



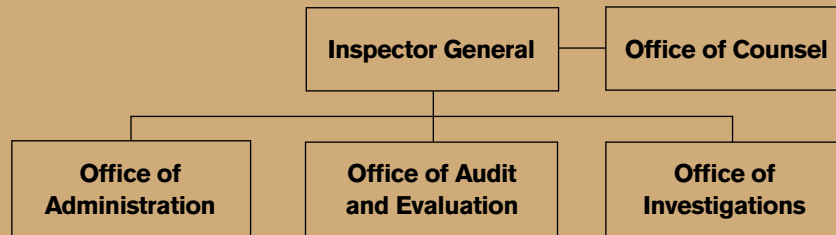
**U.S. Department of Commerce  
Office of Inspector General**

# **Semiannual Report to Congress**

**March 2015**



# OFFICE OF INSPECTOR GENERAL



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## Oversight Areas

Office of the Secretary  
Bureau of Economic Analysis  
Bureau of Industry and Security  
Economic Development Administration  
Economics and Statistics Administration  
First Responder Network Authority  
International Trade Administration  
Minority Business Development Agency  
National Institute of Standards and Technology  
National Oceanic and Atmospheric Administration  
National Technical Information Service  
National Telecommunications and  
Information Administration  
U.S. Census Bureau  
U.S. Patent and Trademark Office

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# TABLE OF CONTENTS

01	FROM THE INSPECTOR GENERAL
02	TOP MANAGEMENT CHALLENGES FACING THE DEPARTMENT
12	OVERSIGHT AREAS
12	<b>DEPARTMENT-WIDE MANAGEMENT</b>
18	<b>ECONOMIC DEVELOPMENT ADMINISTRATION</b>
20	<b>INTERNATIONAL TRADE ADMINISTRATION</b>
22	<b>NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION</b>
24	<b>NATIONAL TELECOMMUNICATIONS AND INFORMATION ADMINISTRATION</b>
28	<b>UNITED STATES PATENT AND TRADEMARK OFFICE</b>
32	WORK IN PROGRESS
36	STATISTICAL DATA
46	REPORTING REQUIREMENTS
48	ACRONYMS AND ABBREVIATIONS

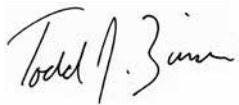
# FROM THE INSPECTOR GENERAL

I am pleased to present the Department of Commerce Office of Inspector General's *Semiannual Report to Congress* for the 6 months ending March 31, 2015.

This report summarizes work we initiated and completed during this semiannual period on a number of critical departmental activities. Over the past 6 months, our office completed 14 audits, inspections, and responses to Congressional requests, as well as 4 Congressional testimonies addressing programs and personnel associated with the International Trade Administration, First Responder Network Authority (FirstNet), U.S. Patent and Trademark Office, and the Department itself.

In October 2014, we issued our annual report identifying what we consider from our oversight perspective to be the top management challenges facing the Department in fiscal year 2015, a summary of which begins on page 2. We will continue to work closely with the Department and with Congress to meet these and other challenges facing Commerce, especially as it tackles the ambitious strategies and initiatives outlined in *America Is Open for Business*, its strategic plan for fiscal years 2014 through 2018.

We thank Secretary Pritzker, senior officials throughout the Department, and members of Congress and their staffs for their support of our work—and for their receptiveness to our recommendations to improve the Department of Commerce's programs and operations.

A handwritten signature in black ink, reading "Todd J. Zinser". The signature is written in a cursive, flowing style.

TODD J. ZINSER

# TOP MANAGEMENT CHALLENGES FACING THE DEPARTMENT

The Reports Consolidation Act of 2000 requires federal inspectors general to identify the top management challenges facing their departments. In October 2014, the Department of Commerce OIG identified five challenges that require significant Departmental attention in FY 2015 and beyond.

*Top Management Challenges Facing the Department of Commerce* presents cross-cutting issues aligned with the Department's strategic plan for FY 2014 through FY 2018.

Below is a detailed summary of those five top challenges, reflecting the status of Departmental issues as of the October 2014 publication of the *Top Management Challenges* report. Updates will appear in subsequent semiannual reports.

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## 1. TRADE AND INVESTMENT: EXPAND THE U.S. ECONOMY THROUGH INCREASED EXPORTS AND INWARD FOREIGN INVESTMENT THAT LEAD TO MORE AND BETTER AMERICAN JOBS

As the lead trade and investment promotion agency in the federal government, the Department of Commerce faces the challenge of ensuring that it fulfills its role as a key player in making U.S. companies more competitive abroad and attracting foreign investment into the United States. The International Trade Administration (ITA) must work to fully realize the goals of its recent reorganization and meet the challenge of NEI/NEXT, which aims to build on the work of the National Export Initiative (NEI). The Bureau of Industry and Security (BIS) must continue the migration of export licensing functions to the Department of Defense's USXPORTS system and work to fully implement the changes called for by the Administration's Export Control Reform Initiative (ECRI). The Economic Development Administration (EDA) faces a challenge with the management of its Revolving Loan Fund (RLF) program. Finally, throughout the Department, an added challenge will be to comply with new requirements from the Office of Management and Budget (OMB) regarding grant administration.

**Delivering trade promotion and enforcement services to the Department's clients and effectively working with federal partners.** In October 2013, ITA initiated a reorganization to consolidate its operations from four operating units to three. Among the benefits of consolidation listed in the Department's request to Congress to consolidate the bureau: better service to customers through a strategic realignment of expertise; reduction of redundancies and operating costs; and creation of a more flexible organizational structure that can adapt to changing priorities and new global realities. At the request of the United States Senate, we initiated an audit of ITA's consolidation to assess its status, examine changes in the level of resources within the organization, and identify any challenges that might hinder this effort. We identified five broad areas that warrant ITA management's attention and further examination: (1) collaboration within and among ITA's units following the consolidation, (2) levels of management, (3) duplication of

effort and program changes, (4) changes in employee responsibilities, and (5) management communication and employee feedback.

Following the consolidation, new ITA leadership was appointed to help guide the organization through this transition. It can also help address the issues we have identified—while addressing other challenges, such as NEI/NEXT. Since 2010, ITA has collaborated with other federal agencies in carrying out the NEI, which aimed to double U.S. exports by the end of 2014 over 2009 levels. In 2013, U.S. exports rose to \$2.28 trillion, which is below the target of \$2.76 trillion for that year. Although it appears unlikely that ITA and its partner agencies will achieve the overall goal of doubling U.S. exports in 5 years, the bureau is moving forward with a new effort that will build upon the achievements of the NEI. In May 2014, the Secretary announced the launch of NEI/NEXT—which involves 20 federal departments and agencies with export-related programs. As it transitions from one major export promotion effort to another, ITA must ensure that it strategically directs its resources and coordinates with federal partners to build upon the achievements of the NEI and serve the nation's exporters.

**Continuing the Bureau of Industry and Security's migration of export licensing functions to the Department of Defense's USXPORTS system.** BIS is transitioning to an interagency, mission-critical information technology (IT) system, as directed by the ECRI. In April 2010, the Administration announced the ECRI, which is designed to streamline the country's export control laws and regulations. Part of that effort was to determine which items were to shift from the U.S. Munitions List to the Commerce Control List (CCL), which are administered by the Department of State and BIS, respectively.

Additionally, since FY 2011, BIS has worked with its Department of Defense counterpart to migrate its licensing operations to the Department of Defense's IT system, called USXPORTS. This system is currently used by the Departments of Defense and State to process munitions license applications. According to BIS, end-to-end testing of USXPORTS conducted in August 2014 uncovered several development and programming issues, including lack of support for BIS' enforcement screening of license applications.

Although both BIS and the State Department will soon be processing license applications using USXPORTS, for the near term U.S. exporters will continue to access separate portals at the Departments of Commerce and State to submit applications, depending on the export. Moving forward with ECR activities, BIS will need to continue working with the Departments of Defense and State to create a single customer portal on USXPORTS for submission of license applications.

**Addressing conditions and issues with EDA's RLF Program.** Due to an IT disruption at EDA in 2012, its Revolving Loan Fund Management System (RLFMS) has been unavailable. The unavailability of RLFMS, the absence of a reliable and consistently applied interim tool, and turnover among EDA's regional staff who monitor RLF program activities have allowed the internal control weaknesses that we first reported in 2007 to continue. We are currently reviewing whether EDA (a) takes appropriate corrective actions with RLFs that are experiencing performance problems and (b) addresses indications that communities previously identified as "distressed" may no longer be considered distressed.

**Ensuring the accuracy of grants management financial and performance metrics.**

In conjunction with new rules issued by OMB that went into effect in December 2014, the Department and each of its bureaus have assumed new responsibilities regarding single audits of grants. This new approach will place a greater burden on the Department and, if not properly deployed, may affect the performance of its trade and research grant programs. In FY 2013, the Department awarded more than \$1.2 billion in grants across more than 50 programs, including \$723 million through the National Oceanic and Atmospheric Administration (NOAA), \$185 million through the National Institute of Standards and Technology (NIST), and \$198 million through EDA.

Because of their lack of experience with the single-audit process, these and other awarding bureaus will be challenged to develop the required processes and metrics for providing effective oversight of grant funds.

## **2. INNOVATION: Foster a more innovative U.S. economy—one that is better at inventing, improving, and commercializing products and technologies that lead to higher productivity and competitiveness.**

The Department of Commerce has a central responsibility for supporting and expanding innovation—and the relationships with businesses and industry necessary to address the challenges the country faces in this area. The U.S. Patent and Trademark Office (USPTO) faces challenges with reducing wait times for issuing determinations on new patent applications, appeals, and other filings and with responding to stakeholder concerns related to patent errors that might lead to abusive and unnecessary litigation. USPTO also faces challenges in managing its large and dispersed workforce. The National Telecommunications and Information Administration (NTIA) faces challenges with identifying spectrum for commercial broadband use; addressing the First Responder Network Authority's (FirstNet's) implementation of a nationwide wireless broadband network for public safety users; and ensuring the sustainability of its Broadband Technology Opportunities Program (BTOP) grants after federal funding ends. Finally, the NIST Manufacturing Extension Partnership (MEP) program faces challenges in exercising better oversight of conference activities by its grantees and in completing the re-competition of its 58 MEP centers that began in FY 2014.

**Facing internal and external challenges at USPTO in promoting innovation through the protection of intellectual property (IP) rights.** USPTO, as the U.S. authority for issuing all patents and trademarks, has a critical role in awarding IP rights and working on the global stage to further IP policy, protection, and enforcement. As a fee-funded agency with over 12,000 employees, USPTO has undergone significant changes over the past 5 years. In September 2011, the President signed the Leahy-Smith America Invents Act (AIA), representing the most fundamental change to the U.S. patent system in more than 50 years. Amid these changes, USPTO must address both internal and external challenges as it strives to promote U.S. innovation and industrial competitiveness.

