



U.S. DEPARTMENT OF COMMERCE

FY 2004 PERFORMANCE &
ACCOUNTABILITY REPORT

AMERICAN JOBS, AMERICAN VALUES

THE DEPARTMENT AT A GLANCE



History and Enabling Legislation

The Department of Commerce is one of the oldest cabinet-level departments in the United States Government. Originally established by Congressional Act on February 14, 1903 as the Department of Commerce and Labor (32 Stat. 826; 5 U.S.C. 591), it was subsequently renamed the U. S. Department of Commerce by President William H. Taft on March 4, 1913 (15 U.S.C. Section 1512). The defined role of the new Department was "to foster, promote, and develop the foreign and domestic commerce, the mining, manufacturing, and fishery industries of the United States."

Mission

The Department of Commerce creates the conditions for economic growth and opportunity by promoting innovation, entrepreneurship, competitiveness, and stewardship.

Bureaus

- Economic Development Administration (EDA)
- Economics and Statistics Administration (ESA)
- Bureau of Economic Analysis (BEA)
- Census Bureau
- International Trade Administration (ITA)
- Bureau of Industry and Security (BIS)
- Minority Business Development Agency (MBDA)
- U.S. Patent and Trademark Office (USPTO)
- Technology Administration (TA)
- National Institute of Standards and Technology (NIST)
- National Technical Information Service (NTIS)
- National Telecommunications and Information Administration (NTIA)
- National Oceanic and Atmospheric Administration (NOAA)

Strategic Goals

Goal 1: Provide the information and tools to maximize U.S. competitiveness and enable economic growth for American industries, workers, and consumers.

Goal 2: Foster science and technological leadership by protecting intellectual property, enhancing technical standards, and advancing measurement science.

Goal 3: Observe, protect, and manage the Earth's resources to promote environmental stewardship.

Management Integration Goal: Achieve organizational and management excellence.

Location

The Department is headquartered in Washington, D.C., at the Herbert Clark Hoover Building, which is located on eight acres of land covering three city blocks. The Department also has field offices in all states and territories and maintains offices in more than 86 countries worldwide.

Employees

The Department is an agency with approximately 35,000 employees.

Financial Resources

The Department's FY 2003 budget was approximately \$5.6 billion and its FY 2004 budget is about \$6.0 billion.

Internet

The Department's Internet address is www.doc.gov.



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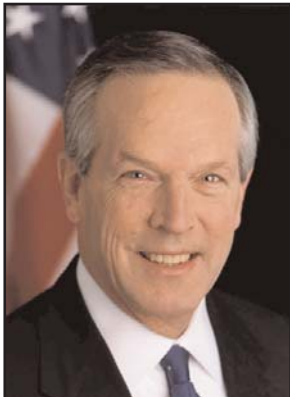
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The Web address for the Department of Commerce Performance and Accountability Report
www.osec.doc.gov/bmi/budget/docstplan.htm

STATEMENT FROM THE SECRETARY



It is my honor to submit this report on the performance of the Department of Commerce during fiscal year 2004. This combined *Performance and Accountability Report* includes our consolidated financial statements, which received an unqualified opinion for the sixth consecutive year; our report on the progress we are making toward achieving the goals of the President's Management Agenda; and our annual program performance report under the Government Performance and Results Act (GPRA). The Department has continued its fine performance under GPRA, and, in collaboration with our bureaus and the Inspector General, we are working to continuously strengthen its implementation and assure that our performance information is appropriate, complete, and reliable.

This has been a year of significant challenge and significant progress, as the Department has achieved its objectives in areas critical to both the fiscal and the physical well being of our Nation. During FY 2004 the Department continued its commitment to maximizing U.S. competitiveness and enabling economic growth through initiatives such as publication of our Manufacturing Report, which recommended reforms that address challenges to U.S. manufacturers competing in global markets, and through our contributions to the development of a sound and fair trade relationship with China. Similarly, by investing in local U.S. economies, the Department has made it possible for economically distressed communities to attract private capital investment, create new jobs, and save existing jobs.

We have provided the Nation's companies with technical, economic, and statistical information to help them develop business plans and make business decisions beneficial to themselves and their communities. In order to inform the growing debate about outsourcing by American firms, we accelerated by months the release of summary statistics on the operation of multinational companies. Our accelerated release of state personal income data has given states needed information for their budget and policy deliberations. At sites in Georgia and New York, the Department prepared for future information-gathering by successfully testing proposed 2010 Census innovations, including improved questionnaire wording and the use of hand-held computers for personal follow-up visits.

The Department's leadership in fostering advances in science and technology, and in protecting intellectual property continues to help U.S. businesses maintain their technological advantage in world markets, and represents a powerful force in encouraging technological innovation. This year we dedicated the Advanced Measurement Laboratory, considered the most technologically advanced research facility of its kind in the world. The new facility, with its impressive environmental controls, will permit our scientists to develop sophisticated measurements and standards needed by U.S. industry and the scientific community for 21st century technologies such as nanotechnology, biotechnology, and others.

In the patent and trademark area, the Department deployed a new system that permits anyone in the world with Internet access to track the status of a public patent application. Electronic filing of trademark applications has reached historic levels, with over 70 percent now being filed via the Internet using our electronic application system.

Because success in a global economy is linked to our ability to anticipate or forecast events, and not just to react to them, the Department is dedicated to fulfilling its responsibility for environmental stewardship, assessment, and prediction. In FY 2004 we collaborated with the Western Governors' Association to develop a plan to create an early warning system to improve our capabilities in monitoring and forecasting drought. We've also entered an agreement with the Department of Homeland Security that allows its critical all-hazard alerts and warnings to be sent via NOAA weather radio. And, of course, every year we work to improve our predictive information about severe weather and coastal emergencies to better prepare state and local officials to save lives and property.

Underlying all of these efforts is our constant attention to ensuring that we can account to the American taxpayer for the resources with which we are entrusted and which make our programs and progress a reality. Accurate and timely financial information makes this possible, and the completed implementation of the Commerce Administrative Management System early in the fiscal year has helped to make this information sound and accessible. The Federal Financial Management Improvement Act of 1996 requires that agencies' financial management systems conform with OMB guidance and other federal standards. The Department of Commerce financial management systems remain in substantial compliance with all government-wide standards. I attest that under the Reports Consolidation Act of 2000, we have made every effort to ensure that the financial and performance data presented in this report are accurate and complete, and are used on a regular basis to manage our programs. Additionally, where information is unavailable we have explained why.

We must also comply with the management control standards established by the Federal Managers' Financial Integrity Act of 1982 (FMFIA). The Department continually evaluates the efficiency of its operations using information from studies conducted by the Government Accountability Office, the Inspector General, others, and self-assessments. These studies and assessments assure that the Department's systems and management controls conform with the FMFIA. Under this system of reviews, one material weakness has been identified—inadequate controls in IT security. We have made significant progress in addressing this problem: 100 percent of our systems are now covered by IT security plans and we have improved the quality of certification and accreditation packages for critical systems. Nevertheless, the Department needs to improve certain aspects of IT security, and has made resolution of this material weakness a management priority. This issue is addressed in more detail in the Management Discussion and Analysis section of this report.

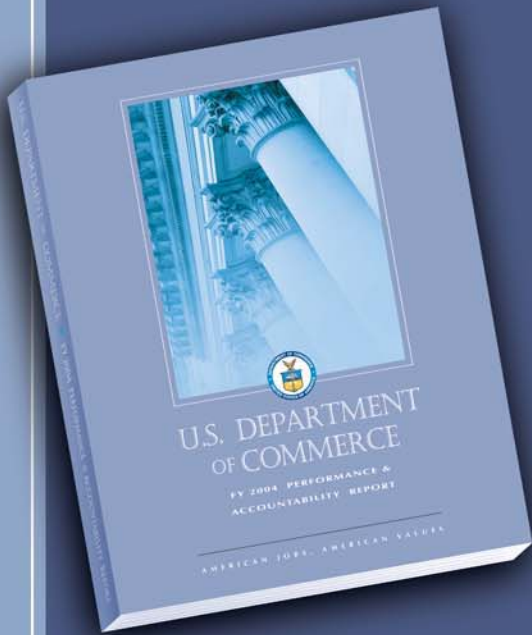
The Department faces other challenges on which we will continue to focus in the months ahead. These include improving the timeliness of patent and trademark processing, advancing knowledge of climate variability and developing better projections of the impact of climate changes, promoting worldwide acceptance of U.S. test and calibration data to diminish trade barriers, strengthening the export control system, expanding global intellectual property rights, improving management of the Nation's airwaves, and controlling the cost and improving the accuracy of Census 2010. This report provides more details about these and a number of other Department of Commerce initiatives and priorities.

I take pride in the progress described in this report. The men and women of the Department of Commerce around the globe are dedicated to serving their country through the many and varied programs for which the Department is responsible. Their accomplishments reflect the Department's effective stewardship of the taxpayers' resources and further strengthen our standards and expectations. I pledge to continue to focus on meeting our management challenges and advancing our contributions to the economic, scientific, and intellectual progress of our Nation.



Donald L. Evans
Secretary of Commerce

November 15, 2004



HOW TO USE THIS REPORT

This Performance and Accountability Report (PAR) for fiscal year (FY) 2004 provides the Department of Commerce's (DOC) financial and performance information, enabling the President, Congress, and the American people to assess the Department's performance as provided by the requirements of the:

- Reports Consolidation Act of 2000 and other laws
- Government Management Reform Act of 1994
- Government Performance and Results Act (GPRA) of 1993
- Chief Financial Officers (CFO) Act of 1990
- Federal Managers' Financial Integrity Act (FMFIA) of 1982.

The assessment of the Department's performance contained in this report compares performance results to the Department's strategic goals and performance goals.

The Department's Strategic Plan, Performance Plan, and annual PARs are available on the Department's Web site at http://www.osec.doc.gov/bmi/budget/budgetsub_perf_strategicplans.htm. The Department welcomes feedback on the form and content of this report.

This report is organized into the following major components:

LETTER FROM THE SECRETARY OF COMMERCE

The Secretary's letter includes an assessment of the reliability and completeness of the financial and performance information presented in the report and a statement of assurance on the Department's management controls as required by the FMFIA.

MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)

This section provides an overview of the financial and performance information contained in the Performance Section, Financial Section and Appendices. The MD&A includes an overview of the Department's organization, highlights of the Department's most important performance goals and results, current status of systems and internal control weaknesses and other pertinent information, such as the progress being made by the Department in implementing the President's Management Agenda (PMA) and the key management challenges identified by the Office of Inspector General (OIG).

PERFORMANCE SECTION

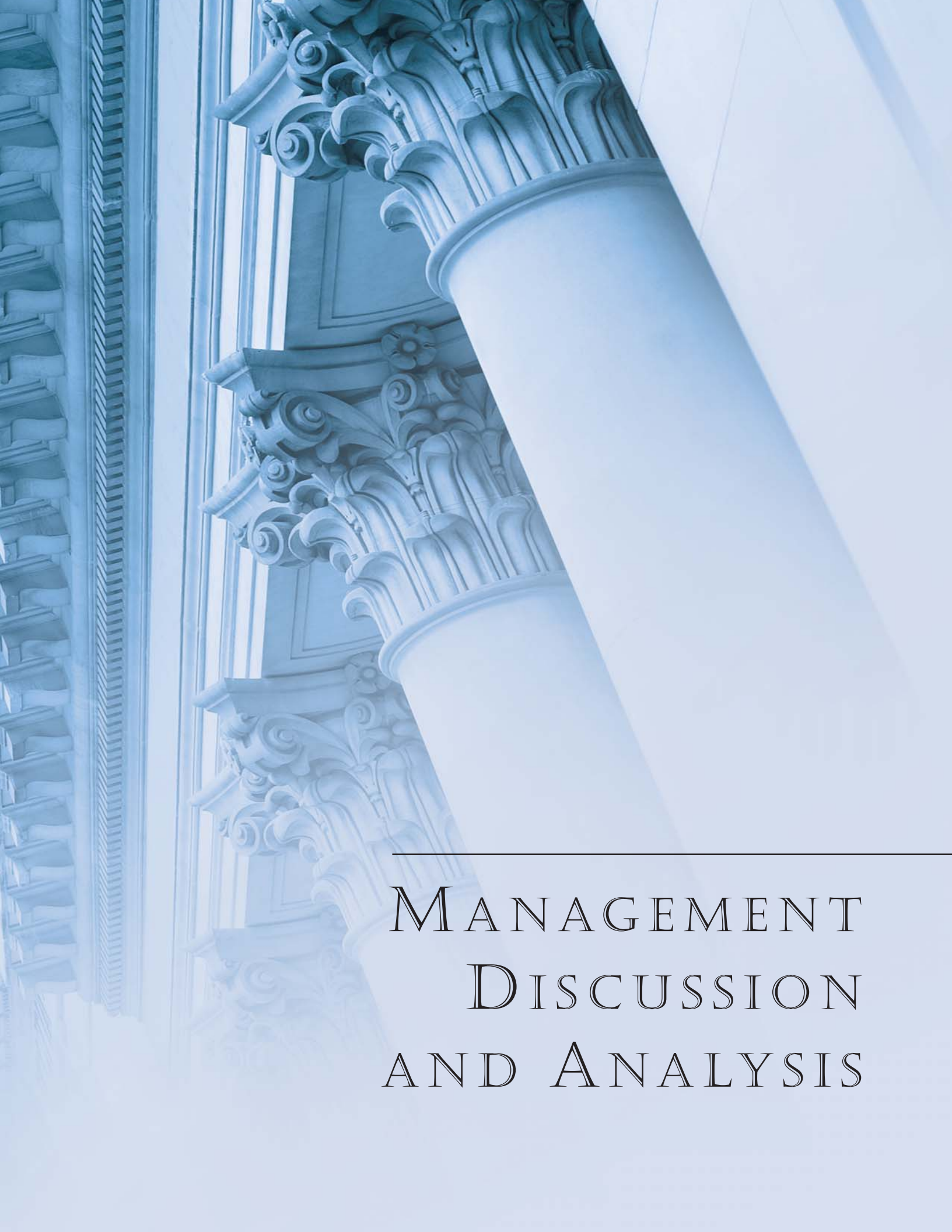
This section provides the annual performance information as required by Office of Management and Budget (OMB) Circular A-11 and GPRA. Included in this section is a detailed discussion and analysis of the Department's performance in FY 2004. For each service and major office, the results are presented by each Performance Goal within the four Department Strategic Goals.

FINANCIAL SECTION

This section contains the details of the Department's finances in FY 2004. A letter from the Department's Chief Financial Officer (CFO), is followed by the information on the Department's Financial Management, Debt Management, Payments Management, and audited financial statements, other supplemental financial information, and the Independent Auditor's Report.

APPENDICES

This section provides a discussion of the data sources used in this report, summary chart of performance information, and a glossary of acronyms.



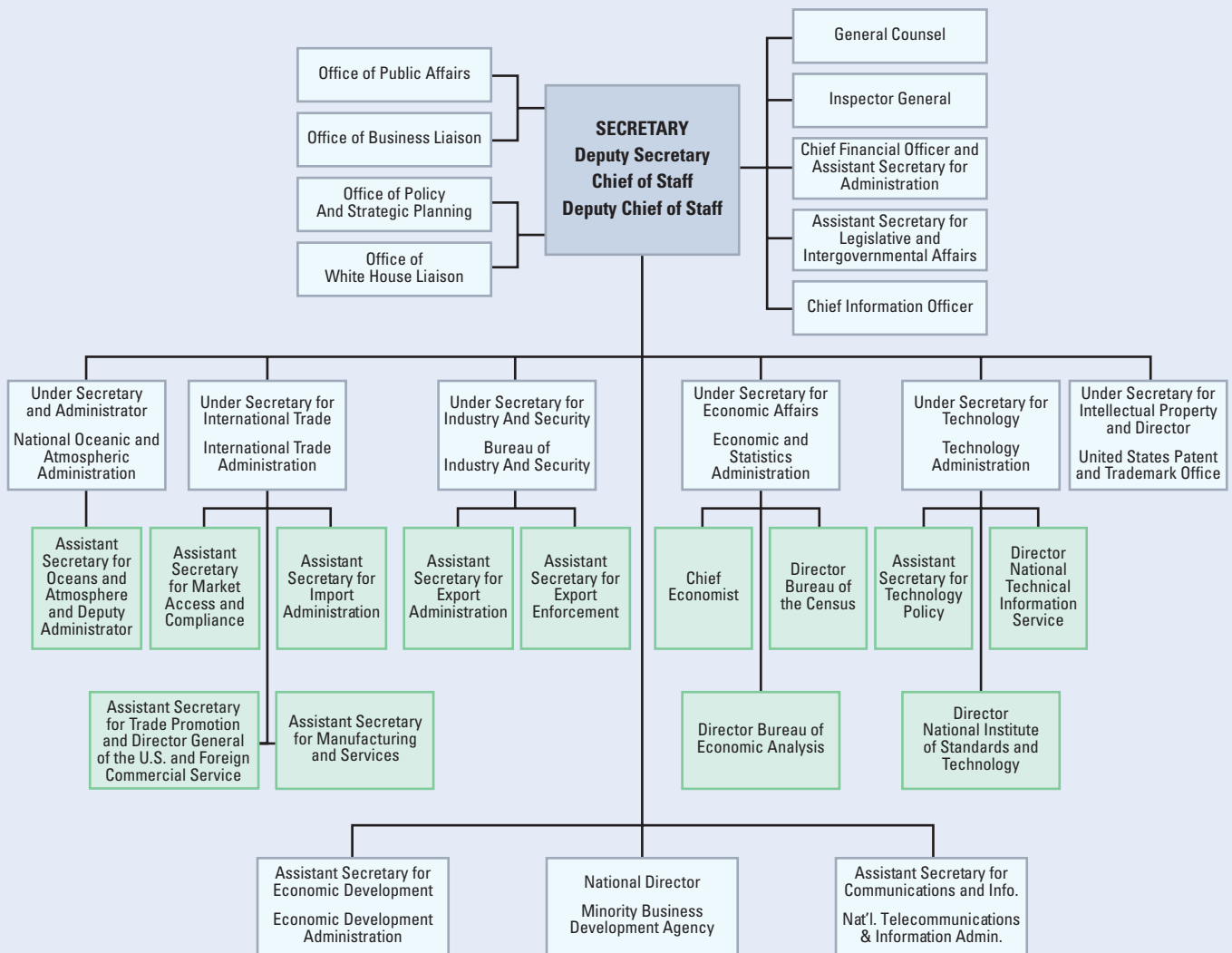
MANAGEMENT
DISCUSSION
AND ANALYSIS

MISSION AND ORGANIZATION

MISSION

THE DEPARTMENT OF COMMERCE PROMOTES JOB CREATION AND IMPROVED LIVING STANDARDS FOR ALL AMERICANS BY CREATING AN INFRASTRUCTURE THAT PROMOTES ECONOMIC GROWTH, TECHNOLOGICAL COMPETITIVENESS, AND SUSTAINABLE DEVELOPMENT.

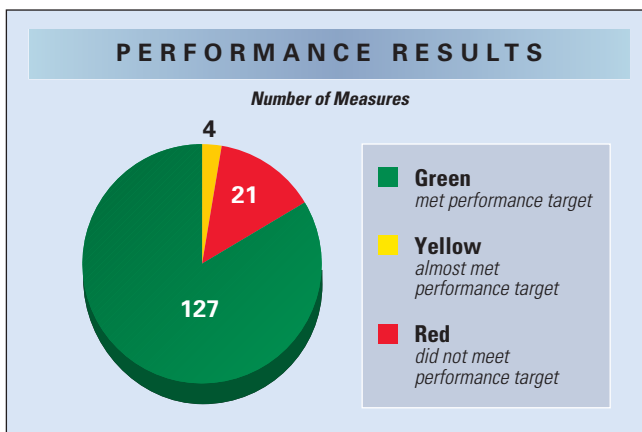
U.S. DEPARTMENT OF COMMERCE



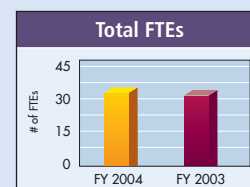
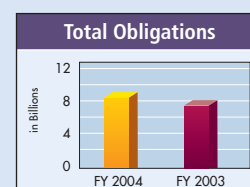
FY 2004 PERFORMANCE AND FINANCIAL HIGHLIGHTS

PERFORMANCE HIGHLIGHTS

Overall performance results for the Department show that of the 152 performance targets, we achieved 84 percent at or above target, 2 percent slightly below our target, 14 percent did not achieve the target. The Department performance indicators reflect increased performance results over last year, from 79.6 percent to 84.0 percent. Below are the performance results by strategic goal. Achieving results in each of the strategic goals helps further the Department's mission. Discussions and highlights of successes can be found in the performance discussions of each performance goal. This simply provides a snapshot of our targeted achievements.

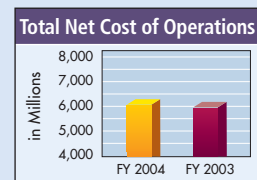
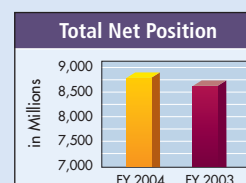
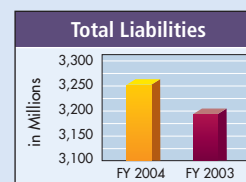
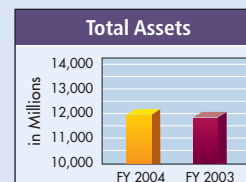


(Dollars In Millions)	Percentage Change	FY 2004	FY 2003
For the Period Ended September 30, 2004 and 2003			
Obligations by Strategic Goal:			
<i>Strategic Goal 1: Provide the Information and Tools to Maximize U.S. Competitiveness and Enable Economic Growth for American Industries, Workers, and Consumers</i>	-10%	1,856.8	2,065.3
<i>Strategic Goal 2: Foster Science and Technological Leadership by Protecting Intellectual Property, Enhancing Technical Standards, and Advancing Measurement Science</i>	-4%	2,147.5	2,241.3
<i>Strategic Goal 3: Observe, Protect, and Manage the Earth's Resources to Promote Environmental Stewardship</i>	+19%	4,100.0	3,458.5
<i>Management Integration Goal: Achieve Organizational and Management Excellence</i>	+3%	75.8	73.4
TOTAL OBLIGATIONS	+4%	8,180.1	7,838.5
Full Time Equivalents (FTEs) by Strategic Goal:			
<i>Strategic Goal 1: Provide the Information and Tools to Maximize U.S. Competitiveness and Enable Economic Growth for American Industries, Workers, and Consumers</i>	+6%	12,019	11,343
<i>Strategic Goal 2: Foster Science and Technological Leadership by Protecting Intellectual Property, Enhancing Technical Standards, and Advancing Measurement Science</i>	-1%	10,005	10,074
<i>Strategic Goal 3: Observe, Protect, and Manage the Earth's Resources to Promote Environmental Stewardship</i>	+2%	12,086	11,898
<i>Management Integration Goal: Achieve Organizational and Management Excellence</i>	-5%	310	326
TOTAL FTEs	2%	34,420	33,641

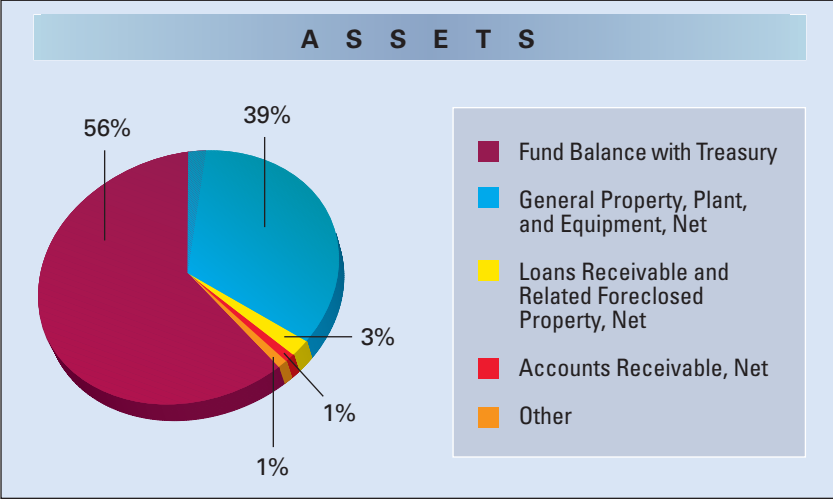


FINANCIAL HIGHLIGHTS

(Dollars in Thousands)	Percentage Change	FY 2004	FY 2003
As of September 30, 2004 and 2003			
Condensed Balance Sheets:			
ASSETS:			
Fund Balance with Treasury	+2%	\$ 6,652,727	\$ 6,502,932
General Property, Plant, and Equipment, Net	-4%	4,652,882	4,670,018
Loans Receivable and Related Foreclosed Property, Net	+16%	317,138	272,675
Accounts Receivable, Net	+4%	143,929	138,414
Other	-3%	169,631	173,993
TOTAL ASSETS	+2%	\$ 11,936,307	\$ 11,758,032
LIABILITIES:			
Unearned Revenue	+9%	\$ 1,088,142	\$ 999,116
Actuarial FECA Liability and NOAA Corps Employee Retirement Benefits Liabilities	-2%	557,679	568,732
Accrued Grants	-11%	350,452	392,621
Accounts Payable	-12%	325,124	367,986
Accrued Payroll and Annual Leave	+10%	321,114	290,976
Debt to Treasury	+30%	274,426	211,700
Other	-6%	333,262	355,589
TOTAL LIABILITIES	+2%	\$ 3,250,199	\$ 3,186,720
NET POSITION:			
Unexpended Appropriations	+1%	\$ 4,209,311	\$ 4,181,364
Cumulative Results of Operations	+2%	4,476,797	4,389,948
TOTAL NET POSITION	+1%	\$ 8,686,108	\$ 8,571,312
TOTAL LIABILITIES AND NET POSITION	+2%	\$ 11,936,307	\$ 11,758,032
For the Years Ended September 30, 2004 and 2003			
Condensed Statements of Net Cost:			
<i>Strategic Goal 1: Provide the Information and Tools to Maximize U.S. Competitiveness and Enable Economic Growth for American Industries, Workers, and Consumers</i>	-8%	\$ 1,626,669	\$ 1,768,842
<i>Strategic Goal 2: Foster Science and Technological Leadership by Protecting Intellectual Property, Enhancing Technical Standards, and Advancing Measurement Science</i>	-1%	875,061	884,991
<i>Strategic Goal 3: Observe, Protect, and Manage the Earth's Resources to Promote Environmental Stewardship</i>	+9%	3,617,242	3,329,289
TOTAL NET COST OF OPERATIONS	+2%	\$ 6,118,972	\$ 5,983,122
Total Gross Costs	+3%	\$ 8,092,700	\$ 7,830,947
Total Earned Revenue	+7%	(1,973,728)	(1,847,825)
Total Net Cost Of Operations		\$ 6,118,972	\$ 5,983,122

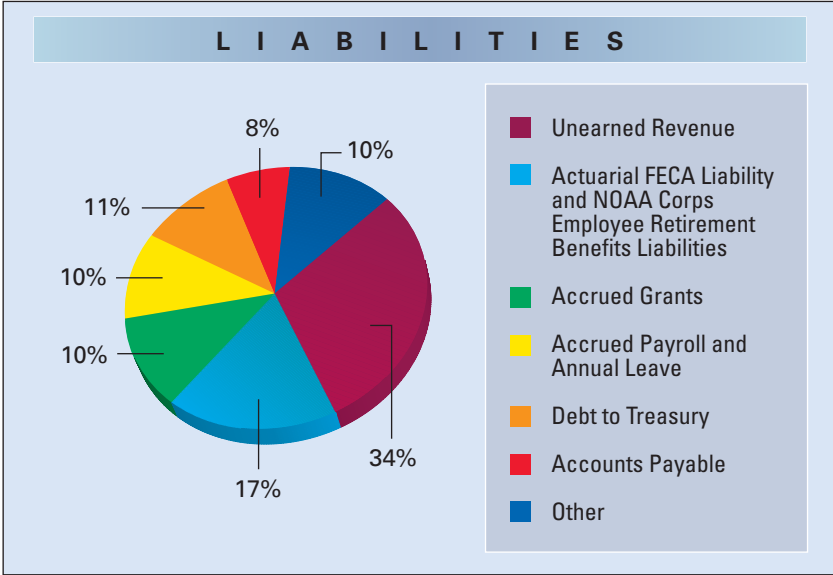


REVIEW OF FINANCIAL POSITION AND RESULTS



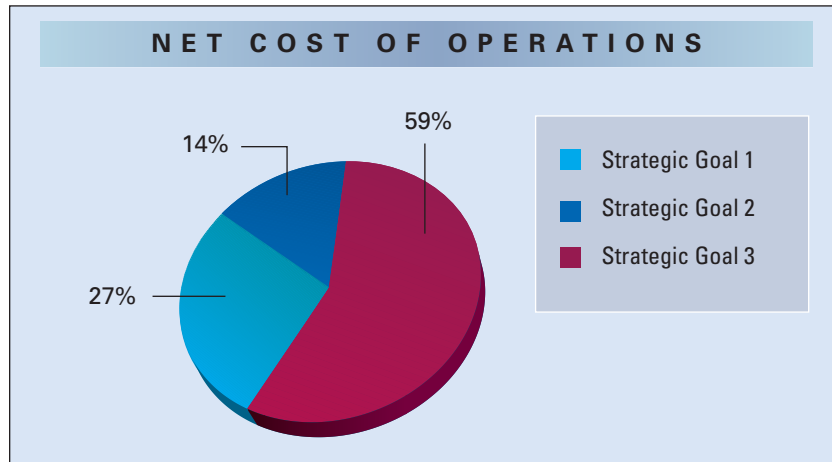
Assets

The Department had total assets of \$11.9 billion as of September 30, 2004. This represents an increase of \$178 million (2 percent) over the previous year's total assets of \$11.8 billion. The increase is primarily the result of Fund Balance with Treasury increasing by \$150 million, which primarily resulted from higher Appropriations Received, net of rescissions, of \$247 million or 4 percent.



Liabilities

The Department had total liabilities of \$3.3 billion as of September 30, 2004. This represents an increase of \$63 million (2 percent) over the previous year's total liabilities of \$3.2 billion, primarily due to higher unearned revenue from increased patent and trademark application and user fees that are pending action at September 30.



Net Cost of Operations

In FY 2004, Net Cost of Operations amounted to \$6.1 billion, which consists of Gross Costs of \$8.1 billion less Earned Revenue of \$2.0 billion. Strategic Goal 1 includes Gross Costs of \$1.9 billion related to providing information and tools to maximize U.S. competitiveness and enable economic growth for American industries, workers, and consumers. Strategic Goal 2 includes Gross Costs of \$2.3 billion related to fostering science and technological leadership by protecting intellectual property, enhancing technical standards, and advancing measurement science. Strategic Goal 3 includes Gross Costs of \$3.8 billion related to observing, protecting, and managing the Earth's resources to promote environmental stewardship.

Other Financial Information

All other financial information such as the introduction letter from the Department's Chief Financial Officer (CFO), financial management discussion and analysis, debt management, payment practices, the audited financial statements and other supplementary information, and the Independent auditor's report can be found starting on page 174 of the Financial Section.

THE DEPARTMENT OF COMMERCE PROCESS FOR STRATEGIC PLANNING AND PERFORMANCE REPORTING

Management Strategic Framework, Performance Planning, and Reporting at a Glance



The Department's Strategic Plan provides a comprehensive vision for fostering the conditions that create jobs; increase the productivity of the American economy; encourage the economic growth that benefits all U.S. industries, workers, and consumers; enhance technological leadership and environmental stewardship; and support market growth strategies. The plan puts forth broad objectives, targets specific outcomes the Department wants to achieve, and identifies its key challenges. The strategic plan released in FY 2003 can be found at: <http://www.osec.doc.gov/bmi/budget/DOCSTPLAN.htm>.

The Department's Annual Performance Plan (APP) defines the strategic plan and provides strong linkages to Commerce's budget request. The Plan defines performance goals and measures used to manage progress toward the Department's strategic objectives. It describes in detail Commerce's fiscal year's (FY) resources and programmatic efforts within a strategic context. The Plan is integrated with the President's budget submission to Congress. The Department-wide FY 2005 APPs can be found at: <http://www.osec.doc.gov/bmi/budget/DOCSTPLAN.htm>.

This Department's Performance and Accountability Report (PAR) provides a public accounting of Commerce's FY 2004 performance results and completes the Department's performance management process. The Web address of the FY 2004 PAR is: <http://www.osec.doc.gov/bmi/budget/DOCSTPLAN.htm>.

The appendices of the FY 2004 PAR provide details of the Department's performance and explanatory materials supporting the program results. Commerce's goal structure has three levels. Strategic goals describe outcomes that emerge from the Department's mission. Each of these goals in turn has outcome goals or objectives that define the results that the bureaus aim to achieve. These are long-term objectives that often involve more than one Department bureau. Finally, within each objective are performance goals tied to specific bureaus that support each outcome goal and provide program-level clarity of purpose. Each has associated indicators and targets to measure the Department's impact on a continuous basis.

How the Department Selects Its Performance Goals and Measures

Performance goals articulated in the introductory material for each goal in the APP are aimed at achieving one or more strategic outcomes, and convey a sense of how the Department creates value for the American public. Performance measures, however, are aimed at tangible effects created by Commerce program activities. Commerce has tailored performance measures to be more outcome-oriented and better describe the results of its work (described in the next section). When considered along with external factors and information provided in program evaluations, these measurements give valuable insight into the performance of Department programs, and are meant to broadly illustrate how Commerce adds value to the U.S. economy. The FY 2004 PAR depicts a top-level, integrated system for managing for results within the Department, and was not an exhaustive treatment of all Department programs and activities. This report must also be read with each Commerce bureau's own performance results to gain a comprehensive picture of Commerce's accomplishments in FY 2004. More in-depth performance results for FY 2004 and prior years are available in Appendix A, and other information about the bureaus can be found on individual bureau Web sites. The directory of Web sites is located on the back cover of this report and provides a good foundation for researching additional information.

How the Department Works to Achieve Strategic and Organizational Goals

The Department achieves its goals through its leadership role by fostering economic growth of business and industry; stimulating international trade; measuring and analyzing social development and economic activity; advancing the nation's scientific and technological capabilities; and understanding, predicting, and protecting the natural environment. Some of these actions reside entirely within the federal government, but most involve significant partnering with state, local, and international authorities. These are the broad areas of action that the Department and others commonly use to bring about desired results. This performance report focuses on Commerce's four strategic goal areas and describes the results seen in FY 2004. Some activities are internal ones like financial management, procurement, and personnel, without which the Department could not operate or achieve its goals. The Management Discussion and Analysis section of the report focuses on overall Department efforts to achieve its part of the President's Management Agenda (PMA).

Performance Validation and Verification

Commerce uses a broad range of performance goals and measures to make reporting useful and reliable. It is imperative to demonstrate that performance measures are backed by accurate and reliable data; valid data are important to support management decisions on a day-to-day basis. The data and the means to validate and verify the measures are also diverse. A general discussion of the Department's process follows. The APPs of each bureau provide the data validation and verification tables for each measure and describe how the data are validated and verified. They can be found at <http://www.osec.doc.gov/bmi/budget/DOCSTPLAN.htm>.

Currently, the Department is reviewing its performance validation and verification processes to ensure that the performance data are accurate. This review is based on the Office of Inspector General's (OIG) identification of the Department's strategic planning and performance measurement efforts as a management challenge. Specifically, OIG recommended that the Department continue to improve upon its strategic planning and performance measurement in accordance with the Government Performance and Results Act (GPRA). As a result of this recommendation, Commerce has developed a new quarterly performance monitoring process that provides reviews of performance measurement data as well as the measures themselves. Commerce has adopted an attestation process by which its bureau Under Secretaries attest to the data validity, and verify that the data and measures provide an accurate reflection of what that bureau has accomplished. Departmental staff have been reviewing bureau data and are in the process of identifying the next steps required for auditing bureau performance and improving the quality of performance data.

Performance Controls and Procedures

Performance Data: Commerce's performance measurement data are collected by its 14 bureaus, each with systems to manage their data validation and verification process. Some of these are automated systems and others are manual processes. The validity of the data is certified by each bureau's Chief Financial Officer (CFO) and Under Secretary, and can be divided into three types: Financial Data, Data Management Methods, and Data from Manual Processes. The controls and procedures used to validate and verify can be found in the validation and verification tables in the FY 2005 APPs at: <http://www.osec.doc.gov/bmi/budget/FY2005APP.htm>.

Financial Data: As stated above, the Department has a high degree of confidence in its financial data. Normal audit and other financial controls maintain the integrity of these data elements. During the FY 2004 financial statement audit, tests and reviews of the core accounting system and internal controls were conducted as required by the Chief Financial Officers Act.

Future Enhancements to Financial and Performance Information

The Department is continuously making improvements in its financial and performance data, particularly integrating the information. As demonstrated by its efforts in improving internal processes, Commerce is building on its existing Commerce Administrative Management System (CAMS) to bring together these two data sets.

**MOST IMPORTANT RESULTS AND THE FUTURE:
PERFORMANCE, PRIORITIES, AND CHALLENGES**

The Department's three strategic goals and a Department-wide management integration goal promote the mission of the Department through the various actions of each bureau. Due to the diverse activities within the Department, the table below reflects a sample of the activities by strategic goal. Following each strategic goal, the Priorities, Challenges, and Future Plans to Improve Departmental Performance are identified as the foundation for identifying the actions being taken to further the Department's mission.

A few of our key diverse performance goals are:

SUMMARY OF KEY DIVERSE PERFORMANCE RESULTS			
STRATEGIC GOAL	OBJECTIVE	PERFORMANCE GOAL	FY 2004 MET/ NOT MET
Provide the information and tools to maximize U.S. competitiveness and enable economic growth for American industries, workers, and consumers	Enhance economic growth for all Americans by developing partnerships with private sector and nongovernmental organizations	Increase private enterprise and job creation in economically distressed communities	Met
		Improve community capacity to achieve and sustain economic growth	Met
	Advance responsible economic growth and trade while protecting American security	Protect the U.S. national security and economic interests by enhancing the efficiency of the export control system	Met
	Enhance the supply of key economic and demographic data to support effective decision-making of policymakers, businesses, and the American public	Meet Constitutional and legislative mandates by implementing a re-engineered 2010 Census that is cost effective, provides more timely data, improves coverage accuracy, and reduces operational risk	Met
Foster science and technological leadership by protecting intellectual property, enhancing technical standards, and advancing measurement science	Develop tools and capabilities that improve the productivity, quality, dissemination, and efficiency of research	Provide leadership in promoting national technology policies that facilitate U.S. preeminence in key areas of science and technology	Met
	Protect intellectual property and improve the patent and trademark system	Improve the quality of patent products and services and optimize patent processing time	Met
	Advance the development of global e-commerce and enhanced telecommunications and information services	Efficient and effective allocation of radio spectrum	Met
Observe, protect, and manage the Earth's resources to promote environmental stewardship	Advance understanding and predict changes in the Earth's environment	Improve accuracy and timeliness of weather and water information	Met

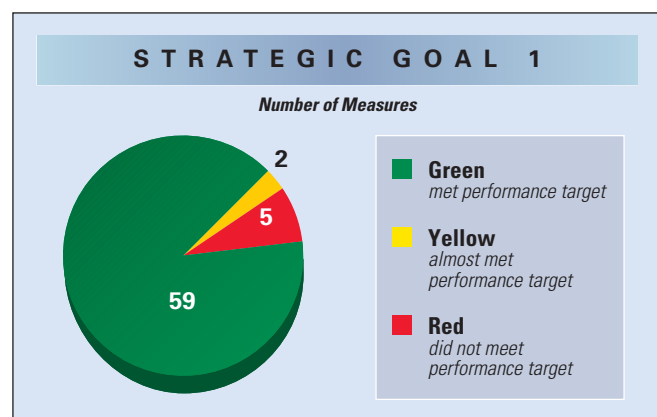
These performance goals are only a small representation of the Department's goals. It should be noted that the Department did not meet some of its performance goals at this time. In addition, the Department is not able to report two performance goals due to the unavailability of data. Overall performance of each goal can be found in the rainbow charts at the beginning of each performance narrative. The goals not met are addressed in Appendix A at the measure level.

Future Performance and Accountability Reports developed by the Department will include discussions around both achievement and non-achievement of performance goals as well as discussions of those performance goals that do not have results to report on during the reporting cycle.

STRATEGIC GOAL 1

Provide the information and tools to maximize U.S. competitiveness and enable economic growth for American industries, workers, and consumers

Most Important Results



The Department achieved success in 89 percent of the targets that were set. Such achievements can be measured through the many activities that support this goal.

The Department invested \$1.5 million in the Southwest Key Program, Inc., in Austin, Texas, to assist with the construction of an Economic Development Training Center. This Center will house the Southwest Key Program's national corporate offices, as well as provide space for workforce development training and a business incubator. This investment is part of a \$4 million project that will help create over 350 jobs, save an additional 70 jobs, and attract over \$3.7 million in private investment in the first stage. This investment, and others like

it, helps to attract private capital investment and jobs that address problems of high unemployment, low per capita income, and severe economic challenges.

The Department established the Economic Development Information Coalition (EDIC) in an effort to expand its information dissemination efforts. With the Economic Development Administration's (EDA) support, EDIC is producing a weekly e-newsletter, a quarterly magazine, 20 economic development forums, and four satellite broadcasts during 2004. The magazine and e-newsletter are distributed to about 12,000 people, and the forums attract between 100 and 150 people at each event. While there is no way to track the actual number of viewers, an agreement reached with DISH NETWORK makes it possible that up to 9.85 million subscribers are now viewing these telecasts. In addition, the Association of Public Television Stations (APTS) promoted the Economic Development Today telecast to affiliate stations nationwide. APTS represents 80 percent of the market of public television stations.

This year, the Department hosted a highly successful national conference in Washington, D.C. Over 1,000 economic development practitioners and policymakers attended "Translating Ideas into Regional Prosperity – the Innovation Imperative Conference." The conference featured top Administration and Cabinet members discussing timely economic issues, policies, and practices. At the conference, EDA awarded eight "Excellence in Economic Development" awards in seven categories. These awards recognize outstanding economic development practices in the categories of Urban or Suburban Economic Development, Rural Economic Development, Enhancing Regional Competitiveness, Economic Adjustment Strategies, Technology-led Economic Development, Community and Faith-Based Social Entrepreneurship, and Innovation. With over 1,000 attendees, the EDA national conference successfully provided a forum for economic development practitioners to hear and take part in discussions of cutting-edge economic development theories and methodologies. The conference also provided an opportunity to showcase best practices and to recognize extraordinary and creative efforts in the field of economic development through the Excellence in Economic Development Awards program.

To maximize U.S. competitiveness, the Department ensured the successful completion of ten international inspections of U.S. chemical plants under the Chemical Weapons Convention (CWC). The Department ensured commercial factors received due consideration in the Administration's development of a strategy to implement the Additional Protocol to the International Atomic Energy Agency Safeguards Agreement. During 2004, the Bureau of Industry and Security (BIS) contributed to the U.S. defense industrial base by processing approximately 22 Defense Priorities and Allocations cases, reviewed 35 cases on foreign investment in the United States, and completed five defense industrial base reports.



Under Secretary of Commerce Kenneth I. Juster and Indian Foreign Secretary Shyam Saran discuss the first phase of the U.S.-India Next Steps in Strategic Partnership initiative.

On September 16-17, Under Secretary Kenneth Juster met with Indian Foreign Secretary Shyam Saran to conclude Phase One of the Next Steps in Strategic Partnership (NSSP) initiative with India. As part of the NSSP discussions, Under Secretary Juster and Foreign Secretary Saran signed an end-use visit arrangement, which sets forth procedures for conducting end-use checks on U.S.-origin items shipped to India. The government of India also presented a letter to the United States providing assurances meeting U.S. concerns on the diversion of U.S.-origin items and onward proliferation activities.

Other Department efforts have contributed to every American man and woman in uniform in Afghanistan and Iraq now having an Interceptor personal body armor vest. For the past 18 months, the Department of Commerce has been responding to "Requests for Special Priorities Assistance (RSPA)," as provided under

Defense Priorities and Allocations System (DPAS) regulations, to allocate production of critical materials needed for body armor manufacture. BIS responds to these requests after the Department of Defense endorses the monthly requirement of material needed to manufacture the body armor vests. The Department's Bureau of Industry and Security then issues monthly "Directives" to the individual U.S. companies manufacturing these critical materials. The "Directives" specify the order in which the companies should allocate and ship their production to their contract customers in order to meet the highest priority requirements for body armor.

To enable economic growth for U.S. industries, workers, and consumers, the Department assisted in the development of a trade relationship with China. The Chinese economy is organized under principles that are inconsistent with the World

Trade Organization (WTO) rules, resulting in an enormous amount of complexity and friction in joint trade relationships. China has until 2017 to phase in all WTO requirements. This year the United States and China agreed to formalize their bilateral textile dialogue through the creation of a Textiles Consultative Group (TCG). The International Trade Administration (ITA) will co-chair the TCG with Vice Minister Ma Xiuhong of the Ministry of Foreign Trade and Economic Cooperation. TCG will focus on addressing problems where U.S. companies see roadblocks to trade with China, including protecting U.S. intellectual property rights and increasing U.S. textile exports to China.

The Department issued its manufacturing report, *Manufacturing in America, A Comprehensive Strategy to Address the Challenges to U.S. Manufacturers*, in January 2004. The report recognizes the unprecedented challenges to U.S. global leadership, and recommends reforms to strengthen manufacturing competitiveness. ITA has begun implementing recommendations made in the manufacturing report and is fostering an environment in which U.S. firms can compete and succeed in manufacturing.

The Department undertakes standards initiatives since standards are a critical issue for manufacturing competitiveness in global markets, as they can facilitate international trade or impede access to foreign markets. Many in U.S. industries view standards as the principal non-tariff barrier in markets around the world. ITA estimates that standards issues impact 80 percent of world commodity trade.

The Department responds to almost 6,000 requests for standards-related information annually from exporters and U.S. industry in general. The Department's automated Export Alert! service on a daily basis selectively notifies subscribers of regulatory changes proposed by any of more than 130 nations worldwide. These changes cover 25 industry sectors and participate in more than 100 private-sector standards organizations to help U.S. industry develop voluntary standards and encourage international acceptance of these standards. The result is great acceptance of U.S. products by other countries.

The Department's Census Bureau, within the Economics and Statistics Administration (ESA), successfully tested planned innovations for the 2010 Census at New York and Georgia sites, including improving Census questionnaire wording and the use of hand-held computers for personal visit follow-up operations. The Department also successfully completed updates to geographic reference features for all planned counties. Testing of these innovations and improving the Census Bureau's geographic data are important in order to improve accuracy, reduce operational risk, and contain the cost of the 2010 Census. Census data are used for the apportionment of seats in the U.S. House of Representatives and for the distribution of billions of dollars in federal funds to states and localities.

The Department exceeded the targeted unit response rates for the annual economic surveys. Meeting response rates is important for maintaining economic surveys data quality, as these data provide government policymakers and private decisionmakers with timely information about the current performance of the U.S. economy. The Department also exceeded the targeted response rates for the demographic surveys that are used to make policy decisions and allocate



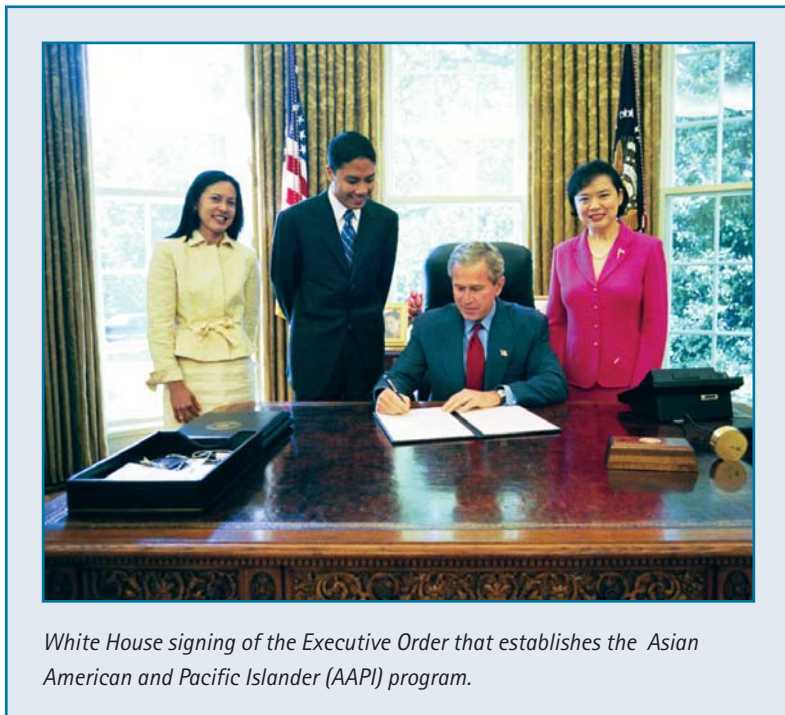
Manufacturing is important to the economy of the United States.

federal program funds that support schools, employment services, housing assistance, hospital services, and programs for the elderly and disabled. These data are also used to modify programs such as Social Security, Medicare, and Medicaid. The Department successfully conducted the 2002 Economic Census and Census of Governments. The 2002 Economic Census provided a significant expansion to content and coverage, as well as an accelerated release schedule. In March 2004, the 2002 Economic Census Advance Report was released. The Economic Census provides the nation with comprehensive, detailed facts about the structure of the U.S. economy. The Census of Governments represents the primary source of facts about the public sector of the U.S. economy.

The Department's Bureau of Economic Analysis (BEA), within ESA, accelerated the release of state personal income data. Working with the Bureau of Labor Statistics, the Department was able to accelerate the release of quarterly state personal income from four months after the reference quarter to three months. State budget officers around the country, who rely on quarterly state personal income to produce state budget estimates, praised this acceleration. By getting the data one month earlier, budget officers have more time to provide estimates to governors and state legislators for inclusion in their budget and policy deliberations.

The debate over the extent and the effects of outsourcing by U.S. companies to overseas firms intensified in early 2004. In recognition of this ongoing public interest, the Department accelerated by several months the release of summary statistics on the operations of multinational companies and their employment, sales, and capital expenditures for the year 2002. In addition, the Department published a detailed note describing long-term patterns in the domestic and overseas

activities of U.S.-based multinationals in the *Survey of Current Business*. This can be found at www.bea.gov. Noted economists and journalists use the Department's data as their principal source of information for examining the issue of offshore outsourcing.



White House signing of the Executive Order that establishes the Asian American and Pacific Islander (AAPI) program.

On May 13, 2004, President George W. Bush signed Executive Order (EO) 13339, an initiative to provide equal economic opportunities and full participation of Asian American and Pacific Islander (AAPI) businesses. The EO houses the Office of the White House Initiative on AAPI at the Department of Commerce's Minority Business Development Agency and renews the President's Advisory Commission on AAPI (Commission) and the Interagency Working Group (IWG) on AAPI. Comprised of 14 members representing the public and private sectors, the Commission has a long-standing history of involvement with the AAPI community. The Commission provides recommendations to the President on efforts that

improve economic and community development opportunities for AAPI businesses in the public and private sectors. It looks at ways to increase the diversification of this business community as well as ways to foster research and data collection on its levels of participation in the national economy. The IWG will be comprised of 34 federal agencies chaired by an individual designated by the Secretary of Commerce. The IWG is responsible for developing and implementing

government-wide policies to support economic opportunities for AAPI businesses. To accomplish this, each agency will submit an implementation plan that will address increasing participation in federal programs through equal access, ensuring nondiscrimination in federal contracting and procurement opportunities, providing equal opportunity for public and private-sector partnerships, and fostering research and data collection about this business sector.

The Future: Performance, Priorities, and Challenges

Continue to meet the needs of the fast growing population: The Department will develop products and services through customer survey feedback such as the ACSI and the Survey of Business Owners. Commerce will further expand the Strategic Growth Initiative for medium to large size minority businesses enterprises, while continuing to provide the same level of service for the smaller minority business enterprises. The Census Bureau's American Community Survey has begun to provide, on an annual basis, decennial census type social and economic data. Data currently are available for 862 local areas, including 241 counties, 206 congressional districts, all 50 states, and the District of Columbia.

Bringing economic prosperity to distressed communities: The Department will work to ensure regions attract private capital investment and create higher-skill, higher-wage jobs through infrastructure investment and capacity building investments.

Strengthening the Export Control System: The Department will continue to improve the business processes in order to strengthen and streamline the dual-use export control system. Further, Commerce will continue to improve its process for writing the regulations that translate law and policy into rules for exporters, while also managing the rising number and complexity of licensing applications and other export control requests. Commerce will continue to improve its enforcement capabilities by prioritizing its efforts, working with other federal law enforcement and intelligence agencies, and increasing outreach with industry to create a robust enforcement environment.

Furthering the use of electronic intervention: The Department will work to create a seamless environment for exporters to research markets, gather trade leads, and conduct a majority of their export transactions using www.export.gov, the government's existing online portal for small business export assistance information.

Meeting needs for quality information: The Department will make improvements in the use of state-of-the-art technology in data collection, processing, and dissemination in order to stay ahead of demand from policymakers for information of emerging economic and societal trends.



Wall Street and business economists rely on the Department's measures of national economic activity.

Improving both national and international trade for U.S. firms: The Department will develop and implement a joint, public/private global supply chain initiative to promote access for U.S. small to medium enterprise (SME) manufacturers. The Department also is focusing and sharpening expertise in China by creating a China Compliance office that devotes more resources to China and cases and issues unique to non-market economies. Commerce will also focus on trade-related standards issues, allowing the organization to support U.S. industry's desire for more analysis of emerging overseas standards issues and their effect on U.S. companies' competitiveness.

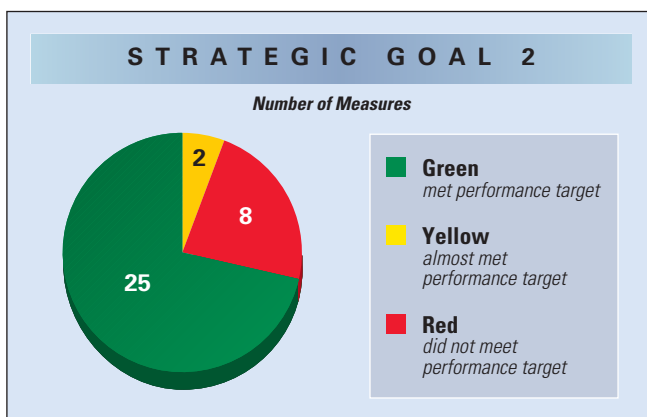
Expanding global intellectual property rights (IPR) enforcement: China and the United States will establish an IPR working group under the Joint Commission on Commerce and Trade (JCCT) through which U.S. and Chinese trade, judicial, and law enforcement authorities will cooperate on the full range of IPR issues. Commerce is also focusing resources to enforce U.S. negotiated trade agreements and combat violators of IPR around the world. The Department will pursue perpetrators along the entire chain, including manufacturers and importers, and will exert pressure on countries where problems are found. The Department will work with U.S. industry and coordinate with other U.S. agencies, and the U.S. Food and Drug Administration (FDA), to investigate allegations of piracy and help resolve market access and trade compliance cases.

Meeting the needs of policymakers, businesses and non-profit organizations, and the public for current measures of the U.S. population, economy, and government: The Department will continue its efforts to meet the needs and demand for quality data, including obtaining and maintaining targeted response rates for the various surveys conducted, and continuing to maintain respondent confidentiality.

Promoting a better understanding of the U.S. economy by providing the most timely, relevant, and accurate economic data in an objective and cost-effective manner: The U.S. economy is in constant flux. The Department is challenged to understand the structural changes in the economy, improve measurement methodologies, and locate and incorporate data sources to capture the changes. Its challenge is to continue to keep pace with these changes in order to provide the nation with the most timely, relevant, and accurate economic statistics possible.

STRATEGIC GOAL 2

Foster science and technological leadership by protecting intellectual property, enhancing technical standards, and advancing measurement science



Most Important Results

The Department achieved success in 71 percent of the targets that were set.

With a focus on developing next generation measurements and standards needed by industry, the Department completed construction on the Advanced Measurement Laboratory (AML). Considered the most technically advanced research facility of its kind in the world, the \$235 million, 536,507 square foot AML features five separate wings—two of them buried 39 feet



The new Advanced Measurement Laboratory at the National Institute of Standards and Technology.

under ground—with stringent environmental controls on air quality, temperature, vibration, and humidity. The new facility allows researchers to provide the sophisticated measurements and standards needed for key 21st century technologies such as nanotechnology, semiconductors, biotechnology, advanced materials, quantum computing, and advanced manufacturing.

The Department has begun efforts to strengthen intellectual property protection by enhancing protection for copyrights, geographical indications, patents, trademarks, trade secrets, and other forms of intellectual property with representative from many countries throughout the world including those in which the United States is negotiating or has negotiated Free Trade Agreements (FTAs)².

The Department's component bureau, the U.S. Patent and Trademark Office (USPTO), deployed a new electronic system known as Public PAIR (Patent Application and Information Retrieval). Anyone with Internet access throughout the world can use USPTO's PAIR Web site to track the status of a public patent application as it moves from publication to final disposition, and review documents in the official application file including all decisions made by patent examiners and their reasons for making them. Also, USPTO deployed two additional systems: the Image File Wrapper (IFW) system to all patent examiners and technical support staff, and the E-Patent Reference system that provided applicants with electronic access via Private PAIR to U.S. references referred to in examiner's Office Actions. This eliminated the need to mail paper copies of U.S. patents and published application references to applicants. *For additional information on the PAIR system and other patent electronic business products, visit the Patent Electronic Business Center (EBC) Web site at <http://www.uspto.gov/ebc/index.html>.*

Electronic filing of trademark applications reached historic levels, making the process much more efficient. Over 70 percent of the new trademark applications filed with USPTO were filed via the Internet using the USPTO Trademark Electronic Application System (TEAS). *For additional information on TEAS and other trademark electronic business products, visit the Trademark Home Page at: <http://www.uspto.gov/main/trademarks.htm>.*

² Countries include China, Brazil, Paraguay, Mexico, Eastern Europe, the Republic of Korea, the Philippines, and many other countries. Countries in which the United States is negotiating or has negotiated FTAs include Morocco, Bahrain, the Central American countries, Australia, Panama, the Andean countries, Thailand, the Southern Africa Customs Union, Chile, Jordan, and Singapore.

In the patent examining corps, an enhanced Quality Assurance Program was implemented that includes end product reviews, in-process reviews, and enhanced "second pair of eyes" reviews. Additionally, to ensure that the Department's primary patent examiners maintain the knowledge, skills, and abilities (KSAs) necessary to perform a high-quality examination, USPTO implemented a recertification program with primary examiners being recertified once every three years. A certification program was also implemented for junior examiners to ensure that they had the required KSAs prior to promotion to the level where they are given legal and negotiation authority.

The USPTO created a new "in-process review" standard for assessing work in order to create a more comprehensive, meaningful, and rigorous review of what constitutes quality. The results of an Examiner's first and final office action are reviewed for the quality of the substantive basis for decision making, search strategy, evidence, and writing. The new measure considers more elements for review and evaluation with training targeted to topics that warrant improvement. Examiners are given specific feedback about their work to further improve quality.

Department researchers at the National Institute of Standards and Technology (NIST) have developed measurements, standards, technology, and data crucial to private industry's development of products for a nanotechnology market that could reach \$1 trillion during the next decade. In the past year alone, scientists reported on important developments such as a central system for an atomic clock with potential communications and military applications that is the size of a grain of rice, nanoscale materials for magnetic refrigeration that could replace bulky compressor technology; the use of carbon nanotubes for improved polymer processing, and a better way for making uniform nanocells that may have applications for encapsulating drug therapies. This work also supports federal agencies' efforts to use nanotechnology to further their missions, such as national security and environmental protection

The Department has collaborated with stakeholders to develop a comprehensive U.S. spectrum policy for the 21st century that fosters economic growth; ensures national and homeland security; and maintains U.S. global leadership in communications technology. Accordingly, the Department has released two reports that propose innovative ways to better manage the nation's crowded airwaves, including the establishment of an innovation test bed to foster increased sharing between federal and non-federal spectrum users.

Among its broadband-related activities, the Department provided technical guidance to the Federal Communications Commission (FCC) for the responsible deployment of broadband over power line (BPL) systems, contributing significantly toward fulfillment of affordable broadband Internet access for all Americans by 2007. Broadband technology opens up new opportunities for telemedicine, long distance education, and countless other services that will foster investment, improve productivity, and promote job producing economic growth. The National Telecommunications and Information Administration (NTIA) has taken the lead in the areas of next-generation Internet Protocols, ultra wideband technology, wireless broadband applications, wireless sensor technologies, and child-friendly Internet content.

The Future: Performance, Priorities, and Challenges

Breaking down trade barriers: Commerce will promote worldwide acceptance of U.S. test and calibration data to facilitate the marketing of U.S. products and providing assistance to other governmental agencies, industry, trade associations, exporters, and standards-developing organizations.

Processing of patent and trademark applications: Commerce will work to reduce both patent and trademark pendency. In the short term, USPTO will focus attention to reducing first action pendency to 18 months. In the longer term, however, patents will pursue achieving the optimum 18-months total pendency. Trademarks is committed to supporting the elements of the 21st Century Strategic Plan that will allow it to achieve strategic plan pendency goals of 2.0 months to first office action and an average total pendency of 12 months. The Department will further these processes through better workforce planning and fully automated systems.

Furthering radio spectrum policy for 21st century: Commerce will better manage the nation's airwaves, enhance homeland and economic security, increase benefits to consumers, and ensure U.S. leadership in high-tech innovations.

Providing the technology infrastructure for U.S. business: The Department will develop the measurement methods and standards needed to accelerate the commercialization of technology advances in burgeoning fields such as biotechnology, nanotechnology, homeland security technology, and information technology (IT). In addition, the effectiveness of the manufacturing supply chain requires critical measurement technology, standards, and data to allow the efficient and accurate exchange of parts and raw materials. NIST measurement methods and standards facilitate secure, accurate, and efficient communication throughout the supply chain and with customers by aiding the development of information exchange standards, providing tools to accurately specify product performance and attributes, and improving cybersecurity.

Ensuring broader availability and support for new sources of advanced telecommunications and information: Furthering technology will continue to open new opportunities for everything in people's lives. Commerce must continue its efforts to also lead the way in the next-generation Internet Protocols, ultra wideband technology, wireless broadband applications, wireless sensor technologies, and child-friendly Internet content.



The NTIA Institute for Telecommunication Sciences' 4th generation Radio Spectrum Measurement System (RSMS) is equipped with state-of-the-art instrumentation, measurement methods, and analysis capabilities to support federal spectrum management, usage assessments, interference resolution, propagation research support and other federal agency needs.

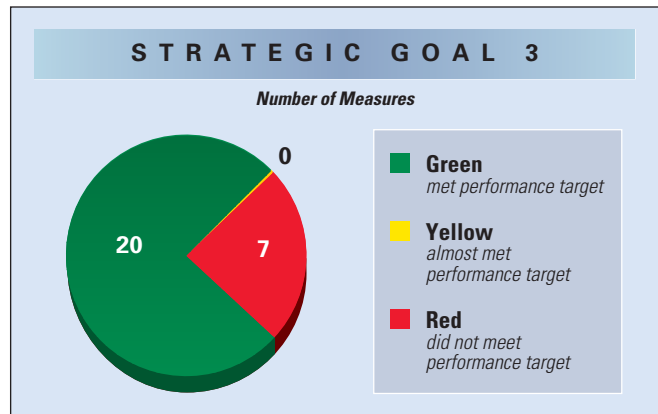
STRATEGIC GOAL 3

Observe, protect, and manage the Earth’s resources to promote environmental stewardship

Most Important Results

The Department achieved success in 74 percent of the targets that were set.

The Department, in partnership with the Western Governors’ Association, developed a plan for “Creating a Drought Early Warning System for the 21st Century,” outlining the details for a National Integrated Drought Information System (NIDIS). With \$6 to \$8 billion in estimated losses to the U.S. economy and impacts widespread throughout society, Commerce recognized the value and importance of the NIDIS. This partnership will improve the Department’s existing capabilities in monitoring and forecasting drought.



Data from the Department’s (through National Oceanic and Atmospheric Administration (NOAA)/Pacific Marine Environmental Laboratory [PMEL]) Tropical Atmosphere Ocean (TAO) array of moored buoys in the Pacific Ocean has provided the observational backbone for detecting and forecasting evolving El Niño conditions in 2004. Data from the array are transmitted to shore in real-time from NOAA’s polar orbiting weather satellites and made available to operational weather forecasting centers and climate researchers around the world. The buoys, along with those from a complementary array maintained by the Japan Agency for Marine Earth Science and Technology in the Western Pacific, have tracked the evolution of subsurface ocean warming that typically precedes the full blown development of El Niño. The buoys have also defined the initial weakening of the trade winds and warming surface temperatures that characterize the onset and evolution of El Niño events. The development of El Niño conditions in 2004, just one year after the end of the last El Niño in 2002-03, is a startling development that challenges Commerce’s understanding of how the coupled ocean-atmosphere works to produce year-to-year climate variability. TAO data, which have previously enabled fundamental research into the causes and global consequences of El Niño as summarized in the May 2004 cover story of the Bulletin American Meteorological Society, will provide the key to unraveling this mystery.

As a result of a partnership with the fishing industry, NOAA was able to reopen closed U.S. commercial longline swordfish fisheries in the Northwestern Atlantic and the Western Pacific. These fisheries had been closed due to a high take of endangered marine turtles, but by using fishing vessels with experimental gear and techniques through the industry partnership, NOAA experts were able to reduce the turtle takes to levels acceptable under the Endangered Species Act, allowing the fisheries to reopen.

In FY 2004, NOAA announced the creation of three research centers in Seattle, Washington; Charleston, South Carolina; and Ann Arbor, Michigan, to study how humans impact the oceans and Great Lakes and how, in turn, those bodies of water can impact human health. The NOAA Center of Excellence for Coastal, Great Lakes, and Human Health will use multidisciplinary research to develop technology for predicting the formation of toxic algal blooms, beach closings, and

water quality in the coastal and Great Lakes regions. The goal of the centers is to use NOAA's broad scientific expertise to significantly reduce threats to human health through ecological forecasting, which uses scientific understanding and models of climate, weather, circulation patterns, hydrology, land use, and biology to predict the location and severity of toxins in the water, beach closures, and water quality conditions.

In September, NOAA took ownership of the former Navy surveillance ship USNS Capable and will convert the ship for dedicated support of NOAA's ocean exploration and research missions. The ship will be equipped for dynamic positioning, deployment of unmanned underwater robotics, hull-integrated multi-beam sonar sensing, and scientific study in onboard laboratories.

In early FY 2004, Hurricane Isabel wreaked havoc along the Mid-Atlantic, hitting the Chesapeake Bay, its beaches, and ports particularly hard. More than four days in advance of landfall, NOAA relied on its tide station network and meteorological sensors to monitor water levels in real time and issue accurate wave height, storm track, and localized storm surge predictions throughout the event. With these early warnings of extreme seas, ships at sea were able to take precautions to avoid those areas that would put lives, vessels, and cargo at risk. In just one landside example, NOAA's predictions gave a warehouse owner in Baltimore enough time to move his inventory off the first floor to save it from the rising tide. Close on the heels of the hurricane, NOAA worked tirelessly to respond to emergency requests by ports and states for help. In the Ports of Hampton Roads and Baltimore, NOAA vessels combed the waters with sonar searching for debris and obstructions that could impede commercial, military, and recreational maritime traffic. NOAA HAZMAT, which provides emergency response scientific support for oil and chemical spills, used marine weather and real-time tide data to identify spill risks associated with oil and chemical storage tanks knocked off their foundations. The day after Isabel landed, a NOAA aircraft was on-site to fly a digital camera over the altered coastline for precisely positioned damage assessment. By monitoring the impact of coastal erosion along the Mid-Atlantic shoreline, these surveys assisted in recovery and rebuilding and in mitigating the effects of future storms. NOAA's efforts enabled key Chesapeake Bay ports to reopen quickly so that commerce could flow efficiently. Mariners who were able to navigate safely were the immediate beneficiaries of these efforts. However, safe and efficient maritime transport benefits everyone by keeping prices lower on over two-thirds of consumer goods bought. The public also gains a tremendous benefit from a cleaner marine environment due to accidents avoided.

