



## Top 10 Management Challenges

SEPTEMBER 2007

# MAJOR CHALLENGES FOR THE DEPARTMENT

This section highlights the Top 10 Management Challenges that faced the Department at the close of this semiannual period. Each challenge meets one or more of the following criteria: (1) it is important to the Department's mission or the nation's well-being, (2) it is complex, (3) it involves sizable resources or expenditures, or (4) it requires significant management improvements. Because of the diverse nature of Commerce activities, these criteria sometimes cut across bureau and program lines. Experience has shown that by aggressively addressing these challenges, the Department can enhance program efficiency and effectiveness; eliminate serious operational problems; decrease fraud, waste, and abuse; and achieve substantial savings.

## TOP 10 MANAGEMENT CHALLENGES

1. Control the cost and improve the accuracy of the decennial census.
2. Strengthen Department-wide information security.
3. Effectively manage departmental and bureau acquisition processes.
4. Strengthen internal controls over financial, programmatic, and business processes.
5. Ensure that USPTO uses its authorities and flexibilities as a performance-based organization to achieve better results.
6. Effectively manage the development and acquisition of environmental satellites.
7. Promote U.S. exports and fair competition in international trade.
8. Effectively manage NOAA's stewardship of ocean and living marine resources.
9. Aggressively monitor emergency preparedness, safety, and security responsibilities.
10. Enhance export controls for dual-use commodities.

## Challenge 1

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

The Census Bureau's redesigned decennial plan, established after the 2000 census, is heavily dependent on automating critical field operations to accurately count the nation's population within budget. After conducting a series of tests throughout the decade, the bureau has begun a "dress rehearsal" or dry run of the upcoming 2010 census, which will produce an unofficial count for two sites: San Joaquin County, California, and eight counties surrounding Fayetteville, North Carolina. The local census office for each site opened in April 2007.

During the past year, we monitored various aspects of the bureau's decennial operations: we completed our evaluation of the 2006 test of update/enumerate at the Cheyenne River Reservation and conducted a follow-up review of the bureau's progress in readying its workers' compensation program for the 2010 decennial (see pages 25 and 29). We also have initiated two reviews of the 2008 dress rehearsal, one assessing the effectiveness of address canvassing procedures in improving the accuracy of the address list and maps, and the other evaluating the capabilities and performance of the technology that supports this operation. And we are auditing two multimillion-dollar contracts: Field Data Automation Collection (FDCA) and the Decennial Response Integration System (DRIS), which are being used to acquire IT devices and services that are critical to the success of the reengineered census.

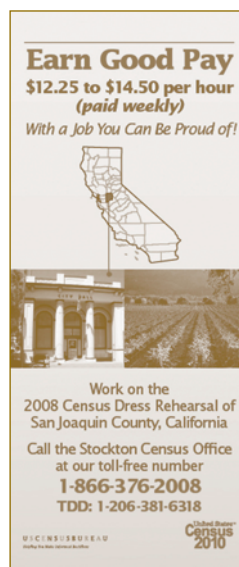
## Counting American Indians on Reservations

Counting American Indians living on reservations such as the one selected for the 2006 test of update/enumerate can be challenging because these sites often contain many unnamed streets and unnumbered houses and encompass large, rural areas punctuated by small communities. In addition, multiple families often share a single housing unit, and getting an accurate count of the entire household is difficult. In update/enumerate census-takers go door to door to collect population information and update address lists and maps. We evaluated the test's conduct and outcomes, particularly with regard to the impact of a new query on the census form designed to improve the count of all household members ("within-household coverage"). We looked at the success of the overall operation in accurately enumerating the reservation population.

Overall, we found the new query had little impact on reservation enumerations. We also found many problems caused by the poor quality of Census maps and address list information collected during the address canvassing operation, which preceded update/enumerate, and Census's decision not to equip enumerators with GPS navigation tools in this geographically challenging environment. Given that Census did little to test alternative enumeration methods, we question whether the bureau devoted adequate time and attention to the 2006 effort.

With the countdown to the 2010 census accelerating, the bureau's time for modifying plans and ensuring an accurate, cost-effective count of all Americans is growing short. We recommended that Census, at the very least, give enumerators usable, legible maps and sufficiently detailed address lists on a consistent basis and consider giving enumerators a GPS device for navigation—either the handheld computer slated for Census 2010 or an inexpensive off-the-shelf model. This latter step would go a long way toward improving the accuracy and efficiency of update/enumerate. We further recommended assigning a senior headquarters official specific responsibility for improving 2010 American Indian enumeration efforts. (See page 25.)

## Improving the Workers' Compensation Program at Census



[www.census.gov/2010census/dx-261-cafinalnr.pdf](http://www.census.gov/2010census/dx-261-cafinalnr.pdf)

In our March 2006 *Semiannual Report* (page 39-41), we discussed the results of our review of Commerce's workers' compensation program,<sup>2</sup> which included recommendations that the Census Bureau and the Department develop a comprehensive workers' compensation program for the 2008 dress rehearsal and the 2010 decennial. The bureau paid almost \$14.2 million in workers' compensation benefits during the 2000 census and continues to pay millions of dollars to decennial workers still on the

rolls. The unique nature of intermittent work at Census complicates administration of the program, so we urged the bureau and the Department to develop a strategy to contain these costs for the upcoming decennial.