Although USPTO has made progress in reducing the time an applicant waits to have a new application reviewed (known within USPTO as “pendency”), waiting times for other types of filings have increased. The patent application backlog decreased from 718,835 applications in FY 2009 to 616,019 applications as of the third quarter of FY 2014. During that same time, however, waiting times for another type of filing, the request for continued examination (RCE), increased from 2 months in FY 2009 to 8.7 months as of the third quarter of FY 2014. Pendency also grew for appeals filed with the Patent Trial and Appeal Board (PTAB). Although USPTO has begun to reduce the backlog of RCEs, the rapid rise in the RCE backlog over the last 5 years highlights the challenges USPTO encounters when it prioritizes the review of new applications to the detriment of other types of filings. The steady growth in the appeal backlog and in waiting times also raises concerns about the timely adjudication of IP rights at USPTO.

USPTO also faces workforce management challenges, including operating without a permanent director between January 2013 and March 2015. In the summer of 2014, our office issued two high-profile investigations related to concerns with hiring practices at the Trademark Office and poor supervisory oversight at PTAB. In the Trademark Office investigation, we found that a senior official improperly intervened in the hiring process to ensure that a candidate who was not the most qualified, but who had ties to the official, received a position. In the PTAB investigation, we found that the lack of work for paralegals resulted in waste totaling more than \$5 million—and that senior USPTO officials were aware of the situation for years but failed to take action to prevent further waste. In fact, our investigation found that USPTO management provided over \$680,000 in



bonuses between FY 2009 and FY 2013, even when the paralegals who received these bonuses did not have enough work to keep them fully engaged.

Challenges also exist with the management of USPTO's telework program. In a memorandum dated July 8, 2013, USPTO responded to OIG's request that it conduct a review of allegations of systemic time-and-attendance abuse by teleworkers, as well as how supervisors were not empowered by USPTO senior management to adequately address abuse when it occurred. The findings of the internal USPTO investigation and the two OIG investigations raise concerns over USPTO's ability to hire and manage an expanded workforce, many of whom work from home.

**Identifying spectrum for commercial broadband use, and administering FirstNet and BTOP.** In June 2010, the President requested that 500 megahertz (MHz) of federal or nonfederal spectrum be freed up for commercial wireless broadband. In response, NTIA announced in March 2012 that the federal government intended to repurpose 95 MHz of prime spectrum for commercial use. A June 14, 2013, presidential memorandum directs federal agencies to accelerate shared access to spectrum. While progress has been made to enhance spectrum sharing, challenges—such as lack of incentives for federal agencies to share spectrum—must be addressed for this effort to succeed.

The 2012 legislation that established FirstNet reallocated some existing public safety spectrum, along with the so-called “D-block” spectrum (the 10 MHz bandwidth), and authorized up to \$7 billion in funding for the establishment of a nationwide public safety broadband network. Questions about the sufficiency of funding provided to implement a nationwide network that meets public safety-grade standards and provides coverage in every state and territory presents FirstNet with a challenge. As detailed in a February 2014 OIG memorandum, FirstNet will need to establish an effective organization and leverage existing infrastructure by entering into agreements with commercial carriers and local and state governments. Effective outreach will be necessary to achieve buy-in from the public safety community that FirstNet is designed to serve. Also, experiences gained from the four BTOP public safety grants that FirstNet entered into spectrum lease agreements with will need to be factored into the network's design. Further, FirstNet is operating under commercial accounting standards, per its authorizing legislation, but is also required to comply with federal accounting standards due to its status as an independent authority within NTIA. This has caused several operational challenges and contributed to a material weakness being reported in the audit of FirstNet's federal financial statements.

Under the American Recovery and Reinvestment Act of 2009, NTIA awarded approximately 230 BTOP grants valued at approximately \$3.9 billion. The awards were made in three major areas: program infrastructure, public computer centers, and sustainable broadband adoption. With multiple projects either initiated with BTOP grant funds or first-time federal fund recipients, NTIA will need to pay close attention to the sustainability of the projects beyond the federal funding period and make sure that appropriate steps are taken to secure the federal interest in equipment purchased.

**Completing the re-competition of MEP centers.** NIST-MEP works with small and medium-sized U.S. manufacturers to help them create and retain jobs, increase profits, and save time and money. MEP is built around a network of 58 manufacturing extension centers located throughout the 50 states and Puerto Rico. The program brings together more than 1,200 technical experts who serve as business advisors to help U.S. manufacturers. The MEP budget for FY 2014 is \$128 million, and NIST requested a budget of \$141 million for MEP in FY 2015.

MEP has recently experienced some significant challenges. OIG audits in 2009 found that several state centers had serious compliance violations regarding their expenditures. In addition, the poor financial condition of some center operators led to the closure of one center and use of new operators at three centers since 2010. Finally, as reported in another OIG audit, MEP incurred the costs of unnecessary contract concessions and subsidized lodging for its 2012 annual conference.

An additional challenge began in summer 2014, when MEP launched a 3-year process of formally re-competing all 58 MEP centers with a demonstration program in 6–10 states. Periodic full and open competition is the mechanism chosen by MEP managers to ensure the effective and efficient management of the entire national network of MEP centers. The demonstration program will enable procedures, milestones, and resource requirements to be tested and refined. The challenge to MEP management is ensuring that this re-competition process can be implemented without disrupting the MEP system and degrading the program's overall performance.

### **3. ENVIRONMENT: Ensure communities and businesses have the necessary information, products, and services to prepare for and prosper in a changing environment.**

The Department's objectives under its environmental strategic goal include advancing understanding and prediction of changes in the environment; building a weather-ready nation; and fostering healthy and sustainable marine resources, habitats, and ecosystems. As the lead agency for addressing this goal, NOAA faces challenges posed by costly, complex satellite acquisitions and development and potential data gaps; efforts to improve forecast accuracy; the competing needs of fisheries stakeholders; and limited marine technology. Overcoming these challenges will enable our country to prepare for and prosper in a changing environment through the use of "actionable environmental intelligence."

**Keeping next-generation satellite acquisition programs on track to provide critical environmental observations.** The Geostationary Operational Environmental Satellite-R Series (GOES-R) and the Joint Polar Satellite System (JPSS) are the Department's largest investments, accounting for more than 20 percent of its \$8.8 billion FY 2015 budget request. These satellites are essential components in understanding and predicting the environment: they provide data and imagery used to track severe storms, forecast weather, and study climate and other environmental conditions. However, acquisition and development delays could lead to gaps in NOAA's satellite coverage, potentially degrading its ability to perform these functions.

The GOES-R program, consisting of four satellite missions (GOES-R, -S, -T, and -U), has an estimated cost of \$10.8 billion spread over 37 years. For FY 2015, NOAA has requested \$981 million for GOES-R. The program faces acquisition and development challenges that could delay the launch of its first satellite in FY 2016 or its operational capabilities after launch, resulting in potential data gaps.

The JPSS program is responsible for the acquisition and development of two afternoon orbit polar satellites (JPSS-1 and JPSS-2) and a ground system, which currently supports the operation of Suomi National Polar-orbiting Partnership (Suomi NPP) and provides data services for partner satellites. It is estimated to cost \$11.3 billion through FY 2025; NOAA requested \$916 million for JPSS in FY 2015. In our June 2014 audit report, we continued to raise concerns regarding the time between when Suomi NPP's design life ends and JPSS-1 satellite data becomes available for operational use. During this potential gap of 10–16 months, there will be significant risk of actual gaps in key data. These data are used primarily in NOAA's 2- to 10-day weather forecasts. We recommended that NOAA explain the effects of a gap in terms of diminished forecast hours and added economic costs—or, conversely, the contribution to forecast accuracy and the economic benefits of afternoon orbit data.

**Improving forecasts to support a weather-ready nation.** As described in the Department's Strategic Plan, building a weather-ready nation protects against "increasing vulnerability to extreme weather and water events." The Department's objective is to improve severe weather preparedness, response, and recovery capabilities through strategies to (1) evolve the National Weather Service, (2) improve the accuracy and usefulness of forecasts, and (3) enhance decision support services for emergency managers. A significant challenge to the second strategy is to objectively improve NOAA's forecast accuracy and warning lead time. There has been some

evidence that next-generation polar satellite data from Suomi NPP have improved forecasts. A polar-satellite coverage gap, however, could lessen the accuracy of numerical weather prediction models. To address that risk, the Department must fully develop a contingency plan to mitigate forecast degradation in the event of a polar satellite coverage gap.

**Fostering healthy and sustainable marine resources.** Fisheries play a significant role in the U.S. economy. In 2012, U.S. commercial fishermen landed 9.6 billion pounds of seafood valued at \$5.1 billion. Recreational fishers in 2012 caught an estimated total weight of more than 200 million pounds of landed catch. The Dutch Harbor, Alaska, commercial fishing port was the 2012 national leader in volume, with 752 million pounds landed; the New Bedford, Massachusetts, port had the highest value of catch in 2012, with \$411 million landed. However, a broad range of National Marine Fisheries Services (NMFS) concerns—including the difficult balance of stakeholder roles and interests, the need for scientific and technological advancement, and the continuing call for National Observer Program (NOP) improvements—poses challenges for NOAA.

#### **4. DATA: Improve government, business, and community decisions and knowledge by transforming Department data capabilities and supporting a data-enabled economy.**

The Department's "data" challenge, and its three strategic objectives, impacts the Economics and Statistics Administration and the U.S. Census Bureau. Due to research and testing delays, a lack of cost and budget integration, and other issues, the Census Bureau is challenged with designing a more cost-effective 2020 decennial census. Keeping up with rapidly changing technology, in terms of providing as well as protecting data, is another key challenge faced by Departmental bureaus such as the Census Bureau and NOAA. The population data and business indicators that the Census Bureau provides—and the weather, climate, and environmental information that users access through NOAA—are only two examples of the Department's challenge of "transforming Department data capabilities and supporting a data-enabled economy." These changes, along with the Digital Accountability and Transparency Act of 2014 (the DATA Act), promise to bring the Department into a new era: a federal government-wide community of data providers adhering to uniform standards.

**Incorporating cost-saving decennial innovations while continuing to ensure an accurate decennial count.** The Census Bureau faces multiple challenges as it prepares for the 2020 decennial census and conducts ongoing surveys. Various program delays have forced the Bureau to reevaluate the timing of 2020 research and testing, as well as reduce the cost of field operations—all while maintaining survey quality at a time when response rates are declining. In addition, the Census Bureau must improve cost-accounting practices in order to demonstrate that its decennial programs have achieved actual cost savings. The Census Bureau also confronts the legal and public-relations challenge of introducing innovations in the use of administrative records, and other forms of data sharing, in order to introduce a more cost-efficient decennial census for 2020.

The Census Bureau continues to face project management challenges that pose risks to its ability to conduct a cost-effective 2020 decennial census. The 2010 decennial census cost U.S. taxpayers approximately \$13 billion. In order to control costs of the 2020 decennial census, the Census Bureau committed to researching and testing design innovations that will reduce costs of the most expensive aspects: paper data collection and labor costs associated with nonresponse follow-up operations. However, recent OIG audit reports continue to identify issues similar to those encountered during 2010 decennial planning. In order to make well-informed design decisions by the end of FY 2015, the Census Bureau must define and adhere to a final testing schedule. If innovations are abandoned prior to the 2020 decennial census, the cost of a 2020 count using the 2010 decennial design is estimated to be as high as \$18 billion.