As Hurricane Ivan approached the northern Gulf Coast, NOAA's Office of Coast Survey was already making preparations to respond to the storm's anticipated impact. Our navigation managers had established communications during Hurricanes Charley and Frances and were in daily contact with other NOAA offices. They reached out to members of the Coast Guard plus pilots, ports' personnel, the Corps of Engineers and state emergency management centers from Louisiana to Florida. Three NOAA navigation response teams were



Hurricane Ivan passed the western tip of Cuba on the 13th and spent the next three days moving northwestward in the Gulf of Mexico, slowly weakening. Early on September 16th, Ivan made landfall as a category 3 storm near Gulf Shores, Alabama.

mobilized and positioned in Tallahassee, Pensacola, and Jacksonville, Florida. Two NOAA navigation managers for the Eastern and Western Gulf also prepared to move into areas hit by the hurricane. In total, NOAA has six regionally based navigation teams and their boats and equipment sit on trailers, ready to move at a moment's notice.

In February 2004, approximately 39,000 gallons of a toxic chemical leaked into the St. Clair River near Port Huron, Michigan. The leak caused authorities to close water intakes based upon water dispersion models in order to protect tens of thousands of people in the area. These water dispersion models were based upon survey depth data collected by a NOAA Navigation Response Team for the Michigan Department of Environmental Quality in 2000.

For the first time ever, NOAA was awarded 100 percent of requested funds for habitat restoration from the federal Oil Spill Liability Trust Fund (OSLTF) for a Natural Resource Damage Assessment claim in a case with no responsible party identified. In partnership with the Florida Department of Environmental Protection (DEP), NOAA was awarded \$2.2 million to restore beaches and marine habitat impacted by a mystery oil spill near Fort Lauderdale, Florida, in August 2000, which caused beach losses as well as injury to sea turtles, marine life, and seabirds. This award sets a precedent for seeking claims against unknown, bankrupt, or uncooperative responsible parties.

In FY 2004, NOAA and Environmental Protection Agency (EPA) formed a "Smart Growth" Partnership. As an outgrowth of its Coastal Community Development Program, a program that assists coastal communities in their efforts to protect their environmental amenities, strengthen their economies, and improve their quality of life, NOAA recently partnered with EPA in a joint Smart Growth initiative. Smart Growth is defined as environmentally sensitive land development with the goals of minimizing dependence on auto transportation, reducing air pollution, and making infrastructure investments more efficient.

NOAA developed a Surface Weather Program to provide relevant weather and geospatial information to reduce fatalities, injuries, and economic losses from surface weather-related crashes and delays.

The Future: Performance, Priorities, and Challenges

Advancing understanding of climate variability, potential responses, and options: Commerce will work to develop a predictive understanding of the global climate system, with quantified uncertainties sufficient for making informed and reasoned decisions. Commerce will also target climate-sensitive sectors and the climate literate public and help them to more effectively incorporate the Department's climate products into their everyday planning and decision-making processes. These efforts involve providing sound, state-of-the-science descriptions and analyses of the Earth's climate system, including enhancing the understanding of climate forcings and feedbacks, as well as improved predictive capabilities and more widespread operational climate products and services.

Improving accuracy and timeliness of weather and water information: Tornado and other severe weather warnings help all Americans in an affected area by providing them with information about the weather in their area and what they can do to ensure they are safe.

Advancing the place-based ecosystem approach to management: Place-based ecosystem is a geographic area with specified systems of organisms, the environment, and the processes that control its dynamics. This approach will improve resource management by advancing the Department's understanding of ecosystems through better simulation and predictive models, environmental observing, and gathering of information needed for social and economic indicators. To facilitate this, the Department will engage and collaborate with its partners to achieve regional objectives by

delineating regional ecosystems, forming a regional ecosystem coordinating mechanism, and implementing cooperative strategies to improve regional ecosystem health.

Improving integration and accuracy of marine, aviation, and surface transportation information: Safe and efficient transportation systems are crucial to the U.S. economy. To facilitate commerce, the Department will work to reduce the negative impacts of weather on aviation without compromising safety, refine surface weather forecasts for local transportation sector decision support, improve the accuracy of its maritime and positioning products and services, and respond to hazardous material spills and search and rescue events to save lives and money and to protect the coastal environment.

Improving and expanding our knowledge of the world's oceans through deep-sea exploration: Over 70 percent of the Earth is water, yet less than 5 percent of the ocean floors have been explored. The ocean plays a role in regulating climate, assuring food security and energy resources, and allowing for worldwide commercial transportation. There is a lack of large-scale and long-term knowledge of the surrounding seas, which must be developed through a commitment to systematic exploration, research, and advancement of that knowledge for humankind.

NOAA Science On a Sphere™ (SOS) dominated the G8 Summit's International Media Center and emphasized to the world press the global nature of the problems that the G8 Summit addresses. The FSL was invited to exhibit NOAA's SOS at the G8 Summit, June 8–10, 2004, at the International Media Center in Savannah, Georgia. Almost every major news organization at the center devoted significant air time or column inches to this new and innovative display of Earth and planetary images. These demonstrations allowed NOAA to showcase its technology, applications, and global partnerships to a worldwide media audience. The positive reaction from the press undoubtedly contributed to the success of the G8 meeting. SOS, developed by FSL, is a revolutionary system for communicating NOAA's science to the public, fostering science education, and aiding scientific visualization. The system presents a three-dimensional representation of the Earth's global features as if they are viewed from space. The sphere can display unlimited scientific datasets, such as imagery of the planets, weather events, ocean currents, and population growth over centuries. SOS (<http://www.fsl.noaa.gov/sos/>) offers an innovative approach toward improving science education, with its dramatic visualization of complex information in an understandable form. It is a unique instrument for teaching science, math, and geography for grades K through 12. The presentations support NOAA's goal to use its broad spectrum of scientific expertise to support environmental education for the public in schools, museums, science centers, and at special events.

As has been seen from the hurricanes that have struck U.S. coastal areas this fall, accurate hurricane projections are essential in saving lives and mitigating property damage. Commerce will work to improve the accuracy and lead time of forecasts of all severe weather events. At the same time, the Department will work to improve the accuracy of forecasts of daily weather patterns.

MANAGEMENT INTEGRATION GOAL

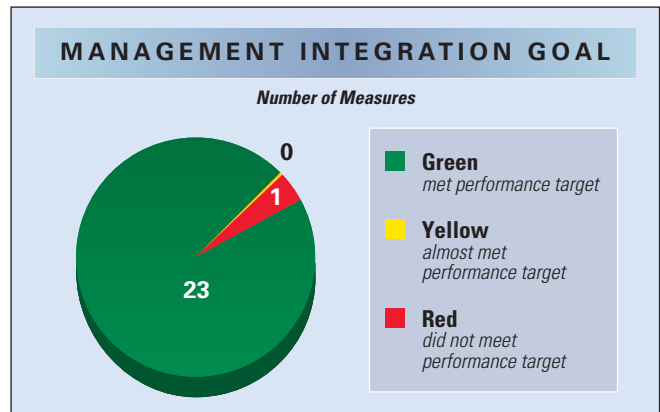
Achieve organizational and management excellence

Most Important Results

The Department achieved success in 96 percent of the targets that were set.

The Department achieved a clean audit opinion again this year. It also provided over 60 percent of its contract resources to small businesses. The Department well exceeded its utilization objectives for bankcard small purchases.

In response to competency needs assessments conducted in FY 2003, the Department implemented three leadership development programs targeting employees at various stages in their careers. The Senior Executive Service (SES) Candidate Development Program is designed to assure that senior level employees possess the executive core qualifications necessary for successful performance in SES positions. The Executive Leadership Development Program prepares employees at the GS-13 and 14 levels for management positions identified as mission critical. The Aspiring Leaders Development Program develops leadership and management skills of high potential employees at the GS-9 through 12 levels.



The Future: Performance, Priorities, and Challenges

Managing human capital: The Department is continually challenged to keep its workforce trained and ready to accomplish the work of the Department. As Commerce's qualified staff retire and/or otherwise leave the federal workforce, the Department must find ways to attract replacement staff, develop them to do the work of the Department, and retain them. Commerce will continue to develop programs to help train and retain a highly qualified workforce and avoid disruption in services offered by the Department.

Promoting integrity, efficiency, and effectiveness and preventing and detecting fraud, waste, and abuse: Commerce must constantly monitor the management of its programs to ensure that it is doing what is right, now and in the future.

Promoting security throughout the Department: Although substantial progress has been made in improving information security throughout the Department, challenges persist in ensuring adequate security for many Commerce systems. Meeting these challenges will require continued assessment of risks and determination of appropriate security controls, testing and evaluating the controls, certifying and accrediting systems, and ensuring that personnel with specialized information security responsibilities receive the necessary training.

STAKEHOLDERS AND CROSS-CUTTING PROGRAMS

The Department has numerous cross-cutting programs involving multiple bureaus: other federal, state, and local agencies; foreign government; and private enterprise. Federal programs dealing with economic and technology development, the natural environment, international trade, and demographic and economic statistics play a major role in advancing the welfare of all Americans. Commerce continues to work with other government agencies in furthering efforts in these areas for the American public. Examples of cross-cutting programs external to the Department's bureaus include the following other federal, state, local, and international agencies:

DEPARTMENT OF COMMERCE BUREAU ACTIVITIES	OTHER FEDERAL AGENCIES AND ORGANIZATIONS ¹	
Export controls	Federal Emergency Management Agency/Homeland Security	Federal Reserve Board
Improvements to highways and railroads	Department of Defense	Bureau of Justice Statistics
Improvements to the environment	Department of Energy	Agency for Health Care Research and Quality
Economic distress and recovery efforts	Department of Justice	Bureau of Transportation Statistics
Tracking the U.S. economy through GDP and other statistics	Department of State	Department of Health and Human Services
Travel and tourism	Department of the Treasury	Federal Aviation Administration
Market access/improvements	Environmental Protection Agency	Food and Drug Administration
Research	Department of Labor	National Institutes of Health
Telecommunications	Department of Housing and Urban Development	Federal Communications Commission
Technology transfer	Department of Agriculture	National Science Foundation
Trade policies	Delta Regional Authority	Department of Homeland Security
Environmental programs	Indian Tribes	European Patent Office
Homeland security	Department of Transportation	States
Patents and trademarks and intellectual property	Small Business Administration	Other Countries and Organizations
Defense industrial base activities	Agency for International Development	U.S. Coast Guard
Chemical Weapons Convention compliance	Department of Education	U.S. Postal Service
Economic development	Customs/Border and Transportation Security/ Homeland Security	Central Intelligence Agency
Minority-owned business development		Bureau of Immigration
Measurements and standards		Federal Bureau of Investigation

¹ Note: This is not an all-inclusive listing.

THE PRESIDENT'S MANAGEMENT AGENDA
















The President's Management Agenda (PMA) is intended to create a government that is citizen-centered, results-oriented, and market-based. The agenda, which guides improvements in the way the Department conducts business, comprises five government-wide initiatives:

- ◆ Strategic Management of Human Capital
- ◆ Competitive Sourcing
- ◆ Improved Financial Performance
- ◆ Electronic Government
- ◆ Budget and Performance Integration




The Department of Commerce works with the Office of Management and Budget (OMB) to evaluate its success in carrying out the five initiatives. Quarterly, a "traffic light" system of green, yellow, and red ratings is used to convey the Department's progress and overall status in each category (green for success, yellow for mixed results, and red for unsatisfactory):

- ◆ Progress ratings reflect how well the Department achieves success and whether it is following through on planned actions.
- ◆ Overall status ratings reflect the degree to which the Department has succeeded in actually achieving the goals of each initiative.

By focusing on results, Commerce has improved the quality of the services it provides to the public. The following table shows the ratings Commerce received at the time that the PMA was launched three years ago and those received as of September 2004.

DEPARTMENT OF COMMERCE RATINGS			
INITIATIVE	INITIAL STATUS RATINGS AS OF 12/31/01	STATUS RATINGS AS OF 9/30/04	PROGRESS RATINGS AS OF 9/30/04
Strategic Management of Human Capital			
Competitive Sourcing			
Improved Financial Performance			
Electronic Government			
Budget and Performance Integration			

WHAT PROGRESS INDICATES: OMB assesses agency "progress" on a case by case basis against the deliverables and time lines established for the five initiatives that are agreed upon with each agency as follows:

-  **G R E E N** *Implementation is proceeding according to plans agreed upon with the agencies;*
-  **Y E L L O W** *Some slippage or other issues requiring adjustment by the agency in order to achieve the initiative objectives on a timely basis; and*
-  **R E D** *Initiative in serious jeopardy. Unlikely to realize objectives absent significant management intervention.*

STATUS



Strategic Management of Human Capital



PROGRESS

If Commerce is to achieve the results it wants, it must have a workforce that is ready, willing, and able to carry out its mission. When the PMA was first issued in 2001, Commerce faced three serious human resources challenges:

- ◆ Inadequate preparation for a potential retirement wave at all organizational levels
- ◆ Significant turnover in mission-critical occupations
- ◆ Gaps in technical and leadership competencies.

The Department has taken a number of steps to address these challenges, including:

- ◆ Launching three new programs to encourage employees in mid-level grades to develop leadership skills, which will assist in the Department's succession planning:
 - Senior Executive Service (SES) Candidate Development Program
 - Executive Leadership Development Program (grades GS 13-14)
 - Aspiring Leaders Development Program (grades GS 9-12)

Commerce anticipates these initiatives will result in the preparation of about 100 individuals for leadership positions in occupations where high attrition is expected at managerial and executive levels in the next few years.

- ◆ Strengthening recruitment efforts through formal working relationships with twelve colleges and universities that have curricula and research activities that match Commerce's most pressing employment needs.
- ◆ Implementing a Web-based Learning Management System and other e-learning tools to reduce gaps in its employees' mission-critical skills.
- ◆ Giving its employees opportunities to participate in training courses to improve information technology (IT) skills. Commerce's IT Project Management training, aimed at professional certification of project managers and team members, is an example. Since 2002, more than 90 employees have earned a Master's Certificate in IT Project Management.
- ◆ Using innovative tools for managing human resources, the Commerce Demonstration Project provides managers at lower organizational levels the authority, control, and flexibility needed to recruit, retain, develop, recognize, and motivate their workforce.
- ◆ Offering incentives that benefit both employees and the Department. Voluntary early retirement and voluntary separation incentives are mutually beneficial approaches that address the changing skills needs in the Department's workforce.
- ◆ Establishing performance plans that are linked with the Department's strategic goals.



Managing Human Capital: Professional Development

Internal Grants Program Fosters Professional Development of Scientists at the National Oceanic and Atmospheric Administration (NOAA)

NOAA's Northwest Fisheries Science Center created a grants program in 2001 for the benefit of NOAA employees. This program develops scientists' professional competencies and supports high-quality scientific research. The program, which provides \$10-30 thousand in seed funding, gives scientists opportunities (which would otherwise be limited) to obtain funding for important mission-related research projects. The program also gives researchers an opportunity to develop grants writing skills through a competitive and scientifically rigorous review process that fosters learning and teamwork, and encourages multidisciplinary projects. Since it began, the program has supported nearly 30 research projects, ranging from investigations of olfactory imprinting to habitat restoration opportunities. For example, Dr. Nat Scholz received a grant in 2001 to use zebrafish as an experimental model to investigate the impacts of water pollution on the early life history stages of fish. As a result of this successful grant project, Dr. Scholz and his co-investigators applied for and received over \$600 thousand through internal and external funding sources to further support critical zebrafish-related research.



Each year the internal grants competition has grown, with the submission of dozens of high-caliber proposals. The program's popularity and effectiveness led the Fisheries Center to increase its support for this program in 2004.

STATUS ●

Competitive Sourcing

● PROGRESS

Commerce is improving the cost-effectiveness of its operations by determining who can best do the work—Department employees or private sector sources. The Federal Activities Inventory Reform (FAIR) Act requires that the Department review the commercial activities its workforce performs and determine whether they are appropriate for competition. Once this annual process is completed, Commerce submits its inventory of commercial activities to Congress and makes it available to the public. Throughout the year, the Department selects certain activities and conducts competitions between Commerce organizations and the private sector to identify the most cost effective method of getting the job done.

Commerce has taken a number of steps to ensure that its competitions are well executed. The following are among the results of its efforts:

- ◆ The Department performed a benchmarking study to identify best competitive sourcing practices of other federal agencies. As a result, it was determined that the Department should create a high-level steering committee to oversee and recommend approval of competitive sourcing studies throughout Commerce. The Department's Chief Financial

Officer (CFO) Council fulfills this role, acting as a proponent of competitive sourcing, consulting with the Department's competitive sourcing officers and approving resources for the program.



- ◆ The Departmental oversight program was realigned to locate it with closely related acquisition activities, and Commerce is moving toward assigning additional resources to the program. For instance, the Department is looking at a “tiger team” approach that would comprise headquarters and bureau staff who would help perform oversight study activities. This approach saves money and improves efficiency because it:
 - Develops knowledgeable staff to conduct the competitions
 - Eliminates staffing redundancies in our bureaus
 - Reduces the need for consultants
 - Enables the Department to include competitive sourcing studies in its reviews of acquisition risk management. This greatly improves the quality of its competitions and makes the program more efficient.

- ◆ Commerce plans to develop a competitive sourcing training module that will be Web-accessible throughout Commerce and the rest of the federal government. By explaining the process and addressing employees' concerns, this training should provide for better-managed competitions.

- ◆ The Department is updating Departmental policies and procedures for greater efficiency and cost savings.

Competitive Sourcing: Census Cost Comparison

Competitive Sourcing Ensures Cost-effectiveness While Keeping Census Jobs



The U.S. Census Bureau underwent a cost-comparison study of their headquarters' Mixed-Tour Program, which comprises temporary employees who work on an as-needed basis. The cost-comparison included about 225 Commerce positions. The competition determined in-house performance to be the most efficient and cost-effective method of operation. As a result of the study, the Commerce employees kept their jobs and the Department expects to save \$10M over the next five years.

STATUS



Improved Financial Performance



PROGRESS



It is essential that Commerce be able to account to the American taxpayer for the public funds with which it is entrusted. Accurate financial information makes this possible. Department program managers depend on the ready availability of such information to make well-informed operational, policy, and budget decisions. By accelerating end-of-year reporting, instituting quarterly financial statements, re-engineering reporting processes, expanding use of Web-based technologies, and continuing to receive clean audit opinions, Commerce is improving the timeliness and reliability of its financial information.

Although financial management has been a particular concern at Commerce for some time, the Department has now replaced the fragmented and outdated financial systems with a single, modern system, the Commerce Administrative Management System (CAMS).

The Department has made the following financial management improvements:

- ◆ Accurate financial information is now available for day-to-day management decisions.
- ◆ As a result of CAMS:
 - Program managers can make better-informed decisions more quickly.
 - Closing monthly financial records that once required up to two weeks now takes three days.
 - Financial statements can be produced much more quickly.
 - The Department uses fewer overtime hours to complete quarterly financial statements.
 - The audit process is smoother because information is easily extracted from the system.
 - The Department developed a consolidated reporting system (CRS) that gives its senior managers online desktop access to critical program information. CRS allows managers to quickly and independently extract the data they need, without having to rely on other people's schedules or availability.

**Financial Management:
Consolidated Reporting System (CRS)**

Commerce Official Cites the Impact of CRS

"Previously we had these multiple systems and all they were doing was providing data. What we really needed was information. Now, with the Consolidated Reporting System, Commerce leaders can use an 'executive dashboard' to design their own charts or reports, or click on a Commerce bureau for details about what is happening there. At one glance, CRS can show us the status of each bureau's spending compared to its budget. The dashboard quantifies many of the requirements of our results-oriented initiatives."

*James Taylor
Commerce Deputy Chief Financial Officer
(as discussed in the July 19, 2004, issue of "Government
Computer News")*

- ◆ Commerce received a clean opinion for the sixth consecutive year on its FY 2004 financial statements, and it consistently submitted quarterly financial statements to OMB either on time or ahead of schedule.

STATUS



Electronic Government



PROGRESS

The Commerce Department is continuing to expand its use of electronic government, or e-gov, to perform its mission better; to enhance its support to citizens, businesses, and other customers; and to reduce costs. Commerce uses the Internet as a primary means of disseminating large amounts of data and information as well as supporting online transactions. The Department ranks well within the top 100 Web properties on the entire Internet in terms of unique users who regularly access its Web sites.



The Department has over 100 different transactions available on the Internet, including applying for fishing permits and patents and trademarks, ordering nautical charts and environmental data, filing economic census data, and providing access to publicly available patent and trademark files. Commerce's overall data dissemination on the Internet is even larger. For example:

- ◆ Every day, the National Institute of Standards and Technology (NIST) fulfills more than 1.5 billion automated requests received through the Internet to set computer clock time to official U.S. time.
- ◆ NOAA provides computer weather model output and other meteorological data totaling 1.5 trillion bytes each day at an average sustained data rate exceeding 100 megabits per second.

Since 2001, the Department has substantially enhanced IT management by strengthening computer security and improving the capital investment decision process. Commerce is actively participating in the government-wide efforts to automate service delivery:

- ◆ The Department has substantially enhanced IT management by strengthening computer security and improving the capital investment decision process. The results of this attention to IT security management are demonstrated in an increase in reported IT security performance metrics.

Since FY 2001, the Department has increased the overall percentage of systems certified and accredited to 97 percent. Concurrent with this effort, the Department has improved the quality of the certification and accreditation packages for its national critical and mission critical systems, and has had the quality level of these C&A's confirmed by an independent contractor.

- ◆ Commerce chairs a Presidential e-government initiative, International Trade Process Streamlining, which provides the public with a single portal to government services relating to exporting.
- ◆ Commerce is also active on steering committees for other e-government projects, including the Geospatial One-Stop, Recreation One-Stop, Business Gateway, Integrated Acquisition, and E-Grants.
- ◆ All the Department's major systems are now supported by fully developed business cases, helping to ensure that IT funds are invested and managed wisely.
- ◆ In response to the privacy provisions of the E-Government Act of 2002, Commerce has issued an IT privacy policy that extends privacy protections to business data as well as Privacy Act data about individuals.

E-Government: Electronic Business Center

U.S. Patent and Trademark Office Provides Quality-focused E-commerce Service

An electronic business center available at the U.S. Patent and Trademark Office's (USPTO) Web site (www.uspto.gov) provides everything needed to search and file for patents and trademarks, obtain historical information about patents and trademarks, view patent and trademark images, and even find a registered patent attorney or agent. Fees can also be paid online. Last year, USPTO received 333,452 patent applications and 218,596 trademark applications. Over 125,000 trademark applications and over 4,000 patent applications were filed electronically. As of June 2004, over 70 percent of all trademark applications were filed electronically.

USPTO's Web site has been ranked number one for its design and content by PricewaterhouseCoopers Endowment for the Business of Government, which rated 148 Web sites on services offered, help features, service navigation, site legitimacy, and accessibility.



STATUS ●

Budget and Performance Integration

● PROGRESS

Commerce recognizes that the budget it is given is an investment, and that it owes the taxpayer a return on that investment. The Department assesses what its programs do to achieve their objectives, how much they cost, and how their effectiveness can be improved. Commerce identifies meaningful measures to evaluate results and actively monitor program performance.

The Department has a well-established mechanism for overseeing performance planning and measurement under the Government Performance and Results Act (GPRA):

- ◆ The Department's annual performance plan is linked directly to its budget submission, which reflects its strategic goals and objectives and the Secretary's priorities.
- ◆ Commerce uses the Program Assessment Rating Tool (PART) evaluations and other assessment techniques to enhance program delivery and achieve greater results. For example, the International Trade Administration and the Minority Business Development Agency have implemented long-term outcome measures, and the Economic Development Administration has improved the way it demonstrates the impact of its planning and technical assistance and trade adjustment investments. Similarly NOAA has developed a performance measurement system for its Pacific Coast Salmon Recovery program to identify success and highlight areas where the organization's resources can be applied to improve the program.

- ◆ Commerce is establishing a quarterly monitoring system through the Consolidated Reporting System (CRS), which will integrate performance and financial data. This system will include bureau performance measures so that senior leaders can assess performance across the Department in a timely manner.

To provide a comprehensive picture of what the Department does and how much it costs, it has combined its annual performance report with its annual accountability report, giving the public a single source of information on performance for the prior year, financial statement audits, major accomplishments, and current challenges.

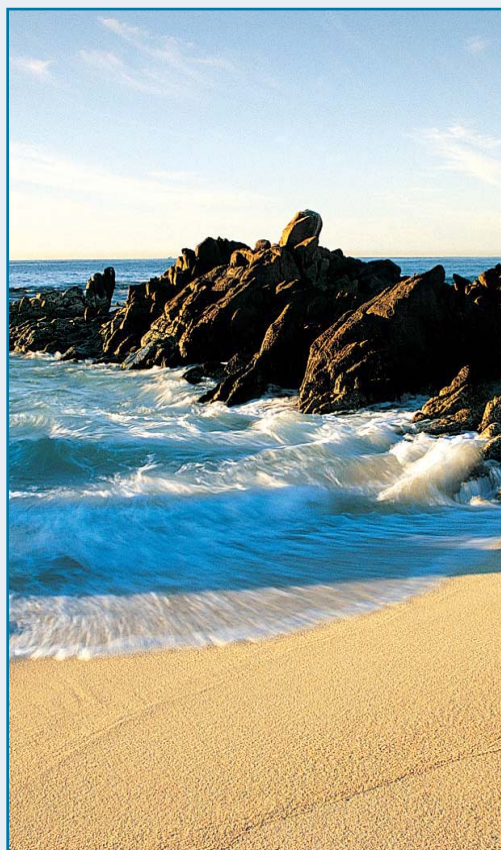
Integrating Budget and Performance: Improved Coastal Management

Improving Accountability: Assessing Coastal Management Programs

The National Coastal Management Performance Measurement System is part of an ongoing effort of NOAA to work with the states to assess the effectiveness of the Coastal Zone Management Act (CZMA), which addresses issues that affect U.S. coasts, such as:

- beach erosion
- public access
- water quality
- land usage
- habitats and hazards

The primary goal of the system is to work with the states to track effectiveness indicators for coastal management programs and reserves across the nation. Because needs vary so much from state to state, NOAA worked with the states to develop measures specific to their program needs in order to supplement the national indicators. In addition to assessing program results, NOAA also will conduct annual assessments of activities funded under the CZMA. These assessments will determine how—and how well—the funds for this program are being used. From this information Commerce will be able to decide whether to redirect program funds or revise policies and priorities.



MANAGEMENT CONTROLS

FISCAL YEAR 2004 SECRETARY OF COMMERCE
STATEMENT OF MANAGEMENT AND FINANCIAL CONTROLS

For the programs, organizations, and functions covered by the Federal Managers' Financial Integrity Act (FMFIA), I am pleased to report that, with the exception of one material weakness identified below, the Department of Commerce's systems of management controls, taken as a whole, provide reasonable assurance that the objectives of the FMFIA have been achieved.



Donald L. Evans
Secretary of Commerce

FEDERAL MANAGER'S FINANCIAL INTEGRITY ACT (FMFIA) OF 1982

During FY 2004, the Department reviewed its management control system in accordance with FMFIA requirements and Office of Management and Budget (OMB) and Departmental guidelines. The objective of our management control system is to provide reasonable assurance that:

- ◆ obligations and costs are in compliance with applicable laws;
- ◆ assets are safeguarded against waste, loss, and unauthorized use of appropriations;
- ◆ revenues and expenditures applicable to agency operations are properly recorded and accounted for, permitting preparation of accounts and reliable financial reports, and full accountability for assets; and
- ◆ programs are efficiently and effectively carried out in accordance with applicable laws and management policy.

The efficiency of the Department's operations is continually evaluated using information obtained from reviews conducted by the Government Accountability Office (GAO), Office of Inspector General (OIG), and specifically requested studies. It is worth noting that the list of high-risk programs issued by GAO in January 2003 does not include any programs administered by the Department of Commerce. Also, on a yearly basis, operating units within the Department conduct self-assessments of their compliance with FMFIA. These diverse reviews provide a high level of assurance that Department systems and management controls comply with standards established under FMFIA, except for the IT Security weakness summarized on the following page.

Section 2 of FMFIA

NUMBER OF MATERIAL WEAKNESSES				
	NUMBER AT BEGINNING OF YEAR	NUMBER CORRECTED	NUMBER ADDED	NUMBER REMAINING END OF FISCAL YEAR
FY 2001	0	0	2	2
FY 2002	2	1	0	1
FY 2003	1	0	0	1
FY 2004	1	0	0	1

In FY 2004, the Department of Commerce made major strides toward eventual resolution of one outstanding material weakness as identified under Section 2 of FMFIA – inadequate information technology (IT) security controls – by focusing on the completion of corrective actions needed to address previously identified concerns and improving the measurable performance of the Department’s IT security program.

Working to Strengthen Inadequate IT Security Controls

At the end of FY 2003, the Department identified several steps to resolve the material weakness relating to its IT security controls, which included:

- ◆ achieving a higher level of maturity in the management of IT security across the Department, as verified through a formal maturity measurement process;
- ◆ continuing the compliance review program goal of assessing the extent to which IT security implementation is consistent with Department IT security policy; and
- ◆ ensuring the certification and accreditation (C&A) of all operational IT systems.

A summary of the Department’s efforts in these areas during FY 2004 follows.

- ◆ The Department continued its IT security compliance review program, and hired a contractor to assess the extent to which policy and guidance are implemented by the bureaus and to assess the adequacy of bureau-level IT security programs. The compliance review included follow-up on FY 2002 OIG IT security inspection findings and recommendations at NIST and USPTO, as well as review of system C&A documentation for all national critical systems and a sample of mission critical systems.
- ◆ The review, which included testing of system controls in accordance with the GAO Federal Information System Controls Audit Manual (FISCAM), confirmed that the FY 2002 audit recommendations had been implemented at all involved bureaus and identified no new significant weaknesses, although less significant deficiencies in the quality of documentation were noted. The review of C&A packages, which included tests for compliance with federal and Departmental requirements as well as the quality of the documentation to reflect sound security planning throughout the system’s life cycle, concluded that, while all C&A packages reviewed were complete, a broad range of work to improve the quality of the documentation remains.

- ◆ The Department's IT security maturity, measured using the federal Chief Information Officers (CIO) Council's five-level maturity scale, increased from 79 percent to 100 percent at Level 3 or higher, which involves having implemented policies and procedures; and from 7 percent to 36 percent at Level 4, which relates to having tested and reviewed procedures and controls. This improvement reflects hard work on the part of many IT security professionals within the Department to implement new standards and correct long-standing deficiencies.
- ◆ Migration of Commerce operating units in the Herbert C. Hoover Building to the new digital infrastructure that supports both voice and data requirements of the Herbert C. Hoover Building progressed during FY 2004. This centralization of network controls improves security by providing a defense-in-depth posture and reducing the external points through which an attacker might compromise security. The OIG, using the FISCAM as well as limited technical network and system security testing, examined the ability of this environment to protect EDA's financial systems and data and did not report any deficiencies with the controls tested.
- ◆ Formal instructor-led training was provided to improve the technical skills possessed by personnel involved in the C&A process. The training included a four-day workshop on the activities involved in the C&A process and a half-day seminar on the responsibilities of senior managers serving as system Authorizing Officials.

Additionally, ongoing activities intended to help maintain effective oversight for the Department's IT security program and continued during FY 2004 include:

- ◆ Annually, the Departmental CIO provides input to the rating official, i.e., the head of the operating unit or their deputy, on the performance of each bureau CIO, a significant portion of which relates to IT security.
- ◆ The Departmental CIO is actively involved in the review of proposed IT budget initiatives to ensure that IT security is adequately addressed and funded, and to assure sufficient planning for continuity of operations.
- ◆ The Commerce IT Review Board considers and evaluates the proposed IT security approach for every IT project it reviews, including new initiatives and continuing IT projects. This review includes examination of the adequacy of the IT security management and funding, and the involvement of the project managers in IT security as a key part of their work. Corrective actions are identified and required of the program and project officials, as appropriate.
- ◆ The Department continued its IT security training program, leveraging capabilities available through other government agencies, such as the Office of Personnel Management's Government Online Learning Center. This provides cost-effective annual IT security refresher training for both employees and contractors as well as specialized training for personnel with significant IT security roles and responsibilities.

During FY 2004, the Office of the CIO completed IT security compliance reviews of three Commerce operating units and reviewed system C&A packages for all 17 of the Department's national critical systems and 33 out of 254 mission critical systems. It also reviewed 80 IT contracts for inclusion of IT security clauses, and reviewed incident response and patch management procedures for compliance with federal guidance and Departmental policy. In addition, it monitored on a monthly basis the status of operating unit corrective actions in response to these and prior-year reviews and provided quarterly status updates of these and other planned corrective actions, along with status of IT security performance metrics, to OMB under the requirements of the Federal Information Security Management Act (FISMA).

In FY 2004, GAO issued a government-wide report on system C&A practices. In this report, GAO noted that Commerce was one of seven federal agencies to have met OMB's IT security performance goals for C&A. In addition, GAO noted that Commerce had identified and resolved numerous challenges in meeting these goals, and had instituted an effective compliance review program for continuous monitoring of IT security practices.

The OIG's independent audit of the Department's FY 2004 financial statements included security reviews of the Department's financial management systems. The auditors found that substantial progress was made during FY 2004 in IT security associated with financial management systems, reflecting the level of effort made by the Department to strengthen IT security, but IT security control deficiencies continue to be a reportable condition.

The OIG reviewed the documentation for a sample of the Department's national-critical and mission-critical systems reported as certified and accredited. Although the OIG observed some improvements compared to the results of a similar review last year, the OIG found serious shortcomings in their risk assessments, security plans, contingency plans, and testing of security controls. The OIG also issued reports for IT security reviews it conducted within the Department, which focused on IT security controls, computer incident response capabilities, and, specifically, the IT security program at the Bureau of the Census. The OIG's review of computer incident response reported on the absence of a centralized entity to promote information sharing and consistency in response processes, inadequate incident response procedures, incomplete and inconsistent incident reporting by the operating units, and the need for better intrusion detection approaches and specialized tools and training. The OIG review of Census's IT security program found significant deficiencies in its certification and accreditation processes and documentation. The OIG also issued a report on IT security in IT service contracts recommending that Commerce take steps to ensure that its service contracts contain the new security clause that the Department issued in November 2003, and that appropriate contract oversight occurs.

Work Remains to Strengthen IT Security

Notwithstanding these efforts to resolve prior IT security issues and to maintain a strong IT security program, work remains to ensure the implementation of consistent C&A practices and adequate quality of work products for managing system security. As discussed earlier, the Department's C&A documentation for national critical and mission critical systems is not yet fully compliant with Departmental IT security policy and associated guidance. It is crucial that C&A processes and work packages be validated, ensuring that they are capable of adequately protecting Commerce systems. In order to ensure that continued high priority is given to improving C&A practices for all operational IT systems, the Department of Commerce continues to consider IT security as a material weakness.

Both the Department's and the OIG's FISMA reports submitted recently highlighted the need to improve the C&A packages so they are fully compliant with Department policy and guidance, and both reports list this area as a significant deficiency.

In FY 2005, the focus will be on ensuring that compliant and consistent IT security practices are implemented meeting a high level of quality. During the coming year, the Department will:

- ◆ continue quality inspections of C&A package documentation, expanding reviews to business essential systems within the Department;
- ◆ continue monitoring the inclusion of IT security provisions/requirements in contracts, and inspecting contractor operations to ensure adequate implementation of Commerce requirements to protect IT resources;

- ◆ update Departmental IT security policy to reflect recent government-wide guidance;
- ◆ improve the Department's computer incident response capability and implementing mechanisms necessary to facilitate Department-wide information sharing capability; and
- ◆ improve the Department's configuration management practices to ensure secure system configurations are implemented and maintained for IT systems.

Section 4 of FMFIA

NUMBER OF MATERIAL WEAKNESSES				
	NUMBER AT BEGINNING OF YEAR	NUMBER CORRECTED	NUMBER ADDED	NUMBER REMAINING END OF FISCAL YEAR
FY 2001	1	0	0	1
FY 2002	1	0	0	1
FY 2003	1	1	0	0
FY 2004	0	0	0	0

The Department has no material weaknesses relating to Section 4 of FMFIA.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA) OF 1996

Under the Federal Financial Management Improvement Act (FFMIA) of 1996, the Department is required to have financial management systems that comply with federal financial management system requirements, federal accounting standards, and the U.S. Government Standard General Ledger (SGL) at the transaction level. In FY 2004, the Department remained in compliance with FFMIA.

REPORT ON AUDIT FOLLOW-UP

The Inspector General Act, as amended, requires that the Secretary report to Congress on the final action taken for Inspector General audits. This report covers Commerce Department audit follow-up activities for the period August 1, 2003, through May 31, 2004. As with last year's report, an accelerated reporting cycle has resulted in a ten-month reporting period.

Audit Follow-up Activities Within the Department

In July 2004, a contract was awarded to upgrade the 15 year-old automated system used to track OIG audits and prepare this report. This system upgrade and user training are expected to be completed prior to the preparation of next year's report on audit follow-up.

The bureaus are continuing their efforts to implement audit recommendations that are more than a year old. At the end of the reporting period, recommendations included in a total of 59 audits were reported as having been unimplemented for more than one year. Although some audits share reasons for recommendations not having been fully implemented, the reasons for final actions not being taken vary with each audit. For example, if collections for payments are annualized over several years, the audit will remain open until the final collection is made or a debt is paid. Some performance audits have recommendations that mandate construction projects, the completion of which can take several years.

In addition, audits that involve the reporting of funds to be put to better use will remain open until all work has been completed and the savings can be calculated. This is to ensure accurate reporting of the funds to be put to better use. Program development, implementation of new information systems, appeal of audit determinations, and technological enhancements of existing systems all can cause audits to remain open beyond a year. Staff within DM and the bureaus will continue to monitor these audits and assist in the implementation process.

**SUMMARY OF ACTIVITY ON AUDIT REPORTS
AUGUST 1, 2003 - MAY 31, 2004**

	DISALLOWED COSTS ¹		FUNDS TO BE PUT TO BETTER USE ²		NONMONETARY REPORTS ³	TOTAL
	NUMBER OF REPORTS	DOLLARS	NUMBER OF REPORTS	DOLLARS	NUMBER OF REPORTS	REPORTS
Beginning Balance	62	\$ 16,548,224	34	\$ 55,444,966	45	141
New Reports	33	11,130,550	7	4,472,077	19	59
Total Reports	95	27,678,774	41	59,917,043	64	200
Reports Closed	(41)	(4,529,887)	(15)	(16,077,854)	(36)	(92)
Ending Balance	54	\$ 23,148,887	26	\$ 43,839,189	28	108

1. Disallowed costs are questioned costs that management has sustained or agreed should not be charged to the government.
2. "Funds to be put to better use" refers to any management action to implement recommendations that funds be applied to a more efficient use.
3. Includes performance, contract, grant, loan, and financial statement audit reports with nonmonetary recommendations.

BIENNIAL REVIEW OF FEES

The Chief Financial Officers Act of 1990 requires the biennial review of agency fees, rents, and charges imposed for services, and other things of value provided to specific beneficiaries as opposed to the American public in general. The objective of these reviews is to identify such activities and, where permitted by law, to begin charging fees. The reviews also support the periodic adjustment of existing fees to reflect current costs or market value, in order to minimize the general taxpayer subsidization of specialized services or things of value, such as rights or privileges, provided directly to identifiable non-federal beneficiaries.

The Department conducts a review of its fee programs biennially, with some bureaus conducting annual reviews. In the current review, the Department noted that all but one bureau adjusted their fees to be consistent with the program and with the legislative requirement to recover the full cost of goods or services provided to the public. ITA was deemed acceptably in compliance with OMB Circular A-25 by OMB, as they are implementing program changes to recover the full cost of goods and services provided to the public.

IMPROPER PAYMENTS INFORMATION ACT (IPIA) OF 2002

Narrative Summary of Implementation Efforts for FY 2004

The Department has not identified any significant problems with erroneous payments; however, it recognizes the importance of maintaining adequate internal controls to ensure proper payments, and its commitment to the continuous improvement in the overall disbursement management process remains very strong.

Each of the Department's payment offices has implemented procedures to detect and prevent improper payments. The following are some examples of the internal control procedures used by the bureaus:

- ◆ Prepayment and post payment audit analyses are performed.
- ◆ Controlled/limited access to the financial system screens, and approval authority for changes to information in the vendor table have been implemented to prevent unauthorized diversion of funds.
- ◆ Funds control in the financial system provides reasonable assurance against overpayment or erroneous payments.
- ◆ Edit reports are programmed to identify potential items that may result in improper or duplicate payments.
- ◆ All documents submitted for payment are required to have previously gone through an approval process at several levels including initial request, subsequent budget approval, voucher examination, and Electronic Certification System review.

The Department has ensured that internal controls—manual, as well as system—relating to payments are in place throughout the Department, and has reviewed all financial statement audit findings for indications of a breach of those controls. None of the financial statement audits have uncovered any problems with erroneous payments or the internal controls that surround disbursements.

In FY 2004, the Department introduced new requirements for quarterly reporting by its bureaus on erroneous payments, identifying the nature and magnitude of the erroneous payment, along with any necessary control enhancements to prevent further occurrence of the type of erroneous payments identified. Department analysis of the data collected from the bureaus shows that Department-wide erroneous payments are below 1 percent.

During the year, the Department's Office of Inspector General (OIG) conducted a comprehensive review of disbursements for improper payments at the Department's largest payment office; and in a separate effort, the Office of Financial Management conducted a systematic sampling process to draw and review a stratified sample of disbursements from a Department-wide universe of FY 2004 disbursements. Results of both tests revealed no significant erroneous payments or internal control deficiencies. Overall, its assessments demonstrate that the Department has strong internal controls over the disbursement process, the amounts of erroneous payments in the Department are immaterial, and the risk of erroneous payments is low.

Also, the Department has contracted with a private vendor to perform recovery auditing across the Department's major payment offices, in compliance with Section 831 of the Defense Authorization Act.

For FY 2005 and beyond, the Department will continue its efforts to ensure the integrity of its programs' payments.

THE INSPECTOR GENERAL'S STATEMENT OF MANAGEMENT CHALLENGES

We are providing the management challenges for the Department of Commerce in accordance with the provisions of the Reports Consolidation Act of 2000 (PL 106-531). Detailed information about our work is available on our Web site at: <http://www.oig.doc.gov/>

*Inspector General
Johnnie E. Frazier*

Challenge: Strengthen Department-Wide Information Security

The Department continues to face considerable challenges in adequately safeguarding its numerous systems that contain data of national significance. Notwithstanding some important progress, OIG's FY 2003 and 2004 Federal Information Security Management Act (FISMA) evaluations have identified problems in several critical areas including assessing risk and determining appropriate security controls, testing and evaluating security controls, and certifying and accrediting systems. Of particular concern have been our 2004 FISMA findings of significant problems with certification and accreditation packages for some of Commerce's national and mission-critical systems. In addition, our evaluation of the Department's computer incident response capability found that improvements are needed to provide a Commerce-wide view of the reported IT vulnerabilities throughout the Department and its bureaus as well as identification and awareness of threats needed to ensure effective incident response.

The Department continues to focus on improving its information security and, as noted, has made progress in developing an effective information security program. The Department's CIO and other cognizant officials have indicated that they are working to address our concerns, including developing a plan to address computer incident response issues.

Challenge: Effectively Manage Departmental and Bureau Acquisition Processes

Effective management of the acquisition processes is a challenge for the Department and its bureaus. In particular, the Department must work to ensure that taxpayer dollars are spent wisely and that applicable laws and regulations are followed when executing and operating under the new streamlined acquisition processes. OIG has identified problems with improper use of purchase cards, poor COTR oversight, and problems with service contracting including failure to use performance-based task orders and insufficient planning for contract administration and monitoring.

The Departmental and bureaus' procurement officials have acknowledged the need for greater emphasis on acquisition planning and management and the Department has informed OIG that its Office of Acquisition Management is pursuing improvements including the establishment of a review board to oversee all major acquisitions. We are currently monitoring certain Commerce major acquisitions, such as several related to the 2010 decennial census, and plan to review the acquisition management process at selected bureaus. In response to increased concern from OIG, Congress, and OMB, the Department's Office of Acquisition Management and some bureaus are (1) taking specific actions to improve their acquisition processes such as new policies, improved procedures, increased oversight, and increased training, and (2) implementing a purchase card improvement plan.

Challenge: Successfully Operate the U.S. Patent and Trademark Office as a Performance-Based Organization

The successful implementation and ultimate operation of the PTO as a performance-based organization is, by its very nature, a challenge filled with both risk and opportunity. PTO's ability to issue patents efficiently has an enormous impact on the pace of technological advancement worldwide, and it is essential that PTO use its expanded performance-based organization authority over budget, personnel, procurement, and information technology operations to process patents and trademarks in an effective, efficient, and timely manner. Recent OIG reviews have identified issues that warrant management's attention including problems with performance appraisal plans and awards, and PTO's human resource policies and issues surrounding patent examiner production goals.

For its part, PTO has been responsive to our concerns and has, for example, informed us that it has taken action to address human resource issues. Moreover, our examination of PTO's progress on construction of its new headquarters complex found that PTO and GSA provided adequate project management and financial oversight of the project.

Challenge: Control the Cost and Improve the Accuracy of Census 2010

In many respects, the Department faces the same primary challenges for the 2010 census that it has faced for the last three decennial censuses: the need for earlier planning and lack of upfront funding for such a monumental undertaking. As we have identified in our close monitoring during the 1980, 1990, and 2000 decennials, the inherent nature of the decennial censuses require long-term vision, effective planning and development, as well as critical testing at key milestones. Our recent assessment of Census's progress in modernizing its address and mapping processing system revealed that its late start in establishing a strong project management structure and its lack of a plan for accelerating its software improvement process may delay completion of the new system.

Likewise, OIG's recent assessments of Census's 2004 tests of new approaches to conducting census operations and improving data quality and coverage identified a number of concerns and hence, opportunities for addressing problems with (1) data transmissions, (2) technical support to the field, (3) the bureau's system and software engineering practices, and (4) enumerator training.

On a positive note, Census officials have generally been responsive to our observations and recommendations, and are also taking steps to improve the accuracy and control costs for the 2010 census. For example, Census has adopted a strategy for conducting the decennial that includes eliminating the long form, improving map and address files, and using hand-held computers in place of paper for key field operators.

Challenge: Increase the Effectiveness of Marine Resource Management

Balancing its competing mission goals of promoting commercial and recreational fishing as a vital part of the national economy and preserving fish and marine life population is a challenge for the National Marine Fisheries Service, NOAA, and the Department. Prior OIG work has identified concerns with NMFS' national observer, fishery enforcement, and salmon recovery programs. OIG has initiated a review of the Pacific Coast Salmon Recovery Fund; the purpose of this fund is to aid in the recovery of endangered and threatened Pacific coast salmon. OIG's preliminary review focusing on the recovery funds granted by NOAA to the Pacific Coastal Tribes' Northwest Indian Fisheries Commission found that the Commission may need to strengthen program management to ensure that tribes follow grant terms and conditions related to allowable costs.

On September 20, 2004, the U.S. Commission on Ocean Policy issued a final report to Congress and the President on findings and recommendations for a coordinated and comprehensive ocean policy which reportedly will guide development of national ocean policy for the future. We plan to conduct work in a number of areas identified in the Commission's report.

Challenge: Promote Fair Competition in International Trade

The growing number and complexity of trade agreements the Department is responsible for monitoring and enforcing presents a management challenge. The Department must ensure that its export promotion assistance, trade compliance, and market access efforts adequately serve U.S. exporters and that its enforcement of U.S. trade laws helps eliminate unfair competition. OIG's review of U.S. Export Assistance Centers found that the Centers were doing a good job of providing export assistance to U.S. companies and collaborating well with trade partners. However, our work has also disclosed inconsistencies in critical reporting and oversight that, in turn has led to overstated accomplishments. Likewise our reviews of overseas operations in India, Greece, and Turkey found that these posts also overstated the value of their export successes. OIG's analysis of issues identified at three USEAC networks (28 individual USEAC offices) also found that full costs for certain fee-based products and services were not being recovered as required by OMB Circular A-25.

The International Trade Administration (ITA) has reported that it is taking steps to address these problems.

Challenge: Enhance Export Controls for Dual-Use Commodities

Advancing U.S. national and economic security interests through export controls is a challenge for the Department's Bureau of Industry and Security, particularly as hostile nations and terrorist groups pose a threat to global security. OIG has completed five reviews of export controls with other Inspectors General. Our most recent review focused on controls on deemed exports, or the transfer of controlled technology to foreign nationals in the U.S. and identified some problems that impede efforts to effectively prevent the transfer of sensitive technology to such persons. OIG found that certain aspects of BIS' deemed export outreach program are working well. We are currently conducting a review of the dual use export licensing process for chemical and biological commodities.

Our March 2004 Semiannual Report to Congress reveals that BIS has successfully addressed many outstanding issues from 2000 although numerous recommendations from other years remain open.

Challenge: Enhance Emergency Preparedness, Safety, and Security of Commerce Facilities and Personnel

The Department faces a continuing challenge to ensure that it adequately provides for the safety and security of employees and operations, particularly with the increasing demands of heightened security. The size of its workforce and the geographic spread of its hundreds of facilities nationwide and at more than 150 overseas locations present a major challenge for the Department in its effort to comply with security-related guidance.

The Department is making progress on many emergency preparedness, safety, and security fronts. The Department has reported a number of actions to enhance security including conducting numerous compliance reviews of security containers and classified documents to help ensure the safety of national security information and updating continuity of operations and emergency operations plans.

Challenge: Strengthen Financial Management Controls and Systems

Financial management controls and systems remain a management challenge for the Department. The Department improved its financial management as evidenced by achieving and maintaining unqualified opinions on its consolidated financial statements, implementing the Commerce Administrative Management System, and achieving substantial compliance with the Federal Financial Management Improvement Act. This progress resulted from both significant management commitment and attention to the efforts of financial management personnel to address recommendations related to specific deficiencies in internal controls and financial management systems identified by OIG work.

A great deal of effort, time, and money has been invested to get the Department to this point—far too much for it *not* to continue to aggressively deal with the issues that remain. These issues include the maintenance and operations of its systems, strengthening internal controls, the use of effective change management for updates to software supporting the Department's systems, and the use of consistent policies and procedures throughout the Department.

Challenge: Continue to Improve the Department's Strategic Planning and Performance Measurement in Accordance with the Government Performance and Results Act (GPRA)

The collection and reporting of accurate, valid performance data for the GPRA is a challenge for the Department. Specifically, OIG audits have repeatedly identified the need for stronger internal controls to ensure accuracy of reported data, clear performance measures, and improved explanations of results. Our most recent audits of performance measures at NOAA and Census found that reporting for many of their performance goals needed improvement.

The Department and its bureaus have been responsive to OIG's recommendations and has generally developed corrective action plans to address shortcomings we identified.

MANAGEMENT CHALLENGES AND ACTIONS

Each year, the Department's Office of Inspector General (OIG) reviews the Department's and its component bureaus' program activities to ensure that the management, financial and operational activities are sound and meet the requirements of the Chief Financial Officer's Act and the Government Performance and Results Act (GPRA).

The emphasis by the President, the Office of Management and Budget (OMB), and Congress on improved government accountability underscores Commerce's resolve to enhance transparency within the Department while promoting improved efficiency and effectiveness. Progress in these endeavors requires strong commitment from the Department's senior leadership and staff at all levels.

The following is the Department's description of its actions to address the management challenges identified by the Inspector General (IG).

MANAGEMENT CHALLENGES	
CHALLENGE	ACTIONS
1. Strengthen Department-wide information security.	<ul style="list-style-type: none"> ◆ Made significant progress in information technology (IT) security, with 100 percent of systems covered by IT security plans, 100 percent with tested controls, 100 percent with contingency plans, 97 percent with certification and accreditation packages, and with much-improved certification and accreditation (C&A) documentation that still needs further improvement.
2. Effectively manage Departmental and bureau acquisition processes.	<ul style="list-style-type: none"> ◆ Placed greater emphasis on acquisition planning, contracting strategies, management, and administration of resulting contracts. ◆ Established formal board to review all major Departmental acquisitions and implement streamlined system for planning and monitoring of major acquisitions and linking all existing reviews including Information Technology Resources Board, acquisition plans, budget reviews, and contracted services. ◆ Evaluated the Commerce delegation and warrant program to ensure overall effectiveness and accountability. ◆ Revised certification program requiring expanded competencies, and improved training program for contracting officer's technical representatives to improve accountability as well as contract and contractor performance. ◆ Commenced implementation of Purchase Card Improvement Plan approved by OMB, including feasibility assessment of using a single card for travel, fleet, and purchase card. ◆ Expanded emphasis on use of performance-based service contracting. Commissioned study by outside source to assess the effectiveness of Department performance-based service contracting, and to recommend improvements.

(continued)

MANAGEMENT CHALLENGES <i>(continued)</i>	
CHALLENGE	ACTIONS
<p>2. Effectively manage Departmental and bureau acquisition processes. <i>(continued)</i></p>	<ul style="list-style-type: none"> ◆ Acquisition leaders conducted assessments of the business environment, including current state of resources, workload, and future trends. The leaders concluded that the Department must become a fully performance-based organization in order to effectively support the Department's missions, achieve greater cost savings, and operate more efficiently. A comprehensive strategy was established to effect this transformation. ◆ Office of Acquisition Management (OAM) continued implementation of the enhanced Balanced Scorecard (BSC) for Acquisition. This enhanced BSC, accessible to all Departmental management, was designed to provide a more continuous and accurate assessment of the Department's procurement/acquisition performance using real-time data from the Federal Procurement Data System. ◆ The Procurement Executive, in coordination with Commerce acquisition community leaders, will assess the effectiveness and progress of the above initiatives and will provide an overview of the assessment summary to the OIG.
<p>3. Successfully operate U.S. Patent and Trademark Office (USPTO) as a performance-based organization.</p>	<ul style="list-style-type: none"> ◆ USPTO issued a five-year 21st Century Strategic Plan in June 2002 to enhance operations and efforts to meet performance goals under the GPRA and the timeliness standards of the American Inventors Protection Act. The plan provides a framework for developing necessary personnel competencies, establishing procurement and administrative policies, and instituting performance-driven processes and standards for evaluating effectiveness and efficiency. ◆ USPTO is assessing a number of patent and trademark application issues, current operating capabilities, and progress towards the goals in its strategic plan. The agency is focusing on: (1) efforts to meet established performance targets and reduce application processing times for both patents and trademarks, (2) implemented of efficiency measures with targets that track unit costs for Commerce's two major business units, Patents and Trademarks and, (3) development of baseline productivity measures for both of these business units to begin tracking them in FY 2005.
<p>4. Control the cost and improve the accuracy of Census 2010.</p>	<ul style="list-style-type: none"> ◆ Commerce is successfully testing planned innovations for the 2010 Census. This includes improving census questionnaire wording and using hand-held computers for personal visit follow-up operations. Also, the Department is successfully completing updates to geographic reference features for all planned counties. Testing of these innovations and improving the Census Bureau's geographic data are important in order to improve accuracy, reduce operational risk, and contain the cost of the 2010 Census. At the request of Congress, the Department conducted a feasibility test in France, Kuwait, and Mexico of collecting Census data from U.S. citizens living overseas.

(continued)

MANAGEMENT CHALLENGES <i>(continued)</i>	
CHALLENGE	ACTIONS
<p>5. Increase the effectiveness of marine resource management.</p>	<ul style="list-style-type: none"> ◆ The National Marine Fisheries Service (NMFS) fishery observer programs were the subject of the OIG's Office of Inspections and Program Evaluations in FY 2003 (Report No. IPE-15721). Fishery observers are at-sea biologists contracted by NMFS to collect data on fishery catches and the impact of fishing on non-target living marine resources. Observer data provide biological, environmental, and, in some cases, socioeconomic information to NMFS scientists and resource managers, as well as to other state and federal agencies, the fishing industry, and the public. These data are used to meet the agency's strategic goals for sustainable fisheries, protected species recovery and conservation, and healthy ecosystems. ◆ OIG reviewed NMFS observer programs to determine whether these programs are meeting the agency's data collection needs, how NMFS ensures that observer data are of high quality, and how well the program's missions and objectives are communicated. OIG reviewed seven of the 14 regional observer programs, as well as the National Observer Program (a coordinating office in NMFS headquarters). The result of the review was a set of 10 recommendations to NMFS on improving data quality, performance monitoring, and outreach efforts. NMFS concurs with each recommendation and developed an action plan that outlined detailed responses with implementation dates for all recommendations by January 2007 (with some responses implemented as early as 2004). Currently, NMFS is implementing OIG's recommendations by: <ul style="list-style-type: none"> ● Enhancing oversight of contracted programs through the application of performance-based contracting procedures. ● Reviewing sampling allocation procedures to ensure that observer data are representative of actual fishing effort. ● Exploring options for improved recruitment and retention of high-quality observers and increasing outreach to the fishing industry, other key constituents, and the public.

(continued)

MANAGEMENT CHALLENGES <i>(continued)</i>	
CHALLENGE	ACTIONS
<p>6. Promote fair competition in international trade.</p>	<ul style="list-style-type: none"> ◆ During the past year, both the Inspector General and independent auditors have reviewed and found discrepancies in collected and reported International Trade Administration (ITA) performance data. This issue is becoming increasingly critical because of the heightened emphasis being placed on performance results. At present, individual ITA programs maintain systems that collect and report data to the ITA-wide performance management system, PBViews (Panorama Business Views). Examples of these systems include the U.S. and Foreign and Commercial Service (US&FCS) client management system (CMS) that collects data on export actions/transactions, like the Market Access and Compliance (MAC) database; and the Advocacy Center Database that collects and reports progress on Advocacy Cases. ITA anticipates that there will be several circumstances where source data will be evaluated for accuracy during the next year. ITA has developed a two-tiered approach for periodic verification and validation of performance data. The methodology will include two steps: (1) The Office of Financial Management (OFM) will issue pre-audit performance data questions to all data reporters, in headquarters and in overseas and field locations. This series of questions will address the integrity and validation of reported export success data. (2) ITA will determine and schedule, beginning in the fourth quarter of FY 2004, on-site verification and validation reviews of performance data and client records, as well as other performance results-related information. These reviews will be selected from the headquarters, overseas, and domestic locations based on factors such as volume of data generated and coverage/significance of data. ITA Administrative/CFO staff will conduct these reviews to ensure adequate separation of duties from program staff. Results will be reported to the Assistant Secretaries and to the ITA CFO.
<p>7. Enhance export controls for dual-use commodities.</p>	<ul style="list-style-type: none"> ◆ While this challenge addresses the need to strengthen export controls, it cites the need for a new, comprehensive legislative authority to replace the expired Export Administration Act of 1979. The Administration strongly supports a streamlined and strengthened export control system that effectively promotes both U.S. national security and U.S. economic interests. The Bureau of Industry and Security (BIS) continues to work on export control reforms that facilitate legitimate global trade while reducing illicit traffic in dual-use items and targeting export control resources on transactions of greater risk. ◆ IG's interagency review to assess whether the current deemed export control program and regulations adequately protect against the illegal transfer of controlled U.S. technologies and technical information by foreign nationals to countries and entities of concern determined that some areas, such as the outreach program, are working well. BIS has taken steps to strengthen the rest of the program, such as conducting extensive outreach to the exporting community and government and academic research laboratories to explain deemed export control requirements. BIS also plans to initiate a pilot program for post-shipment verifications on the most sensitive deemed export licenses to determine compliance with license conditions and to detect any violations.

(continued)

MANAGEMENT CHALLENGES <i>(continued)</i>	
CHALLENGE	ACTIONS
<p>8. Enhance emergency preparedness, safety, and security of Commerce facilities and personnel.</p>	<ul style="list-style-type: none"> ◆ The Office of Security has aggressively worked to enhance the emergency preparedness, safety, and security of Commerce facilities and personnel. As of September 30, 2004, Department personnel have: <ul style="list-style-type: none"> ● Increased efforts to provide for the safety of national security information by conducting 368 compliance reviews of security containers and 1,762 reviews of classified documents. ● Completed 141 anti-terrorism risk assessment surveys; the identified countermeasure upgrades have been documented to mitigate the identified risks. ● Reviewed over 50 occupant emergency plans and performed in-depth reviews of all Departmental/Bureau Continuity of Operations Plans (COOP). ◆ The Office of Security continues to remain attentive to key issues that will help Commerce effectively fulfill its mission and focus its key management personnel on the service offerings necessary to make the Department a safer work environment for all. In fact, final coordination is underway for a new Departmental Administrative Order relating to foreign visitors, and is designed to further mitigate the Department's espionage risk.
<p>9. Strengthen financial management controls and systems.</p>	<ul style="list-style-type: none"> ◆ In October 2003, the Department fully implemented the Commerce Administrative Management System (CAMS), a financial management system that integrates financial data throughout the entire Department. As a result, the Department met, for the first time, the requirements of the CFO Act and OMB Circular A-127. With this implementation, the Department has eliminated the lack of an integrated financial system as a material weakness under the Federal Managers' Financial Integrity Act (FMFIA) and is in substantial compliance with the Federal Financial Management Improvement Act (FFMIA). ◆ OFM is coordinating a comprehensive review across all bureaus on the use of CAMS to conduct financial and budgeting operations. Each bureau has documented and presented its business processes using this system, and Commerce has identified the best practices for most financial operations. Bureaus will conform to these processes and procedures to increase overall effectiveness of the CAMS software. Bureaus also identified deficiencies or potential improvements in functionality of the CAMS software that when corrected or implemented, will further improve financial operations efficiencies in the Department. ◆ OFM conducted a self-certification test of the CAMS software against the Joint Financial Management Improvement Program (JFMIP) core financial system test. This is used to certify commercial software products as suitable for federal agency use. The results of the test will provide the Department valuable guidance on areas where functional compliance needs to be strengthened or extended.

(continued)

MANAGEMENT CHALLENGES *(continued)*

CHALLENGE	ACTIONS
<p>10. Continue to improve the Department's strategic planning and performance measurement in accordance with GPRA.</p>	<ul style="list-style-type: none"> ◆ The Office of Budget instituted a data validation and verification policy across all bureaus. The bureaus and the Office of the Inspector General reviewed the policy and made recommendations before the policy was finalized. The policy ensures the soundness of the data by requiring an attestation from each bureau Under Secretary that the data are accurate, valid, and reliable. The Office of Budget reviews performance data on a quarterly basis. This review serves two purposes: (1) to ensure that managers are kept abreast of bureau performance, and (2) to determine how the program activity is performing and if it will meet stated goals. ◆ At the request of OMB and the Government Accountability Office (GAO) (formerly the General Accounting Office), the Department has reviewed all performance goals and measures to refine them to more outcome-oriented measurements that align to the Department's Strategic Plan. Although Commerce has reduced the number of measures by 25 percent, this change will not be reflected until the FY 2005 Performance and Accountability Report is finalized. Commerce plans to make additional reductions in the number of measures to more effectively relate how the Department is meeting its strategic goals.

PROGRAM ASSESSMENT RATING TOOL (PART) STATUS

The Program Assessment Rating Tool (PART) is a component of the President's Management Agenda (PMA) that was developed to assess and improve program performance so that the federal government can achieve better results. A PART review helps identify a program's strengths and weaknesses to inform management decisions aimed at making the program more effective.

In the fall of 2002 and through FY 2003, approximately 70 percent of the Department's remaining programs are scheduled to be reviewed by FY 2008. The results of these reviews are used to inform the planning and budgeting process and are published in the annual President's Budget and Performance Plan, which is submitted to Congress.

The results from the PART reviews conducted by Office of Management and Budget (OMB) are summarized on the following pages by strategic goal.

TABLE 1: RESULTS OF THE OMB PART PROCESS

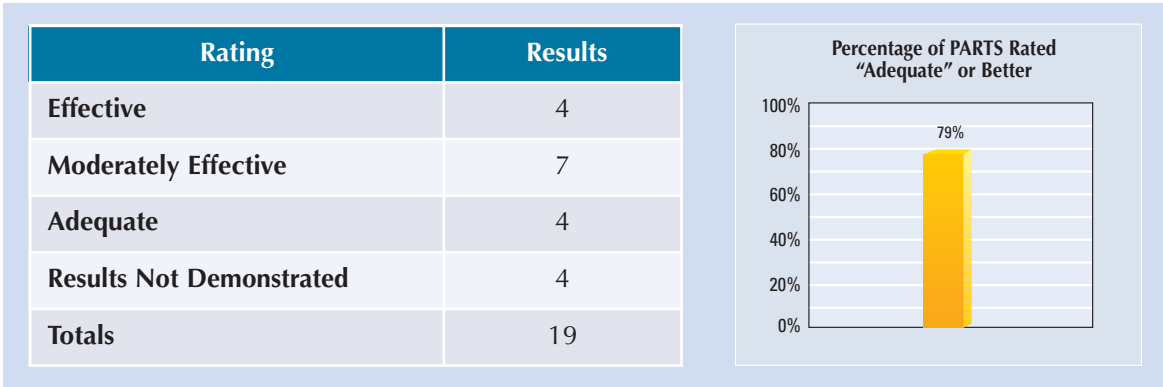


TABLE 2: PART SUMMARIES BY STRATEGIC GOAL

STRATEGIC GOAL 1: PROVIDE THE INFORMATION AND TOOLS TO MAXIMIZE U.S. COMPETITIVENESS AND ENABLE ECONOMIC GROWTH FOR AMERICAN INDUSTRIES, WORKERS, AND CONSUMERS	
PROGRAM NAME	ECONOMIC DEVELOPMENT ADMINISTRATION (EDA) PROGRAM
Results	<ul style="list-style-type: none"> ◆ Moderately Effective – 75%
Lead Bureau	<ul style="list-style-type: none"> ◆ Economic Development Administration (EDA)
Major Findings/ Recommendations	<ul style="list-style-type: none"> ◆ Target its resources to areas of greatest need through administrative action. ◆ Pursue more rigorous performance standards as outlined in the Administration's reauthorization bill. ◆ Complete implementation of its workforce restructuring.
Actions Taken/Planned	<ul style="list-style-type: none"> ◆ Since implementation of its performance management system in FY 1997, EDA has adjusted future targets on various measures to reflect previous performance results of its programs as data has been collected. ◆ EDA has developed unit-cost measures to reflect the ratio of EDA investment dollars to private sector dollars leveraged. ◆ As part of the process to draft a new reauthorization bill, EDA researched a variety of modifications to the eligibility criteria to address this recommendation. EDA considered five options, but EDA and OMB ultimately determined that the most appropriate mechanism for better targeting EDA resources would be new regulations. Also, EDA recently restructured its headquarters operations, aligning the workforce with organization goals, eliminating redundancy and confusion, aligning competencies with activities, and deploying resources to best serve the needs of communities.
PROGRAM NAME	US AND FOREIGN AND COMMERCIAL SERVICE (US&FCS)
Results	<ul style="list-style-type: none"> ◆ Adequate – 56%
Lead Bureau	<ul style="list-style-type: none"> ◆ International Trade Administration (ITA)
Major Findings/ Recommendations	<ul style="list-style-type: none"> ◆ Work to implement an activity-based accounting system to better track how much US&FCS services cost. ◆ Implement long-term measures in the 2005 Annual Performance Plan (APP) that include a market test of performance. ◆ Improve the quality of targets set to reflect performance.
Actions Taken/Planned	<ul style="list-style-type: none"> ◆ ITA has started the planning process for a new activity-based cost and management accounting system using FY 2004 funds. The new system will help better track how much US&FCS services costs. ◆ Four long-term measures have been implemented. ◆ To improve the quality of targets and data integrity and to foster greater collaboration among offices, the US&FCS revamped its reporting procedures by instituting a new system of export-success credits for its employees. Employee training on the new reporting policy was completed during the FY 2004 first quarter. Improved accuracy of the actual data will help US&FCS improve the quality of targets.

(continued)

STRATEGIC GOAL 1: <i>(continued)</i>	
PROGRAM NAME	MINORITY BUSINESS DEVELOPMENT AGENCY (MBDA) PROGRAM
Results	◆ Results Not Demonstrated – 44%
Lead Bureau	◆ Minority Business Development Agency (MBDA)
Major Findings/ Recommendations	<ul style="list-style-type: none"> ◆ Redefine its performance to more directly impact its long-term goal of entrepreneurial parity for minority business enterprises (MBE) as it relates to the increase in employment, gross receipts, and customer satisfaction measures in the 2005 APP; and finalize its revised strategic plan, which more clearly identifies the Agency's approach to various types of MBEs. ◆ Will continue to engage in strategic partnerships with public and private sector entities to leverage resources and enhance business development activities. ◆ Will monitor these revisions in the coming year to confirm changes adequately reflect actual performance.
Actions Taken/Planned	◆ MBDA participated in the PART process in FY 2001 and FY 2002; however the Agency was not assessed with the PART in FY 2003. As a result of the PART recommendations from FY 2001 and FY 2002, MBDA has reevaluated its performance measures and goals, as well as the Agency's overall mission of achieving entrepreneurial parity. This review has led to a decrease in both the number of goals and measures as well as the adoption of more outcome oriented program performance measures, such as gross receipts of MBEs and customer satisfaction. Additionally, MBDA will continue to monitor its progress through regular verification and validation of all actual program performance. MBDA will continue to use strategic partnerships with private and public sector entities as a vehicle for leveraging the Agency's resources, while enhancing activities for MBEs.
PROGRAM NAME	BUREAU OF ECONOMIC ANALYSIS (BEA) PROGRAM
Results	◆ Effective – 92%
Lead Bureau	◆ Bureau of Economic Analysis (BEA)
Major Findings/ Recommendations	<ul style="list-style-type: none"> ◆ BEA will continue to refine its proposed efficiency measures for its statistical products. ◆ The FY 2005 budget recommends funding increases to further improve the quality and timeliness of BEA's economic statistics.
Actions Taken/Planned	◆ BEA's strong focus in the budget and performance integration resulted in BEA receiving the highest rating of "Effective" for two years in a row from OMB's PART.

