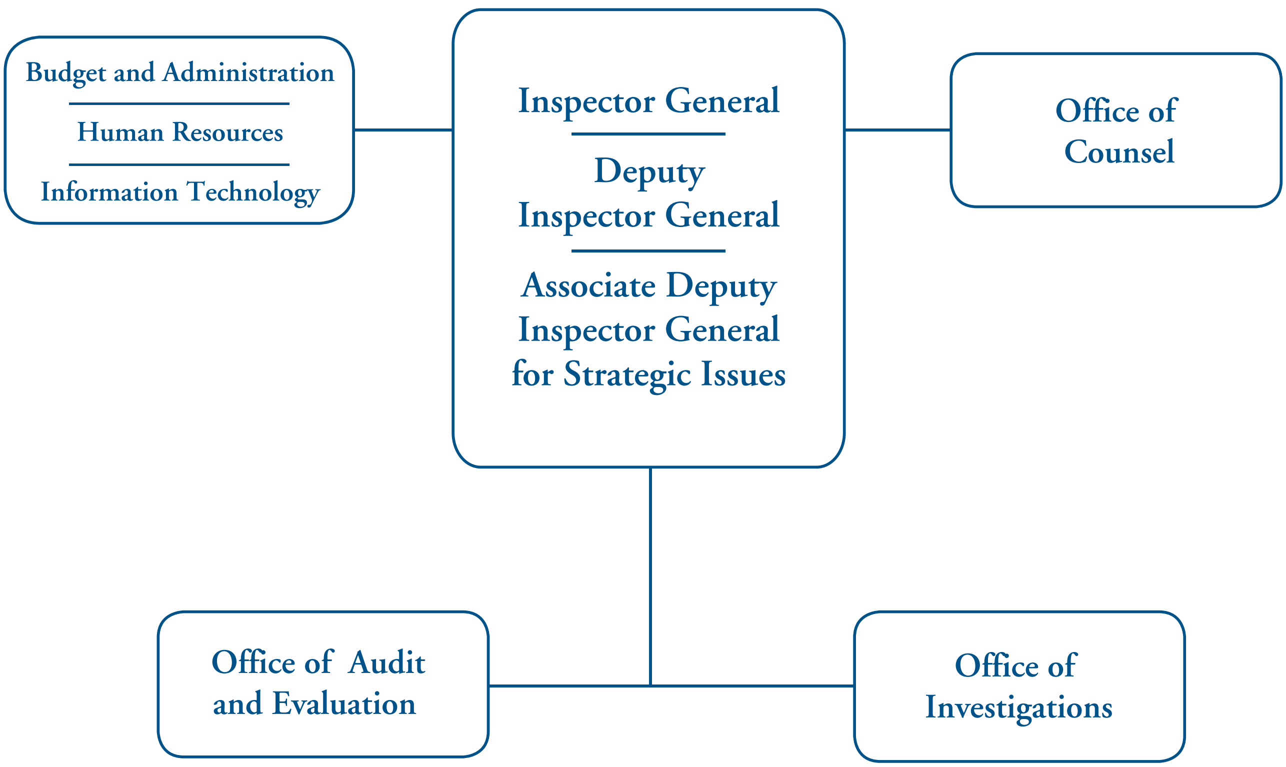
Semiannual Report to Congress

March 2011

Office of Inspector General
U.S. Department of Commerce

Office of Inspector General



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Photos courtesy U.S. Department of Commerce, U.S. Census Bureau, U.S. General Services Administration, and National Aeronautics and Space Administration.

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FROM THE INSPECTOR GENERAL

I am pleased to present the Department of Commerce Office of Inspector General's (OIG) *Semiannual Report to Congress* for the 6 months ending March 31, 2011.

This report summarizes work we completed and initiated during this semiannual period on a number of critical departmental activities. Over the past 6 months, our office issued 20 audit and evaluation reports addressing programs overseen by the Economics and Statistics Administration, National Oceanic and Atmospheric Administration (NOAA), National Telecommunications and Information Administration, U.S. Patent and Trademark Office (USPTO), and the Department itself.

Our investigative activities resulted in more than $6.2 million in fines and other financial recoveries. Most notably, a civil judgment against a National Institute of Standards and Technology grantee previously convicted of intentionally misusing $500,000 in grant funds yielded nearly $4.3 million in damages, penalties, restitution, and forfeited property, plus 15 months' imprisonment.

Looking ahead, we will continue to prioritize our work consistent with the Top Management Challenges we have identified for the Department. NOAA's satellite program, USPTO's reforms and modernization efforts, information technology security, acquisitions, and Recovery Act spending will be particular areas of oversight for the balance of FY 2011.

We look forward to working with the Department and with Congress in the months ahead to meet the many challenges facing Commerce as it fulfills its complex mission. We thank the Secretary, senior officials throughout the Department, and the members of Congress and their staffs for their support of our work during this reporting period and for their receptiveness to our recommendations for improving Commerce operations.

Todd J. Zinser
Inspector General


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TOP MANAGEMENT CHALLENGES FOR THE DEPARTMENT

The Reports Consolidation Act of 2000 requires inspectors general to identify the top management challenges facing their departments. For FY 2011, Commerce OIG identified eight challenges that require significant departmental attention. These challenges reflect updates since their initial publication in December 2010.

Top Management Challenges

1. Continuing to Enhance the Department's Ability to Defend Its Information Technology Systems and Information
2. Effectively Managing the Development and Acquisition of NOAA's Environmental Satellite Programs
3. Managing Acquisition and Contract Operations More Effectively to Obtain Quality Goods and Services at Reasonable Prices and on Schedule
4. Enhancing Accountability and Transparency of the American Recovery and Reinvestment Act's Key Technology and Construction Programs
5. Improving USPTO's Patent Processing Times, Reducing Its Pendency and Backlogs, and Mitigating Its Financial Vulnerabilities
6. Effectively Balancing NOAA's Goals of Protecting the Environment and Supporting the Fishing Industry
7. Protecting Against Cost Overruns and Schedule Slippages on the Commerce Headquarters Renovation
8. Effectively Planning the 2020 Decennial Census

1. Continuing to Enhance the Department's Ability to Defend Its Information Technology Systems and Information

Our FY 2010 Federal Information Security Management Act (FISMA) audit report identified the following weaknesses Department-wide (including the United States Patent and Trademark Office [USPTO]): (1) high-risk vulnerabilities in system components, (2) deficiencies in reporting and tracking security weaknesses, (3) deficiencies in testing of contingency plans and providing alternate processing sites, and (4) persistent deficiencies in system security plans and control assessments. In response to our report, the Department's Chief Information Officer provided an action plan for implementing all of our audit recommendations, and the Department has taken steps toward executing the plan.

Our audit findings indicate that the Department's information technology (IT) security control weaknesses result from an insufficient continuous monitoring process. Consequently, our FY 2011 audits continue to focus on continuous monitoring and on the adequacy of security controls implemented on the Department's more than 300 IT systems. The Department's IT security strategic plan identifies continuous monitoring at the enterprise level as a top priority for improvement, but this plan is not scheduled for implementation until 2012 and is dependent upon adequate funding.

The Department, however, has initiated a program to transition from the traditional certification and accreditation process to the National Institute of Standards and Technology's (NIST's) current risk management framework (RMF) for authorizing the operation of information systems, which emphasizes continuous monitoring of security controls.[1] The Department has identified necessary changes to its IT security policies to align them with the RMF-based process, and plans to update these policies during FY 2011.

USPTO has taken steps to bolster the overall security posture of its information systems. In January 2011, USPTO put into operation a command center, which currently provides monitoring coverage for about 25 percent of USPTO's network components, with the ultimate goal of monitoring all network components and applications.

2. Effectively Managing the Development and Acquisition of NOAA's Environmental Satellite Programs

The National Oceanic and Atmospheric Administration (NOAA) is modernizing its environmental monitoring capabilities, in part by spending nearly $20 billion on two critical satellite systems: the Joint Polar Satellite System (JPSS) and the Geostationary Operational Environmental Satellite-R Series (GOES-R). Previously, the JPSS predecessor program—the National Polar-orbiting Operational Environmental Satellite System (NPOESS)—and GOES-R had a history of cost overruns, schedule delays, and reduced performance capabilities. More recently, the transition from NPOESS to JPSS involves significant challenges, including moving instruments from the Department of Air Force's contract with Northrop Grumman to NASA, that must be effectively managed to avoid cost increases and delays in launch schedules. Also, reduced funding levels in FY 2010 and FY 2011, coupled with potential cuts to program budgets in FY 2012 and beyond, are adding significant risk of an extended gap in the continuity of environmental data obtained from the afternoon polar orbit. The transition challenges and funding shortfalls experienced thus far will almost certainly result in some gap in NOAA's polar satellite coverage. The GOES-R program has had its own challenges; as a result of significant cost growth and recommendations by independent reviewers in 2007, NOAA made adjustments to the GOES-R program's costs, schedule, and technical requirements. Since then, GOES-R has remained within budget and on time.

As highlighted by recent independent reviews, both satellite systems will continue to require close oversight to minimize further disruption to the programs and to prevent any gaps in satellite coverage. Such gaps could compromise the United States' ability to forecast weather and monitor climate, which would have serious consequences for the safety and security of the nation. For FY 2011, our planned work includes audits of select development activities for JPSS and GOES-R. We will assess the adequacy of development and program management activities supporting launch readiness and data continuity for these critical satellite programs.

3. Managing Acquisition and Contract Operations More Effectively to Obtain Quality Goods and Services at Reasonable Prices and on Schedule

With Commerce spending approximately $3 billion of its budget every year through contracts, effective acquisition management is fundamental to the Department's ability to accomplish its mission. However, we continue to find weaknesses in the Department's contract planning, administration, and oversight. In addition, the Department and its operating units must develop effective processes for performing these functions for major system acquisitions. Commerce must also strengthen its suspension and debarment program to effectively safeguard against risks (such as fraud and contractor poor performance), improve award-fee contracting processes to meet acquisition outcomes, and do more to ensure the adequate size and skills of its acquisition workforce, especially given its need to oversee billions of dollars in American Recovery and Reinvestment Act of 2009 funds. Additionally, Commerce's executive leadership needs to ensure the Office of Acquisition Management has the authority needed to perform effectively. At the direction of the Secretary, last year the Department conducted an acquisition improvement study that identified opportunities to strategically strengthen and improve the quality of its acquisition functions. However, acquisition has many

[1] National Institute of Standards and Technology Special Publication 800-37, Revision 1, *Guide for Applying the Risk Management Framework to Federal Information Systems: A Security Life Cycle Approach*, February 2010.

inherent risks and will require continued attention and improvement efforts. As part of our FY 2011 work, we are assessing the adequacy of the strategic acquisition workforce plan Commerce completed in March 2010 as required by the Office of Management and Budget (OMB). We are also reviewing the Department's progress on and implementation of an OMB-required plan to reduce spending and increase savings on acquisitions.

4. Enhancing Accountability and Transparency of the American Recovery and Reinvestment Act Program's Key Technology and Construction Programs

The Recovery Act is an unprecedented effort to promote economic activity, invest in long-term growth, and implement a level of transparency and accountability that will allow the public to see how their tax dollars are being spent. The Department of Commerce received $7.9 billion in Recovery Act funds; of that amount, approximately $6 billion was obligated in the form of grants or contracts for key technology and construction programs in four of the Department's operating units: the Economic Development Administration (EDA), NIST, NOAA, and National Telecommunications and Information Administration (NTIA). As of March 31, 2011, these operating units have spent about $1.1 billion (or 20 percent of their obligated funds), leaving significant spending yet to be completed. Effective management by these units is critical to completing these projects on schedule and within budget, and to making certain the public receives the intended benefits from the Recovery Act.