During this semiannual period we assessed the bureau's progress in implementing our 2006 recommendations for developing a program, identifying ways to contain related costs for the 2008 dress rehearsal and 2010 decennial operations, returning current claimants to work, when feasible, and implementing training and other management controls and oversight to minimize unnecessary workers' compensation costs.

We found the bureau had yet to implement a strategy for returning current claimants to work or for managing a workers' compensation program tailored specifically to the staffing challenges posed by decennial operations. Census officials have recently advised us they've taken preliminary steps to return some claimants to work and have reached internal agreement on a regionally based return-to-work

<sup>2</sup> *Management of Commerce's Federal Workers' Compensation Program Needs Significant Improvement*, IPE-17536

program and an integrated program strategy. The bureau must now work with the Department's human resources office and with Labor Department officials to finalize and implement its strategy. It must also identify the resources needed to handle the anticipated caseload of workers injured during 2010 decennial operations. (See page 29.)

## Assessing the 2008 Address Canvassing Dress Rehearsal

The dress rehearsal is a final opportunity to ensure that decennial components work together as planned. We are currently evaluating the address canvassing portion of dress rehearsal, which took place from May through June 2007.

During address canvassing, temporary staff equipped with handheld computers go into the field to verify, update, add, or remove addresses; add and delete streets to correct computer maps; and annotate address locations on the maps. The operation produces an updated, comprehensive file of addresses and physical locations where people live or stay. We are assessing whether fieldworkers consistently followed procedures and made appropriate corrections on the handheld computer, and whether the redesigned quality control component improved the quality of the address list.

In a separate review, we are looking at the technology supporting the operation. Our observations thus far suggest that key automation capabilities have greatly improved since the 2004 and 2006 site tests. But we observed other problems. For example, handheld computer functions frequently froze, processing of large address lists was slow, and help desk support for resolving users' computer problems was inadequate. The bureau and its FDCA contractor are aware of these problems and are working to resolve them. We will detail our findings and recommendations in the next semiannual report.

## Challenge 2

### Strengthen Department-Wide Information Security

The continuing expansion of information technology means federal agencies face ever-increasing challenges in performing their missions while providing for the security of their sensitive information. Since enactment of FISMA in 2002, agencies have spent millions of dollars to improve the security of information on their computer systems and shared via the Internet. Yet weaknesses persist and breaches continue. At the Department of Commerce, IT security has been reported as a material weakness under the Federal Managers Financial Integrity Act since 2001.

The system security certification process is supposed to provide officials with complete, accurate, and trustworthy information on a system's security status so they can make timely, credible, risk-based decisions on whether to authorize operation. Our reviews of the Department's certification and accreditation (C&A) packages continue to find a process that does not adequately identify and assess needed security controls. As a result, authorizing

#### Why Is C&A Important?

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

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



officials do not have the information they need to make sound accreditation decisions.

Beginning in FY 2005, Commerce's Office of the Chief Information Officer (OCIO) instituted a quality assurance process that involved reviewing C&A packages for agency (as opposed to contractor) systems, working with the bureaus to eliminate noted deficiencies, and forwarding to OIG packages considered acceptable for FISMA review. For FY 2007, we received packages for eight agency systems reviewed by OCIO as of our cutoff date in early June.

## **FY 2007 FISMA Review**

We looked at a total of six C&A packages—three of which had been reviewed by OCIO in FY 2007; one reviewed in FY 2006 but sent to us late in the fiscal year; and two contractor systems, which had not undergone OCIO's quality review. We assessed all components of each package and met with agency and contractor staff to discuss apparent omissions or clarify discrepancies in the documentation and gain further insight into the extent of the security controls assessment. We gave particular weight in our review to evidence supporting the rigor and completeness of the assessment.

We concluded that only two of the six packages adequately complied with FISMA, OMB policy, NIST guidelines, and agency IT security policy. Both were for agency systems. But we noted continued improvement in security plans for all the systems, particularly in the identification of system components. We also found improvement in the assessment of security controls in the two compliant systems. However, the remaining four systems had serious deficiencies in their controls assessment, particularly in the testing of operational and technical controls. (See pages 30, 31, and 41.) That being the case, we again recommended IT security be reported as a material weakness within Commerce.

Two USPTO packages were included in our review sample—one for an agency system and one for a contractor system. Both lacked sufficient evidence to confirm that operational and technical controls are in place and operating as intended, leaving the

certification agents and the authorizing official without adequate information about remaining vulnerabilities. (See page 45.) Therefore, we also recommended that USPTO, which submits its performance and accountability report separately, again report IT security as a material weakness.

