



# **SEMIANNUAL REPORT TO CONGRESS**

**MARCH 2007**



**IG's  
Semiannual  
Report  
to Congress**

**March 2007**





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

March 31, 2007

The Honorable Carlos M. Gutierrez  
Secretary of Commerce  
Washington, D.C. 20230

I am pleased to submit this *Semiannual Report to Congress*, which details the work and activities of the Office of Inspector General for the 6-month period October 1, 2006, through March 31, 2007. The Inspector General Act of 1978 requires that we prepare this report twice each year to summarize our assessments of Commerce operations and that you transmit it, with any comments you may wish to add, to Congress within 30 days of receiving it.

During this reporting period, we began a number of key reviews and concluded others that address some of the top operational priorities my office shares with you and Deputy Secretary Sampson. These include our nearly completed assessments of (1) the causes and impacts of lost laptops at the Census Bureau, initiated at your request, and (2) the bureau's 2006 test of its planned approach for enumerating historically undercounted American Indian reservations. We detail our audit of EDA's multimillion-dollar revolving loan fund program. We also report on three of the Department's trade-related activities—Commerce's interagency trade promotion efforts, the Bureau of Industry and Security's export control program for India, and Commercial Service's trade operations in Brazil. And we recount our reviews of various NIST and NOAA operations, including the severe weather warning procedures at NOAA's National Weather Service in relation to a deadly tornado that struck a Minnesota city and killed a young girl.

This *Semiannual Report* also summarizes the outcome of the Department's FY 2006 financial statements audit. I commend your senior officials for maintaining a clean opinion once again and for the improving status of internal IT controls over financial reporting systems.

Finally, we report on our prevention efforts—among them our work helping NTIA ensure a proposed grant recipient has the proper systems and procedures in place to carefully manage some \$30 million in federal funds. And we detail the results of several internal control reviews and audits of financial assistance programs, as well as our latest investigations.

Please accept my thanks for your continued support of the work of my office, and for the willingness of your senior managers to partner with us in pursuit of strong, sound operations Department-wide.

Sincerely,

A handwritten signature in blue ink that reads "Johnnie Frazier".

Johnnie E. Frazier





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# IG's MESSAGE TO CONGRESS

This past February, the President's Council on Integrity and Efficiency, in its annual *Progress Report to the President*, detailed potential savings of roughly \$17 billion resulting from IG work in FY 2006. This is one repeat finding the IG community takes great pleasure in sharing. Every year since we began submitting these progress reports, inspectors general have consistently shown the combined annual impact of our work to be in the billions of dollars.

But these numbers tell only part of the story. What they don't convey is the harder to quantify effect of our proactive collaboration with our respective agency officials: working together up front to ensure proposed policies and programs are sound, we avert the potential loss or misuse of perhaps billions more. And this effect can reach beyond federal coffers to include protection of individual citizens' resources.

is impenetrable to unauthorized users, and flexible enough to accommodate the ever-changing requirements of secure electronic data exchange.

## Looking Toward Leadership

As for the variety of other work we initiated or completed during this semiannual period, we are already seeing the promise of huge paybacks in terms of dollars saved or more effectively spent as Commerce officials respond to our findings with a commitment to shoring up weaknesses and implementing change. One such finding that has emerged as a theme in several of our reviews, past and present, is the need for strong leadership direction and oversight in some of the Department's most critical and costly endeavors. We reported in our September 2006 *Semiannual Report* how poor oversight from top officials responsible for NOAA's National Polar-orbiting Operational

*I have had the privilege of serving as IG at the Department of Commerce for nearly a decade, and in all that time—though challenges and priorities have shifted focus—one thing has remained constant: the commitment to ensuring sound departmental operations and providing excellent public service that my office and senior Commerce officials have always shared.*

Our evaluation of laptop security and accountability—initiated during this semiannual period at Secretary Gutierrez's request—is a good example of this latter point. These days, maintaining the confidentiality of personal data has become a paramount concern for public and private organizations alike, as data breaches and identity theft have reached inconceivable levels. At Commerce, the disappearance of several hundred Census laptop computers, many of which contained sensitive data, has raised concerns on two fronts: first, where was the breakdown in personal property accountability that allowed these losses to occur? Second, did the laptops have adequate data access controls to prevent compromise of the information they carried? Our evaluation of these issues, when completed, will offer the Secretary, Department officials, and Congress a set of actions for preventing future losses of both the physical equipment and the sensitive data. In the case of information security, these actions must promote a computing environment that

Environmental Satellite System contributed to huge cost overruns and delays.

Leadership issues are without question at the heart of the ineffective management of EDA's revolving loan fund program. We detail in this semiannual report the findings of our comprehensive review of the program, in which we documented long-standing, systemic failings in regional and headquarters management and oversight that have translated into a history of recipients' poor accountability for funds, noncompliance with reporting and auditing requirements, and gross underutilization of available capital, among other things. We also uncovered a huge discrepancy between the value of the RLF portfolio as reported by EDA in 2003 and the value documented by available records. (See page 27.)

EDA officials have long been aware that this program is seriously troubled and have worked in good faith to

address the issues. They have been most receptive to the recommendations in our recent report and have committed to implementing them. We will continue to monitor EDA's efforts to do what is necessary to improve management of the program.

## Balancing Trade Promotion and Control

This semiannual report also details our work pertaining to several of Commerce's trade-related activities:

**Export Controls.** We completed our final export control review, as mandated by the National Defense Authorization Act of FY 2000, this time evaluating the effectiveness of dual-use controls over exports to India. (See page 19.) We identified several areas of concern that could inadvertently facilitate the transfer of controlled items to unacceptable end users or for prohibited purposes. We reported our findings to agency officials and Congress in both classified and unclassified documents for their consideration as the nation continues to relax its trade policies with India.

**Interagency Trade Coordination.** In response to a request from Congress, we reviewed Commerce's efforts to promote trade and coordinate these activities with other agencies, identifying a number of areas in which improved collaboration would likely enhance overseas trade prospects for U.S. exporters. (See page 37.)

**Commercial Service Operations in Brazil.** Continuing our series of Latin American post inspections, we assessed the effectiveness of Commercial Service posts in Brazil. (See page 33.) While finding sound operations overall, we noted the same weaknesses in performance reporting that were prevalent at the bulk of overseas and domestic trade offices we have visited during the past 5 years. ITA and Commercial Service must fine-tune their metrics for export success reporting to ensure the data conveys an accurate picture of an individual post's effectiveness in expanding U.S. commercial interests abroad.

## Assessing Policies, Procedures, and Internal Controls

Finally, during this reporting period, we concluded a number of audits, such as those described below,

involving Commerce policies, procedures, and internal controls, as well as agency adherence to them.

Our annual financial statements audits again rendered clean opinions for both the Department and USPTO, though deficiencies in information technology controls persist. (See pages 57 and 53, respectively.) But both reduced the number of weaknesses noted in last year's audits and continue to improve the overall IT control environment.

We audited the Department's internal controls for "premium class" (i.e., first and business class) air travel and noted numerous policy and procedural deficiencies that require management attention. (See page 55.)

And in response to a request from Congress, we reviewed the National Weather Service's handling of its tornado warning responsibilities in relation to a deadly tornado that struck Rogers, Minnesota, last fall. (See page 41.) Overall, we found that NWS followed policies and procedures but noted a few factors that may have adversely affected its performance in dealing with the complex weather conditions that existed on the day in question.

## Sharing a Commitment to Excellence

I have had the privilege of serving as IG at the Department of Commerce for nearly a decade, and in all that time—though challenges and priorities have shifted focus—one thing has remained constant: the commitment to ensuring sound departmental operations and providing excellent public service that my office and senior Commerce officials have always shared. This is evident in the Department's traditional willingness to work with us, its track record for accepting and implementing the vast majority of our recommendations, and its openness to alternative solutions for those instances in which we disagree.

The work contained in this *Semiannual Report* reaffirms our shared commitment. I thank Secretary Gutierrez, Commerce managers at all levels, and Congress for their support of this partnership and its promise of good government.

# MAJOR CHALLENGES FOR THE DEPARTMENT

This section highlights the Top 10 Management Challenges that faced the Department at the close of this semiannual period. Each challenge meets one or more of the following criteria: (1) it is important to the Department's mission or the nation's well-being, (2) it is complex, (3) it involves sizable resources or expenditures, or (4) it requires significant management improvements. Because of the diverse nature of Commerce activities, these criteria sometimes cut across bureau and program lines. Experience has shown that by aggressively 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. Control the cost and improve the accuracy of the decennial census.
2. Strengthen Department-wide information security.
3. Effectively manage departmental and bureau acquisition processes.
4. Strengthen internal controls over financial, programmatic, and business processes.
5. Ensure that USPTO uses its authorities and flexibilities as a performance-based organization to achieve better results.
6. Effectively manage the development and acquisition of environmental satellites.
7. Promote fair competition in international trade.
8. Effectively manage NOAA's stewardship of ocean and living marine resources.
9. Aggressively monitor emergency preparedness, safety, and security responsibilities.
10. Enhance export controls for dual-use commodities.

## Challenge 1

### Control the Cost and Improve the Accuracy of the Decennial Census

At an estimated cost of \$11.5 billion, the 2010 census will be the country's most expensive decennial ever, both per capita and overall. The Census Bureau's redesigned decennial plan, established after the 2000 census, is heavily dependent on automating critical field operations to accurately count the nation's population within budget. The bureau has established an ambitious testing schedule to monitor development and implementation of the strategy, identify problems, and incorporate solutions in time for 2010.

During the past year, we reviewed various aspects of the bureau's 2006 test held in Travis County, Texas, and the Cheyenne River Reservation and Off-Reservation Trust Land in South Dakota.

### Automating Address Canvassing

In our March 2006 *Semiannual Report* (page 19), we described our review of Census's test of automated address canvassing—an operation designed to keep the bureau's address file and digital map database current and complete. During address canvassing, temporary staff equipped with handheld computers go into the field to verify, update, add, or remove addresses; add and delete streets to correct computer maps; and annotate address locations on the maps. The information they collect has a direct bearing on the bureau's ability to accurately count the population.

We found several problems that undercut the value of the canvassing test, most notably, unreliable handheld computer functions, including the GPS capabilities; inaccurate maps; insufficient quality

control training; and an inadequate focus on outreach. We concluded that the bureau only partially achieved its test objectives and could have earned a better return on its investment if it had fielded more reliable handheld computers, tested areas where the postal service delivery of questionnaires could potentially replace bureau delivery to reduce costs, evaluated outreach efforts aimed at the hard-to-enumerate American Indian population, and assessed the viability and cost-benefits of its decision to canvass nearly every household in the country in 2010.

The Census Bureau concurred with some of our findings and recommendations, but took issue with others. In particular, the bureau disagreed that valuable learning opportunities were missed, that unreliable handheld computers interfered with the test, and that an analysis of the costs and benefits of 100 percent address canvassing should be performed and less costly alternatives considered.

## Improving Group Quarters Enumeration

Although most U.S. residents live in residential housing units such as single-family houses, apartments, and mobile homes, more than 7 million people live in college dormitories, nursing homes, prisons, and group homes, collectively known as group quarters. In our September 2006 *Semiannual Report* (page 21), we reported on our review of the group quarters testing operation in Travis County, Texas—an ideal test location because it is home to four universities and colleges, a state prison, and numerous other group living facilities.

We found that the bureau continues to face a number of challenges in enumerating group quarters. For example, (1) nontraditional student housing, such as private dorms and student cooperatives, did not easily fit into any of Census's group quarters definitions, and so some were not enumerated; (2) 42 percent of the validation workload was associated with large apartment complexes erroneously identified as potential group quarters during address canvassing, which caused problems in group quarters validation and nonresponse follow-up; (3) a number of group quarters were not on the

final enumeration list, while others were duplicates—appearing on both the enumeration and housing unit lists or twice on the enumeration list.

We recommended that Census take additional steps to count the student population, such as working closely with fraternity and sorority campus oversight organizations and exploring the use of the Internet as a response option for this computer-oriented generation. Finally, we noted that some additional group quarters processes and procedures warrant management attention.

## Counting American Indians on Reservations

We recently concluded fieldwork on one final 2006 test operation: update/enumerate at the Cheyenne River Reservation—an effort designed to reduce the historic undercount of American Indians living on reservations. Update/enumerate is used in communities where residents are less likely to return a completed questionnaire, so enumerators go door to door to collect census information in person and update the address lists and maps.



U.S. Census Bureau

*In 2005 some 4.5 million people—or 1.5 percent of the total U.S. population—identified themselves as American Indian and Alaskan Native (either alone or in combination with other races). These populations have been historically undercounted in decennial censuses. The Census Bureau is modifying its traditional approach to enumerating Native Americans for the 2010 census in hopes of getting a more accurate count.*

We are preparing to issue our draft report to Census officials, in which we will detail our recommendations for improving reservation enumerations. We will discuss our final report in our September 2007 *Semiannual Report to Congress*.

## Protecting Confidentiality

Public cooperation is essential to the bureau's ability to improve the accuracy of the decennial census and successfully conduct its other surveys. But most people are willing to cooperate only if assured that the sensitive personal information they share is protected. Unfortunately, the recent, well-publicized loss of hundreds of Census laptops and unauthorized release of personal data on a bureau web site is likely to undermine trust.

Our office, at the request of Secretary Gutierrez, is assessing the bureau's property management policies and practices as well as its controls for protecting sensitive personal information in light of the laptop losses. We will report our findings during the next semiannual period.

## OIG Planning: 2008 Census Dress Rehearsal and 2010 Decennial Census

The bureau has one final opportunity to test and improve its decennial design and methods before conducting the 2010 census—the 2008 dress rehearsal. Slated for Stockton, California, and Fayetteville, North Carolina, and a number of surrounding counties, the dress rehearsal will execute nearly all planned operations and procedures under conditions as close to those of the actual decennial as possible. This is a huge and critical undertaking, and key to the success of 2010.

The Office of Inspector General has undertaken a comprehensive planning effort to determine how to best utilize our limited resources in conducting effective oversight and providing Census with the most meaningful feedback on dress rehearsal operations during the time remaining in this decennial cycle. We began the decade by first

considering key concerns discussed in our summary report on Census 2000 (*Improving Our Measure of America: What Census 2000 Can Teach Us in Planning for 2010*, OIG-14431). Numerous topics emerged from our extensive work since—evaluations of the master address file, TIGER® maps, handheld computers, and components of the 2004 and 2006 census tests. Considering the results of this prior work and the bureau's goals of reducing costs and improving accuracy and timeliness, we have identified and prioritized over 50 areas for potential review, including various Census operations, large contracts, internal controls, new major systems, and budgetary matters. We will seek input from the Department, the Census Bureau, and Congress in finalizing our agenda for the remainder of the decade and look forward to further contributing, through our work, to a successful 2010 decennial census.

## Challenge 2

### Strengthen Department-Wide Information Security

Information security remains at the forefront of the challenges facing most federal agencies, as they endeavor to protect critical assets and sensitive information in the ever-changing online world. Last year, 19 federal agencies reported IT security breaches and loss of sensitive personal information in incidents dating back to 2003, the result of unauthorized system access or—in the case of stolen laptops—lax personal property controls.<sup>1</sup> Increasing use of mobile devices and expanding remote access privileges are but two of the trends reshaping the way government conducts business that require vigilant, proactive, and ever-more creative security solutions.

Since enactment of the Federal Information Security Management Act (FISMA) in 2002, agencies have spent millions of dollars to improve the security of information stored on their computer systems and shared via the Internet. Yet weaknesses persist and

<sup>1</sup> <http://oversight.house.gov/Documents/20061013145352-82231.pdf>

breaches continue. At Commerce, IT security has been a material weakness since 2001.

### What Is C&A and Why Does It Matter?

**Certification** is a comprehensive assessment of security controls implemented in a computer system. It determines whether controls are implemented correctly, operating as intended, and meeting the security requirements for the system. Through the formal assessment of controls, the system certifier identifies any vulnerabilities that have not been eliminated by security controls.

**Accreditation** is management's formal authorization to allow a system to operate. It includes an explicit acceptance of the risks posed by any identified remaining vulnerabilities. Through accreditation, senior agency officials take responsibility for the security of systems they manage and for any adverse impacts should a breach in security occur.

The Department's certification and accreditation (C&A) process is the reason for the material weakness. According to NIST guidance, authorizing officials must have complete, accurate, and trustworthy information on a system's security status in order to make timely, credible, risk-based decisions on whether to authorize its operation. This information is produced by the system security certification process. Our reviews of the Department's C&A packages continue to find a C&A process that does not adequately identify and assess needed management, operational, and technical security controls. As a result, authorizing officials do not have the information they need to make sound accreditation decisions.

To improve C&A, Commerce's Office of the Chief Information Officer (OCIO) began reviewing C&A packages in FY 2005, working with the bureaus to improve noted deficiencies and forwarding packages considered acceptable for high- or moderate-impact

systems<sup>2</sup> to OIG for FISMA review. (Nearly 80 percent of Commerce's 300 systems are either moderate or high impact.)

Although progress is slow, we are seeing improvements. Overall, security plans are better identifying system components (e.g., firewalls, routers, switches, servers). And we have seen significant advances in assessing security controls for several systems. C&A of contractor systems remains an issue, as none we reviewed last fiscal year met the requirements of Commerce's IT security policy and applicable NIST standards and guidance.

This fiscal year, we have redoubled our efforts to convey C&A problems and needed fixes to CIOs, senior officials, authorizing officials, and system owners throughout the Department. This dialogue has already begun to pay off by prompting greater management attention to IT security and better understanding of C&A requirements, challenges, and responsibilities. Senior officials better appreciate the rigor of the C&A process and the need to ensure that government personnel developing the packages, as well as the contractors supporting them, have the necessary knowledge and skills.

### Lost Laptops Prompt Department-wide Security Fix

In September 2006, the Department reported that 1,138 laptop computers had been lost or stolen over the past 5 years, and more than 20 percent contained sensitive personal data. In October it reported that 297 instances of compromise had occurred since 2003, involving laptops, handheld devices, and thumb drives. Publicized breaches in the security of personally identifiable information have prompted

<sup>2</sup> In accordance with NIST's Federal Information Processing Standards (FIPS) Publication 199, agencies must categorize their IT systems and data as high, moderate, or low impact according to the potential harm to an agency's mission that system compromise or unauthorized data disclosure would cause. For example, a system that processes routine, nonprivate administrative information is considered low impact. A system that processes statistical data based on personally identifiable information is considered moderate impact, and a system that is used for emergency or disaster response is considered high impact.

new OMB requirements for protecting this information and a new policy at Commerce. OMB requires that all mobile computing devices encrypt sensitive data and that agencies report related security breaches to the U.S. Computer Emergency Readiness Team (US-CERT) within 1 hour of discovering them. Under the Department's new policy, only laptops equipped with approved encryption software may store personally identifiable information. Carrying this information on thumb drives, CDs, and similar devices has been restricted. Challenge 1 (page 3) on the decennial census describes the work we are doing in response to the Secretary's request to assess the security controls on Census laptop computers and other mobile devices. This evaluation is near completion and will be discussed in detail in our next *Semiannual Report*.

In January, Commerce began a Department-wide project to encrypt all laptops as quickly as possible. By mid-March, four operating units (including OIG) had encrypted their entire inventory of laptops; two had requested waivers; and the remaining agencies had various completion dates, the latest being June 1. The Department has also instituted procedures for reporting security incidents involving sensitive data to US-CERT within the 1-hour deadline.

Finally, responding to OMB requirements, Commerce is working toward "two-factor authentication" for accessing agency IT systems, which would use a biometric identifier, such as a fingerprint, along with a password, and would require that sensitive data extracted from agency databases be erased from the downloading computer within 90 days of the download.

### Challenge 3

## Effectively Manage Departmental and Bureau Acquisition Processes

With Commerce spending nearly \$2 billion a year on goods and services, the potential for waste, fraud, or abuse looms large within the Department. OIG continues to closely monitor procurement processes

in the bureaus and at the departmental level. Recent OIG audits and evaluations have identified the need for improvements in acquisition planning, to include accurate independent cost estimates, effective market research, and full and open competition whenever possible.

Part of the challenge facing the Department in this area is the high turnover in upper management contracting positions at several of its agencies. Continuity and consistency in contracts management and oversight are essential to ensuring the government gets what it pays for in these complex, costly acquisitions—and that services are delivered on time and within budget. But the obstacles to achieving these goals are steadily increasing, and with them, the demands on contracts personnel. The Department needs a plan to replace the lost talent and develop and retain staff already on board to provide the high-level management expertise and consistency needed.

### New Contract Audits Division

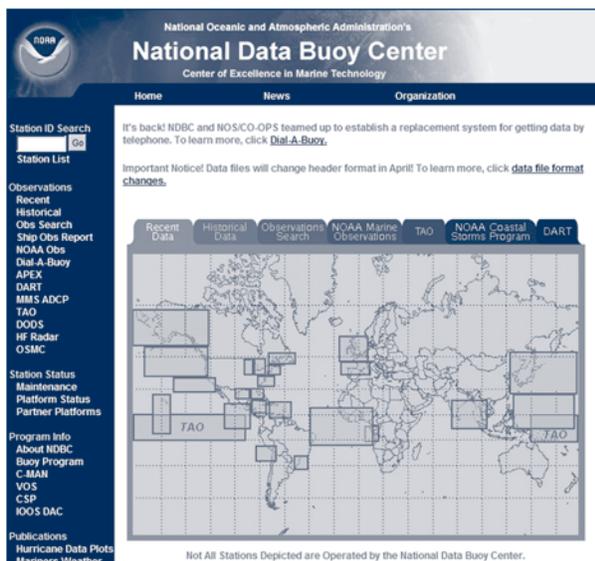
To enhance our oversight of Commerce's acquisition activities, we have established a contract audits division to focus on them. The division will audit individual contracts and look at crosscutting acquisition issues to identify opportunities to improve departmental and bureau procurement policies and to minimize the likelihood of fraud, waste, and abuse. It will also look for and report on best practices and innovative approaches that can be adopted Department-wide.