The largest and riskiest program funded by the Recovery Act at the Department of Commerce is NTIA's Broadband Technology Opportunities Program (BTOP), which awarded 232 grants totaling $3.9 billion for broadband Internet access across the nation. As of March 31, 2011, only about 7 percent of BTOP's obligated funds had been disbursed. Over the next 2 years, spending by BTOP grant recipients will increase substantially—which will in turn significantly increase the potential for fraud, waste, and abuse. Monitoring the largest and most complex grant program NTIA has ever overseen will be an ongoing challenge.

NIST, NOAA, and EDA also received $1.5 billion in Recovery Act funds for contracts and grants, including $1 billion for construction and construction-related projects. To complete these projects successfully, the agencies will need to overcome the inherent risks associated with such projects. In FY 2011 we are focusing on how they oversee the contracts and grants they have awarded to ensure that the technology and construction projects are managed effectively.

5. Improving USPTO's Patent Processing Times, Reducing Its Pendency and Backlogs, and Mitigating Its Financial Vulnerabilities

USPTO faces immense and complex challenges in addressing patent pendency and application backlogs while improving patent quality and building a highly trained and stable workforce. From FY 2000 to FY 2010, patent pendency increased from 25 months to over 35 months, and the backlog of unexamined applications grew from approximately 308,000 to 726,000. These large numbers of applications and long waiting periods for patent review inhibit innovation and stifle economic competitiveness, ultimately putting at risk the United States' position as a world leader in innovation.

As of March 2011, USPTO's backlog was around 708,000 patent applications, and pendency was about 34 months. To further decrease the patent application backlog and processing times, USPTO must continue its current efforts to modernize its existing patent IT infrastructure and systems, which are outdated and unstable. USPTO must also recruit and retain a highly skilled patent examiner workforce. Finally, USPTO must ensure that its initiatives for a more efficient review process succeed in improving patent quality, and that patent fee collections provide sufficient resources to support USPTO's operations. USPTO has established a goal of reducing the patent backlog to fewer than 353,000 and pendency to within 10 months by 2014. Our FY 2011 work focuses on determining USPTO's readiness to successfully manage the modernization of patent IT systems; assessing the implementation status of the patent initiatives outlined in the *USPTO 2010–2015 Strategic Plan*; and reviewing USPTO's largest telework program, the patent hoteling program.

6. Effectively Balancing NOAA's Goals of Protecting the Environment and Supporting the Fishing Industry

The United States has the largest marine territory of any nation in the world, and NOAA is charged with protecting, restoring, and managing the use of living marine, coastal, and ocean resources. In the years ahead, NOAA faces difficult challenges in promoting the health of these resources while ensuring the nation reaps the vital economic benefits derived from them, especially in the areas of fishery enforcement and environmental restoration. NOAA is at a critical juncture in reforming its Office for Law Enforcement and Office of General Counsel for Enforcement and Litigation. The Secretary and NOAA have taken steps to improve the enforcement program, but continued positive action will be necessary to strengthen it.

The April 20, 2010, Deepwater Horizon oil spill in the Gulf of Mexico highlights the dual nature of NOAA's mission to promote environmental health while maintaining the commercial viability of the nation's marine resources. As of February 2011, NOAA had dedicated some $175 million to spill response support and damage assessment. Our December 2010 survey of NOAA's process for tracking the costs associated with its oil spill activities found that NOAA needs to ensure that costs are properly recorded, documented, and reflect the full cost of oil spill, response, damage assessment, and restoration activities. To help the Gulf—and the people who earn their living from it—recover from the spill, NOAA must continue to devote resources to monitoring and restoration for years to come. Federal, state, and local communities will continue to rely on NOAA to provide long-term monitoring and accurate data so responders can react to the oil and its effects on our ecosystem.

7. Protecting Against Cost Overruns and Schedule Slippages for the Commerce Headquarters Renovation

For the first time in its 79-year history, the Herbert C. Hoover Building (HCHB)—Commerce's Washington, D.C., headquarters—is undergoing a comprehensive renovation. The project, currently scheduled for completion by 2021, has a budgeted cost of $958 million. The General Services Administration (GSA) owns the building and is managing the renovation; to its credit, the Department is also taking an active management role. It should continue to work closely with GSA as an advocate for the operating units housed at HCHB since the project has the potential to disrupt Commerce operations and adversely affect its workforce. OIG will continue our ongoing review of the construction activities and the decisions critical to the renovation's success. We are also overseeing how effectively Commerce is working with GSA, and we will monitor the project cost schedules, performance, and any health or safety issues that may emerge as the renovation continues.

8. Effectively Planning the 2020 Decennial

The apportioning of congressional representation and redistricting, as well as the annual distribution of more than $400 billion of government funding, depends on decennial census data. The 2010 Census was an immense undertaking that cost approximately $13 billion and involved the contributions of hundreds of thousands of temporary employees to accurately count over 308 million people living in the United States.

Considering the current trends in population and cost growth, the 2020 Census could be even more expensive. Unless major changes are made in how the decennial census is conducted, the total price of the 2020 Census could reach $22 billion to $30 billion, according to estimates by the Census Bureau and Government Accountability Office, respectively. By either estimate, such cost growth is simply unsustainable. Given mounting federal deficits and constrained federal budgets, the Census Bureau must apply lessons learned from the 2010 process to develop an innovative, flexible, cost-effective, and transparent approach to the 2020 Census. To be effective, this approach needs to leverage existing surveys, field operations, and data assets, as well as to develop, test, and improve technology continuously throughout the coming decade. This decade's early years are critical for setting the course for how well the 2020 count is performed and how much it will ultimately cost.

Throughout the decade, we will continue to follow the Census Bureau's 2020 decennial planning to ensure this vitally important, constitutionally mandated operation runs smoothly and cost-effectively. Currently, the bureau is in the midst of defining its research and testing strategy that will support the design, methods, processes, and operations of the next decennial census. As we monitor the bureau's progress, we will also examine how well it addresses the six challenges we identified during our decade of work:

- Revamp cost estimation and budget processes to increase accuracy, flexibility, and transparency;
- Use the Internet and administrative records to contain costs and improve accuracy;
- Implement a more effective decennial test program using the American Community Survey as a test environment;
- Effectively automate field data collection;
- Avoid massive end-of-decade field operations through continuous updating of address lists and maps; and
- Implement improved project planning and management techniques early in the decade.

We are also actively monitoring congressional progress toward establishing a Census Bureau director position that spans administrations.

WORK IN PROGRESS

The following OIG audits and evaluations were initiated or underway during this reporting period:

American Recovery and Reinvestment Act

Census Bureau's Partnership Program and Recovery Act

Review partnership program activities associated with Recovery Act spending during the 2010 decennial. Assess Census Bureau operation managers' satisfaction with the partnership program, communication between partnership staff and operation managers, and the effectiveness of partnership assistants.

Recovery Act Recipient Reporting

Determine whether Commerce has implemented sufficient internal controls to ensure that data for recipients of Recovery Act funds are reported completely, accurately, and in a timely manner, and that any material omissions or significant errors are identified and corrected.

Inquiry Related to BTOP Award

Examine the procedures NTIA followed in its review of a complaint lodged by municipal authorities against a BTOP award made to build a public safety broadband network and a public access wireless broadband network in the San Francisco Bay Area.

NIST's Oversight of Recovery Act Construction Grants

Audit Recovery Act grants awarded by NIST for construction of research science buildings. Assess NIST's oversight of the awards, including the policies and procedures it has developed; its personnel and monitoring systems; monitoring activities it has implemented; and whether construction projects are being built according to the original proposals.

NIST's Oversight of Recovery Act Construction Contracts

Audit Recovery Act contracts awarded for NIST's own facility construction. Determine whether NIST has contracting practices in place that comply with laws and regulations, including Recovery Act requirements, and policies and procedures to effectively monitor these contracts. Also determine whether acquisition staff is communicating project issues with NIST management.

NTIA's Monitoring of BTOP Grant Awards

Review the effectiveness of NTIA's monitoring processes for BTOP, including the reasonableness of monitoring levels, activities, and tools, as well as the processes to adjust the monitoring levels of specific recipients if necessary.

Department-Wide

Web Application Security

Determine whether the Department's web-based applications, which provide various important services to the public, are properly secured to minimize the risk of cyber attacks.

Information Security

Audit the Department's information security program and practices, determining whether implemented controls adequately protect the Department's systems and information and whether continuous monitoring is keeping authorizing officials sufficiently informed about the operational status and effectiveness of security controls.

FY 2011 Financial Statements Audits

Determine whether the financial statements for the Department and USPTO are fairly stated in accordance with generally accepted accounting principles. These audits are performed by an independent public accounting firm under OIG oversight.

Implementation of Acquisition Savings Initiatives

Audit the Department's implementation of the key initiatives created by OMB to control contract spending and reduce risk. Assess the validity of any reported savings or cost reductions.

Acquisition Workforce

Assess the adequacy of Commerce's plan for determining its acquisition workforce needs and its progress in addressing those needs. Examine the Department's methods for determining the necessary skills and competencies for its workforce; addressing gaps in hiring and developing its workforce; and identifying programs, policies, and practices to ensure a sufficient workforce.

Economics and Statistics Administration

2020 Decennial Census Planning

Monitor early 2020 planning to identify methods for improving the design of the 2020 Census, focusing on the ways in which the bureau's evaluation of the 2010 Census will inform 2020 design.

2010 Decennial Capstone Report (includes OIG's Final Quarterly Report on the 2010 Census)

Analyze and report on the success of the 2010 Census with respect to cost, schedule, and risk, as mandated by the explanatory statement to the Supplemental Appropriations Act of 2008 (P.L. 110-252). Discuss strategies for planning a successful 2020 census, building on lessons learned from 2010.

Review of the Census Bureau's Mapping and Address Database

Conduct a review of Census's procedures for updating its master map and address database, identify actions that may have introduced data errors, and assess the bureau's progress toward achieving performance objectives for its database enhancement program.

National Oceanic and Atmospheric Administration

Environmental Satellite Programs

Audit the adequacy of NOAA's JPSS development activities (e.g., ground system software development, fixes, and testing) intended to maintain continuity of climate and weather forecast data obtained from polar orbit. Determine the completeness of technical approaches used in developing and testing the flight and ground project segments. Assess the impacts of development modifications and project risks to the project's cost, schedule, and technical performance. Determine the adequacy of NOAA's preparations for post-launch data production.

Pacific States Marine Fisheries Commission

Audit two NOAA cooperative agreements awarded to the Commission to determine whether costs were allowable; objectives were achieved; and the Commission's accounting, procurement, and project management practices and controls complied with award requirements. In addition, audit the Commission's indirect cost rates and plans for a period of 7 years.

Review of NOAA's Approach in Defining and Reporting on Its Asset Forfeiture Fund (AFF)

Review NOAA's efforts to address issues related to the AFF. Determine whether NOAA has properly identified the assets that make up the AFF, defined allowable uses for these assets, and developed controls for collecting and distributing them.