Senior management officials in the Department and USPTO are keenly aware and supportive of the need for improving the IT security program. The Department CIO has placed a great deal of emphasis on improving C&A and is taking significant actions to improve the process. Likewise, USPTO's CIO has devoted considerable personal attention and resources to improving C&A. These efforts demonstrate a high level of commitment; unfortunately, their benefits have yet to translate into C&A processes that consistently produce packages showing adequate implementation of the required baseline level of security for the Department's more than 300 IT systems.

## **Lost Laptops Prompt Assessment of IT Security at Census**

The widely publicized loss of hundreds of Census laptops between 2001 and 2006 prompted our office, at the request of Secretary Gutierrez, to assess the bureau's IT security controls for protecting personally identifiable information, along with the bureau's property management policies and practices (see page 21). Our assessment of the security controls focused on the laptop computers used by about 5,500 Census field representatives to conduct censuses and surveys prior to implementation of full disk encryption. We found that personally identifiable information could be recovered from Census's lost or stolen laptops using software tools available on the Internet. Given how the laptops are used in the field, it is likely that some were not encrypted when lost or stolen, leaving confidential information readily accessible. Our report identifies additional IT security weaknesses that further increase risk to personally identifiable information.

Census has taken significant steps to improve IT security and better protect its sensitive information, and has been extremely responsive in correcting the

IT security weaknesses we identified. However, in an era of increasing IT security requirements and highly constrained resources, the bureau faces considerable challenges in carrying out its IT security program.

The Department has also taken several significant steps to secure personally identifiable information: it required that all Commerce laptops be fully encrypted during FY 2007 and selected a product for implementing two-factor authentication, which uses a randomly generated pass code, along with the user's password, to control access to Commerce networks from remote locations. In addition, it established an Identity Theft Task Force of senior officials to ensure rapid, appropriate response to actual or potential data breaches involving personally identifiable information.

## Challenge 3

### Effectively Manage Departmental and Bureau Acquisition Processes

Commerce spends nearly \$2 billion a year to procure goods and services so management and oversight of the processes used must be superior. Past OIG audits and evaluations have identified improvements the Department needs to implement to fortify the acquisition process. These include documenting program needs, validating requirements, fully

funding contracts, preparing and maintaining cost estimates, performing effective market research, ensuring full and open competition whenever possible, using earned value management to measure progress, establishing effective award fee plans, and selecting the appropriate contract types.

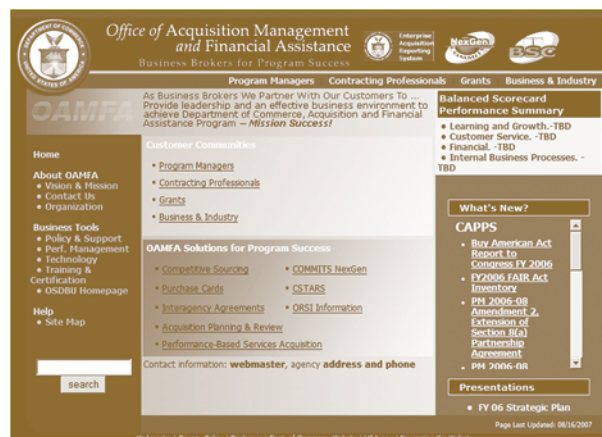
Continuity and consistency in acquisition management and oversight are essential to ensuring the government timely and cost-effectively gets what it pays for especially when making complex and costly acquisitions. With that in mind, Commerce must ensure that high turnover in upper management and other key acquisition positions at the Department and several of its agencies does not affect the quality of the procurement process.

In addition, the Department has had a difficult time achieving discipline in the acquisition process over the past few years. Senior management must take a serious look at the planning and execution processes for procurements and ensure agencies have the ability to promptly hire and adequately train qualified acquisition staff.

### OIG's Efforts to Improve Contracting Oversight

In FY 2006, OIG established a contract audits division to oversee Commerce's acquisition activities. The division will monitor the Department's most significant procurements on a continuing basis and conduct audits of those contracts as appropriate. The contract audits team will also scrutinize the Department's revision of departmental and bureau procurement policies to ensure they mirror current federal acquisition regulations and Office of Management and Budget circulars. In its reports, the team will recommend best practices and innovative approaches the Department should adopt.

The contract audits division's initial area of emphasis has been the Census Bureau's procurement of products and services to support the 2010 decennial census. In April 2007, we began the first of a series of audits of the FDCA and DRIS contracts. FDCA is an effort to automate field data collection and provide logistics, training, and help desk support for



<http://oam.ocs.doc.gov/>

12 regional centers, more than 450 local census offices, and up to 500,000 field staff who will conduct the decennial census. DRIS is intended to standardize and integrate data collected via paper census forms, handheld computers, telephone interviews, and other methods. These two contracts have a combined value of \$1.1 billion, representing about 9.5 percent of the \$11.5 billion in total estimated costs for the 2010 decennial census. The first audit of these contracts will determine whether (1) the prime contractors' data deliverables were on time and of acceptable quality, (2) the contracting officers can promptly adjust the contract cost estimate to account for changes in cost and schedule, and (3) both contracts contain effective award fee plans. In future audits, we will review the contractors' costs for equipment and materials, their management of subcontractors, and contractor surveillance.