The division's initial area of emphasis will be the Census Bureau's procurement of products and services to support the 2010 decennial census. The bureau estimates that 17 percent (\$1.9 billion) of its 2010 budget will be spent on contracts for information technology systems, advertising, and leases for local office space. Contract audits staff is currently monitoring Census's efforts to procure advertising and other communications services. These are considered essential to the bureau's efforts to lower operational costs by obtaining a high return rate for mailed questionnaires and thereby

minimizing the number of households that require nonresponse follow-up.

Census issued a request for proposals for communications services in January 2007 and plans to award a single indefinite delivery/indefinite quantity contract, with maximum costs capped at \$300 million, in the fall of 2007. We are monitoring the progress of this procurement, and plan to pay close attention to its management at every phase. Among other things, we will focus on how Census measures the contractor's performance and whether it uses award fees appropriately.

Other contracts of interest to OIG include one issued by NOAA's National Data Buoy Center, a part of the National Weather Service that designs, develops, operates, and maintains a network of data-collecting buoys and coastal stations. In 2005 the center awarded a 10-year contract worth up to \$500 million for technical services support for its marine observation network. OIG plans to review NOAA's management of this contract, as well as its oversight of the associated tasks performed to maintain and repair data buoys and other observation platforms for marine weather forecasting.



[www.ndbc.noaa.gov/](http://www.ndbc.noaa.gov/)

## Challenge 4

### Strengthen Internal Controls over Financial, Programmatic, and Business Practices

Internal controls are the steps agencies take to make sure their operations are effective, efficient, and in compliance with laws and regulations. Internal controls also ensure that financial reporting is reliable and assets are safeguarded from waste, loss, or misappropriation.

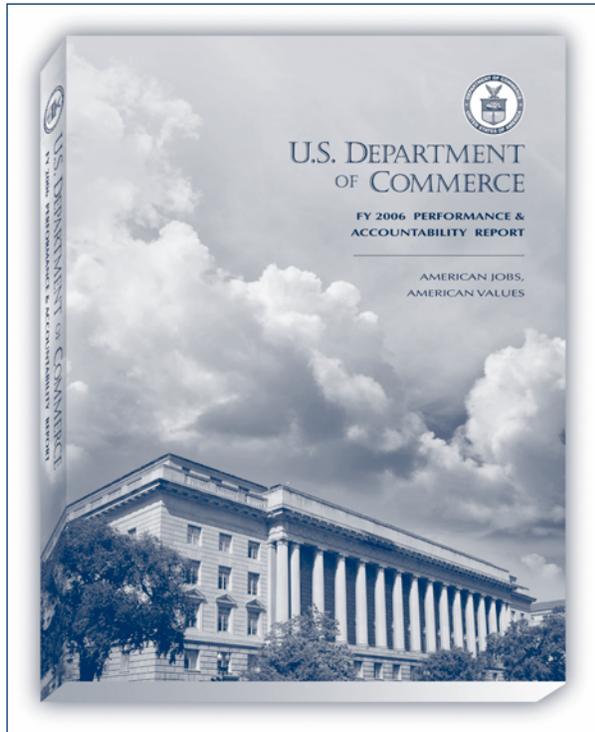
Under OMB's revised Circular A-123, agencies in FY 2006 began implementing new internal accounting controls and since FY 2004 have had to issue audited financial statements within 45 days of the fiscal year's close. Commerce has met this deadline both years, and has continued to receive a clean opinion on its consolidated statements (see page 57).

These are no small accomplishments. In the years since passage of the 1990 Chief Financial Officers Act, Commerce has been chipping away at financial management problems, overhauling accounting practices, and consolidating an array of legacy financial systems into one. The result has been a more integrated system designed to give agency managers current, accurate information with which to make decisions.

The next step is government-wide integration. In 2006, under an initiative known as Financial Management Line of Business, OMB began requiring all agencies—when upgrading their financial systems—to consolidate their core financial operations (accounting, payments, and recording) with those of other agencies, either by using shared service providers or becoming shared service providers themselves. The goals of the initiative are to standardize systems, promote seamless data exchange, improve the quality and efficiency of financial operations, reduce costs, and eliminate redundancy.

Agencies have until 2015 to move to or become shared service providers. They must begin reporting in June 2007 how well their financial services perform as part of the Financial Management Line of

Business, using metrics OMB published March 30, 2007. These evaluations will serve as blueprints for identifying needed internal control improvements and the steps required to migrate to shared services.



*The Department outlined its strategy for implementing the Financial Management Line of Business initiative in its FY 2006 Performance & Accountability Report.*

Planning for the transition at Commerce is under way. The Department is, among other things, upgrading its financial applications software and consolidating these applications to one data center using a common hardware platform. It is seeking contractor support for a comprehensive financial management modernization project<sup>3</sup> that will achieve Line of Business goals, including those for facilitating strong internal controls, reducing costs, standardizing systems and business processes, and allowing seamless data exchange with other federal agencies. This is a huge, critical undertaking that we plan to carefully monitor.

<sup>3</sup> [www.fbo.gov/spg/DOC/OS/OAM-OSBS/Reference%2DNumber%2DMARKET%2DRESEARCH%2D02232007/SynopsisR.html](http://www.fbo.gov/spg/DOC/OS/OAM-OSBS/Reference%2DNumber%2DMARKET%2DRESEARCH%2D02232007/SynopsisR.html)

## Ensuring Sound Management of New NTIA Programs

The Digital Television Transition and Public Safety Act of 2005 requires the FCC to auction recovered analog spectrum and deposit the proceeds into a special fund. A portion of the proceeds will be used to fund many new programs within the National Telecommunications and Information Administration. Under the act, NTIA, one of the Department's smaller agencies, is slated to manage up to nine new programs, two of which have potential combined budgets totaling \$2.5 billion (a grant program for interoperable communications and a converter box coupon program).

Successfully implementing these new programs will constitute a significant management challenge for the Department. We are sharing our expertise with NTIA to help it design strong, well-structured programs that minimize opportunities for fraud. During this period, we examined certain aspects of the accounting system and financial records of a broadcasting consortium slated to receive a \$30 million grant under the act. We provided agency management with information it could use to ensure the grantee's accounting structure complied with federal requirements and supported appropriate use of federal funds prior to the funds' disbursement. (See page 47.) We are also monitoring the agency's implementation of the converter box program and the interoperable communications grant program.

## Evaluating Program and Accountable Property Controls

Commerce also needs to strengthen internal controls for select programs and administrative operations. For example, a recent review of the Department's Federal Employees Compensation Act program found a variety of problems caused by poor internal controls, including people who were overpaid or who remained on workers' compensation rolls for years without medical justification.

During this semiannual period, our audits of EDA's revolving loan fund program and the Department's

management of premium-class travel revealed numerous deficiencies in program controls. We also began looking at the Census Bureau's accountable property management policies and practices, at the Secretary's request, in light of the loss of several hundred laptops. Because the design and implementation of program and property controls can significantly impact the effectiveness of departmental operations, we expect that this area will remain an important aspect of our audit and inspection work.

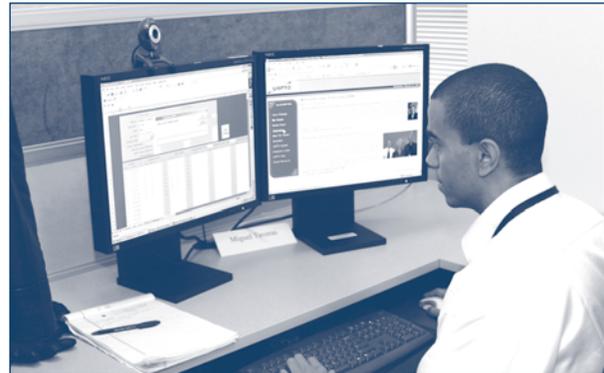
## Challenge 5

### Ensure that USPTO Uses Its Authorities and Flexibilities as a Performance-Based Organization to Achieve Better Results

USPTO's operations and practices have been a strong focus of our work since March 2000, when the Patent and Trademark Office Efficiency Act transformed the agency into a performance-based organization that operates like a private corporation. We have issued nearly a dozen reports since that time, examining a host of administrative, program, and operational issues. One particularly troubling area has been human resources: our reviews of the agency's HR office have identified some questionable practices and the need for improved management controls and policies.

Strong HR operations are essential at an agency hiring hundreds of new patent examiners each year to reduce a backlog of unexamined patent applications that has reached historic proportions, and pursuing alternative work arrangements to enhance productivity and improve staff retention. These initiatives raise other areas of concern. For example, USPTO continues to expand its telework program, allowing hundreds of patent examiners to use laptops to work at offsite locations. The findings of lost laptops and data security problems at other Commerce bureaus underscore the need for strong policies, procedures, and controls at USPTO to avoid

similar problems and the potential compromise of sensitive patent information.



USPTO

*Patent examiners at USPTO use a dual-monitor setup to improve efficiency.*

The long-standing and growing backlog highlights other issues for USPTO and OIG attention: the need to expedite a fully electronic patent examination process and to carefully monitor the agency's billion-dollar investment in high-risk time and materials and award fee contracts for related information technology services. Our review last year of NOAA's multibillion-dollar award fee contract for satellites revealed the pitfalls of these arrangements and the potential for huge cost overruns. (See September 2006 *Semiannual Report*, page 29.) OIG may conduct reviews of selected USPTO contracts to ensure vendors are complying with contract terms and conditions, containing costs, and delivering the required services on time.

During this semiannual period, we reviewed USPTO's procurement process to learn whether the agency's acquisition criteria have changed since the Patent and Trademark Office Efficiency Act took effect. We noted several areas that could benefit from improved guidance, particularly with regard to applying the *Patent and Trademark Office Acquisition Guidelines*. We also found data input errors that could have been prevented with better controls. (See page 53.)

## Challenge 6

### Effectively Manage the Development and Acquisition of Environmental Satellites

Over the next 5 years, NOAA will spend several billion dollars in contracts for the purchase, construction, and modernization of environmental satellites. These systems, operated by the National Environmental Satellite, Data and Information Service (NESDIS), collect data to provide short- and long-range weather forecasts and a variety of other critical environmental and climate information.

#### GOES-R Costs, Schedule, and Capabilities Are Being Redefined

In the next decade, the geostationary operational environmental satellite R series (GOES-R) will replace the existing GOES satellites. The new series will have enhanced sensing capabilities that are expected to offer an uninterrupted flow of high-quality data to support weather forecasting, severe storm detection, and climate research vital to public safety. GOES-R is a multicontract, multiyear program wholly funded by Commerce, though the new satellites will be developed and acquired with help from NASA Goddard Space Flight Center.

The Department's investment for GOES-R for fiscal years 2006 to 2010 is projected to be about \$2 billion. Planning for the new series has been under way for the past 6 years. During this semiannual period, we conducted fieldwork in conjunction with our joint review of the GOES-R program with NASA's Office of Inspector General. Our shared objective is to determine whether the Department and NASA have created a management structure to ensure effective oversight of the many risks associated with the GOES-R program. At Commerce, the oversight component of our work is looking at the Department and NOAA's efforts to establish effective monitoring organizations, policies, and procedures and the mechanisms NOAA will use to leverage NASA's oversight expertise. We are also examining

whether program staff report significant issues to senior Department and NOAA oversight officials in a timely fashion and whether those officials take appropriate action.

Our acquisition focus is on the program office's overall approach to procuring key satellite instruments, identifying potential risks, and implementing associated mitigation strategies. We are also assessing the acquisition contracts' award fee plans to determine whether they are structured to promote excellent performance.



[www.photolib.noaa.gov/htmls/spac0107.htm](http://www.photolib.noaa.gov/htmls/spac0107.htm)

*Over the next 5 years, NOAA will spend several billion dollars in contracts for the purchase, construction, and modernization of environmental satellites. Above, the predawn launch of a NOAA satellite.*

NASA OIG plans to determine whether NASA program management councils effectively identify and review program issues and progress, and whether procedures and processes are in place to recognize, mitigate, and report technical risks in accordance with NASA policy.

The Department, NOAA, and NASA, as part of detailed risk reduction activities, have been

restructuring major aspects of the program in response to input on costs and technological risks provided by independent review teams and contractors. These changes include the following:

- Reductions in system capabilities to contain unacceptable costs and risks.
- Modifications to the satellite architecture, necessitating approximately \$18 million in rework by the program definition contractors.
- A revised acquisition strategy that, instead of having one prime contractor with end-to-end responsibility for the entire system, now awards separate contracts for the spacecraft and ground segments and relies on the government to furnish the instruments.

NOAA and NASA have also been negotiating a memorandum of understanding defining the authorities and responsibilities of each organization for the management, development, acquisition, and integration of GOES-R, which they had expected to complete by the end of last calendar year. A draft was provided for departmental review in early January. It offers a high-level outline of responsibilities but defers the specifics to the GOES-R management control plan, which is to be approved by NESDIS and Goddard within 90 days of the memorandum's signing.

We are concluding our fieldwork and expect to report recommendations for improving the Department's satellite acquisition processes and oversight in the next semiannual period.

## **NPOESS Problems Increase Pressure for Strong Agency Oversight**

Our September 2006 *Semiannual Report* (page 29) detailed the findings of our audit of the National Polar-orbiting Operational Environmental Satellite System (NPOESS). Our findings revealed how far afield satellite procurement projects can run when management oversight slides. This has put new pressure on agency officials and program planners to have strong mechanisms in place for tracking every

phase of the program to contain costs and promptly mitigate problems.

NPOESS—a joint project of NOAA, NASA, and the Department of Defense—will be a critical element in the nation's ability to provide continuous weather and environmental data for civilian and military needs through the coming 2 decades.

In November 2005, Defense reported that NPOESS costs had grown by 25 percent over original estimates—triggering congressional recertification of the program under the Nunn-McCurdy provision of the FY 1982 National Defense Authorization Act. In addition to the staggering cost increases, the program was running 17 months behind schedule yet the contractor had received \$123 million in incentive payments. Our audit uncovered two overarching management and contract weaknesses that contributed to the unchecked cost and schedule overruns: first, the NPOESS Executive Committee—top leaders from the three agencies charged with overseeing the project—never challenged optimistic assessments of the impact of technological problems. Second, the contractor received excessive award fees despite problems.

In June 2006, the House Science Committee accepted a triagency proposal to continue the program, but with four satellites instead of six. The first satellite will launch in 2013 rather than 2010, as proposed in the original program. Total acquisition costs were revised from the original estimate of \$6.4 billion to \$11.5 billion to support NPOESS satellite coverage through 2026.

As a result of our audit, NOAA agreed to institute regular internal program reviews as well as annual and ad hoc independent program assessments, revise the award fee plan to better link award fees with desired outcomes, and assign responsibility for determining fee awards to an official who does not directly manage the NPOESS program.

## Challenge 7

### Promote Fair Competition in International Trade

The Department of Commerce accomplishes its goals of promoting trade, opening overseas markets to American firms, and protecting U.S. industry from unfair trade practices primarily through the work of the International Trade Administration. ITA also works with USPTO and NIST to assist U.S. companies with intellectual property rights and standards. Over the past several years, OIG has focused a number of reviews on the Department's efforts to increase U.S. market opportunities, provide assistance to U.S. exporters, and overcome trade barriers in difficult foreign markets.



In September 2006, ITA's Commercial Service (CS) responded to OIG recommendations regarding U.S. trade

promotion efforts in China and India by announcing extensive changes in its procedures for verifying export success claims, its primary performance measure. CS stated that the new procedures were necessary because, in a significant number of cases, OIG had found discrepancies in the reported export successes. These discrepancies raised doubts about the integrity of the data CS reports to Congress and the administration on its accomplishments. The new CS procedures require improved documentation, supervisory confirmation of a sample of export success reports, and verification that CS provided value-added assistance.

### Interagency Trade Coordination

In response to a request from members of the U.S. House of Representatives, including the then-chairman of the Small Business Committee, we reviewed various aspects of Commerce's trade promotion efforts and the coordination of those efforts among various offices within Commerce and with other federal and state agencies and other trade partners. We found effective collaboration on trade

promotion in many instances, but we also identified areas where Commerce and members of the interagency Trade Promotion Coordinating Committee could enhance their cooperation on specific trade promotion activities, such as trade finance assistance. In addition, our review of the Department's Internet resources for exporters found that Commerce could better organize its online content and consolidate information from other agencies to provide a one-stop source of U.S. government trade leads and other export assistance. (See page 37.)

### U.S. Trade Promotion in Latin America

During this semiannual period, we issued our report on CS' posts in Brazil and received an action plan on our report about its posts in Argentina and Uruguay. (About half of the recommendations we made have been satisfied. Only seven remain open, and we have asked for a follow-up status report by June 30.) Significant export opportunities are opening in these countries as Brazil's large economy continues its steady growth, Argentina recovers from its 2001-2002 economic crisis, and Uruguay pursues closer trade relations with the United States. Our inspections focused on the management, program operations, and financial and administrative practices of these three South American posts.

Our review of CS operations in Brazil found that the post provides valuable assistance to U.S. companies in the complex Brazilian business environment and collaborates well with other trade promotion agencies, including key U.S. government offices and nongovernmental organizations. The report discusses challenges posed by the post's management structure and allocation of office resources, and the need to develop measurable long-term goals for the standards and intellectual property attachés recently posted to Brazil. We found that the post responded to budget cuts by adjusting its programmatic priorities, and we are concerned that this may impact its overall performance and delivery of products and services.

In general, we found the post's financial and administrative operations are sound. However, our report identifies some discrepancies in ITA and CS

accounting reports for the post and some administrative policies that were not being followed. We also continued to see some questionable export success claims that do not appear to contribute to CS' mission to promote U.S. exports. (See page 33.)



[www.geology.com/world/brazil-map.gif](http://www.geology.com/world/brazil-map.gif)

During the upcoming semiannual period, OIG plans to continue its review of Commerce's trade promotion efforts, including the Department's preparation of the National Export Strategy and the involvement of other federal agencies in that effort. We will also continue our review of Commerce's actions taken in response to the recommendations of our recent reports on CS operations at Asian and South American posts. We may also look at the Department's efforts to increase exports to countries that have recently signed trade promotion agreements with the United States.

## Challenge 8

### Effectively Manage NOAA's Stewardship of Ocean and Living Marine Resources

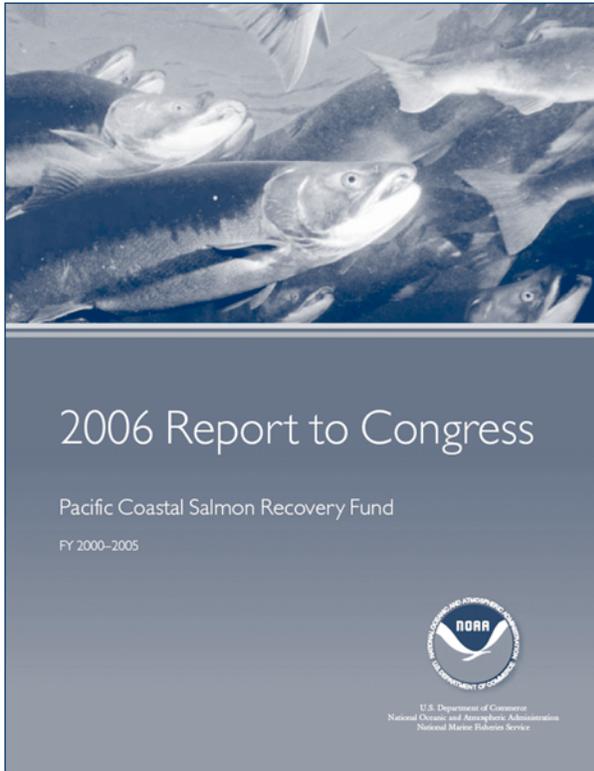
The National Oceanic and Atmospheric Administration is charged with monitoring the health of our nation's ocean, coastal, and Great Lakes resources; administering civilian ocean programs; and protecting and preserving the nation's living marine resources through scientific research, fisheries management, enforcement, and habitat conservation. NOAA spends billions of dollars each year supporting a vast array of programs designed to protect and enhance these resources that "are critical to the very existence and well-being of the nation and its people."<sup>4</sup> These are programs that require long-term commitments and years of funding to show their full effect. During this semiannual period we continued our look at one such program, salmon recovery, wrapping up a series of audits of NOAA-funded projects operating in the Pacific Northwest.

We reviewed the administration of a 5-year, \$27.4 million grant to fund salmon recovery projects in Washington state to assess whether the grantee was properly managing a number of project subgrants. Our initial fieldwork disclosed inadequate policies and procedures for awarding subgrants and monitoring funded projects, which prompted us to conduct audits of nine project subgrants. Our recently concluded audit of the grantee revealed that some processes had improved, but serious deficiencies remain, particularly in the area of fund administration. (See page 45.)