Fisheries Enforcement Activities

Focus on NOAA's progress in implementing the corrective actions it planned in response to our earlier work: improving the accountability of its Office of Law Enforcement and General Counsel Office for Enforcement and Litigation, conducting a workforce analysis, establishing a strategy for reaching out to external stakeholders, and improving management information systems.

National Telecommunications and Information Administration

Third Annual Audit of the Public Safety Interoperable Communications (PSIC) Grant Program

Conduct third annual audit of the PSIC grant program. Assess NTIA's administration of the program and report results to Congress, as required by section 2201 of the Implementing Recommendations of the 9/11 Commission Act of 2007 (Title XXII, P.L. 110-53).

U.S. Patent and Trademark Office

Initiatives to Improve Patent Timeliness and Quality

Assess the implementation status of USPTO's multiple plans and initiatives to address patent quality and timeliness.

Patent End-to-End (PE2E) Project

Assess USPTO's readiness to successfully manage the PE2E system acquisition project by determining the adequacy of its acquisition process and methodologies, as well as the project's governance.

Patent Hoteling Program (PHP)

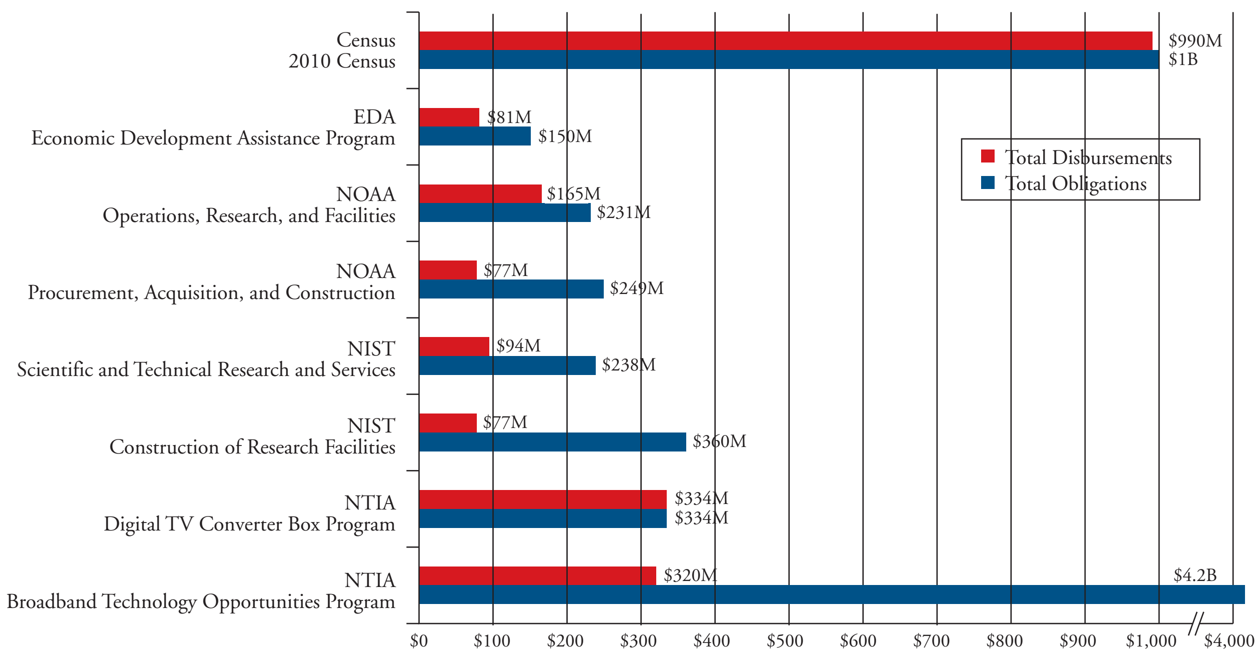
Audit the PHP, USPTO's largest telework program, to determine the extent to which USPTO's policies and their implementation provide adequate management controls for the program, how the productivity of the program's participants is measured, and how successfully USPTO has contained costs and achieved its stated savings through this program.

AMERICAN RECOVERY AND REINVESTMENT ACT OVERSIGHT

The **Recovery Act**, signed into law by President Barack Obama on February 17, 2009, has at least three immediate goals: create new jobs and save existing ones; spur economic activity and invest in long-term growth; and foster unprecedented levels of transparency and accountability. To ensure that accountability requirements are being met, the inspectors general of 28 federal agencies distributing Recovery funds continually review their agencies' management of these funds.

Five Department of Commerce operating units—the Census Bureau, EDA, NIST, NOAA, and NTIA—and OIG received $7.9 billion under the act, with $1.1 billion ultimately rescinded or transferred to other agencies. As of March 31, 2011, the Department had obligated approximately $6.8 billion and spent approximately $2.1 billion. OIG received $16 million for proactive oversight of the Department s Recovery Act programs and activities, including the operating units' implementation of the act s performance measurement requirements.

Commerce Operating Units' Recovery Act Spending as of March 31, 2011 (in millions)



Not reflected in the chart are DTV converter box rescissions of $240 million, a BTOP rescission of $302 million, and $536 million in other transfers for a total of $1.1 billion.

Visit *www.oig.doc.gov/recovery/* for more information about OIG Recovery Act activities.

Broadband Program Faces Uncertain Funding, and NTIA Needs to Strengthen Its Post-Award Operations (OIG-11-005-A)

As part of our continuing oversight of the BTOP grant award process, we examined NTIA's efforts to develop and implement effective policies and procedures, systems, and post-award oversight of the two rounds (April and September 2010) of broadband grant awards.

> **The Recovery Act and Broadband**
>
> The Recovery Act gave $4.7 billion to NTIA to establish BTOP, a competitive grant program intended to provide funds for deploying broadband infrastructure in the United States, enhance broadband capacity at public computer centers, improve access to broadband services for public safety agencies, promote sustainable broadband adoption projects, and develop an interactive map showing broadband capabilities and availability.

By September 30, 2010, NTIA had made almost $4 billion in awards to over 230 recipients, making it the largest grant program that NTIA has managed to date. With the announcement of the last awards, NTIA's focus shifted to monitoring this diverse portfolio of grants, which were awarded to a wide variety of recipients, including public entities, for-profits, nonprofits, cooperative associations, and tribal entities. While NTIA has been proactive in its establishment of a post-award oversight program, we did find the following causes for concern:

- NTIA has developed many new processes to assist BTOP's program office and grant recipients with post-award activities. When this report was issued in November 2010, NTIA had not received any federal funding, which would have hindered its efforts to provide effective long-term oversight of grants. NTIA has since received its requested funding to provide oversight of the program through FY 2011. However, it is unclear what level of funding NTIA will receive for oversight in FY 2012. A lack of funding beyond that date would affect NTIA's oversight efforts.

- NTIA's post-award monitoring and oversight practices need to be strengthened in several ways. First, some agreements with other Commerce agencies are unclear and have not been carefully managed. In addition, there is a knowledge gap between the staff of the contractor that designed BTOP's software systems and the NTIA staff who must maintain the systems. NTIA also does not have a robust means for tracking employee training and development. While NTIA has created new manuals and guidance to help employees and grantees understand BTOP, several of the manuals lack important details about policies and procedures. Finally, some aspects of award monitoring are not being completed promptly or efficiently.

We made several recommendations to NTIA to improve internal controls, promote transparency, and increase efficiency. NTIA's response to our draft report indicated it is taking many of our recommendations into consideration. Based on its response, our final recommendations included:

- managing future funding constraints for BTOP by developing alternative approaches to monitoring and oversight, and revising manuals and documentation accordingly; and

- ensuring that agreements with other agencies, manuals and guidance, training and development, and monitoring procedures are clearly documented and fully adhered to.

Commerce Needs to Strengthen Its Improper Payment Practices and Reporting (OIG-11-021-A)

For our review of the Department's compliance with OMB guidance for preventing and detecting grant fraud, waste, and abuse, we focused on the Department's practices for reporting improper payments. We sampled four operating units—EDA, NIST, NOAA, and NTIA—that received funding and awarded grants through the Recovery Act. We found that the units were generally in compliance with OMB guidance, but that several improvements should be made. We concluded that

- Commerce did not have a comprehensive policy addressing all categories of improper payments; as a result, the four units did not have practices in place to accurately report and recover improper payments. While the previous OMB guidance lacked clarity, recent draft guidance clearly identifies additional categories of payments.

Improper Payments Information Act of 2002 (P.L. 107-300)

The Improper Payments Information Act of 2002 was enacted to increase public trust in government spending. The act requires the head of each agency to review its programs, which now include Recovery Act grants and contracts, for significant improper payments, and to report these payments to Congress. The Improper Payments Elimination and Recovery Act of 2010 (P.L. 111-204) amended the Improper Payments Information Act and broadened the criteria for identifying and recovering improper payments.

- Commerce did not elect to include grants in its improper payments reporting or annual recovery audits. By not including grants, the Department missed an opportunity to find and recover erroneous payments.
- NIST, NOAA, and NTIA completed program risk assessments, but the assessments did not adequately measure the risk of fraud; EDA identified program risks, but did not determine a risk rating, which is an integral part of a risk assessment and is required by OMB guidance.
- All of the bureaus we reviewed had completed internal controls assessments; however, these assessments were not included in the program risk assessments. The assessments also did not include specific fraud risk scenarios as a best practice.
- All of the bureaus we reviewed were in compliance with OMB requirements to link their websites to the OIG website to report fraud, waste, and abuse.

While we focused our review on the practices of these four bureaus, we addressed our recommendations to the Department as a whole since improper payments reporting is required for all programs and bureaus. We recommended that the Department's Assistant Secretary for Administration/Chief Financial Officer work with bureaus and programs to

- provide additional improper payment guidance and training to Commerce operating units to identify the categories, including grants, of improper payments that are required for improper payment reporting, and ensure that all categories are accurately and completely reported;
- include grant payments in future recovery audits; and
- expand internal control and program risk assessments to include specific fraud scenarios so that increased program and financial management attention can be focused on the likeliest risks for fraud, waste, and abuse.

Technical Equipment Company Suspended from Federal Contracting

Based on a lead from the Recovery Accountability and Transparency Board and with support from the Bureau of Industry and Security, OIG investigated a company that was awarded federal contracts, including three NIST contracts funded by the Recovery Act, under false pretenses. In March 2008 the company pled guilty to making a false certification or writing in order to export equipment for use in India's nuclear program in violation of the applicable regulation. OIG's investigation revealed that the company subsequently certified in official documents filed with federal contracting offices that it had not, within a 3-year period preceding the award of the contracts, been convicted of a crime or had a civil judgment rendered against it. During the period covered by these certifications, the company received 276 federal contracts from 16 different agencies totaling $19,536,660. OIG worked with the U.S. Air Force to suspend the firm from receiving new contracts from the federal government. Imposed in March 2011, the indefinite suspension covered the company and three company officials.

Congressional Testimony

On February 10, 2011, the Inspector General testified before a U.S. House Energy and Commerce Subcommittee on the progress and status of the BTOP program and OIG's oversight efforts. Noting that BTOP represents the largest and most complex grant program NTIA has ever overseen, he said that a total of 232 awards worth approximately $3.9 billion had been granted for developing information technology infrastructure development; establishing or upgrading public computer centers; and promoting sustainable broadband adoption.