Audits of the Census Bureau's 2010 decennial planning noted that the Census Bureau had not integrated the research and testing schedule with budget and cost data. To effectively manage a

program of the size, complexity, and cost of the 2020 decennial census—and assess the return on investment of research efforts—managers need accurate accounting records. Integration of the research schedule with budget and cost information allows managers to better track the status of available funds, conduct cost-benefit analyses, and forecast impending underruns and overruns so that funds can be reallocated. Without accurate cost information, the Census Bureau will be challenged to demonstrate in a transparent manner that it achieved cost reduction goals.

A key tenet of the Census Bureau's 2020 decennial redesign effort is that reducing nonresponse followup operation costs, as well as making other design changes, could reduce the overall cost of the 2020 decennial census by billions of dollars. The use of administrative records to remove nonresponding households from follow-up operations is critical to reducing these costs. However, the use of administrative records presents challenges: potential legal impediments to data sharing among the Census Bureau, other agencies, and the private sector exist, as does public sensitivity regarding the use of previously collected data. In addition, the validity of administrative record information must be verified and field-tested. As with other elements of the Census Bureau's decennial research program, administrative record testing has encountered delays, potentially hindering the Census Bureau's ability to develop new, cost-efficient methods for the 2020 decennial census.

**Meeting public demand for data.** The Department's role in the data community is expanding, to a provider of information that reaches an increasing number of users. Two Departmental bureaus, the Census Bureau and NOAA, provide examples of looming challenges. The population data and business indicators that the Census Bureau provides—and the weather, climate, and environmental information that users access through NOAA—are only two examples of the Department's diverse data resources.

In order to meet changing expectations for data services, the Census Bureau has taken steps to provide vital economic information: for example, by modernizing its approach to issuing easy-to-use data. With a mobile app, it has consolidated its indicators with those from the Bureau of Economic Analysis and the Bureau of Labor Statistics, which produce monthly and quarterly snapshots of key sectors within the U.S. economy. However, as more people than ever before have access to data—thus fueling a higher demand for data—the Department will need to keep pace with rapidly changing technology. The Census Bureau must keep pace with changing technology in such a way that facilitates dissemination of data to all interested users, from individuals to businesses to governments.

Likewise, the demand for weather, climate, and environmental data is increasing. In February 2014, NOAA requested information from the private sector to determine whether the capability and interest exists to position NOAA's considerable data holdings on the cloud, to be co-located with easy and affordable access to computing, storage, and advanced analytical capabilities. The private sector and NOAA must determine the feasibility of partnering, taking into consideration that NOAA must (1) ensure its existing services are not impacted, (2) remain compliant with statutes and regulations, and (3) retain and maintain the scientific stewardship of any data provided to industry partners. As with the increased demand for Census Bureau data, NOAA data providers must face an additional challenge along with service continuity, statutory compliance, and scientific stewardship: IT security.

**Implementing a mandate for government-wide data standards.** The Department's goal of "transforming Department data capabilities and supporting a data-enabled economy," along with the DATA Act of 2014, challenge the Department (and the new Chief Data Officer it will hire) to develop and implement a vision for the future of the Department's diverse data resources.

The DATA Act is intended to establish government-wide standards for financial data and requires that consistent, reliable, and searchable government spending data be displayed accurately for taxpayers and policy makers. Among other things, the DATA Act requires that, for any funds made

available to, or expended by, a federal agency or component of a federal agency, the following information shall be posted on USASpending.gov, for each appropriations account: the amount of budget authority appropriated, the amount that is obligated, the amount of unobligated balances, and the amount of any other budgetary resources. Guidance on implementing data standards will be issued to agencies within 12 months of May 9, 2014 (the date of the enactment of the DATA Act), and inspectors general will follow with reviews of spending data submitted under the act within 18 months after guidance is issued. As a result, the Department will need to dedicate resources in FY 2015 to implement the established data standards and prepare for reviews of the reported data.

In July 2014, Secretary Pritzker announced that the Department will hire its first-ever Chief Data Officer. This new leader will be responsible for developing and implementing a vision for the future of the Department's diverse data resources.

## **5. OPERATIONAL EXCELLENCE: Deliver better services, solutions, and outcomes that benefit the American people.**

The Department characterizes the goal of “operational excellence” as being responsive, nimble, and adaptive to fast changes. This goal's objective calls on all facets of the Department to maintain “customer-focused” drive. To meet this challenge, the Department must focus on all customers, including (a) internal (its own operating units, striving to improve their cybersecurity posture and financial data quality), (b) the public at large (who expect a culture of accountability from the Department), and (c) U.S. businesses (who, according to the Department's mission, seek help from Commerce to become more innovative at home and more competitive abroad).

**Improving cybersecurity and IT management.** The Department relies on more than 280 IT systems—20 of them categorized as high-impact systems—to support its business operations. Although the Department has taken actions to strengthen cybersecurity, our Federal Information Security Management Act of 2002 (FISMA) assessments over the years repeatedly identified significant flaws in basic security measures protecting the Department's IT systems and information. Our recent FISMA audits revealed significant security deficiencies in NOAA's high-impact systems and identified security weaknesses in the Department's incident detection and response capabilities. These persistent security deficiencies make the Department vulnerable to cyber attacks. In addition, a long-standing fragmented IT governance structure provides additional challenges to effectively strengthening Department-wide cybersecurity.

To deal successfully with cyber threats, the Department needs to establish a robust incident response capability, specifically within the Department of Commerce Computer Incident Response Team. In addition, the Department must deploy a sustainable implementation of its three enterprise-wide cybersecurity initiatives that are under way to continuously monitor its IT systems, provide cyber security situational awareness, and meet requirements to optimize and standardize its individual external network connections.

The first initiative is the Enterprise Cybersecurity Monitoring and Operations (ECMO), an essential piece of the Department-wide continuous monitoring capability. The Department must make a concerted effort to expedite ECMO deployment and thereby provide near real-time security status, support for patch management, and remediation of software configuration issues for Department-wide system components. The second is the Enterprise Security Oversight Center (ESOC). While the Department has made progress from its ESOC initial planning stage—including completion of ESOC site selection and acquisition of hardware and software for ESOC's operation—it needs several years of the Department's commitment and strong cooperation among operating units to fully implement ESOC. Thirdly, in order to improve its overall cybersecurity posture, the Department must maintain a fully operational and stable IT infrastructure at its headquarters in the Herbert C. Hoover building in Washington, DC, which supports core IT services such as incident detection and response to multiple bureaus.

We reported our concerns about the Department's fragmented IT governance in previous years. In response to OMB direction, the then-Acting Secretary issued a memorandum in June 2012 that described a strategy to strengthen the Department's Chief Information Officer's (CIO's) ability to oversee the bureaus' IT investments, committing \$1.9 billion in FY 2014 alone (as of August 2014) for that purpose. The CIO has leveraged this increased authority to lead the effort to consolidate commodity IT Department-wide—and continues to strengthen IT oversight through the Commerce IT Review Board. Despite this increased authority, the CIO's responsibility to oversee satellite IT investments has been diminished, and IT investments still need to close the gap between planned and actual schedule and cost performance.

**Strengthening stakeholder confidence in the Department.** OIG operates a complaint hotline for employees and the public to submit information about alleged wrongdoing, misconduct, or mismanagement. OIG's determination to review, investigate, or refer the complaint information to Departmental management for appropriate action helps to instill a culture of ethical conduct and ensures that spending is appropriate and complies with laws and regulations. Over the past 2 years, the Department and its bureaus have worked closely with OIG to resolve management issues raised through OIG's hotline. Timely and thorough actions to resolve these issues help to create a culture of accountability in the Department.

**Improving financial data quality.** The lack of centralized data systems creates reporting and oversight challenges for the Department, including the ability to effectively report financial data and monitor financial activity across its bureaus. The Department and most of its bureaus use an outdated financial management system, developed with aging technology and augmented with in-house software that is increasingly difficult to maintain. Limited system functionality, high support costs, lack of system integration, and lack of centralized reporting capability impede the Department's ability to oversee and manage Department-wide financial activities. Plans are in progress to replace the legacy financial management system; however, there are significant challenges with this project, including an aggressive timeline, the need for successful conversion at the Census Bureau in time for 2020 decennial readiness, the use of a shared-service provider, the need to interface separate component systems, and funding adequate timely project completion.

In FYs 2011–2013, the accounting firm KPMG LLP identified several significant control weaknesses at NOAA related to the financial accounting for satellites. Although NOAA develops a corrective plan each year, repeated satellite accounting deficiencies highlight other challenges. For example, the operation and management of NOAA's satellite program needs strengthening to ensure integrity, accountability, and transparency. Further, it is essential that program and finance personnel work together to ensure that satellite investments are accurately identified, recorded, and reported. The Department also must address financial management challenges within the Office of the Secretary's Working Capital Fund (WCF).

**Reducing acquisition risk.** Procurement continues to be a significant support mechanism for the Department's overall mission, accounting for approximately \$2.4 billion annually for goods and services related to satellite acquisitions, support for intellectual property operations, management of coastal and ocean resources, IT, and construction and facilities management. Minimizing waste and abuse through acquisition management and oversight is an ongoing challenge for the Department—and particularly critical given current budget limitations and recent OMB and Congressional initiatives emphasizing more accountability in federal contracting. Continuing to address high-risk contracts, better monitoring of contractor performance, and maintaining a qualified acquisition workforce will enable better management of the Department's day-to-day spending.





## DEPARTMENT-WIDE MANAGEMENT

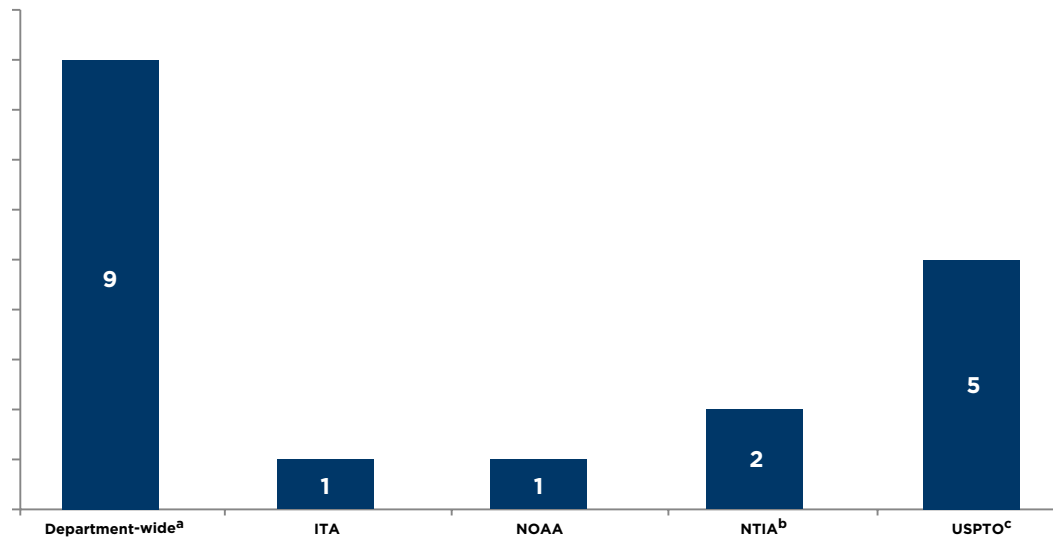
The **U.S. Department of Commerce** works to help American companies become more innovative and successful at home and more competitive abroad. It creates the conditions for economic growth and opportunity by promoting innovation, entrepreneurship, competitiveness, and stewardship.