Along the same lines, during the next semiannual period, we plan to initiate additional audits of NOAA financial assistance programs and award recipients. For example, we will look at the Fisheries Finance Loan Program, operated by NOAA's National Marine Fisheries Service. This program provides financing for the purchase or reconstruction of used fishing vessels that will not add capacity to regulated fisheries. Our audit will evaluate NMFS'

<sup>4</sup>U.S. Commission on Ocean Policy

management of the loan program and assess whether the program advances the complementary goals of ending overfishing and rebuilding fisheries.



[www.nwr.noaa.gov/Salmon-Recovery-Planning/PCSRF/upload/PCSRF-Rpt-2006.pdf](http://www.nwr.noaa.gov/Salmon-Recovery-Planning/PCSRF/upload/PCSRF-Rpt-2006.pdf)

We are also preparing to initiate reviews of programs in other stewardship areas, as follows:

### National Marine Sanctuary Program

This program is charged with managing areas of the marine environment that have special national significance because of their conservation, historical, or scientific qualities. It encompasses one coral reef ecosystem reserve and 13 marine sanctuaries, including the Northwestern Hawaiian Islands Marine National Monument, which is the world's largest marine conservation area. Managing the sanctuaries presents significant challenges to NOAA, as it must balance commercial interests with conservation and research activities, and coordinate its efforts with the Coast Guard, the Department of Interior, and others. We are initiating a comprehensive review of the program during the next semiannual period.

### The Consultation Process

Section 7 of the Endangered Species Act requires federal agencies to consult with NOAA about any activity they plan to undertake that may affect listed species. In July 2005, we issued a report on NOAA's consultation process for a biological opinion, in which we found that NOAA deviated from its normal quality control practices, and was criticized as having acted arbitrarily or inappropriately (see September 2005 *Semiannual Report*, page 21). We plan to follow up on actions NOAA has taken to improve its review process.

### Challenge 9

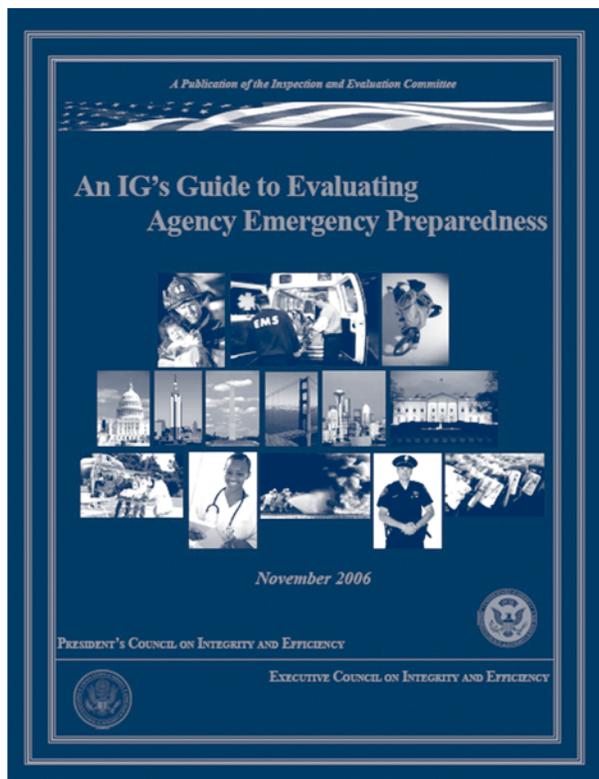
## Aggressively Monitor Emergency Preparedness, Safety, and Security Responsibilities

The Department of Commerce has more than 35,000 employees and hundreds of facilities it must keep safe. As a cabinet-level Department, it also has a number of programs critical to national preparedness and recovery efforts, and it must support U.S. efforts to prepare for, respond to, and promote recovery from major disasters.

We continue to monitor Commerce's progress in resolving departmental emergency preparedness and security weaknesses. As of February 2007, the Department had addressed virtually all of the outstanding recommendations from our 2002 and 2005 reviews of its emergency preparedness efforts. Despite this progress, a dynamic security environment will continue to challenge the Department as it seeks to maintain effective oversight of emergency programs and plans, identify and mitigate security vulnerabilities, and protect critical assets.

During this semiannual period, we worked closely with the Defense Intelligence Agency to develop a guide for evaluating emergency preparedness programs for the Inspection and Evaluation Committee of the President's Council on Integrity

and Efficiency (PCIE). The guide was designed to be a tool for reviewing agency emergency preparedness at the local, state, and federal levels.



Also during this period, we responded to a request from then-Senator Mark Dayton (D-Minnesota) to examine NWS' actions in connection with a powerful tornado in Rogers, Minnesota, that killed a child and injured six other people in September. We were also asked to evaluate the agency's policies and technological capabilities for forewarning the public. In our response to the Senator's inquiry, we reported that the Chanhassen Weather Forecasting Office, the NWS Central Region Office, and the Storm Prediction Center generally followed agency policies for handling severe weather events and have what is considered to be the best available technology for reading weather conditions. But at the same time, we noted several factors that may have adversely impacted Chanhassen's handling of the situation and that warrant close management attention. (See page 41.)



NWS

*September is traditionally a month of little tornadic activity in Minnesota. But the unannounced F-2 tornado that hit Rogers severely damaged scores of homes, such as the one above, and left one child dead.*

During the next 6 months, we plan to review NOAA's National Data Buoy Center and the National Weather Service's other buoy and coastal monitoring station operations that are part of the nation's weather monitoring and forecasting system. Such operations play a critical role in the Department's efforts to enhance the United States' emergency preparedness by supporting NWS' ability to provide advance notification of severe weather events to state and local officials and the public.

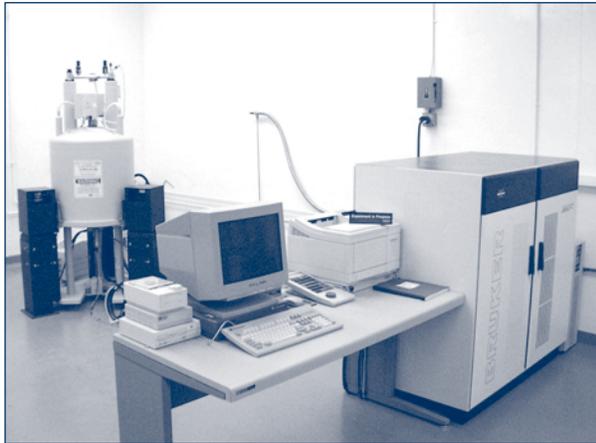
## Challenge 10

### Enhance Export Controls for Dual-Use Commodities

Protecting U.S. national and economic security through export controls is a challenge that grows constantly more complex for federal agencies such as Commerce's Bureau of Industry and Security. BIS is responsible for the federal government's export licensing and enforcement system for goods and technologies with both civilian and military uses.

During this semiannual period, we completed our final National Defense Authorization Act review, this time looking at the effectiveness of U.S. controls on dual-use exports to India—a country that presents unique challenges for U.S. commercial interests and export control policy. Although India is recognized as

a democratic partner in the fight against terrorism and as a counterbalance to China, U.S. nonproliferation specialists are concerned about its nuclear capabilities and intentions. As current U.S. policy moves toward full civil nuclear cooperation with India, it is essential that the U.S. government have effective export controls.



*Edgewood Chemical Biological Center, U.S. Army*

*This nuclear magnetic resonance imager is among a host of advances made possible by nuclear technologies that have revolutionized medical diagnostics and treatment. With greater access to such technologies from the U.S., India plans to expand its nuclear medicine capacity and a variety of other civilian programs.*

Our 2007 review assessed (1) whether BIS' export control policies, practices, and procedures for India are clear, documented, and designed to achieve the desired goals; (2) whether BIS personnel were following the prescribed policies, practices, and procedures relating to India; and (3) how effective BIS was in detecting and preventing the diversion of sensitive commodities to weapons of mass destruction-related programs within or outside India. While the license application review process was working adequately, we identified a number of weaknesses in BIS' administration of export controls for India and recommended a series of actions to resolve them. (See page 19.)

Although this review concludes our statutory reporting requirements under NDAA, we will continue to monitor BIS' efforts to implement and enforce dual-use export controls, follow up on our previous NDAA recommendations, and report on BIS' progress in implementing them.





# BUREAU OF INDUSTRY AND SECURITY

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.

## Final NDAA Review Highlights Some Concerns About Export Control Program with India

To meet the FY 2007 (and final) requirement of the National Defense Authorization Act of 2000, we evaluated the effectiveness of dual-use controls over exports to India. Specifically, we assessed whether BIS' export control policies, practices, and procedures regarding India are clear, documented, and prevent the export of U.S. products that could contribute to India-sponsored nuclear weapons or missile programs; whether BIS personnel follow the policies and procedures; and how well the agency detects and prevents the

diversion of sensitive commodities to programs for weapons of mass destruction.

In 2001, the United States eliminated economic sanctions against India and committed to broadening economic ties and expanding bilateral cooperation on counterterrorism, security, space and scientific pursuits, and civilian nuclear safety. To foster this cooperation, BIS established the U.S.-India High Technology Cooperation Group in 2002 as a forum for discussing high-tech issues of mutual interest. In 2004, the United States and India announced the Next Steps in Strategic Partnership (NSSP)—an agreement to increase cooperation in civilian nuclear activities, space programs, and high-tech trade, as well as expand the U.S.-Indian dialogue on missile

defense. The initiative was to proceed through a series of reciprocal steps that addressed nuclear safety issues and regulatory changes to enhance trade in primarily high-tech dual-use goods. BIS helped evaluate and implement the steps related to export control.

As the steps were completed, the U.S. government removed various licensing requirements for dual-use items destined for India. In July 2005, President Bush and the Indian prime minister announced the NSSP was completed. Because of the decrease in license requirements, applications for exports to India dropped by 19 percent between 2005 and 2006, after years of being on the rise.

Our review of U.S.-India export control activities found that BIS' interagency license application review process was working adequately, but we identified the following concerns:

### Dual-Use Export Control Policies and Procedures for India Are Not Fully Transparent

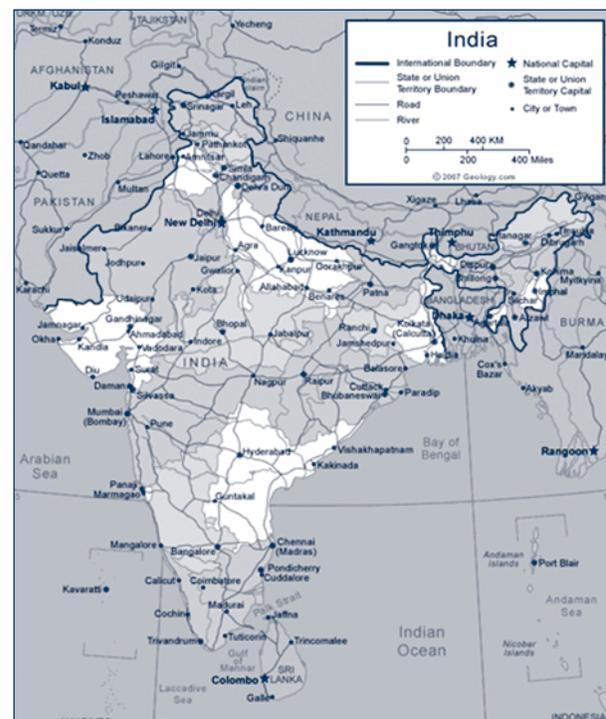
Though the NSSP has officially concluded, some U.S. nonproliferation experts question whether the government of India ever fully implemented two of the export control-related steps. And we found that subsequent changes to the way BIS presents Indian organizations on its Entity List have made it difficult to identify some of them. As a result, these entities could mistakenly receive controlled dual-use items from U.S. exporters who did not realize the transaction required a license.

### End-Use Check Program in India Needs to Be Improved

End-use checks are intended to verify the legitimacy of dual-use export transactions controlled by BIS. There are two types of checks: pre-license checks determine if an overseas person or firm is a suitable recipient for the item; post-shipment verifications determine whether U.S. exports were actually received by the party named on the license and are being used in accordance with the license provisions.

Our review of BIS' India end-use check program identified several weaknesses: the End-Use Visit

Arrangement, a 2004 accord between Commerce and the Indian Ministry of External Affairs, limits the checks' effectiveness and utility. And checks involving Indian government or government-affiliated entities are often not completed within prescribed deadlines. BIS has not set clear and consistent time frames for when to initiate post-shipment verifications once required shipping documents are received, and when to notify the Ministry of External Affairs about end-use check requests. We also found instances in which BIS did not follow its own end-use check criteria and cancelled two pre-license checks instead of classifying them as unfavorable. And the agency did not adequately target post-shipment verifications to help determine whether diversions were occurring.



*www.geology.com/world/india-map.gif*

### BIS Needs to Better Ensure Compliance with License Conditions

The Export Administration Regulations allow BIS to place conditions on an export license when the agency has specific concerns about the exporter, end use, or end user. These conditions offer an additional means for monitoring certain shipments as the agency checks to see that license holders comply with all requirements. BIS' Export Administration and

Export Enforcement units share responsibility for ensuring conditions are met and for keeping BIS informed of the status of these licenses. Prior OIG work revealed that monitoring licenses with conditions was handled inconsistently, which made it difficult to know whether exporters or end users were complying. In response to these findings, over the past few years, both units have put procedures in place to standardize their efforts, but our review of India cases indicated that weaknesses remain.

- For 5 of 13 India licenses with reporting conditions that we reviewed, licensing officers within Export Administration did not properly mark them for follow-up to verify that the conditions were met.
- Licensing officers are not required to review a license's technical documentation when the Defense Department—not BIS—is the source of the reporting conditions. However, BIS has authority to enforce Export Administration Regulations and is ultimately responsible for monitoring all conditions, regardless of who establishes them. Ten of the 13 licenses that required the submission of technical documentation were not marked for and did not receive licensing officer review because Defense had placed the technical reporting condition on the license.

Export Administration staff were not fully aware of which reporting requirements they were supposed to monitor and were not referring noncompliant exporters to Export Enforcement.

## Our Recommendations

We made numerous recommendations to address our concerns related to the Entity List and BIS' license monitoring and enforcement efforts, among them the following:

- Revise the Entity List to present all Indian entities by name, or determine some other way to ensure that exporters know which Indian entities are meant to be captured on the list.

- Improve Export Administration's license monitoring efforts by, among other things, determining why the process for monitoring conditions has persistent breakdowns; reviewing a sample of license applications to ensure they are properly marked for follow-up; and amending BIS procedures to require licensing officers to review all technical documentation submitted by exporters or end users, even when conditions are set by Defense.
- Improve Export Enforcement's license-related efforts by requiring the Office of Enforcement Analysis to closely monitor licenses at specified follow-up points in the process, document these activities in its Conditions Follow-up database, and recommend rejecting future license applications from exporters who are required to submit shipper's export declarations as a condition of existing licenses but do not.

## Agency Response

In its response to the unclassified section of our report, BIS commented that it believes India has fulfilled its commitments under the strategic partnership agreement. The bureau said it will assess the categorization of Indian entities on the Entity List to determine how to provide additional information to exporters. BIS disagreed with several of our findings concerning end-use visits, but did agree to complete a review by April 30, 2007, of our seven recommended ways to improve license monitoring efforts.

BIS also stated it was reviewing our recommendation related to Export Enforcement's license monitoring and enforcement efforts to determine whether it can be implemented using the current license processing system (ECASS), or if some alternative approach is necessary. The response also noted that there are many factors that need to be considered before determining whether an exporter should be held accountable (i.e., subsequent licenses denied or investigative referrals made) for not fully complying with license conditions. In addition, BIS provided comments on the findings and recommendations in

the classified sections of our report. (*Office of Inspections and Program Evaluations: IPE-18144*)

## Steady Progress Noted in NDAA Follow-up

The National Defense Authorization Act of 2000, as amended, requires the Office of Inspector General to report annually to Congress on the status of export control recommendations made in prior-year OIG reviews. This year's follow-up covered annual reviews dating back to 2000. We found that the Department closed several recommendations during the past year, but a total of 20 remain open, including 1 we reopened from our March 2003 report. Only the March 2000 and 2001 reports have no outstanding recommendations.

### March 2006

This review examined (1) BIS' export control policies, practices, and procedures regarding China to determine if they are consistent with relevant laws and regulations; (2) coordination among federal agencies during the dispute resolution process for export license applications involving China; (3) the potential for diversion of sensitive commodities from Hong Kong to China; and (4) BIS' end-use check program in China and Hong Kong. We also looked at what activities Commerce bureaus are engaged in pursuant to the 1979 U.S. and China Science and Technology Agreement and whether they are adhering to export control regulations. We made nine recommendations to address the issues we identified. Eight remain open.

### March 2005

We evaluated the U.S. export licensing process for chemical and biological commodities to determine whether current practices and procedures deter the proliferation of chemical and biological weapons. We looked at whether the process is timely, complies with statutory and regulatory requirements, and takes the cumulative effect of prior technology transfers into consideration. We also assessed

whether the various agencies involved in the export license review process share data and information and whether the dispute resolution process between the agencies works. We reviewed BIS' interactions with the Australia Group, and procedures for placing newly controlled items on the Commerce Control List. We made 11 recommendations to BIS and 2 remain open. Those open involve providing clear guidance and more information for licensing officers, and developing a method to track the cumulative effect of dual-use exports.

### Prior NDAA Reviews

**March 2000**, *Improvements Are Needed in Programs Designed to Protect Against the Transfer of Sensitive Technologies to Countries of Concern* (IPE-12454)

**March 2001**, *Management of the Commerce Control List and Related Processes Should Be Improved* (IPE-13744)

**February 2002**, *BXA Needs to Strengthen its ECASS Modernization Efforts to Ensure Long-Term Success of the Project* (IPE-14270)

**March 2002**, *Interagency Review of Federal Automated Export Licensing Systems* (D-2002-074)

**March 2003**, *Improvements Are Needed to Better Enforce Dual-Use Export Control Laws* (IPE-15155)

**March 2004**, *Deemed Export Controls May Not Stop the Transfer of Sensitive Technology to Foreign Nationals in the U.S.* (IPE-16176)

**March 2005**, *The Export Licensing Process for Chemical and Biological Commodities Is Generally Working Well, But Some Issues Need Resolution* (IPE-16946)

**March 2006**, *U.S. Dual-Use Controls for China Need to Be Strengthened* (IPE-17500)

### March 2004

This review looked at whether current deemed export control laws and regulations adequately protect

against the transfer of controlled U.S. technologies to foreign nationals from countries and entities of concern while they are in the United States. We made a total of 20 recommendations: 7 each to BIS and NIST, 5 to NOAA, and 1 to the Office of the Secretary. These mainly pertained to recommended revisions in export control regulations and policies, as well as bureau compliance with licensing requirements. During this reporting period, 1 recommendation made to BIS was closed. Two remain open.

NOAA took action to close its remaining recommendation. NIST and the Office of the Secretary each have one unresolved recommendation.

### March 2003

This review made 55 recommendations to BIS and 4 to ITA regarding their efforts to enforce export control laws and regulations, including those involving investigative processes, interactions with other law enforcement agencies and the intelligence community, license determinations, monitoring of compliance with license conditions, outreach to U.S. exporters, and end-use checks. As of last year, all ITA recommendations were closed, and BIS had resolved 53 recommendations. This year, BIS took action to resolve 1 of the remaining 2, which dealt with dissemination of pre-license check results to licensing referral agencies. We do not believe that BIS' actions fully met the intent of our recommendation, but agreed to close it because the referral agencies have access to the information through other means. In addition, information we uncovered during our FY 2006 follow-up prompted us to reopen a recommendation we had closed last year relating to BIS' cooperation with the U.S. Postal Service to preclude use of the mail to circumvent export control laws. Because we have reinstated this recommendation, BIS still has 2 issues to resolve.

### February 2002

In this report, we focused on BIS' plans for and progress toward modernizing its Export Control Automated Support System for dual-use export licensing. Three of our 13 recommendations remain open. These involve identifying and securing

adequate funding, and determining system and security requirements.

### March 2002

In addition to the February report we issued on BIS, the interagency OIG review team issued a report that contained four recommendations for the bureau. One remains open—that BIS should establish a common repository for all unclassified licensing data records. (*Office of Inspections and Program Evaluations: IPE-18546*)

## OIG Revisits March 2000 Findings on Committee on Foreign Investment in the United States

The highly publicized purchase by Dubai Ports World of a British firm that managed key U.S. ports was one of several recent events that renewed congressional scrutiny of the Committee on Foreign Investment in the United States (CFIUS), a multiagency body chaired by the Secretary of the Treasury that monitors foreign investment in U.S. companies. Our March 2000 NDAA report examined CFIUS activities, among other things, and raised questions about the effectiveness of the overall CFIUS decision-making process. Our primary concerns at that time were the lack of mandatory foreign investment reporting— notifying CFIUS of an acquisition or investment was voluntary—and the small number of investigations conducted on company filings. We also noted the potential for a perceived conflict of interest in the control of committee actions because Treasury's Office of International Investment, which oversees CFIUS, has dual responsibility for promoting foreign investment and preventing it when national security concerns arise. Finally, our report highlighted some issues involving Commerce's process for reviewing CFIUS filings, including (1) whether the lead responsibility for the program should remain in ITA, the Department's primary trade promotion agency, or be moved to BIS, our primary national security agency,

and (2) whether BIS' export enforcement and export licensing units should play a larger role in reviewing CFIUS filings.