"BTOP's mission is as ambitious as its implementation has proven complex. For the Department to continue effective oversight, OIG and NTIA will require Congress as a steadfast, supporting partner."

IG testimony before a U.S. House Energy and Commerce Subcommittee, February 10, 2011

As a result of BTOP's unique and diverse nature, the Inspector General testified that NTIA will need to track recipients' compliance with grant terms and conditions; review project performance information and other quarterly reports; evaluate how well recipients monitor award subrecipients; ensure that recipients remain on track to deliver the broadband capabilities to which they have committed; and closely observe how awardees manage the often complex process of drawing down federal funds.

The Inspector General discussed how OIG's current proactive oversight efforts in the areas of outreach and program-wide issues will transition to a more strategic approach, including reviews of program-specific issues and reviews stemming from complaints and identified risks. He predicted that the potential for fraud, waste, and abuse will increase substantially over the next 5 years as spending by BTOP grant recipients rises. In addition, he said uncertainty regarding NTIA oversight funding raises significant concerns for the Department about the adequacy of future BTOP oversight.

His statement is available at *www.oig.doc.gov*.

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 Earths resources to promote environmental stewardship.

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

Commerce Should Strengthen Accountability and Internal Controls in Its Motor Pool Operations (OIG-11-004-A)

During FY 2009, the Department owned about 700 vehicles, leased about 100 commercial vehicles, and leased over 1,400 GSA vehicles at a total cost of approximately $9.6 million. Vehicles that Commerce owns or commercially leases are assigned a JPMorgan Chase fleet credit card that is used to purchase fuel and pay vehicle maintenance and repair costs. The Department is responsible for monitoring transactions posted to the card and pays these costs directly to the card issuer. For GSA vehicles, the Department pays the agency a monthly lease fee plus mileage costs. These vehicles are assigned a Wright Express fleet credit card for fuel and minor non-fuel purchases. GSA is responsible for monitoring these transactions, which are centrally billed to GSA.

The objective of our audit was to determine whether the Department and operating units were operating motor pool vehicles in compliance with regulations. Because documentation supporting vehicle use and fleet credit card transactions was inconsistent or nonexistent, we were unable to assess the Department's compliance with applicable regulations, and we could not determine whether government motor vehicles and fleet credit cards were used only for allowable purposes. This resulted from inadequate policies and procedures and the lack of a centralized fleet management system. We found that the Department does not provide adequate oversight of motor pool vehicle inventory, activity, or cost. Further, the Department has not developed or implemented internal controls over motor pool operations. As a result, significant irreconcilable differences were found between Commerce records and those of JPMorgan Chase and Wright Express.

We recommended that the Department (1) develop a centralized fleet management information system to

Unreconciled Differences Between Commerce, JPMorgan Chase, and Wright Express Records

- 733 JPMorgan Chase fleet credit cards (with transactions totaling over $1 million) could not be matched with a vehicle.
- 339 bureau vehicles could not be matched with a JPMorgan fleet credit card.
- 381 Wright Express credit cards could not be matched with a vehicle.
- 40 GSA-leased vehicles could not be matched with a Wright Express credit card.
- 89 vehicles reported on the Federal Automotive Statistical Tool report were not included on bureau inventory listings.
- 52 vehicles were found to have multiple JPMorgan fleet credit cards.

oversee the use of motor pool vehicles and costs associated with each; (2) implement available JPMorgan Chase fraud training and monitoring tools; (3) update policies and procedures to ensure that credit cards are used appropriately, operating units maintain adequate documentation, authorization for home-to-work transportation is justified and documented, premium-grade fuel is used only when required in the particular vehicle, accurate odometer readings are recorded when fuel is purchased, and fleet managers and employees receive formal training on the use of government vehicles; and (4) revise its charge card management plan to comply with OMB regulations.

Federal Information Security Management Act Audit Identified Significant Issues Requiring Management Attention (OIG-11-012-A)

The Department and its operating units use over 300 IT systems. Security weaknesses have been a longstanding problem, particularly with respect to planning, configuration settings, and control assessments. This year we assessed security controls of 18 systems from six different operating units. Our review focused on Department-wide issues that require policy improvements and increased management attention.

We found that the Department's information security program and practices are not adequately securing its systems, and we are concerned that the likelihood and severity of security breaches are considerably greater than what is currently perceived by management. We recommended that the Department revise its information security policy by providing specific implementation guidance that will ensure better and more consistent practices across the Department. Further, increased management attention is required to ensure that the deficiencies identified are rectified Department-wide.

Federal Information Security Management Act of 2002 (Title III, P.L. 107-347)

The Federal Information Security Management Act of 2002 (FISMA) requires federal agencies to identify and provide security protection of information collected or maintained by them or on their behalf. Inspectors general are required to annually evaluate agencies' information security programs and practices. These evaluations must include testing of a representative subset of systems and an assessment, based on that testing, of the entity's compliance with FISMA and applicable requirements.

FY 2010 Consolidated Financial Statements Audits (FSA-11-010)

Independent auditor KPMG LLP found that the Department's consolidated financial statements are presented fairly in all material respects and in conformity with U.S. generally accepted accounting principles. KPMG found no instances of reportable noncompliance with applicable laws, regulations, contracts, and grant agreements; and no instances in which the Department's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996.

KPMG identified one significant deficiency related to weaknesses in IT security controls over the Department's financial management systems, which was not considered a material weakness in internal control. It found that, despite the positive efforts made by the Department to help establish sound information security practices over financial management systems, the Department needs to continue to make improvements to fully ensure that financial data being processed on the Department's systems have integrity, are securely maintained, and are available only to authorized users. The Department agreed with these findings and has developed corrective action plans to address KPMG's recommendations.

Importer of Defective Zylon® Fiber Used in Bulletproof Vests Reaches Settlement with United States

In January 2011, a Japanese company and its American subsidiary agreed to settle a civil false claims case for $1.5 million as the result of an investigation into the importation and sale of Zylon® fiber used in bulletproof vests. This settlement is part of a larger investigation of the body-armor industry's use of Zylon® ballistic material in body armor. The companies imported Zylon® fiber on behalf of a manufacturer in Japan. It was alleged that they were aware, but did not disclose, that the fiber degraded quickly and that this rendered bulletproof vests containing woven Zylon® unfit for use. Rather, they marketed the fiber and downplayed the problem. This settlement was the result of a joint investigation involving the U.S. Department of Justice and investigative units from nine federal departments and agencies.

Congressional Testimony

On February 9, 2011, the Inspector General testified on the top management challenges facing the Department as part of a U.S. House Appropriations Subcommittee's consideration of FY 2012 Commerce appropriations. The eight challenges facing the Department are summarized on pages 3-7 of this report. The Inspector General's statement is available at *www.oig.doc.gov*.

> ***"… the Secretary has initiated a number of management reforms designed to achieve a more integrated Department that leverages the strengths of its various bureaus to achieve its goals."***
>
> IG testimony before a U.S. House Energy and Commerce Subcommittee, February 9, 2011

Nonfederal Audit Activities

In addition to undergoing OIG-performed audits, certain Commerce financial assistance recipients 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 audit requirements for most of these audits. For-profit organizations, including those that receive Technology Innovation Program (TIP) funds, are audited in accordance with *Government Auditing Standards*. In addition, organizations that received Advanced Technology Program (ATP) funds are audited in accordance with *NIST Program-Specific Audit Guidelines for ATP Cooperative Agreements*, issued by the Department.

We examined 200 audit reports during this semiannual period to determine whether they contained audit findings related to Commerce programs. For 119 of these reports, the Department acts as an over sight agency and monitors the audited entity's compliance with OMB Circular A-133, Government Auditing Standards, or NIST's program-specific reporting requirements. The other 81 reports cover entities for which other federal agencies have oversight responsibility. We identified nine reports with material findings related to the Department of Commerce.

Report Category	OMB A-133 Audits	Program-Specific Audits	Total
Pending (October 1, 2010)	68	1	69
Received	132	81	213
Examined	157	43	200
Pending (March 31, 2011)	43	39	82

The following table shows a breakdown by operating unit of approximately $427 million in Commerce funds audited.

Agency	Funds
Economic Development Administration	$88,472,940
Minority Business Development Agency	795,515
National Institute of Standards and Technology*	125,233,818
National Oceanic and Atmospheric Administration	106,338,186
National Telecommunications and Information Administration*	12,194,311
Multi-Agency	93,596,421
Total	**$426,631,191**

** Includes $ 61,375,334 and $4,792,585 in program-specific audits for NIST and NTIA, respectively.*

We identified a total of $3,340,073 in the federal share of questioned costs and $193,585 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 nine reports with Commerce findings are listed in Table 7-a (see page 44).

ECONOMICS AND STATISTICS ADMINISTRATION

The **Economics and Statistics Administration** (ESA) analyzes economic activity, formulates policy options, and produces a major share of the U.S. government s economic and demographic statistics. The chief economist monitors and analyzes economic developments and directs studies that have a bearing on the formulation of economic policy. ESA has two principal organizational units:

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

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

2010 Census: PSP Lacked Adequate Controls for Monitoring Purchases and Ensuring Compliance (OIG-11-013-A)

The Partner Support Program (PSP) was developed by the Census Bureau to complement the outreach efforts of Census's partner organizations. Partner organizations include government, non-profit, and corporate or community organizations that formally pledged their commitment to share the 2010 Census message and mobilize their constituents of historically "hard-to-count" demographic groups in support of the bureau's goal of achieving a complete and accurate count.

To spread the bureau's message about the 2010 decennial, Census worked with its partners in a variety of ways, including purchasing promotional items (such as pens, flyers, or caps) for the partners to distribute locally, and participating in festivals or other community events. As part of our ongoing oversight of the 2010 Census, we audited purchases made under the PSP.

While Census has several reports and systems in place to monitor purchases made for partners, few of the systems actually communicate with or reconcile to one another. This makes it difficult for Census headquarters to track purchases over the long term. Purchases that had been miscoded in some of these systems further hindered management's ability to monitor the program. Moreover, some Census employees who had purchasing authority did not follow federal and Commerce acquisition guidelines and policies. Purchasing for the program started later than anticipated, and the program changed rapidly over its lifecycle, making it difficult to train Census staff thoroughly and in a timely fashion. Although the bureau distributed written guidance to staff, the guidance was often unclear or misunderstood by them.

Should Census implement a similar promotional outreach program in 2020, we recommend the following:

- Ensure that manual and automated tracking systems are fully functional and integrated, and that reconciliation with the financial accounting system is in place prior to implementing the program.

- Improve management oversight of purchase card purchases to identify staff noncompliance with policies and procedures for both purchase cardholders and partnership staff.

- Conduct timely training that reemphasizes federal and Commerce acquisition rules, such as split purchases, conflicts of interest, and other procedural rules; and provide manuals with updates and step-by-step instructions.

2010 Census: Quarterly Report to Congress (OIG-11-017-I)

This report covers 2010 Census activities for two quarters, from April through September 2010. We addressed the status of the Census budget and spending of Recovery Act funds; the status of OIG field observations, especially for Nonresponse Follow-up (NRFU) and Vacant Delete Check (VDC) operations, and how paper-based operations control system (PBOCS) problems affected them; and risk management activities, including enumerator safety and an allegation of improprieties at one local Census office. In addition, we reported the findings of other OIG reviews during this period. More specifically, we focused on:

- *2010 Census Costs.* Although FY 2010 spending remained under budget ($7.4 billion projected; about $5.5 billion spent), Census did not adequately implement our recommendation to control wage, travel, and training costs. Our two previous quarterly reports highlighted lower cost estimates offset by higher spending, which were obscured by financial management reporting that lacked transparency; this report noted that the trend continued due to inadequate planning and insufficient tracking by the bureau. Additionally, our analysis of travel and training costs revealed inefficiencies.

