in the General Controls Associated with USPTO's Financial Management Systems	FSD-15213-3-0001	12/30/02
Financial Statements Fiscal Year 2002	FSD-15213-3-0002	1/9/03

Appendix A-4. Quality Control Reviews

Report Title	Report Number	Date Issued
Economic Development Administration		
Hanigan Bjorkman Ecklund LLP, for audit of Nebraska Economic Development Corporation for the years ended September 30, 2001 and 2000	DEN-I5506-3-0001	3/12/03
McGladrey & Pullen, LLP, for audit of Black Hills Community Economic Development, Inc., for years ended June 30, 2001 and 2000*	DEN-15507-3-0001	3/12/03
Pattillo, Brown & Hill, LLP, for audit of Central Texas Economic Development District for years ended December 31, 2001 and 2000	DEN-15508-3-0001	3/14/03
Pattillo, Brown & Hill, LLP, for audit of Ark-Tex Council of Governments for the year ended September 30, 2001	DEN-15508-3-0002	3/14/03
Maher Duessel, CPAs for the single audit of the Regional Development Funding Corporation for fiscal year ended September 30, 2001	ATL -15546-3-0001	3/24/03
National Technical Information Service		
Kostin, Ruffkess & Company, LLC, for the single audit of Connecticut Technology Associates, Inc., for year ended June 30, 2000	DEN-15501-3-0001	3/26/03
KPMG, LLP, for single audit of Minnesota Technology, Inc., for fiscal year ended June 30, 2001	DEN-15500-3-0001	3/27/03

* Black Hills Community Economic Development, Inc., was funded by both EDA (\$1,024,106) and NTIA (\$505,061) for years ended June 30, 2001 and 2000. However, this report is listed under EDA because all the findings were related to EDA funding.

Appendix A-5. Inspections and Systems Evaluations

Report Title	Report Number	Date Issued
Bureau of Industry and Security		
Improvements Are Needed to Better Enforce Dual-Use Export Control Laws	IPE-15155	3/31/03
Stronger Management Controls Are Needed for BIS' Export Enforcement Firearms Program	IPE-15155-1	3/14/03
Memo on CIA-Export Enforcement Issues	IPE-15155-3	3/17/03
International Trade Administration		
The Commercial Service Needs to Improve Management of its Operations in Turkey	IPE-15370	3/14/03
National Oceanic and Atmospheric Administration		
NMFS Should Take a Number of Actions to Strengthen Fisheries Enforcement	IPE-15154	3/31/03

Appendix B. Processed Reports

The Office of Inspector General reviewed and accepted 142 financial-related audit reports prepared by independent public accountants and local, state, and other federal auditors. The reports processed with questioned costs, recommendations that funds be put to better use, and/or nonfinancial recommendations are listed in Appendix B-1.

Agency	Audits
Economic Development Administration	.62
Minority Business Development Agency	.2
National Institute of Standards and Technology*	.51*
National Oceanic and Atmospheric Administration	.6
Office of the Secretary	.2
Multiagency	.18
Agency not identified	.1
Total	.142

*Includes 47 ATP program-specific audits.

Appendix B-1. Processed Financial-Related Audits

Auditee	Report Number	Date Issued	Federal Amount Questioned Costs	Federal Amount Unsupported Costs
Economic Development Administration				
City of Swainsboro, GA	ATL-09999-3-1195	11/21/02	\$ 105,791	
Skagit Council of Governments, WA	ATL-09999-3-1193	1/31/03	674,857	
Northwest Regional Planning Commission, WI	ATL-09999-3-1273	1/31/03	13,320	
The Quileute Tribe, WA	ATL-09999-3-1374	3/31/03	26,267	26,267
National Institute of Standards and Technology				
eCollege.com, CO	ATL-09999-3-1159	10/24/02	1,145,575	1,145,575
Engelhard Corporation, NJ	DEN-09999-3-0782	10/30/02	113,051	
Apex Medical, Inc., MA	DEN-09999-3-1067	11/20/02	105,321	
General Motors Corporation, MI	ATL-09999-3-0553	11/21/02		
General Motors Corporation, MI	ATL-09999-3-0554	11/21/02		
Infigen, Inc., WI	ATL-09999-3-1206	11/21/02	33,597	
Imation, Corp., MN	DEN-09999-3-1018	12/19/02	149,612	102,312
Imation, Corp., MN	DEN-09999-3-1019	12/19/02		
AviGenics, Inc., GA	DEN-09999-3-1075	2/19/03	8,596	
UOP LLC, IL	DEN-09999-3-0768	3/12/03	14,616	
Arkansas Science and Technology Authority	ATL-09999-3-1175	3/31/03	56,662	38,615
St. Jude Medical, Inc., MN	DEN-09999-3-0766	3/31/03	25,627	
Office of the Secretary				
Minority Access, Inc., MD	ATL-09999-3-1383	3/31/03	24,348	
Minority Access, Inc., MD	ATL-09999-3-1384	3/31/03	16,152	