During this semiannual period, we revisited these findings and noted improvements that in our view have enhanced coordination among the various agencies on the committee and made Commerce's decision-making process more transparent. But we still have concerns about several aspects of the CFIUS activities discussed in our 2000 review.

### **Committee on Foreign Investment in the United States**

CFIUS was established by Congress in 1975 for the purpose of monitoring and evaluating the impact of foreign investment in the United States. A 1988 amendment to the Defense Production Act of 1950 expanded the committee's responsibilities and gave the President authority to suspend or prohibit any foreign acquisition, merger, or takeover of a U.S. company that threatens national security.

Twelve agencies sit on the committee:

- U.S. Treasury (chair)
- Department of Commerce
- Department of Defense
- Department of Justice
- State Department
- Office of Management and Budget
- Department of Homeland Security
- Council of Economic Advisors
- National Economic Council
- National Security Council
- Office of Science and Technology Policy
- U.S. Trade Representative

## **Update on FY 2000 Findings**

### **Lack of Mandatory Foreign Investment Reporting**

Treasury and Commerce officials reported that the number of filings has increased dramatically in the past year, as U.S. and foreign firms are now more aware of the CFIUS process since the Dubai Ports World acquisition. But foreign investment reporting is still voluntary—neither Congress nor the administration has proposed mandatory filing since 2000. And despite the increased number of filings, we still question whether CFIUS is receiving information—and whether that information is timely—about all acquisitions and mergers that pose potential security concerns, especially those involving small or medium-sized U.S. companies that manufacture or conduct research on sensitive U.S. technologies.

### **Few Investigations**

The number of investigations has increased since our March 2000 report—from 1 percent of filings in 2000 to 6 percent in 2006. But because the number of filings nearly doubled between 2005 and 2006, the statistics alone cannot tell us whether the increase signifies greater vigilance by the committee or merely an expected proportional rise in investigations.

### **Potential for Perceived Conflict of Interest**

While the lead responsibility for CFIUS remains with Treasury's Office of International Investment, both Treasury and Commerce officials reported that the committee now operates on a consensus basis. In addition, CFIUS now reports all decisions to Congress, though it is only required to report those made by the President.

### **Change in CFIUS Responsibility Within Commerce**

We recommended in 2000 that lead responsibility for CFIUS within Commerce move from ITA to BIS, given the latter agency's national security mission. While we still believe that this arrangement is more

appropriate, it appears the current Commerce process and interactions between the two agencies are going well. In our update report, we recommend that ITA work with BIS and other relevant bureaus to develop written procedures documenting the specific CFIUS roles and responsibilities of each and detailing methods for ensuring continued cooperation.

### BIS' Internal Review of CFIUS Notifications

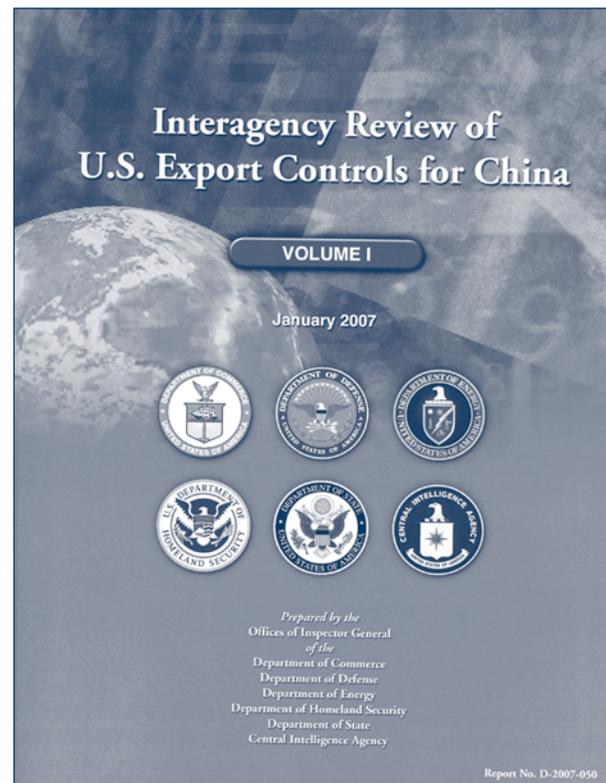
BIS has taken steps to ensure that licensing and enforcement experts are reviewing notifications involving entities of concern and has developed written procedures to reflect this protocol. During our follow-up, we also found that BIS will be responsible for monitoring the export control provisions of two mitigation agreements involving sensitive acquisitions that it helped negotiate. Our update report recommends that BIS finalize and implement written procedures that outline how it will monitor and enforce the dual-use export control provisions of mitigation agreements entered into by CFIUS.

### Interagency Review

Our March 2000 report suggested that an interagency review of the CFIUS process, conducted by OIGs from the departments of Commerce, Defense, and the Treasury, may be warranted, as a part of our responsibilities under the FY 2000 National Defense Authorization Act. The Treasury and Defense IGs concurred with our suggestion, but other priorities prevented this review from taking place. We still believe such a review is necessary to (1) identify problems posed by investments involving countries and entities of concern and U.S. companies with sensitive technologies; (2) assess the overall effectiveness of CFIUS; and (3) recommend improvements, as necessary, to the way the U.S. government monitors foreign investment in these companies. (*Office of Inspections and Program Evaluations: IPE-18546*)

## Interagency Review of Export Controls for China Finds Policy, Procedural Weaknesses

IGs from Commerce, Defense, Energy, Homeland Security, State, and the CIA issued their FY 2006 NDAA interagency report on the effectiveness of controls for exports to China during this semiannual period, noting the need for policy and process improvements at several of the participating agencies.



At Commerce, our assessment focused on BIS' involvement in regulating exports to China. (See March 2006 *Semiannual Report to Congress*, page 13.) We determined that the bureau's related control policies, practices, and procedures needed to be strengthened, as did end-use checks and monitoring of compliance with licensing conditions.

The Defense, State, and CIA inspectors general noted weaknesses in various aspects of their agency's licensing process: Defense does not adequately document its analysis of license applications and related decisions. State's licensing policies and

procedures for the commercial export of defense items are ineffective. The CIA does not fully meet State's required time frames for reviewing dual-use export license applications involving Chinese end-users or intermediaries.

The Homeland Security IG evaluated the export screening process conducted by Immigration and Customs Enforcement to determine the extent to which the process led to arrests for violations of laws

and regulations. The IG found a limited connection between the two.

The interagency team made no joint recommendations this year. But each OIG offered specific recommendations to resolve the weaknesses within its own agency. (*Departments of Commerce, Defense, Energy, Homeland Security, State, and the CIA: D-2007-050*)



# ECONOMIC DEVELOPMENT ADMINISTRATION

**T**he **Economic Development Administration** was established by the Public Works and Economic Development Act (PWEDA) of 1965 to generate new jobs, help retain existing jobs, and stimulate private investment in economically distressed regions of the United States. EDA continues to fulfill this mission under the authority of PWEDA, as amended by the Economic Development Reauthorization Act of 2004. Based on local and regional comprehensive economic development 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 sudden and 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, planning, training and research, and economic adjustment assistance.

## **Revolving Loan Fund Program: Weak Agency Oversight, Persistent Problems, and Millions in Funds to Be Put to Better Use**

In the summer and fall of 2006, we audited EDA's revolving loan fund (RLF) program—which since 1975 has given millions of dollars in grants to state, local, and regional development entities that in turn offer low-interest business loans to generate jobs in distressed communities. Huge sums of money are involved in the program: in June 2003, EDA estimated that there were more than 600 active RLF grants whose combined federal and nonfederal investment totaled approximately \$1 billion.<sup>5</sup>

<sup>5</sup> RLF funds retain their federal character in perpetuity. In other words, the grant recipient's obligation to the federal government continues as long as the RLF assets exist.

But the RLF program has had a troubled history. In 50 audits of individual recipients conducted by OIG since 2001, we found the same problems repeatedly: grantees retained too much cash in their loan funds, did not comply with federal auditing and reporting requirements, charged unallowable costs to the RLF, did not adequately document lending decisions, and filed inaccurate financial reports. EDA management has long recognized the program's deficiencies, and in 1999 had established a task force to study the problems and recommend improvements.

The task force found that the RLF reporting process needed major improvements because it was cumbersome for grantees and not particularly effective for EDA in tracking program activity. The task force also found that grantee reports often did not receive ample scrutiny at the regional level because staff was spread too thin. These findings

underlie many of the weaknesses consistently disclosed in our audits of individual grantees. The task force concluded that electronic reporting was essential to improving the overall program and recommended that EDA develop a web-based grantee reporting system. To this day, no such system exists.

In 2003, as our audits continued to find major problems with recipients' accountability for funds, EDA's then-Assistant Secretary testified before Congress that the agency needed to implement critical management reforms.

### Systemic Management Weaknesses, Funding Discrepancies Remain Unresolved

Our current work looked at the overall RLF program to determine what, if any, improvements have been made. We assessed EDA's handling of the problems identified in our audits of individual recipients, its record of general oversight, and the effectiveness of program administration by EDA regional offices. We also analyzed current levels of cash in RLFs, and the extent to which EDA uses single audit reports to monitor grantees' RLF administration. Our audit period covered RLF operations and related activity occurring from September 2004 through September 2005 in six EDA regions, with a limited look at 2006 data on recipients' annual reporting and EDA's sequestration of unused funds.

We found that little has changed in the RLF program. EDA management continues to be

deficient, the result of a void in program leadership and direction from senior agency officials. We also found that EDA does not know the current value of the RLF portfolio. Our analysis of program assets as of September 2005 identified \$716 million, compared with EDA's 2003 estimate of \$1 billion. Among the specific management failings we found are the following:

#### EDA Does Not Ensure Efficient Capital Utilization by RLF Grantees

EDA requires grantees to keep a certain percentage (typically 75 percent) of total RLF dollars loaned out. When grantees routinely fail to meet these capital utilization rates, EDA may direct the recipient to sequester the excess funds—that is, deposit the funds in an interest-bearing account, periodically remit the government's portion of the interest to the U.S. Treasury, and obtain EDA approval to withdraw sequestered funds from the account. In cases of persistent noncompliance, EDA may terminate the fund and transfer the assets to other RLF recipients or back to Treasury. Despite the importance of this process, agency regulations do not contain clear criteria for making many of the determinations necessary for sequestration decisions. As a result, practices are inconsistent across EDA regions, ranging from recovery of funds without any period of sequestration to sequestration for extended periods of time.

Using the 75 percent utilization rate, we calculated excess cash from the reported fund balances and cash available amounts in all grantee financial reports submitted for the period ending September 30, 2005,

**Table 1. RLF Excess Cash and Fund Balance at September 30, 2005**

EDA Regions	Number of RLFs	Total Excess Cash	Federal Share of Excess Cash	Total# RLF Repts Filed	Fund Balance	Federal Share of Fund Balance
Atlanta	43	\$10,922,618	\$8,494,863	90	\$133,978,891	\$107,244,424
Austin	24	3,430,517	2,920,681	43	41,926,748	35,816,330
Chicago	48	11,494,903	8,929,075	97	119,469,401	85,761,298
Denver	28	2,136,991	1,574,862	92	72,037,693	52,395,068
Philadelphia	48	18,986,483	13,680,418	121	216,523,437	158,158,316
Seattle	45	23,304,476	21,009,876	86	132,010,858	105,131,605
Total	236	\$70,275,988	\$56,609,775	529	\$715,947,028	\$544,507,041

and determined that 236 of 529 recipients had a combined total of \$70.3 million in excess cash; \$56.6 million of this amount represented the federal share (see table 1). The actual amount is likely higher, as there were no reports filed for 78 RLFs. The total amount eligible for sequestration was \$44.4 million, but only \$14.6 million had been sequestered. For 116 of the 236 recipients, this was the second consecutive reporting period in which they had maintained excess cash.

### **EDA Does Not Ensure Grantee Compliance with Reporting Requirements and Does Not Have an Adequate Tracking System**

RLF grantees are required to submit annual or semiannual reports detailing loan activities 30 days after the end of the reporting period. These reports are one of the critical tools EDA has for monitoring the status of the program. But of the 607 grantees we examined with reports due September 30, 2005, 78 were never received and 126 of those received were filed late by anywhere from 31 to more than 90 days. Because EDA has no standard procedures for monitoring grantee compliance, regional offices have different practices and different levels of commitment to ensuring they receive the reports on time or at all. All regional offices had problems with late reporting. Atlanta, which developed its own tracking system, had the best recipient reporting record—receiving all 90 reports due. But 33 percent were submitted late. Philadelphia had the worst record—receiving only 121 of 178. And 36 percent of those received were late. When EDA does not get required reports or receives them late, it lacks critical, timely information needed to manage the RLF program effectively.

EDA also lacks an effective, practical data system that gives its headquarters and regional office staffs the ability to track the status of individual RLFs and oversee the RLF program. Its current database, the Operation Planning and Control System (OPCS), contains some information related to RLFs, but does not have all of the data needed to manage the program. We examined OPCS data as of May 2006, and found that 25 of the 78 nonreporting RLFs, which were being tracked in the database in 2001, had been subsequently removed from OPCS without

any documentation to support the removal. We could find no record of the status of the remaining 53 nonreporting RLFs. EDA subsequently produced 2006 reports for 31 of the 78, but it had no information about the status of the other 47. Without complete information, the agency cannot be certain of the value of the RLF portfolio or monitor its investment.

Finally, we found that EDA does not routinely obtain and review single audit reports, which by law must be prepared by independent auditors and filed with the Federal Audit Clearinghouse for RLFs whose annual federal expenditures are \$500,000 or more. EDA should review all single audit reports prepared for RLF grant recipients, both to check the status and stability of individual RLFs, and to verify that the audits are being conducted as required.

## **Recommendations**

We recommended, among other things, that the Assistant Secretary for Economic Development and EDA senior officials enhance the RLF program's effectiveness by developing the following:

- A strategy and plan of action for identifying and resolving problems plaguing the RLF program, which assigns overall responsibility for the program to an individual who can be held accountable for its operation.
- Policies and procedures that promote a uniform approach to sequestering excess cash.
- A database that contains a standard grantee reporting and monitoring system to provide the critical information EDA needs to manage the RLF program and protect its assets.

We also recommended that EDA consistently collect and evaluate required financial reports; determine the status of the 47 RLFs that had not submitted reports as of September 30, 2005; and ensure that RLF recipients undergo required single audits and file reports with the Federal Audit Clearinghouse. EDA staff should actively use single audit reports to improve agency monitoring of grantee operations.

## Funds to Be Put to Better Use

Implementing our recommendations will put at least \$29.8 million (identified as of September 30, 2005) to better use. Our report also noted that had EDA taken action to sequester the full \$44.4 million eligible for sequestration as of September 30, 2005, rather than only a portion (\$14.6 million), approximately \$960,000 in interest on the federal share would have been available to put to better use.

## EDA's Response

EDA accepted our audit findings, acknowledging that the deficiencies in the RLF program are serious and demand immediate attention. Agency officials committed to aggressive implementation of our recommendations and stated that EDA managers will pursue additional mechanisms necessary to strengthen management and fiduciary oversight while maximizing the effectiveness of the intensive resources required to administer the program. (*Office of Audits: OA-18200*)

## Ohio City Has Not Managed RLF Well

In September 1980, the Economic Development Administration awarded a city in Ohio a long-term economic development implementation grant of \$1 million to establish a revolving loan fund. In September 1983, EDA awarded the city an additional \$500,000 and required a matching share of \$166,666, increasing the RLF's total capitalization to \$1,666,666.

This particular city was ranked by the U.S. Census Bureau as the poorest large city in the nation in both 2004 and 2006. The city's economic base was traditionally centered in steel and automobile manufacturing. But 4 decades of decline in those industries, combined with a large population flight to the suburbs and unsuccessful attempts at urban renewal, have made it difficult for the city to attract new investment and retain existing businesses.

Since the fund was established, the city reported it had granted 74 loans to local businesses totaling in excess of \$7 million. Of these, 49 loans were fully repaid, 13 were written off, 2 were in default, and 10 were current.

At EDA's request, we conducted an audit of the city's RLF to assess its financial status, verify the allowability of administrative costs, and determine the city's compliance with applicable laws and EDA regulations. Our audit disclosed many of the same poor fund management practices that we have identified time and again among RLF recipients nationwide.

## Excess Cash

As of September 30, 2006, the city had \$1,451,726 of excess cash in the fund. The RLF reported 12 active loans with an outstanding principal balance of \$1,116,015, loan commitments of \$200,000, and funds available for new loans of \$2,374,307. The capital utilization rate was 36 percent.



The city has maintained unallowable excess cash reserves for multiple reporting periods and has only closed five valid loans since 2000. (Four other loans were closed during that period, but had to be reallocated to other funds because they violated the city's RLF plan.) City officials claim there is a need for RLF loans, but staff shortages have made it difficult to give the program much attention. They plan to hire more loan officers to aggressively market the fund.

We recommended that the EDA Chicago regional director require the city to sequester \$1,451,726 in excess cash in an interest-bearing account and remit the interest to the U.S. Treasury.

## Reports Not Filed or Filed Late

Our audit found that the city had submitted late semiannual reports for the periods ending March 31, 2005, and September 30, 2006, and both were filled with mathematical errors. These inaccuracies raise questions about the reliability of RLF data and the fund's actual financial condition. Additionally, the city has never filed reports for the September 2005 and March 2006 semiannual periods. We recommended that the grantee be required to submit a corrected semiannual report for September 2006, submit the missing March 2006 report, and make sure that all future reports are filed with EDA on time.

## Improper Independent Audit, No RLF Certifications

We also found that the city did not include the RLF in its single audit for 2005 or file annual certifications for its RLF plan for at least 2 years. The absence of certifications caused us to question whether the city has reviewed the RLF to determine whether it is operating according to plan and in a way that most effectively supports the economic adjustment strategy. We recommended that the city include the RLF in future single audits and provide annual certification that it is following the RLF plan.

## Funds to Be Put to Better Use

Implementing our recommendation to sequester funds will put \$1,451,726 to better use.

## Grantee Response

In response to our draft report, the city stated that it is taking steps to eliminate the excess cash in the fund. It has established an industrial-commercial land bank that will sell ready-to-build properties directly to businesses for development, which will, in turn, allow faster startup for new businesses and distribution of RLF funds. The city expects to approve up to five newly funded projects annually to disburse \$2.3 million of RLF funds from early summer 2007 through the end of 2009.

According to the response, the city has received approval to increase staffing from 12 to 22, which will enable it to better market the fund and increase lending over the next 2 years. It has also hired a fiscal manager, whose duties include overseeing external reporting requirements, and a divisional controller, whose duties include the completion and submission of RLF semiannual reports. Finally, the city represented that the RLF will be included in its FY 2007 single audit and the RLF plan will be certified, as required. We were encouraged by the actions described in the city's response, but reaffirmed our original findings and recommendations in the final report. (*Denver Regional Office of Audits: DEN-18389*)





# 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, and participates in trade negotiations. 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.

***Manufacturing and Services*** undertakes industry trade analysis, shapes U.S. trade policy, participates in trade negotiations, organizes trade capacity building programs, and evaluates the impact of domestic and international economic and regulatory policies on U.S. manufacturers and service industries.

***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. Commercial Service*** seeks to promote economic prosperity, enhance U.S. job creation, and strengthen national security through a global network of international trade professionals. Commercial Service promotes and protects U.S. commercial interests abroad and delivers customized solutions to help U.S. businesses, especially small and medium-sized enterprises, compete effectively in the global marketplace.

## **Brazil Post Needs Management Attention to Overcome Some Challenges of Geography and Reduced Travel Budget**

Over the past few years, Commerce OIG has inspected a number of U.S. Commercial Service's overseas posts. Most recently, we reviewed operations at CS' five offices in China (see March 2006

*Semiannual Report*, page 23) and the South American posts of Argentina and Uruguay (September 2006, pages 25-27). In this reporting period, we completed a comprehensive review of CS' post in Brazil, focusing on management structure, financial and administrative practices, and program effectiveness. We also examined security at the post and the handling of export control end-use checks. These matters were discussed in two "Official Use Only" appendixes to the report.

### Brazil's Economic Profile (2005)

GDP	\$1.556 trillion
GDP per capita	\$8,400
GDP growth	2.4 percent
Population	188,078,227
Unemployment	9.8 percent
Leading exports	transport equipment, iron ore, soybeans, footwear, coffee, and autos
Leading imports	machinery, electrical and transport equipment, chemical products, and oil

## Largest Economy in Latin America

Brazil has the largest economy in Latin America and is the 14th largest U.S. trading partner.<sup>6</sup> In 2005, the United States exported a total of \$15.3 billion in products and services to Brazil while its imports from Brazil totaled \$24.4 billion.<sup>7</sup> Brazil's GDP is \$1.556 trillion, according to the CIA's *World Factbook*, and it has well-developed agricultural, mining, manufacturing, and service industries. The country's economy is growing but vulnerable to economic risks and international disputes over illegal activities in the tri-border area of Argentina, Brazil, and Paraguay.<sup>8</sup>

Our review found the CS Brazil post does a generally good job of providing assistance to U.S. companies and that it collaborates well with most other relevant trade promotion agencies, key U.S. government

<sup>6</sup> U.S. Census Bureau, Top Trading Partners (Total Trade, Exports, Imports) as of June 2006, <http://www.census.gov/foreign-trade/statistics/highlights/toppartners.html>, August 31, 2006.