- *OIG Field Observations.* IT systems' instability caused higher costs and may have negatively affected the process for ensuring data quality. Our February and May 2010 quarterly reports raised questions about the viability of PBOCS, Census's primary tool for field workload planning and reporting. Our field observations confirmed the expected: increased cost and potential data errors because of PBOCS' inadequacies. We described how the system adversely affected NRFU and its quality control component, the Field Verification operation that followed NRFU, and the completion of the Update/Enumerate operation.

Previous OIG reports tracked early field operations (before April 1, 2010) and NRFU. OIG oversight of the 2010 Census continued with NRFU and VDC. We observed some enumerators not following important procedures, such as those for leaving notice of visits and following questionnaire scripts. During VDC, we also observed respondents' unwillingness to answer interview questions, which affected production. We also found that Census map quality needs improvement.

- *Census Employee Safety.* Our review of Census field notes and incident reports indicated that not all threats and other criminal conduct directed at enumerators generated either a formal review or an enforcement action. NRFU highlighted many instances of Census employee risk at the hands of respondents; reports detailed hundreds of instances of threats as well as physical, verbal, or sexual attacks. We suggested that the Census Bureau, the Department of Commerce, law enforcement agencies, and Congress collaborate to develop an appropriate solution that explicitly addresses enumerator safety.

- *Risk Management Activities.* Census's Risk Review Board (RRB) continued to oversee risk management activities and modify its risk register. However, the RRB made little progress in finalizing outstanding contingency plans. The board's inability to prioritize the completion of remaining contingency plans—especially with one of the risks rated "high" throughout the major decennial operations—was of serious concern.

- *Other OIG Census Reviews.* During this period, we examined contract labor costs; investigated important whistleblower accusations at a Brooklyn, New York, local Census office; and looked at the bureau's process for handling fingerprint checks of potential hires.

This report did not provide recommendations. We are publishing a synopsis and final report of all OIG field operations and evaluations of the 2010 Census in the spring of 2011.

2010 Census: Contract Modifications and Award-Fee Actions on DRIS Demonstrate Need for Improved Contracting Practices (OIG-11-020-A)

In October 2005, the Census Bureau awarded a $483 million cost-plus-award-fee contract to Lockheed Martin Corporation to develop and implement the Decennial Response Integration System (DRIS), an information system that would assist in 2010 Census data collection and analysis. The contract has a 6-year performance period, with completion scheduled for September 2011. In September 2007, Census awarded Lockheed Martin an approximately $264.6 million modification to the DRIS contract. Most of the cost for the modification was for increasing outbound telephone coverage follow-up (in which households were contacted by telephone to verify the information provided in mailed-back Census forms).

As part of our oversight of the 2010 Census, we performed an audit to determine whether Census's contracting officer appropriately awarded the contract modification number and used the appropriate contract type for the initial DRIS award. We found that the Census Bureau did not have adequate contract pre-award practices in place to ensure that the $264.6 million modification to the DRIS contract was properly awarded. The lack of well-defined pre-award processes may have resulted in the bureau's inability to promote and provide for full and open competition and ensure a fair and reasonable price in awarding this modification. We also found that the bureau's justification for the contract type and payment structure it chose for DRIS did not conform to federal guidance.

We recommended that the Census Bureau's Chief, Acquisition Division,

- develop and implement internal controls to ensure that, going forward, pre-award policies and processes are adhered to;
- direct the DRIS contracting officer to obtain the proper reviews, support, and approval before issuing contract solicitations;
- ensure determination and findings on future contracts contain supporting details;
- conduct and document a cost-benefit analysis when deciding whether to use this contract type in the future; and
- require the contracting officer to revise the award-fee payment structures of the final phase of the DRIS contract to provide incentives for excellent contractor performance, and prohibit the contractor from receiving award fees for less-than-satisfactory performance.

FY 2010 Consolidated Financial Statements Audits (FSA-11-008)

Independent auditor KPMG LLP found that the Census Bureau's consolidated financial statements were presented fairly in all material respects and in conformity with U.S. generally accepted accounting principles. It found no material weaknesses in internal control of financial reporting and no instances of reportable noncompliance with applicable laws, regulations, and contracts.

KPMG's IT review found that while Census has taken positive steps to correct previous IT findings, there are still weaknesses related to IT controls supporting the bureau's financial management systems. However, these weaknesses were not considered to be a material weakness or a significant deficiency in controls. Census agreed with these findings and has developed corrective action plans to address KPMG's recommendations.

Census Employee Pleads Guilty to Falsifying Documents

In March 2011, a Census employee pled guilty to one count of violating 18 U.S.C. § 1001, which prohibits false official statements, and agreed to pay $27,622 in restitution to the government. In December 2010, the employee was indicted in U.S. District Court for the Central District of California on one count of making false statements to the Housing Authority of the City of Los Angeles (HACLA). HACLA administers the Section 8 housing program, which is funded by the U.S. Department of Housing and Urban Development. OIG investigators found evidence the employee failed to report her Census income to HACLA, which resulted in her improperly receiving $27,622 in Section 8 benefits.

Census Contractor Settles with Department

A series of OIG audits identified $3 million in questioned and unsupported costs in a Census contract with a major IT contractor. The findings prompted an investigation, which found improper billings by the contractor, variances in labor categories and rates billed by subcontractors, and pyramiding of profits (rate increases that were not passed on to subcontractors) totaling about $3.4 million over the life of the contract. The contractor also failed to provide appropriate documentation to support over $16 million in labor costs. Although the U.S. Attorney's Office for the Eastern District of Virginia declined to pursue criminal or civil prosecution, OIG and Justice Department activities were instrumental in Census's pursuit of contract remedies. After extensive negotiations, the case was settled for $600,000 in March 2011.

NATIONAL INSTITUTE OF STANDARDS AND TECHNOLOGY

The **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 Technology Innovation Program, the Manufacturing Extension Partnership (MEP) program, the Baldrige National Quality Program, and NIST Research Laboratories.

Multimillion Dollar Civil Judgment Against NIST Grantee Previously Convicted of Grant Fraud

In March 2011, the U.S. District Court for the Southern District of New York granted the government's motion for summary judgment on a civil False Claims Act case against a grantee who had been found guilty of intentionally misusing approximately $500,000 in NIST ATP grant funds to pay for numerous personal expenses. The decision granted our request for $4,036,500 in trebled damages (three times the entire original grant amount $1,345,500) and awarded a penalty of $5,500 for one false claim.

In October 2008, the grantee was sentenced to 15 months' imprisonment and 3 years' probation for violating 18 U.S.C. § 666, which covers theft concerning federally funded programs. The individual was also ordered to pay $120,100 in restitution and fines pursuant to his conviction. In addition, $390,000 worth of computers, power tools, and other items seized from his residence were ordered forfeited to the government.

NIST ATP Grantee Sentenced

Since October 2006, OIG had been pursuing a fraud investigation involving a Texas company that had received $2 million in ATP grant funds for scientific research. The investigation disclosed evidence that the owners of the company were diverting grant funds to pay the salaries of employees not involved in the grant-funded research project and to fund unauthorized overhead and other expenses for family members and a sister company. In November 2010, the grantee's principal investigator was sentenced to 2 years' probation and ordered to pay $100,207 in restitution and a $100 special assessment following his January 2010 guilty plea to one count of violating 18 U.S.C. § 666.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NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION

The **National Oceanic and Atmospheric Administration** mission is to understand and predict changes in Earths environment, and to conserve and manage coastal and marine resources to meet our nations economic, social, and environmental needs. NOAA does this through six line offices:

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 to 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 NOAAs strategic plan, supports organization-wide planning activities, guides managers and employees on program and performance management, and integrates policy analysis with decision-making.

Survey of NOAA's System and Processes for Tracking Oil Spill Costs (OIG-11-016-M)

After the April 20, 2010, explosion of the Deepwater Horizon offshore drilling unit caused a massive oil spill in the Gulf of Mexico, we initiated an audit survey to assess NOAA's system and processes for tracking costs associated with its response and damage assessment efforts.

NOAA established a project code structure within its core financial system, Commerce Business Systems (CBS), for recording and tracking costs associated with NOAA's spill-related activities; NOAA offices also have a process for recording such activities. We obtained a listing of spill-related financial transactions recorded in CBS as of June 29, 2010, totaling \$16.7 million, and examined the supporting documentation for \$9 million.

During our review of financial transactions, we identified several potential cost-related issues that, if not addressed by NOAA management, may increase the risk that NOAA's efforts in the Gulf will not be appropriately reimbursed: unapproved compensatory time and overtime, manual transfers of costs to oil spill projects, application of overhead costs, and improper travel costs. In addition to these cost-related concerns, we identified the following documentation and personnel-activity tracking issues: vague descriptions on activity logs and hours; activity log data not reconciling with timekeeping records; insufficient supporting documentation for payroll, travel, and contracts; and an incomplete roster of employees deployed to the Gulf.

We recognize that NOAA will continue to provide significant expertise in the months and years ahead to assess the oil spill's impact on our ecosystem and to begin restoration of damaged natural resources. Therefore, we recommended that NOAA ensure that oil spill activities are charged to the appropriate project, costs are accurately recorded in the accounting system, and documentation supporting all activities and costs is complete and accurate.

Examination of Issues Related to Internet Posting of NOAA Climate Scientists' E-mail Exchanges

In response to a congressional request, OIG examined issues related to the Internet posting of e-mail exchanges among many of the world's leading climate scientists, including NOAA employees, that were taken from the Climatic Research Unit (CRU) of the University of East Anglia in the United Kingdom in a reported hacking incident in November 2009. As part of our inquiry, we interviewed Dr. Jane Lubchenco, Under Secretary of Commerce for Oceans and Atmosphere and NOAA Administrator, and other NOAA personnel, and conducted a review of the 1,073 CRU e-mails in question (spanning 13 years, from 1996 to 2009). Our efforts alerted us to several matters that we felt warranted further action.

We found a reference in a CRU e-mail to a Freedom of Information Act (FOIA) request made to NOAA in 2007 for documents related to NOAA scientists' participation in the United Nations International Panel for Climate Change. The reference, upon further investigation, raised questions about NOAA's processing of that and several additional, nearly identical, FOIA requests. In each case, NOAA responded to the FOIA requester that it had no responsive documents. In the course of our inquiry, however, we determined that NOAA did not conduct a sufficient search for potentially responsive records prior to responding to these requests. Therefore, we recommended that NOAA carry out a proper search for the records sought in these FOIA requests and, as appropriate, reassess its responses. We also recommended that NOAA consider whether these issues warranted an overall assessment of the sufficiency of its FOIA process.

We also found one CRU e-mail that raised questions about the use of NOAA's funds by a visiting fellow at the CRU, and another that contained a satirical photo collage of climate change skeptics created by one NOAA scientist and forwarded by another to the director of the CRU. NOAA acknowledged and took steps to address each of these concerns. We recommended that NOAA examine any contracts, grants, or cooperative agreements awarded to the CRU to verify conformance with all terms and specifications, and to identify any irregularities. NOAA also informed us during the course of our inquiry that the scientists who created and forwarded the collage had been counseled by their respective supervisors.