The Department accomplishes its mission by providing national and local weather services; developing key economic and demographic data (including the Census); advancing technological and scientific innovation; protecting and restoring environmental resources; promoting international trade; and supporting local, regional, and national economic development. These activities affect U.S. business and industry daily and play a critical role in the nation's economic well-being.



## COMPLETED WORKS (BY OVERSIGHT AREA)

During this reporting period, OIG completed 14 audits, inspections, and responses to Congressional requests, as well as 4 Congressional testimonies.



<sup>a</sup> Department-wide completed works include two Congressional testimonies.

<sup>b</sup> Completed works concerning NTIA include one audit report and one Congressional testimony regarding FirstNet.

<sup>c</sup> Completed works concerning USPTO include one Congressional testimony.

## AUDIT OF THE DEPARTMENT'S CLOUD COMPUTING EFFORTS IDENTIFIED CONTRACTUAL DEFICIENCIES (OIG-15-001-M)

The Council of Inspectors General on Integrity and Efficiency (CIGIE) initiated a government-wide review to evaluate federal agencies' efforts to adopt cloud computing technologies. The review focused on determining whether contracts that agencies have issued for cloud services comply with applicable standards.

In the course of our audit, we found that cloud-computing contracts are missing required clauses. While the contracts and associated documents such as service level agreements, nondisclosure agreements, and terms of service generally include the required language, we noted several deficiencies.

We also found that the Department's cloud services are not compliant with the Federal Risk and Authorization Management Program (FedRAMP). OMB required that all cloud services currently implemented comply with FedRAMP security authorization requirements by June 5, 2014. However, we found that only two of the cloud services associated with the contracts we reviewed met the FedRAMP deadline. Nevertheless, all cloud services associated with the contracts we reviewed have been granted authorization to operate by the respective bureaus. As a result, bureau authorizing officials should be aware of risks associated with employing the cloud services that do not meet FedRAMP requirements.

We recommended that the Department's

- chief financial officer and assistant secretary for administration ensure that all existing and future Commerce bureau cloud service contracts appropriately include clauses from CAR 1352.239-72 and FAR subsections 52.239-1.

- chief information officer ensure that Commerce bureaus employing cloud services that do not meet FedRAMP requirements conduct effective continuous monitoring of the services' security controls in order to minimize potential risks.

#### **DEPARTMENT OF COMMERCE FY 2014 CONSOLIDATED FINANCIAL STATEMENTS AUDITS (OIG-15-008-A, OIG-15-006-A, OIG15-010-A)**

KPMG LLP, an independent public accounting firm, performed the audit in accordance with U.S. generally accepted government auditing standards and OMB Bulletin 14-02, "Audit Requirements for Federal Financial Statements." In its audit of the Department, KPMG determined that the financial statements were fairly presented in all material respects and in conformity with U.S. generally accepted accounting principles.

KPMG identified two significant deficiencies in (a) controls over information technology (IT) access, configuration management, and segregation of duties; and (b) internal control over accounting for EDA accrued grants. (A significant deficiency in internal control exists when the design or operation of a control does not allow management or employees—in the normal course of performing their assigned functions—to prevent or detect and correct misstatements on a timely basis and merits attention by those charged with governance.)

While KPMG noted continued progress toward remediating the prior-year IT significant deficiency, during FY 2014 the underlying control deficiencies relating to systems access, configuration management, and segregation of duties continued to require improvement. Specifically, the Department needs to continue making improvements in its general IT controls to fully ensure that financial data processed on the Department's systems has integrity, is securely maintained, and is available only to authorized users.

KPMG found that accounting for EDA accrued grants needs improvement. During FY 2014, NOAA, one of EDA's service providers, and EDA did not establish an effective review process to ensure that the underlying data and assumptions in the grant accrual methodology are appropriate and the overall calculation is accurate. EDA needs to continue making improvements in the calculation and review of the EDA accrued grants.

KPMG also reported one violation of the Antideficiency Act at the U.S. Census Bureau for obligating FY 2011 funds in advance of its appropriation. In addition, KPMG reported three potential Antideficiency Act compliance matters that are being reviewed by the Department's Office of the Secretary and the Department's Office of General Counsel: (a) potential incorrect use of budgetary funding sources to support its programs; (b) acceptance of terms of agreement on purchases made through the internet; and (c) an indemnification clause. Because these reviews are not complete, the ultimate outcomes of these potential matters are not currently known.

#### **NONFEDERAL AUDIT RESULTS FOR THE 6-MONTH PERIOD ENDING JUNE 30, 2014 (OIG-15-003-M)**

OIG's report contained an analysis of findings identified in nonfederal audit reports from January 1, 2014, through June 30, 2014, submitted by nonprofit and government grantees pursuant to OMB Circular A-133 and by for-profit grantees pursuant to program guidelines. The analysis noted trends in the types of findings reported and summarized findings by Departmental program.

#### **NONFEDERAL AUDIT RESULTS FOR THE 6-MONTH PERIOD ENDING DECEMBER 31, 2014 (OIG-15-018-M)**

OIG's report contained an analysis of findings identified in nonfederal audit reports from July 1, 2014, through December 31, 2014, submitted by nonprofit and government grantees pursuant

to OMB Circular A-133 and by for-profit grantees pursuant to program guidelines. The analysis noted trends in the types of findings reported and summarized findings by Departmental program.

### AUDITS OF COMMERCE FUND RECIPIENTS BY NONFEDERAL INDEPENDENT AUDITORS (REVIEWED BY OIG DURING THE 6 MONTHS ENDING MARCH 31, 2015)

In addition to undergoing OIG-performed audits, certain recipients of Department of Commerce financial assistance or cost-reimbursable contracts are periodically examined by state and local government auditors and by independent public accountants. OMB Circular A-133 establishes requirements for audits of states, local governments, and nonprofit organizations. For-profit organizations that are audited in accordance with *Government Auditing Standards* include those that receive NIST awards from both the Technology Innovation Program and the Measurement and Engineering Research and Standards program. Some for-profit organizations are audited in accordance with other specific audit guides. For example, BTOP awards are audited in accordance with the NTIA *Program-Specific Audit Guidelines for the Broadband Technology Opportunities Program*.

We examined 121 audit reports during this semiannual period to determine whether they contained audit findings related to departmental programs. For 64 of these reports, the Department acts as an oversight agency and monitors the audited entity's compliance with OMB Circular A-133, *Government Auditing Standards*, or program-specific reporting requirements. The other 57 reports cover entities for which other federal agencies have oversight responsibility. We identified 3 reports with material findings related to the Department.

#### Nonfederal Audit Activities

Report Category	OMB A-133 Audits	Program-Specific Audits	Total
Pending Review (October 1, 2014)	52	12	64
Received	54	9	63
Examined	106	15	121
Pending Review (March 31, 2015)	0	6	6

The following table shows a breakdown by bureau of approximately \$270 million in Department funds audited through the A-133 or program-specific guidelines.

#### Nonfederal Audits by Bureau

Agency	Funds Audited
Economic Development Administration	46,210,920
Minority Business Development Agency	898,336
National Institute of Standards and Technology	22,063,965 <sup>a</sup>
National Oceanic and Atmospheric Administration	66,082,998
National Telecommunications and Information Administration	81,694,092 <sup>b</sup>
Multibureau	53,546,995
<b>Total</b>	<b>270,497,306</b>

<sup>a</sup> This includes \$14,476,420 in program-specific audits; A-133 audits account for the remaining \$7,587,545 of the total amount.

<sup>b</sup> This includes \$11,895,557 in program-specific audits; A-133 audits account for the remaining \$69,798,535 of the total amount.

The audits identified a total of \$215,003 in the federal share of questioned costs, as well as \$12,234 in federal unsupported costs. In most reports, the subject programs were not considered major programs; thus, the audits involved limited transaction and compliance testing against laws, regulations, and grant terms and conditions. The 3 reports with material findings are listed in table 7-a on page 44.

#### **ANNUAL LETTER TO OMB RE: GOVERNMENT CHARGE CARD ABUSE PREVENTION ACT OF 2012 (CHARGE CARD ACT) (OIG-15-015-M)**

The Charge Card Act requires each OIG, in coordination with its department, to perform annual risk assessments and submit to OMB semiannual reports of employee purchase or integrated card violations and the resulting actions taken. The Charge Card Act also requires each OIG to submit an annual purchase and travel card audit recommendation status report to OMB.

In this correspondence, we provided a summary of the actions we have taken during FY 2014 to fulfill these requirements, as well as additional information on our related work. We provided information regarding known and completed reviews and investigations of fraudulent use or abuse of purchase cards for the Department's July 2014 and January 2015 reports to OMB. Also in FY 2014, we assessed purchase, travel, and fleet card usage as components in our annual Department-wide risk assessment. We assessed risks associated with government charge card use at 28 organizational units of the Department—24 were rated as low and 4 were rated as medium. None were rated as high.

Lastly, we performed relevant work in FY 2013—as well as issued an FY 2014 audit that assessed travel spending in calendar year 2012—that required Department and bureau responses this fiscal year. In May 2013, we issued a Department-wide audit report on internal controls over the use of purchase cards. The Department completed implementation of the final recommendation resulting from the audit during FY 2014. In addition, in February 2014, we issued an audit report that identified findings related to the travel card misuse by NIST employees who attended two conferences in 2012. The NIST resolved all related recommendations by June 2014.

#### **SPECIAL AGENT REMOVED AFTER TAKING A SHOTGUN FROM ANOTHER FEDERAL AGENCY AND NOT DISCLOSING BEING UNDER INVESTIGATION**

In December 2014, a special agent working for a Departmental bureau was removed from federal service, following an OIG investigation into allegations of improperly taking possession of a shotgun from another federal agency when leaving employment there. The investigation found that the shotgun had been loaned to the federal law enforcement agency by a weapons manufacturer and that the employee obtained the weapon pursuant to official duties there. The individual then brought the weapon to his personal residence without informing the agency—and kept it there upon leaving employment at that agency. OIG's investigation also found that the individual failed to disclose being issued a proposed 2-day suspension at a previous agency for failing to follow orders.

### **CONGRESSIONAL TESTIMONY**

#### **IG'S TESTIMONY ON COMMERCE DEPARTMENT'S FY 2016 BUDGET REQUEST: HOUSE APPROPRIATIONS COMMITTEE (OIG-15-016-T)**

On February 25, 2015, the Inspector General testified before the Committee on Appropriations' Subcommittees on Commerce, Justice, Science, and Related Agencies of the U.S. House of Representatives about the Department's FY 2016 budget request. The request was for \$9.8 billion for the Department and \$3.2 billion for the USPTO. The Inspector General noted that

the Department faces significant management and performance challenges in the coming year, including enhancing weather satellite development and mitigating coverage gaps; addressing serious cybersecurity concerns; innovating a cost-effective design for the 2020 Census; providing stronger controls over finances, contracts, and grants; addressing USPTO backlogs, quality, and workforce management; addressing FirstNet management challenges; continuing an emphasis on compliance and ethics; and ensuring IG access and independence.