ACRONYMS USED IN THIS REPORT

ATP	Advanced Technology Program
BIS	Bureau of Industry and Security (formerly Bureau of Export Administration)
CAMS	Commerce Administrative Management System
CFO/ASA	Chief Financial Officer and Assistant Secretary for Administration
COOP	continuity of operations plan
COTR	contracting officers' technical representative
CPA	certified public accountant
CWIP	construction work in progress
DOC	Department of Commerce
EAR	Export Administration Regulations
EDA	Economic Development Administration
EEZ	Exclusive Economic Zone
ESA	Economics and Statistics Administration
FAR	Federal Acquisition Regulation
FFMIA	Federal Financial Management Improvement Act
FISCAM	Federal Information Systems Controls Audit Manual
FISMA	Federal Information Security Management Act
FMC	Fisheries Management Council
FSN	foreign service national
FTR	Federal Travel Regulation
GAO	General Accounting Office
GISRA	Government Information Security Reform Act
GPRA	Government Performance and Results Act
GSA	General Services Administration
HCO	Head of Contracting Office
HSPD	Homeland Security Presidential Directive
IA	Import Administration
ICASS	International Cooperative Administrative Support Services
IG	inspector general
IT	information technology
ITA	International Trade Administration
MAC	Market Access and Compliance
NAPA	National Academy of Public Administration

Acronyms Used in This Report

NCIC	National Crime Information Center
NDAA	National Defense Authorization Act
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
OAM	Office of Acquisition Management
OCIO	Office of Chief Information Officer
OEE	Office of Export Enforcement
OFA	Office of Finance and Administration
OI	Office of Investigations
OIO	Office of International Operations
OIG	Office of Inspector General
OLE	Office of Law Enforcement
OMB	Office of Management and Budget
O/S	Office of the Secretary
QCR	quality control review
RLF	revolving loan fund
SAC	special agent in charge
US&FCS	U.S. and Foreign Commercial Service
USPTO	U.S. Patent and Trademark Office
VMS	vessel monitoring system

Types of OIG Audits

For the federal government, OIGs must ascertain program viability from a variety of perspectives. The various kinds of audits, evaluations, inspections, and investigations at our disposal afford the IG's office a comprehensive view of Commerce programs and operations. Thus we are able to provide program managers with reviews and recommendations that are both objective and inclusive and can be used to aid them in ensuring the most efficient and effective use of taxpayer dollars.

AUDITS

Performance Audits address the efficiency, effectiveness, and economy of the Department's programs, activities, and information technology systems. They may check a unit's compliance with laws and regulations, and evaluate its success in achieving program objectives.

Financial-Related 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 projects achieved the intended results.

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

INSPECTIONS

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

EVALUATIONS

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

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

INVESTIGATIONS

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

In Memoriam

This semiannual report is dedicated to the memory of Special Agent Robert A. Brent. Bob came to the Department of Commerce Office of Inspector General in 1987 from the General Services Administration, and in his 16 years with OIG he proved himself to be a loyal, dedicated, and thoroughly dependable employee and friend. As a special agent for OIG, he performed complex investigations in virtually all Department of Commerce bureaus. His work took him to locations all across the country—from Alaska to Montana to Louisiana. After the tragic events on September 11th, Bob spent several weeks in New York City investigating leads and assisting with evidence recovery at ground zero, the World Trade Center. In March 2003 we recognized Bob with the highest award the Inspector General can bestow—a Bronze Medal—for his successful completion of an embezzlement investigation that uncovered systemic vulnerabilities in the Department's financial controls and resulted in the conviction of a former Commerce employee and restitution of more than \$30,000 to the federal government.





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