Former NOAA Employee Convicted and Sentenced on Child Pornography Charges

In December 2010, a former NOAA employee was sentenced to 3 months' imprisonment, 6 months' home monitoring, and 10 years of supervised release in connection with his May 2010 guilty plea to federal child pornography charges. He was also ordered to pay a $10,000 fine. In October 2009, the U.S. Department of Homeland Security, Immigration and Customs Enforcement notified OIG of an ongoing investigation of the employee for misuse of computers to view child pornography. OIG assisted in his arrest and the analysis of his government computer, which did contain evidence of child pornography. The individual subsequently retired from NOAA.

NATIONAL TELECOMMUNICATIONS AND INFORMATION ADMINISTRATION

The **National Telecommunications and Information Administration** serves as the executive branchs 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, telephone, and other telecommunications services; and educates state and local governments and other entities on ways to use information technology and telecommunications more effectively.

Digital Television Transition and Public Safety Act of 2005 (Title III of P.L. 109-171, the Deficit Reduction Act of 2005)

The Digital Television Transition and Public Safety Act of 2005 authorized NTIA, in consultation with the Department of Homeland Security, to implement the Public Safety Interoperable Communications (PSIC) program—a $1 billion one-time, formula-based matching grant program intended to enable public safety agencies to establish interoperable emergency communications systems using reallocated radio spectrum. Recipients are required to have a minimum 20 percent matching share from nonfederal sources for the acquisition and deployment of communications equipment, as well as management and administration costs.

The Implementing Recommendations of the 9/11 Commission Act of 2007 (P.L. 110-53) requires OIG to conduct financial audits, over 4 years, of a representative sample of at least 25 states or territories receiving PSIC grants. The statute also requires OIG to annually assess the management of the program and report any findings and recommendations from that annual assessment to the relevant congressional committees.

Second Annual Assessment of the PSIC Grant Program (OIG-11-001-A)

Our report details our second annual assessment of NTIA's PSIC grants management for the year ended September 30, 2009, with selected updates through March 31, 2010. The purpose of our audit was to determine whether (1) the program was operating efficiently, with grantees procuring communications equipment; (2) the program was effectively enabling grant recipients to complete their interoperable communications projects before the program's deadline; and (3) whether technical assistance provided by NTIA and the Federal Emergency Management Agency (FEMA) would be effective in assisting grantees achieve program goals.

We found that grantees were making progress in meeting the goal of obtaining communications equipment for use by local public safety agencies. We did not find any indication that grantees would not meet the PSIC award period deadline. However, grantees were having difficulty meeting and documenting nonfederal matching fund requirements. Both NTIA and FEMA concurred with our recommendation to closely monitor grantees' matching shares to ensure that matches directly benefit the PSIC grant program, meet eligibility requirements, and are properly reported.

NTIA and FEMA's PSIC guidance documents, workshops, and conferences will benefit grantees trying to meet the obligations of the program before the deadline for funding is reached.

Audit of California PSIC Grant Award No. 2007-GS-H7-0008 (OIG-11-002-A)

On September 30, 2007, NTIA awarded a $94,034,510 PSIC grant to the State of California to enhance interoperable emergency communications, of which $61,612,835 required nonfederal matching contributions. The California Emergency Management Agency (CalEMA) was designated as the administrative agency to apply for and administer PSIC funds.

Our audit covered the award period of October 1, 2007, through June 30, 2009, during which time CalEMA claimed total costs of $3,273,405. In general, CalEMA appears to be on track to complete its interoperable communications investments before the end of the award, but we did find several areas of concern. Specifically, we found the following:

- CalEMA has not provided proper documentation for almost $600,000 of its nonfederal matching share, which could lead to a $2.4 million reduction in federal funds allowed.
- CalEMA has been noncompliant with PSIC requirements in several areas, including not fulfilling reporting requirements, insufficiently monitoring subrecipients, allowing ineligible costs incurred by subrecipients, and claiming costs for vehicle repairs and other invalid expenditures. We questioned $73,474 of the costs CalEMA claimed during the audit period.

In response to the findings, CalEMA submitted budget modifications, revised financial reports, and agreed to remove questionable costs from budget claims. Further, NTIA agreed to work with California to bring nonfederal matching funds into proportion with federal match. We concurred with these resolutions to the findings.

Audit of Massachusetts PSIC Grant Award No. 2007-GS-H7-0036 (OIG-11-003-A)

On September 30, 2007, NTIA awarded a PSIC grant to the Commonwealth of Massachusetts. The grant provided federal funding of $21,191,988, of which $14,306,260 required nonfederal matching contributions. The Massachusetts Executive Office of Public Safety and Security (EOPSS) was designated as the administrative agency to apply for and administer PSIC funds.

Our audit covered the award period of October 1, 2007, through June 30, 2009, during which time EOPSS claimed total costs of $313,943. We found that EOPSS appeared to be on track to complete its 10 interoperable communications investments before the end of the grant period and was generally in compliance with PSIC grant requirements.

Audit of Texas PSIC Grant Award No. 2007-GS-H7-0044 (OIG-11-007-A)

On September 30, 2007, NTIA awarded a PSIC grant to the State of Texas. The grant provided federal funding of $65,069,247, of which $63,836,923 required nonfederal matching contributions. The Texas Department of Public Safety's (TxDPS) Governor's Division of Emergency Management was designated as the administrative agency to apply for and administer PSIC funds.

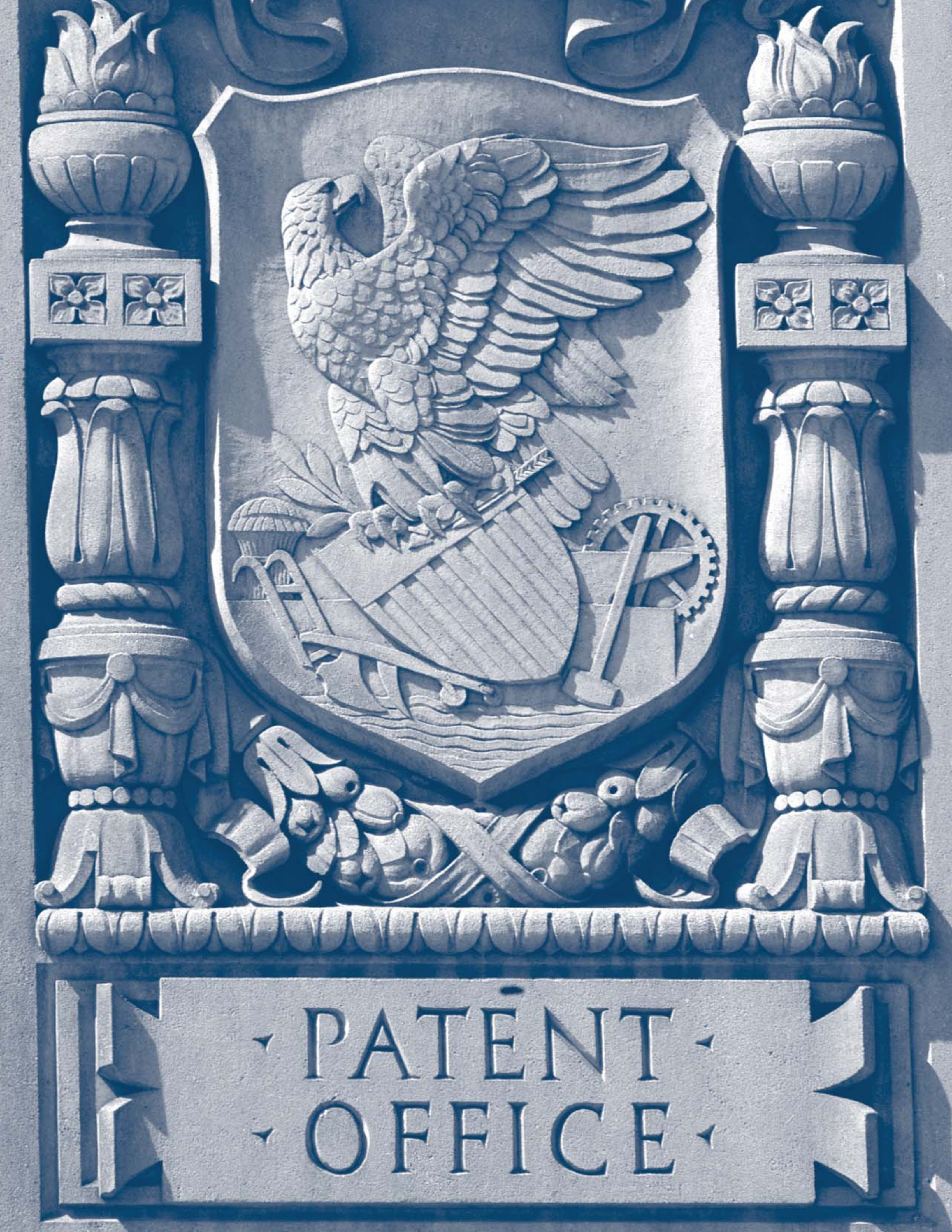
Our audit covered the award period of October 1, 2007, through June 30, 2009, during which time TxDPS claimed total costs of $2,207,092. In general, TxDPS appears to be on track to complete its investments before the end of the award, but we did find several areas of concern. Specifically, we found the following:

- TxDPS has not provided sufficient nonfederal funds to meet its matching share requirement and has been incorrectly reporting its matching funds in its quarterly financial reports.

- In 11 out of the 25 drawdowns we reviewed, TxDPS did not fully comply with the grant's requirements for drawing down funds within 30 days of disbursement and placing these funds in an interest-bearing account so that any accrued interest can be remitted to the U.S. Treasury.

- TxDPS transferred a total of $1,265,226 from the budgets of several of its investments to another investment without requesting or receiving the needed approval from NTIA or FEMA.

In response to the findings, TxDPS demonstrated improved internal accounting controls, remitted the imputed interest to the Treasury, and submitted an investment modification request addressing various budget changes, which was approved by NTIA and FEMA. We concurred with these resolutions to the findings.


PATENT
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UNITED STATES PATENT AND TRADEMARK OFFICE

The **United States Patent and Trademark Office** administers the nations 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 Patent Quality Assurance Process (OIG-11-006-I)

At the request of the Senate Appropriations Subcommittee on Commerce, Justice, and Science, OIG examined USPTO's quality assurance program to determine its effectiveness in ensuring that established quality standards are met, and whether USPTO's patent quality assurance process complies with applicable federal, USPTO, and other laws, regulations, policies, procedures, and guidelines.

What Is a Patent?

A patent for an invention is the grant of a property right to the inventor, usually for 20 years from the patent application's U.S. filing date and subject to the payment of maintenance fees. The patent confers the right to exclude others from making, using, offering for sale, selling, or importing the invention. Once USPTO issues a patent, the patentee must enforce the patent without aid from USPTO.

While USPTO incorporates quality assurance into its patent review process, our review found that USPTO lacks standard policies, procedures, and practices for the patent quality assurance program in both the technology centers (TCs) and the Office of Patent Quality Assurance (OPQA). We also found that TCs are not required to consider OPQA's decisions during the resolution and adjudication of patent errors, and that OPQA does not monitor how the patent processing errors it finds in its reviews are adjudicated within the TCs. Lastly, we discovered potential violations of departmental litigation hold notices and improper disposition of records.