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STRATEGIC GOAL 1: <i>(continued)</i>	
PROGRAM NAME	CURRENT DEMOGRAPHIC STATISTICS
Results	◆ Moderately Effective – 84%
Lead Bureau	◆ Census Bureau
Major Findings/ Recommendations	<ul style="list-style-type: none"> ◆ Continue to improve its long-term goals for the (Survey of Income and Program Participation) SIPP by including an ambitious data release schedule. ◆ Develop ways to improve managerial accountability for SIPP release schedules. ◆ Pursue additional independent evaluations of the SIPP to demonstrate that results are being achieved.
Actions Taken/Planned	<ul style="list-style-type: none"> ◆ A SIPP Data Products Team was established in FY 2003 and made recommendations on implementing OMB's findings. ◆ As a result, several actions have already been implemented: <ul style="list-style-type: none"> ● Improvements in managerial accountability ● An outside study by Mathematica Policy Research, Inc. ● The program has sought advice from the federal policy community on the data that will be collected by the 2004 SIPP Panel ◆ Also, the following actions are planned: <ul style="list-style-type: none"> ● Early SIPP releases will begin in FY 2006
PROGRAM NAME	INTERCENSAL DEMOGRAPHIC ESTIMATES
Results	◆ Moderately Effective – 82%
Lead Bureau	◆ Census Bureau
Major Findings/ Recommendations	<ul style="list-style-type: none"> ◆ Work to further increase the involvement of state partners and other stakeholders in the production and quality review of the estimates, and consider more external reviews. ◆ More clearly incorporate programmatic changes into strategic planning documents, including improving the estimates of the international migration and use of the American Community Survey (ACS). ◆ Continue to set ambitious annual performance goals and incorporate them within formal documents.
Actions Taken/Planned	<ul style="list-style-type: none"> ◆ Met with the Bureau of Labor Statistics (BLS) to seek advice and discuss changes in population estimates for 2003, and provided preliminary population estimates to members of the Federal-State Cooperative Program for Population Estimates (FSCPE) for review and comment. ◆ Additional meetings with the FSCPE are on target. ◆ Incorporated programmatic changes into the Census Bureau Strategic Plan. ◆ Documented plans for enhancements and ambitious performance goals in the Demographic Programs Directorate's internal strategic planning documents. ◆ Developed product delivery schedule for the outputs of the intercensal population estimates and projections program.

(continued)

STRATEGIC GOAL 1: <i>(continued)</i>	
PROGRAM NAME	SURVEY SAMPLE REDESIGN
Results	◆ Effective – 86%
Lead Bureau	◆ Census Bureau
Major Findings/ Recommendations	<ul style="list-style-type: none"> ◆ More clearly incorporate programmatic changes into strategic planning documents, including redesigning samples on a regular basis using the ACS. ◆ Consider more external evaluations as the program shifts from redesigning based on decennial data to redesigning on a more frequent basis using the ACS and a continuously updated Master Address File (MAF).
Actions Taken/Planned	<ul style="list-style-type: none"> ◆ Incorporated programmatic changes into the Census Bureau Strategic Plan. ◆ On target to consult with various external groups (BLS, other federal sponsors, and outside statistical experts) in FY 2005 and FY 2006.
PROGRAM NAME	DECENNIAL CENSUS
Results	◆ Moderately Effective – 76%
Lead Bureau	◆ Census Bureau
Major Findings/ Recommendations	<ul style="list-style-type: none"> ◆ Continue to examine all key cost factors to identify potential areas for cost savings. ◆ Develop ways to improve managerial accountability for cost, schedule, and performance. ◆ Improve its cost model to be able to more clearly show how annual activities support the long-term performance goals for the 2010 Census.
Actions Taken/Planned	<ul style="list-style-type: none"> ◆ Update of the lifecycle cost estimate on an annual basis is on target to be released in FY 2005. ◆ Revised requirements for individual annual performance plans to ensure that senior managers are held accountable for overall performance goals. ◆ Completed a needs assessment for the development of the 2010 Decennial Budget Integration Tool, the planned replacement of the Decennial cost model. ◆ On target to complete the statement of requirements in FY 2004 and award multi-year development contract in FY 2005.

STRATEGIC GOAL 2: FOSTER SCIENCE AND TECHNOLOGICAL LEADERSHIP BY PROTECTING INTELLECTUAL PROPERTY, ENHANCING TECHNICAL STANDARDS, AND ADVANCING MEASUREMENT SCIENCE

PROGRAM NAME	ADVANCED TECHNOLOGY PROGRAM (ATP)
Results	◆ Adequate – 66%
Lead Bureau	◆ National Institute of Standards and Technology (NIST)
Major Findings/ Recommendations	<ul style="list-style-type: none"> ◆ A well-managed program with adequate planning and performance reviews. ◆ Need for program is unclear. The program's results may not indicate unique or significant impact.
Actions Taken/Planned	◆ Specific recommendations for the program were not identified.
PROGRAM NAME	MANUFACTURING EXTENSION PARTNERSHIP (MEP)
Results	◆ Moderately Effective – 75%
Lead Bureau	◆ National Institute of Standards and Technology (NIST)
Major Findings/ Recommendations	<ul style="list-style-type: none"> ◆ The program is well-managed with adequate strategic planning and regular performance reviews. ◆ Annual performance measures demonstrate benefits to MEP clients. ◆ The overall need for a federal response in this area is unclear.
Actions Taken/Planned	◆ Specific recommendations for the program were not identified.
PROGRAM NAME	NATIONAL INSTITUTE OF STANDARDS AND TECHNOLOGY (NIST) LABORATORIES
Results	◆ Effective – 85%
Lead Bureau	◆ National Institute of Standards and Technology (NIST)
Major Findings/ Recommendations	<ul style="list-style-type: none"> ◆ The budget proposes funding for infrastructure improvements necessary to support NIST's core research and development activities. ◆ NIST will continue to develop new, more outcome-oriented measures.
Actions Taken/Planned	◆ NIST revised its long-term goals and developed several new performance measures that better reflect the quality of and demand for NIST technical research and standards services. The revised goals and measures are included in the FY 2005 APP.

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STRATEGIC GOAL 2: (continued)	
PROGRAM NAME	Commerce Small Business Innovation Research (SBIR) Program
Results	<ul style="list-style-type: none"> ◆ Results Not Demonstrated – 27%
Lead Bureau	<ul style="list-style-type: none"> ◆ National Institute of Standards and Technology (NIST)/National Oceanic and Atmospheric Administration (NOAA)
Major Findings/ Recommendations	<ul style="list-style-type: none"> ◆ The overall management of the individual SBIR programs is effective but concerns were raised about the underlying program rationale, program planning, and results. ◆ Commerce will seek to promote improved performance measurement and ensure accountability for its SBIR program.
Actions Taken/Planned	<ul style="list-style-type: none"> ◆ NIST has a strategic plan in place for its SBIR program that focuses on improving efficiency and effectiveness and developing performance measures to gather customer satisfaction data from the small businesses participating in the SBIR program. While NIST is working to adopt these improvements, progress may be limited due resource constraints. Funds allocated to the SBIR program are for the exclusive purpose of funding SBIR awards and cannot be used for the administration of the program or the implementation of evaluation methods. ◆ NOAA has implemented a number of the improvements in the SBIR program suggested in the initial PART review. <ul style="list-style-type: none"> ● Revamped our annual solicitation to specifically include the four goals of NOAA's Strategic Plan as topic areas ● Each Line Office (LO) must specifically identify where each research sub-topic fits within the NOAA Strategic Plan. Further, it is required that each LO must have its senior management (AA or DAA) state in writing, that a review of the submission has been done and that it agrees with both the LO and NOAA Strategic Plans as well as the NOAA mission. ● The Phase 1 awards will be modified to a more agency-wide selection process. These changes will improve the program and address the performance measure issue identified in the PART assessment. ● Office of Research and Technology Application (ORTA) has obtained NOAA and DOC management approval for performance measures and outcomes for the SBIR program that addresses the requirements of EO 13329 (Encouraging Innovation in Manufacturing through SBIR). These changes in the program also address concerns consistent with the PART assessment. Specifically the NOAA EO 13329 Implementation Plan addresses increasing SBIR outreach to under-utilized sectors within the business community and more improved tracking of SBIR awards.

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STRATEGIC GOAL 2: (continued)	
PROGRAM NAME	U.S. PATENT AND TRADEMARK OFFICE (USPTO) - PATENTS
Results	◆ Adequate – 68%
Lead Bureau	◆ U.S. Patent and Trademark Office (USPTO)
Major Findings/ Recommendations	<ul style="list-style-type: none"> ◆ Continue implementing its strategic plan initiatives to improve patent pendency, quality, and implementation of e-government. ◆ Incorporate cost-efficiency targets into performance plans.
Actions Taken/Planned	◆ Efficiency measure was incorporated in the APP accompanying the FY 2005 President's Budget, defined as unit cost per output (production unit).
PROGRAM NAME	U.S. PATENT AND TRADEMARK OFFICE (USPTO) - TRADEMARKS
Results	◆ Moderately Effective – 73%
Lead Bureau	◆ U.S. Patent and Trademark Office (USPTO)
Major Findings/ Recommendations	<ul style="list-style-type: none"> ◆ Implement the revised trademark workload model and projections of staffing requirements. ◆ Incorporate cost-efficiency targets into performance plans.
Actions Taken/Planned	<ul style="list-style-type: none"> ◆ Trademarks monitored examiner production against its revised workload model on a monthly basis; actual production exceeded plan by 9 percent for the year. Examiner staffing was monitored and positions were hired to maintain the authorized staffing level of 250 examiner FTE on production. Application filings were 9.7 percent higher than plan (298,489 compared to 272,000). First action pendency was higher than plan as a result of the above plan filings and static staffing level. ◆ Efficiency measure was incorporated in the APP accompanying the FY 2005 President's Budget, defined as unit cost per output (disposals).

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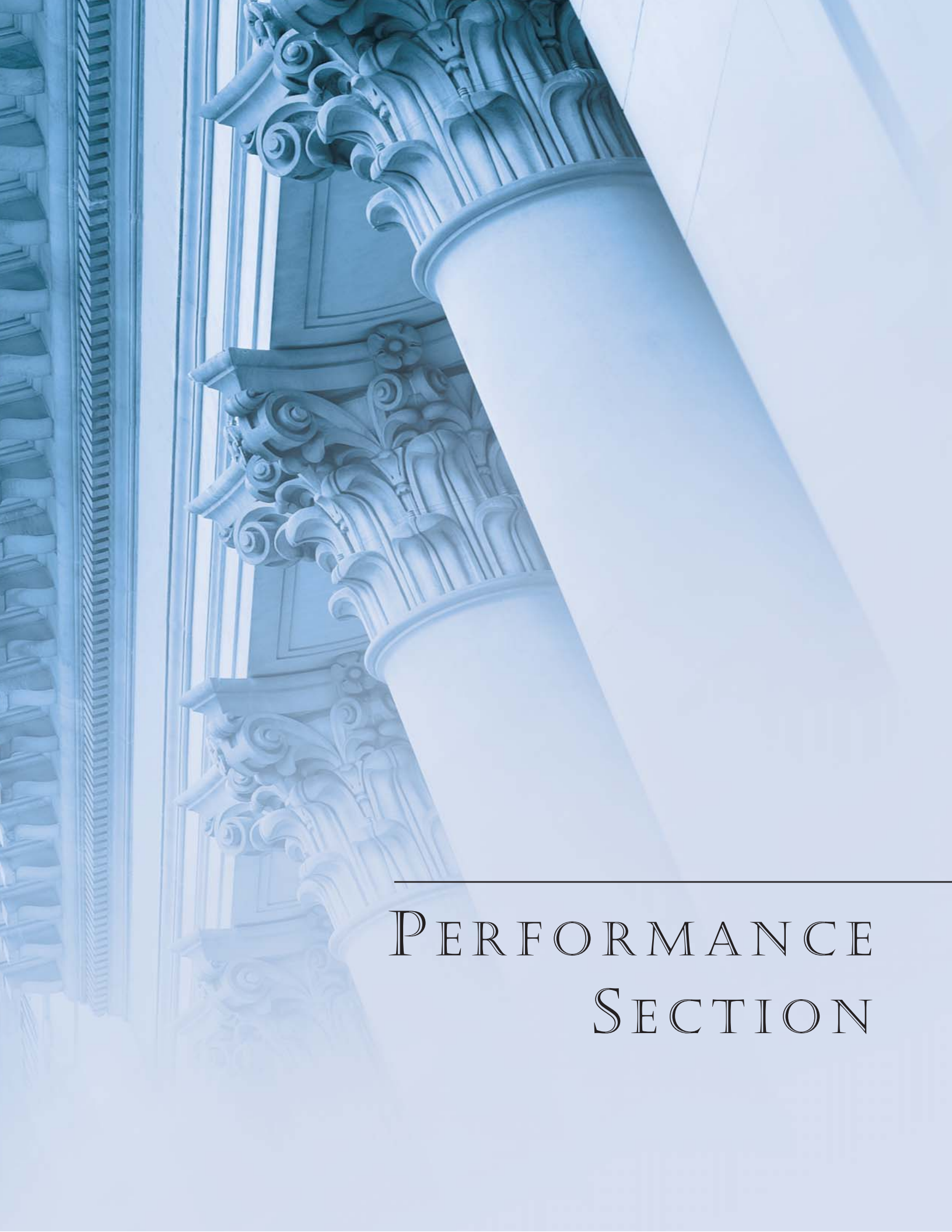
STRATEGIC GOAL 3: OBSERVE, PROTECT, AND MANAGE THE EARTH'S RESOURCES TO PROMOTE ENVIRONMENTAL STEWARDSHIP	
PROGRAM NAME	COASTAL ZONE MANAGEMENT ACT (CZMA) PROGRAMS
Results	◆ Results Not Demonstrated – 46%
Lead Bureau	◆ National Oceanic and Atmospheric Administration (NOAA)
Major Findings/ Recommendations	<ul style="list-style-type: none"> ◆ The Coastal Zone Management Programs (CZMP) and National Estuarine Research Reserves (NERRS) will work to complete the development of outcome-oriented performance measures. ◆ The budget continues the CZMP and NERRS, but redirects some funding towards programs that can demonstrate progress in accomplishing core NOAA missions. ◆ NOAA will ensure that the research opportunities available in NERRS are well integrated with NOAA coastal and ocean research programs.
Actions Taken/Planned	◆ The programs have developed a suite of proposed outcome-oriented measures, which are described in a Report to Congress that is currently in clearance. Eight states are participating in a pilot effort to assess data sources and refine the proposed coastal management measures for implementation. It is on track for completion by December 2004.
PROGRAM NAME	NATIONAL MARINE FISHERIES SERVICE (NMFS)
Results	◆ Adequate – 55%
Lead Bureau	◆ National Oceanic and Atmospheric Administration (NOAA)
Major Findings/ Recommendations	<ul style="list-style-type: none"> ◆ The 2004 budget sustains the President's 2003 Budget policy of reallocating funds away from earmarks and toward core NMFS missions. ◆ NMFS will continue work implementing its proposed management and organizational changes.
Actions Taken/Planned	◆ The Administration has requested substantial funding increases for fish stock inventories and surveys, not all of which have been provided by Congress. In response, the 2004 budget sustains the President's 2003 Budget policy of reallocating funds away from earmarks and toward core NMFS missions. NMFS will continue work implementing its proposed management and organizational changes.

(continued)

STRATEGIC GOAL 3: <i>(continued)</i>	
PROGRAM NAME	NATIONAL WEATHER SERVICE (NWS)
Results	◆ Effective – 89%
Lead Bureau	◆ National Oceanic and Atmospheric Administration (NOAA)
Major Findings/ Recommendations	<ul style="list-style-type: none"> ◆ NWS is well-managed and results-oriented. Past investments have yielded significant performance improvements in many areas. Cost-benefit analyses have helped to inform decisions on system improvements. ◆ The strategic plan sets forth clear long-term goals that are tied to the program's performance measures. NWS develops annual operating plans to set performance targets and milestone objectives and conducts strategic planning reviews each year to track progress and make appropriate adjustments. ◆ NWS has made progress in achieving long-term goals, particularly in improving accuracy and timeliness of forecasts and warnings. In 2002, NWS met nine out of 13 annual performance goals. However, performance improvement has been slower in some areas, such as precipitation and aviation forecasting. ◆ NWS works with emergency management groups to establish long-term targets for lead time and accuracy.
Actions Taken/Planned	<ul style="list-style-type: none"> ◆ NWS will continue to invest in activities and technology such as various training courses, the NEXRAD Open Radar Data Acquisition, continued implementation of the Advanced Hydrologic Prediction Service, Advanced Weather Interactive Processing System (AWIPS) software upgrades, aviation improvements, climate forecast models and climate test beds, and Continuity of Operations Plan (COOP) Modernization Network, that will help improve outyear performance measure scores. ◆ NWS will continue to put a great emphasis on performance and performance improvement, and continue to establish and review performance measures and milestone objectives through the development of strategic plans and annual operating plans.

(continued)

STRATEGIC GOAL 3: (continued)	
PROGRAM NAME	NAVIGATION SERVICES
Results	◆ Moderately Effective – 83%
Lead Bureau	◆ National Oceanic and Atmospheric Administration (NOAA)
Major Findings/ Recommendations	<ul style="list-style-type: none"> ◆ The budget provides funding to expand the program's capacity to build and maintain electronic navigational charts (ENCs). ◆ The program will continue to develop long-term performance measures that clearly link to annual goals. ◆ The program will work to use efficiency measures more actively to guide program management.
Actions Taken/Planned	◆ NOAA has an interagency agreement with the United States Merchant Marine Academy (USMMA) to look at data to support clear and meaningful linkages between long-term performance measures and annual goals.
PROGRAM NAME	PACIFIC COASTAL SALMON RECOVERY FUND (PCSRF)
Results	◆ Results Not Demonstrated – 45%
Lead Bureau	◆ National Oceanic and Atmospheric Administration (NOAA)
Major Findings/ Recommendations	<ul style="list-style-type: none"> ◆ The budget continues the program and again proposes allocation of funds based on the listed salmon recovery goals. ◆ The program is directed to complete the development of program-wide long-term performance measures by June 2003.
Actions Taken/Planned	◆ The Pacific Coastal Salmon Recovery Fund (PCSRF), NMFS, and PCSRF grantees (states and tribes) worked together over the last year to develop performance indicators to track progress and report on the status of the program. States and tribes have agreed to report on 70 different indicators across five broad program objectives, and outcome-based performance measures will be developed in the coming year.



PERFORMANCE
SECTION

INTRODUCTION TO THE PERFORMANCE SECTION

In fiscal year (FY) 2004, the Department accomplished its mission through three strategic goals, and an overarching management integration goal that articulate long-term outcomes, as well as performance goals that represent shorter-term outcomes and priorities. Performance goals include specific targets designed to achieve specific performance results within a given fiscal year.

The Performance Section of the report comprises subsections for each of the strategic goals and is organized in the following manner:

SUBSECTION	PURPOSE
Strategic Goal	Overall summary of the strategic goal
Strategic Objective	Overall summary of outcomes, program obligations and performance goals fall under each objective. The information contained in the objective provides the performance goals and the activities associated with them. At the end of the performance goal, discussions of the Challenges for the Future for the strategic objective will conclude the section.
Performance Goal	Performance Goal Description, Achievements, Program Evaluations, Strategies, and Future Plans. The information contained in each performance goal is designed to provide the reader with the overall achievements of the performance goal and how those achievements support the objective, and in the larger-scale, how they support the furthering of the Department's Strategic Goals.

Under each Strategic Goal there are summary charts that provide the historical trend data for resources both financial and FTE and overall performance results using a stoplight coding system. The performance chart includes a quick summary of the status of the performance measures associated with Strategic Goal, Strategic Objective, or Performance Goal. The chart is color coded: red to indicate performance was not met, yellow to indicate that performance was slightly below target, and green to indicate that performance was met or exceeded. The numbers under the colors indicate the number of performance measures (or results) associated with the goal.

Above each performance result chart is a inverted black triangle that indicates the average of the performance results. If the inverted black triangle is located in the green range, performance was met. If the inverted black triangle is located in the red range, performance was not met.

The same summary resource charts and performance results charts are used for each objective and performance goal under each strategic goal.

Details on each performance result are located in Appendix A, which provides individual measurement results and descriptions of actions to be taken if the measure does not achieve positive results. It includes explanations and strategies to address performance deficiencies.

STRATEGIC GOAL 1

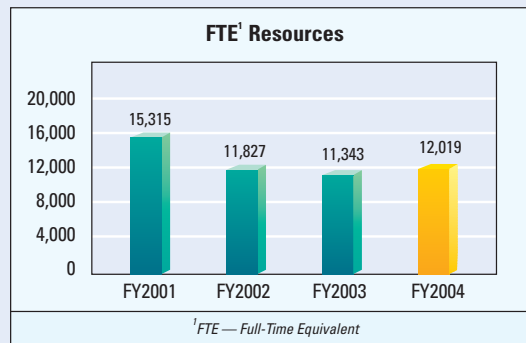
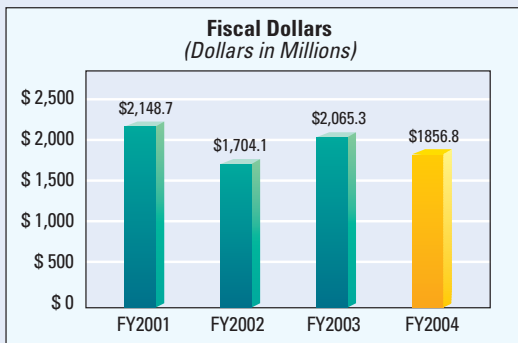




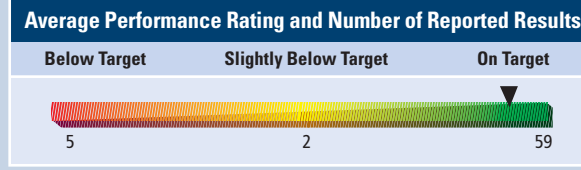
STRATEGIC GOAL 1

Provide the information and tools to maximize U.S. competitiveness and enable economic growth for American industries, workers, and consumers

STRATEGIC GOAL 1 TOTAL RESOURCES



The Department is committed to opening and expanding foreign markets for U.S. goods and services and improving America's export performance. The Department will promote U.S. export growth that is consistent with national security and U.S. foreign policy objectives through the Trade Promotion Coordinating Committee (TPCC) and will enhance cooperation with Commerce's partnership organizations, in order that U.S. businesses can benefit from global business opportunities and increase American jobs. Through free market trade negotiations and case-by-case advocacy, Commerce will ensure a level playing field for U.S. firms and combat predatory trading practices.



▼ = If in the yellow to green area then considered met.
 If in the yellow to red area then considered not met.
 See Appendix A: Performance and Resource Tables for individual reported results.

The Department ensures that export controls do not place U.S. firms at a competitive disadvantage in world markets by eliminating outdated controls and streamlining the process for obtaining export licenses for products that remain under export controls. These continual improvements are being made while being mindful of the dual-use nature of some commercial technologies and the national security implications of those technologies.

The Department, through the Economics and Statistics Administration (ESA), also provides decisionmakers with valuable statistical information related to the U.S. economy and population. Improved economic and demographic statistics are essential to sound business forecasting, and understanding the strength and direction of the nation's economy. The Department is at the forefront of national efforts to continually improve these statistics. With this in mind, the Department is endeavoring to fundamentally change the way the federal government conducts the Decennial Census.

The reengineered 2010 Census will improve the relevance and timeliness of Census long form data, reduce operational risk, improve the accuracy of Census coverage, and contain costs.

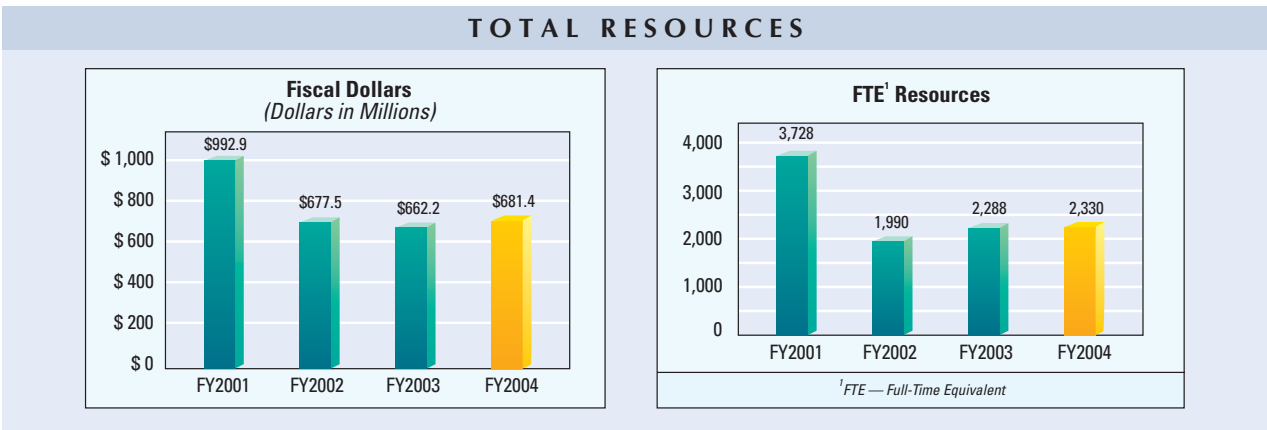
The Department extended economic measures in key areas of the services sector. This was done by launching a new economic indicator survey, the Quarterly Services Survey; expanding coverage of its annual surveys to cover financial services, insurance, real estate, and public utilities sectors; and launching an information and communication technology survey. The Quarterly Services Survey, the first new economic indicator in 40 years, will provide quarterly information on over \$2 trillion of services activity, or about 20 percent of the gross domestic product (GDP), for which only annual estimates were previously available.

In support of disadvantaged individuals and communities, the Department promotes private enterprise and job creation in economically distressed communities. The Department also promotes private enterprise within minority communities.

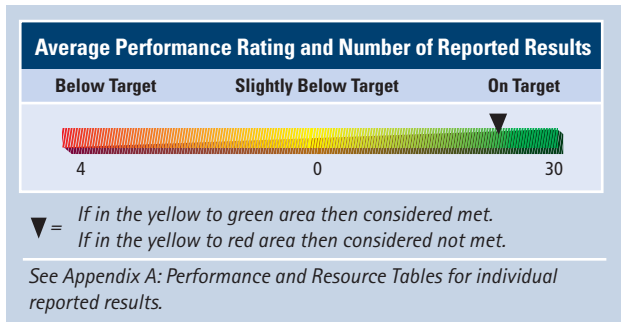
The Department successfully moved this strategic goal forward. Bureaus with programs supporting this strategic goal are the Economic Development Administration (EDA), International Trade Administration (ITA), Minority Business Development Agency (MBDA), Bureau of Industry and Security (BIS), and ESA's Bureaus of the Census and Economic Analysis (BEA).

STRATEGIC OBJECTIVE 1.1

Enhance economic growth for all Americans by developing partnerships with private sector and nongovernmental organizations



This objective is important to the nation as it increases private enterprise and job creation in economically distressed communities, improves community capacity to achieve and sustain economic growth, increases trade opportunities for U.S. firms to advance the United States' international commercial and strategic interests, expands U.S. exporter base, improves customer and stakeholder satisfaction, improves the U.S. competitive advantage through global e-commerce, and increases opportunities and access of minority-owned businesses to the marketplace and financing.



The Department assists economically distressed communities by promoting a favorable business environment through its strategic investments in public infrastructure and technology. These investments help attract private capital investment and jobs that address problems of high unemployment, low per capita income, and severe economic challenges. The Department supports effective decision-making by local officials through its capacity-building programs.

The Department helps minority-owned businesses obtain access to public and private debt and equity financing, market opportunities, and management and business information to increase business growth in the minority business community.

IMPORTANT HIGHLIGHTS FOR
STRATEGIC OBJECTIVE 1.1

A *tracting private capital investment and creating and retaining jobs.* A generally consistent level of the Department's investment activity has resulted in significantly increased levels of private investment. In rural areas, for example, private investment dollars generated per dollar of the Department's investments has more than doubled according to grantee projections. An example of the Department's contributions in this regard is its investment in the University of Alabama's automotive research and outreach efforts, specifically the cluster forming around Montgomery and the Hyundai Assembly Plant. Surrounding counties that have faced ongoing distress now have the opportunity to participate in higher-wage employment. A \$2 million investment in Lowndes County to support the location of an automotive parts supplier is expected to yield \$10 million in private investment. That private investment is vital to enabling economic growth; it is anticipated that 100 jobs will result from this project.



E *nhancing economic growth through partnering with other government agencies and the business community to increase exports.* Export expansion is an important driver for U.S. economic growth since export-related jobs pay significantly higher wages. At present, one of every 10 dollars in the U.S. economy is linked to exports. For example, the Small Business Administration (SBA), Export-Import Bank and the Department's ITA often partner together to broaden and deepen exports. Together, they represent a complete line of exporting resources with one goal in mind, said Michael Lally, an ITA Trade Specialist, "Our goal is to help companies make international sales. We operate in 83 countries through embassies and consulates whose staffs focus full-time on business development to help companies make sales." One success is the Penram Company of Philadelphia, Pennsylvania, manufacturers of municipal incinerators.

A team met with Andy Hooker, general manager of Penram. Hooker said he knows the importance of foreign markets. According to Hooker, about 90 percent of Penram customers are overseas. The company does business in 28 countries and has several more lined up. "It's the only reason we're going," he said. "If we relied on domestic sales, we'd be kaput. There's not enough domestic sales." Government agencies like SBA and Export Import Bank often work in hand to help U.S. companies receive a seamless set of government services to help expand their overseas business.

Performance Goal: Increase private enterprise and job creation in economically distressed communities (EDA)

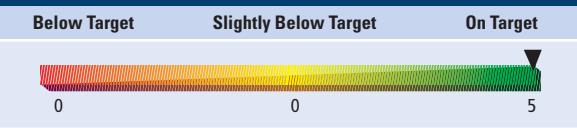
Working with distressed communities to create jobs and expand the economy.

EDA strives to create a favorable environment for the private sector to risk capital investment, produce goods and services, and increase productivity. While successful EDA investments attract private sector capital investment and create higher-skill, higher-wage jobs, they are also beneficial for local communities and all levels of government. Creating jobs and expanding the economy decreases the demand for government expenditures for social services while tax revenues increase.

EDA's Public Works Program empowers distressed communities to revitalize, expand, and upgrade their physical infrastructure to attract new industry, encourage business expansion, diversify local economies, and generate or retain long-term, private sector jobs and investment; and its Economic Adjustment Program assists state and local interests to design and implement strategies to adjust or bring about change to an economy. The program focuses on areas that have experienced or are under threat of serious structural damage to the underlying economic base.

Preliminary data collected through the Government Performance and Results Act (GPRA) process for investments made from FY 1997 through FY 2000 indicates that these EDA investments have helped generate more than \$5 billion in private sector investment and create and retain over 130,000 jobs. EDA anticipates that as these investments continue to mature and more data become available, these numbers will continue to grow. EDA performance targets for long-term program outcomes are based on nine-year projections for private dollars invested and jobs created. Performance data are obtained at three and six-year intervals to provide snapshots of current progress in achieving the full, nine-year performance projection. The private investment target for FY 1998 awards was \$650 million after six years while the three-year target for FY 2001 awards was \$480 million. Data reported in FY 2004 show that EDA exceeded those projections by 168 percent and 97 percent, respectively. Similarly, jobs created or retained in distressed communities as a result of EDA investments in the same years exceeded projections by 152 percent and 52 percent, and totaled 90,812 and 29,199.

Average Performance Rating and Number of Reported Results



▼ = If in the yellow to green area then considered met.
 If in the yellow to red area then considered not met.

See Appendix A: Performance and Resource Tables for individual reported results.



The City of Shafter has worked hard to diversify its primarily agricultural employment base. EDA provided assistance to construct 17,000 linear feet of 30-inch truck sewer collection lines to connect two major industrial areas with a new regional treatment plant. This investment allowed for development of the two new industrial areas on locations outside of the old town site. Completed in October of 2003, it is estimated that this investment will generated 340 new jobs in the near future. It is anticipated that over the next six years the two sites have the potential to create 2,000 jobs and leverage \$35 million in private sector funds.

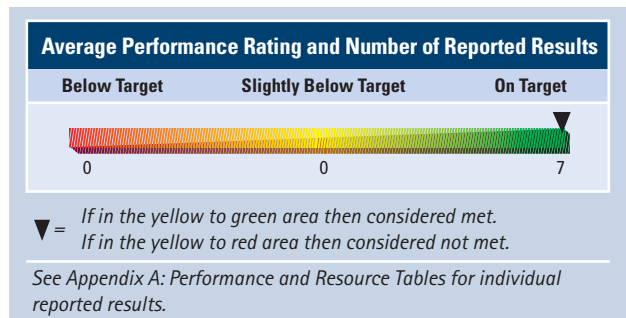
EDA was audited as part of a comprehensive report that looked at the significant barriers to securitization of community and economic development revolving loan funds. The Government Accountability Office (GAO) (formerly the General Accounting Office) report did not make any recommendations and restricted its study to reporting its findings. GAO found that Community Economic Development (CED) lenders face barriers to securitizing their loans. The barriers include limited lender capacity to manage a securitized portfolio of loans, the external legal and regulatory limitations and requirements governing the use of the funds that these lenders receive, and the high cost of originating and servicing CED loans. Currently, there are no follow-up actions required either by EDA or any other party as a result of this GAO report.

GAO completed an audit of EDA's assistance to Indian tribes from 1993 to 2002. The draft GAO report makes no recommendations but includes the following major findings: (1) EDA-funded enterprise projects had mixed success generating jobs, income, and private sector investment; and (2) EDA grants to tribes represented a small portion of its overall program. EDA recently submitted formal comments on this draft report to the Department for clearance.

Performance Goal: Improve community capacity to achieve and sustain economic growth (EDA)

Support local planning and long-term partnerships through technical assistance to help distressed communities.

Economic development is a local process; however, the federal government plays an important role by helping distressed communities build capacity to identify and overcome barriers that inhibit economic growth. EDA's approach is to support local planning and long-term partnerships with state and regional organizations that can assist distressed communities with strategic planning and investment activities. This process helps communities set priorities, determine the viability of projects, leverage outside resources to improve the local economy, and sustain long-term economic growth.



EDA's program activities include:

- ◆ Partnership Planning programs that help support local organizations (Economic Development Districts (EDD), Indian tribes, and other eligible areas) with their long-term planning efforts and their outreach to the economic development community on EDA's programs and policies.
- ◆ Economic Adjustment Program assists state and local interests to design strategies to adjust or bring about change to an economy. The program focuses on regions that have experienced or are under threat of serious structural damage to the underlying economic base.
- ◆ Local Technical Assistance Program helps fill the knowledge and information gaps that may prevent leaders in the public and nonprofit sectors in distressed regions from optimal decisions on local economic development issues.
- ◆ University Center (UC) Program is a partnership of the federal government and academia that makes the vast and varied resources of Universities available to the economic development community; the Research and National Technical Assistance Program supports research of leading-edge, world-class economic development practices as well as funds information dissemination efforts.

- ◆ Twelve Trade Adjustment Assistance Centers (TAAC) to help manufacturers and producers affected by increased imports prepare and implement strategies to guide their economic recovery.

EDA's capacity building has continued to be very effective in generating participation in economic development planning and in the generation of new initiatives. During FY 2003, 90 percent of all eligible jurisdictions participated in the activities of their EDDs. In addition, 97 percent of the EDDs and Indian tribes that EDA provided assistance to in FY 2003 implemented new initiatives resulting from the Comprehensive Economic Development Strategy (CEDs) process. The Bluegrass Area Development District in Kentucky, for example, launched 162 initiatives during FY 2003 as a result of the CEDs process including 26 infrastructure and construction rehabilitation related projects.

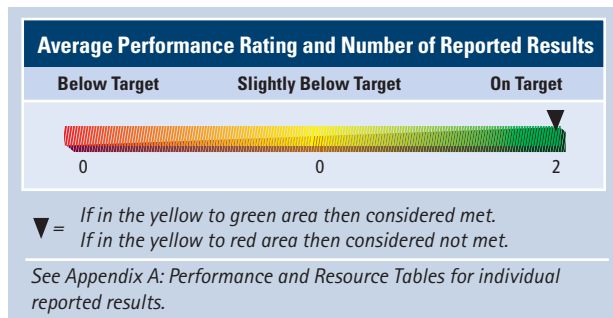
Similarly, Eastern Kentucky University, an EDA supported UC, provided at least eight hours of assistance to 263 clients during FY 2002 and every client took action as a result of that assistance. Assistance from UCs is varied and includes, but is not limited to, planning assistance, project management, and organizational capacity building. The University of Nebraska, for example, provided continuing education and workforce development assistance to 72 clients that it served during FY 2002.

As stated in the previous performance goal, GAO completed an audit of EDA's assistance to Indian tribes from 1993 to 2002. The draft GAO report makes no recommendations but includes the following major findings: (1) EDA-funded enterprise projects had mixed success generating jobs, income, and private sector investment; and (2) EDA grants to tribes represented a small portion of its overall program. EDA recently submitted formal comments on this draft report to the Department.

Performance Goal: Increase trade opportunities for U.S. firms to advance the United States international commerce and strategic interests (ITA)

Ensure that America's small and medium-sized enterprises (SME) and manufacturers can compete and win in the global economy.

ITA's Market Access and Compliance (MAC) tracks numerous challenges faced by U.S. exporters; participates in compliance with World Trade Organization (WTO) accession agreements for nations like China; supports critical compliance and market access issues in areas like standards, and intellectual property matters, as well as transparency, good governance, and rule-of-law requirements. Manufacturing and Services (MAS) advances and strengthens the competitiveness of U.S. industry by researching and analyzing the impact of international economic policies on key sectors.



ITA successfully established 45 new or enhanced partnerships with public and private sector entities that were created to promote U.S. exports. ITA continues to identify partnerships that minimize necessary resources provided by partners and will also focus on enhancing relationships with existing partners. ITA also identified enhanced partnerships with entities

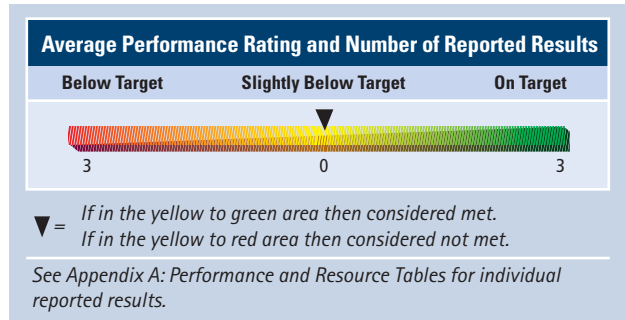
related to the new MAS role of analyzing and strengthening both international and domestic competitiveness. ITA successfully achieved over \$179 billion of exports in targeted products and markets.

The President has made manufacturing in the United States a top national priority. ITA organized over 20 public roundtables around the country where U.S. manufacturers explained significant factors that erode competitiveness, contribute to higher production costs, retard innovation, and impede trade. ITA is implementing the strategy and recommendations made in the Manufacturing Report to foster an environment in which U.S. firms can compete and succeed in manufacturing.

Performance Goal: Expand U.S. exporter base (ITA)

Support jobs and foster economic growth by expanding the number U.S. exporters, especially SMEs.

One of ITA's key objectives is to place primary emphasis on the promotion of goods and services from the United States, particularly by SMEs, and on the protection of U.S. business interests abroad. Within ITA, the Assistant Secretary for Trade Promotion and Director General of the U.S. and Foreign Commercial Service (US&FCS) seeks to increase export opportunity awareness among U.S. companies. The US&FCS program proactively identifies potential exporters and existing exporters who need assistance and provides a range of export assistance programs. These products and services are supported by systems that leverage electronic and traditional media, centralize and manage relationships with US&FCS customers, and develop alliances and partnerships with other export support organizations to deliver export results. ITA's Advocacy Center recorded a 13 percent advocacy success rate with an estimated value of \$6.5 billion in U.S. export content.



ITA helped 4,759 U.S. companies enter a new market and helped 704 U.S. companies export for the first time. ITA's US&FCS facilitated 11,382 export transactions. External factors have impacted this effort. Although the weak dollar has increased exports overseas, we face continued slow growth abroad attributable to such external factors as currency issues, rising energy costs, and increased interest rates. These factors have impeded many companies from expanding to new markets overseas. ITA continues to encourage U.S. exporters to enter new markets in regions of the world least impacted by stated externalities. We are focusing our efforts towards improved performance in FY 2005.

During this past year, both the Inspector General (IG) and independent auditors have reviewed and found discrepancies in collected and reported US&FCS performance data. This issue is becoming increasingly critical because of the heightened emphasis that is being placed on performance results. US&FCS and ITA's Chief Financial Officer have initiated the actions to ensure effective performance-measure oversight and to clarify and harmonize reporting standards worldwide.

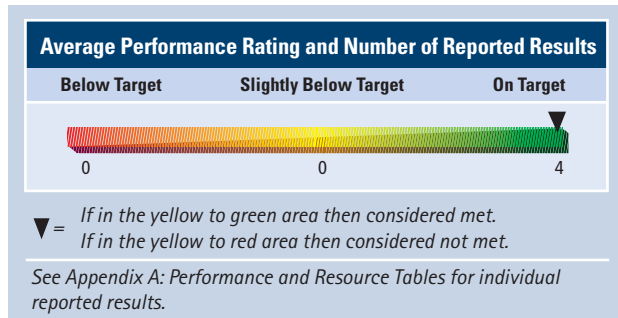
In addition to these efforts, ITA's Office of the Chief Information Officer (CIO) is working with all ITA programs to build a worldwide Customer Relationship Management System. This system will house export success data, facilitate coordination, and minimize the potential for duplicative reporting.

Performance Goal: Improve customer and stakeholder satisfaction (ITA)

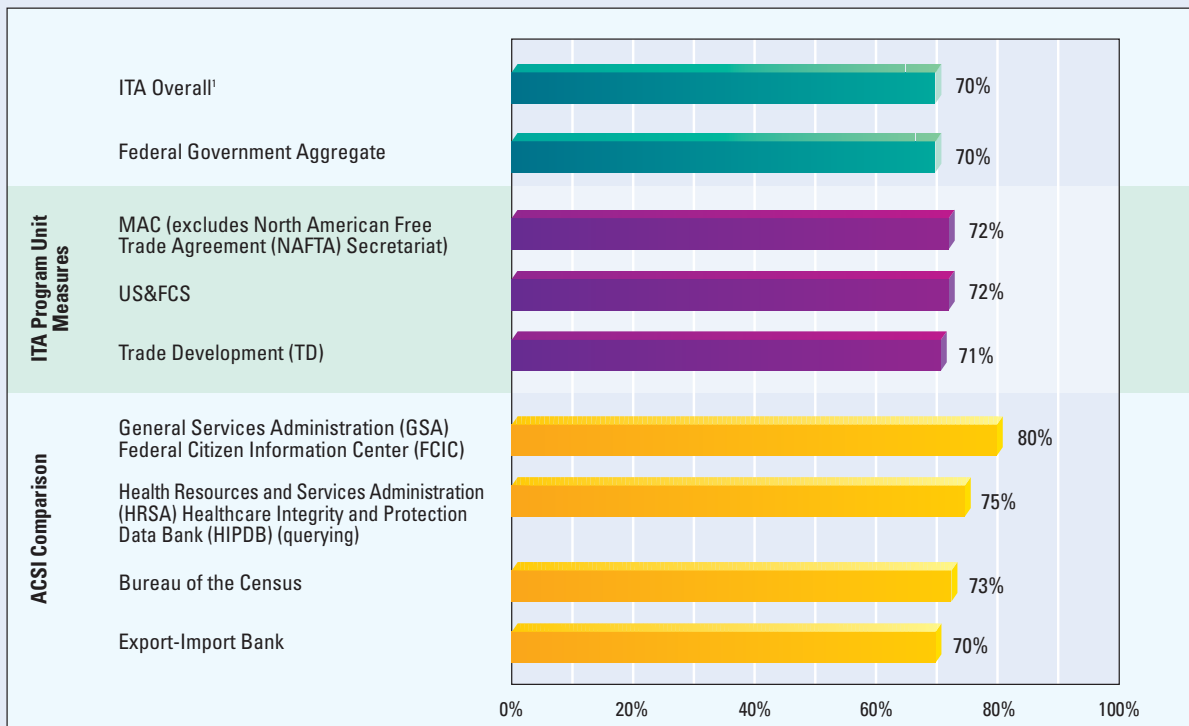
Improve customer and stakeholder satisfaction by committing ITA to be a client-oriented organization.

ITA promotes the use of technology to improve timely access to relevant information for customers and service staff, and to assess the effectiveness of its products and services in meeting customer needs.

Overall, ITA is performing well at 70 on the nationally recognized American Customer Satisfaction Index (ACSI). This is not a percentage but rather it is a "score." Seventy is an excellent score. ITA conducts a bi-annual customer satisfaction survey and populates ITA's customer value performance measures every other year. ITA continues to develop an enhanced focus on the customer and has achieved strong results based on client feedback obtained during an ITA-wide client survey in 2003. Because ITA Satisfaction scores are calculated using the same methodology as the ACSI, this enables ITA to benchmark the agency's scores against other federal agencies with similar functions (in the sense of how services are offered or delivered), products, and/or services as shown in the chart that follows.



CUSTOMER SATISFACTION INDEX (CSI) SCORES



¹ The ITA Overall score is a weighted average of the individual program unit scores. Scores are weighted based on numbers of full-time agency employees in each program unit: US&FCS = 60%, TD = 18%, Import Administration (IA) = 13%, and MAC = 9%. In the case of the IA program unit, the subunits are weighted as follows: IA = 40%, NAFTA Secretariat = 40%, and Foreign-Trade Zones = 20%.

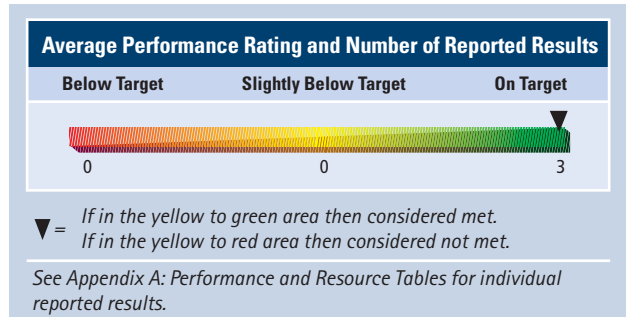
Performance Goal: Improve the U.S. competitive advantage through global e-commerce (ITA)

Improve the U.S. competitive advantage by promoting global e-commerce, a major channel to further U.S. exports.

ITA continues its focus on e-commerce, a major channel to further U.S. exports. ITA provides exporters that have Internet access with information on the international marketplace through the use of electronic products and services such as Export.gov and BuyUSA.gov. These two major Web sites provide basic information on navigating through the steps in the export process, in addition to international market research and online matchmaking services with foreign buyers. Through Export.gov, ITA's export portal, users can access a broad array of U.S. government trade-related information from the Department. BuyUSA.com and Export.gov work in partnership to help SMEs complete export transactions. Using a wide variety of e-commerce tools and service from both public and private sector sources, ITA employees help U.S. business evaluate new overseas markets and take advantage of foreign sales opportunities.

Most companies prefer to use the Internet as a source of information. Exporters find the Internet the ideal mechanism for obtaining current information on changing economic conditions, regulations, and other crucial information. Many small companies want a single Web site that is easy to navigate and includes links to other U.S. government sites where appropriate. ITA has developed two performance measures to capture users' input. The measure "Customers' perceptions of portal ease of use," provides insight into how well the efforts to improve access meet the needs of the actual users. One of the most valuable services that ITA provides to U.S. exporters is information on foreign markets and trade opportunities. To measure its success in this endeavor, ITA tracks the "percentage of ITA's significant products and services provided electronically to external customers," since companies of all sizes view U.S. government research as reliable and unbiased, and they generally expect the information to be current and readily available in an easy-to-use format.

ITA successfully achieved over 5,675 new subscribers who now use BuyUSA.com e-services. Over 75 percent of ITA's customers found ITA's trade portal (www.export.gov) easy to use. ITA provided over 85 percent of its products and services to external customers electronically.

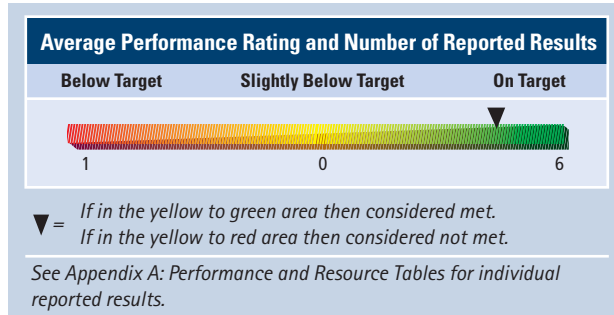


Export.gov is the portal to all export-related assistance and market information offered by the federal government. Through Export.gov users obtain information on regulatory matters and policies, and access a broader array of U.S. government trade-related information. Whether a U.S. firm is looking for trade leads, free export counseling, or help with the export process, Export.gov is the firm's first step in growing international sales.

Performance Goal: Increase opportunities and access of minority-owned businesses to the marketplace and financing (MBDA)

Achieve entrepreneurial parity for minority businesses enterprises (MBE) by actively promoting their ability to grow and to compete in the global economy.

MBDA's core programs comprise a network of funded centers that provide services to the minority business community. They include the Minority Business Development Centers (MBDC), Native American Business Development Centers (NABDC), Minority Business Opportunity Committees (MBOC), a Special Project Roundtable, and Access to Markets and Capital programs, all primarily funded through cooperative agreements (federal grants). MBDA has been successful in standardizing its services to MBEs and expanding its presence and outreach to nearly 50 different locations throughout the country and leveraging its resources with public/private-sector partnerships to benefit MBEs.



MBDA successfully launched the Strategic Growth Policy to assist high-growth potential minority firms that have annual revenues greater than \$500,000. As an immediate result of this new strategy, MBDA succeeded in assisting clients to obtain larger, often prime contract awards, but has not generated enough contract awards to meet its FY 2004 target for the "Number of Contract Awards Obtained for MBEs." Still, MBDA programs were successful in providing management and technical assistance as well as access to financial and procurement opportunities to over 25,000 clients nationwide.

MBDCs and NABDCs, with support of MBOCs, obtained approximately \$1.5 billion in financial and procurement transactions. The Agency and its funded network established over 175 strategic partnerships that added value to services available to the minority business community.

MBDA's Office of Performance and Program Evaluation (OPPE) provides periodic assessments of the Agency's programs. In FY 2004, OPPE completed an evaluation of the MBOC program as well as a pilot Roundtable in Arkansas. The recommendations of these evaluations will be used as a tool for management in an ongoing effort to improve the design and implementation of the program that enable the programs to meet performance targets towards Agency performance goals.

The report made 20 recommendations. A few highlights of the recommendations follow:

Efforts should be made by MBDA and the MBOC to advocate mission goals with the local city or county planning board. This will include the MBOC on the agenda and become a recognized "Center of Influence" within the community.

MBDA must select funding sites in advance that can provide the most cost effective benefits to MBEs, especially high growth potential firms. The funding for this program will determine the number of projects and expected performance outcomes. Projects should have similar goals. MBDA should consider alternative programs for funding weaker economic communities.

For the future, consider combining some attributes and work requirements from different MBDA programs to fund a hybrid special project in an attempt to reduce overhead and service the community.

The MBOC program manager and the Office of Business Development will be implementing changes in FY 2005 and preparing for a new program solicitation with these recommendations.

MBDA continues to operate with an entrepreneurial and innovative approach to embracing the changing demands of MBEs by developing useful products and services. A customer satisfaction survey and Survey of Minority-Owned Business Enterprises (SMOBE) developed by Census have provided valuable information for management. MBDA used these tools to develop a new focus towards "The Strategic Growth Policy" (SGP), identifying the unique challenges and unmet demands of potential high-growth minority firms that possess the potential capacity to significantly impact bottom line performance and economic outcomes, as measured by job creation, gross receipts, contracts, and financial packages. At the same time, MBDA continues to serve the needs of start-up and small minority businesses.

The SGP went into effect in January 2004 for the Business Development Center projects. Based on outcomes to date, MBDA has been able to obtain larger contract opportunities in comparison to FY 2003. For example, the average contract grew from \$280,000 to over \$460,000. Most firms assisted have over 12 employees compared to just 6 in 2003. Average firm receipts are over \$1 million annually. These are significant results.

OBJECTIVE STRATEGIES AND FUTURE PLANS

EDA launched its "Results-Driven Performance" initiative during 2004 to focus on economic development initiatives that achieve the highest rate of return on the taxpayers' investment. EDA is working with its partners and implementing the initiative through efforts such as the revised Investment Policy Guidelines, which target investments that attract private capital investment and create higher-skill, higher-wage jobs.

EDA continues to build upon its partnerships with local development officials; EDDs; UCs; faith-based and community-based organizations; and local, state, and federal agencies. EDA's approach is to support local planning and long-term partnerships with state and regional organizations that can assist distressed communities with strategic planning and investment activities. This process helps communities set priorities, determine the viability of projects, leverage outside resources to improve the local economy, and sustain long-term economic growth.

All EDA investments are compliant with EDA's Investment Policy Guidelines to ensure that an investment will be part of an overarching, long term Comprehensive Economic Development Strategy that enhances a region's success in achieving a rising standard of living, and will demonstrate a high degree of commitment by exhibiting strong cooperation between the business sector; relevant regional partners; and local, state, and federal governments. Peer reviews are conducted every three years for each of the EDD Partnership Planning investment recipients and UCs, and the EDA regional offices continue to monitor the performance of all investment recipients.

EDA initiated the first stage of a three-year competition cycle for UC funding. In FY 2004, EDA's Denver and Austin regional offices conducted open competitions for UC funding. EDA will hold similar competitions in its Chicago and Philadelphia regions in FY 2005 and in its Seattle and Atlanta regions in FY 2006. In FY 2007, the cycle will be restarted with competitions in Denver and Austin. These competitions will help to ensure that EDA and the nation's taxpayers will realize the maximum returns on their investments from the UC program resources.

In FY 2005, EDA will continue to implement its "Results-Driven Performance" initiative and outreach efforts through satellite telecasts, forums, e-newsletters, magazines, and other means. It is anticipated that these efforts, combined with the CEDS process and TAAC and UC assistance to communities, will continue to result in the development and support of effective capacity and entrepreneurial talent to achieve and sustain economic growth where it is most needed.

The ITA strategy is to address these factors and help U.S. firms address challenges resulting from those factors. ITA has had significant success in addressing opportunities when they present themselves. For example, ITA has made much progress in expanding U.S. exports while supporting U.S. government foreign policy initiatives; both the Iraq and Afghanistan task forces have helped generate export sales in those countries while supporting the U.S. foreign policy goal of regional stability. By generating U.S. exports, ITA simultaneously supports the development of a stronger market-oriented economic system in areas of the world (Africa, Middle East), contributing both to U.S. economic goals and global stability.

A portion of ITA's resources are directed toward ensuring that U.S. SMEs, service industries, and manufacturers can compete and win in the global economy. ITA supports the President's economic program of export expansion by reasserting leadership in international trade through negotiations, through compliance, and by seeking the removal of non-tariff trade barriers. ITA assists in the development of commercial infrastructure in target markets.

The health of the U.S. economy depends on its SMEs. The US&FCS program's mandate is to create an environment in which all U.S. firms, including SMEs, can flourish. In order to achieve this, the US&FCS program seeks to increase export opportunity awareness among U.S. companies by identifying potential exporters who need assistance, leveraging electronic and traditional media, centralizing relationships with customers, and developing alliances and partnerships to deliver export assistance. A unique global network of trade professionals located in over 250 offices covering 80 countries and 47 states, plus Puerto Rico, capitalizes on high export areas identified by trade patterns. US&FCS is committed to opening and expanding foreign markets for U.S. goods and services and improving U.S. export performance, and is currently focusing on six new initiatives that will help boost the number of U.S. companies that win contracts and export. No additional indicators are contemplated. The six initiatives are:

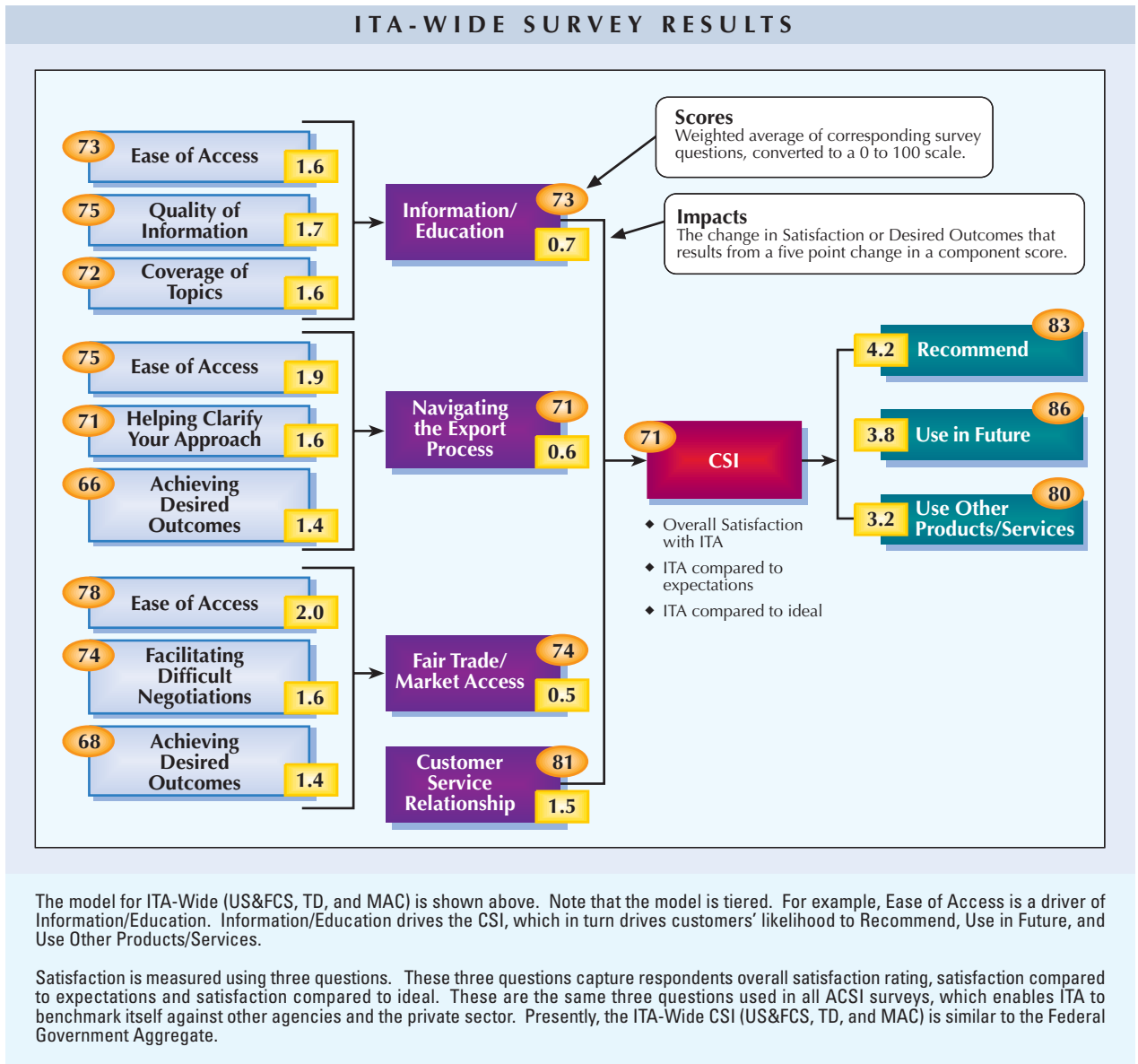
- ◆ The American Trading Center initiative, which reaches additional large provincial markets in China.
- ◆ The Secretarial Standards Initiative, which incorporates training for the staff in the field to identify and help firms overcome standards barriers in international markets.
- ◆ The African Growth and Opportunities Act (AGOA) initiative, which expands US&FCS operations in sub-Saharan Africa.
- ◆ The Global Diversity and Rural Export Initiatives (GDI and REI), which target traditionally under-served communities. GDI takes minority firms through a comprehensive export-training course. Over 200 minority/women-owned firms have graduated from the course. REI ensures better access to export-assistance programs for rural companies.
- ◆ The Business Information Center (BIC) initiative, which includes business centers located in Washington, D.C, for China and the Middle East, provides current information and opportunities in these markets. The BICs are built on the successful models established in Central and Eastern Europe and in the Newly Independent States.

ITA's customers are U.S. businesses. U.S. firms expressed several needs for enhanced products and service offerings and service delivery capabilities from ITA to export more successfully in a fair trade environment. U.S. businesses want online customized information products and simplified access to ITA services.

The success of ITA efforts depends upon effectively addressing the challenges faced by U.S. firms in foreign markets, and also meeting the expectations and needs of its stakeholders and customers.

ITA includes client evaluation and uses survey data to drive its client strategy as depicted in the chart that follows.

Collectively, these efforts assure the timely, responsive, high-quality service to the business community; promote continuing program improvement; and ensure efficient field operations.



ITA will continue to achieve its customer satisfaction strategies by providing high-quality services and customized solutions through a unique global network of knowledgeable professionals who put their clients first to help U.S. firms export.

ITA continues its focus on e-commerce, a major channel to further U.S. exports. The scope of e-commerce influence is broad, covering market access, customs, services, government procurement, and other areas of export promotion. ITA's e-commerce export promotion program has four main goals: helping small businesses use the Internet to find markets overseas, helping established U.S. information technology (IT) companies to expand overseas, helping emerging economies make the transition to the digital age, and ensuring that both the Internet and foreign markets are open and accessible.

ITA will increase efforts to promote U.S. companies' bids in regions with higher e-commerce export potential.

MBDA will continue to build on its base by using the services of MBOCs, MBDCs, NABDCs, Community Roundtables, and other Access to Markets and Capital programs to enhance the Agency's services to the minority business community.

In order to promote overall U.S. economic growth, it is critical to service medium to large businesses enterprises that can have a significant impact on employment and the tax base within their communities. Increasing the number of medium and large minority businesses is in the short and long-term strategic interest of achieving MBDA's vision of wealth creation in the minority community. MBDA will continue to address the needs of small minority businesses. In pursuit of entrepreneurial parity, MBDA has established a Strategic Growth Policy. This initiative is designed to address the issue of sustainable business value for firms of size operating in high-growth industries. MBDA programs focused on providing access to capital and market opportunities, and are the prime components of the Strategic Growth Policy. MBDA has targeted its strategic goals and performance measures to ensure the efficient and effective allocation of its resources

CHALLENGES FOR THE FUTURE

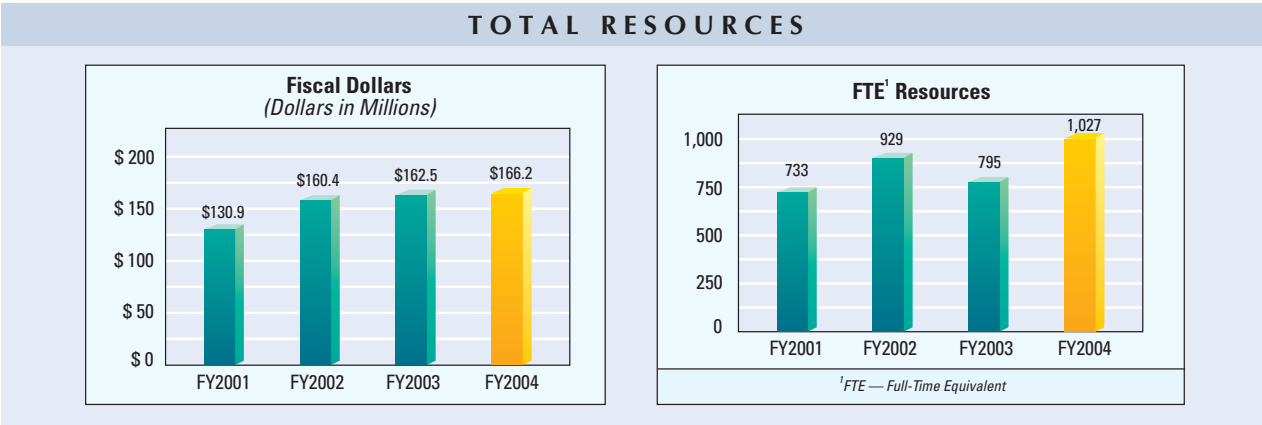
Due to the economic climate and the reduction in the financial resources of local governments and other entities, the overall demand for Economic Adjustment funding is expected to increase. This may have an adverse effect on EDA achieving its goal of state and local dollars committed per EDA dollar.

Changing economic, technological, and social conditions in the last decade have altered how international trade is conducted. This changing international trading environment presents U.S. exporters with numerous challenges and opportunities, such as domestic and international competitiveness, compliance with WTO accession requirements for nations like China, standards, currency and intellectual property issues, as well as transparency and rule-of-law requirements.

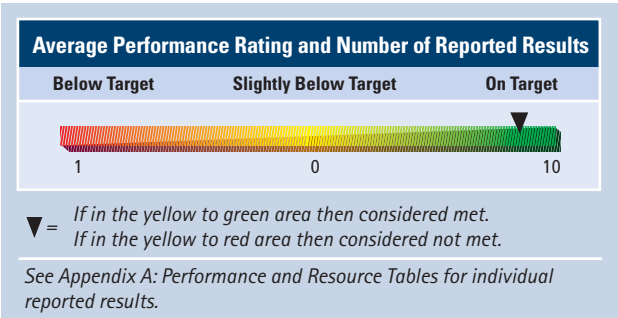
MBDA is challenged by the rapid growth in the minority population that is now taking place and the increased demands for new and expanded services. MBDA continued to execute strategic alliances with private and public sector organizations to leverage its resources. Concurrently, MBDA has narrowed its target market to focus resources on firms with the greatest economic impact on the nation.

STRATEGIC OBJECTIVE 1.2

Advance responsible economic growth and trade while protecting American security



This objective is important to the nation as it helps to ensure fair competition in international trade, advances the U.S. national security and economic interests by enhancing the efficiency of the dual-use export control system, deters illegal exports and identifies violators of export prohibitions and restrictions for prosecution, strengthens the export and transit control systems of nations that are still developing effective control arrangements, ensures U.S. industry compliance with the Chemical Weapons Convention (CWC) Agreement and the Additional Protocol to the International Atomic Energy Agency Safeguards Agreement, and undertakes a variety of functions to support the viability of the U.S. defense industrial base.



The Department is working extensively with U.S. businesses on a regular basis to help them understand U.S. trade laws related to dumping and foreign government subsidies. Appropriate actions are taken when violations have been identified. The Unfair Trade Practices Team tracks, detects, and confronts unfair competition by monitoring economic data from U.S. global competitors and vigorously investigates evidence of unfair subsidization and production distortions. Through internal restructuring, the Department has been able to focus and sharpen expertise on China by creating a China Compliance Office that devotes more resources to China, and cases and issues unique to non-market economies where the lines between the state and private sector are blurred.

The Department continues to face the difficult balancing act of supporting necessary shifts in foreign policy and security goals while addressing viable opportunities to expand the U.S. market base. The Department's success in maintaining this balance has stemmed from its ability to integrate efforts to support the President's commercial and foreign policy goals to promote freedom and liberty through free and fair trade, while it pursues expanding profitable markets for U.S. goods and services. For this reason, the Department is readily working to reconstruct Iraq and Afghanistan and to bring free trade to Africa and the Middle East.

IMPORTANT HIGHLIGHTS FOR STRATEGIC OBJECTIVE 1.2

Advancing responsible economic growth and trade while protecting U.S. security. The Department's programs continue to address market access and WTO compliance/accession requirements, and seek avenues to correct production-related, market distorting practices in China. The Department continued to ensure that U.S. firms have had a fair playing field. This is a cornerstone of responsible economic growth in trade. In the past three years, the Department's ITA has saved the U.S. pharmaceutical industry billions of dollars through efforts to squelch "knock off" pharmaceuticals in the Chinese market.