<sup>7</sup> U.S. Census Bureau, Foreign Trade Statistics, Trade in Goods (Imports, Exports, and Trade Balance) with Brazil, <http://www.census.gov/foreign-trade/balance/c3510.html>, September 8, 2006.

<sup>8</sup> CIA, The World Factbook - Brazil, [www.cia.gov/cia/publications/factbook/print/br.html](http://www.cia.gov/cia/publications/factbook/print/br.html), August 31, 2006.

offices, and nongovernmental organizations despite complications that make relationships difficult in some cases. For example, the Sao Paulo American Chamber of Commerce—one of CS' primary local partners—reports being one of the largest in the world, but most of its members are local Brazilian companies looking to export to the U.S. market, not to import U.S. products.

## Our Findings

We identified some areas that could benefit from increased management attention and made a total of 47 recommendations to improve post operations. Some of our specific findings are as follows:

### CS Brazil's Management Structure Is Challenging

CS Brazil is a large, diverse post with about 55 staff members in five offices spread over several hundred thousand miles. The post's senior commercial officer is stationed in Sao Paulo, Brazil's business hub. The deputy senior commercial officer is in Brasilia, Brazil's capital and the location of the U.S. embassy. As a result, the senior officer primarily performs outreach with the Sao Paulo business community, while his deputy manages day-to-day relations with the ambassador and other U.S. embassy officials. The principal commercial officer in Sao Paulo oversees a majority of CS' core programs and services in Brazil, largely because Sao Paulo produces the majority of products and services. In most posts, this is the responsibility of the senior and deputy senior commercial officers.

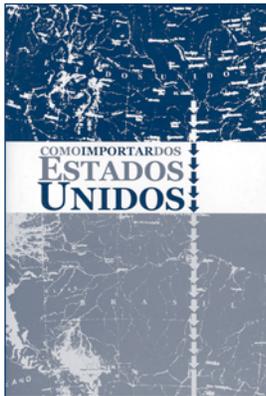
Another management challenge involves the effective deployment of regional standards and intellectual property experts located in Brazil. CS recently posted a new South American regional standards expert to Sao Paulo, and a new intellectual property rights attaché arrived in October 2006. However, their roles in Brazil and the region have not been fully developed.

We recommended that CS evaluate and clarify the roles and responsibilities of the CS Brazil senior and deputy senior commercial officers and the Sao Paulo

principal commercial officer to better coordinate and manage country-wide programs. We also recommended that work plans with long-term goals be developed for the standards and intellectual property attachés.

### Staff Allocation and Team Structure Need Attention

In 2004 the ambassador requested that CS place staff at the U.S. consulate in Recife, which is located in



CS Brazil

*In 2004 the CS Brazil Belo Horizonte office developed *Como Importar Dos Estados Unidos*, a Portuguese language brochure for Brazilians about importing goods from the U.S. The booklet is distributed during trade events.*

northeast Brazil. At the time of our review, however, CS had not yet taken action on that request, continuing to rely on its Belo Horizonte office to serve that area of the country. We also found that CS' offices in Belo Horizonte, Brasilia, and Porto Alegre experience some difficulty attracting U.S. exporters and promoting commercial opportunities in these regions even though together they produce nearly one-third of Brazil's gross domestic product. Our report recommended that CS management develop a strong market-

ing plan to increase U.S. business awareness of CS Brazil offices and export opportunities in these three cities.

CS Brazil is responsible for 50 industry sectors and subsectors, which it manages through teams. But we found poor coordination, rivalry among team members, and a limited focus on specific sectors. We recommended that CS management assess the existing team structure and the number and assignment of industry sectors to CS Brazil staff, and consider implementing changes that may improve productivity and foster a spirit of cooperation among team members.

### CS Brazil Export Successes Require Increased Management Attention

CS' primary performance measure is the verified number of export transactions, or export successes, the agency facilitates. CS tracks both the nature of the export assistance it provides to U.S. companies and the dollar value of the export success. Accuracy and integrity of the data are paramount, because this metric is reported to both Congress and OMB.

OIG's previous reviews of CS posts around the world have found that export success reporting is often mishandled. CS Brazil reported it had increased its export success numbers by 161 percent in only 4 years, from 276 in FY 2001 to more than 720 in FY 2005. The post generated the second highest number of export success stories of all CS overseas posts for both fiscal years 2004 and 2005, claiming credit each year for more than 5 percent of the total number of export success stories generated by CS worldwide.

However, the post was not really doing as well as it claimed. In our analysis of FY 2005 records, we identified 61 invalid and 136 questionable export successes, which reduces the post's export successes to 523. This makes CS Brazil's performance less impressive and drops its ranking from second to fifth place among CS posts. By the end of FY 2006, CS Brazil had reported only 565 export successes, about 150 fewer than the 2005 level.

We found at least 72 invalid export successes out of a sample of 907 that CS Brazil reported in fiscal years 2005 and 2006. An additional 162 export successes appeared questionable as to whether they met the intent of CS' mission. Specifically, CS Brazil claimed 137 export successes for renting booths to Brazilian companies at U.S. trade shows, even though the firms primarily sought to sell their Brazilian products at the shows. The remaining 25 questionable export successes combined booth sales with training services or claimed airline ticket sales without any indication of CS value-added service.

We recommended that CS revise the CS Operations Manual's definition of an invalid export success to include claims that directly foster foreign exports, as was the case of the booth rentals at U.S. trade shows.

We also recommended that the agency remove all invalid and questionable CS Brazil export successes from CS' database, review export success performance data for CS Brazil and all CS posts worldwide to identify erroneously awarded office credits, and adjust the reported numbers. CS should also require posts to maintain export success documentation to verify all components of a valid export success story.

### Budget Cuts Affected the Post's Program Priorities

From FY 2004 to 2006, CS Brazil's operating and administrative budget increased from \$2.3 million to \$2.8 million because of rising fixed expenditures and a fluctuating exchange rate. To offset the cost increases, CS headquarters reduced the post's discretionary budget by more than 60 percent, from \$689,496 to \$254,921, during the same period. This affected spending for direct program support (travel and supplies), furniture and equipment, and hospitality. The post's travel budget alone was reduced from \$169,156 to approximately \$83,443 in FY 2006. However, only \$26,443 of the FY 2006 budget was actually available to fund travel for outreach and program support because the remaining amount was designated for the CS Brazil all-hands meeting (\$42,800) and officer training (\$14,200). As a result of these budget changes, the post's outreach to other regions in Brazil was limited. The post is now using fees collected from

its products and services ("trust funds") to supplement its discretionary budget for travel and outreach. This may be affecting other CS priorities and the types of products and services the post provides. For example, in FY 2006 CS Brazil provided 22 percent fewer Gold Key services and 30 percent less customized market research than in FY 2005.

We recommended that CS reevaluate the post's discretionary travel budget to ensure that the post has adequate resources, and develop a more effective strategy to increase or maintain trust fund collections while also increasing the number of core products and services provided to U.S. clients.

### Financial and Administrative Operations Are Generally Sound, but a Few Areas Require Additional Attention

In general, CS Brazil's financial and administrative operations appear sound, but some areas need improvement. The post closely monitors its use of State Department-provided International Cooperative Administrative Support Services (ICASS), tracks its obligations and liquidations in eMenu, uses funds and purchase cards appropriately, and uses CS vehicles only for official business. But we had difficulty tracking the post's financial data because of the many discrepancies between financial reports located on eMenu, accounting reports obtained from ITA, and various other documents. There is no

### CS Worldwide Export Success Rankings for FYs 2004 and 2005

Rank	Country	# of Success Counts <sup>a</sup>	% of Worldwide Total	Rank	Country	# of Success Counts <sup>b</sup>	% of Worldwide Total
<b>FY 2004</b>				<b>FY 2005</b>			
1	India	680	6.0%	1	India	812	6.5%
2	Brazil	593	5.2%	2	Brazil	720 [659] <sup>b</sup> [523] <sup>c</sup>	5.8% [5.3%] <sup>b</sup> [4.2%] <sup>c</sup>
3	Mexico	480	4.2%	3	Germany	569	4.6%
4	Germany	461	4.0%	4	Mexico	541	4.4%
5	China	449	3.9%	5	China	531	4.3%
6	Japan	368	3.2%	6	Japan	396	3.2%
<b>Worldwide Total</b>		<b>11,395</b>		<b>Worldwide Total</b>		<b>12,428</b>	
<sup>a</sup> Total success counts for each country include export success stories initiated and approved by other offices. Both the initiating and participating offices receive the same credit for their involvement in an export success, but the worldwide total only counts it once. <sup>b</sup> The revised figure reflects 61 export success stories CS Brazil removed, withdrew, or combined during our review or as a result of our review. <sup>c</sup> The revised figure reflects an additional 136 export success stories that OIG identified as invalid or questionable.							

Source: eMenu, Commercial Service, December 22, 2006

consolidated report that provides a clear financial picture of the post.

We recommended that CS take steps to further reduce ICASS costs, consider eliminating a financial-related staff position in Sao Paulo, and ensure policies for gifts, bequests, and travel advances and vouchers are followed. In addition, the post has some unliquidated obligations that should be examined for possible deobligation, and needs to track and verify that all purchase card holders and approving officials receive required acquisition training.

## Agency Responses

ITA officials generally agreed with our recommendations and provided a detailed response to our report. Among other things, the agency's response noted that CS is moving the deputy senior commercial officer from the Brasilia office to the Sao Paulo location because both the senior commercial officer and deputy positions must be located in the commercial capital to effectively manage CS operations in Brazil. The Sao Paulo principal commercial officer position will be moved to Brasilia. CS also plans to place an employee in Recife at the U.S. consulate if the State Department waives ICASS fees for an office there.

In addition, ITA reports the CS Brazil post is working on a revised strategic plan and has come up with a strategy to expand market presence across Brazil. The post has also developed a new industry team structure that consolidates a number of the teams and clarifies roles and responsibilities.

ITA also stated that CS Brazil will work with the agency's Office of Strategic Planning to remove all invalid and questionable export successes. CS Brazil management was to reiterate the latest CS guidance on export success reporting at the post's all-hands meeting in April 2007.

Finally, CS reported that it has increased the post's discretionary travel budget to \$107,079 for FY 2007, an addition of more than \$20,000.

USPTO reported that it has developed measurable, long-term goals, objectives, and time lines for the intellectual property attaché in Brazil. NIST reported that it is (1) working with ITA to develop a plan to identify measurable, long-term goals for the standards attaché in Brazil, and (2) formulating a long-term standards strategy and plan for South America. (*Office of Inspections and Program Evaluations: IPE-18114*)

## Review Finds Commerce Can Enhance Its Trade Coordination Efforts

In August 2006, members of the U.S. House of Representatives asked the Commerce Inspector General and six other IGs to review certain aspects of their agency's efforts to promote export opportunities for small businesses and coordinate trade promotion efforts among themselves, with other government agencies, and with the private sector.

Congress established the Trade Promotion Coordinating Committee (TPCC) in 1992 to provide a unifying framework for federal export promotion and financing efforts. Among its other activities, the TPCC is required to submit an annual National Export Strategy to Congress.<sup>9</sup> The Secretary of Commerce serves as the chairman of the TPCC, which also includes 18 other federal agencies with responsibility for some aspect of promoting U.S. business overseas. The TPCC secretariat currently reports to the U.S. Commercial Service, which is the chief export promotion organization of ITA. Commerce OIG helped coordinate all the IG reviews as they relate to the National Export Strategy and the TPCC's role.

CS has a network of trade specialists located in 107 U.S. cities and more than 80 countries to assist U.S.

<sup>9</sup> OIGs from several other TPCC agencies have identified some concerns with the current process of drafting *The National Export Strategy*. We have highlighted those concerns in a separate memorandum report to the Department, which will be issued during the next semiannual reporting period.

exporters and represent U.S. commercial interests abroad. Other Commerce organizations also play a role in assisting exporters, including ITA's Manufacturing and Services and Market Access and Compliance offices, the Minority Business Development Agency, the National Institute of Standards and Technology, the U.S. Patent and Trademark Office, and the Bureau of Industry and Security.

We focused our review on Commerce's coordination of export promotion with federal and state agencies and other stakeholders, and the Department's efforts to identify and communicate specific export opportunities or trade leads and other export-related information using the Internet. We found Commerce could enhance its trade promotion efforts in a number of areas and made 19 recommendations.

## Our Findings

Commerce works closely with many partners, including other federal, state, and local government agencies, and private sector organizations. Commerce's domestic U.S. export assistance centers (USEACs) maintain active partnerships with local and national organizations. The TPCC secretariat actively works with other agencies on various trade promotion priorities. But despite these cooperative relationships, we found that the TPCC agencies do not regularly communicate on specific trade promotion issues and that doing so would strengthen interagency collaboration.

Such issues include identifying and communicating trade leads, delivering information and services for exporters via the Internet, providing trade finance assistance to U.S. companies, and developing trade capacity-building programs. The TPCC has not developed any working groups or other forums that regularly meet to improve interagency coordination on these issues. CS also should do more to increase cooperation with state trade offices around the country.

In addition, Commerce should seek to further engage the national network of 58 district export councils, which have more than 1,600 members with

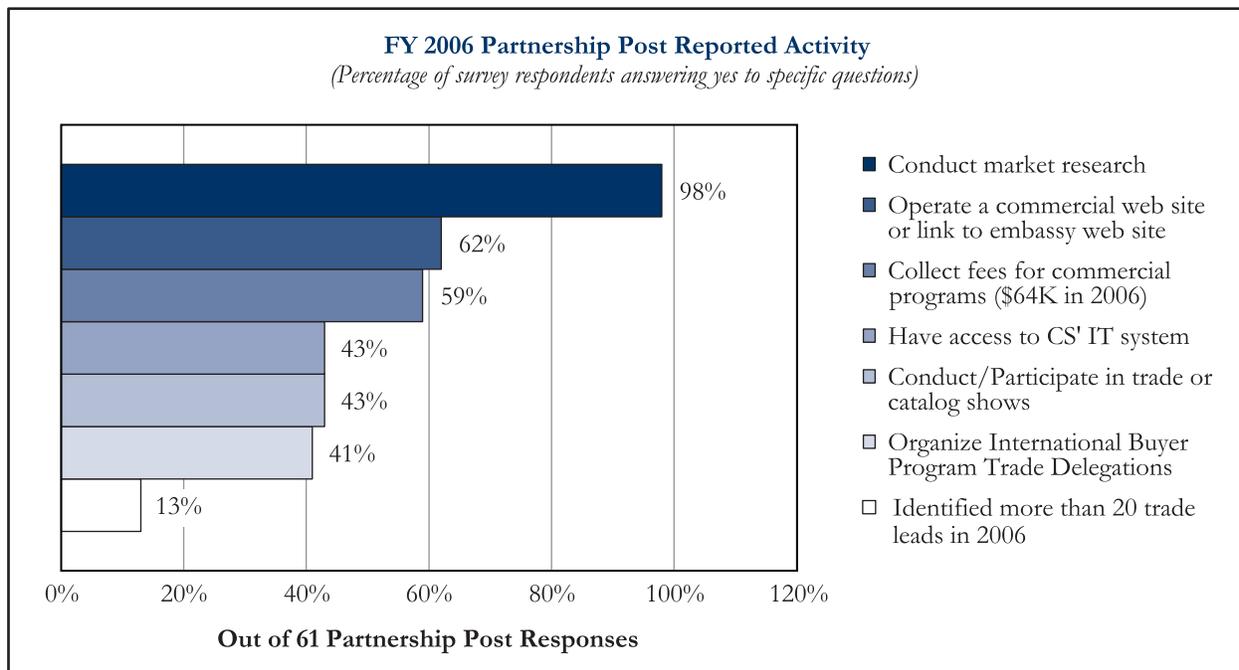
experience in international trade. Many of the councils are inactive or otherwise play a limited role in supporting CS' trade promotion efforts. Opportunities likely exist for CS to energize these councils and leverage their resources. CS has begun to evaluate how the district councils could better support trade promotion efforts, but it has not yet developed a plan that defines their role.

## CS and the State Department Should Cooperate to Support Partnership Posts

In countries where CS does not maintain an office, the State Department is responsible for representing U.S. commercial interests and assisting U.S. exporters. The countries served by State's economic section in the U.S. embassy, commonly referred to as partnership posts, are generally smaller, more difficult export markets. These posts can best serve U.S. exporters by actively collaborating with the nearby CS post that has regional responsibility for the partnership post's territory and with USEACs, which work directly with companies that may be interested in pursuing business opportunities in countries served by partnership posts.

Many partnership posts provide assistance to U.S. exporters and work closely with some USEACs. However, Commerce and State have never formally agreed on how the program should be coordinated and what their respective responsibilities are for supporting the commercial function of these posts. Without such an agreement, CS and State officers often are uncertain about their responsibilities with regard to this support.

In November 2006, State's Bureau of Economic and Business Affairs conducted its regular biannual survey of the 94 U.S. embassies and consulates that provide some form of commercial assistance to U.S. companies but do not have a CS presence. Both Commerce OIG and State OIG provided input into the design of the survey to ensure it gathered information relevant to our ongoing reviews of the partnership post program. As of January 2007, 61 posts had responded to the survey. The results reinforce the need for Commerce-State agreement on the role of CS posts in supporting the partnership posts. The majority (68 percent) of the State



partnership posts are satisfied with the support of their CS regional counterparts. A number of posts requested additional support from CS. The State Department, in its summary of the survey results, specifically mentioned 5 posts that could benefit from more active partnerships with their local CS post and 3 posts that were not partnered with a local CS post but should be.

Our report concluded that CS management needs to provide its posts with clear guidance on their role in supporting partnership posts and should include this in its performance measures. CS also could provide State's posts better access to CS' information technology resources, integrate CS and State's commercial web sites, and coordinate market research efforts. CS and State need to develop a joint planning mechanism for partnership post operations, payment procedures and quality standards for the services they provide, clear export success reporting procedures, and an appropriate training program for partnership post staff. CS should also provide additional information on partnership post services to USEAC staff and open communication channels between CS' Office of Domestic Operations and State's Bureau of Economic and Business Affairs.

### ITA Should Improve Internet Resources, Identification and Communication of Trade Leads

ITA has several overlapping web sites, which means potential U.S. exporters have to check numerous sites for specific information. In addition, *export.gov*, the TPCC's federal Internet portal managed by ITA, has only limited information from other TPCC agencies. Commerce needs to better coordinate federal Internet resources for exporters and consolidate its own multiple web sites.

We also found that CS could make trade leads more useful by improving the processes and technology used to collect leads from federal agencies and communicate them to exporters. The TPCC Internet portal mainly contains trade leads from CS overseas offices and from some State Department partnership posts. Several other TPCC agencies as well as some other Commerce organizations have information on substantive export opportunities that could be included in the TPCC trade lead database. Instead of aggregating these leads on one federal web site, however, these other organizations are posting trade leads on their own web sites, making it difficult for U.S. exporters to search for all relevant trade opportunities. In addition, the TPCC database does

not take advantage of available technology to allow for automatic notification of export opportunities that match a company's industry profile, which could be a useful tool for busy exporters.

### Finance and Procurement Opportunities at Multilateral Development Banks Should Be Publicized

Multilateral development banks fund development projects around the world and provide financing and investment guarantees that might be beneficial to U.S. companies. Financing assistance may be offered by a bank alone or in conjunction with financing and investment guarantees offered by the Small Business Administration, the Export-Import Bank of the United States, the Overseas Private Investment Corporation, other multilateral development banks, or private banks.

While most CS officers and many state trade agencies and other federal agencies were aware that CS maintains personnel at five multilateral development banks, we found that many USEACs, state trade agencies, and exporters did not fully understand the trade finance, consulting, and other procurement opportunities at the banks. CS should provide more information to key stakeholders on trade finance and direct procurement opportunities available at the banks and coordinate future exporter outreach efforts with USEACs.

### Agency Response

ITA agreed with most of our recommendations, and in its response to our report, outlined several efforts

under way or under consideration to further enhance collaboration with state trade offices, the district export councils, and other Commerce bureaus, including ESA, MBDA, and NIST. ITA also reported that in early March 2007, CS issued interim partnership post guidance to CS officers and provided the guidance and a draft memorandum of understanding to the State Department for comment. These documents delineate CS and State's responsibilities in the partnership post program. Commerce is waiting to receive State's comments before it implements the guidance and finalizes the memorandum.

The agency agreed to improve its Internet resources and consolidate other agencies' trade leads into *export.gov* and outlined plans to address our recommendations. ITA's response also provided additional information regarding its multilateral development bank operations, but did not directly address all our recommendations to enhance those operations. We asked the bureau to provide an action plan detailing how it will implement our recommendations.