In addition to its audit of the FDCA and DRIS contract, the contract audits division is currently monitoring several high-profile contracts within the Department, including the \$200 million 2010 Census Communications Campaign contract. In anticipation of conducting an audit, we are evaluating the bureau's contract administration, focusing on whether the contractor charges appropriate labor rates and submits status reports on costs and its progress against the program's schedule. In June 2007, division staff met with the contracting officer for that procurement to informally review the processes the bureau used to solicit proposals and make the award.

## National Data Buoy Center

OIG is also examining a large contract administered by the National Data Buoy Center, a part of the National Weather Service that designs, develops, operates, and maintains a network of data-collecting ocean buoys and coastal stations. In 2005, the center awarded a 5-year contract with potential for five 1-year extensions worth up to \$500 million for technical services support for its marine observation network. Currently, an OIG inspection team is reviewing the contract's structure and management by the National Oceanic and Atmospheric Administration, including oversight of the associated

tasks performed to maintain and repair data buoys and other observation platforms for marine weather forecasting. We expect to issue a report on this review during the next semiannual period.

## Challenge 4

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

To ensure operations are effective, efficient, and in compliance with laws and regulations, agencies implement internal controls. These steps also make certain that financial reporting is reliable and assets are safeguarded from waste, loss, or misappropriation.

In the years since passage of the 1990 Chief Financial Officers Act, Commerce has been working to fix financial management problems, including overhauling accounting practices and consolidating several financial systems into one. The result has been a more integrated system designed to give agency managers current, accurate information.



<http://home.commerce.gov/ofin/>

In FY 2006, agencies began implementing new internal accounting controls required by OMB's revised Circular A-123, and since FY 2004 they have had to issue audited financial statements within 45 days of the fiscal year's close. Commerce has met this deadline each year since 2004, and has continued to receive a clean opinion on its consolidated statements.

However, despite positive efforts made by the Department, the FY 2006 financial statement audit found that continued improvements are needed in its IT general control environment. Commerce also needs to ensure that the internal controls for programs

and business practices provide reasonable assurance that operations are effective and efficient and are consistent with applicable laws and regulations.

## **Establishing a Blueprint for Sound Management of New NTIA Programs**

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

Successfully implementing these new programs is a significant management challenge for the Department. We are sharing our expertise with NTIA to help it design strong, well-structured programs that minimize the opportunities for fraud. During this period, we presented information on federal audit requirements, cost principles, and matching share requirements at a June NTIA public meeting and at September workshops for the 56 states and territories receiving more than \$968 million in grants to improve interoperable communications of public safety agencies, including fire and police departments and emergency medical teams. In addition, Congress has enacted a new statute requiring OIG to conduct an annual assessment of the management of the public safety interoperable communications program and to conduct financial audits over the next 4 years of a representative sample of at least 25 states or territories receiving the public safety grants.

In August 2007, NTIA awarded a contract to IBM for digital-to-analog converter box coupon program services. In the next semiannual period we plan to review the contract and develop audit plans to help us evaluate the implementation of this program.

## **Evaluating Program and Accountable Property Controls**

Because the design and implementation of program and property controls can significantly impact the effectiveness of departmental operations, these areas are an important focus of our audit and inspection work.

Our recent audit of EDA's revolving loan fund program revealed weak agency oversight, persistent problems, and millions in funds to be put to better use. EDA management responded with an action plan that assigns responsibility of the program to a single individual who can be held accountable for its operations, lays out a time frame with specific milestones addressing known problems as well as establishing performance metrics that will allow senior management to better monitor the program. Since the report was issued, EDA has partnered with OIG to provide single audit training for EDA staff involved in the management of revolving loan funds.

During this semiannual period, we completed an audit of the Census Bureau's accountable property management policies and practices. We found the bureau had made considerable progress in correcting weaknesses by implementing initiatives directed by Commerce and on its own but still needs to make further improvements. (See page 23.)

We recently initiated a review of accountable personal property at USPTO. We plan to issue a report of our findings during the next semiannual period.

## **Challenge 5**

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

Since the Patent and Trademark Office Efficiency Act transformed USPTO into a performance-based organization over 7 years ago, OIG has devoted sig-



nificant resources to oversight of the agency. We have issued nearly a dozen reports examining USPTO program, operational, and administrative issues.