**IG'S TESTIMONY ON COMMERCE DEPARTMENT'S FY 2016 BUDGET REQUEST:  
SENATE APPROPRIATIONS COMMITTEE (OIG-15-017-T)**

On February 26, 2015, the Inspector General submitted written testimony at the request of the Senate Committee on Appropriations' Subcommittees on Commerce, Justice, Science, and Related Agencies about the Department's FY 2016 budget request. The request was for \$9.8 billion for the Department and \$3.2 billion for USPTO. His testimony mirrored his earlier written testimony for the House Committee.



# ECONOMIC DEVELOPMENT ADMINISTRATION

The **U.S. Economic Development Administration's** mission is to lead the federal economic development agenda by promoting innovation and competitiveness, preparing American regions for growth and success in the worldwide economy. Its investment policy is designed to establish a foundation for sustainable job growth and the building of durable regional economies throughout the United States. This foundation builds on two key economic drivers: innovation and regional collaboration.

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## **FORMER EMPLOYEE FROM SNOQUALMIE, WASHINGTON, INDICTED IN EXTENSIVE BENEFITS FRAUD SCHEME**

A federal grand jury indicted a former federal employee for multiple counts of wire fraud and mail fraud, as well as making false statements in connection with an extensive scheme to fraudulently obtain federal and state benefits. The indictment was returned following an investigation that revealed that a former EDA employee was making false and conflicting claims to various agencies in an effort to fraudulently obtain benefits. The charged criminal conduct allegedly occurred from 2005 to the present, during which the employee is alleged to have fraudulently received more than \$250,000 in benefits.

The case was investigated by multiple agencies—led by the Social Security OIG—including OIGs of Veterans Affairs, Department of Commerce, Office of Personnel Management, and General Services Administration, as well as other federal law enforcement entities. Despite the severity of the charges, subjects of criminal indictments are presumed innocent until proven otherwise.



# INTERNATIONAL TRADE ADMINISTRATION

The **International Trade Administration** is the premier resource for American companies competing in the global marketplace. ITA strengthens the global competitiveness of U.S. industry, promotes trade and investment, and ensures fair trade through the rigorous enforcement of U.S. trade laws and agreements. ITA is organized into three business units that work together to achieve ITA's mission.

***Industry and Analysis***—Enhances the international competitiveness of U.S. industry, expands its market access, and increases its exports by devising and implementing innovative international trade, investment, and export promotion strategies utilizing in-depth quantitative and qualitative analysis and leveraging ITA's industry relationships.

***Enforcement and Compliance***—Safeguards and enhances the competitive strength of U.S. industries against unfair trade through the enforcement of U.S. trade remedy laws and ensures compliance with trade agreements negotiated on behalf of U.S. industries.

***Global Markets***—Assists and advocates for U.S. businesses in international markets to foster U.S. economic competitiveness and prosperity. Global Markets effectively helps U.S. businesses, partners, and stakeholders enter and expand into international markets, addressing barriers to trade, winning foreign government procurements, and attracting inward investment.



## **ITA MANAGEMENT SHOULD ADDRESS SIGNIFICANT CHALLENGES RELATED TO ITS RECENT CONSOLIDATION (OIG-15-021-I)**

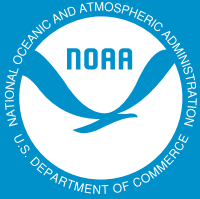
We conducted this evaluation in response to a requirement in Senate Report 113-78 for the Departments of Commerce and Justice and Science, and Related Agencies Appropriations Bill for FY 2014. Our objectives were to

- identify management and leadership challenges that might hinder the consolidation effort,
- evaluate whether resource changes as a result of the consolidation are aligned with ITA's strategic priorities and sufficient for providing services to ITA's customers, and
- assess the status of ITA consolidation.

We found that progress in attaining ITA's consolidation goals is lagging, primarily because ITA's management did not execute an effective organizational change management plan. Efforts to achieve operational goals related to the consolidation—such as revising work processes and aligning workforces—remain ongoing and are largely uncoordinated. The consolidation was also hindered by leadership changes in the period leading up to and just after the October 17, 2013, administrative reorganization—which was delayed from October 1 because of the federal government shutdown that took place October 1–16, 2013. As a result, and as we found out through our employee survey, ITA's employees were unclear about their new roles and responsibilities, and had concerns about increased levels of management. We also identified employee dissatisfaction with communication and feedback as a common theme. Finally, we confirmed that ITA saved \$8 million as a result of the consolidation. However, because not all of the claimed savings came from reductions in management and overhead costs, resource allocations at ITA headquarters may not be optimal.

We recommended that the Under Secretary for International Trade

1. develop a comprehensive project plan to manage remaining consolidation activities and monitor progress until completion,
2. prioritize the development of revised performance plans and training for employees who were affected by the consolidation,
3. develop an employee engagement plan that solicits and incorporates employee feedback and communicate the changes to ITA staff, and
4. conduct a workforce analysis of headquarters programs to determine the appropriate level of resources.



# NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION

The **National Oceanic and Atmospheric Administration's** mission is to understand and predict changes in Earth's environment, as well as conserve and manage coastal and marine resources to meet our nation's economic, social, and environmental needs. NOAA does this through six line offices.

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

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

***National Ocean Service***—Provides products, services, and information to promote safe navigation, support coastal communities, sustain marine ecosystems, and mitigate coastal hazards.

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

***Office of Oceanic and Atmospheric Research***—Conducts research related to the oceans and Great Lakes, the lower and upper atmospheres, the space environment, and the Earth.

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

## **ALLEGED CONFLICT OF INTEREST INVOLVING THE ATLANTIC STATES MARINE FISHERIES COMMISSION INVESTIGATED**

On February 12, 2015, OIG provided a letter to Representative Walter B. Jones regarding a constituent concern about an alleged conflict of interest in the Atlantic States Marine Fisheries Commission, a fishery commission created by interstate compact. OIG's investigation revealed an apparent gap in ethics laws governing the Commission and at least some of its commissioners. In addition, our analysis of the matter revealed a lack of clarity between federal conflict-of-interest requirements and a regulation governing federal Fishery Management Councils. OIG also provided this letter to the Senate Committee on Commerce, Science, and Transportation, as well as the House Committee on Natural Resources, and posted it on our public website.

## **FORMER WEATHER SERVICE CONTRACTOR CONVICTED OF THEFT OF IT EQUIPMENT**

In October 2014, a former contract employee for the National Weather Service was convicted of theft for stealing computer equipment and government funds from NOAA. OIG worked the investigation in conjunction with the Montgomery County (Maryland) Police Department, and the case was prosecuted in the Circuit Court for Montgomery County. OIG initiated the investigation after receiving information from NOAA indicating that the contractor employee had purchased over 70 wireless devices with government funds and converted them for personal use, for a total of \$18,000. It was also reported that several laptop computers assigned to this individual were missing from the NWS office; two were returned, along with a mobile device during the investigation. The Montgomery County Police Department established that the individual had pawned one of the laptops stolen from NWS. In December 2014 the individual was sentenced to 18 months' incarceration (suspended) and 3 years of supervised probation, as well as ordered to pay restitution to NOAA of over \$17,500.

## **GRANTEE RETURNS FUNDS FOLLOWING INVESTIGATION OF HURRICANE SANDY RELIEF FUNDING FOR THE NATIONAL ESTUARINE RESEARCH RESERVE SYSTEM (13-0963)**

In the previous semiannual period, OIG reported on the issuance of a public investigative report concerning the use of Hurricane Sandy funds under the Disaster Relief Appropriations Act and Sandy Recovery Improvement Act. We concluded that under the plain language of the Act, some applications for this funding that were approved by NOAA did not meet the threshold requirement for equipment that was "damaged by Hurricane Sandy." OIG recently learned that, as a result of the investigation, one grantee chose to return \$75,840 to the government—the entire amount that had been awarded under the Sandy Recovery Improvement Act.



# NATIONAL TELECOMMUNICATIONS AND INFORMATION ADMINISTRATION

The **National Telecommunications and Information Administration** serves as the executive branch's principal adviser 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.

## **FIRSTNET MUST STRENGTHEN MANAGEMENT OF FINANCIAL DISCLOSURES AND MONITORING OF CONTRACTS (OIG-15-013-A)**

We reviewed ethics- and procurement-related matters in response to concerns raised by a board member of the First Responder Network Authority (FirstNet) in April 2013, seeking to determine whether the Department (1) had adequate processes in place to ensure that FirstNet Board members properly filed financial disclosures and identified potential conflicts of interest, and (2) used the appropriate contract type, fairly awarded and appropriately administered FirstNet contracts, ensured services purchased under those contracts met industry standards, and were consistent with contract requirements.

We found that:

- The Department's confidential and public disclosure monitoring procedures were inadequate.
- Board members did not file timely public financial disclosure reports.
- The FirstNet Board operational procedures for monitoring potential conflicts of interest need improvement.
- FirstNet contracting practices lacked transparent award competition, sufficient oversight of hiring, adequate monitoring, and procedures to prevent payment of erroneous costs.

We offered recommendations to

- the Secretary, regarding financial disclosure noncompliance issues;
- the general counsel, regarding OGC internal controls pertaining to financial disclosure and conflict of interest at FirstNet;
- the chair of FirstNet, regarding the submission of initial disclosure and final public filer termination reports, as well as the routine updating of lists of entities presenting potential conflicts of interest; and
- the Department's senior procurement official, regarding contracting procedures, quality assurance, and administration.

## **CONGRESSIONAL TESTIMONY**

### **IG'S TESTIMONY ON FIRSTNET'S PROGRESS AND CHALLENGES IN ESTABLISHING A PUBLIC SAFETY BROADBAND NETWORK: SENATE COMMERCE, SCIENCE, AND TRANSPORTATION COMMITTEE (OIG-15-019-T)**

On March 11, 2015, the Inspector General testified before a hearing of the Commerce, Science, and Transportation Committee of the U.S. Senate focusing on FirstNet's work to date; the OIG's completed oversight efforts; OIG's ongoing oversight of FirstNet; and the continuing challenges the Department and FirstNet face in their efforts to ensure implementation of a nationwide, interoperable, wireless broadband network for the public safety community.

Regarding OIG's FirstNet oversight to date, the IG testified that we have established a dedicated audit and evaluations team to oversee the Department's and FirstNet's effort. In addition, we operate a fraud, waste, and abuse hotline for the Department of Commerce through which we have received complaints related to FirstNet, and we conduct follow-up on those complaints.

Building on OIG's experience with broadband and public safety programs (e.g., the Public Safety Interoperable Communications grant program and BTOP), the team's initial audit and evaluation activities have included the following:

- Tracking the progress of FirstNet by observing Board proceedings, meeting with NTIA and FirstNet officials, monitoring FirstNet and NTIA for key actions taken to implement the network, and reviewing key program documents (e.g., *Federal Register* notices and webinar slide decks)
- Developing an initial risk assessment in FY 2013 and reassessing risk as part of annual Department-wide assessments
- Identifying FirstNet as a management challenge in our FYs 2013–2015 *Top Management Challenges* reports
- Providing an information memorandum for FirstNet in February 2014 to identify FirstNet's initial management challenges (including establishing an effective organization, fostering cooperation among various state and local public safety agencies, integrating existing grants to enhance public communications capabilities into FirstNet, and creating a nationwide long-term evolution network)

Regarding further FirstNet work OIG has completed, the IG testified about a December 2014 audit report we issued on ethics- and procurement-related issues raised by a FirstNet Board member in 2013. Our audit work, which covered 2012 and 2013, found the following:

- Confidential and public disclosure monitoring procedures were inadequate, some Board members did not file timely disclosure reports, and monitoring of potential conflicts of interest needs improvement.
- FirstNet's contracting practices lacked transparent award competition, sufficient oversight of hiring, and adequate monitoring.