Three other Commerce bureaus also responded to specific recommendations in our report. The Under Secretary for Economic Affairs agreed that STAT-USA and ITA should evaluate ways to improve their coordination in identifying trade leads. NIST concurred with our recommendation for enhanced cooperation between its Manufacturing Extension Partnership and CS. And MBDA agreed with our recommendation for better MBDA-CS coordination. (*Office of Inspections and Program Evaluations: IPE-18322*)



# 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* provides products, services, and information that promote safe navigation, support coastal communities, sustain marine ecosystems, and mitigate coastal hazards.

*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 Great Lakes, the lower and upper atmosphere, space environment, and the Earth.

*Office of Program Planning and Integration* develops and coordinates NOAA's strategic plan, supports organization-wide planning activities, guides managers and employees on program and performance management, and integrates policy analyses with decision making.

## NWS Followed Most Severe Weather Policies During Deadly Tornado

On September 16, 2006, a few minutes before 10:00 p.m. local time, a tornado struck the city of Rogers, Minnesota, killing a 10-year-old girl, injuring six others, and damaging dozens of structures. Although the area was under both a tornado watch and severe thunderstorm warning at the time, the National Weather Service did not issue a tornado warning

before the tornado hit. NWS' Chanhassen, Minnesota, weather forecast office (WFO) is responsible for issuing tornado and severe thunderstorm warnings for Hennepin County, which includes the city of Rogers.

During the 12 minutes the tornado was on the ground, the Chanhassen office received no reports of tornado sightings from public safety officials or trained weather spotters.<sup>10</sup> But the WFO's damage

<sup>10</sup> An individual trained by the National Weather Service to report on local observed weather conditions.

assessment performed the following day determined that a tornado rated F2 on the Fujita Scale<sup>11</sup> had indeed hit the city. The assessment also determined that the tornado initially touched down about 3.5 miles west of Rogers, moved northeast through the northern part of the city, and dissipated in a neighboring county. The tornado left a path of damage 8 miles long.

Based on the NWS damage assessment, the tornado's winds were estimated to be less than 73 miles per hour when it touched down, but it quickly gained strength. Wind speeds had reached an estimated 113-157 mph when it hit Rogers. The storm's intensity diminished as it moved into adjacent Anoka County.

In response to a request from then-Senator Mark Dayton (D-Minnesota), we examined NWS' actions in connection with the Rogers tornado as well as agency policies and technological capabilities for forewarning the public. Our purpose was to assess whether NWS policies and procedures are adequate and were followed before and during the Rogers tornado, whether the Chanhassen WFO has state-of-the-art severe forecasting and observations technology, and if that equipment was operating properly on September 16, 2006.

## Our Findings

We found that the Chanhassen WFO, NWS Central Region, and Storm Prediction Center for the most part followed agency policies for handling severe weather events and have equipment in place that is considered to be the best available technology for reading weather conditions. But we noted several factors that may have adversely impacted Chanhassen's handling of the situation and warrant close management attention:

<sup>11</sup> F2 tornadoes cause considerable damage—roofs torn off frame houses; mobile homes demolished; boxcars overturned; large trees snapped or uprooted; light-object missiles generated; cars lifted off ground. Fujita Scale wind estimates are as follows: F0 (<73 mph); F1 (73-112 mph); F2 (113-157 mph); F3 (158-206 mph); F4 (207-260 mph); F5 (261-318 mph).

## Chanhassen WFO Did Not Follow Policy to the Letter

NWS policy requires that severe thunderstorm warnings issued for areas concurrently under a tornado watch must state that tornadoes are also possible.<sup>12</sup> The severe thunderstorm warning issued at 9:43 p.m.—9 minutes before the tornado touched down—did not contain such a statement.



OIG

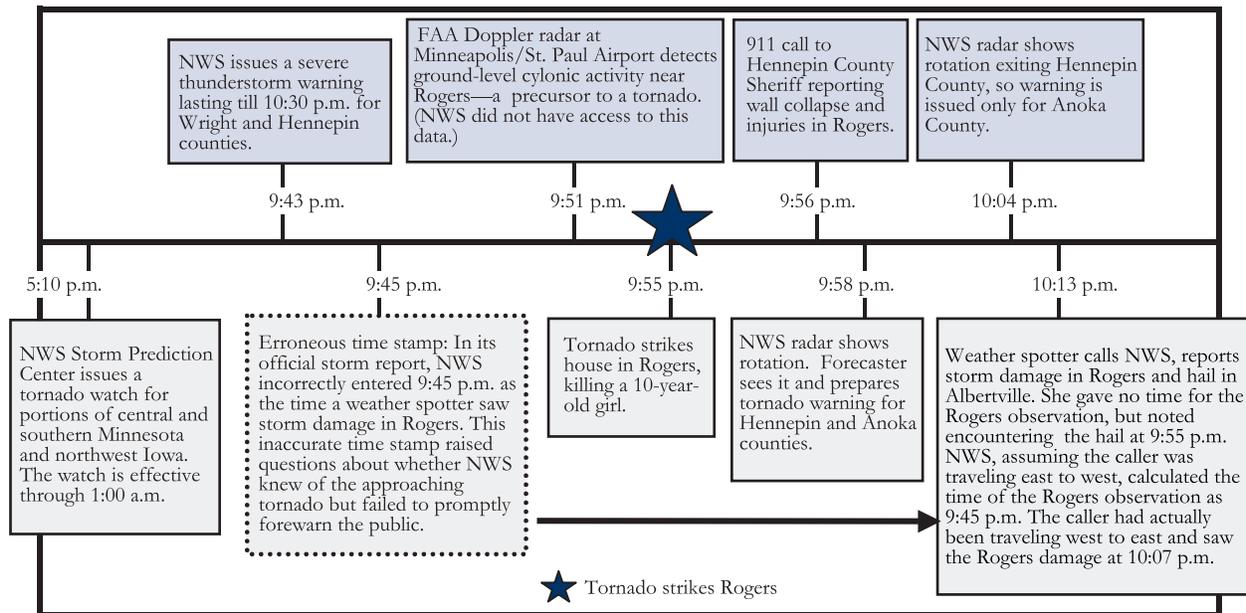
*The high winds from the unannounced tornado tore off roofs and demolished whole sections of homes.*

## Dividing Staff to Monitor Conditions Left Rogers with Reduced Coverage

Shortly before the tornado hit, Chanhassen assigned warning responsibility for a region southwest of Minneapolis/St. Paul to two forecasters on duty at the time, because this area appeared most likely to spawn tornadoes. One other forecaster was assigned warning responsibility for an area north of the Twin Cities, which included Rogers. Three minutes later, the WFO issued a severe thunderstorm warning for Hennepin and a neighboring county, and 9 minutes

<sup>12</sup> See NWS Instruction 10-511 at [www.weather.gov/directives/sym/pd01005011curr.pdf](http://www.weather.gov/directives/sym/pd01005011curr.pdf).

### Tornado Time Line, Rogers, Minnesota September 16, 2006



after that, the tornado touched down near Rogers. The theory behind dividing staff—to allow forecasters to focus on more limited areas during volatile weather conditions—is normally a best practice. But the events in Rogers underscore the unpredictability of severe weather: in this case, a rapidly developing event that may have warranted coverage by two forecasters.

#### Notice from Storm Prediction Center Suggested Improving Conditions

At 9:54—as the tornado was on the ground in the vicinity of Rogers—the NWS Storm Prediction Center in Norman, Oklahoma, issued a notice stating that the risk for tornadoes was diminishing across northern and central Minnesota, including Hennepin County. While this notification did not state that the possibility for tornadoes had ended, it appeared to send a message that conflicted with actual conditions. Its intention was to notify forecasters of the beginning of an hours-long period of atmospheric evolution during which tornadoes would normally become less likely.

#### Weather Spotter's Report Was Misinterpreted But Did Not Impact Performance

At 10:13 p.m., a weather spotter en route through Rogers from Albertville, Minnesota, called the Chanhassen WFO to report encountering hail in Albertville at 9:55 p.m. and seeing storm damage in Rogers. The Chanhassen technician who took the call did not ascertain the spotter's point of departure and erroneously assumed she was traveling in the opposite direction—from Rogers to Albertville. After calculating the driving distance between the two cities, the technician logged the time of the Rogers observation at 9:45—10 minutes before the tornado actually struck the city. This erroneous time, entered as the official time of the damage observation in NWS' storm reporting system, made it appear as though NWS knew about the tornado 13 minutes before the forecaster reported observing tornado conditions on radar and 19 minutes before issuing a tornado warning. This misinterpretation and subsequent logging of the report was a major factor in the controversy surrounding NWS' role in connection with the deadly Rogers tornado.

## Access to FAA Radar Data Could Have Aided Decision Making

NWS relies on the Next Generation Radar system (NEXRAD)<sup>13</sup> to monitor atmospheric conditions at 122 weather forecast offices. The departments of Defense and Transportation also operate more than 30 NEXRAD systems. Many WFOs have access to these radars' data, although there is no DOD or DOT NEXRAD system nearby the Chanhassen WFO. While considered the best available technology for reading weather conditions, NEXRAD has some limitations—for example, in reading precipitation, it has limited ability to distinguish between rain, hail, sleet, birds, snow, and other airborne materials. Additionally, some weather conditions can cause the radar beam to bend up or down, creating false images on the screen. There is no evidence to suggest, however, that any of these conditions played a part in the events surrounding the Rogers tornado. NWS advised us that technology known as dual polarization is currently under development. With planned implementation from late 2007 through 2012, dual polarization should greatly enhance NEXRAD's ability to distinguish between various types of radar reflections.

To augment its radar capabilities in some locations, NWS also uses the Federal Aviation Administration's Terminal Doppler Weather Radar (TDWR), which is designed for use at major airports. TDWR has several technical differences from NEXRAD, including lower peak power and a shorter maximum Doppler range. TDWR scans low levels of the atmosphere at 1-minute intervals to provide important weather data for approaching and departing aircraft. Though TDWR is available in the Minneapolis/St. Paul area, the Chanhassen office is not connected to it. Subsequent analysis of TDWR data after the Rogers tornado found that the radar showed indicators of a possible tornado on or near the ground about 3 minutes sooner than NEXRAD, primarily because NEXRAD was scanning a higher elevation at the time of the TDWR scan. TDWR information, in combination with NEXRAD data, might have

accelerated the warning decision process. We were told that NWS is not connected to all TDWR sites due to funding priorities.

## Our Recommendations

To enhance its forecasting abilities, we recommended that the director of NWS ensure the agency does the following:

- Reinforces through ongoing forecaster training, NWS requirements for preparing weather products such as watches and warnings so that weather field offices provide the public with all required information.
- Researches methods to automate the inclusion of required information in weather products to ensure they are issued in accordance with NWS policies.
- Explores ways to improve coordination between the Storm Prediction Center and the weather field offices so that communicués clearly distinguish between current and anticipated future weather conditions.
- Assesses alternative staffing models and practices that will permit WFOs to assign at least two forecasters to monitor individual areas of severe weather when conditions necessitate dividing warning responsibilities.
- Develops a standard protocol for field office staff to follow when collecting spotter observations to ensure they ascertain accurate time frames, precise locations and direction, and all other pertinent details.
- Assesses the feasibility of connecting Chanhassen and other weather field offices to FAA's Doppler radar systems, where available, and deploying all available technology upgrades.

<sup>13</sup> NEXRAD radar is often referred to as WSR-88D, which stands for Weather Surveillance Radar 1988 Doppler, in reference to the radar's 1988 design date.





OIG

*A tribal commission employee displays trays holding salmon eggs.*

In responding to our draft report, the commission agreed that it needed to document policies and procedures, do a better job of explaining federal grant requirements to recipients, and improve its monitoring of their projects. However, it took exception to our recommendation that funds be awarded according to a project's merit and costs, contending that equal distribution is permissible and allows the tribes to establish their own project priorities. We considered the commission's objection but disagreed with its funding process and thus did not change our original recommendation. (*Seattle Regional Office of Audits: STL-16657*)



# NATIONAL TELECOMMUNICATIONS AND INFORMATION ADMINISTRATION

The **National Telecommunications and Information Administration** serves through the Secretary of Commerce as the executive branch's principal advisor to the President on domestic and international telecommunications and information policy issues. NTIA manages the federal use of the electromagnetic spectrum; provides grants for national information and public broadcasting infrastructure projects; and performs telecommunications research and engineering. It works to enhance citizens' access to cable television, phone, and other telecommunications services; and educates state and local governments and other entities on ways to use information technology and telecommunications more effectively.

## Television Alliance Needs Better Accounting Procedures, Policies to Manage Grant

The Metropolitan Television Alliance (MTVA) is a consortium of 11 New York City television stations formed after September 11, 2001, when the analog and digital transmission facilities of most major New York City broadcasters were destroyed in the collapse of the World Trade Center. After losing their primary broadcast facilities, the members of MTVA set up temporary facilities at the Empire State Building. For various technical reasons, the Empire State Building reportedly is not suitable as a long-term digital television broadcasting platform. The Freedom Tower, which will be built at the former World Trade Center site, will ultimately serve as home to the MTVA members' permanent digital transmission platform. Freedom Tower has a 2011 completion date.

The Digital Television Transition and Public Safety Act of 2005 sets a February 2009 deadline for conversion of all over-the-air full-power television station broadcasts from analog to digital format. It is critical that broadcasters in New York City, one of the nation's largest media markets, have the ability to provide digital over-the-air coverage by that date. The act authorizes Commerce's Assistant Secretary for Communications and Information to make payments in fiscal years 2007 and 2008 not exceeding \$30 million to reimburse MTVA for costs incurred in the design and deployment of a temporary television broadcast system that will provide adequate over-the-air digital television coverage to the New York metropolitan area from February 2009 until the completion of permanent digital facilities in Freedom Tower. To implement this provision of the act, the National Telecommunications and Information Administration will make a grant to MTVA.<sup>15</sup>

<sup>15</sup> Because NTIA does not have an internal grants administration staff, the NIST grants office will administer the grant.

## The MTVA Project

MTVA has proposed a \$29.5 million project in two phases. The first phase involves design, construction, and deployment of a four- or five-site prototype digital television transmission system. The prototype system allows MTVA to test various technical aspects of the network, including possible interference from multiple overlapping broadcast signals; efficiency, reliability, and cost-effectiveness of equipment; optimal siting, power, and antenna height parameters; and quality of broadcast reception. MTVA estimates a total cost of \$7,855,000 for the first phase of the project, which includes equipment purchases, consultant costs, and antenna site rentals for deploying, testing, and operating the prototype system.

The second phase involves deploying, testing, and operating a full-scale network of up to 20 sites that will provide over-the-air digital broadcasting service to the entire New York City metropolitan area. MTVA's proposal estimates total costs for the second phase of the project to be \$21,645,000.

MTVA's cost estimates do not include salaries, fringe benefits, or indirect costs. Salaries and associated fringe benefits are not included because MTVA has no permanent employees. Both its president and chief technical officer serve as consultants to the alliance, and they will charge their work under the grant as independent contractors. MTVA also does not have office facilities. MTVA's application does not request reimbursement of indirect costs associated with the NTIA-funded project as part of its cost claims under the grant. Instead, the alliance's proposal includes only those costs that are directly associated with the development, testing, and operation of its prototype and full-scale interim digital broadcasting systems.

Since MTVA has never received grants from the federal government, NTIA requested assistance from OIG to ensure the necessary accounting and internal controls were in place prior to award. In October and November 2006, we conducted a limited scope survey of MTVA's accounting system and examined MTVA's records of costs already incurred.



*Ana Schaeffer/www.sxc.hu*

*MTVA members installed temporary broadcasting facilities at the Empire State Building after the World Trade Center's twin towers collapsed from the September 11, 2001, terrorist attack. However, for various technological reasons, the Empire State Building is not suitable as a long-term digital television broadcasting platform. The Freedom Tower, which will be built at the former World Trade Center site and is currently scheduled for completion in late 2011, will serve as the permanent digital transmission platform.*

## What We Found

We had determined prior to our survey that MTVA did not have adequate written accounting policies and procedures. Subsequently, MTVA developed written procedures, which we reviewed and found did not properly reference applicable federal cost principles. As a first-time recipient of federal financial assistance, MTVA needs a clear understanding of the types of costs eligible for reimbursement. NTIA should clearly articulate the cost principles MTVA should use to determine what costs are allowable under the grant.

We also noted that MTVA does not have written contracts with its existing consultants and vendors as required by federal regulations, and the consortium does not have written procurement procedures. Grant recipients are required to establish written procedures to ensure contracts are awarded only to responsible firms. In addition, without written procurement procedures, MTVA could unwittingly violate the terms and conditions of the grant and not be reimbursed for otherwise allowable expenses.

### Preaward Costs Need Careful Review

According to federal regulations, certain costs incurred prior to the award date are allowable. We reviewed records supporting \$152,069 in costs MTVA incurred prior to our site visit and for which it intends to seek reimbursement under the award. Included in those costs are certain expenditures related to the preparation of MTVA's grant proposal to NTIA.

The records we reviewed lacked sufficient detail to determine the exact costs MTVA incurred preparing its proposal, but federal cost principles require bid and proposal costs to be accumulated and allocated across a company's operation as an indirect cost item. Since the grant will not reimburse MTVA for indirect costs, the proposal costs would not be recoverable under the award. We also found that \$11,850 of intended preaward costs are for a consultant's preparation of written comments to NTIA on another program. This work is outside the scope of design, construction, and implementation of an interim digital transmission network for the New York City metropolitan area and as such would not appear to be an allowable expense under the grant.

### Government Interest in Equipment Acquired with Award Funds Needs to Be Recognized

MTVA plans to acquire millions of dollars worth of digital broadcasting equipment with the grant money. However, the equipment will no longer be needed when the Freedom Tower is completed in late 2011. Although title to such equipment vests in the

recipient, federal regulations provide that the government retains an interest in such property. Federal regulations also require a physical inventory of equipment purchased with federal funds and results reconciled with equipment records at least every 2 years. Federal regulations also include detailed procedures for disposing of equipment that is no longer needed for its intended purpose under a grant.

### NTIA Should Ensure Audit Coverage

MTVA's proposal did not include provisions for periodic audits of the costs incurred on the project. Given the size of the award and MTVA's lack of experience with federal grant requirements, we believe that audit coverage will help ensure that the award funds are used for the intended purpose. We discussed this issue with MTVA officials during our site visit, and they volunteered to submit to annual audits of expenditures under the grant, beginning with the period ending December 31, 2007.

## Our Recommendations

We recommended that the Assistant Secretary for Communications and Information require MTVA to correct the deficiencies in its accounting policies and procedures, and obtain a detailed accounting of proposed preaward costs from MTVA and assess each item for allowability under the grant. We also recommended that NTIA take steps to ensure that MTVA is aware of and in compliance with federal regulations relating to equipment purchased with grant funds. In addition, we recommended that NTIA include in the award a requirement for a program-specific audit for the year ending December 31, 2007, for every successive year that award expenditures exceed \$500,000, and at the completion of the project.

NTIA subsequently informed us that all our recommendations have been incorporated in the MTVA grant's special award conditions. (*Denver Regional Office of Audits: DEN-18401*)



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# TECHNOLOGY ADMINISTRATION

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

*Office of Technology Policy* works in partnership with the private sector to develop and advocate national policies and initiatives that use technology to build America's economic strength, promote the creation of high-wage jobs, and bring about improvements in our quality of life.

*National Institute of Standards and Technology* promotes U.S. innovation and industrial competitiveness by advancing measurement science, standards, and technology in ways that enhance economic security and improve quality of life. NIST manages four programs: the Advanced Technology Program, the Manufacturing Extension Partnership program, the Baldrige National Quality Program, and NIST Laboratories.

*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.

## NIST Logistics Group Operations Are Mostly Sound but Need Attention in Some Areas

In late 2006, we conducted a review of the Logistics Group unit of the National Institute of Standards and Technology's Administrative Services Division. This was part of our ongoing work in the area of strengthening internal controls in the Department.

The Logistics Group unit handles personal property management and disposal, oversees shipping and receiving, arranges household moves for select employees and researchers, and operates a supply storeroom at NIST's Gaithersburg, Maryland,

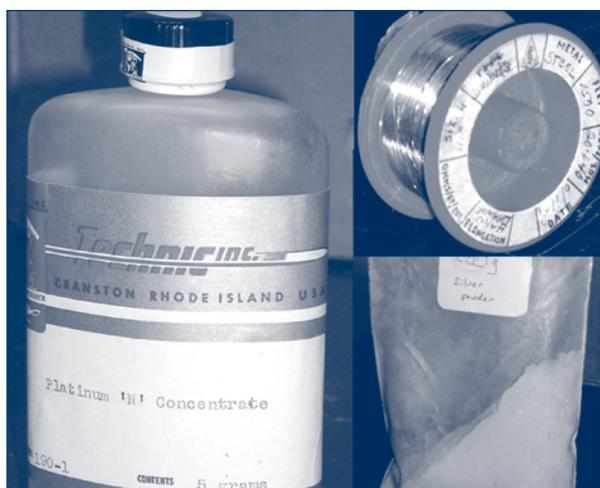
headquarters. In conjunction with the finance division, the unit also conducts an annual inventory of the precious metals used by NIST researchers.

Although we found that the Logistics Group's operations and procurement activities were generally sound, our report described the need for management attention and some improvements in the areas of precious metals inventory maintenance, shipping and receiving, and storeroom operations. We recommended that NIST improve its guidance and training for precious metals custodians; ensure adequate staff resources within the Logistics Group; address several safety concerns involving daily operations that were brought to our attention; improve the shipping and receiving guidance

provided to NIST employees; and replace a storeroom inventory management system that has limited capabilities.