USPTO

*USPTO Director Jon Dudas and Secretary of Commerce Carlos Gutierrez (back row) look on as Dean Harts of 3M, April Sauders-Fuller of Fish & Richardson, and Felicia Metz of the University of Maryland (front row) file patent documents electronically at the March 16, 2006, launch of EFS-Web USPTO's new electronic filing system.*

While USPTO plays a critical role in promoting the nation's technological progress and protecting intellectual property rights, its task is often viewed as daunting given the increasing number and complexity of patent applications. The agency's *21st Century Strategic Plan*, issued in 2002 and later revised, outlined numerous initiatives to help reduce its large backlog of applications, ensure the quality of granted patents, and improve the productivity of its examiner corps. An earlier OIG report on USPTO's patent examiner production goals, performance appraisal plans, and awards highlighted actions that the agency could take to stimulate and reward examiner production. A recent GAO report on USPTO's recruitment and retention efforts also called on agency managers to reassess examiner production goals, but noted that examiners often cited those goals as a primary reason for leaving the agency. GAO also reported that attrition is continuing to offset USPTO's hiring progress even with the use of many incentives and flexibilities to retain the workforce for longer periods.

One of those workplace incentives has been USPTO's expansion of its telework program, allowing examiners to use laptops to work at offsite locations. Lost laptops and data security problems at other Commerce bureaus underscore the need for strong policies, procedures, and controls at USPTO to avoid similar problems and the potential compro-

mise of sensitive patent information. Thus, we have initiated an audit of accountable property at the agency.

The long-standing and growing backlog highlights other issues for USPTO and OIG attention: the need to expedite a fully electronic patent examination process and to carefully monitor the agency's billion-dollar investment in high-risk time and materials and award fee contracts for related information technology services. OIG may conduct reviews of selected USPTO contracts to ensure vendors are complying with contract terms and conditions, containing costs, and delivering the required services on time.

Clearly, recruitment, attrition, and information technology remain serious challenges for the agency. We will continue to monitor USPTO's progress in those areas as well as its training programs and human resources or personnel operations, where we earlier found some questionable practices and the need for improved management controls. We also plan to conduct follow-up work on the agency's new overseas attaché program and some of its other initiatives, such as the new patent peer review process.

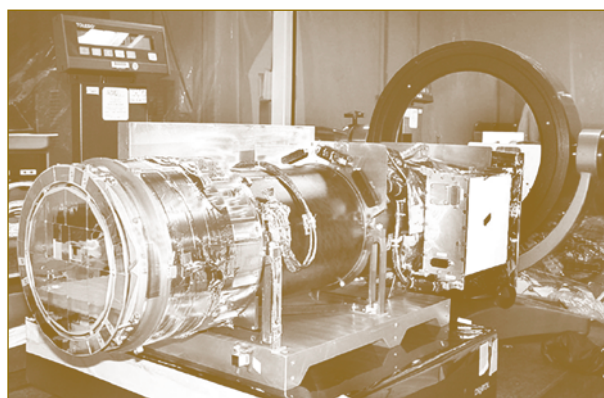
## Challenge 6

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

NOAA is in the midst of a major overhaul of its environmental monitoring capabilities, spending several billion dollars on contracts for the purchase, construction, and modernization of satellite systems that collect data to produce short- and long-range weather forecasts and a variety of other critical information. Satellite programs are highly complex and risky, and they historically have been plagued by substantial cost increases and schedule delays. They are also extremely important to public safety and defense operations, and therefore have been a continuing focus of our work.

## Acquiring Geostationary Weather Satellites

In the next decade, GOES-R will replace the existing GOES satellites. The new series will offer an uninterrupted flow of high-quality data to support weather forecasting, severe storm detection, and climate research vital to public safety. GOES-R is a multicontract, multiyear program wholly funded by Commerce, though the new satellites will be developed and acquired with help from NASA Goddard Space Flight Center. Planning for the new series has been under way for the past 7 years. The Department's investment for GOES-R for fiscal years 2008 to 2012 is projected to be about \$2.4 billion.



<http://goes.gsfc.nasa.gov/text/goesimbroch.html>

*This solar imager, which is carried on the GOES satellites currently in orbit, observes the sun's X-ray emissions and allows early detection of flares and other solar phenomena that may affect the Earth and its atmosphere. GOES-R will feature an enhanced solar imaging suite that permits even more varied and precise readings.*

In acquiring GOES-R jointly with NASA, NOAA will have the lead management role for the first time, giving the Department direct oversight authority for both the ground and space segments. In June 2007, NOAA and NASA signed a memorandum of agreement defining their separate authorities and responsibilities for managing, developing, acquiring, and integrating GOES-R. Because these are new roles for both the Department and NOAA, we evaluated whether they have established effective mechanisms for handling their expanded responsibilities.

Our draft report, issued to the Department and NOAA in September, identifies a life-cycle process

for GOES-R that omits key features of accepted satellite acquisition management practices. And we concluded these omissions had negative impacts on the program. We made recommendations to Commerce and NOAA to help bring GOES-R oversight and management practices in line with those used by NASA and the Department of Defense in satellite acquisitions. NOAA agreed with our recommendations specific to its role in the acquisition, stating it is working with NASA on changes that will implement them. We recently received the Department's response, which will be considered in developing our final conclusions and recommendations regarding management of the GOES-R program.