The IG also testified regarding OIG's current audit work. OIG continues its oversight of FirstNet. In November 2014, OIG initiated an audit of FirstNet's technical development of the Nationwide Public Safety Broadband Network (NPSBN). We plan to issue a final report on our audit later in FY 2015.

In addition, we are currently reviewing interagency agreements used to support FirstNet operations along with its work with entities such as the Public Safety Advisory Committee, NIST, and the Federal Communications Commission to determine whether FirstNet fulfilled consultation requirements of the Middle Class Tax Relief and Job Creation Act of 2012 (the Act) that established FirstNet.

We are also reviewing expenditures and costs related to technical design efforts to assess spending levels, and information related to initial state consultation meetings to assess progress in incorporating key state concerns into the development of the technical design.

Finally, the IG testified regarding the continuing challenges for the Department and FirstNet. Three years after the passage of the Act, FirstNet faces various short- and long-term challenges. As it proceeds, the Department and FirstNet will require continued oversight from OIG, GAO, and Congress. Among the most significant challenges:

- ensuring the adequacy of funding for a nationwide network
- determining the sufficiency of assets contributed to the network by states, local governments, and commercial entities
- incorporating lessons learned from the Broadband Technology Opportunities Program
- addressing identified internal control weaknesses
- addressing staffing and other organizational issues
- effectively executing the consultation process



# UNITED STATES PATENT AND TRADEMARK OFFICE

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



## **USPTO IT MODERNIZATION IS PROGRESSING, BUT IMPROVEMENTS ARE NEEDED (OIG-15-004-A)**

We conducted an audit of Patents End to End (PE2E) during the early stages of the portfolio's life cycle in 2011 to provide proactive, value-added feedback that could identify potential issues that might hamper the success of the overall project, and published a report of our findings and recommendations on September 29, 2011. In that report, we recommended that USPTO improve development and acquisition planning as well as portfolio oversight. In the current audit, we reviewed the actions USPTO has taken regarding the above-mentioned recommendations, and we found that USPTO has not fully implemented our first recommendation to improve development planning.

We recommended that the USPTO Director

- fully implement unsatisfied recommendations from our 2011 audit by prioritizing all user stories at the portfolio level, and by developing a high-level model of reusable services for the entire portfolio,
- identify and implement methods to increase adoption and monitor usage of the PE2E examination tools prior to deployment to the full patent corps,
- fully define and estimate user stories as well as improve scheduling and estimation of defects,
- develop and implement a plan to conduct more robust automated testing, earlier integration of functional quality testers, and performance testing more representative of the production environment, and
- develop and implement a plan to integrate IT security controls earlier in design and development activities and better align automated code reviews with USPTO coding standards.

## **USPTO FY 2014 FINANCIAL STATEMENTS AUDITS (OIG-15-007-A, OIG-15-005-A)**

Independent auditor KPMG LLP performed the audit in accordance with U.S. generally accepted government auditing standards and OMB Bulletin 14-02, "Audit Requirements for Federal Financial Statements." In its audit of USPTO, KPMG determined that the financial statements were fairly presented in all material respects and in conformity with U.S. generally accepted accounting principles.

KPMG identified no instances of internal control over financial reporting that were considered to be a material weakness, as defined in its report. (A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.)

In addition, KPMG identified no instances of reportable noncompliance with applicable laws, regulations, and contracts.

KPMG also issued a report that summarized information technology deficiencies noted in access controls, configuration management, and contingency planning, which were also included in KPMG's report on information technology controls in support of the Department's FY 2014 Consolidated Financial Statements audit (OIG-15-006-A).

## **THE U.S. PATENT AND TRADEMARK OFFICE'S AWARDING AND ADMINISTERING OF TIME-AND-MATERIALS AND LABOR-HOUR (T&M/LH) CONTRACTS NEEDS IMPROVEMENT (OIG-15-012-A)**

We determined that contracting and program officials did not follow best practices to award and administer T&M/LH contracts and task orders for work performed. Contracting and program officials did not follow OMB memorandums, Federal Acquisition Regulation (FAR), the Commerce Acquisition Manual (CAM), and relevant USPTO policies, specifically regarding contract and task order award procedures, contract oversight procedures, and contract files.

We recommended the Director of Office of Procurement

- require contracting officers to document the contract file providing the specific justification supporting the decision for choosing a T&M/LH contract type,
- establish and document ceiling prices in the contract award document for all task orders and stand-alone contracts,
- require contracting officers to prepare and maintain a surveillance plan in the contract file for T&M/LH contracts,
- ensure contracting officer's representatives (CORs) and task order monitors (TOMs) document the acceptance of all deliverables in accordance with contract requirements and USPTO policy,
- reemphasize that CORs and TOMs document surveillance over contractor performance, to ensure work performed on a T&M/LH basis is done in accordance with contract and task order requirements,
- ensure future T&M/LH contracts include FAR Subsection 52.232-7, the T&M payment clause,
- require contracting officers to appoint in writing properly trained and certified CORs and TOMs prior to awarding T&M/LH contracts, and remove those who fail to meet those requirements, and
- improve controls to properly maintain and safeguard contract files.

## **CONGRESSIONAL TESTIMONY**

### **IG'S TESTIMONY ON ABUSE OF USPTO'S TELEWORK PROGRAM: HOUSE OVERSIGHT AND GOVERNMENT REFORM AND JUDICIARY COMMITTEES (OIG-15-009-T)**

On November 18, 2014, the Inspector General testified before a joint hearing of the Committee on Oversight and Government Reform and the Committee on the Judiciary of the House of Representatives on the abuse of USPTO's telework program. In our most recent *Top Management Challenges*, we reported that USPTO faces significant workforce management challenges; our testimony detailed some of those challenges.

In the summer of 2014, our office issued two public investigative reports: one related to concerns with hiring practices at the Trademark Office, and the other related to waste and mismanagement at the Patent Trial and Appeal Board (PTAB). In the PTAB investigation, we found that managers and supervisors at USPTO were aware that, of their 38 to 51 paralegals (95 percent of whom

participated in USPTO's Patent Hoteling Program), many had insufficient work assigned to them over a 4-year period despite a significant and growing backlog of appeals. As a result, USPTO wasted approximately \$5 million in salary and bonuses over that period on paralegals who had significant idle time and engaged in personal, non-work-related activities while on government time. Although the paralegals billed significant time to a code designated for doing no work, the vast majority of them received the highest performance rating of "outstanding." Moreover, supervisors and senior managers who oversaw the program received over \$700,000 in performance bonuses during the relevant time period.

Our *Top Management Challenges* report also noted that additional challenges exist with the management of USPTO's telework programs. In a 16-page memorandum dated July 8, 2013, USPTO responded to OIG's request that it examine allegations of systemic misreporting of time and attendance and how supervisors did not have the tools, and were not empowered by USPTO senior management, to adequately address it. Essentially, the 16-page memorandum failed to substantiate multiple anonymous allegations of systemic time and attendance abuse occurring at USPTO. The 16-page memorandum did, however, include eight recommendations, including supervisory training and better oversight of such practices as "end-loading" and "patent mortgaging."

After receiving USPTO's July 2013 memorandum, OIG learned of an earlier, 32-page version of the report—which was not officially provided to OIG, and which included findings and recommendations, in much greater detail. Unlike the 16-page report, the 32-page report concluded that 12 of 16 specific allegations were substantiated; the 32-page report also made 15 specific recommendations. While these findings and recommendations were not formally issued by the agency, their publication by *The Washington Post* highlights additional controls that may be put in place—and identifies challenges that USPTO must address.

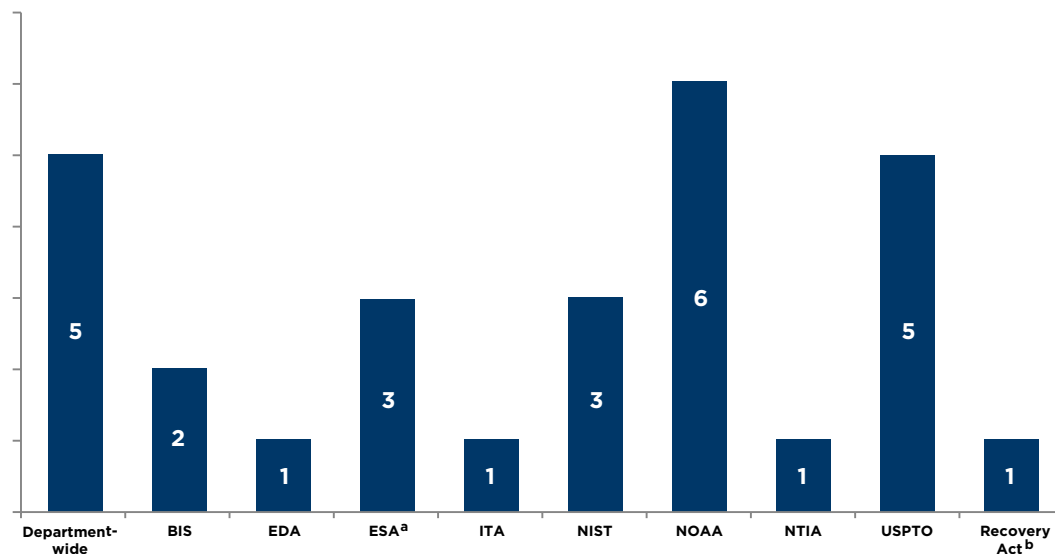
In our testimony, we covered:

- Background information on USPTO, including recent legislation affecting the U.S. patent award system, a brief overview of the current status of patents awaiting examinations, and the various flexible schedule options available to patent examiners.
- OIG's ongoing USPTO-related audit work (e.g., regarding the quality control of patent examiners' work, which includes analysis of patent mortgaging) and investigative work pertaining to whether USPTO sufficiently addressed alleged time and attendance abuse reported by supervisors to senior management.
- USPTO's current and ongoing corrective actions—as well as additional OIG recommendations for further action.

## WORK IN PROGRESS

### WORK IN PROGRESS (BY OVERSIGHT AREA)

During this reporting period, 29 OIG audit and evaluation projects were initiated or underway.



<sup>a</sup> All three ESA works in progress concern the Census Bureau.

<sup>b</sup> The Recovery Act work in progress concerns BTOP, within the National Telecommunications and Information Administration.

### DEPARTMENT-WIDE

#### Incorporating Contract Audits into Contract Administration Planning and Performance at the Department of Commerce

To explore the value of following Federal Acquisition Regulation (FAR) guidance in planning, designing, and executing Departmental audits of contractors.