Understanding trade laws. The Department has worked extensively with U.S. businesses on a regular basis to help them understand U.S. trade laws related to dumping and foreign government subsidies. Appropriate actions have been taken when violations have been identified. The Unfair Trade Practices Team has tracked, detected, and confronted unfair competition by monitoring economic data from U.S. global competitors and by vigorously investigating evidence of unfair subsidization and production distortions. Through internal restructuring, the Department has become more capable in focusing and sharpening expertise on China by creating a China Compliance office that devotes more resources to China. This has been critical because these cases and issues are unique to non-market economies where the lines between the state and private sector are blurred.



Free and fair trade. The Department continues to face the difficult balancing act of supporting necessary shifts in foreign policy and security goals while addressing viable opportunities to expand U.S. market base. The Department's success in maintaining this balance has stemmed from its ability to integrate efforts to support the President's commercial and foreign policy goals to promote freedom and liberty through free and fair trade, while it pursues expanding profitable markets for U.S. goods and services. For this reason, the Department is readily working to reconstruct Iraq and Afghanistan and to bring free trade to Africa and the Middle East.

The Department manages the U.S. dual-use export control system. Dual-use items subject to the Department's regulatory jurisdiction have predominantly civilian uses, but also have conventional military, weapons of mass destruction, and terrorism-related applications. One of the Department's principal objectives is to ensure that direct exports from the United States and reexports of U.S.-origin items from third countries advance U.S. national security, foreign policy, and economic interests. Other important objectives include ensuring industry compliance with international arms control treaties and contributing to the ability of the defense industrial base to meet national security requirements.

To accomplish its objectives, the Department promulgates clear, concise, and timely regulations setting forth license requirements for the export of dual-use items. Principal areas of focus include implementation of controls agreed to in the four multilateral export control regimes – the Nuclear Suppliers Group, the Missile Technology Control Regime, the Australia Group (chemical and biological nonproliferation), and the Wassenaar Arrangement (conventional arms and dual-use goods and technologies) – as well as furthering other U.S. foreign policy interests, including sanctions policies; specify which export licensing agency has jurisdictional authority for a given item; and clarify the rights and obligations of U.S. exporters.

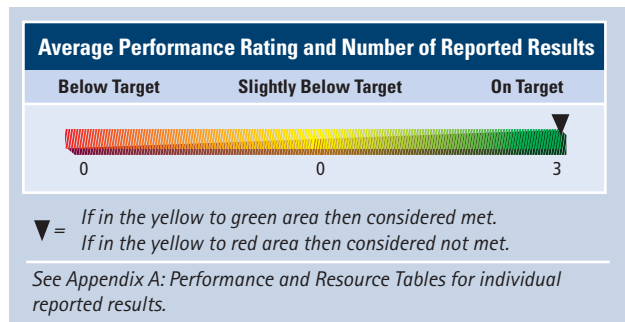
In the development of regulatory policy, the Department consults with industry through its six Technical Advisory Committees (TAC). The TACs provide valuable input regarding industry perspectives on trends in technology as well as the practicality and likely impact of export controls. In addition, the Department often publishes significant rules in proposed form to give the exporting community an opportunity to comment before the regulations take effect.

In addition, the Department strives to effectively and efficiently process export license applications and related requests to enable U.S. companies to compete in the international market while ensuring that U.S. national security is protected and U.S. foreign policy is advanced. The Department's programs continue to address market access and WTO compliance/accession requirements and seek avenues to correct production-related, market distorting practices in China. Ensuring that U.S. firms have a fair playing field is a cornerstone of responsible economic growth in trade.

Performance Goal: Ensure fair competition in international trade (ITA)

Help build a rules-based trading system in which international trade is both free and fair for U.S. firms and workers.

MAC overall objectives are to obtain market access for U.S. firms and workers and to achieve compliance with trade agreements that the U.S. has signed with other countries. Import Administration (IA) defends U.S. industry against injurious and unfair trade practices by administering the antidumping and countervailing duty (AD/CVD) laws of the United States and enforcing other trade laws and agreements negotiated to address such trade practices.



ITA successfully completed 100 percent of AD/CVD cases on time in accordance with its statutory mandate. The number of AD/CVD cases completed on time is a reflection of the diligence of IA staff to complete its casework within the statutory timeframe. Domestic industry generates AD/CVD cases, and timeliness of case activity is a critical factor for delivering customer satisfaction. Timeliness of casework is also essential for upholding the integrity of the AD/CVD laws as a credible and fair legal mechanism to address unfair trade actions by foreign interests. The stated target reflects management's prioritization of adherence to statutory requirements. ITA must always complete these cases within the limits set forth in law.

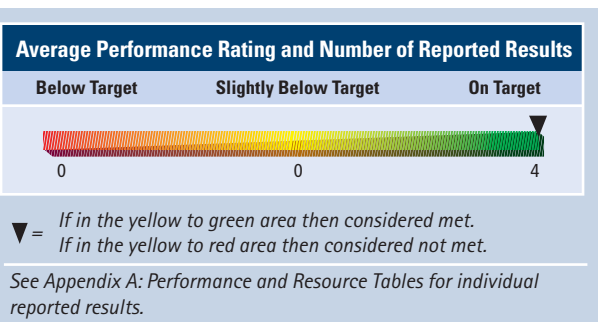
ITA faces new demands as the international trade environment changes from year to year: new barriers are erected, the role of international organizations and alliances is strengthened, and other foreign regulatory measures are implemented that may impact ITA exports. This performance measure assesses the extent of ITA's efforts to monitor trade agreements, identify and initiate market access and compliance cases on behalf of U.S. businesses, and work to their resolution. Market access cases arise from complaints received by ITA from U.S. companies experiencing overseas barriers to U.S. exports, which are not covered by trade agreements. Compliance cases rise from complaints received by ITA from U.S. companies regarding failures by foreign governments to implement trade agreements negotiated by the United States and through monitoring efforts by ITA compliance officers.

ITA is in the vanguard of commerce to ensure fair competition by obtaining greater market access for U.S. companies by eliminating barriers to U.S. exports overseas and ensuring foreign compliance with negotiated trade agreements. This performance measure addresses ITA's efforts to obtain market access for U.S. exporters and achieve foreign government compliance with trade agreements. The number of market access and compliance cases concluded is based on a number of cases processed by ITA where no further action by ITA is warranted—case is successfully resolved; complaint was groundless, i.e., no violation; industry decides not to pursue complaint; case referred to U.S. Trade Representative (USTR) for consideration for formal dispute settlement resolution; or the problem cannot be resolved despite ITA efforts. ITA plans to meet its annual target. MAC concluded 116 market access and trade compliance cases.

In FY 2004, GAO initiated a review of administrative procedures, policy, and outcomes related to specific U.S. trade remedy actions used to protect domestic producers against injurious increases or surges of Chinese imports. Once the study is completed, ITA will review findings and determine an appropriate strategy and actions.

Performance Goal: Protect the U.S. national security and economic interests by enhancing the efficiency of the export control system (BIS)

BIS regulates the export of those dual-use items that are determined to require export licenses for reasons of national national security, nonproliferation, foreign policy, or short supply; ensures that approval or denial of license applications advances U.S. economic and security interests; promotes within the business community understanding of export control regulations; represents the Department in interagency and international fora relating to export controls, particularly multilateral regimes; monitors and seeks to ensure the availability of industrial resources for national defense under the authority of the Defense Production Act; and assesses the security consequences for the United States of certain imports.



BIS processes export license applications for controlled commodities of U.S. companies engaged in international trade in accordance with Export Administration Regulations (EAR). An integral part of BIS's mission is to facilitate compliance with U.S. export controls by keeping U.S. firms informed of export control regulations through an aggressive outreach program. BIS provides timely information to U.S. industry regarding the updating of export controls, new regulations in support of non-proliferation and anti-terrorism goals, and compliance with EAR.



Under Secretary of Commerce for Industry and Security Kenneth I. Juster addresses over 600 exporters at the Annual Update Conference on Export Controls and Policy.



Assistant ITA Secretary William H. Lash III meets with the Libyan Economic Minister. Lash proudly proclaimed the resumption of Libya's oil exports to the United States and the bright future for trade between the two nations.

U.S. Assistant Secretary for Commerce William H. Lash III announced here a resumption of Libyan oil exports to the United States and reported discussions on the Libyan purchase of Boeing aircraft. "The export of Libyan oil to the United States has started and there is no obstacle in this field," Lash told journalists. A Libyan petroleum source said the exports had commenced last month. Lash, who arrived for talks on improving trade ties, met with several senior Libyan officials including Energy Minister Fathi bin Shatwan, Tourism Minister Ammar Altaef and Libyan Arab Airlines chairman Hassan Dabnoun.

BIS successfully promulgated 31 regulations that facilitate the ability of U.S. companies to compete internationally by streamlining export controls on less sensitive items while enhancing U.S. national security and furthering U.S. foreign policy interests by expanding export controls in key areas. Significant regulations published include those applying to exports to Libya, Syria, Iraq, and Cuba, and revisions to "catch-all" controls to further ensure terrorists are not able to access U.S.-origin items for weapons of mass destruction. BIS processed in a timely manner over 15,000 export license applications and related requests in FY 2004 benefiting exporting companies and industries and, in turn, the U.S. economy while protecting national security and foreign policy interests. BIS ensured the successful completion of ten international inspections of U.S. chemical plants under the Chemical Weapons Convention (CWC) as well as ensured commercial factors received due consideration in the Administration's development of a strategy to implement the Additional Protocol to the International Atomic Energy Agency (IAEA) Safeguards Agreement. BIS contributed to the ability of the U.S. defense industrial base by processing 22 Defense Priorities and Allocations cases, reviewed 35 cases on foreign investment in the United States, and completed five defense industrial base reports. By issuing "Directives" to U.S. companies manufacturing critical materials in response to Department of Defense Requests for Special Priorities Assistance (RSPA), BIS contributed to every U.S. man and woman in uniform in Afghanistan and Iraq now having an Interceptor personal body armor vest. BIS imposed civil penalties in the amount of almost \$6.2 million, compared to \$4.1 million in all of FY 2003, and obtained criminal convictions on important export enforcement cases, such as InfoCom, Butler, and Suntek.

The basic BIS licensing program that establishes licensing policy, promulgates regulations, and applies the policy and regulations in evaluating and acting on license applications for export of dual use commodities largely accomplishes its fundamental objectives. Nevertheless, BIS continues to work to improve efficiency and effectiveness, including:

- ◆ Strengthening the legal basis for dual-use export controls: The Administration seeks a revised, reauthorized Export Administration Act (EAA) that will clarify some outdated control requirements, increase penalties for violations to replace inadequate penalties, further specify interagency licensing processes, and codify procedural rights of exporters.

- ◆ Improving technological and economic analytical ability: BIS continues to seek funds to establish an Office of Technology Evaluation that will enable it to acquire and manage economists and technological specialists who are equipped to address the defense industrial base issues and the high technology licensing issues BIS increasingly faces. This will specifically address deficiencies that have been cited by GAO and the Office of Inspector General (OIG).

The following are reviews conducted by GAO and the IG related to this Goal:

Cruise missiles and unmanned aerial vehicles (UAV) pose a growing threat to U.S. national security interests as accurate, inexpensive delivery systems for conventional, chemical, and biological weapons. GAO recommended that BIS assess the adequacy of EAR end-user, or "catch all," controls in addressing missile proliferation and indicate ways in which such controls might be modified to increase their effectiveness. BIS is preparing a revision to EAR that will expand missile catch-all controls to further address missile proliferation by non-state actors. Once published, the regulation will strengthen the controls contained in section 744.3 of EAR. BIS also conducted a review of licensing transactions with respect to unmanned aerial vehicles/cruise missiles. BIS identified those commodities, end-uses, and destinations requiring additional scrutiny for post-shipment verification selections.

To comply with the National Defense Authorization Act's (NDAA) FY 2004 requirement, the IG conducted an interagency review to assess whether the current deemed-export control laws and regulations adequately protect against the illegal transfer of controlled U.S. technologies and technical information by foreign nationals to countries and entities of concern. The IG determined that some areas of deemed-exports, such as the outreach program, are working well, and acknowledged the steps BIS has taken to strengthen the rest of the program. BIS also plans to initiate a pilot program for post-shipment verifications on the most sensitive deemed export licenses to determine compliance with license conditions and to detect any violations.



Bureau of Industry and Security and Chinese government officials conduct a seminar on export controls in Shanghai, China.

Performance Goal: Ensure U.S. industry compliance with the Chemical Weapons Convention (CWC) agreement (BIS)

BIS collects, validates, and aggregates data from those U.S. companies that manufacture or use chemicals covered by the convention; educates those companies on their treaty rights and obligations; and serves as the lead U.S. government agency for hosting international inspectors who are inspecting U.S. business facilities subject to Convention requirements.

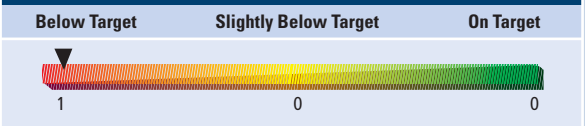
BIS oversees compliance by the U.S. business community with the CWC and the Additional Protocol to the IAEA Safeguards Agreement.

BIS oversees compliance by the U.S. business community with the CWC and will oversee their compliance with the Additional Protocol to the IAEA Safeguards Agreement when implemented. Due to the lack of implementing legislation and regulations for the Additional Protocol in FY 2004, BIS was not able to conduct Site Assistance Visits (SAVs) under the Additional Protocol. However, BIS successfully conducted 12 SAVs pursuant to the CWC Regulations. During these SAVs, BIS assisted companies comply with CWC regulations and found that companies had adequate measures to protect confidential business information. However, none of the companies visited were selected for inspection by the Organization for the Prohibition of Chemical Weapons (OPCW) in FY 2004.

CWC bans chemical weapons and requires their destruction by 2007, with possible extensions to 2012. CWC also seeks to reduce the proliferation of these weapons by requiring member states to adopt comprehensive national laws to criminalize CWC-prohibited activities. The OPCW monitors the destruction of chemical weapons and inspects declared commercial facilities in member states. GAO reviewed (1) member states' efforts to meet key convention requirements, (2) OPCW's efforts in conducting inspections to ensure compliance with the convention, and (3) Russia's efforts to destroy its chemical weapons stockpile.

It is important to recognize that the U.S. government has taken a lead role in addressing shortcomings in overall treaty implementation, including taking the initiative at the CWC Review Conference to establish a plan of action to promote universal compliance with Article VII by 2005. The U.S. government is providing assistance to States Parties and the Technical Secretariat to achieve this goal and is developing guidelines for making compliance assessments by the 2005 Conference of States Parties.

Average Performance Rating and Number of Reported Results



▼ = *If in the yellow to green area then considered met.
If in the yellow to red area then considered not met.*

See Appendix A: Performance and Resource Tables for individual reported results.



"BIS has a successful history of assisting industry to comply with...the Chemical Weapons Convention...We have developed a partnership with commercial facilities built upon three guiding principles:

- (1) Demonstrating industry compliance;*
- (2) Emphasizing the protection of confidential information; and*
- (3) Minimizing burdens and costs to industry."*

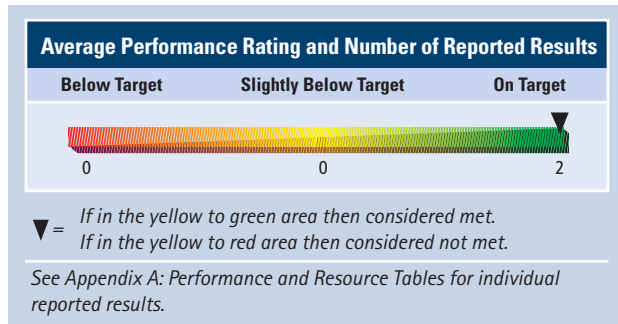
Peter Lichtenbaum, Assistant Secretary for Export Administration

Performance Goal: Prevent illegal exports and identify violators of export prohibitions and restrictions for prosecution (BIS)

BIS investigates and helps prosecute potential violations of U.S. export control, antiboycott, and public safety laws that carry civil and criminal sanctions. BIS also engages in preventive enforcement to deter potential violations.

BIS protects national security, nonproliferation, anti-terrorism, and foreign policy interests by enforcing dual-use controls to ensure that illegal exports will be detected and either prevented or the violators sanctioned.

BIS's enforcement program successfully imposed civil penalties in the amount of \$6.2 million; overhauled the industry outreach program to include a standardized presentation and surveys to increase industry feedback; increased international cooperation by strengthening the attaché program; published the first penalty guidance for the settlement of administrative enforcement cases under EAR, which will provide transparency to the penalties, help increase the number of self-disclosures, and speed up the administrative settlement process.



In FY 2004, BIS completed 401 post-shipment verifications (PSV) to ensure that dual-use exports were used in accordance with their export license conditions.

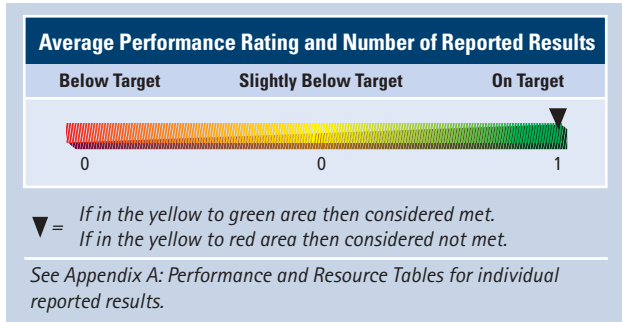
GAO recommended that BIS (1) improve technical training for enforcement personnel conducting PSV checks, (2) ensure that personnel conducting PSV checks assess compliance with license conditions, and (3) require that the exporter inform the end user in writing of the license conditions.

BIS implemented the new Safeguards protocol, which requires training for all Safeguards team members, prior to their departure, on commodity recognition/identification and end-use check procedures. In addition, BIS is undertaking an effort to standardize conditions placed on export licenses and to review the enforceability of these conditions. BIS licensing and enforcement officials are also working together to conduct a series of outreach seminars to educate exporters on the importance of communicating license conditions.

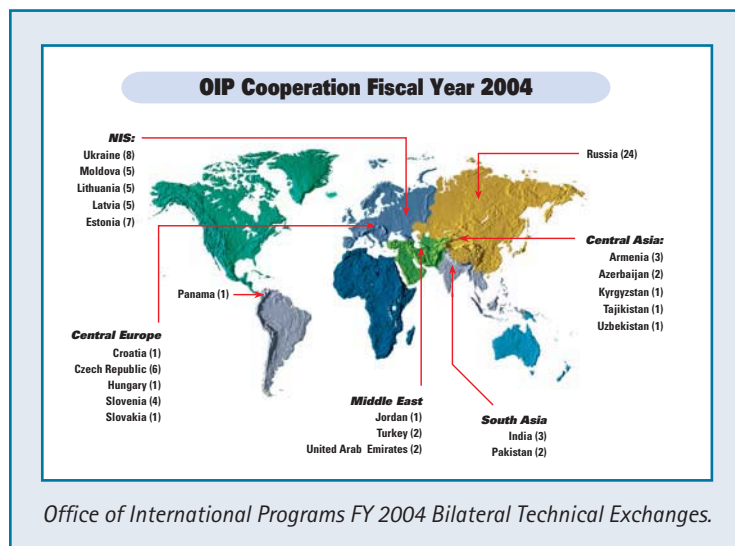
Performance Goal: Enhance the export and transit control system of nations that lack effective control arrangements (BIS)

Through a series of bilateral and regional cooperative activities co-sponsored with the State Department, BIS helps the nations with which it works to (1) develop the procedures and requirements necessary to regulate the transfer of sensitive goods and technologies, (2) enforce compliance with these procedures and requirements, and (3) promote the industry/government partnerships necessary for an effective export control system to meet international standards.

The Office of International Programs assists in implementation of BIS international activities, including: (1) coordination and management of BIS participation in the U.S. government's Export Control and Related Border Security Assistance program, which provides technical assistance to strengthen the export and transit control systems of nations lacking effective systems that are identified as potential locations for export transshipment or transit of nuclear, chemical, biological, or radiological weapons; missile delivery systems; or the commodities, technologies, or equipment that could be used to design or build such weapons or their delivery systems; (2) preparing input for reports and other information on BIS international cooperative programs; (3) representing the Department in ongoing interagency dialogues on international export control assistance programs and other international nonproliferation and export control issues; and (4) providing policy and implementation support for the Office of the Under Secretary for international dialogues and activities.



BIS successfully remedied 41 deficiencies in the national export control system capabilities of cooperating countries. Highlights of results of these accomplishments in various countries include the adoption of a national dual-use export control law, a draft of regulations establishing a national licensing authority, export enforcement training, deployment of industry awareness programs and Internal Control Program software tools in over 300 foreign enterprises, and high-level commitments to develop cadres of professional licensing officials.



BIS successfully commissioned independent evaluations of the effectiveness of its programs in several cooperating countries, including Russia and Ukraine, to launch a more systematic effort to assess program effectiveness. In FY 2004, GAO also recommended that the Secretaries of State and Commerce evaluate the extent to which the export control activities of the Nonproliferation and Disarmament Fund (NDF), particularly an

automated licensing software tool supported by NDF known as Tracker, are integrated under the Export Control and Related Border Security Assistance (EXBS) Program, and thus ensure that recipient countries are receiving comprehensive assistance to improve their export control systems. In June 2004, BIS began work with the Department of State in an Interagency Working Group that will oversee efforts to integrate Tracker into the EXBS.

OBJECTIVE STRATEGIES AND FUTURE PLANS

ITA will expand its analytical infrastructure to support timely and accurate assessments of (1) the impact on U.S. industries of the growth of regional trade pacts, and (2) the impact of major competitors exporting their discriminatory technical regulations to third markets in the developing world; develop strategies to support bilateral and multilateral trade negotiations that prevent the adoption of discriminatory international standards and regulations against U.S. products; work closely with foreign governments and regulatory officials in the developing strategies that address regulatory barriers, head off potentially harmful regulations, and help shape good regulations and standards; monitor economic data from U.S. global competitors and vigorously investigate evidence of unfair subsidization and production distortions; identify legal remedies available to counter unfair trade practices and ensure that they are eliminated, rather than leave these small and medium-sized manufacturers in the United States with costly trade litigation; focus and sharpen expertise on China through the recently created China Compliance office in IA. This effort devotes more resources and dedicated experts to China for compliance issues.

Responding to increased concern about the proliferation of weapons of mass destruction, BIS continues to refine U.S. export controls in light of geopolitical and business realities. BIS also seeks to enhance the effectiveness of the EAR by educating exporters and other stakeholders in the export licensing process, thereby improving industry compliance with export control regulations. These efforts will increase the efficiency of the license processing system and thus enable exporters to be more competitive in the global economy while deterring transactions that threaten U.S. security interests.

BIS's primary host team role in CWC activities is to ensure that confidential business information is protected during inspections of U.S. firms. In addition, with the ratification by the U.S. Senate of the Additional Protocol to the IAEA Safeguards Agreement, BIS will serve as lead U.S. government agency in U.S. industry's compliance, and will be required to discharge responsibilities similar to those imposed under the CWC. This responsibility includes facilitating domestic visits of international inspection teams to determine compliance with the multilateral treaty obligations by covered U.S. facilities, and informing industry of its obligations under the treaty. Industry site assistance visits prepare covered facilities to receive a team of international inspectors.

BIS conducts outreach and educational programs to train U.S. exporters to identify and avoid illegal transactions. In addition, BIS works with its foreign counterpart agencies to encourage other governments to implement enforcement measures to complement BIS's export enforcement efforts. BIS unveiled an outreach program that includes a new standardized outreach presentation, increased solicitation of industry feedback via surveys, and new outreach tools.



Secretary Don Evans (background, right side), U.S. Trade Representative Robert Zoellick and Chinese Vice Premier Wu Yi (seated) Host U.S.-China Joint Commission on Commerce & Trade (JCCT) April 21, 2004.

Informative feedback from industry is being used to better target the critical issues that are of interest to industry. The standardized presentation will be given to industry representatives in order to educate them on BIS's enforcement activities. In addition, all BIS agents have been trained on delivering this presentation and will be reaching out to new audiences that have little experience in the export control arena.

BIS established and published the first penalty guidance for the settlement of administrative enforcement cases under the EAR.

Strong enforcement of U.S. export regulations is critical to protect U.S. security interests. However, U.S. national interests can also be jeopardized if sensitive materials and technologies from other nations reach countries of concern or terrorists. For this reason, BIS's strategy includes promoting the establishment of effective export control systems by other nations. BIS also intends to use a new contract mechanism in FY 2005 that should allow for an increase in the number of technical exchanges conducted.

CHALLENGES FOR THE FUTURE

Implementing an export control system that advances U.S. national security, foreign policy, and economic objectives, taking into account the views of the other relevant U.S. executive branch agencies (Defense, State, Energy, Homeland Security, Justice, and the Central Intelligence Agency), Congress, foreign governments, and U.S. industry.

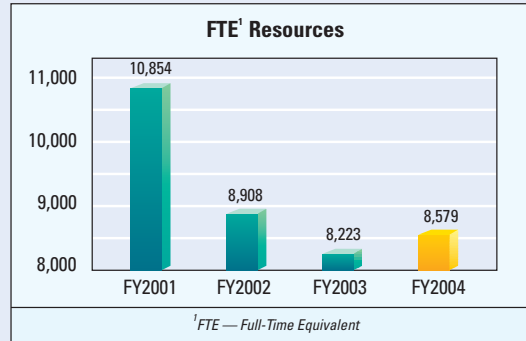
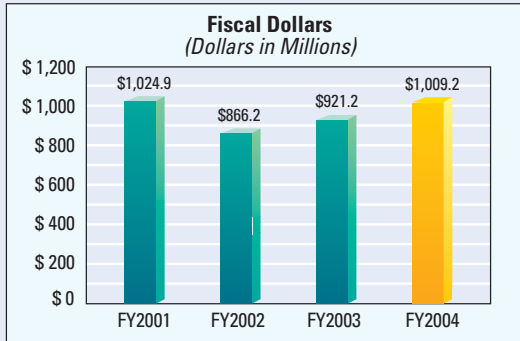
Strengthening the legal foundation of the dual-use export control system. The Export Administration Act lapsed on August 20, 2001. Executive Order 13222 of August 17, 2001 (3 C.F.R., 2001 Comp. 783 (2002)), which has been extended by successive Presidential Notices, the most recent being that of August 6, 2004 (69 FR 48763 (August 10, 2004)), continues the regulations in effect under the International Emergency Economic Powers Act. The Administration has vigorously advocated a streamlined and strengthened export control system that effectively promotes both U.S. national security and U.S. economic interests. BIS continues to work with congressional members and staff on export control reforms that facilitate legitimate global trade while reducing illicit traffic in dual-use items and targeting export control resources on transactions of greatest risk.

Processing export license applications and related tasks promptly and accurately. BIS continues to strengthen its internal processes, develop enabling technologies, and work with other license application reviewing agencies to ensure that the process is effective and efficient. Ensuring U.S. exporters and foreign customers have ready access to regulatory and policy changes. Continuing to expand efforts to help key transshipment countries prevent the diversion of dual-use items through their ports. Ensuring industrial compliance with international arms control treaties without adversely affecting the competitive position of the affected industries. Ensuring U.S. chemical facilities are able to conclude successful inspections by the OPCW and the Additional Protocol to the IAEA. Continuing to refine enforcement targeting to ensure investigation and prosecution of the most significant dual-use export and antiboycott cases.

STRATEGIC OBJECTIVE 1.3

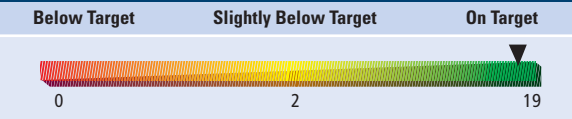
Enhance the supply of key economic and demographic data to support effective decision-making of policymakers, businesses, and the American public

TOTAL RESOURCES



This objective is important to the nation's economic well being in that it serves to meet the needs of policymakers, businesses and non-profit organizations, and the public for current measures of the U.S. population, economy, and governments, while respecting individual privacy, ensuring confidentiality, and reducing respondent burden. It also seeks to promote a better understanding of the U.S. economy by providing timely, relevant, and accurate economic data in an objective and cost-effective manner.

Average Performance Rating and Number of Reported Results



▼ = If in the yellow to green area then considered met.
 If in the yellow to red area then considered not met.

See Appendix A: Performance and Resource Tables for individual reported results.

The Department's statistical programs and services are widely used by policymakers, business leaders and the American public. As a primary source for several measures of macroeconomic activity, the Department provides the nation with a considerable picture of its economic health.

IMPORTANT HIGHLIGHTS FOR STRATEGIC OBJECTIVE 1.3

Provided *More Consistent Information with Integrated Accounts*. The Department worked in 2003 to address the need for more consistent data and make it easier for users to move between economic accounts. In June 2004, the Department released its first set of integrated industry accounts, which are a major step forward in making the economic accounts more user friendly and accurate. The Department also has worked with the Federal Reserve Board on experimental integrated estimates with the flow of funds accounts.



Accelerated *Release of Key Economic Statistics to Better Inform Decisions*. As part of a multi-year project to make the nation's key macroeconomic statistics more timely, the Department accelerated the release of two major measures in 2004. The annual input-output accounts were accelerated by 18 months, the first step in reducing the lag from three years to one year. These accounts provide the foundation for the National Income and Product Accounts and are the source for important productivity and industry analysis. The Department also accelerated the release of its quarterly state personal income by one month with the June 29, 2004 release. This acceleration provides users with state personal income only three months after the end of the quarter. A majority of state budget offices use state personal income to set either revenue and/or spending limits, businesses and economic development officials use personal income to measure the impact of business, and the federal government distributes over \$190 billion in federal funds using state personal income.



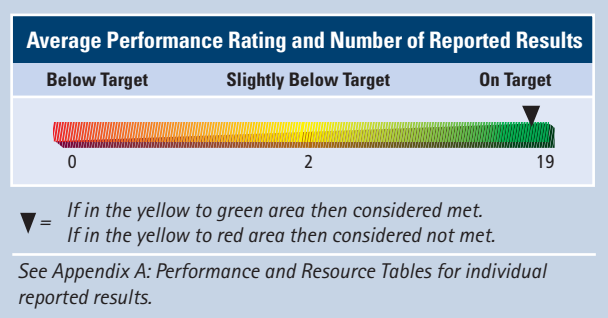
Informed *the Debate on Offshore Outsourcing Activities*. The debate over the extent and the effects of outsourcing by U.S. companies to overseas firms intensified in early 2004. In recognition of this ongoing public interest, the Department accelerated by several months the release of summary statistics on the operations of multinational companies and their employment, sales, and capital expenditures for the year 2002. In addition, the Department published articles and made presentations describing long-term patterns in the domestic and overseas activities of U.S.-based multinationals in the *Survey of Current Business*. This can be found at www.bea.gov. The Department's data are often relied on as a principal source of information for examining the issue of offshore outsourcing.

Performance Goal: Meet the needs of policymakers, businesses and non-profit organizations, and the public for current measures of the U.S. population, economy, and governments (ESA/Census)

Census Bureau collects and disseminates a wide range of current demographic and economic information to help decisionmakers and the public make informed decisions.

ESA's Census Bureau produces the current economic statistics and current demographic statistics programs, the Survey of Program Dynamics, and the State Children's Health Insurance Program.

The current economic statistics programs provide information on retail and wholesale trade and selected service industries; construction activity; quantity and value of industrial output, such as manufacturing activities; shipments, inventories, and orders; capital expenditure information; e-commerce sales; foreign trade; and state and local government activities. During 2004 more than 300 reports on the economy were released.



The current demographic statistics programs provide current measures of the U.S. population through household surveys and population and housing analyses. Among the current demographic programs are the Current Population Survey (CPS), the Survey of Income and Program Participation (SIPP), the Survey of Program Dynamics (SPD), and the State Children's Health Insurance Program (SCHIP). The CPS is the primary source of information on the labor force characteristics of the U.S. population and the official source of information on poverty. The SIPP is the major source of information on the economic well-being of Americans over time. The SPD provides information to help policymakers evaluate the effects of the Temporary Assistance for Needy Families program. The SCHIP provides annual data for each state on the number of low-income children who do not have health insurance coverage.

Target response rates, which are a measure of the quality of surveys for the demographic and economic surveys, were successfully achieved. In addition, most data products for both the economic and demographic programs were released on schedule.

Census successfully exceeded the targeted response rates for the demographic surveys that are used to allocate federal program funds that support schools, employment services, housing assistance, hospital services, and programs for the elderly and disabled. These data are also used to modify programs such as Social Security, Medicare, and Medicaid.

The current demographic statistics program was evaluated by OMB using the Program Assessment and Rating Tool (PART) during FY 2004. OMB made recommendations on improving long-term goals, improving managerial accountability for release schedules, and pursuing additional independent evaluations. The Census Bureau is implementing recommendations in each area.

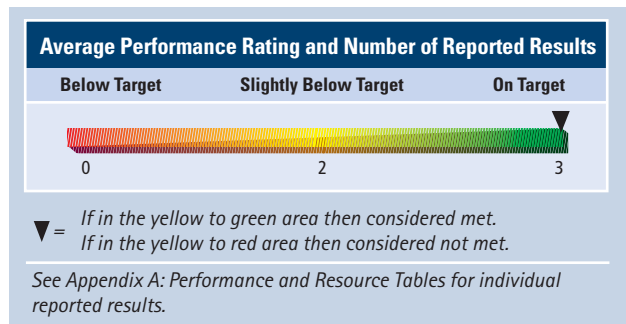
A FY 2004 Department of Commerce IG audit of Census Bureau performance measures recommended revisions to the wording of target performance levels related to this goal to ensure that they accurately conveyed the activities on which the performance results were based. As a result, the Census Bureau revised the wording of several targets from reporting response rates to levels of response, as measured by the number of actual households interviewed. It is anticipated that the new targets will more accurately reflect the impact on the quality of survey estimates that would result from changes in the planned survey design.

Performance Goal: Support the economic and political foundations of the United States by producing benchmark measures of the economy and population for the administration and equitable funding of federal, state, and local programs (ESA/Census)

This goal focuses on the major conduct and dissemination milestones for providing benchmark measures of the economy and population to decisionmakers. Demographic data are used to allocate federal funds and are the basis for key legislative and policy decisions. The economic census covers all non-agricultural sectors of the economy and reports on more than 22 million businesses.

ESA's Census Bureau benchmark programs are a major source of baseline information upon which most data-based decisions and activities occur.

- ◆ The Census of Governments represents the primary source of facts about the structure and function of the public sector of the U.S. economy, so that Congress and federal agencies can plan and evaluate programs that involve intergovernmental relationships.
- ◆ The Economic Census provides comprehensive, detailed, and authoritative facts about the structure of the U.S. economy. It helps build the foundation for the GDP.
- ◆ Intercensal Demographic Estimates provides updated estimates of the U.S. population in the years between the decennial censuses.
- ◆ Demographic Surveys Sample Redesign provides improved sampling methodologies, and updated samples of households for the major recurring household surveys conducted by the Census Bureau.



The 2002 Economic Census advance report and all Census of Governments data products were released on schedule. Releasing the Economic Advance Report on schedule is important, since it provides the first snapshot of the economy at broad levels after the Economic Census and supports effective decision-making of policymakers, businesses, and the public. While the dissemination of the remaining Economic Census data products slipped slightly, the new schedule still meets user needs and is a significant improvement to the 1997 schedule. The dissemination slippage was a result of delays in receiving a final appropriation and lagging response rates that extended data collection activities several months.

Both the Intercensal Demographic Estimates and Demographic Surveys Sample Redesign programs were evaluated by OMB using PART during FY 2004. OMB made recommendations on further involving state partners and other stakeholders in reviews of the programs and incorporating programmatic changes into strategic planning documents. OMB recommendations are being implemented in both programs.

A FY 2004 Department of Commerce IG audit of Census Bureau performance measures recommended revisions to the wording of target performance levels related to this goal to ensure that they accurately conveyed what activities the performance results were based on. As a result, the Census Bureau reworded a target that addressed the dissemination of cyclical census products so that there would be no confusion about which products were scheduled for release.

Performance Goal: Meet constitutional and legislative mandates by implementing a re-engineered 2010 Census that is cost-effective, provides more timely data, improves coverage accuracy, and reduces operational risk (ESA/Census)

This goal applies to the multi-year effort to modernize and re-engineer the decennial census program to better meet the nation's ever-expanding need for social, demographic, and geographic information.

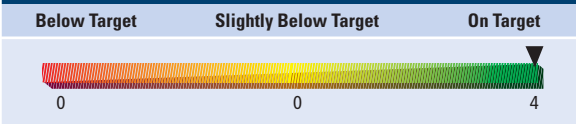
The Census Bureau, within ESA, produces the Decennial Census which provides the official population counts for the United States. The re-engineered decennial program is made up of three integrated components:

- ◆ The American Community Survey (ACS), which will collect and tabulate long-form data every year throughout the decade using a large household survey,
- ◆ The MAF/TIGER Enhancement Program to enhance and improve the Census Bureau's Master Address File (MAF) and geographic database (TIGER),
- ◆ The early planning and development of a short-form only census in 2010.

The 2004 Test Census operations are complete and the Evaluation Follow-up operations are ahead of schedule. The ACS achieved a 92 percent response rate. TIGER features have been brought into global positioning system (GPS) alignment for an additional 600 countries.

The re-engineered Decennial Census is important because it will provide the official population counts, and improve the relevance and timeliness of census long-form data, reduce operational risk, improve accuracy of census coverage, and contain costs. These efforts aim to provide decisionmakers and the public with better information and contain costs. By meeting its FY 2004 performance goals the Census Bureau shows strong progress toward meeting its long range re-engineering objectives for the Decennial Census program.

Average Performance Rating and Number of Reported Results



▼ = If in the yellow to green area then considered met.
 If in the yellow to red area then considered not met.

See Appendix A: Performance and Resource Tables for individual reported results.



Occupational data information about industry and occupation collected by the American Community Survey helps meet the needs of vocational, education, employment and training programs. Photographed by Lloyd Wolf for the U.S. Census Bureau.



Approximately 1,200 employees manage, operate, and support a variety of data collection, data capture, and data processing operations. Photographed by Ted Wathen for the U.S. Census Bureau.

The Decennial Census program was evaluated by OMB using PART during FY 2004. OMB made recommendations on continuing to identify potential areas for cost savings, as well as developing ways to improve managerial accountability for cost, schedule, and performance. The Census Bureau is implementing OMB recommendations on improving managerial accountability, and is on target to update lifecycle cost estimates on a regular basis and improve the Decennial Census cost model to support the long-term performance goals of the 2010 Census.

A FY 2004 Department of Commerce IG audit of Census Bureau performance measures recommended revisions to the wording of target performance levels related to this goal to ensure that they accurately conveyed what activities the performance results were based on. As a result, the Census Bureau revised the wording of an ACS target and a MAF/TIGER measure to clarify and enhance explanations of actual performance results.

A GAO study found that preparations for the 2010 Census appear to be further along compared to a similar

point prior to the 2000 Census. However, GAO recommends that the Census Bureau should continue to research alternative approaches to conducting the 2010 Census while at the same time reduce operational risk and the costs associated with conducting the 2010 Census. GAO also recommended that the Census Bureau combine information on goals, costs, and other key planning elements into a single integrated project plan that is updated as needed. The Census Bureau develops an operation plan that consolidates budget, methodological, and other relevant information about the 2010 Census into a single, comprehensive project plan that is updated regularly. This lifecycle document is shared with Congress, the National Academy of Sciences (NAS) Panel on Research on future Census Methods, and other stakeholders. However, in response to GAO, the Census Bureau is currently working on a document that will combine the information contained in key planning documents previously forwarded to GAO.

GAO also recommended *"To help ensure that the nation has at its disposal the best possible data should there be problems with the quality of 2010 Census, the Bureau, with input from both majority and minority parties in the Senate and House of Representatives, should research the feasibility of procedures that could allow it to adjust census result for those purposes for which it is both legal and appropriate to do so and, if found to be feasible, test those procedures during the 2006 census test and 2008 census dress rehearsal."*

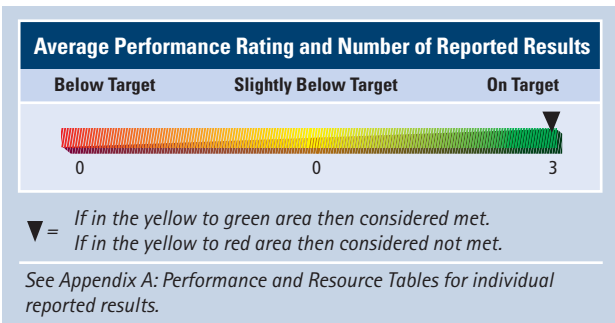
As noted in the response to the draft GAO report, "the Department believes it is not feasible to produce final analyses of coverage measurement data in time to meet legal deadlines. Further, the statutory deadline itself is not the only impediment to adjusting the census. Experience with Census 2000 demonstrated both that the full assessment of the Accuracy and Coverage Evaluation (ACE) data required time far beyond that required by states to meet redistricting requirements under any realistic scenario, and that the difficulties in uses of coverage measurement methodologies to

improve the accuracy of census counts at the tract level may well be insurmountable." Our response goes on to state, "... the Bureau has clearly indicated through its budget process that it does not plan to seek funds for developing a coverage measurement procedure designed to be used to adjust data for redistricting purposes."

Because of the importance and cost of the decennial census program, both OIG and GAO have conducted, and continue to conduct, detailed program audits of the Census Bureau's re-engineering efforts. These efforts also are being studied by the Census Bureau's advisory committees. The Census Bureau is working closely with all of these stakeholders to ensure that appropriate steps are taken in reaction to their observations and recommendations.

Performance Goal: Support innovation, promote data use, minimize respondent burden, respect individual privacy, and ensure confidentiality (ESA/Census)

This goal applies to Census Bureau efforts to provide mission critical support for survey collection, processing, and dissemination.



ESA's Census Bureau's geographic support, data processing, survey development, and electronic information programs provide mission critical support for survey collection, processing, and dissemination.

Geographic Support manages large volumes of information from both internal and external sources to establish and maintain a current and complete inventory of housing unit addresses, streets, roads, and governmental unit boundaries.

Data Processing Systems, Survey Development & Data Services, and Electronic Information Collection provide centralized IT and data collection tools that provide stable, dependable information technology support and the ability to increase the Bureau's capacity for IT innovations that are linked to the accuracy, timeliness, and effectiveness of all Census Bureau programs, including an IT security program.



"Every Survey Counts." Only a small percentage of addresses receive the American Community Survey each year, which is why it is so important that each selected household respond to the survey. Photographed for American Community Survey promotional campaign.

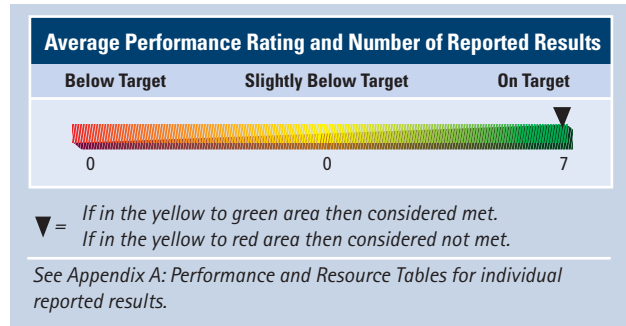
The Boundary and Annexation Survey (BAS) achieved an 85.5 percent response rate. The milestones for the Portal Technology Project were reached, and the Census Bureau achieved a 71 percent score on the ACSI.

Although there are no Department IG or GAO evaluations to report on for the goal, the Census Bureau conducts internal quarterly reviews of these programs to ensure that performance measures are on target.

Performance Goal: Promote a better understanding of the U.S. economy by providing the most timely, relevant, and accurate economic data in an objective and cost-effective manner (ESA/BEA)

ESA's BEA produces economic statistics for four major program areas:

- ◆ National Economic Accounts produces GDP, personal income and outlays, corporate profits, and capital stock estimates.
- ◆ Industry Accounts produces GDP by industry, input-output estimates, capital flow, and U.S. travel and tourism accounts.
- ◆ International Accounts produces U.S. balance of payments accounts, international trade in services, international investment position, foreign direct investment, and the operation of multinational companies.
- ◆ Regional Accounts produces gross state product, state and local personal income, and regional multipliers.



BEA significantly increased the accessibility and level of detail of its economic estimates. On June 29, 2004, BEA accomplished a one-month acceleration of its quarterly state personal income. This accelerated release, from four months after the end of the reference quarter to three, was supported by data users. It allows states to incorporate this accelerated data to develop more timely budget projections and better meet important state budget deadlines.

Interactive tables on www.bea.gov were launched and enhanced for the annual input-output accounts, GDP by industry, international transactions of the balance of payments, and underlying details for the National Income and Product Accounts. BEA also completed implementation of its electronic reporting system that allows all survey respondents to report online, thereby reducing their burden and improving data quality.

BEA has been able to modernize its statistical processing systems and take on challenges such as improving the quality and timeliness of a number of major economic estimates. During 2004, BEA achieved a number of important data improvement goals, including:

- ◆ Improving the accuracy of a wide variety of indexes for banking, finance, and profits
- ◆ Accelerating the release of state personal income, GDP by industry, and the annual input-output accounts
- ◆ Informing the debate on offshore outsourcing activities
- ◆ Expanding regional economic data from 318 to 934 U.S. communities.

BEA programs are evaluated through a variety of means. OMB has evaluated BEA twice in as many years using PART. In FY 2002 and FY 2003, BEA was awarded the highest rating of "Effective" and was ranked within the top 5 percent of all federal programs reviewed. BEA also conducts an annual survey of its users to monitor their satisfaction with BEA products and services. For three years running, customers of BEA products and services have indicated high levels of satisfaction. A certification and accreditation review of BEA's security plans was performed by the Department's Office of IT Security and given a green light. For the second year in a row, BEA contracted with the Office of Personnel Management to conduct an employee assessment survey to better understand the strengths and weaknesses of the organization. In that survey, BEA set the federal benchmark high on 12 of the 17 dimensions in 2003.

The BEA five-year Strategic Plan is a detailed operating plan that guides BEA's planning with over 190 detailed milestones per year. Managers are responsible for ensuring that the milestones are met as they feed directly into the performance measures and budget requests of the agency.

Twice a year, the 13-member BEA Advisory Committee meets publicly to review and evaluate BEA statistics and programs. The Committee advises the Director of BEA on matters related to the development and improvement of BEA's national, regional, industry, and international economic accounts, especially in areas of new and rapidly growing economic activities. The committee also provides recommendations from the perspectives of the economics profession, business, and government.

STRATEGIES AND FUTURE PLANS

The Census Bureau strives to provide accurate, timely, and useful information to users. Its strategy is to do that in the most cost-effective manner, while protecting privacy and confidentiality, and conducting its work openly. Census continues to work to make further use of automation and telecommunications to integrate the collection, capture, processing, and dissemination of Census Bureau data.

Census Bureau economic data related to this goal allow users to gauge competition, calculate market share, locate business markets, locate distributors, design sales territories, prepare operating ratios, and analyze change in the nation's economic structure. Likewise, relevant demographic data provides accurate information to decisionmakers so that funds can be allocated appropriately to the American people.

The Census Bureau will continue efforts to review these ongoing programs on a quarterly basis to ensure that they are meeting the Department's goals. The Census Bureau continues to work to make internal measures more outcome oriented, in response to the GPRA.

Census Bureau economic benchmark data are the foundation of the nation's economic statistics programs, providing core information on virtually all non-farm businesses and related data on business expenditures, commodity flows, minority and women-owned businesses, characteristics of the nation's trucking inventory, and other topics.

The multi-year effort to re-engineer the census will allow the Census Bureau to meet the nation's ever-expanding needs for social, demographic, and geographic information by improving the relevance and timeliness of census long-form data, reducing operational risk, improving accuracy of census coverage, and containing costs. Census's strategy is to accomplish that through the use of the ACS, enhancements to MAF/TIGER, and the short-form only 2010 census.

ESA, through its bureaus continues to aggressively pursue its mission to provide the nation with the most timely, relevant and accurate economic statistics about the U.S. economy. The BEA Strategic Plan lays out a challenging five-year plan to do so. In implementing this plan, BEA will continue to work with the Administration, the Congress, and its data users to ensure that the statistical products and services it provides to the American people continue to meet their high standards and needs.

CHALLENGES FOR THE FUTURE

Significant management challenges faced by the Census Bureau include meeting user demands for quality data, obtaining and maintaining targeted response rates for the various surveys conducted, and continuing to maintain respondent confidentiality.

BEA faces three major challenges in the near future. To tackle them, BEA has developed a detailed, public plan in its Strategic Plan for FY 2004 – FY 2008. The three major challenges facing BEA are:

Measuring a constantly changing economy. The U.S. economy is in constant flux. BEA is challenged to understand the structural changes in the economy, improve measurement methodologies, and locate and incorporate data sources to capture the changes. Its challenge is to continue to keep pace with these changes in order to provide the nation with the most timely, relevant, and accurate economic statistics possible.

Integrating federal economic accounts. The demand for greater consistency between the various economic accounts in a decentralized statistical system is growing among users of federal economic statistics. The federal agencies responsible for the production of U.S. economic accounts must continue working together to integrate the accounts by harmonizing definitions, methodologies, and analytical techniques in order to provide consistent estimates to users.

Building and developing a skilled workforce. BEA is its people. The quality of BEA statistics is dependent on the knowledge and skills of its staff. With the increasingly complex and changing economy, the demands on BEA staff to be at the leading edge of economic change and provide for innovative solutions to measurement are increasing. BEA must continue to prepare its employees for these challenges.

STRATEGIC GOAL 2

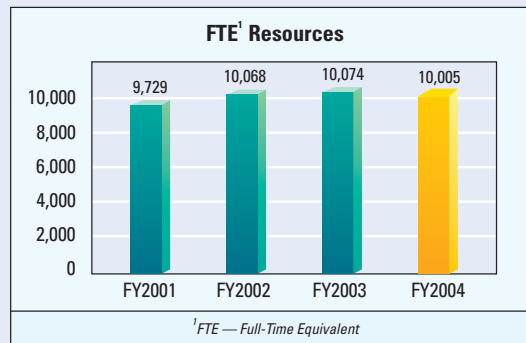
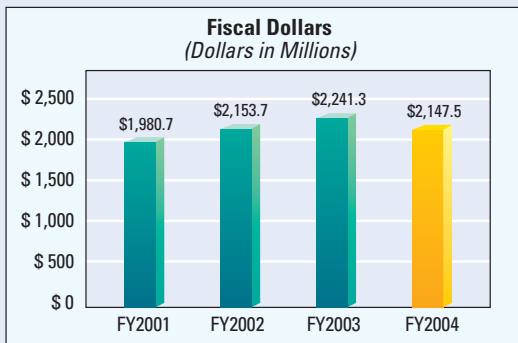




STRATEGIC GOAL 2

Foster science and technological leadership by protecting intellectual property, enhancing technical standards, and advancing measurement science

STRATEGIC GOAL 2 TOTAL RESOURCES

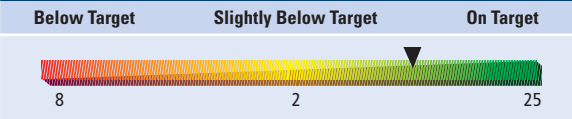


Working with U.S. industry to develop and apply technology, measurements, and standards, Commerce is focused on providing the infrastructure necessary to develop innovative breakthroughs and new technologies vital to the nation's long-term economic growth.

Commerce's laboratories provide the measurement capabilities needed by industry to continually improve products and services. The Department's measurement and standards work addresses a significant portion of the nation's modern technology-based economy, from the automotive to the biotechnology sector, from basic materials and manufacturing to information technology (IT), and from companies with a handful of employees to the largest multi-national firms.

Intellectual property (IP) is a potent force in, and a fundamental component of, the global economy. Commerce strives to preserve the nation's competitive edge by protecting IP and encouraging technological innovation. In market-driven economic systems, innovation provides a catalyst for economic prosperity through the accumulation of scientific knowledge, introduction of new products and services, and improvements in the productivity levels of land, labor, and capital resources.

Average Performance Rating and Number of Reported Results



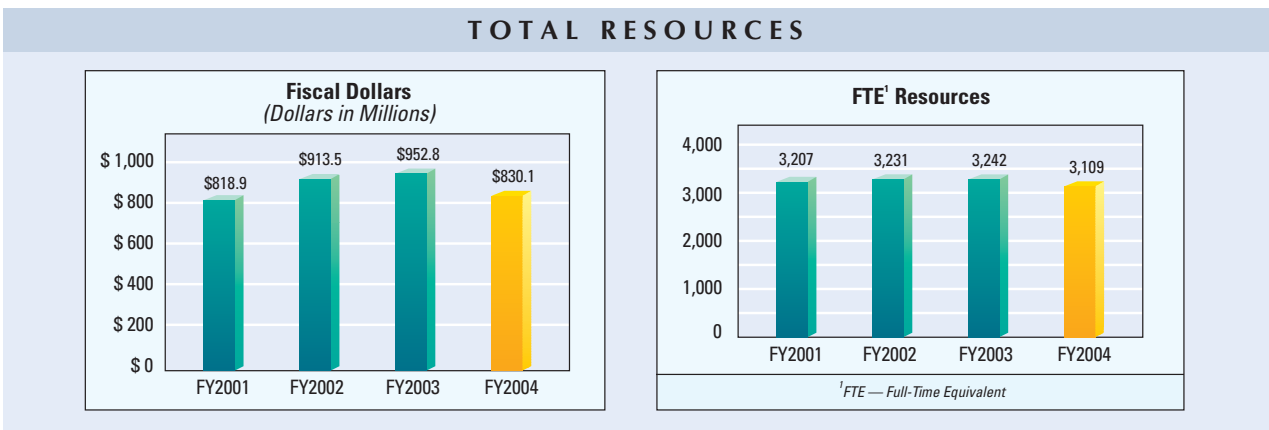
▼ = If in the yellow to green area then considered met.
 If in the yellow to red area then considered not met.

See Appendix A: Performance and Resource Tables for individual reported results.

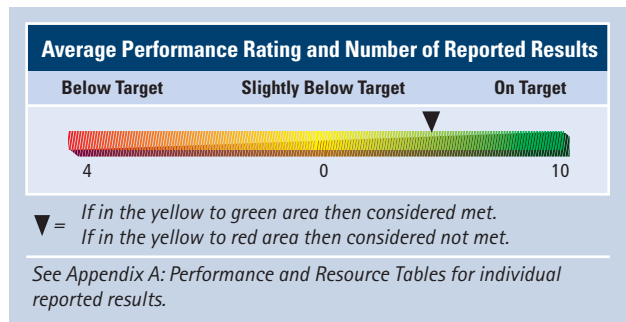
The Department has demonstrated successful progress under this strategic goal. Bureaus with programs supporting this strategic goal include the Technology Administration (TA), consisting of the Office of Technology Policy (OTP), National Institute of Standards and Technology (NIST), and the National Technical Information Service (NTIS); the United States Patent and Trademark Office (USPTO); and the National Telecommunications and Information Administration (NTIA).

STRATEGIC OBJECTIVE 2.1

Develop tools and capabilities that improve the productivity, quality, dissemination, and efficiency of research



The Department works with U.S. industry and other stakeholders to maximize technology's contribution to U.S. economic growth. The Department fulfills its broad responsibilities and works to foster science and technological leadership by promoting new models of technology transfer and research and development (R&D) collaboration, identifying problems and barriers to innovation, enhancing technical standards, advancing measurement science, and making scientific and technical information available to other agencies and the public.



IMPORTANT HIGHLIGHTS FOR STRATEGIC OBJECTIVE 2.1



DEVELOPING TOOLS AND CAPABILITIES UNDERPINNING TECHNOLOGICAL INNOVATION.

- ◆ The development of a new reference material that will help manufacturers develop and calibrate assays that measure specific protein concentrations in patient blood samples to determine whether a heart attack has occurred.
- ◆ The development of software to help manufacturers reduce errors and improve accuracy in measuring the critical dimensions of a microchip which reflect the smallest size that can be etched into a computer chip uniformly.
- ◆ Advances in the cooling performance of a material—a gadolinium-germanium-silicon alloy—considered key to the development of magnetic refrigerators that has the potential for use in household appliances and possible energy and cost savings.
- ◆ The selection of 59 new Advanced Technology Program awardees with technical projects focused on innovative technologies, including a new platform for the development of monoclonal antibody treatments for cancer and infectious diseases, and improved facial recognition for ID checkpoints.
- ◆ The improved competitiveness of the nation's small and medium sized manufacturers through leveraging the services of the Manufacturing Extension Partnership (MEP).
- ◆ The selection of seven 2003 Malcolm Baldrige National Quality Award winners, marking the first time that recipients were named in all five Baldrige Award categories (manufacturing, service, small business, education, and health care).

Performance Goal: Provide leadership in promoting national technology policies that facilitate U.S. preeminence in key areas of science and technology (TA/OTP)

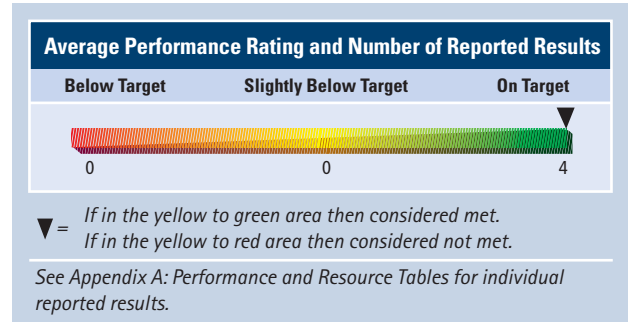
The Office of the Under Secretary/Office of Technology Policy's (US/OTP) efforts are directed at supporting and improving the U.S. innovation system, advancing the role that technology plays in U.S. economic growth and homeland security, and strengthening the competitive position of the nation's technology industries.

US/OTP conducts analyses on a wide range of factors that affect technological innovation, proposes and supports policy experiments, develops dialogue with the private sector, and considers policy options.

US/OTP completed its activities in support of technological innovation for FY 2004, including those focused on Technology Transfer, Globalization and Competitiveness, Education Technology, Biotechnology, Nanotechnology, and initiatives such as U.S. Investment in Assistive Technology and the Digital Freedom Initiative.

Noteworthy activities included:

- ◆ Completion of a ground-breaking biotechnology effort that OTP jointly conducted with BEA and Census. The effort resulted in the first-ever biotechnology survey to determine the current state of biotechnology efforts in the United States. This culminated in the publication of "Survey of the Use of Biotechnology in U.S. Industry."
- ◆ Completion of a number of activities in support of the National Nanotechnology initiative, including the Under Secretary's leadership and OTP's participation in domestic and international fora on responsible nanotechnology development and roundtable discussions on export controls and their impact on nanotechnology development and commercialization. TA held a conference on Regional-State-Local Nanotechnology development and provided guidance and assistance to state and regional organizations developing initiatives focused on nanotechnology for economic development and job creation, including the Colorado Nanotechnology Initiative, the Northern Virginia Technology Council, Chicago Micro-NanoCommunity, Atom Works, and the California Business, Transportation and Housing Agency.
- ◆ Initiation of new efforts in the area of telehealth, including holding roundtable discussions and conducting research resulting in the publication of a report: "Innovation, Demand, and Investment in Telehealth."
- ◆ Launch of an effort to evaluate the status of Assistive Technology, including a roundtable, "Innovation, Demand and Investment in Assistive Technology Policy" and Secretarial events designed to highlight technological progress in the development and application of advanced technology for physically challenged individuals.
- ◆ Establishment of an Education Technology initiative. US/OTP sought and received White House approval for an Interagency Working Group on Advanced Technologies for Education and Training, formed under the aegis of the White House National Science and Technology Council. The effort included the appointment of working group members from 17 federal departments and agencies. The Under Secretary for Technology serves as the Working Group co-chair, and



convened four town-hall listening sessions to gain input from the education community and industry for the working group's deliberations. Town halls were held with the National School Boards Association, Consortium for School Networking, Software and Information Industry Association, and the Los Angeles County Office of Education. In addition, US/OTP briefed a group of 50 Washington-based education technology policy professionals, and a dozen foreign governments' learning technology officials, most of whom lead their government's educational technology initiatives. This effort has led to the creation and development by OTP of the group's plan for the policy agenda priority on "Building Capacity for Organizational and Systems Change in Education and Training Institutions." The Under Secretary and OTP briefed this and many other efforts for staff for 25 Members of Congress and U.S. Senators to highlight the policy and legislative needs to support the advancement of technology and its contribution to education and training.

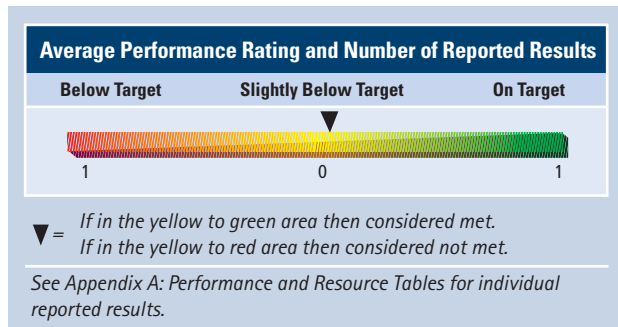
- ◆ Development of a Guidelines and Reference Manual for establishing an S&T policy framework that stimulates commercial S&T growth in developing countries.

Performance Goal: Provide technical leadership for the nation's measurement and standards infrastructure (TA/NIST)

The nation's ability to innovate, grow, and create high value jobs relies on a robust scientific and technical infrastructure—including research, measurement tools, standards, data, and models. As the National Measurement Institute for the United States, NIST is uniquely responsible for establishing and maintaining an efficient system that links the fundamental units of measurement to the measurement methods used by industry, universities, and other government agencies.

From quantum computing to detecting biological and chemical weapons, the NIST Laboratories perform research to develop state-of-the-art measurement tools, data, and models for advanced science and technology to support the nation's technical infrastructure that fosters economic growth and quality of life improvements.

The research and measurement standards work of the NIST Laboratory Programs is evaluated by the National Research Council (NRC). The external and independent evaluation combined with an assessment of NIST's citation impact and the number of peer-reviewed technical publications demonstrate the laboratories' contribution to the nation's measurement and standards infrastructure.



Annually, the NRC Board on Assessment (BOA) conducts a series of laboratory reviews focused on:

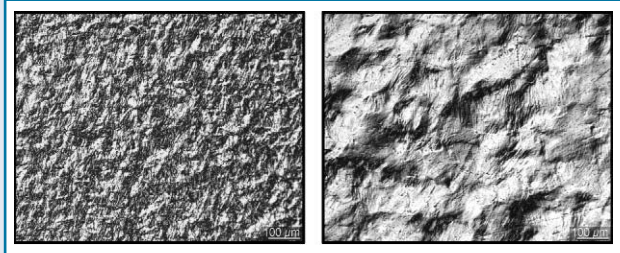
- ◆ The technical quality and merit of the laboratory programs relative to the state-of-the-art worldwide.
- ◆ The effectiveness with which the laboratory programs are carried out and the results disseminated to their customers.
- ◆ The relevance of the laboratory programs to the needs of their customers.
- ◆ The ability of the laboratories' facilities, equipment, and human resources to enable the laboratories to fulfill their mission and meet their customers' needs.

Beginning this year, the reporting process was modified to allow additional focus on the technical exchange between NIST staff and the reviewers, as well as increased interactions among external reviewers. While the NRC BOA will continue to conduct on-site annual reviews, they will produce a biennial report that includes findings over the two-year evaluation period. The 2004–2005 report will be available in the fall of 2005.

Within the scientific community, citation rates are often used to measure the demand for or relevance of published research. Citation analysis also provides an independent and objective validation of peer review findings as research has shown that high citation rates—the cumulative number of citations per publication—correlate with peer review judgment in terms of scientific quality and relevance. NIST assesses its citation impact with data collected by the Institute for Scientific Information (ISI). Overall, the ISI data demonstrate that NIST's "relative citation impact"—that is, the average citation rate per NIST publication relative to ISI's baseline citation rate for all scientific and technical organizations for the past 22 years (1981–2002), has been consistently above average.

Using rigorous statistical analysis, NIST researchers identified a potential source of error in the surface roughness data used in the automotive industry to predict how friction affects production of metal parts during forming. With this improved analysis, automakers should be able to more easily incorporate lighter weight materials in their products and improve fuel efficiency.

NIST researchers demonstrated that the current industrial practice for interpreting surface roughness may lead to inaccurate predictions of friction. Friction is key in auto part production. Too little friction during manufacturing leads to parts wrinkling and buckling. Too much friction can cause parts to tear. The optical micrographs below show two surfaces with the same average roughness values but dramatically different surface topographies.



Technical publications represent one of the major mechanisms NIST uses to transfer the results of its research to support the technical infrastructure and provide measurements and standards—vital components of leading-edge research and innovation—to those in industry, academia, and other government agencies. Each year NIST technical staff authors a total of 2,000–2,200 publications with most appearing in prestigious scientific peer-reviewed journals. One recent publication highlighted a prototype microscope that uses neutrons instead of light to "see" magnified images. Findings were published in the July 19, 2004 issue of *Applied Physics Letters*. Neutron microscopes may eventually offer certain advantages over optical, x-ray, and electron techniques, including better contrast for biological samples.

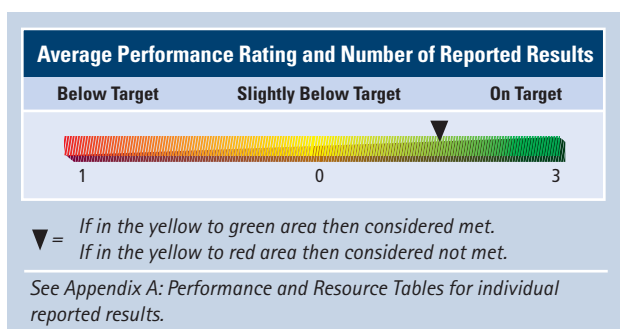
NIST uses a comprehensive evaluation system to assess programmatic performance, and two recent external program evaluations are highlighted below. Additional information on these and all NIST's evaluation methods are available at <http://www.nist.gov/director/planning/strategicplanning.htm>.

VISITING COMMITTEE ON ADVANCED TECHNOLOGY (VCAT)

The programmatic goals, strategic direction, and management policies of NIST as a whole, including each of its major programs, are reviewed regularly by the VCAT. The VCAT is a legislatively mandated panel of external advisors that meets quarterly to review NIST's general policy, organization, budget, and programs. See <http://www.nist.gov/director/vcat/index.htm> for additional information on the VCAT, including its most recent annual report.

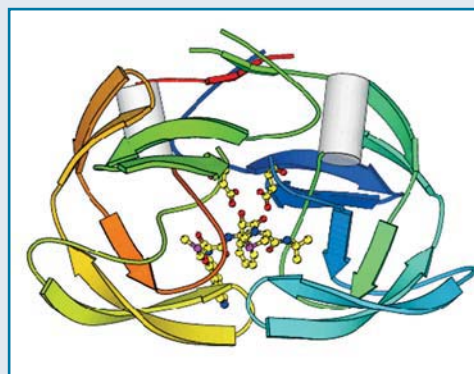
Performance Goal: Assure the availability and efficient transfer of measurement and standards capabilities essential to established industries (TA/NIST)

From automotive to biotechnology to information technology, measurements and standards are critical to the success of U.S. industry and provide the infrastructure necessary to enhance productivity, drive economic growth, and improve the quality of life. The NIST Laboratories develop and disseminate measurement techniques, reference data and materials, test methods, standards, and other infrastructural technologies and services required by U.S. industry to compete in the 21st century.



Today's global marketplace demands rapidly conducted, highly accurate, and efficiently delivered measurements. NIST measurement services—reference materials, data, calibrations, measurement methods, and others—are critical for ensuring product performance and quality, improving production processes, making marketplace transactions fair and efficient, and leveling the playing field for international trade.

Standard Reference Materials (SRM) are the definitive source of measurement traceability in the United States; all measurements using SRMs can be traced to a common and recognized set of basic standards that provides the basis for compatibility of measurements among different laboratories. SRMs certified by the NIST Laboratories are used by customers to achieve measurement quality and conformance to process requirements that address both national and international needs for commerce, trade, public safety, and health. For example, a recently issued SRM will help the food industry and environmental researchers. SRM 1946 is a set of five bottles of homogenized trout from Lake Superior that will assure the accurate measurement of both healthful ingredients and contaminants in fish and similar foods.