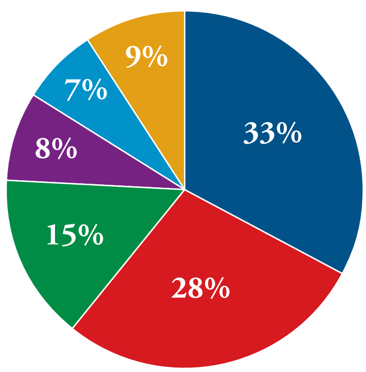
We recommended that the Commissioner for Patents establish standard policies, procedures, and practices for quality assurance reviews within the TCs and OPQA; clarify OPQA's role in monitoring the final adjudication of patent errors within the TCs; implement practices to ensure that patents are reviewed and issued within the timeframes established by the American Inventors Protection Act; adhere to USPTO's Comprehensive Records Schedule; and comply with litigation hold notices.

Stronger Management Controls Needed over USPTO's Projection of Patent Fee Collections (OIG-11-014-A)

USPTO is a fully fee-funded agency. Since the fees it collects must fund its operations, it is especially important that USPTO assure its stakeholders that the best available fee collection projections are developed and used. Without such assurances, the agency risks having to adjust spending in ways that could disrupt key operations and initiatives to improve patent quality and timeliness. Our audit objective was to determine whether USPTO has an effective process for projecting patent revenue that enables it to meet its mission and strategic goals for patents.

For fiscal years 2006 through 2009, USPTO experienced significant disparities between projected and actual patent fee collections; these ranged from shortfalls of about $56.6 million in FY 2006 to $171 million in FY 2009 (not a typical year for the economy).

Fiscal Year 2009 Patent Fee Collections



- Maintenance Fees
- Application Filing Fees
- Patent Issue Fees
- Patent Extension Fees
- Patent Cooperation Treaty Fees
- Sum of Remaining Seven Patent Fee Categories

Source: OIG based on USPTO data.

USPTO does not have clear guidance or a disciplined, documented process for forecasting patent fee collections. According to officials, keeping the overall process of developing projections "fluid" is the reason that a deliberate decision was made not to have mandated guidance or documentation. The patent production model, which generates data used to project fee collections, also lacks management controls such as written policies and procedures. Without these, it is difficult for USPTO to learn from the variances between forecasts and actual collections, and how to reduce them. As a result, stakeholders may not have clear expectations of what the agency will be able to fund because the differences between the estimated and actual patent fee collections have fluctuated considerably. Stronger management controls would, therefore, enhance transparency and accountability.

While the aggregate differences between projections and collections appear to be within a generally acceptable margin of forecasting error, such data actually mask much greater differences for individual fees (of which there are almost 250). USPTO has repeatedly over- and underestimated the amount of specific patent fees that it will collect in a given year, sometimes by as much as 20 to 50 percent. These differences mask the difficulty that USPTO has in accurately projecting the levels of certain types of fees, which amount to differences between projected and actual collections of tens of millions of dollars.

During the time covered in our review, FY 2006 through FY 2009, the patent application backlog grew from 701,000 to nearly 736,000. Similarly, the average amount of time it took to reach a decision on a patent application grew from about 31 months to about 35 months. While not demonstrably connected to forecast accuracy and transparency, a better forecasting process would give stakeholders more comprehensive data with which to develop expectations. As USPTO implements a new strategic plan, a framework recognizing the importance of risks associated with variances in fee-collection forecasts will be increasingly important.

In order to strengthen USPTO operations over patent fee forecasting, we made three detailed recommendations to the Under Secretary of Commerce for Intellectual Property/USPTO Director. These entail (1) directing USPTO's Chief Financial Officer (CFO) to establish and implement written policies and procedures for developing fee-collection forecasts; (2) requiring the CFO to annually report on the variances between projected and actual patent fee collections, including their causes and any noted trends; and (3) directing the Commissioner for Patents to establish and implement written policies and procedures for the patent production model.

FY 2010 Consolidated Financial Statements Audits (FSA-11-009)

Independent auditor KPMG LLP found that USPTO's consolidated financial statements are presented fairly in all material respects and in conformity with U.S. generally accepted accounting principles. It found no instances of reportable noncompliance with applicable laws, regulations, and contracts.

KPMG identified one significant deficiency related to controls over general information technology, which was not considered a material weakness in internal control. Although USPTO has taken corrective actions and made positive efforts to address certain IT control weaknesses, KPMG found USPTO needs to continue to make improvements in its IT general control environment to fully ensure that financial data being processed on USPTO's systems is complete, is reliable, and has integrity. USPTO agreed with these findings and has developed corrective action plans to address KPMG's recommendations.

STATISTICAL DATA

The Inspector General Act Amendments of 1988 require the statistical data contained in Tables 1-8.

Table 1. Office of Investigation Statistical Highlights for This Period

Investigative activities cover investigations opened and closed by OIG; arrests by OIG agents; indictments and other criminal charges filed against individuals or entities as a result of OIG investigations; convictions secured at trial or by guilty plea as a result of OIG investigations; and fines, restitution, and all other forms of financial recoveries achieved by the OIG as a result of investigative action.

Allegations processed presents the number of complaints from employees, stakeholders, and the general public that were handled by our Complaint Intake Unit. Of these, some result in the opening of investigations; others are referred to Commerce operating units for internal administrative follow-up. Others are unrelated to Commerce activities or do not provide sufficient information for any investigative follow-up and so are not accepted for investigation or referral.

Investigative Activities	
Investigations opened	7
Investigations closed	24
Arrests	0
Indictments/Informations	3
Convictions	1
Fines and other financial recoveries	$6,252,307

Allegations Processed	
Hotline complaints	194
Total complaints, all sources	316
Referrals to operating units	102
Evaluated but not accepted for investigation or referral	127

Table 2. Audit Resolution and Follow-up

The Inspector General Act Amendments of 1988 require us to present (in this report) audits issued before the beginning of the reporting period (October 1, 2010) for which no management decision had been made by the end of the period (March 31, 2011). Seven audit reports remain unresolved for this reporting period (see page 45).

Audit resolution is the process by which the Department of Commerce reaches an effective management decision in response to audit reports. **Management decision** refers to management's evaluation of the findings and recommendations included in the audit report and the issuance of a final decision by management concerning its response.

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

Report Category	Modifications	Appeals
Actions pending (October 1, 2010)	0	0
Submissions	0	3
Decisions	0	1
Actions pending (March 31, 2011)	0	2

Table 3. Audit and Evaluation Statistical Highlights for This Period

Audits comply with standards established by the Comptroller General of the United States for audits of federal establishments, organizations, programs, activities, and functions.

Inspections include evaluations, inquiries, and similar types of reviews that do not constitute an audit or a criminal investigation.

Questioned costs*	$3,398,852
Value of audit recommendations that funds be put to better use**	194,790
Value of audit recommendations agreed to by management***	2,544,653

***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.

****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. These actions may include (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 pre-award reviews of contracts or grant agreements; or (6) any other savings specifically identified.

*****Value of audit recommendations agreed to by management:** The sum of 1) disallowed costs and 2) funds put to better use that are agreed to by management during resolution. Disallowed costs are the amount of costs that were questioned by the auditors or the agency action official and subsequently determined during audit resolution, or during negotiations by a contracting officer, should not be charged to the government.

Table 4. Audits with Questioned Costs

See Table 3 for a definition of "questioned cost." An **unsupported cost** is a cost that is not supported by adequate documentation at the time of the audit. Questioned costs include unsupported costs.

Report Category	Number	Questioned Costs	Unsupported Costs
A. Reports for which no management decision had been made by the beginning of the reporting period	15	$26,069,189	$3,169,363
B. Reports issued during the reporting period	7	3,398,852	0
Total reports (A+B) requiring a management decision during the period[1]	22	29,468,041	3,169,363
C. Reports for which a management decision was made during the reporting period	10	5,966,695	2,250,303
i. Value of disallowed costs		1,777,896	1,337,881
ii. Value of costs not disallowed		4,188,799	912,422
D. Reports for which no management decision had been made by the end of the reporting period	12	23,501,346	919,060

[1] Five 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.

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

See Table 3 for a definition of "recommendation that funds be put to better use."

Report Category	Number	Value
A. Reports for which no management decision had been made by the beginning of the reporting period	3	$3,283,313
B. Reports issued during the reporting period	3	194,790
Total reports (A+B) requiring a management decision during the period[1]	6	3,478,103
C. Reports for which a management decision was made during the reporting period	2	766,757
i. Value of recommendations agreed to by management		766,757
ii. Value of recommendations not agreed to by management		0
D. Reports for which no management decision had been made by the end of the reporting period	4	2,711,346

[1] Five audit reports included in this table are also included among reports with questioned costs (see Table 4). However, the dollar amounts do not overlap.

Table 6. Report Types for This Period

Performance audits are engagements that provide assurance or conclusions based on an evaluation of sufficient, appropriate evidence against stated criteria, such as specific requirements, measures, or defined business practices. Performance audits provide objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.

Financial assistance audits are audits of Department of Commerce grants, cooperative agreements, loans or loan guarantees; or pre- or post-award audits of Commerce contracts.

Financial statements audits provide reasonable assurance through an opinion (or disclaimer of an opinion) about whether an entity's financial statements are presented fairly in all material respects in conformity with generally accepted accounting principles, or with a comprehensive basis of accounting other than these principles.

Inspections include evaluations, inquiries, and similar types of reviews that do not constitute an audit or a criminal investigation. An inspection is defined as a process that evaluates, reviews, studies, and/or analyzes the programs and activities of a department or agency for the purposes of providing information to managers for decision making; making recommendations for improvements to programs, policies, or procedures; and identifying where administrative action may be necessary.