## Bureau Response

In its response to our report, NIST indicated it had begun working on several of the recommendations we made. Officials also said they had taken immediate action to address some safety issues we found during our review. (*Office of Inspections and Program Evaluations: IPE-18321*)



OIG

*NIST researchers use precious metals in a number of forms, including solid, liquid, and powder.*

## Audits Unresolved for More Than 6 Months

### Computer Aided Surgery Inc., New York

An OIG audit of this NIST cooperative agreement (see September 2004 issue, page 35, and March 2005 issue, page 33—ATL-16095) questioned costs totaling \$547,426 in inappropriately charged rent, utilities, and certain salary, fringe benefit, and other expenses because these costs were unallowable, in excess of budgetary limits, or incorrectly categorized. This audit remains unresolved because we requested that NIST postpone its submission of an audit resolution proposal.

### FastVDO LLC, Maryland

An audit of this NIST cooperative agreement (see March 2006 issue, page 35, DEN-17410) recommended that NIST disallow \$51,838 in questioned costs, recover excess federal disbursements of \$29,409, and ensure that the recipient, among other things, (1) implements an adequate method for capturing time directly spent on the ATP project, (2) bills only for that time, (3) develops written financial management procedures, and (4) tracks and inventories grant-funded purchases as required by federal regulations and ATP program terms. This audit remains unresolved because we have postponed NIST's submission of an audit resolution proposal.



# UNITED STATES PATENT AND TRADEMARK OFFICE

**T**he **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 Acquisition Operations Could Benefit from Improved Guidance

We reviewed the procurement process at USPTO to gain an understanding of the systems used to manage the process and to determine if the agency's acquisition criteria have changed since the Patent and Trademark Efficiency Act took effect in March 2000. USPTO's use of the flexibilities and authorities provided by that act has been on OIG's list of Top 10 Management Challenges since 2001.

We did not issue any recommendations, but did note several areas that could benefit from improved guidance. For example, we learned the procurement staff needs guidance for determining when to use the *Patent and Trademark Office Acquisition Guidelines*. We also found data input errors in the Federal Procurement Data System that could have been prevented with better controls. (*Business and Science Division: BSD-17779*)

## FY 2006 Financial Statements Audit: Clean Opinion and Improved IT Controls

Independent auditor KPMG rendered an unqualified opinion on USPTO's FY 2006 financial statements, finding them fairly presented, free of material weaknesses, and in compliance with all applicable laws and regulations. KPMG reported that USPTO continues to maintain a sound internal control structure that enables the agency to prepare reliable financial and performance information.

As part of the financial statements audit, KPMG assessed information technology general controls for USPTO systems used to process and maintain key financial data against criteria in GAO's *Federal Information System Controls Audit Manual* (FISCAM). KPMG found that USPTO had resolved six of eight FISCAM weaknesses reported in FY 2005. The two remaining weaknesses are in the areas of access controls and service continuity. (*Financial Statements and Accountability Audits: FSD-18003-1 and -2*)



# U.S. DEPARTMENT OF COMMERCE



STRATEGIC PLAN  
FY 2004-FY 2009



AMERICAN JOBS  
AMERICAN VALUES





# DEPARTMENT-WIDE MANAGEMENT

The United States Department of Commerce creates the conditions for economic growth and opportunity by promoting innovation, entrepreneurship, competitiveness, and stewardship. The Department has three stated strategic goals:

- GOAL 1:** Provide the information and tools to maximize U.S. competitiveness.
- GOAL 2:** Foster science and technological leadership by protecting intellectual property, enhancing technical standards, and advancing measurement science.
- GOAL 3:** Observe, protect, and manage the Earth's resources to promote environmental stewardship.

The Department has also established a Management Integration Goal that is equally important to all bureaus: Achieve organizational and management excellence.

## The Department Needs to Tighten Controls, Update Guidance for Premium-Class Travel

Government workers on official travel are a lucrative source of income for the travel industry. According to the General Services Administration, federal spending on travel totaled \$15.4 billion in fiscal year 2005. And the largest share of the spending—\$3.4 billion—went toward airfare.<sup>16,17</sup>

To keep airfare costs in check, the Federal Travel Regulation (FTR) requires government employees to fly coach for official domestic and international

travel, unless their agencies approve the more costly first- or business-class (“premium-class”) accommodations. The FTR allows premium-class air travel under a variety of circumstances, for example, when a seat in coach class is unavailable, when international flight time exceeds 14 hours, or when the upgrade is needed to accommodate a traveler’s disability.

At Commerce, the *DOC Travel Handbook* details the agency-specific policies and requirements travelers must follow to comply with the FTR. During this semiannual period, we examined a sample of 74 premium-class flights taken by Commerce employees in fiscal years 2005 and 2006 to determine how well the Department enforces its policies and FTR requirements.

<sup>16</sup> [www.govexec.com/story\\_page.cfm?articleid=35888&sid=3](http://www.govexec.com/story_page.cfm?articleid=35888&sid=3)

<sup>17</sup> [www.govexec.com/features/0806-15/0806-15s6.htm](http://www.govexec.com/features/0806-15/0806-15s6.htm)

## Our Findings

Our sample contained numerous instances in which the Department failed to properly authorize or approve premium-class travel, as required by the handbook and the FTR. We noted two major reasons for the failure:

### Outdated Policy

The *DOC Travel Handbook*, the Department's primary source of comprehensive travel policy, contains premium-class travel guidance dating back to 1990 and 1992. This guidance stipulates that the Chief Financial Officer and Assistant Secretary for Administration must authorize premium-class travel. But in 1993, the acting CFO/ASA at the time delegated this authority to Secretarial officers for their respective bureaus, allowing them to, in turn, pass on the authority to the bureau official of their choice. The handbook was never revised to reflect this new structure. In 2002 the Department conducted an internal review of the premium-class approval process and found confusion within its own travel management center (known as SATO) about who had authority to approve premium-class travel. It also found that the Department had not regularly provided SATO with a list of individuals authorized to approve premium-class air accommodations. The 2002 internal review recommended changes to resolve these problems but they were never implemented, so the confusion remains. In our review, we found that travel policy is still inconsistently applied Department-wide: for example, some bureaus do not require documented justification for premium-class travel, others do not enforce the requirement for agency approval.

### Poorly Implemented Internal Controls

Before a bureau's travel management center issues a premium-class airline ticket, it must receive a Request for Approval of Extra Fare Air Accommodations (Form CD-334), signed by the designated approving official. These are submitted to Commerce's Travel Management Division, which is supposed to verify the forms' proper authorization. But we found that neither the bureau centers nor the Travel Management Division routinely follows this

requirement: the Travel Management Division could produce only 4 CD-334 forms for the 74 trips in our sample. We backtracked to the travel voucher processing offices and individual bureaus to determine what documentation existed and found only 14 properly authorized CD-334s.

It falls to the Department's Travel Management Division, within the Office of Administrative Services, to ensure that internal controls over premium-class travel are clearly defined and consistently applied. While basic controls are in place, their poor implementation increases the opportunity for wasteful travel spending.



[www.osec.doc.gov/oas/travel/default.htm](http://www.osec.doc.gov/oas/travel/default.htm)

## Our Recommendations and Department Response

We recommended that the Department, among other things, update the *DOC Travel Handbook* to reflect all current policies and requirements, and ensure requirements for documenting the need for premium-class travel and for approving such requests are complied with across all bureaus and regional operations.

Department officials concurred with our findings and detailed corrective action they have already taken to strengthen internal controls over premium-class

travel: they are revising the *Travel Handbook* to reflect current policy and practice, updating the list of approving officials quarterly and disseminating it to all bureau travel centers, and they have revised the CD-334 to facilitate the verification process. (*Business and Science Division: BSD-18154*)

## Commerce Earns Clean Opinion for FY 2006 Consolidated Financial Statements

### IT Control Weaknesses Remain a Reportable Condition

For the 8th consecutive year, the Department received an unqualified opinion on its consolidated statements, and its financial management systems were in full compliance with the Federal Financial Management Improvement Act of 1996. However, the independent auditors (KPMG) noted continuing deficiencies in information technology controls that together constitute a reportable condition. Commerce was also cited for one instance of noncompliance with the Anti-Deficiency Act.

### Reportable Condition Reflects Persistent FISCAM Weaknesses

The auditors assessed general IT controls over the Department's major financial reporting systems against the six criteria in GAO's *Federal Information System Controls Audit Manual*, finding weaknesses in all six areas—entity-wide security, security access controls, application software development and change control, system software, segregation of duties, and service continuity. Effective general IT controls are essential to ensuring the integrity and reliability of data used to prepare and report financial information. Weaknesses in these controls have been a problem for Commerce since 1998, though each year the Department has reduced the number of deficiencies and strengthened these controls.

## Noncompliance with Anti-Deficiency Act Largely Resolved

**NOAA.** Last year's audit reported that the Department's Office of General Counsel had identified a real property agreement between NOAA and a nonprofit entity that contained an indemnification clause. The clause was in violation of the Anti-Deficiency Act because it constituted an open-ended obligation of government funds.

Prompted by this finding, NOAA reviewed 2,130 other agreements and identified 80 that contained indemnification clauses or provisions involving questionable liability. The Department's Office of General Counsel determined that these agreements also constituted violations of the Anti-Deficiency Act. The Secretary reported these violations to the President, Congress, and the Comptroller General as required by 31 USC § 1517(b). NOAA subsequently identified another agreement, for a total of 82 containing such clauses.

Our FY 2006 audit found that 75 of these agreements have been amended, terminated, or allowed to expire, and NOAA is taking action to correct the remaining 7.

**Economics and Statistics Administration.** Also during FY 2005, ESA identified seven 1-year agreements that contained indemnification clauses in violation of the Anti-Deficiency Act. The Secretary reported these, as required, in June 2006, and all seven had expired by fiscal year-end.

## "Special Purpose" Statements Also Receive Clean Opinion

As part of the FY 2006 consolidated audit, KPMG examined Commerce's statements of net cost and changes in net position (i.e., "special purpose" financial statements), and its reporting of intragovernmental activity and related payments and balances. These reviews assessed the Department's compliance with financial reporting requirements stipulated in the *Treasury Financial Manual*. The auditors rendered an unqualified opinion on the

special purpose statements and concluded internal controls over financial reporting for these statements were sound. (*Financial Statements and Accountability Audits: FSD-18001-1, -2, -3*)

## Audits Unresolved for More Than 6 Months

### Census Bureau

#### ITS Services, Inc.

In March 2005, we reported that 3 of the 32 task orders awarded under an IT services contract were audited to determine whether the costs billed by the firm were reasonable, allowable, and allocable under contract terms and conditions and federal regulations. We found that the firm had failed to comply with numerous contract and federal requirements, and questioned more than \$8.5 million in direct labor and reimbursable costs.

#### Computer & High Tech Management, Inc.

We reported in our September 2005 *Semiannual Report* (page 14) the results of audits of 2 of the 21 task orders for another firm providing IT services to Census. We sought to determine whether the firm had complied with contract terms and conditions and federal regulations and had billed Census for work performed in accordance with specifications of the task order. We found that the firm failed to comply with numerous contract and federal requirements, which caused us to question more than \$10.7 million in direct labor and other reimbursable costs.

We have suspended audit resolution on both of these contract audits pursuant to an agreement with Census.

## 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 Acquisition 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.

Preaward Screening Results		
Results	Award Number	Amount
Awards delayed to resolve concerns	7	\$3,373,478
Special award conditions established	1	\$315,250

On January 1, 2004, we implemented new policies and procedures for our preaward screening process. OIG and the Department determined that there are several categories of recipients for whom the costs and administrative burden of the screening process may well outweigh the government’s risk of financial loss. Our new policies exempt from review, recipients who (1) receive awards in amounts of \$100,000 or less; (2) have received financial assistance from the Department for 3 or more consecutive years without any adverse program or audit findings; or (3) are units of a state or local government.

During this period we screened 61 proposed awards. For 8 of the awards, we found major deficiencies that could affect the ability of the prospective recipients to maintain proper control over federal funds. On the basis of the information we provided, the Department delayed 7 awards and established special award conditions for 1. (*Office of Audits*)

## Nonfederal Audit Activities

In addition to undergoing OIG-performed audits, certain recipients of Commerce financial assistance are periodically examined by state and local government auditors and by independent public accountants. OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, sets forth the 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 203 audit reports during this semiannual period to determine whether they contained any audit findings related to Department programs. For 146 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 57 reports are from entities for which other federal agencies have oversight responsibility. We identified 17 reports with findings related to the Department of Commerce.

Report Category	OMB A-133 Audits	ATP Program-Specific Audits	Total
Pending (October 1, 2006)	56	39	95
Received	115	52	167
Examined	123	80	203
Pending (March 31, 2007)	48	11	59

The following table shows a breakdown by bureau of more than \$336 million in Commerce funds audited.

Bureau	Funds
EDA	\$115,210,392
ITA	603,252
NIST*	126,104,345
NOAA	70,157,445
NTIA	149,288
Multiagency	22,827,610
Agency not identified	1,390,287
<b>Total</b>	<b>\$336,442,619</b>

\* Includes \$117,854,774 in ATP program-specific audits.

We identified a total of \$504,542 in federal questioned costs and \$242,279 in funds to be put to better use. 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 17 reports with Commerce findings are listed in Appendix B-1. (*Atlanta Regional Office of Audits*)





# OFFICE OF INSPECTOR GENERAL

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

## Office of Investigations

During this semiannual period, the Office of Investigations continued to pursue allegations of fraud, waste, and abuse affecting Commerce programs and operations, and other cases of corruption or fraud that negatively impacted the Department, the federal government, or U.S. taxpayers.

Discussed below are recent developments in several investigations that were detailed in previous *Semiannual Reports* and representative highlights of other investigative accomplishments during the past 6 months.

### Additional Convictions and Recovery of \$1.4 Million in Telemarketing Fraud Investigation

In our last *Semiannual Report* (page 47), we detailed the progress of our joint investigation of a major international telemarketing fraud scheme perpetrated by callers identifying themselves as employees of the Commerce Department and other federal agencies, who told victims they had won huge sweepstakes prizes in a national lottery sanctioned by the U.S.

government. The victims were instructed to use commercial wire transfer services to send payments of \$1,500 to \$4,500 to Costa Rica, purportedly for insurance and customs fees that were required to retrieve their winnings. Many of those defrauded made multiple transfers to the telemarketers, resulting in more than \$30 million in identified losses to U.S. residents.

During this semiannual period, authorities have made eight additional arrests of U.S., Canadian, and Costa Rican citizens in connection with the telemarketing scheme, and six more defendants are awaiting extradition to the United States from Costa Rica. To date, nine defendants have been convicted in the Western District of North Carolina on various charges, including wire fraud and conspiracy to commit wire fraud.

One of the first arrested in the investigation was a Costa Rican attorney, whose conviction for money laundering was reported in our September 2006 *Semiannual Report* (page 48). On January 19, 2007, he was sentenced to 27 months' incarceration, 36 months' probation, and a fine of \$200. In addition, he was ordered to pay restitution of \$1,385,997—the bulk of which will be returned to the victims. Sentencing is pending for the other eight defendants,

all of whom face prison terms ranging from 5 to 20 years. (*Atlanta Field Office*)

### Former USPTO Employee Convicted in Immigration Fraud Scheme

Our last *Semiannual Report* (page 49) related the September 2006 arrest of a senior patent examiner who was a ringleader in an immigration fraud scheme involving sham marriages between American citizens and foreign nationals seeking legal immigration status in the U.S. A total of 21 individuals were subsequently charged in connection with the scheme. All defendants have since entered guilty pleas and been sentenced in U.S. District Court for the Eastern District of Virginia. On October 2, 2006, the former patent examiner—who resigned from USPTO following his arrest—was convicted of one count of conspiracy to commit immigration fraud, sentenced to 40 months' incarceration and 3 years' probation, and ordered to forfeit \$200,000 in assets, including his house and the proceeds of his federal Thrift Savings Plan. Another principal defendant was sentenced to 27 months' incarceration and asset forfeiture of \$89,000. The foreign nationals implicated in the scheme have all been ordered deported. (*Alexandria Virginia Resident Office*)

### Brother of Convicted NOAA Employee Sentenced for Aiding Fugitive's Flight

Our September 2006 *Semiannual Report* (page 48) reported the conviction and sentencing of a former NOAA employee for possession and production of child pornography following an OIG investigation that found he had been using government and personal computers to download sexually explicit images of children for at least a decade. The defendant fled the country prior to his arrest, traveling first to his brother's home in California and then to various locations in Canada and Europe. After a costly, 3-week search requiring the resources of numerous law enforcement agencies in the United States and abroad, OIG finally located him in Italy where he surrendered to U.S. officials and was returned to the District of Maryland for trial.

The defendant's brother was subsequently indicted for helping him evade arrest by warning him that

OIG agents had tracked him to Canada. In October 2006, the brother pleaded guilty to resisting, delaying, or obstructing a law enforcement officer, and on January 22, 2007, he was sentenced in U.S. District Court for the Eastern District of California to 1 year probation and a fine of \$1,025. (*Computer Crimes Unit*)

### Former USPTO Employee Indicted for Time and Attendance Fraud

In November 2006, a former patent examiner now employed at another federal agency was indicted in the Eastern District of Virginia on four counts of making false statements and one count of theft of government property after an OIG investigation revealed that the defendant had falsely claimed more than \$60,000 in salary payments over a 1-year period prior to her May 2006 resignation from USPTO. The defendant has been placed on administrative leave pending resolution of the case. (*Alexandria Resident Office*)

### Contract Employee Charged with Theft from NOAA Facility

A former contract employee hired to restore a fire-damaged NOAA facility in Seattle was charged with second-degree theft in Superior Court of King County, Washington, after an OIG investigation disclosed that he had stolen a government cell phone from the facility and made more than \$800 in calls. A warrant was issued for his arrest on March 27, 2007, when he failed to appear in court to answer the charges. (*Seattle Resident Office*)



OIG

*These are just a few of the items seized by OIG special agents in one government credit card fraud investigation.*

## Former ITA Employee Admits Government Purchase Card Fraud

An OIG investigation of a former ITA employee now working for another Commerce bureau found that she had used a government purchase card to buy computer equipment and craft supplies for her personal use while employed at ITA. The employee admitted to making numerous unauthorized purchases and offered to return the unused items and pay the government for the remaining property. The case was declined for criminal prosecution by the U.S. Attorney's Office for the District of Columbia in deference to administrative action. In March 2007, the employee returned approximately \$1,800 worth of purchases to ITA, along with a cashier's check in the amount of \$988.76. Her current agency has been notified so that appropriate administrative action may be taken. (*Washington Field Office*)

## Other OIG Activities

### Office of Investigations Shares Computer Forensics Expertise with South American Law Enforcement Agencies

On March 25, 2007, OIG's Office of Investigations hosted a delegation of 10 police officers and investigators from two Colombian law enforcement agencies—Fiscalía (Colombia's equivalent to the U.S.

Department of Justice) and Dirección Central de Policía Judicial e Inteligencia (Colombia National Police)—in a working session on cyber crime and computer crime technology. The visit was sponsored by the State Department as part of its Cyber Terrorism Training Program, which is operated by State's Office of Antiterrorism Assistance. The office provides technical training to international law enforcement agencies and government institutions to help them develop the skills to detect, prevent, and investigate cyber terrorism and other computer-based crimes.

The Colombian law enforcement agencies, headquartered in Bogotá, are building computer crimes labs in several locations to handle the country's growing problem of Internet crime. Internet access, though still a relatively modest 11.5 percent in 2005, is growing exponentially in Colombia, and with it, the types and incidence of Internet crime. Participants came to hear how our computer forensics team operates, what crimes it most frequently deals with, how the computer forensics lab is equipped and operated, and how investigators process, store, and manage digital evidence. The special agent-in-charge of the OIG Computer Crimes Unit gave the Colombian visitors a tour of OIG's computer forensics facility. He described the computer equipment we use and why, and detailed the minimum standards and capacities required for computer equipment that can reliably support the often voluminous forensic data collection that must be imaged and documented to successfully prosecute computer criminals.



*Police officers and investigators from two Colombian law enforcement agencies visited OIG's cyber crimes unit on March 25 (left). The visit was sponsored by the State Department as part of its Cyber Terrorism Training Program, which is operated by State's Office of Antiterrorism Assistance. The office provides technical training to international law enforcement agencies and government institutions to help them develop the skills to detect, prevent, and investigate cyber terrorism and other computer-based crimes. Right, Assistant Inspector General for Investigations Edward Blansitt welcomed the Colombian visitors to OIG in fluent Spanish.*

*Willy Straubhaar, State Department*

The OIG training session grew out of a series of initiatives between the Cyber Training Program and these two Colombian law enforcement agencies that began in 2004. According to the State Department's cyber training coordinator, the cyber program has made a significant contribution to the capacity of the Colombian National Police and Fiscalía to conduct computer forensic investigations. "Since the start of our commitment to these two organizations, each of them has tripled its computer forensics staff—from 4 persons in 2004 to 12 persons in 2006. They are growing quickly as we continue to support their investigative capacity through training and equipment grants."