A new online database of AIDS-related protein structures that should be useful to researchers developing drug treatments for AIDS or studying the virus that causes the disease has been released by NIST. Developed in collaboration with the National Cancer Institute, the HIV Structural Reference Database will receive, annotate, archive, and distribute structural data for proteins involved in making HIV, the virus that causes AIDS, as well as molecules that inhibit these activities. Until now, much of this information was not widely available because it was unpublished. The new database contains data from both published literature and from direct contributions by industrial and other laboratories. The database will be especially useful in developing strategies for inhibiting the activities of the HIV protease that is essential for maturation of HIV. In addition, the database is expected to help scientists understand and circumvent the problem of mutations that make HIV resistant to certain drugs. When an inhibitor drug (small multicolored molecule in center) binds to the active site of the HIV protease (space right below the small round, yellow and red fragments), the enzyme does not function and the HIV virus cannot grow.

Online data represent another method NIST uses to deliver measurement and standards tools, data, and information. NIST provides online access to over 70 scientific and technical databases covering a broad range of substances and properties from a variety of scientific disciplines. These technical databases are heavily used by industry, academia, other government agencies, and the general public with data involving areas such as liquid molding in manufacturing processes and the development of new drugs for the AIDS virus.

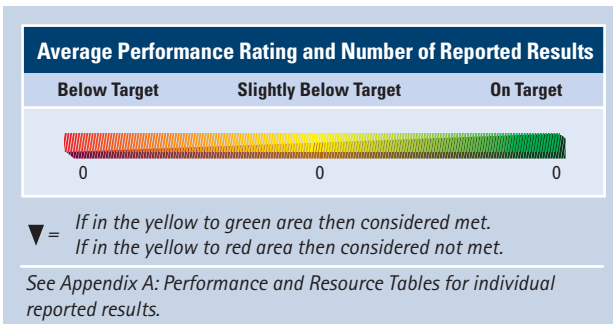
NIST calibration services and special tests are characterizations of particular instruments, devices, and sets of standards with respect to international and national standards. NIST calibration services provide the customer with direct traceability to national and international primary standards, and NIST offers more than 500 different types of physical calibrations in areas as diverse as radiance temperature, surface finish characterization, and impedance. Recently, researchers developed a "rainbow source" for calibrating color measurement instruments. NIST's traditional light sources, such as incandescent lamps, are thermal, and a blue thermal source would need to function at such a high temperature that components would melt. Lack of blue light sources introduces uncertainty when calibrating instruments that measure the color of things like bright stars or the open ocean. Knowing the exact color is important because it allows scientists, for example, to use remote satellites to judge the concentration of plant life in the ocean, which in turn affects global climate. NIST's portable light source could also simplify color calibrations in industrial and other research applications.

Retrospective microeconomic studies conducted by NIST complement its quantitative output measures and assess the long-term impacts that derive from specific NIST Laboratories' programs or projects. The impact assessments of NIST's R&D in specific technical areas are conducted by external economic and technical experts contracted by NIST. These studies provide both quantitative estimates and qualitative assessments of the economic impacts resulting from the different types of technology infrastructure that NIST provides to U.S. industry. Quantitative estimates compare project costs with quantitative impact evidence in such areas as productivity, quality, time-to-market, transaction costs, sales, market share, and profits. Unfortunately, due to significant budget constraints, NIST was unable to conduct any new assessment studies. NIST values the data these assessments provide and is committed to conducting additional studies once funds become available. Additional information, including a summary of past retrospective studies, is available at: http://www.nist.gov/director/planning/impact_assessment.htm.

Performance Goal: Accelerate private investment in and development of high-risk, broad-impact technologies (TA/NIST)

Technological innovation in U.S. industry is critical to sustaining U.S. economic growth and competitiveness, and this growth depends upon investment in long-term, high-risk research. Through the Advanced Technology Program (ATP), the federal government provides the initial investments necessary to promote the development of risky, early-stage technologies that are critical to technological innovation and widespread economic benefit.

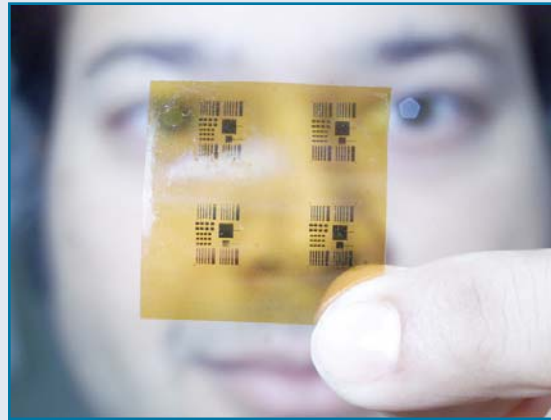
ATP plays a unique role in the nation's R&D infrastructure: it encourages industry to identify and invest resources in high-risk, broad impact technologies—technologies with significant economic and societal promise, but with inadequate levels of private investment. The program generates broad-based economic benefits by stimulating industry-led partnerships to develop new technologies.



Publications and patents represent major channels for the diffusion of technical knowledge that results from ATP investment in the development of new technologies. With over 1,200 cumulative publications and more than 1,100 cumulative patents (through FY 2003), ATP-funded research continues to generate technical knowledge and disseminated research results that contribute to the nation's technical knowledge base.

The number of ATP-funded projects with technologies under commercialization provides an indicator of the extent to which ATP-funded research has either leveraged or catalyzed new products and services, which in turn improve the prospects for technology-led economic growth. Commercialization is broadly defined as any group of activities undertaken to bring products, services, and processes into commercial applications, including development of commercial prototypes, adoption of processes for in-house production, development of spin-off products and processes, and the sale and licensing of products and services derived from the technology base created by the ATP-funded project. With more than 270 ATP projects with technologies under commercialization (through FY 2003), ATP-funded projects are diffusing new technology across multiple product lines, industries, and technology areas.

From the beginning, evaluation has been a central part of the ATP. The Program uses a variety of methods, including economic impact studies, internal assessments, and external program reviews to assess and evaluate the program. Additional information on the ATP's evaluation methods is available at: http://www.atp.nist.gov/eao/eao_main.htm.



Researchers at Palo Alto Research Center (PARC), a Xerox subsidiary, have successfully created a transistor array of the type used to control a flat-panel display using a modified ink-jet printer and semiconductor "ink." The technique is expected to dramatically lower the cost of the popular displays by replacing more expensive photolithography techniques that dominate display manufacturing. The new technology, co-funded by NIST's ATP is expected to work on either rigid or flexible substrates, and could create whole new opportunities for wall-sized TV's, unbreakable cell phone displays, computer displays that could roll up like a window shade and electronic paper.

The PARC research is part of a joint R&D partnership with Xerox, Motorola Inc., and Dow Chemical.

The ability to print the PARC plastic transistors on flexible substrates may allow manufacturers to produce electronic "paper" and computer displays that roll up like a window shade.

VCAT/ATP ADVISORY COMMITTEE

The programmatic objectives and management of ATP are reviewed regularly by VCAT and by the ATP Advisory Committee. The ATP Advisory Committee is charged with (1) providing advice on ATP programs, plans, and policies; (2) reviewing ATP's efforts to assess the economic impact of the program; (3) reporting on the general health of the program and its effectiveness in achieving its legislatively mandated mission; and (4) functioning solely as an advisory body, in accordance with the provisions of the Federal Advisory Committee Act. Additional information on the ATP Advisory Committee, including recent annual reports, is available at http://www.atp.nist.gov/atp/adv_com/ac_menu.htm.

NATIONAL RESEARCH COUNCIL

ATP has been the subject of several external reviews focused on program performance. The NRC Board on Science, Technology, and Economic Policy (STEP) conducted two such reviews. In general, the NRC found "...the Advanced Technology Program is an effective federal partnership program... Its cost-shared, industry-driven approach to funding promising new technological opportunities has shown considerable success in advancing technologies that can contribute to important societal goals such as improved health diagnosis (e.g., breast cancer detection), developing tools to exploit the human genome (e.g., colon cancer protection), and improving the efficiency and competitiveness of U.S. manufacturing" (Summary of Findings, p. 87). Copies of the reports are available at: <http://www.nap.edu/books/0309067758/html/> and <http://www.nap.edu/books/030907410X/html/>.

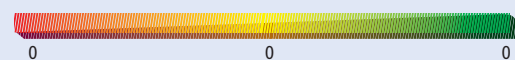
Performance Goal: Raise the productivity and competitiveness of small manufacturers (TA/NIST)

The most significant challenge facing U.S. manufacturers continues to be coping with accelerating technological change and global competition. The firms that succeed will be those best able to manage the complexity and rapid change affecting all aspects of the manufacturing enterprise. Through the MEP program, the federal government is supplying high-quality, unbiased information, advice, and assistance to the nation's small- and medium-sized manufacturers.

The MEP program consists of a nationwide network of manufacturing extension centers which are linked to state, university, community college, and private sources of technology and expertise to assist small manufacturers in adopting new and advanced manufacturing technologies, techniques, and business practices. The nation's small manufacturers produce intermediate parts and equipment that contribute more than half of the value of U.S. manufacturing production. Their role in manufacturing supply chains means that future manufacturing productivity and competitiveness will rest largely on the ability of these small establishments to improve their quality, raise their efficiency, and lower their costs. The national MEP network helps small companies transform themselves into high performance enterprises—productive, innovative, customer-driven, and competitive—by efficiently providing high value technical and advisory services, including access to industry best practices.

Average Performance Rating and Number of Reported Results

Below Target	Slightly Below Target	On Target
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▼ = If in the yellow to green area then considered met.
 If in the yellow to red area then considered not met.

See Appendix A: Performance and Resource Tables for individual reported results.

MEP clients receive training, technical, and business assistance through interactions ranging from informational seminars and training classes to in-depth technical assistance in areas such as lean implementation, ISO 9000, quality improvement practices, human resources and organizational development, and industrial marketing. MEP centers focus on measurably improving the performance of their clients. For example, the Alabama Technology Network (ATN, a MEP affiliate center) introduced lean manufacturing principles to Available Plastics, Inc., resulting in increased throughput of 58 percent, a 60 percent reduction in floor space, and decreased production time.

Through a suite of three quantitative business indicators—increased sales, increased capital investment, and cost savings all attributed to MEP assistance—the program demonstrates the impact of its services on the client's bottom-line. As a set, these indicators suggest the presence of business changes that are positively associated with productivity and revenue growth and overall improved competitiveness. Recent surveys demonstrate the impact of MEP services with clients reporting sales increases of \$1,200 million, increases in capital investment of \$900 million, and overall cost savings of \$691 million.¹

MEP uses a variety of methods, including internal assessments and external program reviews, to assess and evaluate the program. Several recent assessments are highlighted below.

TechSolve, a MEP affiliate center, worked with Ransohoff, an Ohio-based manufacturer, to run a Value Stream Mapping of the entire plant linking the already lean plant floor with the "front office" or non-manufacturing areas of the facility. This project resulted in reduction of lead time by over 50 percent within the first six months. "Our work with TechSolve has eliminated thousands of instances of waste over the last three years and has created tens of thousands of dollars worth of gross margin contribution. The planned approach to continuous improvement and the integration of continuous improvement throughout the organization has created the momentum for improvement. TechSolve definitely provided the right tools to our people to make it happen." - Jim McEachen, President, Ransohoff



Founded in 1916, the Cincinnati, Ohio-based Ransohoff manufactures aqueous cleaning machinery and is a leading supplier of high production, automated cleaning, environmental, and deburring systems.

NATIONAL ACADEMY OF PUBLIC ADMINISTRATION (NAPA)

NAPA, an independent, nonpartisan organization chartered by Congress to improve government performance, recently completed the second part of a two-phase review of the MEP program. The first phase focused on re-examining MEP's core premise and NAPA found "...barriers to improving the productivity of small manufacturers identified by earlier studies remain, although they have changed in their relative impacts.... The Panel finds that the core premise of the Program remains viable as it is fulfilling its mission by leveraging both public and private resources to assist the nation's small

¹ MEP's data collection process is designed to obtain actual client impacts and, as a result, client survey data lag by approximately one year. The survey process, coupled with the new time line for producing the Performance and Accountability Report (PAR), precludes the reporting of actual FY 2003 or FY 2004 data. The FY 2003 data reported represents a combination of three quarters of actual client reported impacts and one quarter of estimated client impacts. The estimate is based on the final quarter of FY 2002 survey data and has been adjusted to reflect the number of clients anticipated in the final FY 2003 survey quarter. Final FY 2003 data will be available in December 2004.

manufacturers." The second phase evaluated alternative business models for the program. NAPA provided several recommendations, including:

- ◆ Emphasize technology diffusion, product development, and supply chain integration services
- ◆ Build an integrated national network
- ◆ Improve the national coordination of state level organization partnering
- ◆ Review and adopt business best practices used by other federal/state programs
- ◆ Improve the system-wide sharing of knowledge and information and the systems for measuring performance
- ◆ Coordinate with other Department manufacturing-related programs.
- ◆ Include structural and operational changes in the strategic planning processes.

Full text versions of the reports are available at <http://www.napawash.org/Pubs/NIST0903.pdf> and <http://www.napawash.org/Pubs/NIST6-2-04.pdf>.

VCAT/MEP NATIONAL ADVISORY BOARD (MEPNAB)

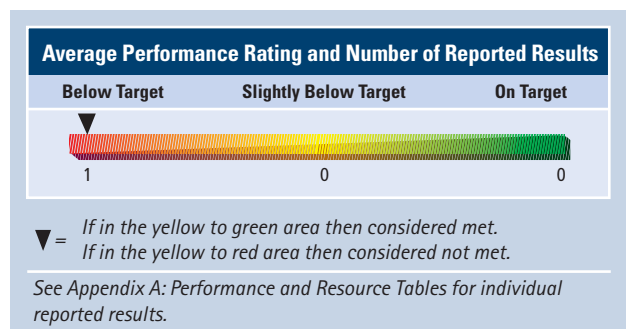
As with other NIST programs, the programmatic objectives and management of MEP are reviewed regularly by VCAT and its MEPNAB, which was established by the Secretary of Commerce in October 1996. The Board meets three times a year to (1) provide advice on MEP programs, plans, and policies; (2) assess the soundness of MEP plans and strategies; (3) assess current performance against MEP program plans; and (4) function solely in an advisory capacity, and in accordance with the provisions of the Federal Advisory Committee Act. Additional information on MEPNAB, including its most recent annual report, is available at <http://www.mep.nist.gov/about-mep/advisory-board.html#annualreport>.

Performance Goal: Catalyze, reward, and recognize quality and performance improvement practices in U.S. business and other organizations (TA/NIST)

Quality and performance improvement have become requirements, not options, for competitive businesses and high-performance organizations of all types. The Baldrige National Quality Program (BNQP) provides a systematic and well-tested set of business values, performance criteria, and assessment methods that all organizations can use to improve their productivity and effectiveness.

BNQP leverages a modest federal investment with foundation funding, partner organizations, and thousands of hours of time donated by volunteer judges and reviewers to promote and reward the quality and performance improvement efforts of business, health care, and educational organizations in the United States.

BNQP has demonstrated progress on its three core objectives: improving applicant satisfaction, increasing participation in the Malcolm Baldrige National Quality Awards (MBNQA), and



promoting the growth of quality awareness and performance excellence throughout the United States.

Every organization submitting an application to the MBNQA receives an in-depth review by a team of Baldrige-trained reviewers. The results of this review are communicated back to the organization in the form of a written feedback report that highlights the organization's strengths and opportunities for improvement based on the organization's responses to the seven Baldrige categories included in the *Criteria for Performance Excellence*. The feedback report encapsulates the entire review process, and BNQP is committed to ensuring applicant satisfaction with the usefulness and relevance of the feedback report. BNQP is committed to promoting the growth of quality awareness and performance excellence throughout the United States and increasing participation in the MBNQA. Sixty organizations applied for the 2004 MBNQA Award. The applicants include eight large manufacturers, five service companies, eight small businesses, 17 education organizations, and 22 health care companies.

BNQP uses the dissemination of the *Criteria for Performance Excellence* as one method to promote performance concepts. Recently, over 795,000 copies of the Criteria were disseminated via online downloads and hard copy distributions. This is only a partial representation as this indicator does not capture additional dissemination channels such as reproduction of the Baldrige Criteria in textbooks, articles, and other documents. In addition, BNQP develops other tools and questionnaires that allow organizations to assess how they are performing and help focus improvement and communication efforts on key areas, including strategic planning and leadership development.

The overall programmatic objectives and management of the BNQP are reviewed by VCAT. In addition, the performance of BNQP is evaluated by its Board of Overseers, a federal panel of national quality experts from business and academia that advises the Secretary of Commerce. An important part of the board's responsibility is to assess how well BNQP is serving the national interest. The board reviews all aspects of BNQP, including the adequacy of the Baldrige Criteria and processes for making Baldrige Awards, and reports its recommendations to the Secretary. Additional information about BNQP's Board of Overseers is available at <http://www.quality.nist.gov/Overseers.htm>.



On March 9, 2004, President George W. Bush and Commerce Secretary Don Evans honored Medrad, Inc.; Boeing Aerospace Support; Caterpillar Financial Services Corp. U.S.; Stoner, Inc.; Community Consolidated School District 15; Baptist Hospital, Inc.; and Saint Luke's Hospital of Kansas City with the 2003 MBNQA in recognition of their performance excellence and quality achievements. "The

Baldrige Award honors the outstanding performances and accomplishments of American businesses, schools, and health care organizations. ...These organizations embody the values of excellence, principled leadership, and a commitment to employees, partners and community," said President Bush in a message to the 2003 Baldrige Award recipients.

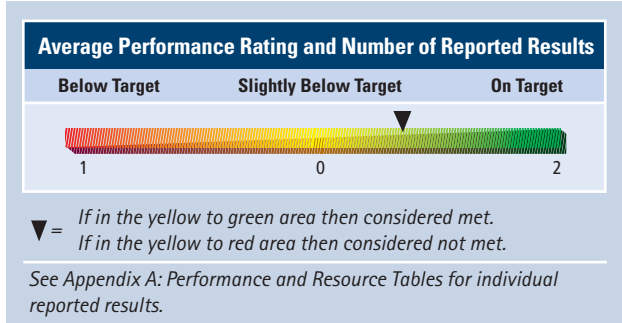


The 2003 Malcolm Baldrige National Quality Award Winners (from left to right): John P.Friel, President and Chief Executive Officer, Medrad, Inc., E. David Spong, President, Boeing Aerospace Support, James S. Beard, President, Caterpillar Financial Services Corporation (U.S.), Rob Marchalonis, General Manager, Stoner, Inc., Robert A. McKanna, Superintendent of Schools, Community Consolidated School District 15, John Heer, President, Baptist Hospital, Inc., G. Richard Hastings, Chief Executive Officer, Saint Luke's Hospital of Kansas City.

Performance Goal: Enhance public access to worldwide scientific and technical information through improved acquisition and dissemination activities (TA/NTIS)

Bringing scientific and technical information to U.S. business and industry.

NTIS, a component of TA, seeks to promote innovation and economic growth for U.S. business by (1) collecting, classifying, coordinating, integrating, recording, and cataloging scientific and technical information from whatever sources, foreign and domestic; (2) disseminating this information to the public; and (3) providing information management services to other federal agencies that help them interact with and better serve the information needs of their own constituents, and to do all without appropriated funds.



A recent communication from one of NTIS's customers commended the outstanding service received and added; "I think it is so important to provide access to the research work the U.S. government has done over the years (and spent millions on)! Your recent NTIS initiatives to improve access to this invaluable information by establishing downloadable and CD-ROM access are excellent and should be considered a model for other agencies to follow." This customer's comments are a prime example of NTIS's success in achieving its goal.

The Office of Inspector General (OIG) audited NTIS's FY 2003 Financial Statements, and released a report (FSD-16073-4-0001) on December 12, 2003, indicating that NTIS had established an internal control structure that facilitated the preparation of reliable financial and performance information, and issued an unqualified opinion.

OBJECTIVE STRATEGIES AND FUTURE PLANS

NIST uses a variety of methods, including hosting conferences and workshops, participating on standards committees, and ongoing interactions with trade organizations to interact with and assess the needs of its diverse customers. For example, in January 2004 NIST hosted a "Grand Challenge" Nanotechnology workshop with more than 200 participants from government, academia, and industry. The workshop focused on developing a roadmap for metrology and instrumentation needs for the emerging field of nanotechnology. Through these types of engagements, NIST, working with its customers, assesses next-generation infrastructural needs.

The ATP assesses how well the Program is responding to the needs of its award recipients and non-awarded applicants through various surveys, outreach efforts, workshops, and mailings of the ATP Proposal Preparation Kit, and interactions with award recipients throughout the life of their ATP-funded projects. For example, results from recent customer satisfaction surveys have been used to make significant improvements in the proposal submission process and provided valuable data on the amount of time and the cost companies expend

to prepare an ATP proposal. Through these surveys, project management practices, and outreach efforts, ATP strives to provide the highest quality service for award recipients and applicants while ensuring continual improvement in Program performance.

MEP's nationwide network of manufacturing assistance centers work at the grassroots level with each MEP center providing their local manufacturers with expertise and services tailored to their most critical needs. The MEP centers continually assess the needs of their area manufacturers and adjust service offerings in order to provide services using a combination of direct assistance from center staff and expertise from outside consultants.

The BNQP continues to promote quality and performance improvements through outreach efforts, criteria dissemination, and online assessment tools. The BNQP has made large strides in helping U.S. businesses, schools, and health care organizations improve their performance, and recent legislation signed into law by President Bush will expand the scope of the program to include nonprofits, a large and vital sector of the U.S. economy. With authorization now granted, funding could be available in 2006 to allow federal, state, and local government agencies; independent nonprofits; and quasi-public organizations, such as public utilities and credit unions to apply for the Malcolm Baldrige National Quality Award.

NTIS continues to reevaluate and develop new plans in an effort to meet the challenge of permanent preservation of and ready access to the taxpayers' investment in R&D through the acquisition, organization, and preservation of the titles added annually to the permanent collection. Initiatives to use technologically advanced global e-commerce channels for dissemination have been a major success, thus providing the American public with increased access to government information. Specific objectives accomplished recently are the NTIS bibliographic database (from 1990 to the present), which became available via the Internet free of charge; users can now download any item in the NTIS collection that is in electronic format for a single low fee or at no charge if it is less than 20 pages.

The U.S. technology sector faces a number of challenges, from the development of emerging technologies—such as biotechnology, nanotechnology, advances in computing and telecommunications, and the convergence of these technologies. Additionally, the global marketplace for existing and new technologies is changing, as well as competition for the jobs created. Because the technological and competitive landscape is being radically altered, it has highlighted the need for effective intervention in the form of education, outreach, and policy advocacy. OTP's strategic priorities are achieved through its examination and response to the implications of globalization for U.S. technological leadership involving the globalization of technological innovation and the technical sophistication of other countries, as well as its work to identify barriers to and foster the U.S. technological innovation process for rapid development, deployment, and commercialization of new and emerging technologies with broad economic and social potential.

To address these priorities and fulfill its duties, OTP analyzes a challenge, issue, or opportunity, including seeking the views of key stakeholders such as industry leaders, entrepreneurs, state and regional officials, educators, high-technology workers, and other government agencies. Analytical findings are disseminated through a wide range of channels, including reports, briefings, and congressional testimony; advocacy in the federal interagency policy process and international fora; and other information mechanisms. Such dissemination provides U.S. public and private sector policymakers, leaders, and decisionmakers with information and a deeper understanding of trends and policy implications brought about by rapid advancement of new and emerging technologies, and the globalization of technological innovation. Policy options may be developed and promoted in the form of new policy or program proposals, draft legislation, or a catalytic role urging others to take action. OTP's portfolio of policy work evolves and changes in alignment with the dynamic, rapidly changing technology-driven global economy.

In a policy organization, it is difficult to predict what form an outcome will take, whether it will be a proposed law, proposed policy change, a policy demonstration effort, advocacy/leadership, an information product, urging/catalyzing the action of others, or an international agreement. In assessing progress toward achievement of its performance goal and general objectives, OTP will continue to review progress made in the policy process activities, identifying its progress toward and attainment of achievements as demonstrated by outcomes such as those described above.

Consistent with its statutory mandate to develop new methods for disseminating information and to focus on electronic means, NTIS will continue to look for opportunities to develop electronic subscription products and harness the Internet as a means of providing information dissemination services to other agencies, such as providing a platform to meet their e-learning needs.

CHALLENGES FOR THE FUTURE

As the United States moves into the 21st century, it is confronted with a global economy that has undergone significant change, as well as the large and growing role of technological change in generating economic growth, wealth, and jobs. The United States must adapt to this new environment and effectively harness the economic potential of new and emerging technologies.

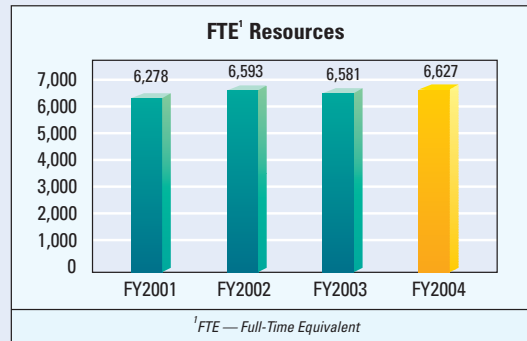
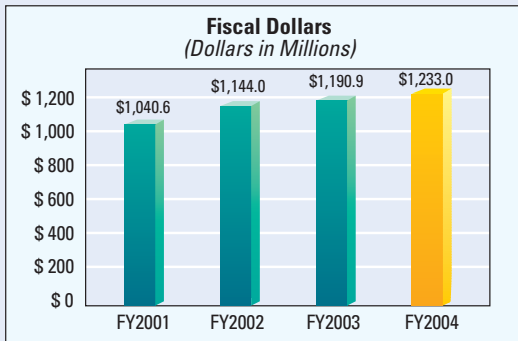
Underpinned by advancements in communications and transportation, liberalization of commercial policy, and free trade agreements, globalization and the integration of the world's national economies has accelerated. For example, membership in free trade organizations has increased from 23 countries in 1948 (General Agreement on Tariffs and Trade (GATT)) to 147 today (World Trade Organization (WTO)), significantly expanding the world's competitive arena. In an unprecedented situation, governments of nations that represent more than half of the world's population (China, India, Russia, and Eastern Europe) have moved to join the free market system. These countries recognize the link between technology, economic growth, and job creation and are increasing their R&D investments, establishing the infrastructure to support technological innovation and modern business enterprise, training workers in technical skills, and working to attract global investment in technology-related industries. As a result, R&D and technological innovation are becoming globalized, and there is rising technical sophistication among U.S. overseas competitors. This growing globalization and increasingly crowded competitive playing field have significant implications for U.S. technological leadership (and the economic growth and jobs it generates), the location of R&D and high-tech manufacturing, competition for high-skilled work, and the climate for attracting global investment.

At the same time, new and emerging technologies—such as biotechnology, nanotechnology, and more powerful and faster computing and telecommunications—and the convergence of these technologies promise to radically alter products, manufacturing processes, and business models. Competition may favor those who take advantage of these discontinuities. Those countries and companies that quickly exploit the advancements that flow from these technology fields are expected to enjoy substantial opportunities for growth, job creation, formation of new industries, and wealth.

STRATEGIC OBJECTIVE 2.2

Protect intellectual property and improve the patent and trademark system

TOTAL RESOURCES



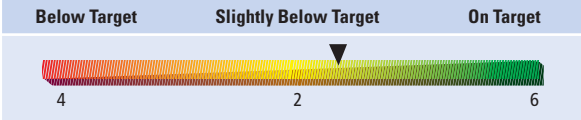
This objective is important to the nation as it serves to ensure that the intellectual property (IP) system contributes to a strong global economy, encourages investment in innovation, and fosters entrepreneurial spirit.

Achievement of this objective will protect individual rights and innovation in a timely, efficient manner.

The Department promotes the progress of science and the useful arts by securing, for limited times to inventors, the exclusive rights to their respective discoveries. U.S. industry has flourished under this system of protection as new products have been invented, new uses for inventions have been discovered; and employment opportunities have been created for millions of Americans. The strength and vitality of the economy depends directly on effective mechanisms that protect new ideas and investments in innovation and creativity.

The primary services provided by the Department are examining patent and trademark applications and disseminating patent and trademark information. Through issuing patents, the Department encourages technological advancement by providing incentives to invent, invest in, and disclose new technology. Through registering trademarks, the Department assists businesses in protecting their investments, promoting quality goods and services, and safeguarding consumers against confusion and deception in the marketplace by providing notice of marks in use. By disseminating both patent and trademark information, Commerce promotes a global understanding of IP protection and facilitates developing and sharing new technologies worldwide.

Average Performance Rating and Number of Reported Results




▼ = If in the yellow to green area then considered met.
If in the yellow to red area then considered not met.

See Appendix A: Performance and Resource Tables for individual reported results.

IMPORTANT HIGHLIGHTS FOR
STRATEGIC OBJECTIVE 2.2



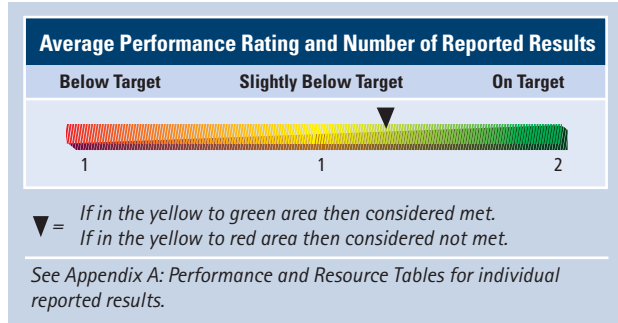
 SPTO received 353,342 Utility, Plant, and Reissue (UPR) patent applications for the fiscal year just ended. This represents a 6 percent increase over FY 2003 filings. Additionally, the USPTO published 248,561 pending applications and issued 187,170 patent grants. USPTO received 244,848 trademark applications containing 298,489 classes for registration, an increase of 9.7 percent from FY 2003. The Office registered 120,056 marks including 590,155 classes. Total Trademark Office disposals were 211,062 including 265,922 classes. The Trademark Office's inventory of total applications under examination increased by 4.3 percent to 450,294 files including 590,155 classes at year-end.



Performance Goal: Improve the quality of patent products and services and optimize patent processing time (USPTO)

A more efficient and streamlined patent process resulting in high quality products and services.

The core activity under this goal is the examination of an inventor's application for a patent by comparing the claimed subject matter of the application to a large body of technological information to determine whether the claimed invention is new, useful, and non-obvious to someone knowledgeable in that subject matter. A random sample of both in-process and allowed applications is reviewed for quality. The patent process also includes deciding appeals regarding issues of patentability and preparing interference proceedings.



QUALITY

Quality is the most important component of *The 21st Century Strategic Plan*. As set forth in the Plan, USPTO began implementing several quality initiatives, including an enhanced Quality Assurance Program that includes end product reviews, in-process reviews, and enhanced "second pair of eyes" reviews. The feedback from these reviews is used to identify and develop training modules and other quality enhancements. Additionally, to ensure that the Department's primary patent examiners maintain the knowledge, skills, and abilities (KSAs) necessary to perform a high-quality examination, the USPTO implemented a recertification program, with primary examiners being recertified once every three years. A certification program was also implemented for junior examiners to ensure that they had the required KSAs prior to promotion to the level where they are given legal and negotiation authority.

PENDENCY

The office achieved both its patent first action pendency and patent total pendency goals for FY 2004. Under *The 21st Century Strategic Plan* the USPTO will reduce patent pendency and substantially cut the size of the work backlog. This will be accomplished through a radical redesign of the entire patent search and examination system based upon multiple examination tracks, competitively sourcing the search function, hiring sufficient numbers of new patent examiners, and variable, incentive-driven fees.

EFFICIENCY

Patent efficiency measures the degree to which the program can operate within planned costs relative to patent examiner outputs.

GAO is currently evaluating the implementation of *The 21st Century Strategic Plan*.

Performance Goal: Improve the quality of trademark products and services and optimize trademark processing time (USPTO)

A more efficient and streamlined trademark process resulting in high-quality products and services.

The core process under this goal is the examination of applications for trademark registration. As part of that examination, trademark examining attorneys make determinations of registrability under the provisions of the Trademark Act of 1946, as amended, including searching the electronic databases for any pending or registered marks that are confusingly similar to the mark in a subject application; preparing letters informing applicants of the attorney's findings; approving applications to be published for opposition; and examining Statements of Use in applications filed under the Intent to Use provisions of the Trademark Act.

QUALITY

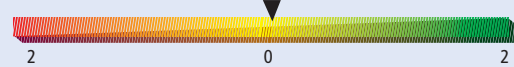
Customers are concerned with the quality of the products and services they receive in exchange for the fees they pay. USPTO has created a new "in-process review" standard for assessing work to create a more comprehensive and meaningful and rigorous review of what constitutes quality of examination. The results of a trademark examiner's first and final office action are reviewed for the quality of the substantive basis for decision-making, search strategy, evidence, and writing. The new measure considers more elements for review and evaluation with training targeted to topics that warrant improvement. Examiners are given specific feedback about their work to further improve quality. Trademark quality results achieved were within 1 percent of the target (margin of error) but were not met.

PENDENCY

The Office achieved its target for disposal/registration pendency but did not achieve the targeted level for first action pendency. New application filings were more than 8.5 percent above the prior year and 6 percent above the planned amount. Process changes in the fourth quarter created a short-term negative impact by increasing first action pendency. Production and office disposals were higher than planned contributing to a reduction in disposal/registration pendency.

Average Performance Rating and Number of Reported Results

Below Target	Slightly Below Target	On Target
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▼ = If in the yellow to green area then considered met.
 If in the yellow to red area then considered not met.

See Appendix A: Performance and Resource Tables for individual reported results.



A few of the items displayed before the Agriculture Committee during hearings on the use of geographical indications for food and drinks.¹

¹ Geographical Indications (GIs) are indications that identify a good as originating in a particular region or locality where a given quality, reputation, or other characteristic of the good is essentially attributable to its geographic origin.

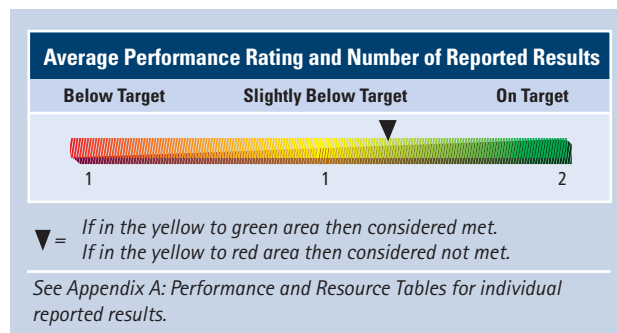
EFFICIENCY

Trademark efficiency measures the degree to which the program can operate within planned costs relative to outputs produced.

Performance Goal: Create a more flexible organization through transitioning patent and trademark applications to e-government operations and participating in intellectual property development worldwide (USPTO)

Making patent and trademark applications information readily available.

Under *The 21st Century Strategic Plan*, the USPTO will work with its IP partners to improve the efficiency of the Department's processing systems. Increasing the number of applications and communications received and processed electronically, and creating more coordinated and streamlined work processes will position USPTO for the globalization that characterizes the 21st century economy. Both the patent and trademark programs support this goal, which will increase the efficiency of their operations.



Transitioning both patent and trademark operations to an e-government environment is quite an undertaking especially considering the realities of increasing work loads and the shift of applications from traditional arts to more complex technologies. As USPTO continues to make progress in this transition, Americans will more easily be able to apply for patents and trademark registration as well as obtain information about the status of their applications.

USPTO successfully deployed the patent Image File Wrapper (IFW) system by October 1, 2004, enabling it to easily exceed the goal to electronically manage 70 percent of patent applications. All incoming and outgoing paper documents are captured electronically in the system and the remaining pending paper applications will be scanned into the system by the end of the first quarter of FY 2005, with the electronic version of an application now considered the official file. In addition to IFW, this fiscal year the patent organization stopped mailing paper U.S. references to applicants, instead making the information available to applicants via the Internet. Additionally, for the first time, anyone with Internet access anywhere in the world can now use USPTO's Web site (www.uspto.gov) to track the status of a public patent application as it moves from pre-grant publication to final disposition, and review documents in the official application file, including all decisions made by patent examiners and their reasons for making them. The system, known as Public PAIR (Patent Application and Information Retrieval), offers the public an advanced electronic portal for PDF viewing, downloading and printing an array of information and documents for patent applications not covered by confidentiality laws. Public PAIR also offers a quick-click feature for ordering certified copies of patent applications and application files.



Deputy Under Secretary Dudas and Supervisory Patent Examiner Gary Kunz inspect a model of DNA strand on the 50th anniversary of its discovery.

The office is on target for meeting the goal of receiving 2 percent of patent applications electronically. There is some reluctance on the part of the patent applicants to file electronically, because (1) applicants are familiar with the paper-based systems already in place, (2) they have not invested the time and resources necessary to upgrade their internal processes to enable them to file electronically, and (3) they may like to receive some incentive (in the form of a fee reduction) for filing electronically. USPTO is instituting an aggressive outreach program to hopefully see significant growth in the number of patent applications filed electronically over the next two years.

More than 70 percent of the initial applications for registration of a trademark were filed electronically, an increase of more than 20 percent over FY 2003 results. Enhancements were made and the number of forms

available was increased to make electronic filing more attractive, which encouraged greater use and acceptance among those who had not yet adopted electronic communications as their preferred way to transact business with the office.

The office completed a major milestone by capturing 100 percent of the pending application inventory. USPTO has a complete electronic text and image file record that includes the initial application and applicant and office correspondence for 500,000 pending trademark applications. Examining attorneys have been using the electronic record of the initial application to conduct their first office action since July 2003. In July 2004 second and subsequent actions were added eliminating the need to use paper files to process and examine applications.

The Government Accountability Office (GAO) (formerly the General Accounting Office) is currently evaluating the implementation of the *21st Century Strategic Plan*. The Department's Inspector General (IG) began an audit of the trademark program in June 2003. At the time of publication, the final report had not been released.

STRATEGIES AND FUTURE PLANS

USPTO's patent and trademark operations are rapidly moving to eliminate paper documents from their processes. As the reliance on paper disappears from internal processes, the costs for handling applications and related materials will be substantially reduced. Electronic communications will be improved, encouraging more applicants to do business electronically with the delivery of Web-based text and image systems. Patent and trademark operations have made significant progress in achieving the long-term goal to create an e-government operation, and trademarks now relies exclusively on trademark data submitted or captured electronically to support examination, publish documents, and, print registrations.

USPTO will continue to work towards completing implementation of the *21st Century Strategic Plan*. The USPTO now relies on electronic communications to improve the availability of patent and trademark information to more effectively serve an increasingly larger, global client base. Internet access has provided advantages that were not possible in a paper environment: customers may conduct an electronic search to determine the status of pending and registered trademarks and view public patent applications; conduct a preliminary search prior to filing an application; access general information, examination manuals, treaties, laws and regulations; obtain weekly information on marks published,

registered, and renewed, and patents issued and patent applications published; and file patent and trademark applications. Electronic filing and access increases the opportunity for filing for patent protection and for federal registration.

The 21st Century Strategic Plan's long-term patent pendency goal remains 18 months; however, the USPTO plans to produce, on average, a first office action for first-filed U.S. non-provisional applications at the time of 18-month publication, and a patent search report for other patent applications will be issued in the same time frame.

The agency has proposed legislation that will change its current fee schedule and streamline the patent system. The agency plans to control patent pendency and reduce the time to first office action by changing its process and by hiring additional patent examiners to address the growing backlog of pending applications.

In FY 2005, the Department will continue the quality efforts currently implemented, including the certification of patent examiners before the delegation of legal competency, recertification of primary examiners once every three years, and review of work product throughout prosecution to ensure compliance with examination practice and procedures standards. Quality will be assured throughout the process by hiring the people who make the best patent examiners, certifying their knowledge and competencies throughout their careers, and focusing on quality throughout the patent examination process. By bolstering confidence in the quality of U.S. patents, USPTO will enhance the reliability in the quality of products and services resulting in improved efficiencies and better services for applicants. Additionally, the Department will explore ways of automating the pre-employment assessment of patent and trademark examiner applicants to make sure they possess the competencies required for the position. In combination, these quality initiatives will provide improved patent and trademark quality by providing review of work product, feedback to examiners on areas for improvement, targeted training, and safeguards to ensure competencies.

CHALLENGES FOR THE FUTURE

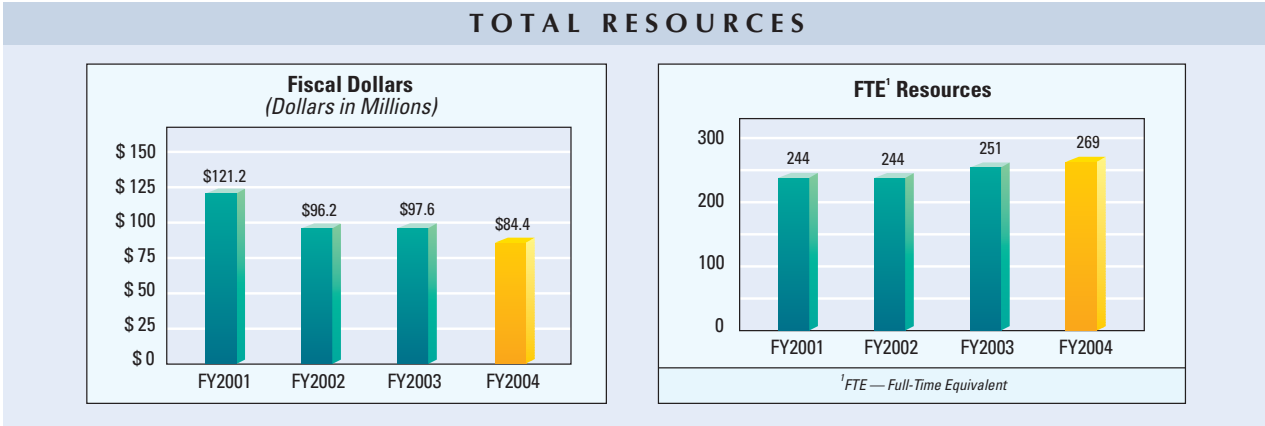
The Department must address the challenges of rising workloads and the shift of applications from traditional arts to more complex technologies.

Technology has become increasingly complex, and demands from the public for higher quality products and services have grown in importance. In the United States, demands for products and services have created substantial workload challenges in the processing of patents. The Congress, the owners of IP, the patent bar, and the public-at-large have all told the Department that it must address these challenges aggressively and promptly.

Implementation of the Department's *21st Century Strategic Plan* initiatives should address these challenges and transform the Department into a quality-driven, highly-productive, and efficient organization that will promote expansion of business opportunities, stimulate research and development, and expand U.S. businesses globally.

STRATEGIC OBJECTIVE 2.3

Advance the development of global e-commerce and enhanced telecommunications and information services

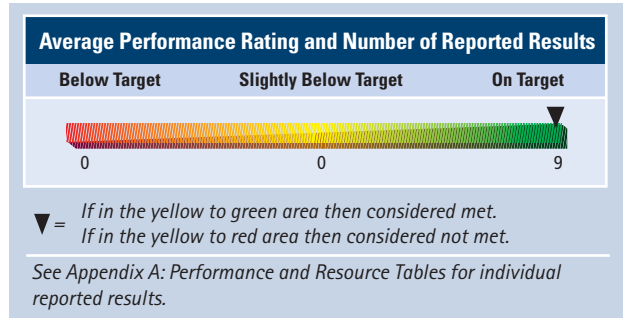


This objective is important to not only the nation, but the international community as it has a role in the radio frequency (RF) spectrum management and communications on a national level, to the President as an advisor on communications policy matters, on Internet domain names, and for cellular phones and dial-up and high-speed Internet services.


Achievement of this objective will continue to further the technological advances for cellular, Internet services, domain name issues, and other advances in technology. A discussion of each performance goal supporting this objective will further describe the outcomes of this objective.

The Department:


- ◆ serves as the principal adviser to the President on domestic and international communications and information policy-making.
- ◆ promotes access to telecommunications services for all Americans, and competition in domestic and international markets.
- ◆ manages all federal use of the electromagnetic spectrum and generally promotes efficient use of spectrum.
- ◆ in partnership with business and other federal agencies, conducts telecommunications technology research, including standards-setting.
- ◆ awards grants through the Technology Opportunities Program and Public Telecommunications Facilities Program.



IMPORTANT HIGHLIGHTS FOR STRATEGIC OBJECTIVE 2.3

 The NTIA released two reports proposing innovative ways to better manage the nation's airwaves for the 21st century, including the establishment of an innovation test-bed for increased sharing between federal and non-federal spectrum users. Launched in June 2003, the President's spectrum initiative required the Commerce Department to lead the effort to develop a U.S. spectrum policy for the 21st century that will foster economic growth, ensure national and homeland security, maintain U.S. global leadership in communications technology, and satisfy other vital U.S. needs. Among its broadband-related activities, the NTIA provided technical filings to the Federal Communications Commission (FCC) for the responsible deployment of broadband over power line (BPL) systems, contributing significantly toward fulfillment of the President's vision for universal affordable broadband Internet access for all Americans by 2007. Broadband technology opens up new opportunities for telemedicine, long distance education, and countless other services that will foster investment, improve productivity, and promote job-producing economic growth. NTIA also is leading Commerce activities in the areas of next-generation Internet Protocols, ultrawideband (UWB) technology, wireless broadband applications, wireless sensor technologies, and child-friendly Internet content.



 TIA's Institute for Telecommunication Sciences (ITS) named a 2004 Outstanding Laboratory by the Federal Laboratory Consortium for Technology Transfer (FLC). The award was the result of work done by ITS on video quality measurements.

The Department's expertise encompasses every aspect of telecommunications, including domestic policy, international policy, spectrum management, and technical telecommunications research and engineering. These activities directly benefit the American public through the universal, affordable availability of advanced telecommunications, such as broadband and wireless services. Telecommunications and information technologies support productivity, growth, and job creation in most industrial sectors.

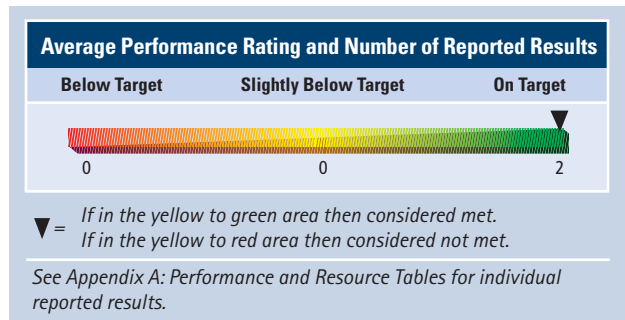
The Department released two reports proposing innovative ways to better manage the nation's crowded airwaves for the 21st Century. These reports establish the agenda for spectrum management reform for the next decade. Among its broadband-related activities, the Department provided technical filings to the FCC for the responsible deployment of BPL systems, contributing significantly toward fulfillment of the President's vision for universal affordable broadband Internet access for all Americans by 2007. The Department is leading activities in the areas of next-generation Internet Protocols, UWB, wireless broadband applications, wireless sensor technologies, and child-friendly Internet content.

Performance Goal: Increase competition within the telecommunications sector and universal access to telecommunication services for all Americans (NTIA)

Advising the President on telecommunications and information issues.

NTIA serves as the President's principal policy advisor on telecommunications and information issues, and is the Administration's primary voice on them. NTIA does not have direct responsibility for implementing solutions to telecommunications issues.

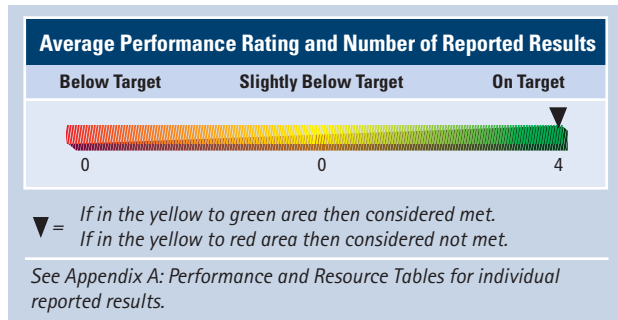
NTIA successfully examined an array of spectrum management policy issues dealing with innovative approaches to spectrum management and the effectiveness of current processes. NTIA also actively participated on behalf of the Administration in FCC and congressional proceedings on telecommunications policies, including the development of appropriate regulatory treatment for broadband services deployment. A number of Internet related policy issues required NTIA action, including Internet Corporation for Assigned Names and Numbers (ICANN) reform and continuing Internet privatization, domain name management both domestically and internationally, proposals to regulate Internet services and content, and the combination of Internet and telecommunications addressing (ENUM). NTIA pursued policies promoting international trade in telecommunications products and services, promoting consistent international approaches to telecommunications policies, and improving relations with Western Hemisphere neighbors. All of these activities required substantial coordination among NTIA's program offices, as well as interagency coordination to develop the Administration's positions.



Performance Goal: Efficient and effective allocation of radio spectrum (NTIA)

Advancing broadband and third generation (3G) wireless services.

The availability of the RF spectrum is key to the development and implementation of innovative telecommunications technologies such as UWB and 3G wireless services. NTIA's spectrum management activities are intertwined with its policy activities in that existing uses of spectrum by both the private and federal sectors must be examined to determine where spectrum will be made available for new and innovative spectrum-using services that provide benefits to all consumers.



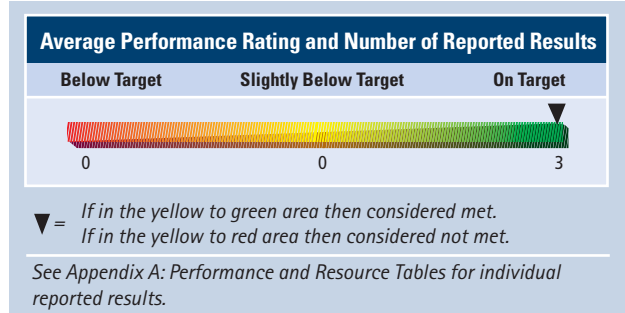
NTIA is engaged in a long-term process to reduce processing time for frequency assignment actions from 15 days to less than three. NTIA initiated a business process re-engineering and enterprise architecture activities to support this goal. NTIA has reduced processing time from an average 15 days to an average of less than 12 days. NTIA further expanded its automating frequency band assignments through Internet requests by 5 percent over FY 2003 (at 55 percent). This year NTIA achieved 90 percent on its customer satisfaction survey on the training course it offers.

The President signed an Executive Memorandum on June 5, 2003, directing the Department of Commerce to gather information to assist the Department in developing a detailed set of recommendations both for (1) improving the spectrum management process as a whole, as well as (2) improving policies for use of the spectrum by state and local governments and the private sector. A task force led by Secretary Evans issued two reports to the President in FY 2004 containing recommendations for improvements to spectrum management policy pursuant to the President's Executive Memorandum. The first report contains recommendations for the federal government spectrum management reforms, while the second report contains recommendations regarding private sector and state and local government use of the spectrum. In FY 2004 and continuing through FY 2005, NTIA is developing action plans to support the overall program of spectrum policy reform, including implementation of the recommendations presented in both reports to the President.

Performance Goal: Ensure broader availability, and support new sources, of advanced telecommunications and information services (NTIA)

Performing research to improve both the performance of telecommunications networks and the availability of digital content on the Internet.

NTIA supports innovative telecommunications and information technologies through basic research performed at its laboratory, ITS. ITS performs extensive basic research on quality of digital speech, audio and video compression, and transmission characteristics. This research has the potential to improve both the performance of telecommunications networks and the availability of digital content on the Internet. Basic research at ITS also supports U.S. positions in international standard-setting bodies and NTIA's development of Administration policies related to the introduction of new technologies, such as UWB and 3G wireless services.



NTIA also published six peer-reviewed articles. Other publications by ITS include reports on potential interference from BPL systems, impact of monitor resolution and type on subjective video quality testing, assessment of compatibility between UWB systems and public safety communication receivers, gain characterization of the RF measurement path, and examination of the bandwidth correction factors used to assess the interference impact of impulse and pulsed signals on radio receivers. NTIA also initiated four Cooperative Research and Development Agreements (CRADA) with private sector companies, which indicates the utility of these activities to the private sector. NTIA successfully awarded \$23.1 million in funding to assist public radio, public television, and nonbroadcast (distance learning) projects across the country. \$9.0 million went to grantees to assist in the digital conversion of public television stations. Other grant awards also included \$4.4 million for 74 radio grants, \$3.8 million for 20 television equipment replacement grants, \$2.2 million for 17 nonbroadcast (distance learning) grants, and three grants to New York stations for \$2.3 million to restore broadcast services after the 9/11 attacks.

ITS uses a variety of methods, including hosting conferences and workshops, participating on standards committees, CRADAs with private sector entities, and interactions with trade organizations to interact with and assess the needs of its private sector customers. ITS sponsors with NIST the annual International Symposium on Advanced Radio Technologies (ISART) with participants from government, academia, and industry. The Symposium brings together technical researchers, business leaders, government policymakers, and regulators for the purpose of forecasting the development and application of RF technologies into the next decade. ITS also holds annual reviews with the federal agencies sponsoring research at the laboratories on progress and direction for that research. These ongoing assessments provide ITS with a better understanding of the needs for its research.

STRATEGIES AND FUTURE PLANS

NTIA's policy-related activities support the advancement of information technologies and help to create an economic and regulatory environment in which information and communications technologies can flourish. The President signed an Executive Memorandum in 2003, directing the Department to gather information that will assist the Department in developing a detailed set of recommendations both for (1) improving the spectrum management process as a whole, as well as (2) improving policies for use of the spectrum by state and local governments and the private sector. NTIA, working with the FCC, the Department of State, and other federal partners, is a vital component in this Presidential initiative to develop a "Spectrum Policy for the 21st Century." Given the scope of this initiative and the opportunities it presents, it is the top priority for NTIA and supports the Administration's overall goals. Implementing the specific recommendations that are developed for spectrum management policy reforms will continue to be priorities for NTIA. In addition, NTIA will participate in the President's goal of promoting universal, affordable access to broadband technology by the year 2007. Other policy areas NTIA plans to be involved in include ENUM, other Internet issues, and FCC and congressional proceedings on telecommunications regulation.

NTIA will develop policy proposals and promote opportunities to provide these high-speed information services to all Americans. The challenge for NTIA's management will be to accomplish these priorities when implementation requires action by other partners, including the Congress, FCC, and international bodies. NTIA management will meet this challenge by involving all interested parties in the development and implementation of policy recommendations.

NTIA's activities include (1) identifying and supporting new wireless technologies that promise innovative applications for the federal and private sectors; (2) providing federal agencies with the spectrum needed to support their missions for national defense, law enforcement and security, air traffic control, national resource management, and other public safety services; (3) developing plans and policies to use the spectrum effectively; (4) satisfying the United States' future spectrum needs globally through participation with the State Department in the International Telecommunication Union by establishing binding treaty agreements through world radio-communication conferences; and (5) improving through telecommunications research and engineering the understanding of radio-wave transmission, and thereby improving spectrum utilization and the performance of radio-communications systems.

As a result of recommendations made in the President's Spectrum Policy Initiative Report, NTIA plans to evaluate all federal government spectrum in five years to determine spectrum efficiency and effectiveness. NTIA's methodology will be able to determine how federal agencies can improve spectrum efficiency by comparing radio communication technologies. Improvements in efficiency benefit the American public by allowing NTIA's federal agency customers to more effectively accomplish their missions in ensuring our homeland security, maintaining public safety and the federal transportation infrastructure, and supporting law enforcement. Spectrum efficiencies gained in federal government usage can provide benefits to the public as a whole.

The Federal Technology Transfer Act of 1986 (FTTA) allows federal laboratories to enter into cooperative research agreements with private industry, universities, and other interested parties. The law was passed in order to provide laboratories with clear legal authority to enter into these arrangements and thus encourage technology transfer from federal laboratories to the private sector. Under this Act, CRADA can be implemented that protects proprietary information, grants patent rights, and provides for user licenses to corporations, while allowing government expertise and facilities to be applied to interests in the private sector. CRADAs are the principal means of aiding the private sector through ITS's spectrum research and engineering activities and provide an indication of the utility of these activities to the private sector.

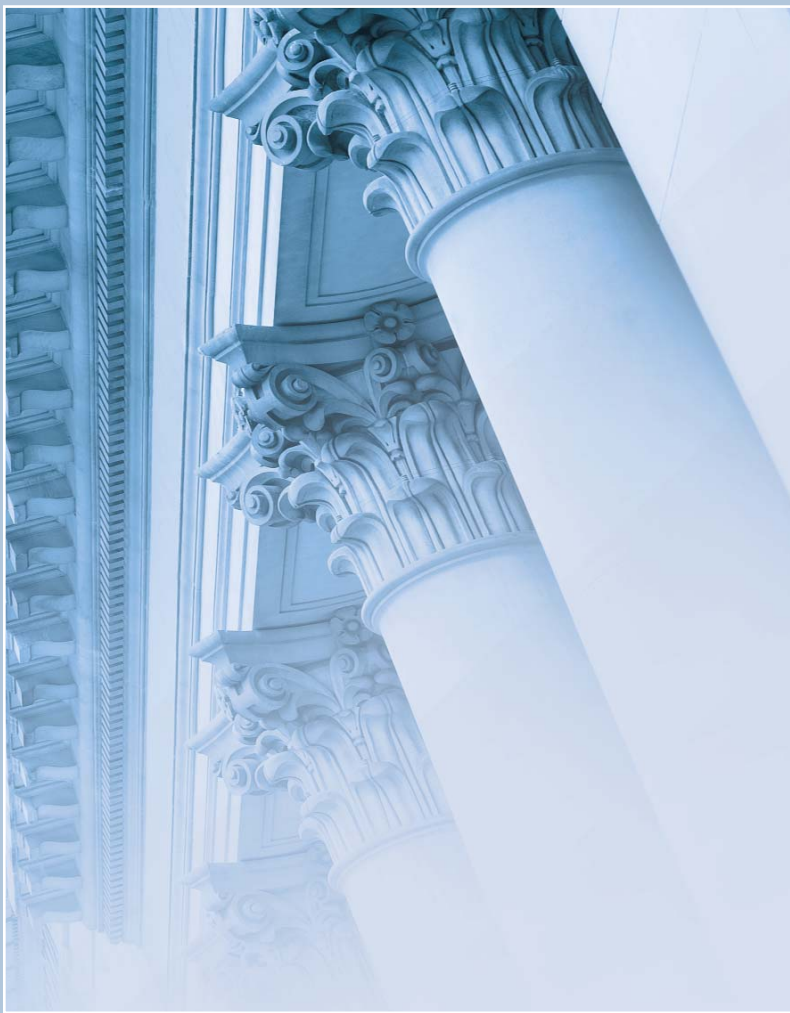
ITS supports NTIA's policy-related activities by providing empirical analysis. ITS also supports NTIA's spectrum management activities through spectrum occupancy measurements and other technical support activities. ITS research will focus on supporting those spectrum management reform activities and assessments undertaken in NTIA's policy development.

CHALLENGES FOR THE FUTURE

Radio frequency spectrum is critical to modern communications. Current spectrum management policies are under increasing strain as the demand for existing spectrum-dependent services grows and new spectrum-related technologies and applications emerge. Working with all affected parties in the federal government and the private sector, NTIA and the Department of Commerce must find ways to implement the recommendations developed through the President's Spectrum Policy Initiative to foster economic growth; ensure our national security; maintain U.S. global leadership in communications technology development and services; and satisfy other vital U.S. needs in areas such as public safety, scientific research, federal transportation infrastructure, and law enforcement. Also, NTIA and the FCC must coordinate the development of a National Strategic Spectrum plan.

NTIA and the Department of Commerce must also respond to the President's call to clear the regulatory hurdles that stand in the way of broadband deployment and create the regulatory certainty necessary to meet the President's goal of universal and affordable broadband access by 2007. Rapid growth in new technologies and applications for mobile wireless, high-speed fiber optics, and broadband-over-powerlines offer potential for consumer choices but require a supportive regulatory framework. Regulatory certainty in the telecommunications sector will promote both competition and investment. Developing the policy framework to support these goals under rapidly changing technology is the challenge facing NTIA and the Department.

STRATEGIC GOAL 3

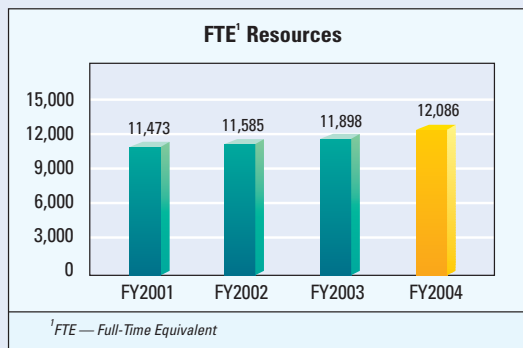
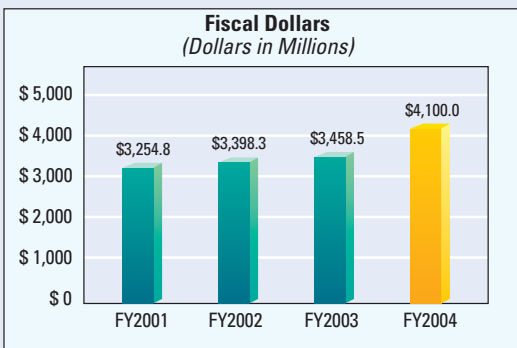




STRATEGIC GOAL 3

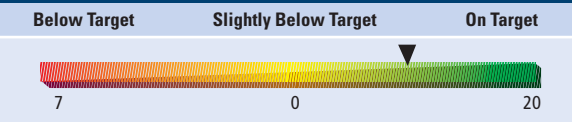
Observe, protect, and manage the Earth's resources to promote environmental stewardship

STRATEGIC GOAL 3 TOTAL RESOURCES



The Department is a future-minded environmental science agency whose mission is to understand and predict changes in the Earth's environment and manage coastal and marine resources to meet our nation's economic, social, and environmental needs. Known as the oceans and atmosphere agency, the Department is also an earth sciences and space agency. The Department has responsibilities for the environment, ecosystems, safety, and commerce of this nation that span oceanic, coastal, and atmospheric domains.

Average Performance Rating and Number of Reported Results



▼ = If in the yellow to green area then considered met.
 If in the yellow to red area then considered not met.

See Appendix A: Performance and Resource Tables for individual reported results.

Understanding the oceans and atmosphere is essential to sustaining the United States' environmental and economic health. The Department provides products and services that are a critical component of the daily decisions made across the United States. From satellite imagery to tornado warning, navigational charts to fishery stock assessments, hurricane tracking to El Niño and harmful algal bloom predictions, severe weather forecasts to coastal zone management—Commerce's science, service and stewardship touches the life of every citizen in this country and in much of the world every day.

Together Commerce and its partners provide weather and climate services; manage and protect fisheries and sensitive marine ecosystems; conduct atmospheric, climate, and ecosystems research; promote efficient and environmentally safe commerce and transportation; and provide emergency response and vital information in support of homeland security. The breadth and scope of these services demands that the Department be responsive to both short-term and long-term societal needs.



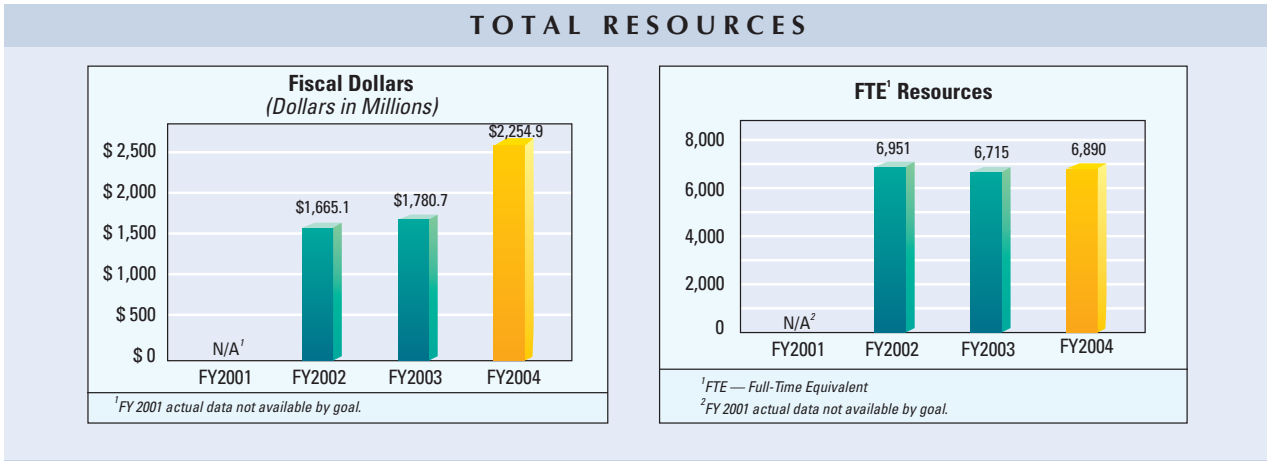
NWS Meteorologist Christine Alex answers a question about NOAA Weather Radio All-Hazards, NOAA's primary means of warning the public about severe weather and other hazards.

In FY 2004, the National Oceanic and Atmospheric Administration (NOAA) revised its Strategic Plan for FY 2005 -FY 2010, providing the framework of goals, strategies, and performance objectives to improve its own and the Department's ability to best serve the United States and its citizens. The NOAA Strategic Plan's four programmatic mission goals fall under Objectives 3.1 and 3.2.

The Department successfully moved this strategic goal forward. The bureau with the overall responsibility for the successes in this goal is NOAA.

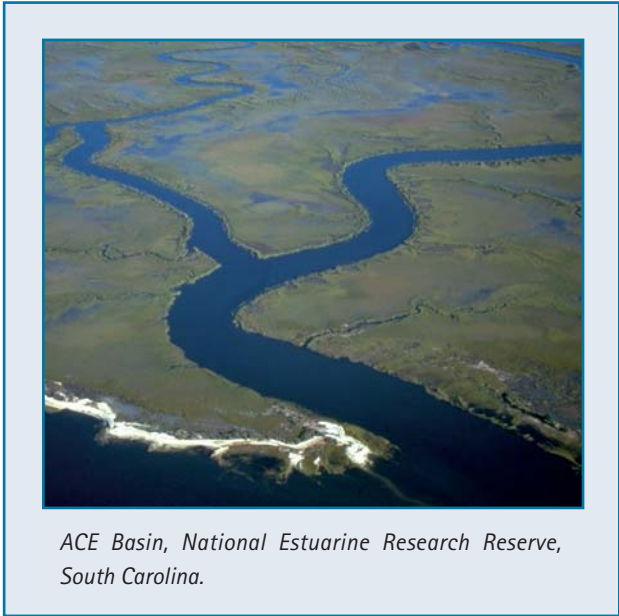
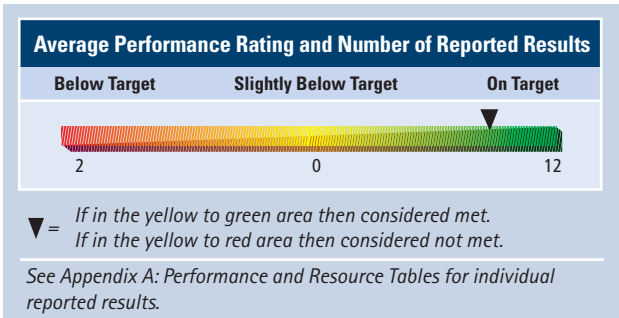
STRATEGIC OBJECTIVE 3.1

Advance understanding and predict changes in the Earth's environment to meet America's economic, social, and environmental needs



The Department's role in understanding, observing, forecasting, and warning of weather events is expanding. The Department is strategically positioned to conduct sound, scientific research and provide integrated observations, predictions, and advice for decisionmakers who manage environmental resources, ranging from fresh water supplies to coastal ecosystems to air quality.

Realizing that the Department's information and services bridge both weather and climate timescales, it will continue to collect and analyze environmental data and issue forecasts and warnings that help protect life and property and enhance the U.S. economy. Commerce is committed to excellent customer service and depends on its partners in the private sector, academia, and government to add value and help disseminate critical weather and climate information. Commerce will expand services to support evolving national needs, including those associated with space weather, freshwater and coastal ecosystems, and air quality prediction.



IMPORTANT HIGHLIGHTS FOR STRATEGIC OBJECTIVE 3.1

In June 2004, NOAA and the Department of Homeland Security (DHS) signed an agreement that allows DHS to send critical all hazards alerts and warnings directly through the NOAA All-Hazards Network via NOAA Weather Radio. This partnership with DHS extends NOAA Weather Radio's capabilities from primarily broadcasting weather forecasts and warnings to include a wider range of alerts and warnings, both man-made and natural disasters, which will make critical information more readily available to the public. Alerts can be delivered nationally, regionally or locally, giving DHS a strengthened capability to send emergency messages to national and targeted populations with minimum delay.