#### Audit of Departmental Premium-class Travel Spending

Evaluate controls over premium-class travel spending and how they have been implemented. Assess whether the Department has established effective controls over related approvals, justifications, and documentation in order to comply with applicable laws, regulations, and policies.

#### Audit of FY 2015 FISMA Compliance

Assess the effectiveness of the Department's information security program and practices—specifically, the Department's and selected bureaus' policies and procedures and selected IT systems.

#### Review of the Department's FY 2014 Compliance with Improper Payment Requirements

Evaluate the accuracy and completeness of the Department's reporting and its performance in reducing and recapturing improper payments.

### **Audit of Accuracy of Federal Procurement Data System (FPDS) Information**

Originally to determine whether contracting officials effectively managed and executed undefinitized actions (UAs). However, because NOAA's and NIST's FPDS-Next Generation (FPDS-NG) data were not sufficiently reliable to identify the universe of UAs, the audit will address the miscoding of UAs in FPDS-NG and contract file maintenance.

### **Audit of Department's FY 2015 Consolidated Financial Statements**

Determine whether the financial statements are presented fairly, in all material respects, in accordance with generally accepted accounting principles. The audit will also consider the Department's internal control over financial reporting and test compliance with certain provisions of laws, regulations, contracts, and grant agreements that could have a direct and material effect on the financial statements.

## **BUREAU OF INDUSTRY AND SECURITY**

### **Audit of Bureau of Industry and Security's Continuous Monitoring Strategy and Practices**

Assess whether BIS's continuous monitoring strategy and practices—including ongoing security control assessments of its critical information systems—provide adequate information for authorizing officials to make proper risk-based decisions.

### **Audit of BIS USXPORTS Adoption and CUESS Implementation**

Determine whether BIS is (1) effectively and efficiently managing its transition toward using the USXPORTS system to perform export licensing processing and (2) using effective and efficient software development practices for CUESS.

## **ECONOMIC DEVELOPMENT ADMINISTRATION**

### **Audit of EDA's RLF Program**

Audit EDA's controls and processes associated with management of its RLF program to determine how EDA responds to performance problems, such as low utilization rates, high default rates, or noncompliance with reporting requirements. Also, determine how EDA responds to communities that may no longer be considered distressed or underserved.

## **ECONOMICS AND STATISTICS ADMINISTRATION**

### **Audit of the Census Bureau's Continuous Monitoring Strategy and Practices**

Determine whether the Census Bureau's continuous monitoring strategy and practices—including ongoing security control assessments of its critical information systems—provide adequate information for authorizing officials to make proper risk-based decisions.

### **Audit of the Census Bureau's Regional Office Realignment and Field Management Reforms**

Determine whether the bureau is meeting, or on pace to meet, its goals of reduced cost and improved efficiency and responsiveness, while maintaining data quality across the many surveys it conducts annually.

### **Review of the Census Bureau's 2014 Site Test**

Assess whether design alternatives tested in Montgomery County, Maryland, and Washington, DC, align with originally developed project goals—and whether Census is continuing its plan to utilize an iterative testing approach.

## **INTERNATIONAL TRADE ADMINISTRATION**

### **Audit of ITA's Enforcement and Compliance Unit's Efforts to Ensure Quality and Timely Trade Remedy Determinations**

Review the adequacy of ITA's intake and quality control processes, with a focus on antidumping investigations and administrative reviews.

## **NATIONAL INSTITUTE OF STANDARDS AND TECHNOLOGY**

### **Audit of NIST's Oversight of Contracts**

Determine whether (1) NIST has managed and administered contracts in accordance with federal and Departmental guidelines, policies, and procedures, and (2) officials with performance monitoring responsibilities possess the requisite training, technical expertise, and certification of qualifications.

### **Audit of NIST Quality System for Measurement Services**

Determine whether NIST manages its laboratories in accordance with its quality management system policies and procedures.

### **Audit of Controls over NIST's Working Capital Fund**

Evaluate budgetary controls over the working capital fund. As part of this audit we will review NIST's budget process and financial management of the fund.

## **NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION**

### **Audit of Geostationary Operational Environmental Satellite-R Series (GOES-R) Program**

Assess the adequacy of GOES-R development activities in accordance with NOAA and NASA standards. Monitor NOAA's progress in developing and vetting with stakeholders a comprehensive set of trade-off approaches to mitigate launch delays and its oversight of GOES-R systems engineering.

### **Audit of the National Marine Fisheries Service's (NMFS') Observer Program**

Understand how effectively NMFS has evaluated and implemented alternative fishery monitoring options, innovations, and methods in the National Observer Program.

### **Audit of NOAA's Polar Satellite Follow-on Planning and JPSS Implementation**

Determine the progress of polar satellite follow-on program planning, monitor ongoing JPSS acquisition and development, and assess the extent of potential data gaps.

### **Audit of NOAA Hurricane Sandy Disaster Relief Funds**

Determine whether NOAA adequately followed federal and departmental guidelines in awarding Hurricane Sandy Relief grants for repair and replacement of equipment damaged by Hurricane Sandy.

### **Audit of NOAA's IT Security Practices**

Determine the significant factors that contributed to the successful cyber attack on NOAA information systems and evaluate NOAA's handling of the detection, analysis, eradication, and reporting of the attack, as well as recovery from it.

### **Review of NOAA Common Satellite Ground System Architecture**

Determine (1) the progress of NOAA's planning efforts and milestones for implementing a common satellite ground system architecture and (2) whether NOAA's plans and efforts provide adequate consideration for system redundancy, security, and scalability.

## **NATIONAL TELECOMMUNICATIONS AND INFORMATION ADMINISTRATION**

### **Audit of FirstNet's Efforts for the Nationwide Public Safety Broadband Network's (NPSBN's) Technical Design**

Evaluate and assess FirstNet's efforts and progress to develop the technical design aspects for the NPSBN against key technical requirements and standards, the requirements of the Middle Class Tax Relief and Job Creation Act of 2012, stakeholder requirements, and established performance metrics and milestones.

## **UNITED STATES PATENT AND TRADEMARK OFFICE**

### **Audit of USPTO's Quality Assurance Practices**

Determine the sufficiency of USPTO's quality assurance program's processes to prevent the issuance of low-quality patents. Assess the additional quality reviews performed by USPTO to measure examiner performance and ensure that examiners are fully qualified to issue patent determinations without supervisory review.

### **Audit of USPTO's Contracts Awarded Using Other Than Full and Open Competition**

Determine whether USPTO's noncompetitive contract awards were properly justified.

### **Audit of USPTO Office of Trademark's Activity-Based Information System**

Review allocation algorithms and controls of USPTO's Activity-Based Information (ABI) system and determine whether the Office of Trademark's use of ABI justifies and supports fee changes.

### **Audit of USPTO's FY 2015 Financial Statement**

Determine whether the financial statements are presented fairly, in all material respects, in accordance with generally accepted accounting principles. The audit will also consider the USPTO's internal control over financial reporting and test compliance with certain provisions of laws, regulations, and contracts that could have a direct and material effect on the financial statements.

### **Audit of USPTO's Unliquidated Obligations**

Evaluate the effectiveness of USPTO's obligation and deobligation review policies and procedures that were implemented as a result of audit report OIG-13-026, issued June 2013.

## **AMERICAN RECOVERY AND REINVESTMENT ACT**

### **Audit of Broadband Technology Opportunities Program (BTOP) Inventory Excess**

Review BTOP grantees' inventory of excess equipment to (1) determine whether grantees purchased equipment outside of the needs of the program, (2) assess procedures taken by NTIA to identify recipients maintaining excess inventory, and (3) evaluate NTIA's procedures for disposition of excess BTOP award inventory.

# STATISTICAL DATA

The Inspector General Act Amendments of 1988 require us to present the statistical data contained in tables 1–8.

TABLES	Page
1. Office of Investigations Statistical Highlights for This Period	36
2. Audit Resolution and Follow-up	37
3. Audit, Evaluation, and Inspection Statistical Highlights for This Period	38
4. Audits with Questioned Costs	39
5. Audits with Recommendations That Funds Be Put to Better Use	39
6. Report Types for This Period	40
6-a. Performance Audits	41
6-b. Financial Statement Audits	41
6-c. Evaluations and Inspections	42
7. Single Audit and Program-Specific Audits	43
7-a. Processed Reports with Material Audit Findings	44
8. Audits Unresolved for More Than 6 Months	45

## TABLE 1. OFFICE OF INVESTIGATIONS 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 OIG as a result of investigative action.

**Allegations processed** present the number of complaints from employees, stakeholders, and the general public that were handled by our Complaint Intake Unit. Of these, some resulted in the opening of investigations; others were referred to bureaus for internal administrative follow-up. Others were unrelated to Departmental activities or did not provide sufficient information for any investigative follow-up and so were not accepted for investigation or referral. Fines and other financial recoveries refer only to agreements that a judge accepted.



Allegations Received	
Total hotline contacts	822
Of which are complaints related to Commerce programs	313 <sup>a</sup>
Number of hotline referrals to Commerce management	209
Investigative Caseload	
Investigations opened this period	39
Investigations closed this period	48
Investigations in progress as of March 31, 2015	104
Prosecutive Actions and Monetary Results	
Indictments/Informations	4
Arrests	0
Convictions	2
Monetary issues identified (waste, questioned costs, recoveries, and fines.)	\$21,421
Administrative Actions	
Suspension/Debarment	0
Disciplinary action	2

<sup>a</sup> OIG is in the process of implementing a new case management system for investigations, which does not yet have any analytics or reporting functionality. As a result, all data included in this table should be considered estimates.

## 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, 2014) for which no management decision had been made by the end of the period (March 31, 2015). Eleven audit reports remain unresolved for more than 6 months for this reporting period (see table 8, 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, 2014)	0	5
Submissions	0	2
Decisions	0	4
Actions pending (March 31, 2015)	0	3

**TABLE 3. AUDIT, EVALUATION, AND INSPECTION 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.

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

Questioned costs <sup>a</sup>	\$35,823,577
Value of audit recommendations that funds be put to better use <sup>b</sup>	\$0
Value of audit recommendations agreed to by management <sup>c</sup>	\$24, 631,770

These amounts include costs questioned by state and local government auditors or independent public accountants.

<sup>a</sup> **Questioned cost:** This is 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.

<sup>b</sup> **Value of audit recommendations that funds be put to better use:** This results from an OIG recommendation that funds could be used more efficiently if Department management took action to implement and complete the recommendation. Such 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 the Department, 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.

<sup>c</sup> **Value of audit recommendations agreed to by management:** This is 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 negotiations by a contracting officer—not to 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	4	703,380	574,760
B. Reports issued during the reporting period	5	35,823,577	35,644,004
Total reports (A+B) requiring a management decision during the period	9	36,526,957	36,218,764
C. Reports for which a management decision was made during the reporting period <sup>a</sup>	3	35,641,463	35,631,770
i. Value of disallowed costs		35,631,770	35,631,770
ii. Value of costs not disallowed		9,693	0
D. Reports for which no management decision had been made by the end of the reporting period	6	885,494	586,994

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

**TABLE 5. AUDITS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE**

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	0	0
B. Reports issued during the reporting period	0	0
Total reports (A+B) requiring a management decision during the period	0	0
C. Reports for which a management decision was made during the reporting period		
i. Value of recommendations agreed to by management	0	0
ii. Value of recommendations not agreed to by management	0	0
D. Reports for which no management decision had been made by the end of the reporting period	0	0

## 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 statement 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.