## NPOESS Acquisition Restructured

We described the troubled National Polar-orbiting Operational Environmental Satellite System (NPOESS) in our September 2006 *Semiannual Report* (page 29). This joint project of NOAA, NASA, and the Department of Defense will be a critical element in the nation's ability to provide continuous weather and environmental data for civilian and military needs through the coming 2 decades. In November 2005, Defense reported that NPOESS costs had grown by 25 percent over original estimates, largely because of problems developing a key sensor, the Visible/Infrared Imager Radiometer Suite (VIIRS). The 25 percent overrun triggered congressional recertification under the Nunn-McCurdy provision of the FY 1982 National Defense Authorization Act. In June 2006, the House Science

Committee accepted a triagency proposal to continue the program, but with four satellites instead of six, and with fewer sensors. Total acquisition costs were revised by \$5 billion.



[http://eic.ipc.noaa.gov/IPOarchive/ED/graphics\\_kit/NPOESS\\_teamLogo.jpg](http://eic.ipc.noaa.gov/IPOarchive/ED/graphics_kit/NPOESS_teamLogo.jpg)

This past July, the NPOESS Program Office executed a \$4.2 billion modification to the development and production contract after a year-long effort

to restructure the satellite program following recertification. The revamped program calls for more rigorous management controls and oversight, and a more objective incentive payment plan for the contractor. It covers development, delivery, and launch of two NPOESS satellites through 2016, and includes delivery of sensors to support the NPOESS Preparatory Project, which is to be launched in 2009 for the purpose of demonstrating and validating new instruments, algorithms, and other capabilities. The last phase of development is now proceeding. Program executives have identified VIIRS and the Cross-track Infrared Sounder (CrIS) as the highest risk components.

We will continue to monitor cost, schedule, and technical progress on both GOES-R and NPOESS and report our findings in future semiannual reports.

## Challenge 7

### Promote U.S. Exports and Fair Competition in International Trade

The Department of Commerce accomplishes its goals of promoting trade, opening overseas markets to American firms, and protecting U.S. industry from unfair trade practices primarily through the work of the International Trade Administration (ITA). ITA also works with USPTO and NIST to advise U.S. companies on intellectual property rights and standards issues.

During this semiannual period, OIG decided to revise the title of the challenge facing the Department. Although Commerce has a primary role in enforcing U.S. antidumping and countervailing duty laws and countering foreign unfair trade practices, greater emphasis and resources are focused on promoting U.S. exports and ensuring access to world markets for U.S. companies. Hence, we have modified this challenge to better reflect the Department's and ITA's responsibilities for promoting exports and reducing trade barriers.

Over the past several years, OIG has conducted several reviews of the Department's efforts to increase U.S. market opportunities, provide assistance to U.S. exporters, and overcome trade barriers in difficult foreign markets. A number of these reviews have also included evaluations of ITA's process for reporting export success claims resulting from its assistance to U.S. businesses. Our findings have prompted ITA to strengthen its controls related to export success reporting.

## Interagency Trade Coordination

In March 2007, OIG released a report reviewing various aspects of Commerce's trade promotion efforts and the coordination of those efforts among various offices within the Department and with other federal and state trade agencies and other trade partners. We found effective collaboration on trade promotion in many instances, but we also identified areas where Commerce and other members of the federal inter-



Commerce Photographic Services

*Commerce Secretary Carlos M. Gutierrez announced the release of the 2007 National Export Strategy and highlighted the need for congressional action on the Peru, Colombia, Panama, and Korea Free Trade agreements at the 25th annual Washington Trade Gala in July.*



agency Trade Promotion Coordinating Committee could enhance their cooperation on specific activities, such as trade finance assistance, Internet resources for exporters, and trade assistance at overseas posts that do not have a commercial officer. Many of the recommendations in that report require long-term efforts and/or interagency cooperation for completion, so none of them has yet been fully implemented. (See March 2007 *Semiannual Report*, pages 37-40.)

During the course of working on the trade coordination report, OIGs at several agencies raised issues about the process Commerce uses to prepare the *National Export Strategy* and the involvement of other federal agencies in that effort. We reviewed the 2002 to 2006 *National Export Strategy* reports and found that the annual report often outlines useful strategies and initiatives—such as the promotion of public-private partnerships. The strategy does not, however, establish consistent goals for promoting exports, align agency-specific strategic objectives with government-wide export promotion strategic goals, or measure progress toward meeting those goals. Nor is it a coordinated government-wide strategy, as envisioned by the Export Enhancement Act of 1992. The 2007 *National Export Strategy* report, released in June, contained several improvements that are responsive to our recommendations, but further action is warranted. (See page 33.)

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

During this semiannual period, we followed up on recommendations made in our reports on Commercial Service (CS) operations in Brazil, Argentina, Uruguay, and China. ITA and CS have made progress on many of the recommendations in our CS Brazil review, and we have closed 18 of our 43 recommendations. Those that remain open include recommendations for improving coordination with other embassy sections, clarifying export success reporting, and developing a strong marketing plan and financial management practices. In addition, we have closed the 2 recommendations made to USPTO but have kept open a recommendation to NIST regarding coordination with CS on regional

activities. (See September 2006 *Semiannual Report*, pages 33-37.)