Type	Number of Reports Table	Number
Performance audits	8	Table 6-a
Financial assistance audits	3	Table 6-b
Financial statement audits	7	Table 6-c
Evaluations and inspections	2	Table 6-d
Total	**20**	

Table 6-a. Performance Audits

Report Title	Report Number	Date Issued	Funds to Be Put to Better Use
Census Bureau			
2010 Census: The Partner Support Program Lacked Adequate Controls for Monitoring Purchases and Ensuring Compliance	OIG-11-013	11.18.10	0
Contract Modifications and Award-Fee Actions on the Decennial Response Integration System Demonstrate Need for Improved Contracting Practices	OIG-11-020	02.15.11	0
National Telecommunications and Information Administration			
Second Annual Assessment of the Public Safety Interoperable Communications Grant Program	OIG-11-001	10.07.10	0
Broadband Program Faces Uncertain Funding and NTIA Needs to Strengthen Its Post-Award Operations	OIG-11-005	11.04.10	0
Office of the Secretary			
Commerce Should Strengthen Accountability and Internal Controls in Its Motor Pool Operations	OIG-11-004	10.27.10	0
Federal Information Management Act Audit Identified Significant Issues Requiring Management Attention	OIG-11-012	11.15.10	0
Commerce Needs to Strengthen Its Improper Payment Practices and Reporting	OIG-11-021	03.25.11	0
U.S. Patent and Trademark Office			
Stronger Management Controls Needed over USPTO's Projections of Patent Fee Collections	OIG-11-014	12.14.10	0

Table 6-b. Financial Assistance Audits

Report Title	Report Number	Date Issued	Funds to Be Put to Better Use	Amount Questioned	Amount Unsupported
National Telecommunications and Information Administration					
California Public Safety Interoperable Communications Grant	OIG-11-002	10.21.10	0	0	$58,779
Massachusetts Public Safety Interoperable Communications Grant	OIG-11-003	10.25.10	0	0	0
Texas Public Safety Interoperable Communications Grant	OIG-11-007	11.05.10	$1,205	0	0

Table 6-c. Financial Statements Audits

Report Title	Report Number	Date Issued	Funds to Be Put to Better Use
Census Bureau			
FY 2010 Financial Statements Audit Assessment of Information Technology Controls Supporting Financial Management Systems	ITA-11-008	11.10.10	0
FY 2010 Financial Statements	FSA-11-008	11.12.10	0
Office of the Secretary			
FY 2010 Financial Statements Audit Assessment of Information Technology Controls Supporting Financial Management Systems	ITA-11-010	11.10.10	0
FY 2010 Consolidated Financial Statements	FSA-11-010	11.12.10	0
FY 2010 Special-Purpose Financial Statements	FSA-11-011	11.15.10	0
U.S. Patent and Trademark Office			
FY 2010 Financial Statements Audit Assessment of Information Technology Controls Supporting Financial Management Systems	ITA-11-009	11.10.10	0
FY 2010 Financial Statements	FSA-11-009	11.12.10	0

Table 6-d. Evaluations and Inspections

Report Title	Report Number	Date Issued	Funds to Be Put to Better Use
Census Bureau			
2010 Census: Quarterly Report to Congress, January 2011	OIG-11-017	01.18.11	0
U.S. Patent and Trademark Office			
USPTO Patent Quality Assurance Process	OIG-11-006	11.05.10	0

Table 7. Single Audit and Program-Specific Audits

OIG reviewed and accepted 200 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 Table 7-a.

Agency	Audits
Economic Development Administration	56
Minority Business Development Agency	1
National Institute of Standards and Technology*	68
National Oceanic and Atmospheric Administration	33
National Telecommunications Information Administration*	10
Multi-Agency	29
No Commerce expenditures	3
Total	**200**

**Includes 41 program-specific audits for NIST and 2 program-specific audits for NTIA.*

Table 7-a. Processed Reports with Audit Findings

Economic Development Administration					
City of Brighton, CO	ATL-09999-11-3934	01.21.11	0	$1,858,002	0
Wind River Development Fund and Painted Pony, Inc., WY	ATL-09999-11-3998	03.02.11	0	0	0
National Institute of Standards and Technology					
GE Global Research, NY	ATL-09999-11-4082	03.30.11	0	95,546	0
GE Global Research, NY	ATL-09999-11-4083	03.30.11	$2,867	58,473	0
Kotura, Inc., CA	ATL-09999-11-4094	03.30.11	190,718	55,636	0
L3 Communications Electro-Optical Systems, TX	ATL-09999-11-4081	03.30.11	0	43,758	0
National Oceanic and Atmospheric Administration					
Metropolitan Park District of Toledo Area, OH	ATL-09999-11-3884	01.07.11	0	0	0
National Telecommunications and Information Administration					
Public Television, 19, Inc., MO	ATL-09999-11-3961	01.21.11	0	1,228,658	0
The Partnership for a Connected Illinois	ATL-09999-11-3996	03.02.11	0	0	0

Table 8. Audits Unresolved for More Than 6 Months

Census Bureau	**Computer & High Tech Management, Inc.**
	In our September 2005 *Semiannual Report*, we reported the results of audits of 2 of the 21 task orders for IT services that Computer & High Tech Management, Inc., was providing 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 this contract audit pursuant to an agreement with Census.
National Institute of Standards and Technology	**MEP Program**
	In our March 2009, September 2009, and March 2010 *Semiannual Reports*, we discussed our audits of the operations of the five centers located in South Carolina, Florida, Massachusetts, Texas, and Ohio that received cooperative agreements under the NIST MEP program. Our audits questioned over $29 million in costs claimed. NIST provided the audit resolution proposal for the South Carolina center and we concurred with the proposal. We are awaiting the submission of the remaining proposals. (ATL-18568, DEN-18135, DEN-18573, DEN-18604).
National Oceanic and Atmospheric Administration	**Alaska Eskimo Whaling Commission**
	As reported in our March 2009 *Semiannual Report*, a single audit review of this NOAA grant questioned costs totaling $66,353 in expenditures that were not adequately documented. We have suspended audit resolution on this grant audit pursuant to an agreement with NOAA. (ATL-09999-8-3238)

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 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 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 upon request.

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

These sections require a summary of each report to the Secretary when access, information, or assistance has been unreasonably refused or not provided. There were no such instances during this semiannual period and thus 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 are one NOAA, four NIST, and two Census reports more than 6 months old for which no management decision has been made.

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 financial assistance audits, OIG must concur with any decision that would change the audit resolution proposal in response to an appeal by the recipient. There were three appeals this period.

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.

Section 5(a)(13): Results of Peer Review

The most recent peer review of the Office of Audit and Evaluation was conducted in 2009 by the Federal Deposit Insurance Corporation's (FDIC's) Office of Inspector General. FDIC OIG's *System Review Report* of our audit operations is available on our website. We received a *pass* rating, the highest available rating. We have implemented all of FDIC OIG's recommendations for process and policy improvements.

In 2009, we conducted our latest peer review, which examined the Small Business Administration (SBA) OIG's audit operations. SBA OIG has informed us that it implemented the recommendation we made in our review.

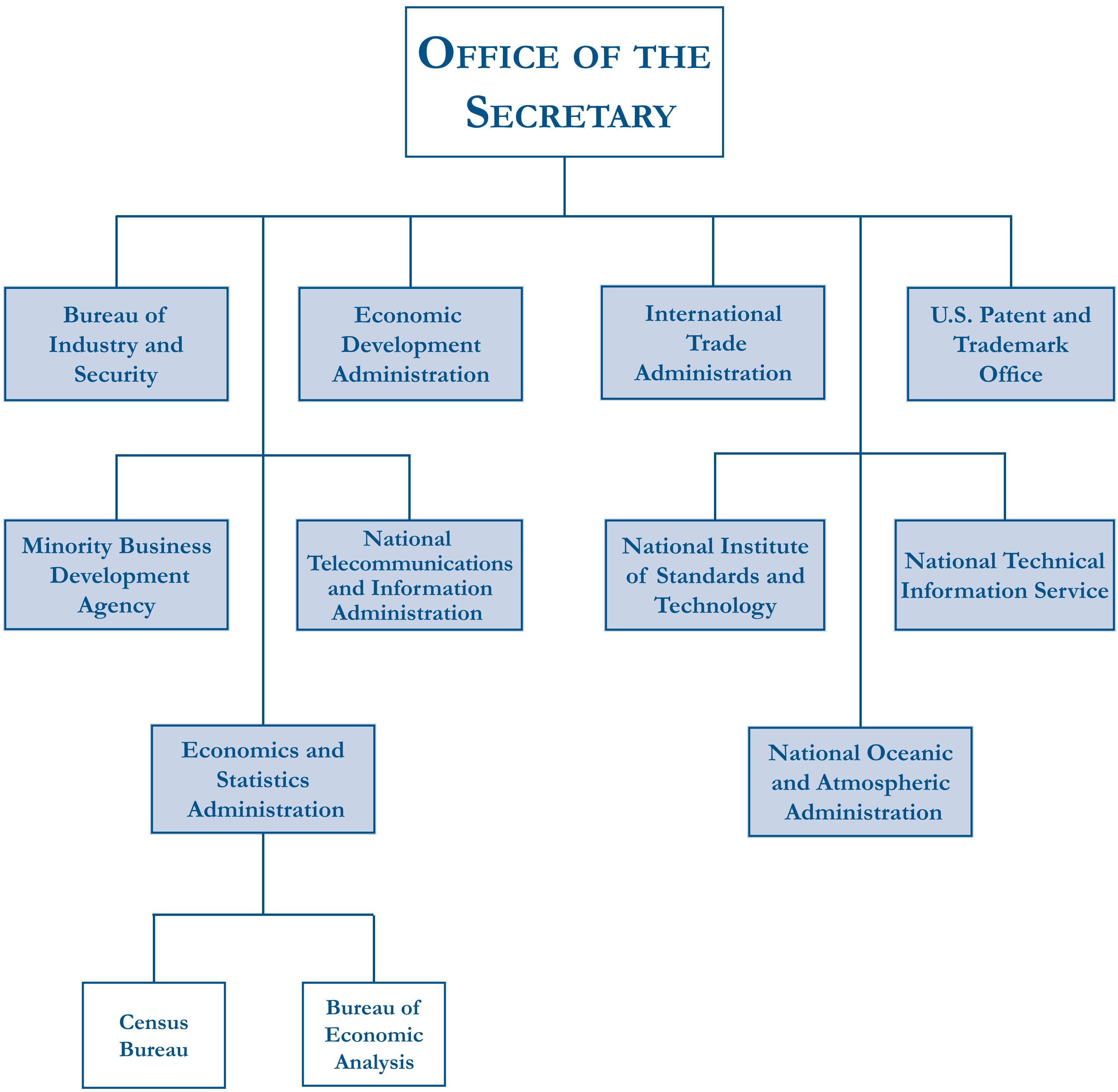
The most recent peer review of the Office of Investigations was conducted in 2008 by the State Department's OIG. We were found *compliant*, the highest available finding, with the quality standards established by the IG community and the Attorney General guidelines. We implemented all of State OIG's suggestions for process and policy improvements.

ACRONYMS AND ABBREVIATIONS

AFF	Asset Forfeiture Fund
ATP	Advanced Technology Program
BTOP	Broadband Technology Opportunities Program
CalEMA	California Emergency Management Agency
CBS	Commerce Business Systems
CFO	Chief Financial Officer
CRU	Climatic Research Unit (University of East Anglia)
DRIS	Decennial Response Integration System
EDA	Economic Development Administration
EOPSS	Executive Office of Public Safety and Security (Massachusetts)
ESA	Economics and Statistics Administration
FDIC	Federal Deposit Insurance Corporation
FEMA	Federal Emergency Management Agency
FISMA	Federal Information Security Management Act
FOIA	Freedom of Information Act
GSA	General Services Administration
GOES-R	Geostationary Operational Environmental Satellite-R Series
HACLA	Housing Authority of the City of Los Angeles
HCHB	Herbert C. Hoover Building
IG	Inspector General
IT	Information Technology
JPSS	Joint Polar Satellite System
MEP	Manufacturing Extension Partnership
NASA	National Aeronautics and Space Administration
NIST	National Institute of Standards and Technology
NOAA	National Oceanic and Atmospheric Administration
NPOESS	National Polar-orbiting Operational Environmental Satellite System
NRFU	Nonresponse Follow-up
NTIA	National Telecommunications and Information Administration
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPQA	Office of Patent Quality Assurance (USPTO)
PBOCS	paper-based operations control system
PE2E	Patent End-to-End Project
PHP	Patent Hoteling Program
PSIC	Public Safely Interoperable Communications
PSP	Partner Support Program
RMF	Risk Management Framework
RRB	Risk Review Board (Census)
SBA	Small Business Administration
TC	Technology Center (USPTO)
TxDPS	Texas Department of Public Safety
USPTO	United States Patent and Trademark Office
VDC	Vacant Delete Check

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.



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