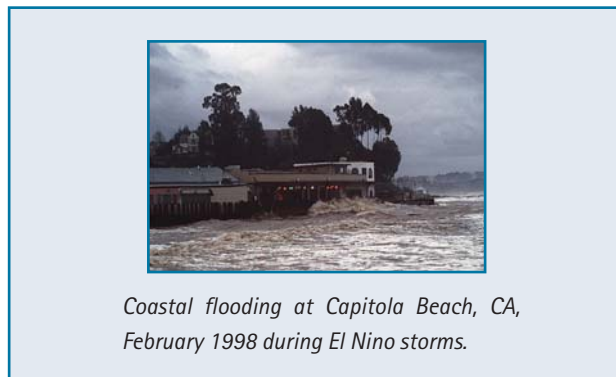
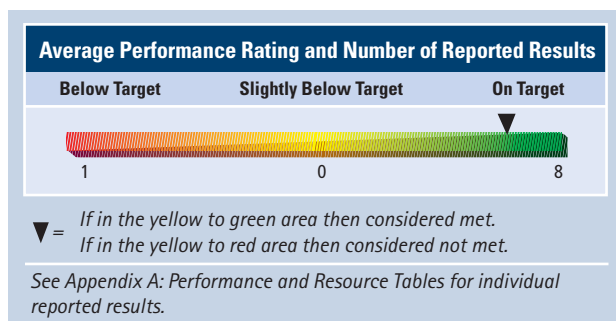
The Department and the Western Governors' Association (WGA), developed a plan for "Creating a Drought Early Warning System for the 21st Century," outlining the details for a National Integrated Drought Information System (NIDIS). With \$6 billion to \$8 billion in estimated losses to the U.S. economy, and impacts widespread throughout society, Vice Admiral Lautenbacher has recognized the value and importance of the NIDIS, and its relation to NOAA's mission: "We cannot overlook the need for science to predict, monitor, and mitigate this phenomenon.... The NIDIS will provide the framework... for the 21st century that will improve our existing capabilities in monitoring and forecasting drought."

Performance Goal: Improve accuracy and timeliness of weather and water information (NOAA)

Floods, droughts, hurricanes, tornadoes, tsunamis, and other severe weather events cause \$11 billion in damages each year in the United States. Weather is directly linked to public safety, and nearly one-third of the U.S. economy (~ \$3 trillion) is sensitive to weather and climate. With so much at stake, NOAA's role in understanding, observing, forecasting, and warning of environmental events is expanding. Private and business sectors are also getting more sophisticated about how to use NOAA's weather, air quality, water, and space weather information to improve operational efficiencies, to manage environmental resources, and to create a better quality of life.

The Department is supported by NOAA's Weather and Water Mission Goal Team:

- ◆ The *Local Forecast and Warning Program* puts "NOAA in your neighborhood" by delivering essential NOAA services to local communities through its distributed structure of Weather Forecast Offices, Weather Service Offices, and data collection offices.
- ◆ The mission of the *Tropical Storm Program* is to save lives, mitigate property loss, and improve economic efficiency by issuing the best watches, warnings, forecasts and analyses of hazardous tropical weather, and by increasing understanding of these hazards.
- ◆ The NOAA *Air Quality Program* is a major and unique resource in the national effort to ensure that the public has clear air to breathe.
- ◆ NOAA's Hydrology Program delivers flood watches; river and flash flood warnings; and river, lake level, and water quality forecasts through Weather Forecast Offices to a broad spectrum of customers.
- ◆ The *Space Weather program* provides timely and accurate operational space weather forecasts, warnings, alerts, and data to civilian end users. Customers affected by space weather include power grid operators, National Aeronautics and Space Administration (NASA), Global Positioning System (GPS) and LORAN users, airlines, and radio communicators.
- ◆ The *Environmental Modeling Program* provides models and model-based estimates of both the current and future states (at all time scales) of the environment based upon observations and scientifically based modeling techniques. It operates and maintains both a suite of operational models and a research and development (R&D) program to improve and extend the capability and performance of the operational and research model suite.
- ◆ The *Science Technology and Infusion program (ST&I)* investigates, develops, and transfers new sciences and technology for improved NOAA operations, products, and services. ST&I performs state-of-the-art research and works with NOAA's service programs to infuse new science and technology via prototyping, evaluation, acquisition, and training.



On average, hurricanes, tornadoes, tsunamis, and other severe weather events cause \$11.4 billion in damages in the United States every year. Weather not only directly impacts public safety, but also nearly one-third of the total U.S. national economy. With so much at stake, NOAA's role in observing, forecasting, and warning of environmental events is expanding. Emergency managers, business, and the public are increasingly adept at using NOAA's weather and water information to achieve operational efficiencies, manage environmental resources, and protect lives and property.

NOAA's National Weather Service (NWS) announced on September 16, 2004, that three elements of the National Digital Forecast Database (NDFD) would become official on December 1, 2004. The NWS provides access to gridded forecasts of sensible weather elements (e.g., cloud cover, maximum temperature) through the NDFD. The NDFD contains a seamless mosaic of digital forecasts made available to the public, private, and academic sectors. Customers and partners may use this data to create a wide range of text, graphic, gridded, and image products of their own. Making gridded forecasts available to customers and partners is a significant advance in service to the public and is a result of a major shift in the way NOAA's NWS prepares and distributes forecasts. The gridded elements becoming official NDFD products in December are: Maximum Temperature, Minimum Temperature, and Probability of Precipitation (12 hour). The nine experimental elements remaining are: Temperature, Dew Point, Weather, Wind Speed, Wind Direction, Significant Wave Height, Sky Cover, Snow Amount, and Quantitative Precipitation Forecast.

During the recent spate of landfalling hurricanes in coastal Florida and Alabama, scientists from AOML, GFDL, and Department partners at the University of Miami/ Cooperative Institute for Marine and Atmospheric Studies (CIMAS) contributed to modeling and monitoring efforts that could advance defining how storms are operationally monitored in the future. The GFDL Hurricane Model continues to play a critical role in producing NOAA's hurricane forecasts. GFDL's hurricane researchers collaborate with forecasters at the National Hurricane Center to carefully monitor and continually improve the NWS's operational hurricane model used to determine where the storms are likely to go. As Frances and Ivan approached the United States, scientists used the H*Wind system developed at AOML to objectively analyze the intensity of the storms at three to six-hour intervals utilizing real-time data from NOAA P3 research aircraft as well as conventional sea-, land-, and space-based observing platforms. The "snapshot" wind field analyses were used by colleagues at the University of Miami to run an experimental storm surge and wave model as part of a National Ocean Partnership Program (NOPP) project and were also available to National Hurricane Center forecasters via a special Web site. At the request of DHS-Federal Emergency Management Agency (FEMA), the analyses were used to help determine wind field parameters for the HAZUS model, a damage and response model developed for FEMA's mitigation division. As the storms neared landfall, H*Wind gathered additional real-time storm intensity data from wind towers placed in the storm's path by a NOAA Sea Grant and State of Florida sponsored Florida Coastal Monitoring Program. These strategically placed observations provided valuable supplemental data, since the nation's Automated Surface Observing System (ASOS) surface observing network is not robust enough to operate in extreme conditions.

NWS predictions of an active Atlantic hurricane season foreshadowed a very busy August in 2004. The total of eight tropical cyclones reaching storm strength set a new August record, breaking the previous record of seven set in 1933 and 1995. Florida was hardest hit as Charley, Frances, and Ivan each impacted the state over a six-week span. Throughout that span of time, Americans relied on the National Hurricane Center (NHC) for predictions and information. Of note, NHC forecasters correctly made a difficult call that Hurricane Charley would intensify before making landfall. NOAA's 5-day hurricane forecasts are as good as 3-day forecasts were 10 years ago – and Hurricane Frances forecasts were even better than that. Numerous NWS and NOAA offices collaborated on Hurricane Ivan forecasts before and after it became the third storm in 2004 to hit Florida and then impacted interior states to the north with tornadoes, high winds and floods. Between mid-August and mid-September, the NHC Web site had more than 2.5 billion hits, and NHC forecasters provided

hundreds of television, radio and print media interviews in the same period. In early September, a congressional resolution was introduced to honor NOAA and its employees "for their dedication and hard work during Hurricanes Charley and Frances."

NOAA began issuing Air Quality Forecasts (AQF) for the northeastern United States, developed jointly by NOAA and the Environmental Protection Agency (EPA) in September 2004. The new AQF provides forecasts of hour-by-hour ozone levels through midnight of the following day, at 12 kilometer-grid resolution. The information is posted and updated twice daily on NWS and EPA data servers. The AQF capability was developed and tested over the past two summers in the Northeast. Users of the forecasts may include state and local air quality forecasters, ozone sensitive people, and private sector partners who help distribute air quality alerts to the public. The nationwide phased implementation of the ozone air quality forecast capability will occur between 2004 and 2009.

NWS's National Centers for Environment Prediction (NCEP) implemented a new global coupled atmosphere-ocean Climate Forecast System (CFS) model. This is the first system capable of producing operational climate forecasts using a fully interactive computer model of the ocean-land-atmosphere system. Historically, the operational seasonal forecast process relied mostly on knowledge of past conditions and trends to make future projections. The CFS model takes into account the interaction between the ocean and the atmosphere. These interactions are critical to determine the evolution of Earth's climate on seasonal time scales. The CFS will complement and significantly improve the existing seasonal forecasting process. Use of the CFS will lead to improvements in operational seasonal forecasts, which provide important guidance to many important economic sectors, including agriculture, energy, water resources, transportation, and the financial markets. NCEP's Environmental Modeling Center (EMC) developed the CFS in cooperation with a number of government, university, private, and international partners.

Prompt action by an Illinois manufacturing plant following a NOAA Weather Radio (NWR) All-Hazards alert kept as many as 140 plant workers safe in the face of an F4 tornado that struck July 13, 2004, in Roanoke, Illinois. The Parsons Manufacturing Plant dispatched employee spotters based on NWR receipt of a Severe Thunderstorm Warning 12 minutes prior to the tornado. A plant manager said employees were just starting to go to their designated shelters when the Tornado Warning was received—seven minutes prior to the tornado. The company owner established a severe weather plan nearly 30 years ago when he started the business, and the plant had shelters made of steel reinforced concrete. The plant also holds regular emergency drills.

NOAA and DHS signed an agreement, enabling DHS to send critical all-hazards alerts and warnings directly through the NOAA NWR All-Hazards Network. This partnership with DHS extends NWR's capabilities from primarily broadcasting weather forecasts and warnings to include a wider range of alerts and warnings, for both man-made and natural disasters, which will make critical information more readily available to the public. Alerts can be delivered nationally, regionally, or locally, giving DHS a strengthened capability to send emergency messages to national and targeted populations with minimum delay. NOAA also collaborated in 2004 with the Consumer Electronics Association (CEA) and Environment Canada to establish a new performance standard for public alert receivers to protect lives and property. Public alert receivers for NWR broadcasts using the new industry standards will be entitled to bear a new certification from CEA. The standard, titled CEA-2009 – Receiver Performance Specification for Public Alert Receivers, defines minimum performance criteria for consumer electronic products designed to receive the digital alert signals broadcast by NWR and Environment Canada's Weatheradio network.

Flash Flood and Monitoring Prediction (FFMP), a component of the NWS Advanced Hydrologic Prediction Service, gave emergency management officials enough specific warning information to barricade roads and divert school buses in advance of May 2004 flash flooding in Pennsylvania. Early in the afternoon of May 12, 2004, a thunderstorm developed over Miller and Shaver Mountains south of Tunkhannock, Pennsylvania. The Binghamton, New York, Weather Forecast Office (WFO) issued flash flood warnings about an hour before flooding hit the specific area of Wyoming County mentioned in the warning. The thunderstorm was nearly stationary and rainfall totals exceeded six inches in just a few hours. The specificity of the warning message and lead time allowed Gene Dziak, Director of Wyoming County Emergency Management Agency, and his staff to take protective action by barricading roads, and diverting school buses out of the affected area. There were no injuries or deaths related to this flash flood.

High-resolution radar data from the national network of Next Generation Radar (NEXRAD) was made available in real time in April 2004 to government, university, and private sector users. NWS distributes the NEXRAD data through four top-tier sites. Three of these sites, Purdue University, University of Oklahoma, and The Education and Research Consortium of the Western Carolinas, make Level II data available to all private sector users equally on a cost-recovery basis without restriction on redistribution or use. The fourth site, the NWS Telecommunication Operations Center, makes data available through a collection of data communication line services called the Family of Services (FOS).

The NWS Climate Prediction Center (CPC) changed the release time for the official One- and Three-Month Outlooks and U.S. Drought Outlook products to 8:30 a.m. Eastern Standard Time in place of the previous 3 p.m. Eastern release time. Products are issued on the third Thursday of each month. Customers, especially in the commodities market and weather risk management sectors, have been requesting that CPC release its long-lead forecasts in the morning before the markets open, rather than in the afternoon to provide U.S. markets an opportunity to react before foreign markets.

A Texas emergency manager credited timely NWS flood warnings and strong interagency cooperation with saving lives during a West Texas flood event April 3-4, 2004. When fast moving floodwaters caused an Interstate-20 bridge to collapse 15 miles west of Pecos, TX (Reeves County), on a late Sunday afternoon, nobody was on it. State and local authorities had already closed the bridge to traffic. A Flash Flood Statement issued about an hour and a half before the collapse, warned "A Flash Flood Watch remains in effect through tonight for all of southeast New Mexico and West Texas." Reeves County Emergency Manager Rick Herrera, officers of the Texas Department of Transportation, Department Public Safety, and the Sheriff's office then closed the bridge to traffic. Several thousand cars and trucks are estimated to use the bridge daily. "We have a lot of traffic go through here. I'm sure we would have lost some lives and we were lucky not to have any injuries," he added. Herrera says he was in close contact with the Midland WFO and local storm spotter network throughout the storm. "It worked like clockwork and the National Weather Service deserves praise for the help they gave us."

NOAA's Deep-Ocean Assessment and Reporting of Tsunamis (DART) system hit the bull's eye on November 16, 2003, when it detected a small tsunami generated by an earthquake near Adak, Alaska. This was the first time the DART system was able to capture tsunami data in real-time since going operational in October 2003. The system is designed to be triggered into a rapid data-gathering mode by a strong earthquake's seismic waves, and then monitor and transmit real-time ocean surface data to NOAA's Tsunami Warning Centers in Palmer, Alaska, and Honolulu, Hawaii. In this event, the DART system nearest to the earthquake epicenter was triggered by the earthquake at 9:45 p.m. and captured the tsunami arrival at 10:50 p.m. The amplitude of the small tsunami measured by the DART system confirmed expectations of the scientists on duty at the Tsunami Warning Centers and allowed the Tsunami Warning to be canceled very early in the warning process. Rapid confirmation that damaging tsunami waves have not been generated is equally important as warnings of damaging tsunami waves, eliminating the need for unnecessary, disruptive, and expensive evacuations.

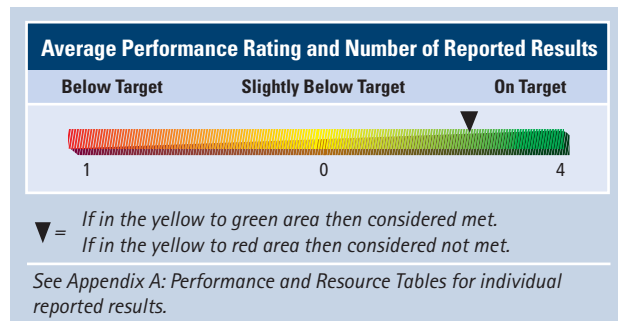
The Coastal Storms Initiative is wrapping up its first pilot in northeast Florida. The products produced for the Florida pilot have been very valuable in preparations for and response to the hurricanes that have hit the region this year. For example, a new buoy was deployed off Jacksonville resulting in greatly improved wind forecasts during Hurricanes Charley and Frances. The information provided by the buoy was key to the U.S. Navy's preparations and decision to not send certain ships to sea during these hurricanes.

In September 2003, the Office of Inspector General (OIG) made recommendations to improve the reporting of various NWS performance measures. One recommendation required that NWS provide performance data to reflect the percentage of events when the public is not provided a warning in time to take action for both tornado and flash flood events. NWS concurred and now provides this information on its Web site and disclosed the percentage of events with a lead time greater than zero for these two performance measures in the FY 2006 Annual Performance Plan (APP).

Performance Goal: Increase understanding of climate variability and change (NOAA)

One of NOAA's mission goals is to understand climate variability and change to enhance society's ability to plan and respond by employing an end-to-end system comprised of integrated environmental observations leading to a scientific understanding of past and present climate and enhanced climate predictive capabilities, and enhanced service delivery methods that continuously assess and respond to stakeholder needs.

Climate shapes the environment, natural resources, economy, and social systems that people depend upon worldwide. The Department delivers reliable climate information in understandable and useful ways to help minimize risks and maximize opportunities for decisions in agriculture, public policy, natural resources, water and energy use, and public health. Together with its partners Commerce can accelerate the development of information to support climate policy decisions and planning that consider both climate variability and long-term climate change. The Department's trusted climate information, products, and services enable society to understand and respond to changing climate conditions.



The Department's performance goal is supported by NOAA's Climate Program. The Program consists of five components that contribute toward meeting the goal:

- ◆ *Climate Observations and Analysis* provides an integrated observational network for sustained monitoring of key climate related parameters, with a data stewardship system and ongoing climate analysis capability.
- ◆ *Climate Forcing* supports information needs associated with the atmospheric constituents, such as carbon dioxide and aerosols, whose human-caused changes force the climate system to change.
- ◆ *Climate Predictions and Projections* provides intraseasonal to decadal climate predictions and projections to enable managers to better plan for the impacts of climate variability and change.

- ◆ *Climate and Ecosystems* seeks to deliver the knowledge and tools needed to incorporate climate variability into the management of living marine and coastal resources to fisheries and coastal zone managers.
- ◆ *Regional Decision Support* seeks to provide better public access, understanding, and use of climate information in planning and decision-making.

Society exists in a highly variable climate system, with conditions changing over the span of seasons, years, decades, and longer. Weather and climate-sensitive industries, directly or indirectly, account for about one-third of the nation's gross domestic product (GDP), or \$2.7 trillion. To enable society to better respond to changing climate conditions, NOAA is working with national and international partners to: employ an end-to-end system comprised of integrated observations of key atmospheric, oceanic, and land-surface processes that influence climate; apply this improved understanding to create more reliable climate predictions on all time scales; and create service delivery methods that continuously assess and respond to user needs with the most reliable information possible.

NOAA received international and national recognition of research scientists. Susan Solomon, senior scientist at the Aeronomy Laboratory and head of its Chemistry and Climate Processes program, was announced on June 23 as a winner of the 2004 Blue Planet Prize. The Blue Planet Prize is a prestigious international award that recognizes individuals and organizations that have made major contributions to solving global environmental problems. Solomon received the award "...for her pioneering work in identifying the mechanism that produces the Antarctic ozone hole and momentous contributions towards the protection of the ozone layer," and for her research on the linkages between ozone depletion and the Antarctic surface climate. This year marks the 13th awarding of the Blue Planet Prize, which is sponsored by Japan's Asahi Glass Foundation. Solomon is the second NOAA scientist to receive the honor (Suki Manabe, formerly of Geophysical Fluid Dynamic Laboratory (GFDL), was the first). The award carries a prize of 50 million yen, or about \$460,000.

Two Ocean and Atmospheric Research (OAR) NOAA scientists were honored in 2004 at separate White House ceremonies where they received a *2002 and 2003 Presidential Early Career Award in Science and Engineering (PECASE)*. Gabriel Vecchi of NOAA's Geophysical Fluid Dynamic Laboratory in Princeton, New Jersey, and Sim Aberson of NOAA's Atlantic Oceanographic and Meteorological Laboratory in Miami, Florida, were awarded the nation's highest award for young scientists in 2002 and 2003. Vecchi was cited for his "fundamental contributions concerning the roles of sub seasonal variability on the onset and termination of El Niño and on Indian Monsoon rainfall." Aberson was nominated for his "research leading to significant improvements in hurricane track forecasts and development of programs bringing science to young students, and young students to science."

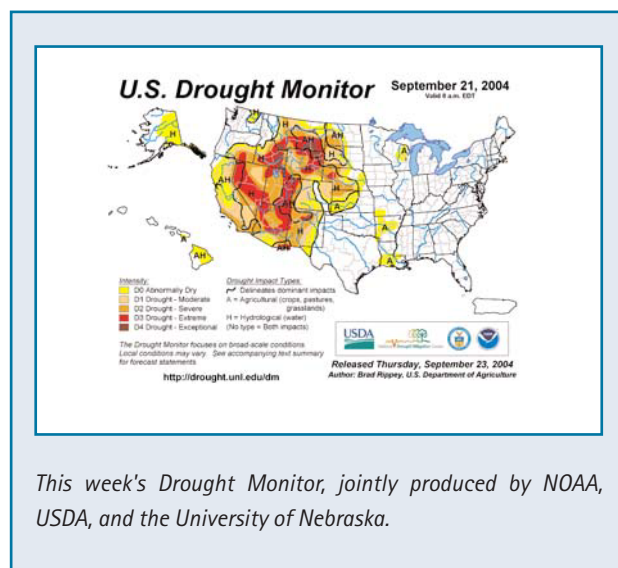
NOAA achieved operational implementation of NCEP's coupled climate forecast system. On August 24, 2004, a global ocean and atmosphere coupled CFS became operational at NCEP. Under development for a year by a team of NOAA scientists working in the NCEP's EMC, with support from the Office of Global Programs (OGP)/ Climate Dynamics and Experimental Predictions (CDEP) program, the CFS is a fully coupled model representing the interaction between the Earth's oceans and the atmosphere. These interactions are critical for determining climate on seasonal time scales. The atmospheric model is a recent version of the NCEP Global Forecast System (GFS) model, also developed at NCEP's EMC. The ocean model is the Modular Ocean Model (MOM3) developed in the GFDL in Princeton, New Jersey. The coupling between the two models is done without corrections to model biases. Most current coupled models require this correction to prevent model drift. Currently 30 seasonal forecasts are made each month, each out to 10-month predictions. This ensemble approach is necessary since the signal-to-noise ratios for seasonal predictions of temperature and

precipitation over the United States are small. The CPC, NCEP is the primary customer of the products of this system but products will become available to all customers in the near future. This implementation is a recent example of a successful transition of research into operations through long-term, ongoing collaborative efforts by scientists in NOAA laboratories (GFDL, EMC), NOAA climate program supported applied research centers (ARC), other federal agencies (NASA/Goddard Space Flight Center (GSFC), National Science Foundation (NSF)/National Center for Atmospheric Research (NCAR)), and the university research community.

A landmark paper by scientists at Pacific Marine Environmental Laboratory (PMEL) and Atlantic Oceanographic and Meteorological Laboratory (AOML) described the first observation-based inventory of anthropogenic carbon dioxide in the ocean (*Science* 305, 367-371, 2004). The effort was the culmination of a decade of ocean carbon observations as part of the World Oceans Circulation Experiment (WOCE) hydrographic survey. Several of the cruises were sponsored by the NOAA/OGP Ocean-Atmosphere Carbon Exchange Study and were led by investigators at AOML and PMEL with joint institute and extramural participation sponsored by OAR/OGP. Extremely accurate measurement of total carbon content of the ocean, painstaking synthesis including checking of data for small biases between cruises, and new methods of separating the relatively small anthropogenic carbon signal from a large and variable natural background were accomplished. This resulted in a robust estimate that 48 percent of the carbon released by burning of fossil fuel during the industrial era has entered the ocean, making it the largest sustained sink of carbon over the last 200 years. The potential impacts of increased anthropogenic carbon dioxide (CO₂) in the oceans on marine ecosystems were published in a companion paper in the same July 16 issue of *Science* (*Science* 305, 362-366, 2004). If organisms cannot adapt to the changes in seawater chemistry that will occur, the geographical range of some calcifying species may be reduced or may shift in response to rising CO₂ as humankind continues to release large quantities of CO₂ into the atmosphere.

NOAA's Climate Program, including the NWS CPC and Climate Services Division (CSD); OAR Climate Diagnostics Center (CDC) and OGP; and National Environmental Satellite, Data, and Information Service's (NESDIS) National Climatic Data Center (NCDC) worked with federal, state, and local government officials and the private sector to support the WGA's development of the report entitled *Creating a Drought Early Warning System for the 21st Century: The National Integrated Drought Information System* (NIDIS; available online at <http://www.westgov.org/wga/publicat/nidis.pdf>). The NIDIS document serves as a roadmap and requirements document for the creation, operation, and management of an effective national drought system focused on user needs, observations, and data requirements; existing and needed tools; research and science; information dissemination and feedback; and recommendations to implement the NIDIS. The WGA approved the NIDIS report at its annual meeting in June 2004. NOAA is currently determining the most effective way to act on the recommendation in the report to establish a NIDIS Implementation Team, within existing resources.

NOAA research helped to lead and carry out the multi-agency air quality and climate study performed under the auspices of the International Consortium for Atmospheric Research on Transport and Transformation (ICARTT), which was based in New England this summer (New England Air



This week's Drought Monitor, jointly produced by NOAA, USDA, and the University of Nebraska.

Quality – Intercontinental Transport and Chemical Transformation Study). Colleagues from five nations were engaged in the endeavor, which extended from the Western United States to continental Europe. The research is addressing significant information gaps and delivering sound science leading to an improved understanding of the processes that influence the air pollution levels to which the citizens of New England are exposed. In addition to those regional goals, the research is an integral part of NOAA's effort to develop the tools needed to provide reliable air quality forecasts in the continental United States. In addition, the research will lead to a better understanding of the linkages between air quality and climate, information that will aid decision-making in both arenas. Observations were taken at ground sites, from airborne platforms (including NOAA's WP-3D aircraft and the NOAA airborne ozone/aerosol lidar), and at sea (from the NOAA R/V *Ronald H. Brown*). The study was an unqualified success, with all of NOAA's initial goals achieved. The 200-plus scientists (more than 120 from NOAA in OAR's laboratories and Joint Institutes) from the United States, Canada, and Europe who were involved in the study have collected data that will provide an unprecedented view into the key process that shapes air quality and climate change on regional and hemispheric scales.

Researchers develop seamless mosaic of radar data nationwide. The National Severe Storms Laboratory's Worldwide Integrated Sensor Hydrometeorology (WISH) team has completed an ambitious project to seamlessly mosaic all 130 NWS radars across the United States. The mosaic provides the first high-resolution depiction of storms and quantitative precipitation estimation (QPE) products from coast-to-coast in real time. The team developed a national real-time radar data archival and Internet2 delivery system for university, government, and private sectors, known as the Collaborative Radar Acquisition Field Test (CRAFT). Taking advantage of high performance networking capabilities and other recent technological advances, the team successfully transferred the technology from research into NOAA's NWS, private sector operations, and research and education facilities. The effort was recognized with a 2004 NOAA Tech Transfer Award.

NOAA's OAR and NWS successfully completed the North American Monsoon Experiment (NAME) 2004 field campaign this summer in collaboration with other United States, Mexican, and Central American agencies and institutions. NAME 2004 provides an unprecedented collection of detailed atmospheric, oceanic, and land-surface observations in the core region of the North American Monsoon over northwest Mexico, southwest United States, and adjacent oceanic regions to better document the evolution of the monsoon convection and precipitation, and to help understand the key physical processes that must be parameterized for improved simulations and predictions with climate models. Program objectives were accomplished with ten Intensive Observing Periods (IOP) over the four-month experiment duration. The IOPs, many of which involved flight missions on the NOAA P-3, captured a sufficient number of "normal monsoon" days to evaluate monsoon dynamics and their representation in climate and weather models. A number of IOPs documented special monsoon events such as the monsoon onset, Gulf of California surges, and dry air intrusion/monsoon suppression. The NWS Forecast Operations Center in Tucson was quite a success with the participation of over 30 NWS forecasters from across the country trying their hand at providing detailed synoptic scale forecasts to support field operations.

In September 2003, OIG made recommendations to improve the climate performance indicator, "New Climate Observations Introduced." One recommendation focused on expanding the scope of the indicator to include all ocean observations. The second recommendation suggested a reevaluation of the usefulness of the measure. Since these recommendations were made, the Department has begun a thorough review of its Government Performance and Results Act (GPRA) performance measures, moving toward more outcome-oriented indicators of progress. The FY 2006 APP will reflect these changes, with discontinued output measures, as well as revised and new measures that better represent the outcomes and performance objectives of the Department's climate goal.

STRATEGIES AND FUTURE PLANS

Weather

- ◆ Improve the reliability, lead-time, and understanding of weather and water information and services that predict changes in environmental conditions.
- ◆ Integrate an information enterprise that incorporates all stages from research to delivery, seek better coordination of employee skills and training, and engage customers.
- ◆ Develop and infuse research results and new technologies more efficiently to improve products and services, to streamline dissemination, and to communicate vital information more effectively.
- ◆ Build a broad-based and coordinated education and outreach program by engaging individuals in continuous learning toward a greater understanding of the impacts of weather and water on their lives.
- ◆ Employ scientific and emerging technological capabilities to advance decision support services and to educate stakeholders.
- ◆ Work with universities, industry, and national and international agencies to create and leverage partnerships that foster more effective information services.

One of NOAA's top priorities is to effectively and efficiently deliver information and services to customers when they need it and in standardized formats. NOAA-wide information such as all-hazards warnings and a wide range of environmental information from an expanding customer base must be available in digital formats with the necessary supporting infrastructure. This includes NOAA Weather Radio and NOAA Enterprise-wide service delivery system.

NOAA must also acquire new capabilities to support customer demand for improved predictions, including: advancing science to improve water resource forecasting and service delivery; providing extended outlooks for fire weather; improving international efforts to address medium range forecasting and climate variability; accelerating the transition of new space weather models and products into operations; and improving and providing new integrated products and services for coasts, estuaries, and oceans.

NOAA must address gaps in the observing architecture to ensure continuity of observations, establish cost effective approaches for future integrated observing capability, and meet NOAA's global environmental observing system of systems (GEOSS) commitments. This effort will focus on GEOSS and integrated observations, including: Integrated Surface Observing System (ISOS), Integrated Upper Air Observing System (IUAOS), and Integrated Ocean Observing System (IOOS).

Climate

The Department utilizes several strategies to assist customers in better understanding the impacts of climate change and variability. Like weather, improved climate information can have a profound impact on the economy and the Department strives to ensure that reliable, unbiased climate information is available for informed and reasoned decision-making. Strategies to achieve this end state include:

- ◆ Improving the number and quality of climate observations and analyses
- ◆ Quantifying the forces and feedbacks from human-induced changes in atmospheric gases (e.g. greenhouse gases)

- ◆ Advancing climate predictions from sub-seasonal to decadal time scales and beyond
- ◆ Effectively delivering timely climate services and products to climate-sensitive sectors (e.g. health, safety, energy, and resource management)
- ◆ Supporting educational efforts to create a more climate-literate public.

The Department's Climate Program is currently aligned with the U.S. Climate Change Science Program (CCSP), in an effort to ensure optimal partnerships with other federal agencies and to advance the state of the science, while also enabling society to understand and respond to changing climate conditions. The program is working to improve the efficiency in which research products and services are made operational, and expanding its outreach capacity to ensure that the information produced is driven by stakeholder need. As these efforts are realized, the Department's performance measures will be adjusted to evolve with the needs of the program.

FSD-15643-3-0001, Improvements needed in the reporting of performance measures related to goals for advancing short-term warnings and implementing seasonal to interannual climate forecasts

The report concluded that NOAA should establish procedures for reporting only appropriate fiscal year results, developing and maintaining adequate support documentation, and reconciling performance data with documentary evidence. Actions to implement these recommendations have been taken.

FSD-15989-4-0001, Improvements needed in the reporting for NOAA GOALS – Build Sustainable Fisheries, Recover Protected Species, and Predict and Assess Decadal to Centennial Climate Change (four recommendations)

The report concluded that titles of measures and targets did not precisely characterize reported data, documentation to support results should be maintained, PAR explanations need to be clear and accurate, and verification procedures are needed. A plan to implement these recommendations is being drafted.

CHALLENGES FOR THE FUTURE

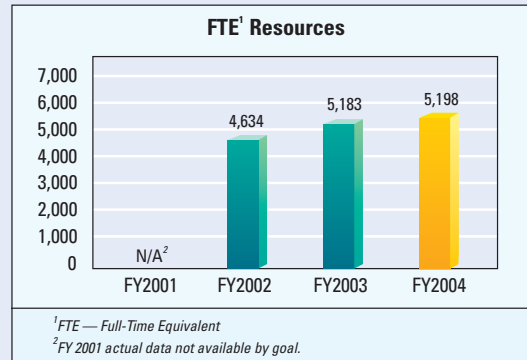
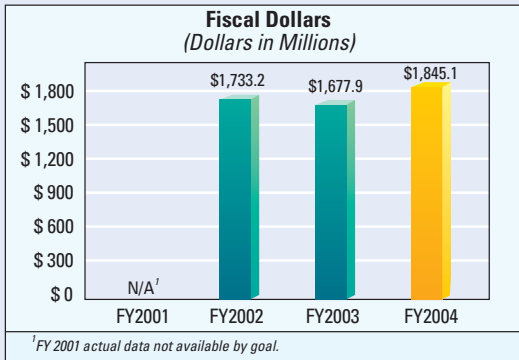
The 21st century poses complex challenges for the Department. As the new century unfolds, new priorities for NOAA action are emerging in the areas of climate change, freshwater supply, and ecosystem management. Within the Department of Commerce, every aspect of NOAA's mission to protect and manage coastal and marine resources faces a new urgency to address intensifying national needs related to the economy, the environment, and public safety. Significant reports, such as the Report of the U.S. Commission on Ocean Policy, cite growing need to respond to increasing pressures on our oceans and coasts. Recommendations in such reports were used to form the revised NOAA Strategic Plan, setting a framework for addressing the needs of the nation today and tomorrow.

In recent years, extreme drought and flooding conditions in large regions of the nation have combined to make improved water resources prediction an urgent requirement for the Department's future weather and climate mission. Human health linkages with weather, climate, and ecosystem goals are also priorities and directly relate to the Administration's focus on a healthy and growing economy. In 2003, the U.S. government formed the CCSP to facilitate the creation and application of knowledge of Earth's global environment through research, observations, decision support, and communication. The Department, working with 12 other federal agencies, leads this nationwide effort.

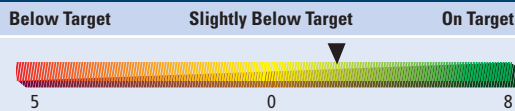
STRATEGIC OBJECTIVE 3.2

Enhance the conservation and management of coastal and marine resources to meet America's economic, social, and environmental needs

TOTAL RESOURCES

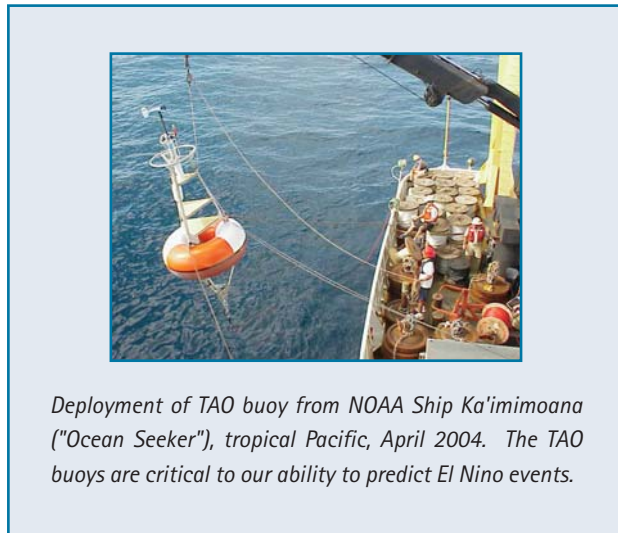


Average Performance Rating and Number of Reported Results



▼ = If in the yellow to green area then considered met.
If in the yellow to red area then considered not met.


See Appendix A: Performance and Resource Tables for individual reported results.




Deployment of TAO buoy from NOAA Ship Ka'imimoana ("Ocean Seeker"), tropical Pacific, April 2004. The TAO buoys are critical to our ability to predict El Nino events.

The Department has a unique mandate from Congress to be the lead federal agency in protecting, restoring, and managing ocean and coastal resources. To meet this mandate, the Department maintains a world-class expertise in oceanography, marine ecology, fisheries management, conservation biology, and risk assessment. To achieve balance among ecological, environmental, and social influences, the Department has adopted an ecosystem approach to management – an approach that must be deliberate, incremental, and collaborative. Within the Department of Commerce, NOAA's mission is "to protect, restore, and manage fisheries and coastal and ocean resources is critical to the health of the U.S. economy." To the extent it is possible to balance sustainable economic development and healthy functioning marine ecosystems, Commerce seeks to provide an example for the rest of the world in how to protect, restore, and manage resources of the world's oceans and coasts. In addition, "Safe and efficient transportation systems" are crucial to the U.S. economy. The Department information improves transportation efficiency and safety on roads, rails, and waterways. The Department supports commerce through marine, aviation, and surface weather forecasts; the availability of accurate and advanced Electronic Navigational Charts (ENC); and the delivery of real-time oceanographic information. The Department provides consistent, accurate, and timely positioning information that is critical for air, sea, and surface transportation. The Department responds to hazardous material spills and provides


IMPORTANT HIGHLIGHTS FOR
STRATEGIC OBJECTIVE 3.2

 OAA contributed to the preparation for response by the Administration to the recommendations of the *U.S. Commission on Ocean Policy Report*, which was released in September. The report calls for substantial investment in NOAA's capabilities in ocean research, observations, and management.



 s a result of the Department's efforts to conserve and manage the nation's fishery resources, four formerly overfished fish stocks have been declared fully rebuilt: Georges Bank winter flounder in the Northeast, Atlantic blacktip shark, and South Atlantic and Gulf of Mexico stocks of yellowtail snapper. This is the first time that so many stocks have been declared rebuilt in a single year. This good news accompanies continued declines in the number of stocks that are overfished or subject to overfishing.



 OAA's programs also benefited the nation's commerce with new nautical charts, tide and tidal current predictions, real time oceanographic observations, oceanographic nowcasts (present conditions) and forecasts (future conditions), and accurate positioning services. NOAA is responsible for providing these products for the U.S. Exclusive Economic Zone, the Great Lakes, and interconnecting waterways, but places special emphasis on the ports and harbors of the U.S. Marine Transportation System (MTS). Over 95 percent of U.S. overseas trade by volume passes through this system; two-thirds of everything that U.S. consumers buy, eat, or wear comes via the MTS. Downloads of NOAA's Electronic Navigational Charts, available for free on the Internet, exceeded 3 million in FY 2004. In addition, the Department established two Physical Oceanographic Real Time Systems (PORTS®) this year, one in New Haven, Connecticut, and one in Tacoma, Washington. PORTS supports safe and cost-efficient navigation by providing shipmasters and pilots with accurate real-time information required to avoid groundings and collisions. This innovation can save the maritime insurance industry from multi-million dollar claims resulting from shipping accidents. PORTS provides real-time water levels, currents, and other oceanographic and meteorological data from bays and harbors to the maritime users through telephone voice response and Internet.

search and rescue location support routinely to save lives and money and to protect the coastal environment. The Department works with port and coastal communities and with federal and state partners to ensure that port operations and development proceed efficiently and in an environmentally sound manner. The Department works with the Federal Aviation Administration (FAA) and the private sector to reduce the negative impacts of weather on aviation without compromising safety. Finally, the Department enforces regulations, reviews applications, and supports the U.S. government interests in policy coordination on commercial remote sensing.

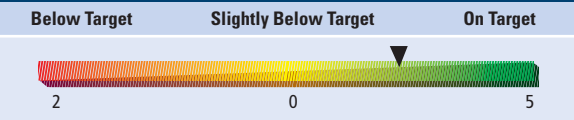
Performance Goal: Improve protection, restoration, and management of coastal and ocean resources through ecosystem-based management (NOAA)

NOAA's mission to conserve, protect, manage, and restore fisheries and coastal and ocean resources is critical to the health of the U.S. economy. The Department has a responsibility for stewardship of the marine ecosystem and for setting standards to protect and manage the shared resources and harvests of the oceans. The Department strives to balance sustainable economic development and healthy functioning marine ecosystems, and to conserve, protect, restore, and better manage resources.

NOAA's Ecosystem Management goal comprises nine programs relating to the various types of natural resources that fall within the agency's management mission. Two of these programs relate to scientific data collection and analysis, one concerns enforcement of permits and regulations, one concerns the culturing of marine organisms, and the other five concern specific resources. These include both creatures and the habitats and ecosystems in which they live.

- ◆ **Aquaculture:** Develops a science- and technology-based regulatory framework for a well-managed and productive U.S. marine aquaculture industry.
- ◆ **Coastal and Marine Resources:** Helps federal, state, local, and international managers to protect, restore, and use coastal ecosystem services.
- ◆ **Corals:** Reduces the impacts of key threats to both warm water- and cold water-coral reef ecosystems.
- ◆ **Ecosystem Observations:** Provides information on the status of living marine resources and distributes this information to NOAA's managers and clients. Nine stock assessments completed for major fish stocks with "unknown" status.
- ◆ **Ecosystem Research:** Develops new analytical methods and technology to enhance the capability of the Ecosystem Observations Program, as well as providing additional information necessary for ecosystem management to NOAA managers and to coastal stakeholders.

Average Performance Rating and Number of Reported Results



▼ = If in the yellow to green area then considered met.
 If in the yellow to red area then considered not met.

See Appendix A: Performance and Resource Tables for individual reported results.



Deployment of an Argo profiling float from the NOAA Ship Ka'imimoana, tropical Pacific. These instruments measure temperature and salinity down to 2,000 meters.

- ◆ *Enforcement*: Provides law enforcement services directed to obtain compliance with management regimes instituted by NOAA in support of its stewardship responsibilities for living marine resources.
- ◆ *Fisheries Management*: Ensures that fisheries are maintained at productive levels for supporting sustainable fisheries and the ecosystems to which they contribute.
- ◆ *Habitat*: Protects coastal, marine, and Great Lakes habitat and improves the quality and increases the quantity of restoration of NOAA trust resources.
- ◆ *Protected Species*: Achieves protection and recovery of Endangered Species Act (ESA) listed species, as well as most marine mammal species, through planning, regulation, partnerships, direct action, and outreach and education in both domestic and international arenas.

Coastal areas are among the most developed in the nation, with over half the population residing within less than one-fifth of the land area in the contiguous United States. Coastal counties are growing three times faster than counties elsewhere, adding more than 3,600 thousand people a day to their populations. Coastal and marine waters support over 28 million jobs, generate over \$54 billion in goods and services a year, and provide a tourism destination for 180 million Americans. The value added to the national economy by the commercial fishing industry is over \$28 billion annually, and about 18 million Americans engage in marine recreational fishing every year. Within this context, NOAA works with its partners to achieve a balance between the use and protection of these resources to ensure their sustainability, health, and vitality for the benefit of this and future generations, and their optimal contribution to the nation's economy and society.

- ◆ In FY 2004, the NOAA Coral Reef Conservation Program removed 61 tons of marine debris from the Northwest Hawaiian Island Coral Reef Ecosystem Reserve. To date, the program has removed a total of 424 tons of marine debris, which has significantly reduced the physical injury threat to coral reefs in this area.
- ◆ NOAA National Marine and Fisheries Service (NMFS) is now providing near-real-time fishing vessel tracking of more than 2,250 vessels in 14 different fisheries via a satellite-based vessel monitoring program. This is a 36 percent increase over 2003, and the coverage is expected to increase five fold (8,308 vessels) by 2009. The program provides near perfect compliance with open and closed seasons, closed areas, and international boundaries and management areas. It also provides critical information to the U.S. Coast Guard in support of their search and rescue mission (assisting two rescues in 2004), and in some fisheries, provides a real-time communications link for transmitting daily catch and effort information to NOAA for use in quota management of fisheries.
- ◆ NMFS increased observer coverage to 42 fisheries in 2004, monitoring nearly 60,000 fishing days, up from 45,000 in 2000. NMFS also made significant improvements in data quality through enhanced data checking and quality assurance procedures, an emphasis on statistically valid and unbiased sampling methodologies, and better training of observers. Observer training also focused on implementing new safety standards and incorporating more hands-on practice methods. New technologies were tested to improve access to real-time data and to supplement observer coverage through electronic monitoring (video cameras).
- ◆ The May 2004 release of the status of stocks report showed that 10 stocks were taken off the overfished list over the last year as they continue to rebuild (76 vs. 86 in 2002); six stocks were taken off the overfishing list (60 vs. 66 in 2002); and four stocks were declared fully rebuilt in 2003 (Georges Bank winter flounder, Atlantic blacktip shark, and yellowtail snapper stocks in the South Atlantic and Gulf regions). The 2004 assessments will not be completed for several more months but already indications are that the Pacific whiting and the Atlantic spiny dogfish stocks will likely be declared rebuilt.

- ◆ NMFS is continuing to make the regulatory process more efficient for both the agency and its constituents. The Magnuson-Stevens Act Operational Guidelines, which describe the process and procedures for fisheries management by Regional Fishery Management Councils and NMFS, have been overhauled to simplify processes and document requirements. Advanced information technology (IT) has been implemented for capturing public comments on regulations electronically, and additional e-rulemaking features of notices, constituent comments and *Federal Register* filings have been initiated. These efficiencies will help shorten the regulatory review and analysis cycle and make it easier to create an administrative record of policy decisions. Delegations of authority to regional managers have helped simplify the decision process. As a result of these types of improvements the agency is winning more litigation decisions while reducing future vulnerabilities. On a 2004 calendar year basis, 32 new lawsuits have been filed against NMFS, which is up from 21 in 2003. However, of the 31 decisions rendered thus far in 2004, NMFS has won 27 cases (87 percent) and lost only four. This compares very favorably to 2003 when NMFS won only 70 percent of the 46 decisions rendered, and a significant improvement compared to the time period immediately following passage of the Sustainable Fisheries Act amendments when the winning percentage averaged just 45 percent from 1997-2001.
- ◆ In 2004 NMFS released its strategic plan to reduce ship strikes of North Atlantic right whales. The comprehensive, multi-year, multi-agency blueprint addressed the most significant known threats to the highly endangered North Atlantic right whale. A suite of domestic and international changes in shipping operations and practices was proposed to reduce a significant source of mortality to this species: collisions with vessels (38 known collisions from 1975-2002).
- ◆ Collaboration with national and regional agencies and alliances with over 500 community groups resulted in restoration of more than 3,700 acres of habitat in 2004. Since 2001, NOAA has restored 11,000 habitat acres and opened 555 stream miles, with goals of 30,000 acres restored and 13,000 miles opened over the next five years.
- ◆ NMFS has aggressively pursued improvements in communications with constituents and stakeholders in 2004. For example, over 1,000 people attended nine regional workshops hosted by the Assistant Administrator that focused on all aspects of NMFS' performance; an additional 400 written or oral comments were received. The comments and suggestions were organized into 16 issues for response or action, and additional workshops are being planned for 2005 as follow up. NMFS also issued a series of new policies on state-federal communications, establishing regional and national points of contact and new procedures and practices to strengthen partnerships and collaboration on mutual conservation and recovery goals with coastal states. In addition, with the assistance of the recreational fishing industry, NOAA Fisheries co-sponsored 10 regional meetings with recreational fishing stakeholders to assist the Agency in creating a new NOAA Recreational Fishing Strategic Plan.
- ◆ Reduction of fishery overcapacity is an essential element of rebuilding and sustaining fisheries. By the end of next year, NMFS will have accomplished \$235 million worth of fishing capacity reduction, rationalizing three major fisheries at a cost to taxpayers of only \$25 million. The 2004 program in progress is the capacity reduction program for the crab species managed under the Bering Sea/Aleutian Islands King and Tanner Crabs Fishery Management Plan. The program is authorized under both special legislation and existing NMFS regulations governing fishing capacity reduction programs. Its objectives include increasing harvesting productivity for crab fishermen who remain after capacity reduction, helping conserve and manage fishery resources, and encouraging harvesting effort rationalization. Program participation is voluntary. Under the program, NMFS will pay participants for withdrawing vessels from fishing, relinquishing fishing licenses, and surrendering fishing histories. NMFS will finance the program's \$100 million cost with a 30-year loan to be repaid by post-reduction fishermen.

- ◆ Collaborative industry research has resulted in improved protection of sea turtles during shrimp and longline fishing activities. Working with fishermen, NMFS scientists developed a new soft Turtle Excluder Device (TED) and a highly effective double-flap hard TED that the shrimp industry has adopted to reduce the incidental capture of endangered and threatened sea turtles. This resolved risks of closures of the \$406.5 million Gulf and South Atlantic fishery because of excessive bycatch of sea turtles. For Kemp's Ridley turtles, these bycatch reduction initiatives, combined with full protection of nesting turtles and their nests in Mexico, have produced an increasing population trend for this endangered species.
- ◆ Collaborative industry research with longline fishing vessels on development and testing of new fishing techniques and circle hooks has produced new fishing practices that reduce leatherback and loggerhead sea turtle fishing interactions. These techniques have worldwide applicability. NOAA has reduced takes of sea turtles by 92 percent in the north central Atlantic Ocean, which allowed the agency to re-open 2.6 million square nautical miles of ocean to the swordfish fishery. In the Pacific, NMFS re-opened the Hawaii longline fishery in March 2004. Closed since April 2001 because of the excessive bycatch of loggerhead and leatherback turtles (with harvest losses totaling \$33.0 million per year), this fishery was re-opened with requirements to use specific gear, bait, and fishing practices.
- ◆ In FY 2004 NMFS initiated pilot projects in the New England, mid-Atlantic, south Atlantic, and Gulf geographic areas to advance ecosystem approaches to management of living marine resources. This activity included grants to Regional Fishery Management Councils to seek public consensus on broader ecosystem management objectives involving key local, state, national, and international stakeholders; research and workshops on the identification of indicators of ecosystem health; and establishment of decision support tools, including geographic information system (GIS) mapping techniques, public opinion survey instruments, and economic valuation techniques for eliciting and analyzing public preferences for different ecosystem objectives.
- ◆ NMFS also developed draft guidelines for implementing collaborative ecosystem approaches to management by all federal agencies and their regional, state, and local partners. The guidelines include institutional and process recommendations for identifying and implementing a common vision and strategic goals of an ecosystem approach that derives the greatest sustainable net benefits to the nation. An inter-agency workshop on delineating major ecosystem definitions and boundaries has already been held.
- ◆ For the first time, NOAA compiled key restoration monitoring information applicable to coastal habitats nationwide. "Science-Based Restoration Monitoring of Coastal Habitats, Volume One: A Framework for Monitoring Plans Under the Estuaries and Clean Waters Act of 2000 (Public Law 160-457)" offers technical assistance, outlines steps, and provides useful tools for developing and carrying out monitoring of coastal restoration efforts. Already the document is being recommended by groups internal and external to NOAA as the reference for the design of monitoring for coastal habitat restoration projects. Additionally, the interest in this work from international organizations suggests that this document will support NOAA and National Ocean Service (NOS) mission to provide global leadership in the area of integrated coastal management.
- ◆ The Hollings Marine Laboratory, a multimillion-dollar research facility in Charleston, South Carolina, which provides for the application of medical technologies to issues of ecosystem health, became fully operational in FY 2004. The laboratory is a partnership of five state, federal, and private entities: NOAA, National Institute of Standards and Technology (NIST), University of Charleston, Medical University of South Carolina, and the South Carolina Department of Natural Resources. The multi-year construction and renovation of the Kasitsna Bay Laboratory reached a milestone in FY 2004 with the completion of the new bunkhouse. The Kasitsna Lab, located in south-central Alaska, is operated in partnership by NOAA and the University of Alaska – Fairbanks. This facility allows researchers and students unrestricted access to the diverse habitats of Kachemak Bay and Cook Inlet.

- ◆ The National Marine Sanctuary Program's Education Team received extremely positive feedback from a February 20-21 marine science education professional development workshop in Hawaii. Of the 85 K-12 teachers that participated, 93 percent rated the "Dive into Education" workshop as among the best professional development opportunities available. More than half of the respondents noted that the workshop was one of the best they had ever attended, and 95 percent said that they are now very likely to integrate marine science into their classrooms. The workshop included 36 sessions aimed at providing teachers with the knowledge and resources they need to bring marine science into Hawaiian classrooms.
- ◆ The Monterey Bay National Marine Sanctuary launched a new Sanctuary Integrated Monitoring Network (SIMoN). Users can access the Web site to obtain local water quality monitoring information, generate watershed maps, locate monitoring information, link to data sets from individual stations, and download GIS layers. For more information, visit the Web site at <http://mbnms-simon.org>.

A listing of program evaluations that have been conducted follows.

OIG

IPE-15721: NMFS Observer Programs Should Improve Data Quality, Performance Monitoring, and Outreach Efforts (10 recommendations—Final Report)

This investigation found several problems with NMFS observer programs and made recommendations touching on a wide range of issues, including the statistical validity of vessel selection procedures, training and retention of observers, outreach to the fishing industry, and the need for a greater focus on performance in management of the observer program. NOAA concurred with nine of the 10 recommendations, and implementation will begin in 2005.

FSD-15989-4-0001: Improvements Needed in the Reporting for NOAA GOALS—Build Sustainable Fisheries, Recover Protected Species, and Predict Climate Changes (three recommendations—Draft Report)

This investigation concluded that NOAA has unclear measures, weak procedures in place to ensure data reliability, insufficient documentation, and inadequate explanations. A plan to implement recommendations to clarify measures, strengthen procedures, and add detail to supporting documentation is being drafted.

STD-15750-3-0001: Recent Gear Protocols Should Improve NMFS Groundfish Bottom Trawl Survey But More Should Be Done (17 recommendations—Final Report)

This investigation found a need for creation, maintenance, and communication of bottom trawl survey protocols, as well as a few other improvements to the fishery survey process. Actions to implement these recommendations have been taken.

STD-14440-2-0001: Northwest Fisheries Science Center Needs Improved Research Management Processes to Better Implement Its Salmon Research Plan (seven recommendations—Final Report)

While the investigation showed that the salmon research plan was working effectively to improve the quality of salmon research, OIG found that a stronger peer review process and more multi-year plans would improve it further. Actions to implement these recommendations have been taken.

FSD-14998-3-0001: Improvements Needed in the Reporting of Performance Measures Related to Promoting Safe Navigation and Sustaining Healthy Coasts (eight recommendations—Final Report)

This was a performance audit of the measures for two of NOAA's seven former performance goals. The audit found that improvements were needed for each of the five measures reviewed. New reviewing, tracking, and reporting procedures have been and are being implemented to satisfy these recommendations.

GAO

GAO-04-606: *Pacific Groundfish: Continued Efforts Needed to Improve Reliability of Stock Assessments* (four recommendations–Final Report)

In its investigation, GAO found the reliability of NMFS stock assessments questionable despite their having been based on the best available information. This information was inadequate due to the lack of NMFS data and the unreliability of non-NMFS data. Plans to implement the recommendations of this report are being put in place.

GAO-04-602: *Columbia River Basin: A Multilayered Collection of Directives and Plans Guides Federal Fish and Wildlife Activities* (no recommendations–Final Report)

This report described the various federal efforts to conserve and manage natural resources in the Columbia River Basin and the agencies to which they belong. It contained no recommendations for NOAA.

GAO-03-159: *Individual Fishing Quotas (IFQs): Better Information Could Improve Program Management* (Part 1 IFQ Study) (three recommendations–Final Report)

This study examined the extent of consolidation of holdings of individual fishing quotas in the various IFQ fisheries, and the nature of the quota holders. It found that consolidation has occurred, but that there are no non-American quota holders as yet. It also found that in some cases, information is not sufficient to determine the extent of consolidation, and that sufficient guidelines on what constitutes an excessive holding do not exist. The recommendations to rectify these deficiencies through improved data collection and Council action are being implemented.

GAO-04-277: *Individual Fishing Quotas (IFQs): Methods for Community Protection and New Entry Require Periodic Evaluation* (Part 2 IFQ Study) (three recommendations–Final Report)

GAO examined and evaluated different types of individual fishing quota programs, in particular as they relate to protection of fishing communities and facilitation of new entrants into the fisheries. They determined that no one design is superior and that all have different strengths and weaknesses. The report recommended that NMFS develop objectives relating to these issues and measure progress toward them, and NMFS agreed to do so within the scope of its legal authority.

GAO-04-93: *Endangered Species: More Management Attention is Needed to Improve the Consultation Process* (four recommendations–Final Report)

This study was initiated in response to concerns about the timeliness of consultations under the ESA. GAO found that while a majority of consultations were timely, a significant number were not, and the available data were not sufficient to judge the actual timeliness of the entire consultation process. Plans to implement the recommendations to improve the process through consultation with stakeholders and the Fish and Wildlife Service are being drafted.

GAO/RCED-00-69: Fishery Management: Problems Remain With National Marine Fisheries Service's Implementation of the Magnuson-Stevens Act (five recommendations–Final Report)

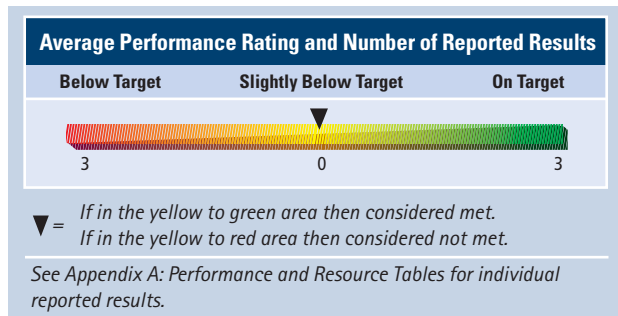
This study examined NMFS' implementation of the Magnuson-Stevens Act with respect to three major issues: use of the best available science, consideration of the economic importance of fishery resources on fishing communities, and designation of Essential Fish Habitat (EFH). The study found that NMFS does use the best available science but that sometimes that science is inadequate; that NMFS does consider the economic impacts of management measures on fishing communities but that concerns about the extent of the consideration and the data on which it is based remain; and that NMFS has complied with the requirement to identify EFH but that the areas identified have been very broad. Actions to correct these deficiencies have largely been implemented.

Performance Goal: Support the nation's commerce with information for safe, efficient, and environmentally sound transportation (NOAA)

U.S. transportation systems are economic lifelines for the nation. As U.S. dependence on surface and air transportation grows over the next 20 years, and as maritime trade doubles, better navigation and weather information will be critical to protect lives, cargo, and the environment. Marine, aviation, and surface weather forecasts; accurate ENC's; real-time oceanographic information; consistent positioning capabilities; emergency response; environmentally sound port development support – these NOAA products and services are essential to the safe and efficient transport of people and goods on the water, in the air, and on the land.

The NOAA Programs that support the nation's commerce with information for safe, efficient, and environmentally sound transportation include:

- ◆ *MTS Services*, providing tools and services to help maritime commerce and mariners of all types navigate more safely and efficiently, thereby reducing the risk of accidents and damage to the environment.
- ◆ *Geodesy*, which builds on the satellite GPS to maintain a national spatial reference framework for highly accurate positioning in navigation, surveying, infrastructure building, just-in-time delivery services, and the like.
- ◆ *Aviation Weather*, turning research into better models and operational forecasts to mitigate weather delay impacts and enable advance routing in our National Air Transportation System.
- ◆ *Marine Weather*, whose goal is to improve the safety and efficiency of marine transport with more accurate and timely forecasts and warnings of marine weather conditions.
- ◆ *Surface Weather*, providing relevant weather and geospatial information to reduce fatalities, injuries, and economic losses from surface weather-related crashes and delays.
- ◆ *Emergency Response*, uniting NOAA HAZMAT for chemical and oil spill response with Satellite Search and Rescue to provide the information, scientific expertise, and technology to enable emergency responders to choose a course of

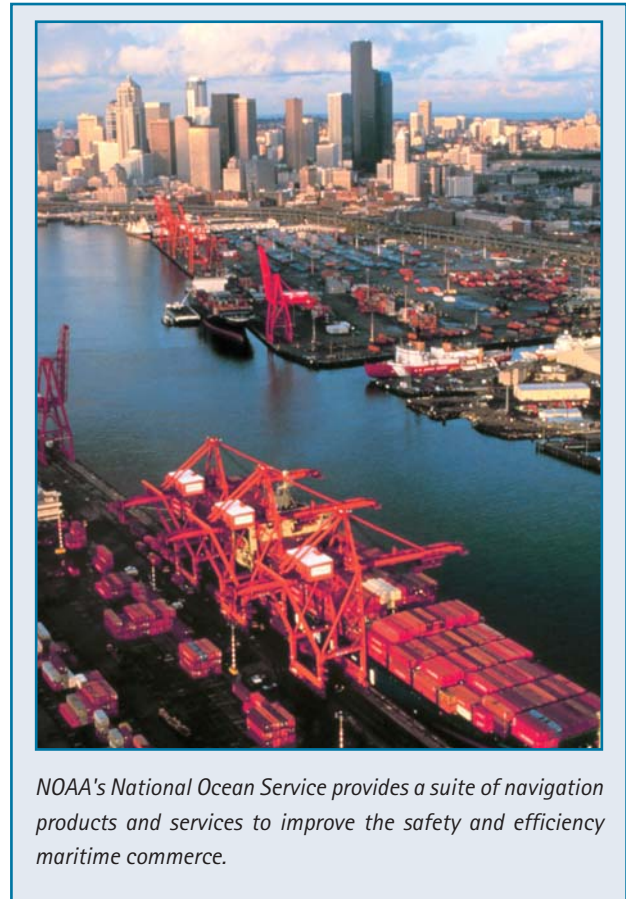


action that reduces threats to public safety, the economy, and the environment.

- ◆ *Commercial Remote Sensing Licensing*, which issues and enforces regulations, reviews applications, and supports U.S. government interests in policy coordination on commercial remote sensing.

Safe and efficient transportation systems are crucial lifelines for the nation. NOAA's information products and services are essential to the safe and efficient transport of goods and people at sea, in the air, and on land and waterways. More accurate and timely warning associated with severe weather threats, marine navigational products and services, and improved positioning data can better support the growing commerce on U.S. roads, rails, and waterways through improvements in transportation safety and just-in-time efficiencies.

NOAA's Center for Operational Oceanographic Products and Services (CO-OPS) established two new PORTS in FY 2004 in Tacoma, Washington, and New Haven, Connecticut, to support safe and efficient marine navigation. This brings the number of PORTS to 12, and provides real-time oceanographic and meteorological data to 32 U.S. seaports through which 37 percent of cargo by tonnage passes annually.



NOAA's National Ocean Service provides a suite of navigation products and services to improve the safety and efficiency maritime commerce.

In 2004, NOAA's National Geodetic Survey (NGS) registered the 100,000th user of Online Processing User Service (OPUS). OPUS allows users to submit their GPS data files to NGS, where the data are processed to determine a position. Planned investments in Geoid modeling enabled the Geodesy Program to estimate heights to less than 5 centimeters for most of the over 550 Continuously Operating Reference Stations (CORS), allowing improvements in the National Spatial Reference System (NSRS) without the tremendous expense of traditional leveling.

The NGS, in partnership with the FAA, developed standards and procedures for using digital systems to map airport obstructions. This is the first time aeronautical charting information has been collected digitally, and is a significant first step in NGS' "Digital By the End of the Decade" initiative, which aims to collect, process, and store all charting and mapping data digitally by 2010. This initiative will streamline and simplify nautical and aeronautical data collection procedures.

On June 30, 2004, CO-OPS, through a partnership with the Office of Coast Survey's (OCS) Coast Survey Development Laboratory (CSDL), launched the Galveston Bay Operational Forecast System (GBOFS). Mariners in Galveston Bay now have a new tool to assist them in navigating safely through the bay. GBOFS provides mariners, port managers, and emergency response teams with present and future conditions of water levels, currents, temperature, and salinity. Key products of the nowcast and forecast system include data plots and animations of water levels, currents, temperature and salinity. These products will assist port managers and shippers in making decisions regarding maximum tonnage (based on bottom clearances) and limiting passage times, without compromising safety. The system was developed by CSDL and will

be maintained on an operational basis by CO-OPS. The nowcast component performs hourly updates and is driven primarily by real-time water levels and winds from the Galveston Bay PORTS. The forecast component performs 30-hour forecasts, four times a day (every six hours).

The three millionth ENC was downloaded in July 2004. NOAA ENCs are perhaps the most critical component of NOAA's suite of navigation tools. Built to international standards, ENCs are essentially a database of vector chart features that can be intelligently processed and displayed by electronic charting systems. As "smart charts," ENCs give the user much more information than the paper chart can. They can be incorporated with GPS satellite data and other sensor information (water levels, winds, and weather) to significantly improve navigation safety and efficiency by warning the mariner of hazards to navigation, and situations where the vessel's current track will take it into danger. They are available for download, free and open, on the Internet. NOAA ENCs will also provide fully integrated vector base maps for use in GIS that are used for coastal management or other purposes.

Under a cooperative charting agreement with Mexico, OCS and the NOAA Ship THOMAS JEFFERSON will conduct a joint hydrographic survey in Mexican waters, at the approaches to Tampico and Altamira, in the Gulf of Mexico. This joint charting effort will economize resources in the two nations; improve communication between the two nations' mapping and charting offices; and support safe, efficient and environmentally sound navigation for all users in the Gulf of Mexico.

NOAA's Commercial Remote Sensing Licensing Program granted an operating license for a revolutionary remote sensing technology. This decision followed extensive interagency consultations and coordination relating to national security, foreign policy, and commercial issues.

NOAA provided scientific support on a dangerous hazardous material spill in the Texas City, Texas, ship channel in November 2004. NOAA was on-scene for the 10 days it took to safely address the risk and potential environmental impacts caused by the overturning of a barge loaded with 235,000 gallons of concentrated sulfuric acid.

NOAA provided excellent marine weather warnings and forecasts of storm tracks (including tropical cyclones), wind speed, and wave heights during 2004. This advance notice of vessel-disrupting weather events helped commercial shippers make decisions on avoiding and minimizing the impact of weather on operations. These services aided the smooth flow of commerce both in and out of U.S. waters.

NOAA created the Surface Weather program in 2004 to expand and formalize partnership efforts with the Department of Transportation on improving NOAA surface weather information to facilitate intermodal transportation.

NOAA made significant improvements in the accuracy of the Aviation Weather Terminal Aviation Forecast. FY 2004 performance was 9 percent better than the goal for False Alarm Rate of Instrument Flight Rules (defined as ceilings and visibilities less than 1,000 feet and/or three miles and greater than, or equal to, 500 feet and/or one mile). Most of the improvements were primarily attributable to Distance Learning training focused on low ceiling and visibility and significant improvements to the Aviation Forecast Preparation System.

A listing of program evaluations that have been conducted follows.

OIG regularly conducts reviews of NOAA programs relating to performance and on occasion provides recommendations. Two recent OIG reviews related to this goal focused on NOAA's reporting of performance measures related to promoting safe navigation and improving management controls in the process for reducing the critical hydrographic survey backlog.

The primary recommendation to report on all miles surveyed in a year rather than just critical areas is reflected as a revised performance measure in this report; other measures related to the provision of navigation services were also improved. The MTS Program's Nautical Charting activity was analyzed by the Office of Management and Budget (OMB) in 2004 using its Performance Assessment Rating Tool (PART). Rated Moderately Effective, the program is acting on all of OMB's recommendations to improve performance management. NOAA's goal to support the nation's commerce with information for safe, efficient, and environmentally sound transportation is evaluated at a variety of levels, from peer reviews of products, papers, and projects, to internal and external reviews of entire programs. Stakeholder input is an important part of the evaluation process and is solicited regularly through constituent workshops and customer interactions.

The current form of services provided by the MTS Program is a direct result of comprehensive reviews, including a number of National Research Council Marine Board studies on the nautical charting program and its transition into the digital era. The September 1999 Report to Congress that assessed the U.S. MTS further articulated the need for improvements to NOAA's programs to support a coordinated federal approach to becoming the world's most technologically advanced, safe, efficient, globally competitive, and environmentally responsible system for moving goods and people. Also in 1999 NOAA completed an assessment of its tidal currents program to develop guidelines for future current surveys to update U.S. reference stations for the Tidal Current Tables. Most recently, the MTS Program received authorization in the 2002 Hydrographic Services Improvement Act for a Federal Advisory Committee to review and make recommendations on navigation services to the NOAA Administrator. That panel is currently educating itself fully on program activities in order to inform its reviews.

On the geodetic front, Congress authorized in 1998 the Height Modernization study to evaluate the technical, financial, legal, and economic aspects of modernizing the national height system with GPS. The study demonstrated the significant benefits to the United States in terms of dollars and lives saved associated with GPS technology, and it led to current development of the vertical component of the NSRS.

The Surface Weather program harnesses momentum generated by the 2004 National Research Council Study "Where the Weather Meets the Road: A Research Agenda for Improving Road Weather Services" and the 2002 "Weather Information for Surface Transportation" Report by the Office of the Federal Coordinator for Meteorology covering surface transportation user needs.