CS and ITA each have 3 open recommendations out of a total of 20 in our 2006 review of CS operations in Argentina and Uruguay. The open recommendations involve financial management improvements and effective coordination with the Department of State's partnership posts. (See September 2006 *Semiannual Report*, pages 25-27.)

Finally, only 3 recommendations remain open of the 35 originally made in our review of CS China, although we recently received information indicating additional action may be required on one of the closed recommendations. The open recommendations deal with the American Trading Center initiative and an evaluation of language proficiency requirements for CS officers assigned to China. (See March 2006 *Semiannual Report*, pages 23-26.)

During the next semiannual period, we will continue to monitor Commerce's response to recommendations made in our recent reports on CS operations at Asian and South American posts and on trade coordination. Future OIG reviews may focus on the Department's efforts to oversee U.S. foreign trade zones or to increase exports to countries that have recently signed free trade agreements with the United States. We will also continue our periodic inspections of CS' overseas posts, as mandated by the 1988 Omnibus Trade and Competitiveness Act.

## Challenge 8

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

NOAA spends billions of dollars each year supporting a vast array of programs designed to protect and enhance the resources in 3.5 million square miles of coastal and deep ocean waters and the Great Lakes. These programs require long-term commitments and years of funding to show their full effect. And they must operate in balance with the economic interests



of the nation: one of every six jobs is marine related and more than one-third of the gross national product is generated by economic activity tied to coastal areas.

NOAA offers several financial assistance programs to support the commercial fishing industry's viability while working to reduce overfishing and rebuild compromised fisheries. The Fisheries Finance Loan Program is one such initiative. Operated by the National Marine Fisheries Service, the program provides direct loans to refinance or refurbish fishing vessels, shoreside processing facilities, and aquaculture facilities. Program regulations and congressional appropriation language restrict the program from making loans for vessel construction or refurbishing loans that increase a vessel's fishing capacity. Since 1998, NMFS has made approximately 200 loans, for a total of nearly \$300 million. We are currently evaluating the agency's management of the loan program to determine if it affects NOAA's ability to help end overfishing and rebuild fisheries. Also under way are reviews of NOAA's National Marine Sanctuary Program and the National Data Buoy Center's ocean observation system.



Greg McFall/Grey's Reef National Marine Sanctuary

*Coral reefs are some of the most biologically rich and economically valuable ecosystems on Earth. They are found in five National Marine Sanctuaries, such as Grey's Reef (pictured above), off the coast of Georgia.*

The sanctuary program manages and protects 13 sanctuaries and a marine national monument in northwestern Hawaii, which is the largest protected marine area in the world. The entire sanctuary system encompasses 158,000 square miles of U.S. ocean and Great Lakes marine habitat that have conservation, historical, or scientific importance—their protected

waters offer safe breeding grounds for threatened species and harbor underwater archeological sites. The program's primary mission is resource protection, but it must also facilitate compatible public and commercial uses along with conservation and research activities. The sanctuary program coordinates its efforts with the U.S. Coast Guard, Environmental Protection Agency, Department of the Interior, and a broad range of other federal, state, local, and private partners. We are evaluating whether the program is meeting its core objectives, with a primary focus on marine conservation and research.

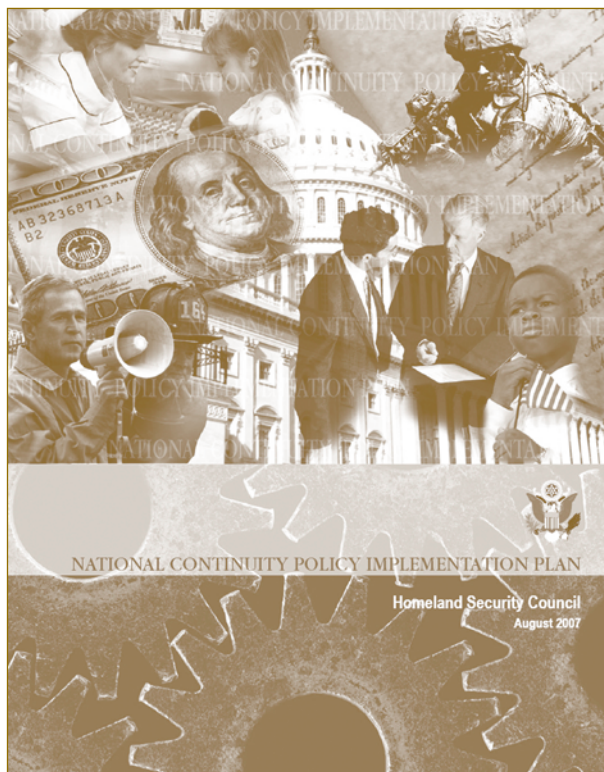
The National Data Buoy Center manages four marine observation systems: weather buoys, coastal marine observing stations, tsunami detection buoys, and climate monitoring buoys. Weather forecasting depends on the reliability and accuracy of these systems. In addition, the Tropical Atmosphere and Ocean buoys and weather buoys with oceanographic sensors provide climate data and information for researchers. We are assessing the quality and availability of data generated by the observational buoys and coastal stations and the center's management of them. We anticipate that the sanctuary and data buoy reviews will be completed in December or early 2008.