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

Type	Number of Reports	Table Number
Performance audits	4	Table 6-a
Financial statement audits	5	Table 6-b
Evaluations and inspections	5	Table 6-c
<b>Total</b>	<b>14</b>	

**TABLE 6-A. PERFORMANCE AUDITS**

Report Title	Report Number	Date Issued	Funds to Be Put to Better Use (\$)	Amount Questioned (\$)	Amount Unsupported (\$)
<b>National Telecommunications and Information Administration</b>					
FirstNet Must Strengthen Management of Financial Disclosures and Management of Contracts	OIG-15-013-A	12.05.2014	0	11,000,000	11,000,000
<b>Office of the Secretary</b>					
Audit of the Department's Cloud Computer Efforts Identified Contractual Deficiencies	OIG-15-001-M	10.14.2014	0	0	0
<b>U.S. Patent and Trademark Office</b>					
Patent and Trademark IT Modernization Is Progressing, but Improvements Are Needed	OIG-15-004-A	10.30.2014	0	0	0
The U.S. Patent and Trademark Office's Awarding and Administering of Time-and-Materials and Labor-Hour Contracts Needs Improvement	OIG-15-012-A	12.03.2014	0	24,631,770	24,631,770

**TABLE 6-B. FINANCIAL STATEMENT AUDITS**

Report Title	Report Number	Date Issued	Funds to Be Put to Better Use (\$)	Amount Questioned (\$)	Amount Unsupported (\$)
<b>Office of the Secretary</b>					
FY 2014 Financial Statements Audit: Assessment of Information Technology Controls Supporting Financial Management Systems	OIG-15-006-A	11.12.2014	0	0	0
FY 2014 Consolidated Financial Statements Audit	OIG-15-008-A	11.14.2014	0	0	0
FY 2014 Closing Package Financial Statements	OIG-15-010-A	11.18.2014	0	0	0
<b>U.S. Patent and Trademark Office</b>					
FY 2014 Financial Statements	OIG-15-007-A	11.14.2014	0	0	0
FY 2014 Financial Statements Audit: Assessment of Information Technology Controls Supporting Financial Management Systems	OIG-15-005-A	11.03.2014	0	0	0

**TABLE 6-C. EVALUATIONS AND INSPECTIONS**

<b>Report Title</b>	<b>Report Number</b>	<b>Date Issued</b>	<b>Funds to Be Put to Better Use (\$)</b>	<b>Amount Questioned (\$)</b>	<b>Amount Unsupported (\$)</b>
<b>International Trade Administration</b>					
ITA Management Should Address Significant Challenges Related to Its Recent Consolidation	OIG-15-021-I	03.25.2015	0	0	0
<b>Office of the Secretary</b>					
Nonfederal Audit Results for the 6-Month Period Ending June 30, 2014	OIG-15-003-M	10.03.2014	0	0	0
Top Management Challenges, FY 2015	OIG-15-002-I	10.16.2014	0	0	0
Annual Letter to OMB re: Government Charge Card Abuse Prevention Act of 2012	OIG-15-015-M	01.30.2015	0	0	0
Nonfederal Audit Results for the 6-Month Period Ending December 31, 2014	OIG-15-018-M	02.26.2015	0	0	0

**TABLE 7. SINGLE AUDIT AND PROGRAM-SPECIFIC AUDITS**

OIG reviewed and accepted 121 audit reports prepared by independent public accountants and local, state, and other federal auditors. The audits that reported questioned costs, recommendations that funds be put to better use, and/or nonfinancial recommendations are listed in table 7-a.

<b>Agency</b>	<b>Audits</b>
U. S. Census Bureau	0
Economic Development Administration	47
International Trade Administration	0
Minority Business Development Agency	1
National Institute of Standards and Technology <sup>a</sup>	17
National Oceanic and Atmospheric Administration	22
National Telecommunications and Information Administration <sup>b</sup>	11
Multibureau	18
No Departmental expenditures	5
<b>Total</b>	<b>121</b>

<sup>a</sup> Includes 11 program-specific audits.

<sup>b</sup> Includes 4 program-specific audits.

**TABLE 7-A. PROCESSED REPORTS WITH MATERIAL AUDIT FINDINGS**

<b>Report Title</b>	<b>Report Number</b>	<b>Date Issued</b>	<b>Funds to Be Put to Better Use (\$)</b>	<b>Amount Questioned (\$)</b>	<b>Amount Unsupported (\$)</b>
<b>Economic Development Administration</b>					
City of Saint Paul	OIG-15-05147	02.12.2015	0	12,234	12,234
<b>National Institute of Standards and Technology</b>					
ELXSI Corp (70NANB9W9009)	OIG-15-05077	10.10.2014	0	155,196	0
<b>National Oceanic and Atmospheric Administration</b>					
University of the Virgin Islands	OIG-15-05127	11.06.2014	0	24,377	0



**TABLE 8. AUDITS UNRESOLVED FOR MORE THAN 6 MONTHS**

<b>National Institute of Standards and Technology</b>	<p><b>Five nonfederal audits of financial assistance grants awarded to Massachusetts Manufacturing Extension Partnership for FY 2008–2012.</b></p> <p>NIST and OIG continue to work to resolve these audits.</p>
<b>National Institute of Standards and Technology</b>	<p><b>Five nonfederal audits of financial assistance grants awarded to Florida Manufacturing Extension Partnership for FY 2008–2012.</b></p> <p>NIST and OIG continue to work to resolve these audits.</p>
<b>National Institute of Standards and Technology</b>	<p><b>OIG-14-05115, Kent Displays Inc. (September 30, 2014).</b></p> <p>NIST is working with recipient to resolve.</p>
<b>National Oceanic and Atmospheric Administration</b>	<p><b>OIG-14-025-A, <i>Significant Security Deficiencies in NOAA's Information Systems Create Risk in Its National Critical Mission</i> (July 15, 2014)</b></p> <p>NOAA and OIG continue to work to resolve this audit.</p>

# REPORTING REQUIREMENTS

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

Section	Topic	Page
4(a)(2)	Review of Legislation and Regulations	46
5(a)(1)	Significant Problems, Abuses, and Deficiencies	12–31
5(a)(2)	Significant Recommendations for Corrective Action	12–31
5(a)(3)	Prior Significant Recommendations Unimplemented	46
5(a)(4)	Matters Referred to Prosecutorial Authorities	36–37
5(a)(5) and 6(b)(2)	Information or Assistance Refused	47
5(a)(6)	Listing of Audit Reports	43–44
5(a)(7)	Summary of Significant Reports	12–31
5(a)(8)	Audit Reports—Questioned Costs	39
5(a)(9)	Audit Reports—Funds to Be Put to Better Use	39
5(a)(10)	Prior Audit Reports Unresolved	47
5(a)(11)	Significant Revised Management Decisions	47
5(a)(12)	Significant Management Decisions with Which OIG Disagreed	47
5(a)(14)	Results of Peer Review	47

## 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 (1) the economy and efficiency of the management of programs and operations administered or financed by the agency or (2) the prevention and detection of fraud and abuse in those programs and operations. Comments concerning legislative and regulatory initiatives affecting Departmental 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. 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. Current issues include (1) a 2-year delay from the Department's Office of General Counsel (OGC) in processing audit policies to ensure OIG's full and unrestricted access to records during OIG audits and (2) denied access to "badging-in and -out data" from the Census Bureau headquarters necessary to conduct a data analytics project.

## **SECTION 5(A)(10): PRIOR AUDIT REPORTS UNRESOLVED**

This section requires (1) 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); (2) an explanation of why a decision has not been made; and (3) a statement concerning the desired timetable for delivering a decision on each such report. There are 11 nonfederal audit reports concerning three NIST grant recipients which are more than 6 months old and for which no management decision has been made. There is one OIG audit report which is still unresolved after more than 6 months. (See table 8.)

## **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 generally must concur with any decision that would change the audit resolution proposal in response to an appeal by the recipient. There are three appeals pending at the end of 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)(14): RESULTS OF PEER REVIEW**

The most recent peer review of the Office of Audit and Evaluation was completed in 2015 by the Office of Inspector General of the Board of Governors of the Federal Reserve System. Their *System Review Report* of our audit operations is available on our website. We received a *pass* rating, the highest available rating. We are in the process of implementing their recommendations for process and policy improvements.

On March 2, 2015, OIG's Office of Investigations received official notification that the system of internal safeguards and management procedures for our investigative function was in compliance with the quality standards established by CIGIE and the applicable Attorney General Guidelines. The peer review was conducted by the Federal Reserve Board OIG.

## ACRONYMS AND ABBREVIATIONS

<b>AIA</b>	America Invents Act	<b>FPDS-NG</b>	Federal Procurement Data System-Next Generation
<b>BIS</b>	Bureau of Industry and Security	<b>GOES-R</b>	Geostationary Operational Environmental Satellite-R Series
<b>BTOP</b>	Broadband Technology Opportunities Program	<b>ITA</b>	International Trade Administration
<b>CAM</b>	Commerce Acquisition Manual	<b>JPSS</b>	Joint Polar Satellite System
<b>CCL</b>	Commerce Control List	<b>MEP</b>	Manufacturing Extension Partnership
<b>CIGIE</b>	Council of Inspectors General on Integrity and Efficiency	<b>MHz</b>	megahertz
<b>CIO</b>	chief information officer	<b>NEI</b>	National Export Initiative
<b>COR</b>	contracting officer's representative	<b>NIST</b>	National Institute of Standards and Technology
<b>DATA Act</b>	Digital Accountability and Transparency Act of 2014	<b>NMFS</b>	National Marine Fisheries Services
<b>ECMO</b>	Enterprise Cybersecurity Monitoring and Operations	<b>NOAA</b>	National Oceanic and Atmospheric Administration
<b>ECRI</b>	Export Control Reform Initiative	<b>NOP</b>	National Observer Program
<b>EDA</b>	Economic Development Administration	<b>NPSBN</b>	Nationwide Public Safety Broadband Network
<b>ESOC</b>	Enterprise Security Operations Center	<b>NTIA</b>	National Telecommunications and Information Administration
<b>FAR</b>	Federal Acquisition Regulation	<b>NWS</b>	National Weather Service
<b>FirstNet</b>	First Responder Network Authority	<b>OIG</b>	Office of Inspector General
<b>FISMA</b>	the Federal Information Security Management Act of 2002	<b>OMB</b>	Office of Management and Budget
		<b>PE2E</b>	Patents End to End

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<b>PTAB</b>	Patent Trial and Appeal Board	<b>T&amp;M/LH</b>	time-and-materials and labor-hour
<b>RCE</b>	request for continued examination	<b>TOM</b>	task order monitors
<b>RLF</b>	Revolving Loan Fund	<b>UA</b>	undefinitized action
<b>RLFMS</b>	Revolving Loan Fund Management System	<b>USPTO</b>	U.S. Patent and Trademark Office
<b>Suomi NPP</b>	Suomi National Polar- orbiting Partnership	<b>WCF</b>	Working Capital Fund



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