### **Quality Control Review of Social Security Administration OIG Shows Positive Practices and Professional Standards**

We conducted a peer review of audit operations at the Social Security Administration (SSA) Office of Inspector General during this semiannual period—evaluating reports that the office published from April 1, 2005, through March 31, 2006, which included the FY 2005 SSA financial statements audit, and assessing its internal quality control reviews and relevant policies and procedures.

We determined that SSA OIG's audits function complied with professional auditing and quality control standards for the federal government and that the agency has implemented a number of positive practices and controls. (*Office of Audits*)

### **OIG Conducts Peer Review of OPM's Investigative Operations**

As part of a government-wide quality assurance review program, every 3 years each OIG office of investigations reviews a counterpart at another agency and is in turn reviewed by a different agency. Agencies of similar size and workloads are paired as often as possible. In the first review cycle of 2007, we evaluated the Office of Personnel Management's Office of Investigations. Commerce OI will be evaluated in the fall of 2007.

Our review took place from December 2006 to March 2007. A team of OIG investigators undertook a detailed review of investigative facilities, personnel, policies, and procedures, including site visits to OPM headquarters in Washington, D.C., and field offices in San Diego and Laguna Niguel, California. We interviewed 18 of the OIG's total force of 26 criminal investigators, as well as a number of support personnel, and reviewed 25 cases, complaints, and proactive projects selected from OPM's inventory of 78 matters closed during FY 2006.

Our peer review resulted in a finding of full compliance with the professional standards set for investigations by the President's Council on Integrity and Efficiency and the Department of Justice. We made a number of suggestions for improving OPM's investigative program and operations and highlighted several subject areas in which OPM's investigative program showed notable excellence. (*Office of Investigations*)

## TABLES AND STATISTICS

### Statistical Overview

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**Table 1. Investigative Statistical Highlights for this Period**

<b>Criminal Investigative Activities</b>	
Arrests	11
Indictments and informations	15
Convictions	14
Personnel actions	2
Fines, restitutions, judgments, and other civil and administrative recoveries	\$2,829,519
<b>Allegations Processed</b>	
Accepted for investigation	52
Referred to operating units	28
Evaluated but not accepted for investigation or referral	32
<b>Total</b>	<b>112</b>

### 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, 2006) for which no management decision had been made by the end of the period (March 31, 2007). Seven audit reports remain unresolved for this reporting period (see pages 52 and 58).

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 2. Audit Resolution Follow-up**

Report Category	Modifications	Appeals
Actions pending (October 1, 2006)	0	7
Submissions	0	8
Decisions	0	8
Actions pending (March 31, 2007)	0	7

**Table 3. Audits and Inspection Statistical Highlights for this Period**

Questioned Costs	\$ 504,542 *
Value of audit recommendations that funds be put to better use	31,494,005
Value of audit recommendations agreed to by management	3,341,706

\* This number includes costs questioned by state and local government auditors or independent public accountants.

**Table 4. Audits with Questioned Costs**

Report Category		Number	Questioned Costs	Unsupported Costs
<b>A.</b>	Reports for which no management decision had been made by the beginning of the reporting period	33	\$26,617,524	\$4,099,088
<b>B.</b>	Reports issued during the reporting period	11	504,542	0
Total reports (A+B) requiring a management decision during the period <sup>1</sup>		44	27,122,066	4,099,088
<b>C.</b>	Reports for which a management decision was made during the reporting period <sup>2</sup>	27	6,807,096	181,176
	i. Value of disallowed costs		1,098,813	143,961
	ii. Value of costs not disallowed		5,715,570	37,215
<b>D.</b>	Reports for which no management decision had been made by the end of the reporting period	17	20,314,970	3,917,912

**NOTES:**

<sup>1</sup> Seven audit reports included in this table are also included among reports with recommendations that funds be put to better use (see table 5). However, the dollar amounts do not overlap.

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

**Table 5. Audits with Recommendations that Funds Be Put to Better Use**

Report Category		Number	Value
<b>A.</b>	Reports for which no management decision had been made by the beginning of the reporting period	8	\$ 3,430,224
<b>B.</b>	Reports issued during the reporting period	6	31,494,005
Total reports (A+B) requiring a management decision during the period <sup>1</sup>		14	34,924,229
<b>C.</b>	Reports for which a management decision was made during the reporting period <sup>2</sup>	10	3,611,639
	i. Value of recommendations agreed to by management		2,242,893
	ii. Value of recommendations not agreed to by management		1,394,737
<b>D.</b>	Reports for which no management decision had been made by the end of the reporting period	4	31,312,590

**NOTES:**

<sup>1</sup> Seven audit reports included in this table are also included among reports with questioned costs (see table 4). However, the dollar amounts do not overlap.

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

## 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.

## Appendix A. Report Types this Period

Type	Number of Reports	Appendix Number
Performance audits	3	A-1
Financial assistance audits	3	A-2
Financial statements audits	5	A-3
Inspections and systems evaluations	5	A-4
<b>Total</b>	<b>16</b>	

### Appendix A-1. Performance Audits

Report Title	Report Number	Date Issued	Funds to Be Put to Better Use
<b>Economic Development Administration</b>			
Aggressive EDA Leadership and Oversight Needed to Correct Persistent Problems in RLF Program	OA-18200-7-0001	03/30/07	\$29,800,000
<b>National Oceanic and Atmospheric Administration</b>			
Rogers, Minnesota: Complex Weather Conditions, Radar Limitations Delayed NWS Warning of Deadly Tornado	DEN-18354-7-0001	03/29/07	0
<b>Office of the Secretary</b>			
Internal Controls Over Premium-Class Travel Need to Be Strengthened	BSD-18154-7-0001	03/30/07	0

### Appendix A-2. Financial Assistance Audits

Report Title	Report Number	Date Issued	Value of Funds to Be Put to Better Use	Federal Amount	Federal Amount Unsupported
<b>Economic Development Administration</b>					
City of Cleveland, OH	DEN-18389-7-0001	03/20/07	1,451,726	0	0
<b>National Oceanic &amp; Atmospheric Administration</b>					
Despite Some Improvements, The Northwest Indian Fisheries Commission Needs to Further Strengthen Oversight of Subrecipients	STL-16657-7-0010	02/23/07	0	0	0
<b>National Telecommunications &amp; Information Administration</b>					
Metropolitan Television Alliance, NY	DEN-18401-7-0001	01/29/07	0	0	0

### Appendix A-3. Financial Statements Audits

Report Title	Report Number	Date Issued
<b>Office of the Secretary</b>		
Assessment of Information Technology Controls Supporting Department of Commerce's Financial Management Systems FY 2006 Financial Statement Audit	FSD-18004-7-0001	11/03/06
Department of Commerce's FY 2006 Consolidated Financial Statements	FSD-118004-7-0002	11/09/06
Department of Commerce's FY 2006 Special-Purpose Financial Statements	FSD-118004-7-0003	11/27/06
<b>United States Patent and Trademark Office</b>		
Assessment of Information Technology Controls Supporting USPTO's Financial Management Systems FY 2006 Financial Statement Audit	FSD-18003-7-0001	11/03/06
USPTO's FY 2006 Financial Statements	FSD-18003-7-0002	11/06/06

### Appendix A-4. Inspections and Systems Evaluations

Report Title	Report Number	Date Issued	Funds to Be Put to Better Use
<b>Bureau of Industry and Security</b>			
U.S. Dual-Use Export Controls for India Should Continue to Be Closely Monitored	IPE-18144	3/31/07	—
Annual Follow-Up Report on Previous Export Control Recommendations, as Mandated by the National Defense Authorization Act for Fiscal Year 2000	IPE-18546	3/30/07	—
<b>International Trade Administration</b>			
Commerce Can Further Assist U.S. Exporters by Enhancing Its Trade Coordination Efforts	IPE-18322	03/30/07	—
CS Brazil Is Operating Well Overall but Needs Management Attention in Some Areas	IPE-18114	03/30/07	—
<b>National Institute of Standards and Technology</b>			
Logistics Group Operations Are Mostly Sound but Management Attention Is Needed in Some Areas	IPE-18321	3/30/07	—

## Appendix B. Processed Audit Reports

The Office of Inspector General reviewed and accepted 203 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	78
International Trade Administration	1
National Institute of Standards and Technology*	87
National Oceanic and Atmospheric Administration	18
National Telecommunications and Information Administration	2
Multiagency	16
Agency not identified	1
<b>Total</b>	<b>203</b>

\* Includes 80 ATP program-specific audits.

## Appendix B-1. Processed Reports with Audit Findings

Report Title	Report Number	Date Issued	Value of Funds to Be Put to Better Use	Federal Amount Questioned	Federal Amount Unsupported
<b>Economic Development Administration</b>					
City of Akron, OH	ATL-09999-7-2817	02/15/07	0	\$110,701	0
State of Connecticut	ATL-09999-7-2690	02/15/07	0	0	0
Virginia Highlands Small Business Incubator, Inc.	ATL-09999-7-2603	03/28/07	0	0	0
<b>National Institute of Standards &amp; Technology</b>					
Kayak Interactive, CA	ATL-09999-7-2246	11/17/06	57,547	0	0
Newport Sensors, Inc., CA	ATL-09999-7-2165	12/04/06	123,868	0	0
Advanced Digital Imaging Research, LLC, TX	ATL-09999-7-2311	03/05/07	0	26,006	0
Imaging Systems Technology, Inc., OH	ATL-09999-7-2710	03/07/07	0	30,345	0
CINEA, Inc., VA	ATL-09999-7-2468	03/16/07	0	46,169	0
Lithium Power Technologies, Inc., TX	ATL-09999-7-2154	03/16/07	0	41,775	0
RAPT Industries, CA	ATL-09999-7-2789	03/22/07	0	93,687	0
Applied Grinding Technologies, Inc., MI	ATL-09999-7-2230	03/23/07	0	12,898	0
Seminis Vegetable Seeds, Inc., CA	ATL-09999-7-2313	03/23/07	35,355	0	0
Seminis Vegetable Seeds, Inc., CA	ATL-09999-7-2680	03/23/07	0	0	0
North American Die Casting Association, IL	ATL-09999-7-2478	03/28/07	0	28,994	0
<b>National Oceanic &amp; Atmospheric Administration</b>					
The Institute for Marine Mammal Studies, MS	ATL-09999-7-2505	03/07/07	0	27,035	0
American Meteorological Society, MA	ATL-09999-7-2606	03/28/07	0	33,454	0
Government of Guam	ATL-09999-7-2695	03/28/07	25,509	53,478	0

## 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	72-73
5(a)(1)	Significant Problems, Abuses, and Deficiencies	19-59
5(a)(2)	Significant Recommendations for Corrective Action	19-59
5(a)(3)	Prior Significant Recommendations Unimplemented	72
5(a)4	Matters Referred to Prosecutive Authorities	65
5(a)(5) and 6(b)(2)	Information or Assistance Refused	72
5(a)(6)	Listing of Audit Reports	68-71
5(a)(7)	Summary of Significant Reports	19-59
5(a)(8)	Audit Reports—Questioned Costs	66
5(a)(9)	Audit Reports—Funds to Be Put to Better Use	67
5(a)(10)	Prior Audit Reports Unresolved	73
5(a)(11)	Significant Revised Management Decisions	73
5(a)(12)	Significant Management Decisions with Which OIG Disagreed	73

### Section 4(A)(2): Review of Legislation and Regulations

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

### Section 5(A)(3): Prior Significant Recommendations Unimplemented

This section requires identification of each significant recommendation described in previous semiannual

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

To include a list of all significant unimplemented recommendations in this report would be duplicative. 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 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. There were five Census and two NIST reports more than 6 months old.

## **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.

# TYPES OF OIG WORK PRODUCTS

The various kinds of audits, evaluations, inspections, and investigations at our disposal enable the IG's office to assess Commerce programs and operations from a range of perspectives. Thus we are able to provide program managers with reviews and recommendations that are either narrowly focused or comprehensive, as needed, 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. They may also involve reviewing the Department's financial assistance awards by assessing an award recipient's compliance with laws, regulations, and award terms; allowance of costs; and the degree to which projects achieved intended results.

**Financial 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.

**Attestation Engagements** involve examining, reviewing, or performing agreed-upon procedures on a subject matter or an assertion about a subject matter and reporting the results. Attestation engagements can have a broad range of financial or nonfinancial focuses, such as an entity's compliance with laws and regulations; management's discussion and analysis presentations; and allowability and reasonableness of final grant and contract costs.

## 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

**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 violations 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.

# ADDITIONAL PHOTOGRAPHY AND GRAPHICS CREDITS/CAPTIONS

**Page 18** Photos courtesy BIS and Department of Defense

**Page 32** Photos courtesy ITA  
Artist's rendering of Freedom Tower and New York Harbor courtesy 1WTC, LLC

- Page 50**
1. Photo by Barry Gardner  
*NIST mechanical engineer Herb Bandy uses a coordinate measuring machine to measure the dimensions of a cylinder-shaped machined part.*
  2. Copyright Robert Rathe  
*High temperature furnaces are used to grow thin oxide layers on silicon wafers, dope the wafers with boron or phosphorus, and anneal the wafers.*
  3. Copyright Geoffrey Wheeler  
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*NIST researcher Kristy Richie analyses DNA samples as part of a project to prepare new "Fragile X" reference materials.*

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*Mechanical engineer Jon Pratt makes an adjustment to the prototype NIST Electrostatic Force Balance designed to measure nanoscale forces.*

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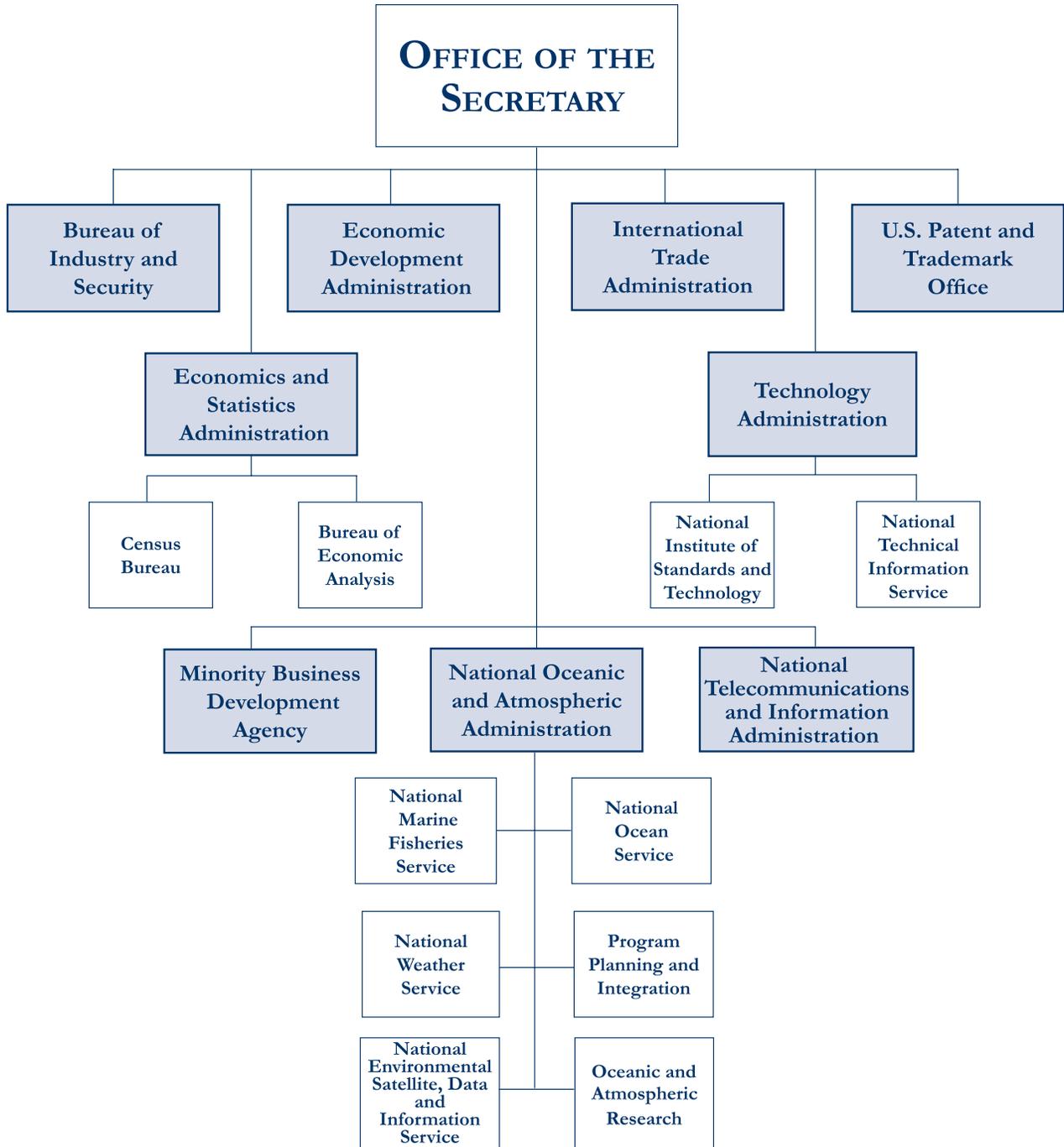
*NIST physicist Sae Woo Nam holds a circuit used to amplify signals from the new photon detector.*

**Page 54** Photos courtesy DOC Photographic Services and ITA

**Page 60** Photos courtesy DOC Photographic Services and OIG staff

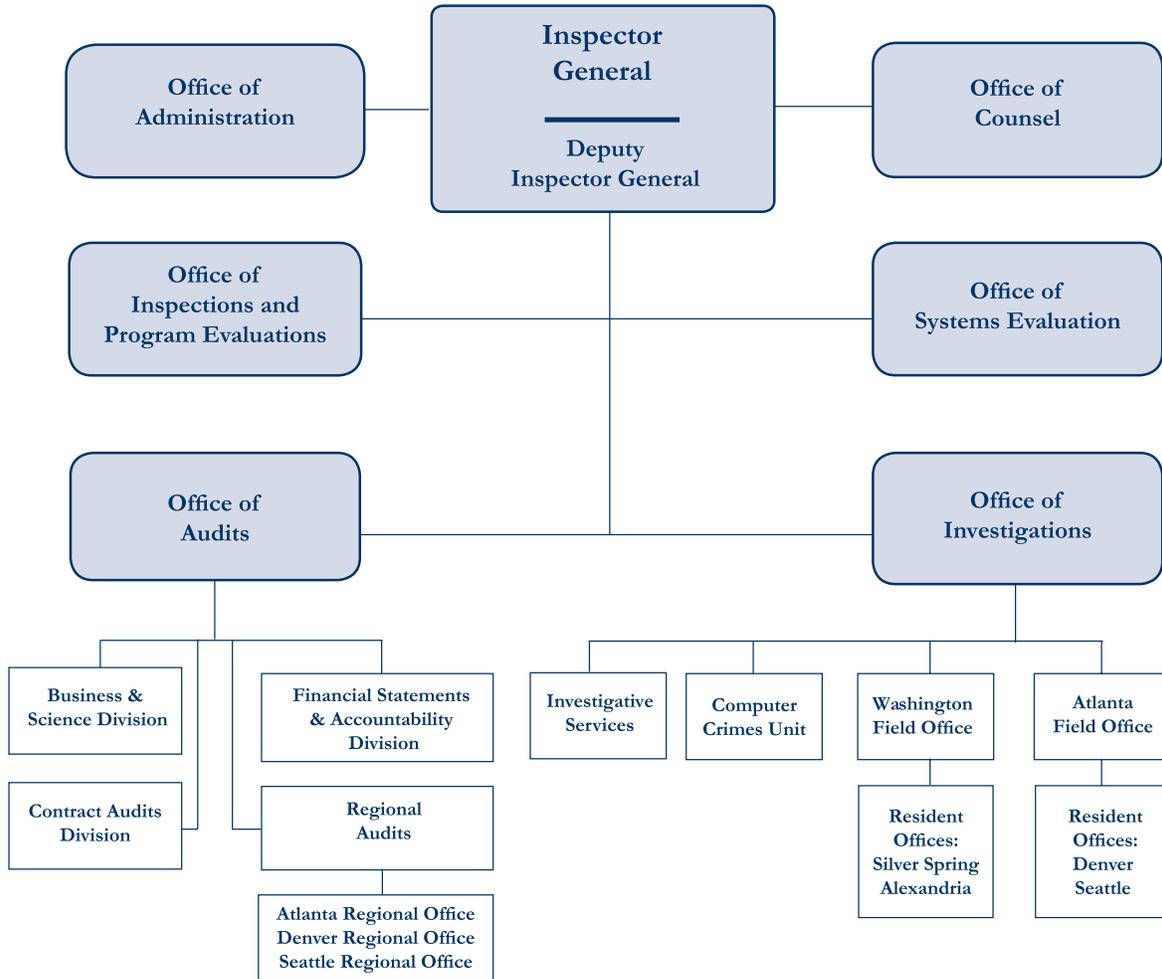
# U.S. Department of Commerce

The U.S. Department of Commerce creates the conditions for economic growth and opportunity by promoting innovation, entrepreneurship, competitiveness, and stewardship. The Department accomplishes its mission by providing national and local weather services, developing key economic and demographic data (including the decennial census), and working to advance technological and scientific innovation, protect and restore environmental resources, promote international trade, and support local, regional, and national economic development. These activities impact U.S. business and industry daily and play a critical role in the nation's economic well-being.



# Office of Inspector General

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