In planning for future OIG work on this challenge, we are considering reviews of NOAA's offshore aquaculture program, its coral reef program and coastal zone management, among other issues vital to the stewardship of ocean and living marine resources.

## Challenge 9

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

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



Homeland Security Council

*The National Continuity Implementation Plan provides comprehensive guidance for maintaining essential operations during emergencies.*

We continue to monitor Commerce's progress in resolving weaknesses in emergency preparedness and security. As of August 2007, the Department had addressed virtually all outstanding recommendations from our 2002 and 2005 reviews of its preparedness programs. But a dynamic security environment continues to challenge the nation: Commerce, like all federal agencies, must be vigilant in maintaining effective oversight of emergency plans and programs, identifying and mitigating new security vulnerabilities, and protecting critical assets. It must be able to continue essential operations under all circumstances.

In May 2007, President George W. Bush issued National Security Presidential Directive 51 (also known as Homeland Security Presidential Directive 20) that updates long-standing continuity directives to ensure that governing entities are able to recover from operational disruptions, thus maintaining continuity of operations. We will keep a close watch on the Department's efforts to comply with this directive, as well as on its ongoing oversight of preparedness procedures, its response to emerging

threats, and the broad range of public safety responsibilities inherent in its mission.

Our in-progress review of NOAA's ocean monitoring system, mentioned previously, is an example of our broader focus. Data buoys—the primary components of the system—record a variety of critical marine readings, such as wind and wave measurements and air and sea temperatures, giving forecasters an additional tool for predicting and tracking hurricanes and other potential weather emergencies. For the coming year, we are also considering reviews of the Department's new identity/badging system, personnel security, and information document security.

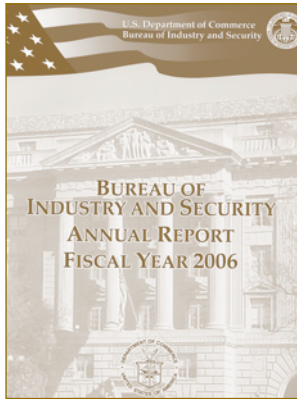
## Challenge 10

### Enhance Export Controls for Dual-Use Commodities

Commerce's Bureau of Industry and Security (BIS) is responsible for the federal government's export licensing and enforcement system for goods and technologies with both civilian and military uses. Because of the importance of export controls to national security, OIG has consistently devoted a great deal of time and resources to challenges facing BIS.

For the past 8 years, OIG has been working to fulfill the requirements of the National Defense Authorization Act (NDAA) for FY 2000, as amended, which directed the inspectors general of Commerce, Defense, Energy, and State, in consultation with the directors of Central Intelligence and the Federal Bureau of Investigation, to report to Congress each year through 2007 on the adequacy of current export controls and whether they are effectively preventing entities of concern from acquiring sensitive U.S. technologies. The Department of Homeland Security's OIG has also participated in these reviews since that agency was formed. The group of OIGs is currently completing the eighth and final NDAA interagency review of export controls.

During this semiannual period, we continued to monitor BIS' progress in implementing NDAA recommendations detailed in our March 2004



BIS

the transfer within the United States of controlled U.S. technologies and technical information to foreign nationals from countries or entities of concern. We look forward to the committee's report by the end of this calendar year and hope its findings and recommendations will enable BIS to increase deemed export compliance rates, assist enforcement efforts, and ensure that the regulations have the intended effect of protecting national security interests without unnecessarily burdening exporters and the scientific community (see March 2004 *Semiannual Report*, pages 14-17).

*Semiannual Report* (pages 14-17). For example, we have closely followed the activities and deliberations of the Deemed Export Advisory Committee, which is reviewing BIS' deemed export control policy and relevant recommendations made by this office.

Deemed export controls are designed to prevent

We also followed up on our reviews of U.S. export controls for India and China. (See March 2007 *Semiannual Report*, page 19, and March 2006 *Semiannual Report*, page 13.) In June 2007, BIS implemented a final rule that clarifies U.S. policy on the export to China of items controlled for national security reasons and implements new controls on exports of certain otherwise uncontrolled items when the exporter knows they are destined for a military end use in China.

Finally, although questions remain about the overall effectiveness of the Committee on Foreign Investment in the United States (CFIUS) process, in this year's NDAA follow-up report we noted that both BIS and ITA are working toward implementing our recommendations related to CFIUS activities within Commerce. (See March 2007 *Semiannual Report*, pages 23-25.) We believe these improvements will allow greater coordination and transparency in Commerce's decision-making process. However, we continue to question whether CFIUS' voluntary foreign investment reporting process allows the Committee to receive timely information about all acquisitions and mergers that pose potential security concerns, especially those involving small or medium-sized U.S. companies that manufacture or conduct research on sensitive U.S. technologies.