STRATEGIES AND FUTURE PLANS

Ecosystems

- ◆ Engage and collaborate with the Department's partners to achieve regional objectives by delineating regional ecosystems, forming regional ecosystem councils, and implementing cooperative strategies to improve regional ecosystem health.
- ◆ Manage uses of ecosystems by applying scientifically sound observations, assessments, and research findings to ensure the sustainable use of resources and to balance competing uses of coastal and marine ecosystems.
- ◆ Improve resource management by advancing the Department's understanding of ecosystems through better simulation and predictive models.
- ◆ Build and advance the capabilities of an ecological component of the NOAA global environmental observing system to monitor, assess, and predict national and regional ecosystem health, as well as to gather information consistent with established social and economic indicators.

- ◆ Develop coordinated regional and national outreach and education efforts to improve public understanding and involvement in stewardship of coastal and marine ecosystems.
- ◆ Engage in technological and scientific exchange with Commerce's domestic and international partners to protect, restore, and manage marine resources within and beyond the nation's borders.

NOAA has fully endorsed the call by its stakeholders to move towards an ecosystem approach to managing uses of coastal and marine resources. In order to advance an ecosystem approach, NOAA will integrate the application of its multiple ecosystem mandates in partnership with universities, industry, non-governmental organizations, and local, state, and federal agencies, by developing and implementing place-based ecosystem approaches to management of coastal and marine resources. To implement this strategy, NOAA will seek improved understanding of ecosystems, identification of regional ecosystems, development of ecosystem health indicators, and new methods of governance to establish the necessary knowledge, tools, and capabilities to fully implement ecosystem approaches to managing coastal, ocean, and Great Lakes resources. Once regional ecosystems have been delineated and mapped, a new set of ecological, social, and economic indicators of ecosystem health will be established to measure and monitor the status of each ecosystem. These could include:

- ◆ Number of identified ecosystems with agreed-to indicators of ecosystem health.
- ◆ Number of identified ecosystems where ecological functions and linkage to human activities and impacts are adequately understood for management purposes.
- ◆ Number of coastal and marine regional ecosystems with improving indicators of ecological, social, and economic health.

The Protected Species program maintained the number of threatened species with lowered risk of extinction by enforcing existing conservation measures, conducting priority research as identified in species recovery plans, developing partnerships with states and others to implement conservation programs, and building the tools and technology to improve the effectiveness of conservation actions. The threatened species with continued lowered risk of extinction include: Johnson's seagrass, the eastern population of Steller sea lions, and five species of Pacific salmon and steelhead.

Commerce and Transportation

NOAA's strategies designed to help transportation information customers and stakeholders reach their own goals are to:

- ◆ Expand and enhance advanced technology monitoring and observing systems, such as weather and oceanographic observations, hydrographic surveys, and precise positioning coordinates, to provide accurate, up-to-date information.
- ◆ Develop and apply new technologies, methods, and models to increase the capabilities, efficiencies, and accuracy of transportation-related products and services.
- ◆ Develop and implement sophisticated assessment and prediction capabilities to support decisions on aviation, marine, and surface navigation efficiencies; coastal resource management; and transportation system management, operations, and planning.
- ◆ Build public understanding of the technology involved and the role of the environment in commerce and transportation.

NOAA's future plans to facilitate intermodal transportation include improvements to the products and services available to users of NOAA information, as well as investments in the underlying observing systems that support the development of this data. For example, NOAA will continue to build and maintain its suite of ENC's to supply commercial and

recreational mariners with the digital navigation data they need to navigate safely in the 21st century. Additionally, NOAA will focus on equipping all 175 National Water Level Observation Networks with real-time operational capability at the top 150 U.S. seaports. Enhanced ice forecasts and refinements to aviation, marine, and surface weather predictions will also contribute to NOAA's role in saving lives, property, and critical infrastructure. NOAA will continue to survey and chart U.S. waters, maintain the highly accurate positioning infrastructure the nation relies on each day, support Satellite Search and Rescue incidents, respond to hazardous material events, and support U.S. national interests in commercial remote sensing licensing. It is through these and other important activities that NOAA strives to improve and deliver its information so crucial to safe and efficient transportation.

CHALLENGES FOR THE FUTURE

NOAA's elevation of ecosystem-based management and environmentally sound transportation to high-priority goals is especially noteworthy in meeting the challenges of the 21st century. The Department must examine the land-water interfaces from an ecosystem perspective to successfully address ocean and coastal issues. Human health linkages with weather, climate, and ecosystem goals are priorities that directly impact the U.S. economy. NOAA's Strategic Plan's emphasis on the nation's needs for expanded commerce and economic development that is safe and environmentally sound directly supports the Department's focus on a healthy and growing economy.

NOAA's transportation challenges include building on the foundation of expertise, research, and technology development to deliver the information, tools, and services essential to safe, efficient, and environmentally sound transport on water, land, and in the air. Impacts to the system, particularly at vulnerable choke points, affect transit time, delivery reliability, efficiency, cost of goods transported, and the environment. To improve service delivery, NOAA must identify valid user needs that cannot be met with existing information; enhance products that support transportation systems; work with partners to conduct research and development in weather, modeling, and geopositioning; and improve the translation of research into operational value. NOAA must also focus on connecting and strengthening its observations systems that gather data for transportation information.

MANAGEMENT INTEGRATION GOAL



**IMPORTANT HIGHLIGHTS FOR
MANAGEMENT INTEGRATION GOAL**

The Department implemented three leadership development programs to contribute to its succession planning efforts. The programs target employees at various stages in their careers, and are intended to develop management potential in individuals from the GS-9 through Senior Executive Service (SES) levels.



Over 90 percent of the Department's major information technology (IT) projects met cost, schedule, and performance targets.



Commercer has established competitive sourcing as a permanent program within the Department, and this ensures that it has the resources it needs to conduct its commercial activities studies each year.



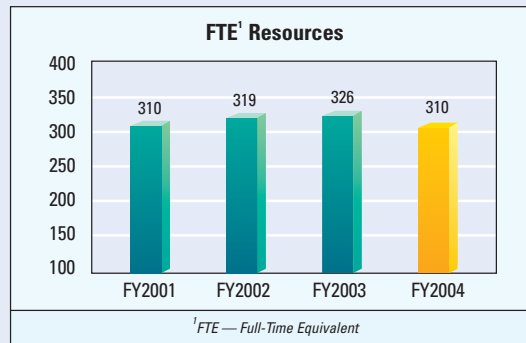
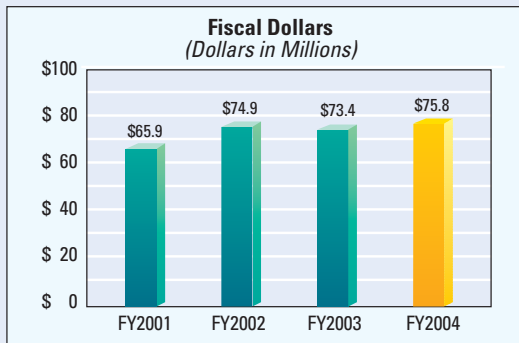
The Department has over 100 different transactions available on the Internet. Members of the public can apply for fishing permits, file patent and trademark applications, order nautical charts and environmental data, file economic census data, and read publicly available patent and trademark files—all electronically.



MANAGEMENT INTEGRATION GOAL

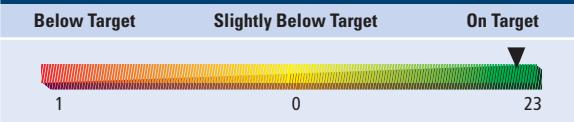
Achieve organizational and management excellence

MANAGEMENT INTEGRATION GOAL TOTAL RESOURCES



Achieving organizational and management excellence is a goal that requires extensive interaction and coordination among entities throughout the Department. The organizations that support this goal are the Offices of the Secretary (OS), Deputy Secretary, Chief Financial Officer and Assistant Secretary for Administration (CFO/ASA), Chief Information Officer (CIO), General Counsel, and Inspector General (OIG). These offices provide the guidelines and policies that support the management infrastructure the Department needs to carry out its mission. In addition, the audit and inspection programs help promote consistency and integrity throughout the Department.

Average Performance Rating and Number of Reported Results



▼ = If in the yellow to green area then considered met.
 If in the yellow to red area then considered not met.

See Appendix A: Performance and Resource Tables for individual reported results.

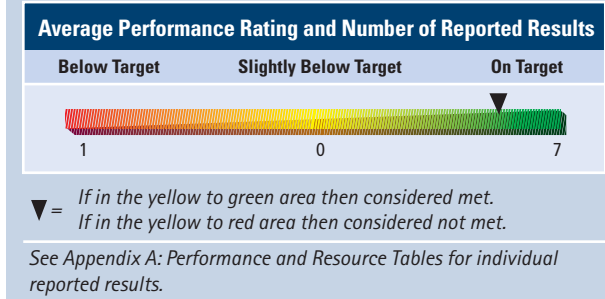
The objectives that underlie this goal provide benefits to the public that are not transparent as they represent the "behind the scenes" activities and functions that contribute to the efficiency with which the operating units administer their programs.

The Department successfully accomplished its strategic goal. Highlights of its accomplishments are provided in the performance goal information that follows.

Performance Goal: Ensure effective resource stewardship in support of the Department’s programs (DM)

The executive direction and coordination of program activities provided through centralized services contribute to the efficient administration of the Department to ensure that the overall mission is fulfilled.

The Department must have the capacity to successfully conduct business with the public and its partner agencies, both as a \$6 billion, worldwide enterprise and as an integrated set of individual programs. This requires that it identify, adopt, and maintain the business practices needed to successfully operate its units; use its resources wisely; and effectively implement the laws that affect it. Because this performance goal encompasses a wide range of administrative and operational tasks, the measures used to assess DM’s progress are by necessity highly diverse.



DM accomplished the following:

- ◆ A clean audit opinion, which fulfills governmental financial reporting and accountability requirements.
- ◆ Departmental FAIR Act Inventory guidance was developed, and as a result of this guidance furthers job competition between the government and the private sector to ensure the most efficient use of government funds.
- ◆ Forty-two percent of eligible service contracting dollars were obligated through performance-based contracts, ensuring that contractors who provide services to the Department are performing at an expected level of performance.
- ◆ Ninety percent of procurements under \$25,000 were made using the government credit card, minimizing the lead time involved in obtaining needed products and reducing the administrative costs of acquiring goods and services.
- ◆ More than 60 percent of all contracts were awarded to small businesses.
- ◆ Conducted compliance reviews of 1,762 sensitive documents and 368 security containers, and conducted 141 physical security risk assessments, ensuring a safe and secure work environment and protection of classified and sensitive information.

DM did not accomplish its performance goal of reducing the number of platforms running its financial systems from five to three, although it did reduce the number of platforms to four. DM continues to work towards meeting this goal to further enhance efficiency of operations. DM continues to work toward meeting that goal to further enhance efficiency of operations.

The Department uses reviews and reports generated by OIG, the Office of Management and Budget (OMB), the Government Accountability Office (GAO) (formerly the General Accounting



Information Sharing/Integration: The Office of Security continues to enhance its liaison relationships and information sharing with other Federal, State and local government entities involved in law enforcement, security and emergency management.

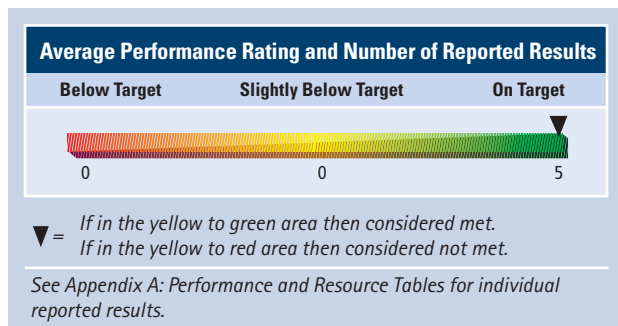
Office), other congressional organizations, government-wide task forces, and other objective sources to evaluate activities of the Department related to this goal. For example, DM works closely with OMB on implementing the five government-wide management initiatives established in the President's Management Agenda (PMA), and is rated quarterly on the current status of the initiatives as well as Commerce's success in implementing them.

Performance Goal: Strategic management of human capital (DM)

Maintain a diverse, highly qualified staff.

The Department is taking steps to ensure continuity of leadership so that it can carry out its mission in the future. Thirty-five candidates in mission-critical occupations were selected to begin a two-year Senior Executive Candidate Development Program. The Department also implemented two other development programs to foster leadership at grades 9–15. In addition, the Department deployed its Learning Management System (LMS), which can be accessed from the employee's desk, ensuring that needed training is available at the push of a button. Stepping up its efforts to actively recruit, the Department created a more diverse pool of candidates by expanding the universe of colleges from which it recruits. Through the Commerce Opportunities On Line (COOL) automated hiring tool, the Department achieved a 21-day fill-time rate. This is an improvement over last year's fill-time rate of 30 days. This has enabled the Department to hire candidates who might have sought employment elsewhere due to the lag time in the hiring process. Expanding on its already successful competency-based programs for senior executives and other managers, the Department aligned performance with mission accomplishment through its supervisory performance plans.

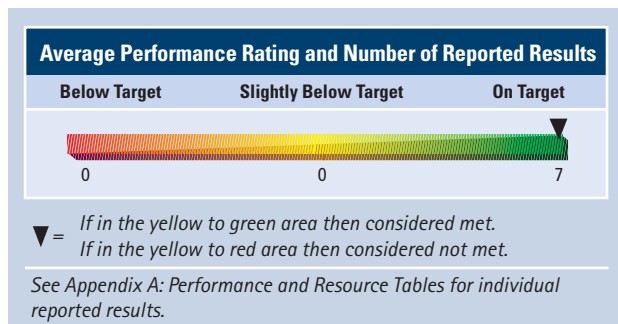
As mentioned in the discussion of the previous performance goal, the Department uses a variety of reviews and reports from outside organizations to evaluate programs related to this goal, particularly from the Office of Personnel Management (OPM), GAO, the Merit Systems Protection Board, and congressional agencies.



Performance Goal: Acquire and manage the technology resources to support program goals (DM)

Ensure that employees have the technology available to do their jobs in a safe, secure, and reliable manner.

The Department has converted 80 percent of all transactions between Commerce and the public into an electronic format. IT program architecture and maturity models show that the Department has made substantial improvements. One hundred percent of the Department's IT systems are covered by IT security plans, ensuring confidentiality and integrity of IT systems, so that work can continue uninterrupted. The Department successfully



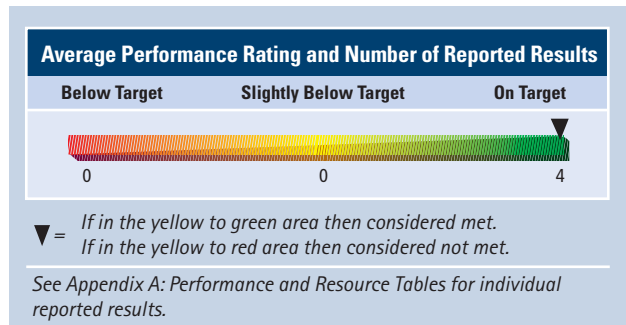
thwarted 94 percent of intrusion attempts to NOAA's IT systems, for example. Almost all—97 percent—of the Department's IT systems are certified and accredited.

Many of the laws pertaining to IT management have separate reporting requirements, which highlight both strengths and weaknesses of the Department's IT programs. The Department uses the results of these efforts as needed to assess achievement of performance targets. Although the operating units assess and report their progress on each of the measures, the Department's Office of the CIO is requiring that operating units develop corrective action plans in order to achieve performance targets, to provide regular reports on their progress, and to undergo independent reviews to verify accuracy of reporting. With CIOs established and in place at all the operating units, the structure is in place to strengthen the management of IT at all levels.

Performance Goal: Promote improvements to Commerce programs and operations by identifying and completing work that (1) promotes integrity, efficiency, and effectiveness; and (2) prevents and detects fraud, waste, and abuse (OIG)

Promotes improvements to Departmental programs through audits, inspections, evaluations, and investigations and a variety of activities geared toward averting problems.

Almost all OIG's recommendations made were accepted by senior agency leadership; implementation of these recommendations will result in significant improvements to the Department's operations. For example, OIG's Fall 2003 review of NOAA's acquisition of transition power sources to support its weather radar systems found that ineffective contract negotiations and weak oversight resulted in approximately \$4.5 million in increased contract costs to NOAA. OIG made recommendations for improvements in the acquisition and oversight process to avoid similar problems and their resulting costs. Similarly, OIG reviews of export assistance centers disclosed a number of management issues, including instances of inaccurate reporting and poor data quality, and provided recommendations to address the noted performance shortcomings.



OIG inspections and audits also captured significant financial benefits for the Department, including recovery of funds returned to the Department, expenditures that were not supported by adequate documentation, recoveries from criminal and civil investigations, future financial benefits from recommendations for more efficient use of Department funds, and expenditure of funds that may have been inconsistent with applicable laws and regulations. For example, OIG recommendations from audits of two programs administered by one of the Department's bureaus, the Economic Development Administration, resulted in questioned costs of approximately \$9 million.

OIG criminal, civil, and administrative investigations continue to disclose instances of misconduct by employees, contractors, and grantees that threaten the integrity of the Department's programs and operations. In addition, investigative issues such as fraud and conflicts of interest are frequently identified by auditors or inspectors who refer such matters to OIG investigators. For example, a recent settlement agreement based on combined OIG audit and investigative activities resulted in the government recovering \$1.7 million.

As the Department works to accomplish its mission, OIG provides a unique, independent voice to the Secretary and other senior Commerce managers, as well as to Congress, in keeping with its mandate to promote integrity, efficiency, and effectiveness; and prevent and detect waste, fraud, and abuse in Department programs and operations. Moreover, OIG strives to ensure that it:

- ◆ Performs high quality, timely work
- ◆ Concentrates its efforts on the Department's most critical programs, operations, challenges, and vulnerabilities
- ◆ Achieves results that allow government funds to be put to better use and address criminal, civil, and other wrongdoing.

OIG performs its activities in accordance with the Government Accountability Office's Government Auditing Standards and the President's Council on Integrity and Efficiency's (PCIE) Quality Standards for Inspections and Program Evaluations. OIG audit and investigations programs are subject to external peer reviews conducted under PCIE guidelines designed to evaluate their compliance with applicable standards.

CHALLENGES FOR THE FUTURE

The Department's customers are diverse and have a broad array of needs and expectations that cannot be adequately addressed by a universal approach. The Department's programs face increasing demands for greater productivity and enhanced services against a backdrop of limited federal funds. The Department's programs must be managed from within aging physical facilities (including its headquarters building and other facilities across the nation), which require modernization in order to meet technical and scientific needs, and to ensure the safety and security of staff, information, and customers.

The growing technological orientation of its work and a highly competitive market mean that Commerce must work even harder to attract and retain individuals with skills in science, technology, and related fields. The increasing diversity in the U.S. workforce requires DM to recruit, train, and retain workers in new ways. The public frequently perceives federal employment as unattractive and lacking the flexibility sought by new professionals. Like other agencies, the Department of Commerce faces significant challenges in ensuring the right size workforce with the right mix of talents. During the coming decade, its workforce will have to become increasingly specialized and expert in several fields in which prospective hires will be in high demand. At the same time, the Department must ensure that its employees are representative of the nation's population.

The rapidly changing IT environment, including changes in hardware, software, applications, Internet use, and the user community, all affect Commerce's IT function. As American society becomes increasingly oriented toward the use of electronic communication and information dissemination, federal agencies must ensure that they continue to be as responsive as possible to the needs of the public and private sectors, other levels of government, and other federal agencies. This requires that the Department develop and implement new approaches to electronic communication and that its existing systems are able to perform at the highest levels.

PLANS AND STRATEGIES

Among the actions planned to meet the Department's challenges are the following:

◆ *Monitoring and Evaluation*

OIG will continue to target its resources to bring about the best possible results for the Department. OIG will expand its audit functions to include the reduction of costs and better program results from improved acquisition oversight, and enhanced ability to reduce information security weaknesses through the Department. OIG will continue to meet its strategic goals and to work with the Secretary and Congress to help ensure that the Department delivers services to the nation's taxpayers with the highest standards of accountability.

◆ *Enhancing Information Security and Responsiveness Throughout the Department*

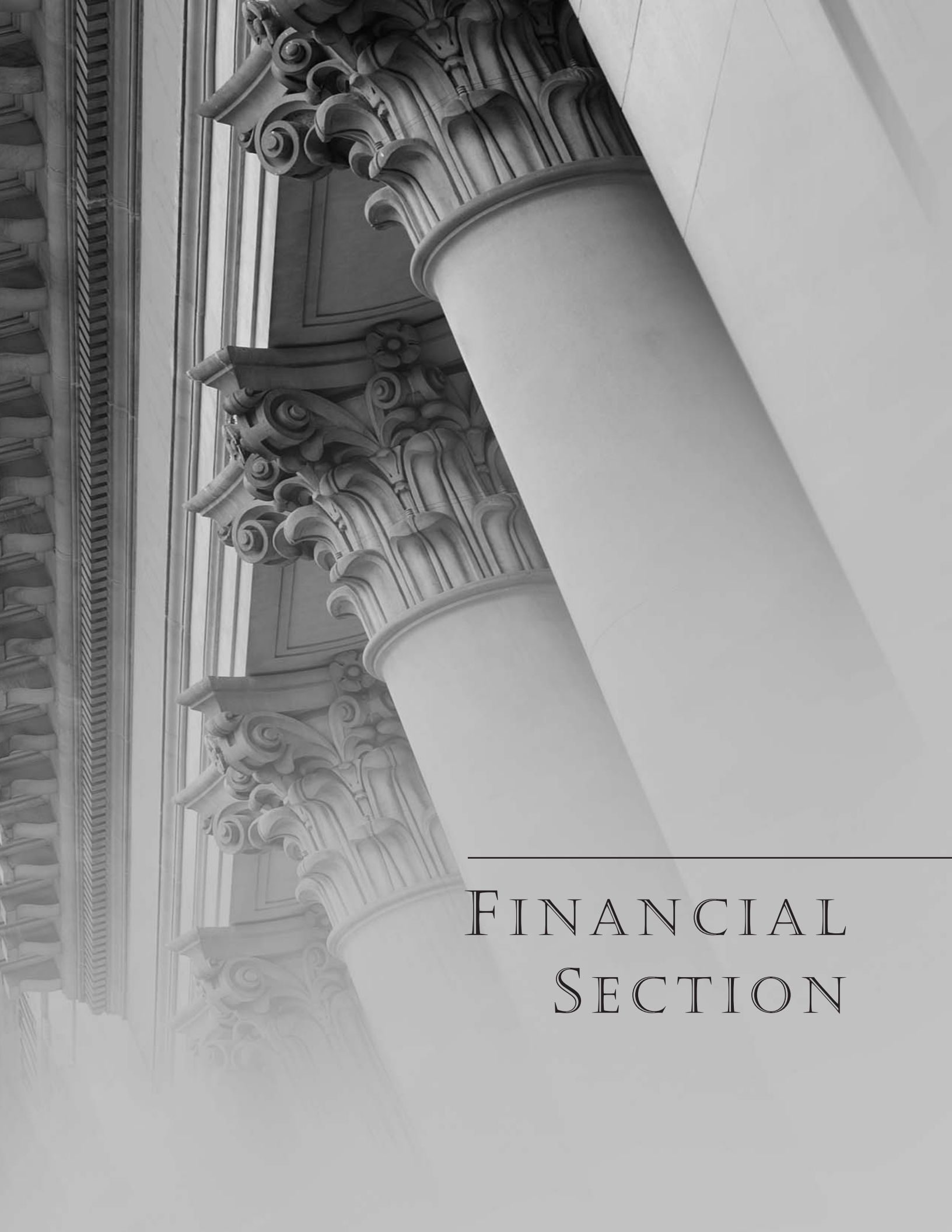
The Department will be broadening the protection afforded its information systems and data. Every system throughout the Department is subject to risk assessments, which include documenting successful testing or a specific plan for taking remedial action. Commerce will be revising its IT and security policies and requirements to ensure that they reflect federal standards, best practices, and state-of-the-art advances in controls, evaluation, accreditation, and contingency planning. By carefully planning how it invests IT funds, ensuring that it has cohesive and well-constructed IT architecture, and safeguarding the integrity and availability of the Department's IT systems, Commerce can provide the IT support needed to enable the Department to carry out its mission.

◆ *Emergency Preparedness within the Department*

The nation continues to face significant vulnerabilities in its ability to respond to emergencies. The Department has developed a comprehensive Continuity of Operations Plan (COOP) and has instituted a rigorous testing program. Similarly, COOPs for certain bureaus and specific field locations are undergoing testing and further refinement. The Department is currently working to complete all appropriate testing and implementation of these plans, which address all requirements for maintaining essential activities and re-establishing normal operations in the event of an emergency, e.g., human resources, facilities and infrastructure, and IT systems. Occupant emergency plans and emergency response structures are in place for most sites. The plans have been reviewed and revised where necessary. The Department is continuing to develop enhanced response capabilities for all types of emergencies, recognizing that it is a massive task to ensure preparedness for many different types of emergencies across the country. The Department will continue to emphasize the importance of effective preparation, work cooperatively with other federal agencies, seek the advice of experts, and allocate resources in the most productive manner possible.

◆ *Future Workforce Requirements*

As discussed, federal agencies will be challenged in the years ahead to compete with private sector employers to recruit a diverse, highly specialized, and increasingly technical workforce. To meet these needs, the Department will examine and modify its hiring practices, explore options for more effectively competing with private sector employers, and seek changes in laws and regulations that will allow the Department to enhance its appeal to talented prospective employees.



FINANCIAL
SECTION

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

In fiscal year 2004, the Department of Commerce saw many significant accomplishments in providing the information and the framework to enable the economy to operate successfully, and in providing infrastructure for the Department's program managers. Our success is due largely to our focus, our critical missions, and our emphasis on strengthening management at all levels throughout the Department. Solid financial performance and accountability have been an essential component of this endeavor.

This report describes our achievements during FY 2004 in financial and performance management. The Department is strongly committed to the President's priorities of improving financial management and integrating budget and performance. Strengthening the integrity of our financial operations and ensuring the accuracy of our financial records gives all our stakeholders and decisionmakers more confidence in the way the Department manages its resources. This is critical to ensuring the American taxpayers know that their dollars are well spent.

We are proud of having achieved an unqualified audit opinion for the sixth consecutive year. This year also saw the full implementation of the Department's integrated financial management system, the Commerce Administrative Management System (CAMS). As a result of CAMS, program managers can make better-informed decisions more quickly, monthly financial records can now be closed within three days, financial statements can be produced more expeditiously, and the audit process is smoother, in part, because of the ease of extracting information from the system. A portion of the prior-year reportable condition was resolved as a result of the implementation of CAMS, however, some identified deficiencies in general information technology controls remained. The Department also identified a non-compliance with laws and regulations relating to capital leases that were not fully funded in accordance with OMB Circular A-11. Action plans to address these deficiencies are in place and corrective actions have begun with completion scheduled before the end of FY 2005.

We are now striving to reduce operational redundancy and increase overall efficiency of CAMS by reducing the number of computer platforms running the system. Although we fell slightly short of our FY 2004 goal of reducing the number of platforms from five to three (we currently stand at four platforms), we are working diligently toward achieving this milestone.

We remain steadfast in our commitment to make our financial management systems even stronger and more efficient, and to continually refine our financial products in response to the needs of our stakeholders. Through the efforts described in this report, we will continue to maximize the effectiveness of our programs and their benefit to the American taxpayers.



Otto J. Wolff
*Chief Financial Officer and
Assistant Secretary for Administration*

FINANCIAL MANAGEMENT AND ANALYSIS





FINANCIAL MANAGEMENT AND ANALYSIS

In support of the President's Management Agenda (PMA) and under the Secretary's leadership, the Department is continuing to give the highest priority to providing accurate financial data to its internal and external customers, and to its accountability for all assets. The Department has created a financial management environment that complies with federal laws and regulations and that provides its executives with timely, accurate financial and performance information. This is evidenced in part by the Department's continued receipt of unqualified opinions, decrease in internal control weaknesses, successful implementation of a single integrated financial system, and continued compliance with the Federal Financial Management Improvement Act (FFMIA). Highlights of accomplishments for fiscal year (FY) 2004 and future initiatives are discussed further below.

I. FINANCIAL MANAGEMENT SYSTEMS

In October 2003, the Department completed the implementation of its financial management system, the Commerce Administrative Management System (CAMS). CAMS replaced non-compliant legacy financial systems within the Department. Bureaus that were previously on compliant systems continue to use those systems with some entities potentially converting to CAMS at a future date. The financial information from these systems and CAMS is integrated in the Corporate Database (as discussed further below) for consolidated financial reporting, resulting in a single integrated financial system. A Consolidated Reporting System (CRS) integrates existing management data from financial, human resource, acquisition, and federal assistance enterprise databases, and provides senior management with online desktop access to information about bureau programs and resources that is critical to strategic decision-making.

CAMS provides reliable and timely information within a sophisticated security infrastructure. The system is capable of producing both financial and budget reports from information generated within the financial management system. CAMS includes a Core Financial System (CFS) interfaced with administrative systems for small purchases, bankcards, grants (Automated Standard Application for Payments (ASAP), a data warehouse, and time reporting/labor cost distribution module, collectively called Core CAMS. Planned is an obligation and requisition interface between CAMS and the Commerce Standard Acquisition and Reporting System (CSTARS), the Department's acquisition system.

The Corporate Database is a commercial off-the-shelf software package for consolidating financial data and producing financial reports. The Corporate Database provides an integrated solution to financial statements and Federal Agencies Centralized Trial Balance System (FACTS I) Adjusted Trial Balances reporting at the Department, bureau, and Treasury Appropriation/Fund Group level, and also provides the ability to perform data analysis. The database was updated in FY 2004 to produce the Department's footnotes, financial analysis reports, and other additional information required for the government-wide financial statements.

During FY 2004, the Department accomplished the following initiatives:

- ◆ Undertook a Department-wide Financial Management Review to define, document, and implement consistent accounting processes across Commerce agencies; identify CAMS CFS improvements and noncompliance; and propose a plan of action for Commerce agencies to simplify the various cost allocation mechanisms in use to support more efficient programming and production of standard and consolidated reports. The Department's annual financial management conference was centered on the results of the review and discussed priorities for enhancing the system.

- ◆ Consolidated Commerce-wide Integrated Financial Management System computer platforms. CAMS was fully implemented by October 2003; at that time, CAMS was running on five different computer platforms. With the goal of reducing operational redundancy and increasing overall efficiency, Commerce reduced the number of computer platforms running CAMS from five to four in FY 2004.
- ◆ Conducted a self-certification test, using an independent contractor, to assess CAMS' compliance with Joint Financial Management Improvement Program (JFMIP) guidelines and identify areas where CAMS requires enhancement to satisfy all JFMIP requirements. The results confirmed CAMS substantially complies with the JFMIP standards.
- ◆ Conducted a technology refreshment of underlying Oracle technology to ensure CAMS takes advantage of the latest technology and is compliant with new information technology (IT) security requirements.
- ◆ Conducted a deconstruction of the CAMS Capital Asset Plan for FYs 2005–2008 in which the bureaus and the Office of Financial Management (OFM) (1) developed a common basis for reporting costs by standard cost categories, activities, and functions using commonly agreed-upon definitions; and (2) reviewed bureau spending by cost categories to ensure consistent spending across those categories.

Although the Department has an integrated financial system with the implementation of CAMS and the Corporate Database, there is still a need to look forward to ensure that it continues to provide reliable, timely, and accurate financial data to management. In FY 2005, the Department plans to accomplish the following:

- ◆ Conduct a CAMS business case study to identify how to fully leverage the financial system to streamline business processes throughout the Department. As a first step, Commerce will review the technological issues and costs associated with extending the useful life of CAMS. An independent technologist will be contracted to assess the CAMS current and future technology, review code-layering issues, and verify that the recent technology infusions have extended the CAMS useful life. Commerce will then identify any potential savings to reducing redundant financial activities throughout the Department.
- ◆ Continue the CAMS Capital Asset Plan deconstruction exercise by analyzing the bureau costs and operations to identify efficiencies and baseline the costing of these processes. Information gathered will be used to assess the Department's current business processes for providing accounting services.
- ◆ Continue to identify and employ controls necessary to provide, improve, and maintain general control weaknesses, specifically security of financial management systems.

II. FINANCIAL REPORTING

The Department is committed to making financial management a priority and significant efforts are being made to further improve the management of its financial resources. The Department has received unqualified opinions on its consolidated financial statements since 1999. In addition, all bureaus subject to individual audits have maintained unqualified opinions on their principal financial statements. The Department met or exceeded the accelerated financial statement submission deadlines for FY 2004. A portion of the prior year reportable condition was resolved as a result of the implementation of CAMS. These achievements resulted from the Department's commitment to strong management controls and accountability for its resources. A reportable condition was cited relating to some identified deficiencies in general IT controls remaining from the prior years. The Department also identified a non-compliance with laws and regulations relating to capital leases that were not fully funded in accordance with OMB Circular A-11. Action plans to address these deficiencies are in place and corrective actions have

begun with completion scheduled before the end of FY 2005. Although the Department did not identify any significant problems with erroneous payments, it recognized the importance of maintaining adequate internal controls. The Performance and Accountability Report (PAR) section, Improper Payments Information Act of 2002 (IPIA), and the Appendix on the IPIA reporting details describe the Department's implementation efforts of this Act along with the results of Commerce's reviews.

The Department accomplished the following initiatives that resulted in meeting the aforementioned goals:

- ◆ Published guidance on the preparation and submission of financial statements, including a calendar of milestone dates. Each quarter, with the participation of all bureaus, guidance was reviewed and updated to reflect lessons learned and to identify best practices among the bureaus. When necessary, task forces were formed to resolve issues that impeded the Department's ability to produce timely and accurate financial statements.
- ◆ Prepared Corrective Action Plans for the one reportable condition, management letter comments, and non-compliances with laws and regulations, and progress was monitored throughout the year.
- ◆ Held meetings throughout the fiscal year with the Office of Inspector General (OIG) and independent auditors to ensure timely completion of the audit and issuance of the financial statements.
- ◆ Held monthly meetings led by the Department's Deputy Chief Financial Officer (CFO) with the bureaus' CFOs to discuss financial management issues, including financial statements, the Consolidated Reporting System, and financial performance metrics. These meetings were in addition to the Department's monthly CFO Council meetings led by the Department's CFO, and the monthly Finance Officer meetings led by the Deputy CFO.
- ◆ Participated in the Financial Metrics Workgroup led by the CFO Council Committee. Monthly financial metrics were compiled, analyzed, and reported in the government-wide consolidated CFO measurement tracking system. This information is also included in Commerce's CRS for senior management's review. Individual bureaus were provided with a monthly status report comparing and analyzing their results with the Department's goals, and the Department and government-wide results.
- ◆ Participated in the government-wide CFO Council Financial Statements Acceleration Workgroup. This group worked to identify and remove impediments to meet the accelerated reporting date of November 15, 2004.
- ◆ Facilitated intragovernmental reconciliations using the Department's Corporate Database application to collect, extract, and report on a quarterly basis its intragovernmental account balances, by trading partner, to the Treasury Department. The Department took a proactive approach of initiating contact with all trading partner agencies to reconcile large differences. However, despite its considerable effort, the Department has been unsuccessful in its attempts to reconcile all differences primarily due to a lack of participation by its trading partners.
- ◆ Participated in the Intragovernmental Elimination Task Force (IGET), and one bureau participated in the pilot for the Intragovernmental Transactions Reconciliation Portal.

Although the Department has accomplished much in the area of financial management, there is still a need to improve upon these accomplishments to ensure that the Department produces and reports accurate, reliable, and timely financial information. In FY 2005, the Department plans to accomplish the following:

- ◆ Continue to identify areas that will facilitate the acceleration of providing accurate and reliable financial information to Commerce managers and central agencies. This will be achieved through ongoing meetings and workgroups amongst the Department's financial managers and participation in government-wide financial management committees and workgroups.

- ◆ Begin the process of replacing the current Corporate Database with upgraded technology and expanded capabilities.
- ◆ Perform recovery contract audits and continue performing disbursement sampling to identify and recover improper payments.
- ◆ Continue to work with OMB, Treasury, the IGET, and its trading partner agencies to improve the intragovernmental reconciliation process.

GRANTS MANAGEMENT

The Department awarded 3,121 grant actions and provided funding of approximately \$1.4 billion during FY 2004. The Department is an active participant with the government-wide implementation of Public Law 106-107 to streamline, simplify, and automate the grants process, including participation on various interagency workgroups. The Department's Office of Acquisition Management (OAM) coordinates quarterly Departmental Grants Council meetings and works closely with the OIG and General Counsel to implement sound policy and ensure consistency for the Department's financial assistance programs. The Department is committed to the goal of strengthening its grant operations and improving its business processes to provide better services to its customers in the federal grant recipient community.

An active partner in e-grants initiatives, OAM serves on the Grants.gov Executive Board and the Grants Line of Business Taskforce. The Department is now fully compliant with Grants.gov, and has revised its Grants and Cooperative Agreements Manual and Standard Grant Terms and Conditions to recognize the emerging growth of electronic government. In addition, the Department continues to move its grant making bureaus into the ASAP system, which is an all-electronic payment and information system managed by the Department of Treasury.

Integral to the Department's effort to move aggressively into the world of e-grants is the rapid development, over the past year, of the National Oceanic and Atmospheric Administration's (NOAA) Grants Online, a back-office solution to the Grants.gov's storefront. Ultimately, it will facilitate efficiencies through standardized business processes and provide a direct interface to other Departmental systems. It has demonstrated significant potential for reducing paperwork, increasing accountability, and simplifying the application process, and is being considered for enterprise-wide implementation.

The responsibility for facilitating the approval of indirect cost rates for award recipients was moved from OIG to OAM. During the past year, OAM obtained a contractor to work with OAM in reviewing applications to the Department for indirect cost rate determinations, and has made significant progress in reducing a backlog of well over 100 organizations' indirect cost rates.

HUMAN CAPITAL

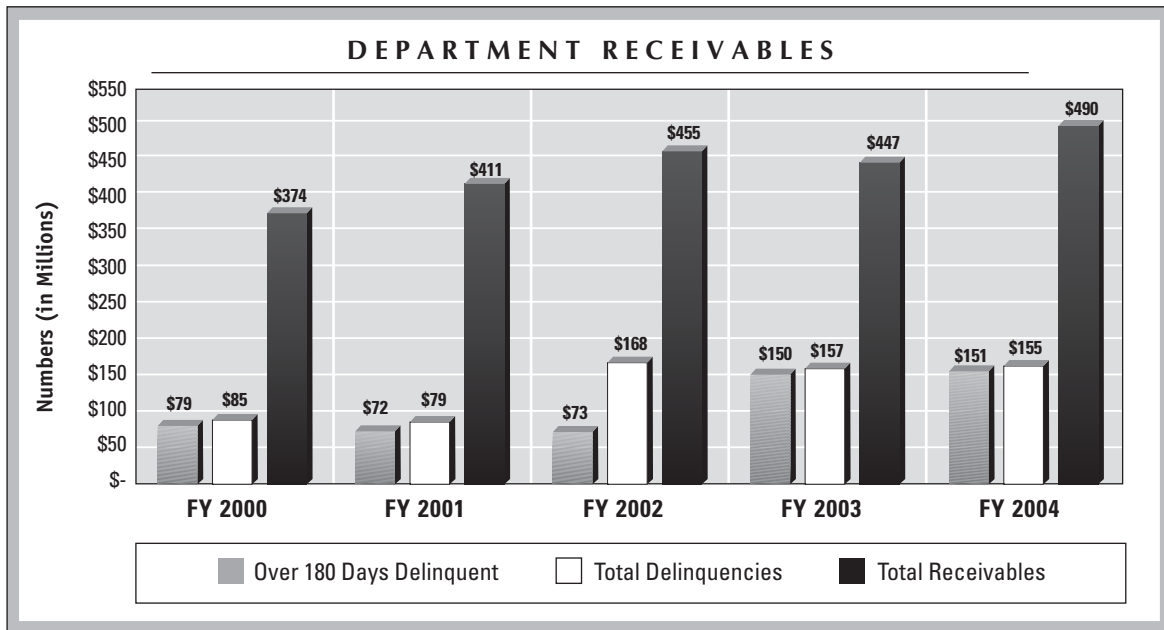
The Department recognizes the need to ensure succession planning in the area of financial management and to enhance the current workforce development. The Department provides internships through a variety of sources to give finance and accounting majors an opportunity to gain hands-on accounting experience, while introducing potential future employees to the opportunities that exist at the Department. In FY 2004, the Department continued its partnership with the National Academy Foundation (NAF) by employing finance interns from local high schools and participating in NAF sponsored events. In FY 2005, the Department will initiate a panel of subject matter experts, consisting of representatives from the bureaus, to review the current accounting position descriptions, performance plans, and hiring criteria to ensure that the Department hires and retains high quality accountants. In addition, a two-year accounting internship program will be initiated that will require training and rotational assignments amongst the bureaus.

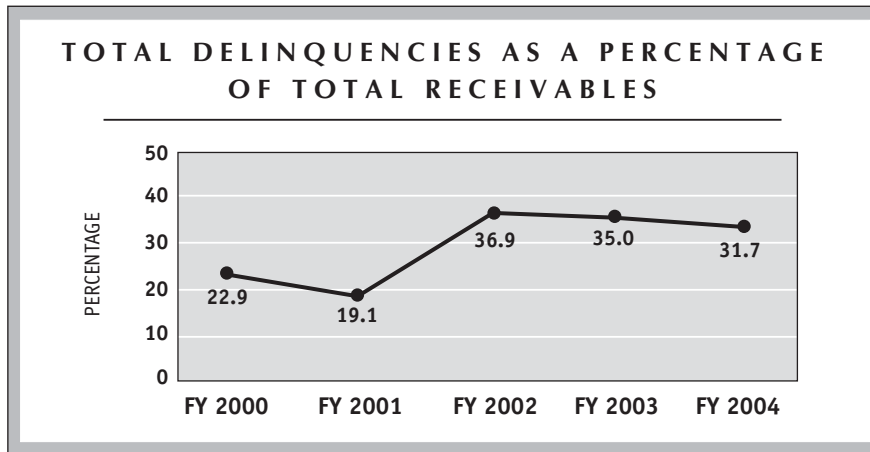
DEBT MANAGEMENT

RECEIVABLES AND DEBT MANAGEMENT

The Department has incorporated the principles of the Credit Reform Act of 1990 into the operations of its credit and debt programs. Prescreening procedures, account-servicing standards, determined collection of delinquent debt, inventory management, and asset disposition standards have helped to diminish significantly the amount of risk inherent in credit programs. These procedures were established to ensure that credit costs are properly identified and controlled, that borrowers' needs are met, and that costs to the taxpayers are minimized.

Total Department's gross receivables increased, from \$447 million in fiscal year (FY) 2003 to \$490 million in FY 2004, as reported on the Department's Treasury Report on Receivables (TROR). The TROR is the primary means for the Department to provide comprehensive information on the gross value of receivables and delinquent debt due from the public. Delinquent debt over 180 days remained constant at \$150 million from FY 2003 to \$151 million in FY 2004. Total delinquencies, as a percentage of total receivables for the Department, decreased from 35.0 percent in FY 2003 to 31.7 percent in FY 2004.





The Debt Collection Improvement Act of 1996 established the Treasury Department as the collection agency for federal agency debts that are more than 180 days delinquent. It also established Treasury's Financial Management Service as the federal government's debt collection center. In FY 1998, the Department signed a letter of agreement with Treasury for cross-servicing of debt more than 180 days delinquent. Over \$16.8 million in delinquent debt has since been referred to Treasury for cross-servicing.

During FY 2001, the issuance of the revised *Federal Claims Collection Standards* and the revised Office of Management and Budget (OMB) Circular No. A-129, *Policies for Federal Credit Programs and Non-Tax Receivables*, provided agencies greater latitude to maximize the effectiveness of federal debt collection procedures. Since then, the Department has utilized all the tools available to improve the management of its debt.

PAYMENT PRACTICES

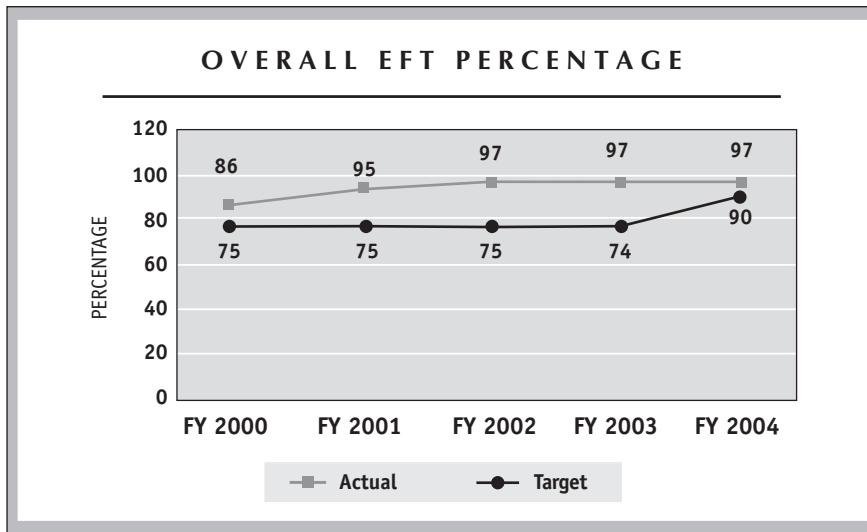
Electronic Funds Transfer (EFT)

During fiscal year (FY) 2004, the Department continued its efforts to maximize the use of payment mechanisms compliant with EFT as required by the Debt Collection Improvement Act of 1996. The Department's achievements in this area are illustrated in the table below:

Payment Category	FY 2004 EFT Percentage	FY 2003 EFT Percentage	FY 2004 Total Volume (Actual Count)	FY 2003 Total Volume (Actual Count)
Retirement Benefits	99%	99%	4,392	4,400
Salary	99%	98%	1,119,187	1,128,9386
Vendor & Misc. ¹	94%	93%	535,058	507,696
TOTAL	97%	97%	1,658,637	1,641,034

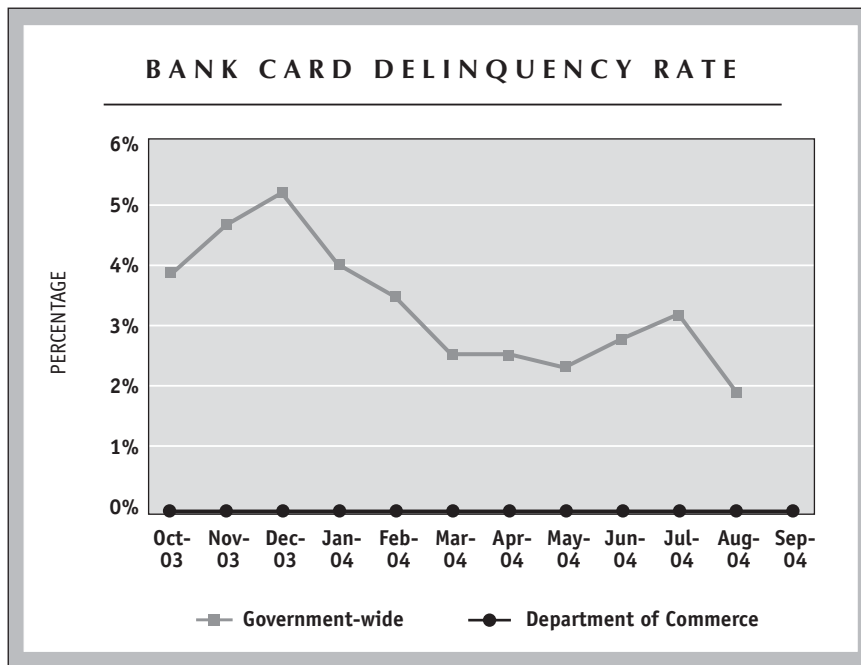
¹ Includes purchase card transactions.

The Department's overall EFT percentage remained steady at 97 percent in FY 2004. The Department substantially exceeded Treasury's government-wide goal of 90 percent for FY 2004. The Department continued to progress with a 1 percent increase in the EFT percentage for both vendor and miscellaneous payments, and salary payments.



Bankcards

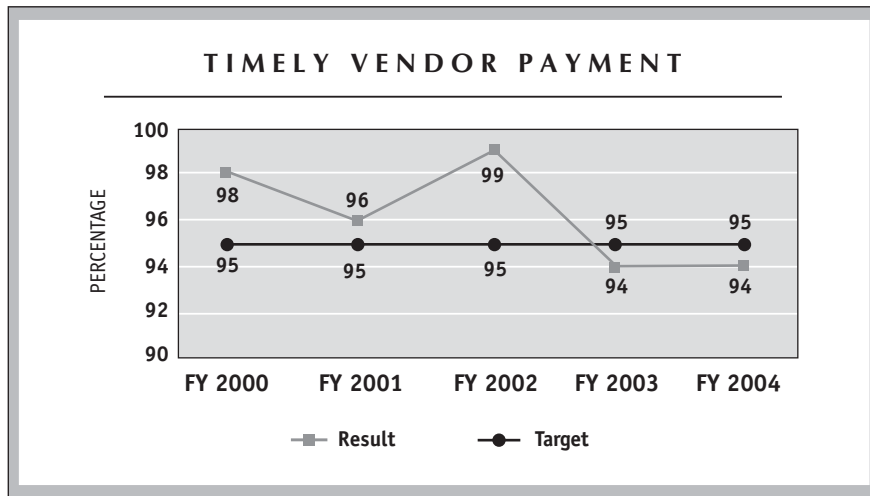
The Department is committed to the use of bankcards as a means of streamlining Departmental procurements. However, Departmental usage of the cards declined slightly from 6,093 cardholders in FY 2003 to 6,051 in FY 2004. Concurrently, the amount of purchases declined from \$141.8 million in FY 2003 to \$158.1 million in FY 2004. The modest downward trend in bankcard activity is primarily due to conclusion of the Decennial Census disbursement activity in FY 2002. The Department has continued to monitor the internal controls surrounding these purchases to ensure that all such purchases are legal and proper. As of September 30, 2004, the Department had an overall 0 percent bankcard delinquency rate, well below the government-wide delinquency rate.



*Note: September, 2004 government-wide data was not available at the time this report was issued.

Prompt Payment

The Department made approximately 94 percent of all payments on time in FY 2004, as it did in FY 2003. The number of invoices with late-payment interest penalties increased from 15,144 in FY 2003 to 15,631 in FY 2004. The Department's overall performance of 94 percent in FY 2004 is just slightly lower than the government-wide goal of 95 percent. The 94 percent on-time payment is mainly due to one bureau's conversion to Commerce Administrative Management System (CAMS). As a result, some payments were delayed during the conversion period from the old to new system at the beginning of the year. The Department will continue to monitor its bureaus' payment performance to maintain its timely vendor payment percentage.

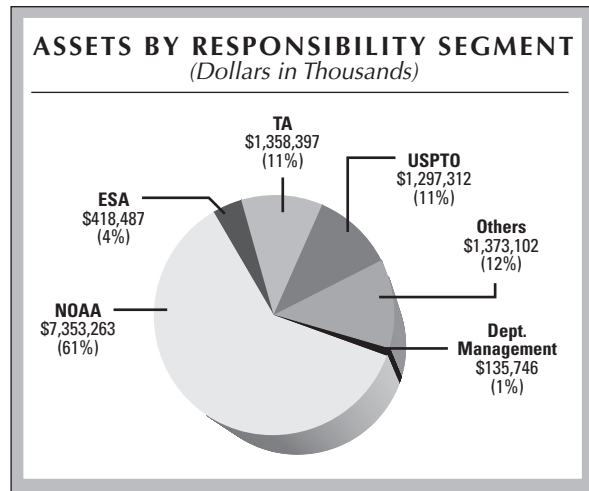
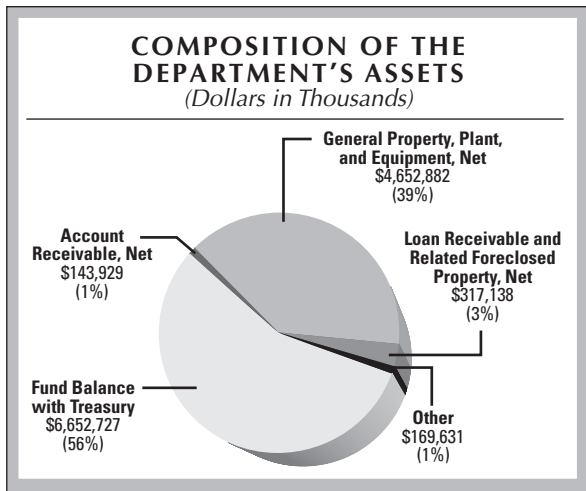


ANALYSIS OF FY 2004 FINANCIAL CONDITIONS AND RESULTS

Composition of Assets and Assets by Responsibility Segment

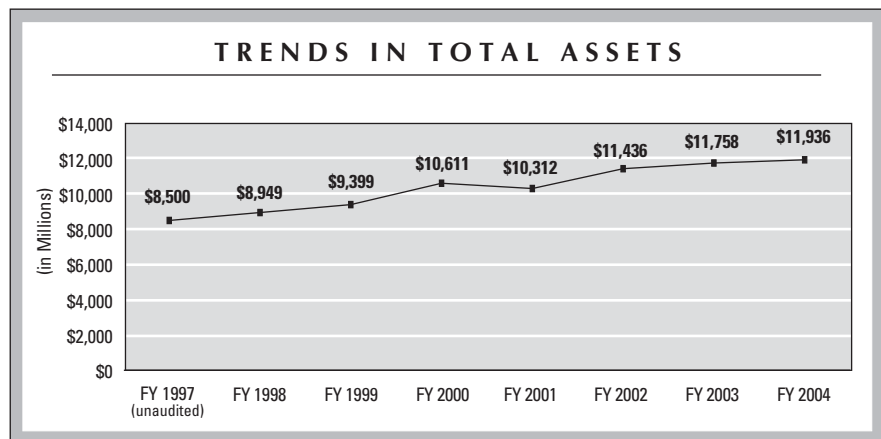
The composition and distribution of the Department's assets generally remained consistent from FY 2003 to FY 2004.

At September 30, 2004, Fund Balance with Treasury of \$6.65 billion is the aggregate amount of funds available to make authorized expenditures and pay liabilities. General Property, Plant, and Equipment, Net of Accumulated Depreciation (General PP&E) of \$4.65 billion includes \$2.69 billion of Construction-in-progress, primarily of satellites and weather measuring and monitoring systems, \$763 million of satellites and weather systems, \$606 million of structures, facilities, and leasehold improvements, and \$588 million of other General PP&E. Loans Receivable and Related Foreclosed Property, Net of \$317 million primarily results from the National Oceanic and Atmospheric Administration's (NOAA) direct loan programs.



Trends in Assets

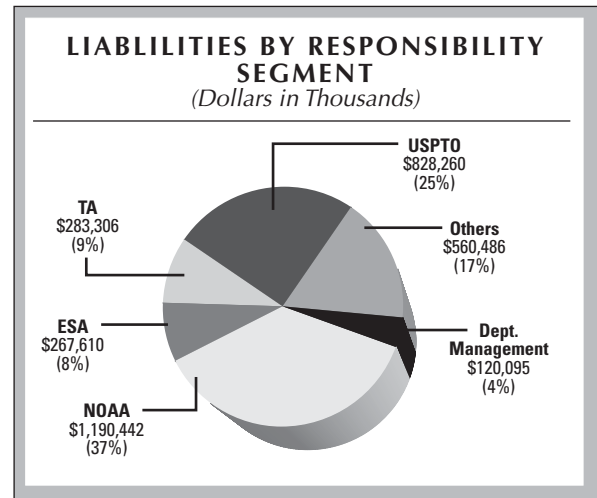
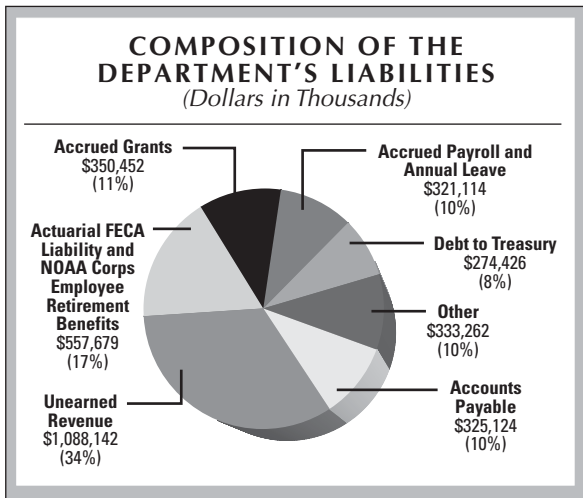
Total Assets increased \$178 million or 2 percent, from \$11.76 billion at September 30, 2003 to \$11.94 billion at September 30, 2004. Fund Balance with Treasury increased \$150 million or 2 percent, from \$6.50 to \$6.65 billion, which primarily resulted from higher Appropriations Received, net of rescissions, of \$247 million or 4 percent. Loans Receivable and Related Foreclosed Property, Net increased \$44 million or 16 percent from \$273 to \$317 million, which primarily resulted from the first issuances of direct loans for the Pacific Groundfish Buyback and Fisheries Finance Tuna Fleet loan programs.



Composition of Liabilities and Liabilities by Responsibility Segment

The composition and distribution of the Department's liabilities also generally remained consistent from FY 2003 to FY 2004.

Unearned Revenue of \$1.09 billion represents the portion of monies received from customers for which goods and services have not been provided or rendered by the Department. Actuarial FECA Liability and NOAA Corps Employee Retirement Benefits Liabilities of \$558 million is composed of the actuarial present value of projected benefits for the NOAA Corps Retirement System (\$336 million) and the NOAA Corps Post-retirement Health Benefits (\$43 million), and Actuarial FECA Liability (\$179 million), which represents the liability for future workers' compensation benefits. Accrued Grants of \$350 million, which relate to a diverse array of financial assistance programs and projects, include Economic Development Administration's (EDA) accrued grants of \$241 million for their economic development and assistance funding to state and local governments. Accounts Payable of \$325 million consists primarily of amounts owed for goods, services, or capitalized assets received, progress on contract performance by others, and other expenses due. Accrued Payroll and Annual Leave include salaries and wages earned by employees, but not disbursed as of September 30. Debt to Treasury of \$274 million results from monies borrowed primarily for the Fisheries Finance direct loan programs. Other Liabilities of \$333 million includes Liabilities for Loan Guarantees of \$74 million, Environmental and Disposal Liabilities of \$79 million, and Resources Payable to Treasury of \$64 million.



Trends in Liabilities

Total Liabilities increased \$63 million or 2 percent, from \$3.19 billion at September 30, 2003 to \$3.25 billion at September 30, 2004. Unearned Revenue increased \$89 million or 9 percent, from \$999 million to \$1.09 billion, primarily due to higher unearned revenue from increased patent and trademark application and user fees that are pending action at September 30. Debt to Treasury increased \$63 million or 30 percent, from \$212 to \$274 million, mainly due to initial borrowings during FY 2004 in NOAA's Fisheries Finance Tuna Fleet and Pacific Groundfish Buyback direct loan programs.



Composition of and Trends in Financing Sources

Most of the Department's Financing Sources are obtained from Appropriations Received, net of rescissions. Financing Sources also include transfers to and from other federal agencies without reimbursement, and imputed financing sources from costs absorbed by other federal agencies.

Total Financing Sources, shown on the Consolidated Statement of Changes in Net Position, remained consistent from FY 2003 to FY 2004, decreasing only 0.3 percent, from \$6.25 billion for FY 2003 to \$6.23 billion for FY 2004.

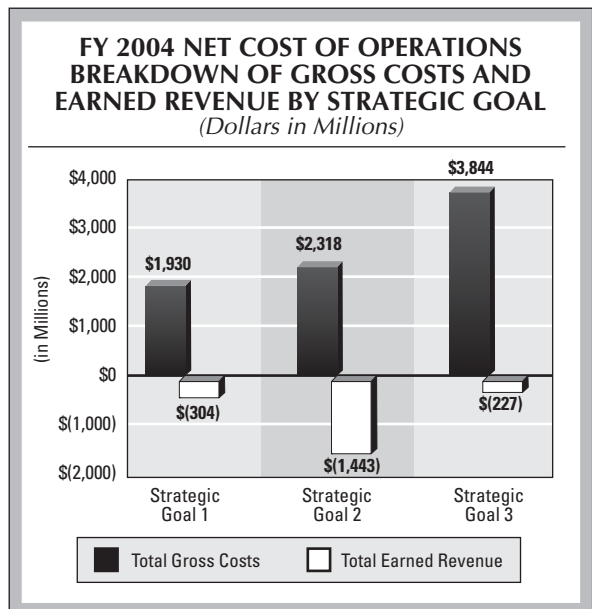
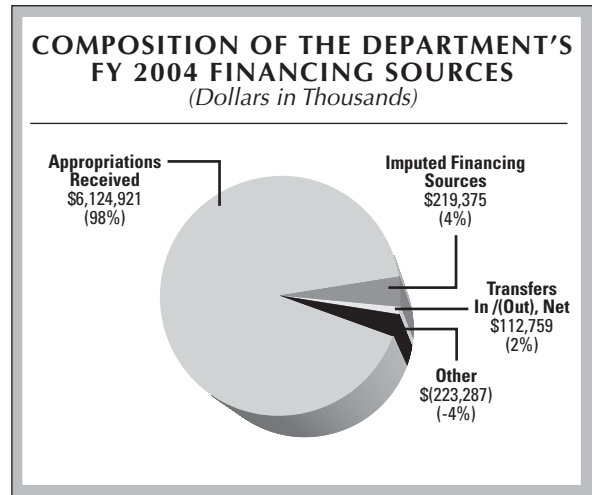
FY 2004 Net Cost of Operations by Strategic Goal

FY 2004 Net Cost of Operations amounted to \$6.12 billion, which consists of Gross Costs of \$8.09 billion less Earned Revenue of \$1.97 billion.

Strategic Goal 1 includes Gross Costs of \$228 million related to the decennial and periodic censuses. The federal government distributes federal dollars that supports schools, employment services, housing assistance, highway construction, hospital services, programs for the elderly, and more, based on census data.

Strategic Goal 2 includes Net Cost of Operations of \$76 million (Gross Costs of \$1.15 billion less Earned Revenue of \$1.07 billion) for USPTO's patents program, which includes processing patent applications and disseminating patent information. Through issuing patents, USPTO encourages technological advancement by providing incentives to invent, invest in, and disclose new technology. Strategic Goal 2 also includes Net Cost of Operations of \$438 million (Gross Costs of \$531 million less Earned Revenue of \$93 million) for NIST's Measurement and Standards Laboratories. These laboratories are the stewards of the U.S.'s measurement infrastructure, and provide measurement methods, reference materials, test procedures, instrument calibrations, fundamental data, and standards that comprise essential tools for research, production, and buyer-seller transactions.

Strategic Goal 3 includes Net Cost of Operations of \$1.66 billion (Gross Costs of \$1.73 billion less Earned Revenue of \$69 million) related to NOAA's goal to advance short-term warning forecast service, which includes improving tornado, winter storm, and flash flood warning lead time and accuracy, and improving hurricane track and precipitation forecasts.



LIMITATIONS OF THE FINANCIAL STATEMENTS

These financial statements have been prepared to report the financial position and results of operations of the Department of Commerce, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of the Department in accordance with the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records.

These statements should be read with the realization that they are for a component of the U.S. government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides the resources to do so.

PRINCIPAL FINANCIAL STATEMENTS





**United States Department of Commerce Consolidated Balance Sheets
As of September 30, 2004 and 2003 (In Thousands)**

	FY 2004	FY 2003
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	\$ 6,652,727	\$ 6,502,932
Accounts Receivable (Note 3)	84,028	80,860
Advances and Prepayments	15,180	25,967
Total Intragovernmental	6,751,935	6,609,759
Cash (Note 4)	13,694	14,174
Accounts Receivable, Net (Note 3)	59,901	57,554
Loans Receivable and Related Foreclosed Property, Net (Note 5)	317,138	272,675
Inventory, Materials, and Supplies, Net (Note 6)	99,515	101,376
General Property, Plant, and Equipment, Net (Note 7)	4,652,882	4,670,018
Advances and Prepayments	31,516	19,764
Other (Note 8)	9,726	12,712
TOTAL ASSETS	\$ 11,936,307	\$ 11,758,032
LIABILITIES		
Intragovernmental:		
Accounts Payable	\$ 65,493	\$ 100,772
Debt to Treasury (Note 10)	274,426	211,700
Resources Payable to Treasury	63,931	75,221
Unearned Revenue	347,651	352,656
Other (Note 11)	55,695	55,996
Total Intragovernmental	807,196	796,345
Accounts Payable	259,631	267,214
Accrued Payroll and Annual Leave	321,114	290,976
Actuarial FECA Liability and NOAA Corps Employee Retirement Benefits Liabilities (Note 12)	557,679	568,732
Accrued Grants	350,452	392,621
Environmental and Disposal Liabilities (Note 13)	78,687	89,861
Capital Lease Liabilities (Note 14)	18,331	22,744
Unearned Revenue	740,491	646,460
Other (Note 11)	116,618	111,767
TOTAL LIABILITIES	\$ 3,250,199	\$ 3,186,720
Commitments and Contingencies (Notes 5, 14, and 16)		
NET POSITION (Note 17)		
Unexpended Appropriations	\$ 4,209,311	\$ 4,181,364
Cumulative Results of Operations	4,476,797	4,389,948
TOTAL NET POSITION	\$ 8,686,108	\$ 8,571,312
TOTAL LIABILITIES AND NET POSITION	\$ 11,936,307	\$ 11,758,032

The accompanying notes are an integral part of these statements.

**United States Department of Commerce Consolidated Statements of Net Cost
For the Years Ended September 30, 2004 and 2003 (Note 18) (In Thousands)**

	FY 2004	Reclassified FY 2003
Strategic Goal 1: Provide the Information and Tools to Maximize U.S. Competitiveness and Enable Economic Growth for American Industries, Workers, and Consumers		
Intragovernmental Gross Costs	\$ 411,683	\$ 479,032
Gross Costs With the Public	1,518,510	1,585,900
Total Gross Costs	1,930,193	2,064,932
Intragovernmental Earned Revenue	(275,502)	(285,079)
Earned Revenue From the Public	(28,022)	(11,011)
Total Earned Revenue	(303,524)	(296,090)
Net Program Costs	1,626,669	1,768,842
Strategic Goal 2: Foster Science and Technological Leadership by Protecting Intellectual Property, Enhancing Technical Standards, and Advancing Measurement Science		
Intragovernmental Gross Costs	358,966	359,913
Gross Costs With the Public	1,959,060	1,850,717
Total Gross Costs	2,318,026	2,210,630
Intragovernmental Earned Revenue	(152,217)	(122,673)
Earned Revenue From the Public	(1,290,748)	(1,202,966)
Total Earned Revenue	(1,442,965)	(1,325,639)
Net Program Costs	875,061	884,991
Strategic Goal 3: Observe, Protect, and Manage the Earth's Resources to Promote Environmental Stewardship		
Intragovernmental Gross Costs	596,810	512,209
Gross Costs With the Public	3,247,671	3,043,176
Total Gross Costs	3,844,481	3,555,385
Intragovernmental Earned Revenue	(169,557)	(164,169)
Earned Revenue From the Public	(57,682)	(61,927)
Total Earned Revenue	(227,239)	(226,096)
Net Program Costs	3,617,242	3,329,289
NET COST OF OPERATIONS	\$ 6,118,972	\$ 5,983,122

The accompanying notes are an integral part of these statements.

**United States Department of Commerce Consolidated Statements of Changes in Net Position
For the Years Ended September 30, 2004 and 2003 (In Thousands)**

	FY 2004		FY 2003	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances, as Previously Presented	\$ 4,389,948	\$ 4,181,364	\$ 4,322,557	\$ 3,978,998
Change in Accounting Principle (Note 17)	-	-	(135,918)	135,918
Beginning Balances, as Adjusted	4,389,948	4,181,364	4,186,639	4,114,916
Budgetary Financing Sources:				
Appropriations Received (Note 19)	-	6,124,921	-	5,790,547
Appropriations Transfers In/(Out), Net	-	8,379	-	4,387
Other Adjustments (Note 19)	-	(295,014)	(3,235)	(6,111)
Appropriations Used	5,810,339	(5,810,339)	5,722,375	(5,722,375)
Non-exchange Revenue	10,120	-	13,035	-
Donations	1,298	-	859	-
Transfers In/(Out) Without Reimbursement, Net	86,441	-	78,640	-
Other Budgetary Financing Sources (Uses), Net (Note 19)	74,707	-	5,396	-
Other Financing Sources:				
Transfers In/(Out) Without Reimbursement, Net	17,939	-	51,585	-
Imputed Financing Sources From Costs Absorbed by Others	219,375	-	226,518	-
Other Financing Sources (Uses), Net (Note 12)	(14,398)	-	91,258	-
Total Financing Sources	6,205,821	27,947	6,186,431	66,448
Net Cost of Operations	(6,118,972)	-	(5,983,122)	-
ENDING BALANCES	\$ 4,476,797	\$ 4,209,311	\$ 4,389,948	\$ 4,181,364

The accompanying notes are an integral part of these statements.

United States Department of Commerce Combined Statements of Budgetary Resources
For the Years Ended September 30, 2004 and 2003 (Note 19) (In Thousands)

	FY 2004		FY 2003	
	Budgetary	Non-Budgetary Credit Program Financing Accounts	Budgetary	Non-Budgetary Credit Program Financing Accounts
BUDGETARY RESOURCES:				
Budget Authority				
Appropriations Received	\$ 6,134,774	\$ -	\$ 5,964,718	\$ -
Borrowing Authority	-	169,997	-	155,977
Net Transfers	88,106	-	81,791	-
Unobligated Balance				
Beginning of Period	1,000,131	60,212	1,126,211	10,205
Cancellations and Adjustments to Unobligated Balance, Beginning of Period	31,315	-	535	-
Net Transfers	4,277	-	191	-
Spending Authority From Offsetting Collections				
Earned				
Collected	2,578,665	84,313	2,353,478	138,687
Receivables	(59,937)	(1)	6,197	-
Changes in Unfilled Customer Orders				
Advances Received	84,185	-	156,334	-
Without Advances	24,787	6,128	(44,777)	260
Total Spending Authority From Offsetting Collections	2,627,700	90,440	2,471,232	138,947
Recoveries of Prior-years Obligations	85,920	26,512	135,566	7,254
Temporarily Not Available Pursuant to Public Law	(176,759)	-	(178,514)	-
Permanently Not Available				
Cancellation of Expired and No-year Accounts	(119,076)	-	(24,182)	-
Enacted Rescissions	(204,494)	-	(7,858)	-
Enacted Rescissions - Reversals	75,584	-	-	-
Capital Transfers and Redemption of Debt	(2,400)	(43,662)	(3,169)	(78,943)
Other Authority Withdrawn	-	(25,852)	-	(668)
Pursuant to Public Law	-	-	(36,350)	-
TOTAL BUDGETARY RESOURCES	\$ 9,545,078	\$ 277,647	\$ 9,530,171	\$ 232,772
STATUS OF BUDGETARY RESOURCES:				
Obligations Incurred				
Direct	\$ 6,443,981	\$ 85,753	\$ 6,286,198	\$ 169,124
Reimbursable	2,370,995	3,399	2,243,842	3,436
Total Obligations Incurred	8,814,976	89,152	8,530,040	172,560
Unobligated Balance				
Apportioned	415,704	99,013	795,131	1,805
Exempt From Apportionment	221,548	-	112,313	-
Unobligated Balance Not Available	92,850	89,482	92,687	58,407
TOTAL STATUS OF BUDGETARY RESOURCES	\$ 9,545,078	\$ 277,647	\$ 9,530,171	\$ 232,772
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:				
Obligated Balance, Net, Beginning of Period (Unpaid)	\$ 4,745,233	\$ 299,141	\$ 4,487,716	\$ 180,411
Adjustments to Obligated Balance, Beginning of Period (Unpaid)	4,765	-	172	-
Obligated Balance, Net, Beginning of Period, as Adjusted (Unpaid)	\$ 4,749,998	\$ 299,141	\$ 4,487,888	\$ 180,411
Obligated Balance Transferred, Net (Unpaid)	\$ -	\$ -	\$ (1,604)	\$ -
Obligated Balance, Net, End of Period (Unpaid)				
Accounts Receivable	\$ (154,749)	\$ -	\$ (214,686)	\$ (1)
Unfilled Customer Orders (Unpaid)	(110,989)	(6,961)	(86,202)	(833)
Undelivered Orders (Unpaid)	4,414,985	235,814	4,113,941	299,975
Accounts Payable	840,470	1,994	932,180	-
Total Obligated Balance, Net, End of Period (Unpaid)	\$ 4,989,717	\$ 230,847	\$ 4,745,233	\$ 299,141
Outlays				
Disbursements	\$ 8,524,487	\$ 124,808	\$ 8,174,105	\$ 46,315
Collections	(2,662,850)	(84,313)	(2,509,812)	(138,687)
Total Outlays	5,861,637	40,495	5,664,293	(92,372)
Less: Offsetting Receipts	(14,515)	-	(11,690)	-
NET OUTLAYS	\$ 5,847,122	\$ 40,495	\$ 5,652,603	\$ (92,372)

The accompanying notes are an integral part of these statements.

**United States Department of Commerce Consolidated Statements of Financing
For the Years Ended September 30, 2004 and 2003 (In Thousands)**

	FY 2004	FY 2003
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	\$ 8,904,128	\$ 8,702,600
Less: Spending Authority From Offsetting Collections and Recoveries	(2,830,572)	(2,752,999)
Obligations Net of Offsetting Collections and Recoveries	6,073,556	5,949,601
Less: Offsetting Receipts	(14,515)	(11,690)
Net Obligations	6,059,041	5,937,911
Other Resources		
Transfers In/(Out) Without Reimbursement, Net	17,939	51,585
Imputed Financing Sources From Costs Absorbed by Others	219,375	226,518
Other Financing Sources (Uses), Net	(14,398)	91,258
Net Other Resources Used to Finance Activities	222,916	369,361
Total Resources Used to Finance Activities	6,281,957	6,307,272
Resources Used to Finance Items Not Part of Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet Provided	(253,152)	(342,722)
Resources that Fund Expenses Recognized in Prior Periods	(45,757)	(122,725)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations:		
Credit Program Collections which Increase Liabilities for Loan Guarantees or Allowance for Subsidy Cost	68,139	129,730
Budgetary Financing Sources (Uses), Net	27,038	12,821
Resources that Finance the Acquisition of Assets	(745,915)	(819,274)
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations:		
Change in Unfilled Customer Orders	115,099	111,817
Transfers In/(Out) Without Reimbursement, Net	(17,939)	(51,585)
Other Financing Sources (Uses), Net	14,398	(91,258)
Other	-	6,547
Total Resources Used to Finance Items Not Part of Net Cost of Operations	(838,089)	(1,166,649)
Total Resources Used to Finance Net Cost of Operations	5,443,868	5,140,623
Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods (Note 20)		
Increase in Accrued Annual Leave	7,027	11,379
Reestimates of Credit Subsidy Expense	(7,144)	(2,859)
Increase in NOAA Corps Employee Retirement Benefits Liabilities	9,823	14,700
Increase (Decrease) in Contingent Liabilities	(19,714)	40,500
Other	(2,398)	(2,593)
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	(12,406)	61,127
Components Not Requiring or Generating Resources		
Depreciation and Amortization	512,021	671,637
Expenses Related to Resources Recognized in Prior Periods	11,200	87,185
Satellite Damage Costs (Note 18)	131,400	-
Revaluation of Assets or Liabilities	26,195	2,966
Bad Debt Expense	(545)	8,171
Other	7,239	11,413
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	687,510	781,372
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	675,104	842,499
NET COST OF OPERATIONS	\$ 6,118,972	\$ 5,983,122

The accompanying notes are an integral part of these statements.



Notes to the Financial Statements

(All Tables are Presented in Thousands)

NOTE 1. Summary of Significant Accounting Policies

A Reporting Entity

The Department of Commerce (the Department) is a cabinet level-agency of the Executive Branch of the U.S. government. Established in 1903 to promote U.S. business and trade, the Department's broad range of responsibilities includes predicting the weather, granting patents and registering trademarks, measuring economic growth, gathering and disseminating statistical data, expanding U.S. exports, developing innovative technologies, helping local communities improve their economic development capabilities, promoting minority entrepreneurial activities, and monitoring the stewardship of national assets. The Department is composed of 13 bureaus, the Emergency Oil and Gas and Steel Loan Guarantee Programs, and Departmental Management. The Homeland Security Act of 2002 created the U.S. Department of Homeland Security (DHS). Pursuant to Section 201(g)(3) of Public Law 107-296, the Bureau of Industry and Security's (BIS) Critical Infrastructure Assurance Office was transferred from BIS to DHS effective March 1, 2003.

For the *Consolidating Statements of Net Cost* (see Note 18), some of the Department's entities have been grouped together, based on their organizational structures, as follows:

- National Oceanic and Atmospheric Administration (NOAA)
- U.S. Patent and Trademark Office (USPTO)
- Economics and Statistics Administration (ESA)
 - Bureau of Economic Analysis (BEA)
 - Census Bureau
- Technology Administration (TA)
 - National Institute of Standards and Technology (NIST)
 - National Technical Information Service (NTIS)
- Others
 - Bureau of Industry and Security (BIS)
 - Economic Development Administration (EDA)
 - International Trade Administration (ITA)
 - Minority Business Development Agency (MBDA)
 - National Telecommunications and Information Administration (NTIA)
 - Emergency Oil and Gas and Steel Loan Guarantee Programs (ELGP)

- Departmental Management (DM)
 - Franchise Fund
 - Gifts and Bequests (G&B)
 - Office of Inspector General (OIG)
 - Salaries and Expenses (S&E)
 - Working Capital Fund (WCF)

B *Basis of Accounting and Presentation*

The Department's fiscal year ends September 30. These financial statements reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred, without regard to the receipt or payment of cash. Budgetary accounting is designed to recognize the obligation of funds according to legal requirements, which, in many cases, is made prior to the occurrence of an accrual-based transaction. Budgetary accounting is essential for compliance with legal constraints and controls over the use of federal funds.

These financial statements have been prepared from the accounting records of the Department in conformance with generally accepted accounting principles (GAAP) in the U.S. and the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. GAAP for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board, which is the official body for setting the accounting standards of the U.S. government.

Throughout these financial statements, intragovernmental assets, liabilities, earned revenue, and costs have been classified according to the type of entity with whom the transactions were made. Intragovernmental assets and liabilities are those from or to other federal entities. Intragovernmental earned revenue represents collections or accruals of revenue from other federal entities, and intragovernmental costs are payments or accruals to other federal entities.

C *Elimination of Intra-entity and Intra-Departmental Transactions and Balances*

Transactions and balances within a reporting entity (intra-entity transactions) have been eliminated from the financial statements, except as noted below. Transactions and balances among the Department's entities (intra-Departmental transactions) have been eliminated from the *Consolidated Balance Sheets* and the *Consolidated Statements of Net Cost*. There are no intra-Departmental eliminations for the *Consolidated Statements of Changes in Net Position* and the *Consolidated Statements of Financing*. The *Statements of Budgetary Resources* are presented on a combined basis; therefore, intra-Departmental and intra-entity transactions and balances have not been eliminated from these statements.

D *Fund Balance with Treasury*

Fund Balance with Treasury is the aggregate amount of funds in the Department's accounts with the U.S. Department of the Treasury (Treasury). Deposit Funds represent the amounts held in customer deposit accounts.

Treasury processes cash receipts and disbursements for the Department's domestic operations. Cash receipts and disbursements for the Department's overseas operations are primarily processed by the U.S. Department of State's financial service centers.

E *Accounts Receivable, Net*

Accounts Receivable are recognized primarily when the Department performs reimbursable services or sells goods. Accounts Receivable are reduced to net realizable value by an Allowance for Uncollectible Accounts. This allowance is estimated periodically using methods such as the identification of specific delinquent receivables, and the analysis of aging schedules and historical trends adjusted for current market conditions.

F *Advances and Prepayments*

Advances are payments the Department has made to cover a part or all of a grant recipient's anticipated expenses, or are advance payments for the cost of goods and services to be acquired. For grant awards, the recipient is required to periodically (monthly or quarterly) report the amount of costs incurred. Prepayments are payments the Department has made to cover certain periodic expenses before those expenses are incurred, such as subscriptions and rent.

G *Loans Receivable and Related Foreclosed Property, Net*

A direct loan is recorded as a receivable after the Department disburses funds to a borrower. The Department also makes loan guarantees with respect to the payment of all or part of the principal or interest on debt obligations of non-federal borrowers to non-federal lenders. A borrower-defaulted loan guaranteed by the Department is recorded as a receivable from the borrower after the Department disburses funds to the lender.

Interest Receivable represents interest income earned on scheduled Loans Receivable and/or for the first 180 days outstanding on past-due loans. Interest Receivable pertaining to days in excess of 180 days outstanding on past-due loans that are determined to be uncollectible is not recorded in the Department's financial statements.

Foreclosed Property is acquired primarily through foreclosure and voluntary conveyance, and is recorded at the fair market value at the time of acquisition.

Direct Loans and Loan Guarantees Obligated before October 1, 1991 (pre-FY 1992): Loans Receivable are reduced by an Allowance for Loan Losses, which is based on an analysis of each loan's outstanding balance. The value of each receivable, net of any Allowance for Loan Losses, is supported by the values of pledged collateral and other assets available for liquidation, and by the Department's analysis of financial information of parties against whom the Department has recourse for the collection of these receivables.

The Economic Development Revolving Fund is required to make annual interest payments to Treasury after each fiscal year-end, based on its outstanding receivables at September 30.

Direct Loans and Loan Guarantees Obligated after September 30, 1991 (post-FY 1991): Post-FY 1991 obligated direct loans and loan guarantees and the resulting receivables are governed by the Federal Credit Reform Act of 1990.

For direct or guaranteed loans disbursed during a fiscal year, a subsidy cost is initially recognized. Subsidy costs are intended to estimate the long-term cost to the U.S. government of its loan programs. The subsidy cost equals the present value of estimated cash outflows over the lives of the loans, minus the present value of estimated cash inflows, discounted at the applicable Treasury interest rate. Administrative costs such as salaries are not included in the subsidy costs. Subsidy costs can arise from interest rate differentials, interest subsidies, delinquencies and defaults, loan origination and other fees, and other cash flows. The Department calculates its subsidy costs based on a model created and provided by OMB.

Loans Receivable are recorded at the present value of the estimated cash inflows less cash outflows. The difference between the outstanding principal of the loans and the present value of their net cash inflows is recorded as the Allowance for Subsidy Cost. The portion of the Allowance for Subsidy Cost related to subsidy modifications and reestimates is calculated annually, as of September 30.

The amount of any downward subsidy reestimates as of September 30 must be disbursed to Treasury in the subsequent fiscal year.

H *Notes Receivable*

Notes Receivable, included in Other Assets, arise through the NOAA sale of foreclosed property to non-federal parties. The property is used as collateral, and an Allowance for Uncollectible Amounts is established if the net realizable value of the collateral is less than the outstanding balance of the Notes Receivable. An analysis of the collectibility of receivables is performed periodically. Any gains realized through the sale of foreclosed property are initially deferred and recognized in proportion to the percentage of principal repaid.

I *Inventory, Materials, and Supplies, Net*

Inventory, Materials, and Supplies, Net are stated at the lower of cost or net realizable value primarily under the weighted-average and first-in, first-out methods, and are adjusted for the results of physical inventories. Inventory, Materials, and Supplies are expensed when consumed. There are no restrictions on their sale, use, or disposition.

J *General Property, Plant, and Equipment, Net*

General Property, Plant, and Equipment, Net (General PP&E) is composed of capital assets used in providing goods or services. General PP&E is stated at full cost, including all costs related to acquisition, delivery, and installation, less Accumulated Depreciation. General PP&E also includes assets acquired through capital leases, which are initially recorded at the amount recognized as a liability for the capital lease at its inception.

Capitalization Thresholds: The Department's general policy is to capitalize General PP&E if the initial acquisition price is \$25 thousand or more and the useful life is two years or more. NOAA is an exception to this policy, having a capitalization threshold of \$200 thousand. General PP&E with an acquisition cost less than the capitalization threshold is expensed when purchased. When the purchase of a large quantity of items, each costing less than the capitalization threshold, would materially distort the amount of costs reported in a given period, the purchase is capitalized as a group.

Depreciation: Depreciation is expensed on a straight-line basis over the estimated useful life of the asset with the exception of leasehold improvements, which are depreciated over the remaining life of the lease or over the useful life of the improvements, whichever is shorter. Land and Construction-in-Progress are not depreciated.

Real Property: The U.S. General Services Administration (GSA) provides most of the facilities in which the Department operates, and generally charges rent based on comparable commercial rental rates. Accordingly, GSA-owned properties are not included in the Department's General PP&E. The Department's real property primarily consists of facilities for NIST and NOAA. Land Improvements consist of a retaining wall to protect against shoreline erosion.

Construction-in-progress: Costs for the construction, modification, or modernization of General PP&E are initially recorded as Construction-in-progress. Upon completion of the work, the costs are transferred to the appropriate General PP&E account for capitalization.

K *Non-entity Assets*

Non-entity assets are assets held by the Department that are not available for use in its operations. The non-entity Fund Balance with Treasury primarily represents customer deposits held by the Department until customer orders are received. Non-entity Loans Receivable and Related Foreclosed Property, Net represents EDA's Drought Loan Portfolio. The Portfolio collections are submitted to Treasury monthly.

L *Liabilities*

A liability for federal accounting purposes is a probable and measurable future outflow or other sacrifice of resources as a result of past transactions or events.

Accounts Payable: Accounts Payable are amounts primarily owed for goods, services, or capitalized assets received, progress on contract performance by others, and other expenses due.

Debt to Treasury: The Department has borrowed funds from Treasury for its Fisheries Finance Traditional, Tuna Fleet, and Individual Fishing Quota (IFQ) Direct Loans, Fishing Vessel Obligation Guarantee (FVOG) Program, Bering Sea Pollock Fishery Buyout, Pacific Ground Fish Buyback Loans, and Emergency Steel Loan Guarantee Program (ELGP-Steel). To simplify interest calculations, all borrowings are dated October 1. Interest rates are based on a weighted average of rates during the term of the borrowed funds. The weighted average rate for each cohort's borrowing is recalculated at the end of each fiscal year during which disbursements are made. Annual interest payments on unpaid principal balances as of September 30 are required. Principal repayments are required only at maturity, but are permitted at any time during the term of the loan. The Department's primary financing source for repayments of Debt to Treasury is the collection of principal on the associated Loans Receivable. Balances of any borrowed but undisbursed funds will earn interest at the same rate used in calculating interest expense.

Resources Payable to Treasury: Resources Payable to Treasury includes liquidating fund assets in excess of liabilities that are being held as working capital for the Economic Development Revolving Fund loan programs and the FVOG loan guarantee program. EDA's Drought Loan Portfolio is a non-entity asset; therefore, the amount of the Portfolio is also recorded as a liability to Treasury. The Portfolio collections are returned to Treasury monthly, and the liability is reduced accordingly.

Unearned Revenue: Unearned Revenue is the portion of monies received for which goods and services have not yet been provided or rendered by the Department. Revenue is recognized as reimbursable costs are incurred, and the Unearned Revenue balance is reduced accordingly. Unearned Revenue also includes the balances of customer deposit accounts held by the Department. The intragovernmental Unearned Revenue primarily relates to monies collected in advance under reimbursable agreements. The majority of the Unearned Revenue with the public represents patent and trademark application and user fees that are pending action.

Accrued Payroll and Annual Leave; Accrued Benefits: These categories include salaries, wages, and benefits earned by employees, but not disbursed as of September 30. Annually, as of September 30, the balances of Accrued Annual Leave are adjusted to reflect current pay rates. Sick leave and other types of non-vested leave are expensed as taken. Accrued Benefits are included in Intragovernmental Other Liabilities.

Accrued FECA Liability: The Federal Employees Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, to employees who have incurred work-related occupational diseases, and to beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the U.S. Department of Labor (DOL), which pays valid claims against the Department and subsequently seeks reimbursement from the Department for these paid claims. Accrued FECA Liability, included in Intragovernmental Other Liabilities, represents amounts due to DOL for claims paid on behalf of the Department.

NOAA Corps Employee Retirement Benefits: These liabilities are recorded at the actuarial present value of projected benefits, calculated annually, as of September 30. The actuarial cost method used to determine these liabilities is the aggregate entry age normal method. Under this method, the actuarial present value of projected benefits is allocated on a level basis over the earnings or the service of the group between entry age and assumed exit ages. The portion of this actuarial present value allocated to the valuation year is called the normal cost. Actuarial gains and losses, and prior and past service costs, if any, are recognized immediately in the year they occur, without amortization. The actuarial calculations use U.S. Department of Defense Retirement Board economic assumptions (as used by the U.S. Military Retirement System) for investment earnings on federal securities, annual basic pay increases, and annual inflation. Demographic assumptions appropriate to covered personnel are also used. For background information about these plans, see Note 1.P, *Employee Retirement Benefits*.

Actuarial FECA Liability: Actuarial FECA Liability represents the liability for future workers' compensation (FWC) benefits, which includes the expected liability for death, disability, medical, and miscellaneous costs for approved cases. The liability is determined by DOL annually, as of September 30, using a method that utilizes historical benefits payment patterns related to a specific incurred period to predict the ultimate payments related to that period. The projected annual benefit payments are discounted to present value using OMB's economic assumptions for ten-year Treasury notes and bonds. To provide more specifically for the effects of inflation on the liability for FWC benefits, wage inflation factors (Cost of Living Allowance) and medical inflation factors (Consumer Price Index - Medical) are applied to the calculation of projected future benefits. These factors are also used to adjust historical payments of benefits by the Department to current-year constant dollars.

The model's resulting projections are analyzed by DOL to ensure that the amounts are reliable. The analysis is based on two tests: 1) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual payments; and 2) a comparison of the ratio of the estimated liability to the actual payment of the beginning year calculated for the current projection to the liability-payment ratio calculated for the prior projection.

Accrued Grants: The Department administers a diverse array of financial assistance programs and projects concerned with the entire spectrum of business and economic development efforts that promote activities such as expanding U.S. exports, creating jobs, contributing to economic growth, developing innovative technologies, promoting minority entrepreneurship, protecting coastal oceans, providing weather services, managing worldwide environmental data, and using telecommunications and information technologies to better provide public services. Disbursements of funds under the Department's grant programs

are generally made when requested by grantees. These drawdown requests may be received and fulfilled before grantees make the program expenditures. When the Department has disbursed funds but the grant recipient has not yet reported expenditures, these disbursements are recorded as advances. If a recipient, however, reports program expenditures that have not been advanced by the Department by September 30, such amounts are recorded as grant expenses and grants payable as of September 30.

Environmental and Disposal Liabilities: NIST operates a nuclear reactor licensed by the U.S. Nuclear Regulatory Commission, in accordance with NIST's mission of setting standards and examining new technologies. The Department currently estimates the cost of decommissioning this facility to be \$57.1 million. The environmental liability is being accrued on a straight-line basis over the expected life of the facility. Under current legislation, funds to cover the expense of decommissioning the facility's nuclear reactor should be requested in a separate appropriation when the decommissioning date becomes relatively certain.

The Department has incurred cleanup costs related to the costs of removing, containing, and/or disposing of hazardous waste from facilities used by NOAA. The Department has estimated its liabilities for environmental cleanup costs at all NOAA-used facilities, including the decommissioning of ships. The largest of NOAA's environmental liabilities relates to the clean-up of the Pribilof Island in Alaska, which contains waste from the U.S. Department of Defense's use during World War II. The Department, however, does not recognize a liability for environmental cleanup costs for NOAA-used facilities that are less than \$25 thousand per project. Where an estimate of cleanup costs includes a range of possible costs, the most likely cost is reported. Where no cost is more likely than another, the lowest estimated cost in the range is reported. The liability is reduced as progress payments are made.

The Department may have liabilities associated with asbestos-containing materials (ACM) and lead-based paints (LBP) at certain NOAA facilities. The Department has scheduled surveys to assess the potential for liabilities for ACM and LBP contamination. All known issues, however, are contained, and NOAA facilities meet current environmental standards. No cost estimates are presently available for facilities that have not yet been assessed for ACM or LBP issues.

Capital Lease Liabilities: Capital leases are leases for property, plant, and equipment that transfer substantially all the benefits and risks of ownership to the Department.

ITA Foreign Service Nationals' Voluntary Separation Pay: This liability, included in Other Liabilities, is based on the salaries and benefit statuses of employees in countries where governing laws require a provision for separation pay.

Liabilities Not Covered by Budgetary Resources: These are liabilities for which congressional actions are needed before budgetary resources can be provided. The Department anticipates that liabilities not covered by budgetary resources will be funded from future budgetary resources when required. These amounts are detailed in Note 15.

Under accrual accounting, the expense for annual leave is recognized when the leave is earned. However, for most of the Department's fund accounts, appropriations are provided to pay for the leave when it is taken. As a result, budgetary resources do not cover a large portion of Accrued Annual Leave.

The Department generally receives budgetary resources for the Actuarial FECA Liability and NOAA Corps Employee Retirement Benefits Liabilities when they are needed for disbursements.

Contingent Liabilities: A contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. A contingent liability and an expense are recognized when a past event has occurred, and a future outflow or other sacrifice of resources is measurable and probable. A contingency is disclosed in the Notes to the Financial Statements if any of the

conditions for liability recognition are not met and there is at least a reasonable possibility that a loss or an additional loss may have been incurred. A contingency is not recognized as a contingent liability and an expense nor disclosed in the Notes to the Financial Statements when the chance of the future event or events occurring is remote.

M *Commitments*

Commitments are preliminary actions that will ultimately result in an obligation to the U.S. government if carried through, such as purchase requisitions, estimated travel orders, or unsigned contracts/grants. Major long-term commitments are disclosed in Note 16.

N *Net Position*

Net Position is the residual difference between assets and liabilities, and is composed of Unexpended Appropriations and Cumulative Results of Operations.

Unexpended Appropriations represent the total amount of unexpended budget authority, both obligated and unobligated. Unexpended Appropriations are reduced for Appropriations Used and adjusted for other changes in budgetary resources, such as transfers and rescissions. Cumulative Results of Operations is the net result of the Department's operations since inception.

O *Revenues and Other Financing Sources*

Appropriations Used: Most of the Department's operating funds are provided by congressional appropriations of budget authority. The Department receives appropriations on annual, multiple-year, and no-year bases. Upon expiration of an annual or multiple-year appropriation, the obligated and unobligated balances retain their fiscal year identity, and are maintained separately within an expired account. The unobligated balances can be used to make legitimate obligation adjustments, but are otherwise not available for expenditures. Annual and multiple-year appropriations are canceled at the end of the fifth year after expiration. No-year appropriations do not expire. Appropriations of budget authority are recognized as used when costs are incurred, for example, when goods and services are received or benefits and grants are provided.

Exchange and Non-exchange Revenue: The Department classifies revenue as either exchange revenue or non-exchange revenue. Exchange revenue is derived from transactions in which both the government and the other party receive value, including processing patents and registering trademarks, the sale of weather data, nautical charts, and navigation information, and other sales of goods and services. This revenue is presented on the Department's *Consolidated Statements of Net Cost*, and serves to reduce the reported cost of operations borne by the taxpayer. Non-exchange revenue is derived from the government's sovereign right to demand payment, including fines for violations of fisheries and marine protection laws. Non-exchange revenue is recognized when a specifically identifiable, legally enforceable claim to resources arises, and to the extent that collection is probable and the amount is reasonably estimable. This revenue is not considered to reduce the cost of the Department's operations, and, is, therefore, reported on the *Consolidated Statements of Changes in Net Position*.

In certain cases, law or regulation sets the prices charged by the Department, and, for program and other reasons, the Department may not receive full cost (e.g., the processing of patents and registering of trademarks, and the sale of weather data, nautical charts, and navigation information). Prices set for products and services offered through the Department's working capital funds are intended to recover the full costs incurred by these activities.

Imputed Financing Sources From Costs Absorbed by Others (and Related Imputed Costs): In certain cases, operating costs of the Department are paid for by funds appropriated to other federal entities. For example, pension benefits for most Department employees are paid for by the U.S. Office of Personnel Management (OPM), and certain legal judgments against the Department are paid from the Judgment Fund maintained by Treasury. OMB limits Imputed Costs to be recognized by federal entities to the following: (1) employees' pension benefits; (2) health insurance, life insurance, and other benefits for retired employees; (3) other post-employment benefits for retired, terminated, and inactive employees, including severance payments, training and counseling, continued health care, and unemployment and workers' compensation under FECA; and (4) losses in litigation proceedings. The Department includes applicable Imputed Costs on the *Consolidated Statements of Net Cost*. In addition, an Imputed Financing Source From Costs Absorbed by Others is recognized on the *Consolidated Statements of Changes in Net Position*.

Transfers In/(Out): Intragovernmental transfers of budget authority (i.e., appropriated funds) or of assets without reimbursement are recorded at book value.

P *Employee Retirement Benefits*

Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS): Most employees of the Department participate in either the CSRS or FERS defined-benefit pension plans. FERS went into effect on January 1, 1987. FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired prior to January 1, 1984 could elect to either join FERS and Social Security, or remain in CSRS.

The Department is not responsible for and does not report CSRS or FERS assets, accumulated plan benefits, or liabilities applicable to its employees. OPM, which administers the plans, is responsible for and reports these amounts.

For CSRS-covered regular employees, the Department was required to make contributions to the plan equal to 7 percent of an employee's basic pay. Employees contributed 7 percent of basic pay. For each fiscal year, OPM calculates the U.S. government's service cost for covered employees, which is an estimate of the amount of funds, that, if accumulated annually and invested over an employee's career, would be enough to pay that employee's future benefits. Since the U.S. government's estimated service cost exceeds contributions made by employer agencies and covered employees, this plan is not fully funded by the Department and its employees. The Department has recognized an Imputed Cost and Imputed Financing Source From Costs Absorbed by Others for the difference between the estimated service cost and the contributions made by the Department and its covered employees.

FERS contributions made by employer agencies and covered employees exceed the U.S. government's estimated service cost. For FERS-covered regular employees, the Department was required to make contributions of 10.7 percent of basic pay. Employees contributed 0.8 percent of basic pay. Employees participating in FERS are covered under the Federal Insurance Contributions Act (FICA), for which the Department contributes a matching amount to the Social Security Administration. For FY 2004 and FY 2003, this plan was not fully funded by the Department and its employees. The Department has recognized an Imputed Cost and Imputed Financing Source From Costs Absorbed by Others for the difference between the estimated service cost and the contributions made by the Department and its covered employees.

NOAA Corps Retirement System: Active-duty officers of the NOAA Corps are covered by the NOAA Corps Retirement System, an unfunded, pay-as-you-go, defined-benefit plan administered by the Department. Participants do not contribute to this plan. Plan benefits are based primarily on years of service and compensation. Participants, as of September 30, 2004, included 263 active duty officers, 300 nondisability retiree annuitants, 21 disability retiree annuitants, and 47 surviving families. Key provisions include voluntary nondisability retirement after 20 years of active service, disability retirement, optional survivor benefits, Consumer Price Index (CPI) optional survivor benefits, and CPI adjustments for benefits.

Foreign Service Retirement and Disability System, and the Foreign Service Pension System: Foreign Commercial Officers are covered by the Foreign Service Retirement and Disability System and the Foreign Service Pension System. The ITA makes contributions to the systems based on a percentage of an employee's pay. Both systems are multi-employer plans administered by the U.S. Department of State. The Department is not responsible for and does not report plan assets, accumulated plan benefits, or liabilities applicable to its employees. The U.S. Department of State, which administers the plan, is responsible for and reports these amounts.

Thrift Savings Plan (TSP): Employees covered by CSRS and FERS are eligible to contribute to the U.S. government's TSP, administered by the Federal Retirement Thrift Investment Board. A TSP account is automatically established for FERS-covered employees, and the Department makes a mandatory contribution of 1 percent of basic pay. FERS-covered employees are entitled, effective December 2003, to contribute up to 14 percent of basic pay to their TSP account, subject to the Internal Revenue Service (IRS) dollar amount limits, with the Department making matching contributions up to 4 percent of basic pay. Employees covered by CSRS are entitled to contribute up to 9 percent of basic pay to their TSP account, subject to the IRS dollar amount limits. The Department makes no matching contributions for CSRS-covered employees. Effective July 2003, TSP participants age 50 or older who are already contributing the maximum amount of contributions for which they are eligible may also make catch-up contributions, subject to the IRS dollar amount limits.

Federal Employees Health Benefit (FEHB) Program: Most Departmental employees are enrolled in the FEHB Program, which provides post-retirement health benefits. OPM administers this program and is responsible for the reporting of liabilities. Employer agencies and covered employees are not required to make any contributions for post-retirement health benefits. OPM calculates the U.S. government's service cost for covered employees each fiscal year. The Department has recognized the entire service cost of these post-retirement benefits for covered employees as an Imputed Cost and an Imputed Financing Source From Costs Absorbed by Others.

NOAA Corps Post-retirement Health Benefits: Active-duty officers of the NOAA Corps are covered by the health benefits program for the NOAA Corps, which provides post-retirement health benefits. This is a pay-as-you-go plan administered by the Department. Participants do not make any contributions to this plan.

Federal Employees Group Life Insurance (FGLI) Program: Most Department employees are entitled to participate in the FGLI Program. Participating employees can obtain basic term life insurance, with the employee paying two-thirds of the cost and the Department paying one-third. Additional coverage is optional, to be paid fully by the employee. The basic life coverage may be continued into retirement if certain requirements are met. OPM administers this program and is responsible for the reporting of liabilities. For each fiscal year, OPM calculates the U.S. government's service cost for the post-retirement portion of basic life coverage. Because the Department's contributions to the basic life coverage are fully allocated by OPM to the pre-retirement portion of coverage, the Department has recognized the entire service cost of the post-retirement portion of basic life coverage as an Imputed Cost and an Imputed Financing Source From Costs Absorbed by Others.

Q Use of Estimates

The preparation of financial statements requires the Department to make estimates and assumptions that affect these financial statements. Actual results may differ from those estimates.

R Tax Status

The Department is not subject to federal, state, or local income taxes. Accordingly, no provision for income taxes is recorded.

NOTE 2. Fund Balance with Treasury

Fund Balance with Treasury, by type, is as follows:

	<u>FY 2004</u>	<u>FY 2003</u>
General Funds	\$ 5,696,123	\$ 5,631,787
Revolving Funds	582,275	506,715
Special Fund (Patent and Trademark Surcharge Fund)	233,529	233,529
Other Special Funds	45,443	48,192
Deposit Funds	87,589	79,897
Trust Funds	1,267	1,524
Other Fund Types	6,501	1,288
Total	<u><u>\$ 6,652,727</u></u>	<u><u>\$ 6,502,932</u></u>

Status of Fund Balance with Treasury is as follows:

	<u>FY 2004</u>	<u>FY 2003</u>
Unobligated Balance:		
Available	\$ 639,053	\$ 877,006
Unavailable	1,023,742	806,498
Obligated Balance Not Yet Disbursed	4,989,932	4,819,428
Total	<u><u>\$ 6,652,727</u></u>	<u><u>\$ 6,502,932</u></u>

The Department's Deposit Funds are not available to finance operating activities. See Note 19, *Combined Statements of Budgetary Resources*, for legal arrangements affecting the Department's use of Fund Balance with Treasury for FY 2004.

NOTE 3. Accounts Receivable, Net

FY2004			
	Accounts Receivable, Gross	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental	<u>\$ 84,028</u>	<u>\$ -</u>	<u>\$ 84,028</u>
With the Public	<u>\$ 73,445</u>	<u>\$ (13,544)</u>	<u>\$ 59,901</u>
	<u><u>\$ 157,473</u></u>	<u><u>\$ (13,544)</u></u>	<u><u>\$ 143,929</u></u>
FY2003			
	Accounts Receivable, Gross	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental	<u>\$ 80,860</u>	<u>\$ -</u>	<u>\$ 80,860</u>
With the Public	<u>\$ 73,582</u>	<u>\$ (16,028)</u>	<u>\$ 57,554</u>
	<u><u>\$ 154,442</u></u>	<u><u>\$ (16,028)</u></u>	<u><u>\$ 138,414</u></u>

NOTE 4. Cash

	FY 2004	FY 2003
Cash Not Yet Deposited to Treasury	\$ 12,547	\$ 12,320
Imprest Funds	383	403
Other Cash	764	1,451
Total	<u>\$ 13,694</u>	<u>\$ 14,174</u>

Cash Not Yet Deposited to Treasury primarily represents patent and trademark fees that were not processed as of September 30, due to the lag time between receipt and initial review. Certain bureaus maintain imprest funds for operational necessity, such as law enforcement activities, and for environments that do not permit the use of electronic payments. Other Cash represents monies held in a trust account obtained through the foreclosure of a NOAA direct loan.

NOTE 5. Loans Receivable and Related Foreclosed Property, Net

The Department operates the following direct loan and loan guarantee programs:

Direct Loan Programs:

EDA	Drought Loan Portfolio
EDA	Economic Development Revolving Fund
NOAA	Bering Sea Pollock Fishery Buyout
NOAA	Coastal Energy Impact Program (CEIP)
NOAA	Community Development Loans ¹
NOAA	Crab Buyback Loans ¹
NOAA	Fisheries Finance Individual Fishing Quota (IFQ) Loans
NOAA	Fisheries Finance Traditional Loans
NOAA	Fisheries Finance Tuna Fleet Loans
NOAA	Fisheries Loan Fund
NOAA	New England Groundfish Buyback Loans ¹
NOAA	Pacific Groundfish Buyback Loans

¹ No loans have been issued under these programs as of September 30, 2004

Loan Guarantee Programs:

EDA	Economic Development Revolving Fund
ELGP-Oil/Gas	Emergency Oil and Gas Loan Guarantee Program
ELGP-Steel	Emergency Steel Loan Guarantee Program
NOAA	Fishing Vessel Obligation Guarantee Program (FVOG Program)

The net assets for the Department's loan programs consist of:

	FY 2004	FY 2003
Direct Loans Obligated Prior to FY 1992	\$ 52,913	\$ 64,727
Direct Loans Obligated After FY 1991	227,758	166,137
Defaulted Guaranteed Loans from Pre-FY 1992 Guarantees	3,295	8,033
Defaulted Guaranteed Loans from Post-FY 1991 Guarantees	33,172	33,778
Total	<u>\$ 317,138</u>	<u>\$ 272,675</u>

*Direct Loans Obligated Prior to FY 1992 consist of:***FY 2004**

Direct Loan Program	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Direct Loans
CEIP	\$ 22,392	\$ 7,748	\$ (20,268)	\$ 9,872
Drought Loan Portfolio	28,655	463	(291)	28,827
Economic Development Revolving Fund	14,305	153	(244)	14,214
Fisheries Loan Fund	1,881	138	(2,019)	-
Total	\$ 67,233	\$ 8,502	\$ (22,822)	\$ 52,913

FY 2003

Direct Loan Program	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Direct Loans
CEIP	\$ 24,199	\$ 7,474	\$ (20,347)	\$ 11,326
Drought Loan Portfolio	36,317	514	(368)	36,463
Economic Development Revolving Fund	16,956	173	(191)	16,938
Fisheries Loan Fund	1,906	138	(2,044)	-
Total	\$ 79,378	\$ 8,299	\$ (22,950)	\$ 64,727

Direct Loans Obligated After FY 1991 consist of:

FY 2004				
Direct Loan Program	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
Bering Sea Pollock Fishery Buyout	\$ 66,137	\$ 56	\$ 7,915	\$ 74,108
Fisheries Finance IFQ Loans	15,679	155	2,420	18,254
Fisheries Finance Traditional Loans	64,535	589	8,288	73,412
Fisheries Finance Tuna Fleet Loans	23,833	191	3,507	27,531
Pacific Groundfish Buyback Loans	35,663	1,252	(2,462)	34,453
Total	\$ 205,847	\$ 2,243	\$ 19,668	\$ 227,758

FY 2003				
Direct Loan Program	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
Bering Sea Pollock Fishery Buyout	\$ 68,385	\$ 13	\$ 10,648	\$ 79,046
Fisheries Finance IFQ Loans	14,196	139	2,773	17,108
Fisheries Finance Traditional Loans	62,410	884	6,689	69,983
Total	\$ 144,991	\$ 1,036	\$ 20,110	\$ 166,137

New Disbursements of Direct Loans (Post-FY 1991):

Direct Loan Program	FY 2004	FY 2003
Fisheries Finance IFQ Loans	\$ 3,290	\$ 2,752
Fisheries Finance Traditional Loans	21,150	19,294
Fisheries Finance Tuna Fleet Loans	38,301	-
Pacific Groundfish Buyback Loans	35,663	-
Total	\$ 98,404	\$ 22,046

*Subsidy Expense for Direct Loans by Program and Component:***Subsidy Expense for New Disbursements of Direct Loans:****FY 2004**

Direct Loan Program	Interest Rate Differential	Defaults	Fees and Other Collections	Other	Total
Fisheries Finance IFQ Loans	\$ (588)	\$ 92	\$ (31)	\$ 110	\$ (417)
Fisheries Finance Traditional Loans	(3,115)	309	(71)	581	(2,296)
Fisheries Finance Tuna Fleet Loans	(5,266)	202	(27)	537	(4,554)
Pacific Groundfish Buyback Loans	(11,373)	11,758	-	-	385
Total	\$ (20,342)	\$ 12,361	\$ (129)	\$ 1,228	\$ (6,882)

FY 2003

Direct Loan Program	Interest Rate Differential	Defaults	Fees and Other Collections	Other	Total
Fisheries Finance IFQ Loans	\$ (397)	\$ 300	\$ (42)	\$ 38	\$ (101)
Fisheries Finance Traditional Loans	(3,187)	799	(88)	41	(2,435)
Total	\$ (3,584)	\$ 1,099	\$ (130)	\$ 79	\$ (2,536)

Modifications and Reestimates:**FY 2004**

Direct Loan Program	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Bering Sea Pollock Fishery Buyout	\$ -	\$ -	\$ 954	\$ 954
Fisheries Finance IFQ Loans	-	(93)	267	174
Fisheries Finance Traditional Loans	-	(984)	(682)	(1,666)
Fisheries Finance Tuna Fleet Loans	-	(2,386)	2,172	(214)
Pacific Groundfish Buyback Loans	-	(2,578)	4,395	1,817
Total	\$ -	\$ (6,041)	\$ 7,106	\$ 1,065

FY 2003

Direct Loan Program	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Bering Sea Pollock Fishery Buyout	\$ -	\$ -	\$ (991)	\$ (991)
Fisheries Finance IFQ Loans	-	(20)	93	73
Fisheries Finance Traditional Loans	-	(82)	(452)	(534)
Total	\$ -	\$ (102)	\$ (1,350)	\$ (1,452)

Total Direct Loan Subsidy Expense:

Direct Loan Program	FY 2004	FY 2003
Bering Sea Pollock Fishery Buyout	\$ 954	\$ (991)
Fisheries Finance IFQ Loans	(243)	(28)
Fisheries Finance Traditional Loans	(3,962)	(2,969)
Fisheries Finance Tuna Fleet Loans	(4,768)	-
Pacific Groundfish Buyback Loans	2,202	-
Total	\$ (5,817)	\$ (3,988)

Subsidy Rates for Direct Loans by Program and Component:

Budget Subsidy Rates for Direct Loans for the Current Fiscal-year's Cohorts:

FY 2004					
Direct Loan Program	Interest Rate Differential	Defaults	Fees and Other Collections	Other	Total
Fisheries Finance IFQ Loans	(20.10)%	1.52%	(0.67)%	3.31%	(15.94)%
Fisheries Finance Traditional Loans	(14.57)%	1.62%	(0.71)%	8.17%	(5.49)%

FY 2003					
Direct Loan Program	Interest Rate Differential	Defaults	Fees and Other Collections	Other	Total
Fisheries Finance IFQ Loans	(17.31)%	2.21%	(0.80)%	3.87%	(12.03)%
Fisheries Finance Traditional Loans	(13.75)%	0.53%	(0.07)%	1.40%	(11.89)%
New England Groundfish Buyback Loans	(31.89)%	31.52%	-%	-%	(0.37)%
Pacific Groundfish Buyback Loans	(31.89)%	32.97%	-%	-%	1.08%

The budget subsidy rates disclosed pertain only to the reporting period's cohorts. These rates cannot be applied to the new disbursements of direct loans during the reporting period to yield the subsidy expense. The subsidy expense for new disbursements of direct loans for the reporting period could result from disbursements of loans from both the reporting period's cohorts and prior fiscal-year(s) cohorts. The subsidy expense for the reporting period may also include modifications and reestimates.

Schedule for Reconciling Allowance for Subsidy Cost (Post-FY 1991 Direct Loans):

	FY 2004	FY 2003
Beginning Balance of the Allowance for Subsidy Cost	\$ 20,110	\$ 19,974
Add Subsidy Expense for Direct Loans Disbursed During the Reporting Years by Component:		
Interest Rate Differential Costs	20,342	3,584
Default Costs (Net of Recoveries)	(12,361)	(1,099)
Fees and Other Collections	129	130
Other Subsidy Costs	(1,228)	(79)
Total of the above Subsidy Expense Components	6,882	2,536
Adjustments:		
Fees Received	(330)	(170)
Subsidy Allowance Amortization	(3,750)	(3,682)
Other	(2,179)	-
Ending Balance of the Allowance for Subsidy Cost Before Reestimates	20,733	18,658
Add or Subtract Subsidy Reestimates by Component:		
Interest Rate Reestimates	6,041	102
Technical/Default Reestimates	(7,106)	1,350
Total of the above Reestimate Components	(1,065)	1,452
Ending Balance of the Allowance for Subsidy Cost	<u>\$ 19,668</u>	<u>\$ 20,110</u>

*Defaulted Guaranteed Loans from Pre-FY 1992 Guarantees:***FY 2004**

Loan Guarantee Program	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Loan Losses	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
FVOG Program	\$ 19,650	\$ -	\$ 376	\$ (16,731)	\$ 3,295

FY 2003

Loan Guarantee Program	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Loan Losses	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
Economic Development Revolving Fund	\$ 4,641	\$ 263	\$ -	\$ (904)	\$ 4,000
FVOG Program	19,769	15	55	(15,806)	4,033
Total	<u>\$ 24,410</u>	<u>\$ 278</u>	<u>\$ 55</u>	<u>\$ (16,710)</u>	<u>\$ 8,033</u>

Defaulted Guaranteed Loans from Post-FY 1991 Guarantees:

FY 2004					
Loan Guarantee Program	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
Emergency Steel Loan Guarantee Program	\$ 92,097	\$ -	\$ -	\$ (67,017)	\$ 25,080
FVOG Program	12,608	1,262	2,949	(8,727)	8,092
Total	\$ 104,705	\$ 1,262	\$ 2,949	\$ (75,744)	\$ 33,172

FY 2003					
Loan Guarantee Program	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
Emergency Steel Loan Guarantee Program	\$ 92,097	\$ -	\$ -	\$ (67,146)	\$ 24,951
FVOG Program	12,695	-	2,926	(6,794)	8,827
Total	\$ 104,792	\$ -	\$ 2,926	\$ (73,940)	\$ 33,778

Loan Guarantees:

Guaranteed Loans Outstanding:

Outstanding non-acquired guaranteed disbursed loans as of September 30, 2004 and 2003, which are not reflected in the financial statements, are as follows:

Loan Guarantee Program	FY 2004		FY 2003	
	Outstanding Principal of Guaranteed Loans Disbursed, Face Value	Amount of Outstanding Principal Guaranteed	Outstanding Principal of Guaranteed Loans Disbursed, Face Value	Amount of Outstanding Principal Guaranteed
Economic Development Revolving Fund	\$ -	\$ -	\$ 400	\$ 400
Emergency Oil and Gas Loan Guarantee Program	1,248	1,061	1,810	1,538
Emergency Steel Loan Guarantee Program	246,074	215,927	167,402	146,627
FVOG Program	45,202	45,202	56,614	56,614
Total	\$ 292,524	\$ 262,190	\$ 226,226	\$ 205,179

New Disbursements of Loan Guarantees, by year:

Loan Guarantee Program	FY 2004		FY 2003	
	Outstanding Principal of Guaranteed Loans Disbursed, Face Value	Amount of Outstanding Principal Guaranteed	Outstanding Principal of Guaranteed Loans Disbursed, Face Value	Amount of Outstanding Principal Guaranteed
Emergency Steel Loan Guarantee Program	\$ 80,964	\$ 71,248	\$ 144,501	\$ 127,160

Liabilities for Loan Guarantees:

Loan Guarantee Program	FY 2004	FY 2003
	Liabilities for Loan Guarantees for Post-FY 1991 Guarantees Disbursed, Present Value	Liabilities for Loan Guarantees for Post-FY 1991 Guarantees Disbursed, Present Value
Emergency Oil and Gas Loan Guarantee Program	\$ 605	\$ 1,273
Emergency Steel Loan Guarantee Program	70,069	46,923
FVOG Program	2,971	2,872
Total	\$ 73,645	\$ 51,068

Subsidy Expense for Loan Guarantees by Program and Component:

Subsidy Expense for New Disbursements of Loan Guarantees:

FY 2004

Loan Guarantee Program	Interest Supplements	Defaults	Fees and Other Collections	Total
Emergency Steel Loan Guarantee Program	\$ -	\$ 22,824	\$ (405)	\$ 22,419

FY 2003

Loan Guarantee Program	Interest Supplements	Defaults	Fees and Other Collections	Total
Emergency Steel Loan Guarantee Program	\$ -	\$ 41,262	\$ (1,250)	\$ 40,012

Modifications and Reestimates:

FY 2004

Loan Guarantee Program	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Emergency Oil and Gas Loan Guarantee Program	\$ -	\$ -	\$ (724)	\$ (724)
Emergency Steel Loan Guarantee Program	-	676	1,069	1,745
Total	\$ -	\$ 676	\$ 345	\$ 1,021

FY 2003

Loan Guarantee Program	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Emergency Oil and Gas Loan Guarantee Program	\$ -	\$ -	\$ (153)	\$ (153)
Emergency Steel Loan Guarantee Program	-	-	124	124
FVOG Program	-	-	376	376
Total	\$ -	\$ -	\$ 347	\$ 347

Total Loan Guarantee Subsidy Expense:

Loan Guarantee Program	FY 2004	FY 2003
Emergency Oil and Gas Loan Guarantee Program	\$ (724)	\$ (153)
Emergency Steel Loan Guarantee Program	24,164	40,136
FVOG Program	-	376
Total	\$ 23,440	\$ 40,359

Subsidy Rates for Loan Guarantees by Program and Component:

Budget Subsidy Rates for Loan Guarantees for the Current Fiscal-year's Cohorts:

FY 2004

There were no new cohorts of guaranteed loans during FY 2004.

FY 2003

Loan Guarantee Program	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
Emergency Oil and Gas Loan Guarantee Program	- %	- %	- %	- %	- %
Emergency Steel Loan Guarantee Program	- %	28.19 %	(0.50) %	- %	27.69 %

The budget subsidy rates disclosed pertain only to the reporting period's cohorts. These rates cannot be applied to the new disbursements of loan guarantees during the reporting period to yield the subsidy expense. The subsidy expense for new disbursements of loan guarantees for the reporting period could result from disbursements of loans from both the reporting period's cohorts and prior fiscal-year(s) cohorts. The subsidy expense for the reporting period may also include modifications and reestimates.

Schedule for Reconciling Liabilities for Loan Guarantees (Post-FY 1991 Loan Guarantees):

	FY 2004	FY 2003
Beginning Balance of the Liabilities for Loan Guarantees	\$ 51,068	\$ 22,346
Add Subsidy Expense for Guaranteed Loans Disbursed During the Reporting Years by Component:		
Default Costs (Net of Recoveries)	22,824	41,262
Fees and Other Collections	(405)	(1,250)
Total of the above Subsidy Expense Components	22,419	40,012
Adjustments:		
Fees Received	220	1,545
Interest Accumulation on the Liabilities Balance	(28)	690
Other	(1,055)	-
Ending Balance of the Liabilities for Loan Guarantees Before Reestimates	72,624	64,593
Add or Subtract Subsidy Reestimates by Component:		
Interest Rate Reestimates	676	-
Technical/Default Reestimates	345	(127)
Total of the above Reestimate Components	1,021	(127)
Transfer of Subsidy Cost for Defaulted Guaranteed Loans to Loans Receivable and Related Foreclosed Property, Net	-	(13,398)
Ending Balance of the Liabilities for Loan Guarantees	\$ 73,645	\$ 51,068

Administrative Expenses:

Administrative expenses in support of the Department's direct loan and loan guarantee programs consist of:

<u>Direct Loan Program</u>	FY 2004	FY 2003
Drought Loan Portfolio and Economic Development Revolving Fund	\$ 1,708	\$ 1,004
NOAA Direct Loan Programs	3,251	2,746
Total	<u>\$ 4,959</u>	<u>\$ 3,750</u>
<u>Loan Guarantee Program</u>	FY 2004	FY 2003
Emergency Oil and Gas Loan Guarantee Program	\$ 15	\$ 363
Emergency Steel Loan Guarantee Program	598	1,003
FVOG Program	462	374
Total	<u>\$ 1,075</u>	<u>\$ 1,740</u>

NOTE 6. Inventory, Materials, and Supplies, Net

Category	Cost Flow Assumption	FY 2004	FY 2003
Inventory			
Items Held for Current Sale			
NIST Standard Reference Materials	First-in, first-out	\$ 23,028	\$ 22,404
Other	Various	1,740	1,921
Allowance for Excess, Obsolete, and Unserviceable Items		(318)	(402)
Total Inventory, Net		24,450	23,923
Materials and Supplies			
Items Held for Use			
NOAA's National Logistics Support Center	Weighted-average	\$ 49,894	\$ 49,069
NOAA's National Reconditioning Center	Weighted-average	39,804	40,185
Other	Various	2,423	2,206
Allowance for Excess, Obsolete, and Unserviceable Items		(17,056)	(14,007)
Total Materials and Supplies, Net		75,065	77,453
Total		\$ 99,515	\$ 101,376

NIST's Standard Reference Materials Program provides reference materials for quality assurance of measurements, while NOAA's Materials and Supplies are primarily repair parts for weather forecasting equipment.

NOTE 7. General Property, Plant, and Equipment, Net**FY 2004**

Category	Useful Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Land	N/A	\$ 13,289	\$ -	\$ 13,289
Land Improvements	30	2,996	(735)	2,261
Structures, Facilities, and Leasehold Improvements	2-60	899,724	(294,078)	605,646
Satellites/Weather Systems Personal Property	3-20	3,782,429	(3,018,887)	763,542
Other Personal Property	3-30	1,380,371	(827,425)	552,946
Assets Under Capital Lease	3-40	61,806	(42,651)	19,155
Construction-in-progress	N/A	2,696,043	-	2,696,043
Total		<u>\$ 8,836,658</u>	<u>\$ (4,183,776)</u>	<u>\$ 4,652,882</u>

FY 2003

Category	Useful Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Land	N/A	\$ 12,897	\$ -	\$ 12,897
Land Improvements	30	2,066	(620)	1,446
Structures, Facilities, and Leasehold Improvements	2-60	636,228	(273,648)	362,580
Satellites/Weather Systems Personal Property	3-20	4,309,297	(3,054,699)	1,254,598
Other Personal Property	3-30	1,303,228	(806,484)	496,744
Assets Under Capital Lease	3-40	65,038	(36,720)	28,318
Construction-in-progress	N/A	2,513,435	-	2,513,435
Total		<u>\$ 8,842,189</u>	<u>\$ (4,172,171)</u>	<u>\$ 4,670,018</u>

NOTE 8. Other Assets

	<u>FY 2004</u>	<u>FY2003</u>
With the Public		
Notes Receivable	\$ 4,237	\$ 5,939
Bibliographic Database	5,451	5,864
Other	38	909
Total	<u>\$ 9,726</u>	<u>\$ 12,712</u>

As of September 30, 2004 and 2003, there are three and five Notes Receivable, respectively, with maturity dates as of September 30, 2004 ranging from November 2004 to July 2024 and interest rates ranging from 7.0 to 8.9 percent. The balances include accrued interest. These notes are considered fully collectible.

The bibliographic database relates to NTIS' scientific and technical information used to prepare products and services for sale. The database is stated at capitalized costs of \$46.1 million and \$43.9 million, less accumulated amortization of \$40.6 million and \$38.0 million, for September 30, 2004 and 2003, respectively.

NOTE 9. Non-entity Assets

The assets that are not available for use in the Department's operations are summarized below:

	<u>FY 2004</u>	<u>FY2003</u>
Intragovernmental		
Fund Balance with Treasury	\$ 94,457	\$ 104,425
Total Intragovernmental	<u>94,457</u>	<u>104,425</u>
With the Public		
Cash	463	953
Accounts Receivable, Net	1,112	260
Loans Receivable and Related Foreclosed Property, Net - Drought Loan Portfolio	<u>28,827</u>	<u>36,463</u>
Total	<u>\$ 124,859</u>	<u>\$ 142,101</u>

NOTE 10. Debt to Treasury

FY 2004			
Loan Program	Beginning Balance	Net Borrowings (Repayments)	Ending Balance
Direct Loan Program			
Fisheries Finance, Financing Account	\$ 170,536	\$ 62,946	\$ 233,482
Loan Guarantee Program			
Emergency Steel Loan Guarantee Program	29,199	-	29,199
FVOG Program	11,965	(220)	11,745
Total	\$ 211,700	\$ 62,726	\$ 274,426

Maturity dates range from September 2005 to September 2034, and interest rates range from 3.26 to 7.26 percent.

FY 2003			
Loan Program	Beginning Balance	Net Borrowings (Repayments)	Ending Balance
Direct Loan Program			
Fisheries Finance, Financing Account	\$ 170,374	\$ 162	\$ 170,536
Loan Guarantee Program			
Emergency Steel Loan Guarantee Program	79,199	(50,000)	29,199
FVOG Program	12,940	(975)	11,965
Total	\$ 262,513	\$ (50,813)	\$ 211,700

Maturity dates range from September 2006 to September 2029, and interest rates range from 4.95 to 7.26 percent.

NOTE 11. Other Liabilities

	FY 2004			FY 2003
	Current Portion	Non-current Portion	Total	Total
Intragovernmental				
Accrued FECA Liability	\$ 23,157	\$ 8,193	\$ 31,350	\$ 37,659
Accrued Benefits	19,448	-	19,448	14,608
Custodial Activity	1,115	-	1,115	507
Other	3,782	-	3,782	3,222
Total	\$ 47,502	\$ 8,193	\$ 55,695	\$ 55,996
With the Public				
ITA Foreign Service Nationals' Voluntary Separation Pay	\$ -	\$ 9,344	\$ 9,344	\$ 8,175
Liabilities for Loan Guarantees	-	73,645	73,645	51,068
Contingent Liabilities	22,786	-	22,786	42,500
Employment-related	2,115	-	2,115	2,092
Other	8,728	-	8,728	7,932
Total	\$ 33,629	\$ 82,989	\$ 116,618	\$ 111,767

The Current Portion represents liabilities expected to be paid by September 30, 2005, while the Non-current portion represents liabilities expected to be paid after September 30, 2005.

NOTE 12. Actuarial FECA Liability and NOAA Corps Employee Retirement Benefits Liabilities

These liabilities consist of:

	<u>FY 2004</u>	<u>FY 2003</u>
Actuarial FECA Liability	\$ 179,179	\$ 200,054
NOAA Corps Retirement System Liability	335,700	326,601
NOAA Corps Post-retirement Health Benefits Liability	42,800	42,077
Total	<u>\$ 557,679</u>	<u>\$ 568,732</u>

Actuarial FECA Liability:

For discounting projected annual future benefit payments to present value, the interest rate assumptions used by DOL were as follows:

	<u>FY 2004</u>	<u>FY 2003</u>
Year 1	4.88%	3.84%
Year 2 and Thereafter	5.24%	4.35%

The wage inflation factors (Cost of Living Allowance) and medical inflation factors (Consumer Price Index - Medical) applied to the calculation of projected future benefits, and also used to adjust the methodology's historical payments to current year constant dollars, were as follows:

<u>FY 2004</u>		
<u>Fiscal Year</u>	<u>Cost of Living Allowance</u>	<u>Consumer Price Index - Medical</u>
2005	2.03%	4.14%
2006	2.73%	3.96%
2007	2.40%	3.98%
2008	2.40%	3.99%
2009 and Thereafter	2.40%	4.02%

<u>FY 2003</u>		
<u>Fiscal Year</u>	<u>Cost of Living Allowance</u>	<u>Consumer Price Index - Medical</u>
2004	2.30%	3.21%
2005	2.00%	3.54%
2006	1.83%	3.64%
2007	1.97%	3.80%
2008 and Thereafter	2.17%	3.92%

NOAA Corps Retirement System Liability:

This liability represents the unfunded actuarial present value of projected plan benefits. The actuarial calculations used the following U.S. Department of Defense Retirement Board economic assumptions:

	<u>FY 2004</u>	<u>FY 2003</u>
Investment Earnings on Federal Securities	6.25%	6.25%
Annual Basic Pay Increases	3.75%	3.50%
Annual Inflation	3.00%	3.00%

The related pension costs included in the *Consolidated Statements of Net Cost* are as follows:

	<u>FY 2004</u>	<u>FY 2003</u>
Normal Cost	\$ 4,900	\$ 4,600
Interest on the Unfunded Liability	19,900	19,400
Actuarial (Gains) Losses, Net	(100)	500
Total Pension Costs	<u>\$ 24,700</u>	<u>\$ 24,500</u>

NOAA Corps Post-retirement Health Benefits Liability:

This liability represents the unfunded actuarial present value of projected post-retirement plan benefits. The actuarial calculations used the same U.S. Department of Defense Retirement Board economic assumptions as used for the NOAA Corps Retirement System actuarial calculations. The claims costs used to derive the post-retirement liabilities were taken from the analysis of the U.S. Military's Projected Retiree Medical Liabilities reports for FY 2004 and FY 2003.

A provision in the FY 2001 National Defense Authorization Act created the Department of Defense Medicare Eligible Retiree Health Care Fund (MERHCF). The MERHCF was created to pay health care benefits to Medicare eligible members or former members of the uniformed services (and their dependents). In October 2003, NOAA was informed by the Department of Defense that it would assume the MERHCF actuarial liability effective October 1, 2002. The \$98.8 million liability transferred to the Department of Defense as of October 1, 2002 is based on the MERHCF actuarial liability recorded by NOAA as of September 30, 2002. An Other Financing Source of \$98.8 million is included in the FY 2003 *Consolidated Statement of Changes in Net Position*.

The related post-retirement health benefits costs included in the *Consolidated Statements of Net Cost* are as follows:

	<u>FY 2004</u>	<u>FY 2003</u>
Normal Cost	\$ 3,200	\$ 1,300
Interest on the Unfunded Liability	2,500	8,400
Actuarial (Gains) Losses, Net	(1,900)	(4,400)
Total Post-retirement Health Benefits Costs	<u>\$ 3,800</u>	<u>\$ 5,300</u>

NOTE 13. Environmental and Disposal Liabilities

	<u>FY 2004</u>	<u>FY 2003</u>
Pribilof Island Cleanup	\$ 39,160	\$ 46,106
Nuclear Reactor	36,691	40,700
Other	2,836	3,055
Total	<u>\$ 78,687</u>	<u>\$ 89,861</u>

NOTE 14. Leases*Capital Leases:*

Assets under capital leases are as follows:

	<u>FY 2004</u>	<u>FY 2003</u>
Structures, Facilities, and Leasehold Improvements	\$ 45,665	\$ 47,370
Equipment	16,141	17,668
Less: Accumulated Depreciation	(42,651)	(36,720)
Net Assets Under Capital Leases	<u>\$ 19,155</u>	<u>\$ 28,318</u>

Capital Lease Liabilities are primarily related to NIST and NOAA. In 1996, NIST entered into a capital lease for an office building in Gaithersburg, Maryland. NOAA has real property capital leases covering both land and buildings. The majority of these leases are for weather forecasting offices, but the leases are also for radar system sites, river forecasting centers, and National Weather Service enforcement centers. NOAA's real property capital leases have an average life of 22 years.

Capital Lease Liabilities:

Future payments due under capital leases are as follows:

FY 2004			
Fiscal Year	General PP&E Category		Total
	Real Property	Personal Property	
2005	\$ 6,688	\$ 2,278	\$ 8,966
2006	3,848	2,302	6,150
2007	2,940	1,858	4,798
2008	2,640	1,888	4,528
2009	2,661	1,903	4,564
Thereafter	24,182	-	24,182
Total Future Lease Payments	42,959	10,229	53,188
Less: Imputed Interest	(20,137)	(875)	(21,012)
Less: Executory Cost	(5,460)	(8,385)	(13,845)
Net Capital Lease Liabilities	\$ 17,362	\$ 969	\$ 18,331

FY 2003			
Fiscal Year	General PP&E Category		Total
	Real Property	Personal Property	
2004	\$ 6,797	\$ 3,353	\$ 10,150
2005	6,673	1,964	8,637
2006	3,848	1,989	5,837
2007	2,948	1,811	4,759
2008	2,650	1,840	4,490
Thereafter	26,909	1,887	28,796
Total Future Lease Payments	49,825	12,844	62,669
Less: Imputed Interest	(22,487)	(1,137)	(23,624)
Less: Executory Cost	(6,102)	(10,199)	(16,301)
Net Capital Lease Liabilities	\$ 21,236	\$ 1,508	\$ 22,744

Operating Leases:

Most of the Department’s facilities are rented from the U.S. General Services Administration (GSA), which generally charges rent that is intended to approximate commercial rental rates. For federal-owned property rented from GSA, the Department generally does not execute an agreement with GSA; the Department, however, is normally required to give 120 to 180 days notice to vacate. For non-federal owned property rented from GSA, an occupancy agreement is generally executed, and the Department may normally cancel these agreements with 120 days notice.

The Department’s 1) estimated real property rent payments to GSA for FY 2005 through FY 2008, and 2) future payments due under noncancellable operating leases (non-GSA real property and personal property) are as follows:

FY 2004			
Fiscal Year	General PP&E Category		
	GSA Real Property	Non-GSA Real Property	Personal Property
2005	\$ 206,146	\$ 19,975	\$ 36,024
2006	201,472	16,593	20,163
2007	210,924	13,962	6,227
2008	216,232	12,469	6,414
2009	201,776	11,884	6,606
Thereafter	¹	40,817	-
Total Future Lease Payments		<u>\$ 115,700</u>	<u>\$ 75,434</u>

¹ Not estimated

NOTE 15. Liabilities Not Covered by Budgetary Resources

	<u>FY 2004</u>	<u>FY 2003</u>
Intragovernmental		
Accrued FECA Liability	\$ 28,272	\$ 34,660
Other	594	6,660
Total Intragovernmental	<u>28,866</u>	<u>41,320</u>
Accrued Payroll	20,361	20,530
Accrued Annual Leave	186,406	179,377
Actuarial FECA Liability and NOAA Corps Employee Retirement Benefits Liabilities	557,679	568,732
Environmental and Disposal Liabilities	78,687	79,657
Contingent Liabilities	22,786	42,500
Capital Lease Liabilities	13,398	22,744
Unearned Revenue	570,817	491,262
ITA Foreign Service Nationals' Voluntary Separation Pay	9,344	8,175
Other	1,144	947
Total	<u>\$ 1,489,488</u>	<u>\$ 1,455,244</u>

Due to USPTO's funding structure, budgetary resources do not cover a portion of its Unearned Revenue. The Unearned Revenue as of September 30 reported above is the portion of USPTO's Unearned Revenue that is considered not covered by budgetary resources. USPTO's Unearned Revenue is a liability for revenue received before the patent or trademark work has been completed. Budgetary resources derived from the current reporting period's revenue have been partially used to cover the current reporting period's costs associated with unearned revenue from a prior reporting period. In addition, the current patent fee structure sets low initial application fees that are followed by income from maintenance fees as a supplement in later years to cover the full cost of the patent examination and issuance processes. The combination of these funding circumstances requires USPTO to obtain additional budgetary resources to cover its liability for unearned revenue.

NOTE 16. Commitments and Contingencies

Commitments:

The Department has entered into long-term contracts for the purchase, construction, and modernization of environmental satellites and weather measuring and monitoring systems. A summary of major long-term commitments is shown below.

Major Long-term Commitments:

Description	FY 2004						Total
	FY 2005	FY2006	FY 2007	FY 2008	FY 2009	Thereafter	
Geostationary Operational Environmental Satellites	\$ 308,900	\$ 381,500	\$ 457,400	\$ 535,400	\$ 542,900	\$2,508,700	\$4,734,800
Convergence Satellites	307,600	323,700	344,000	346,600	299,900	1,513,400	3,135,200
Polar Operational Environmental Satellites	106,500	83,400	91,500	83,000	42,600	9,000	416,000
Other Weather Service	123,800	83,500	79,800	73,500	54,200	109,800	524,600
Total	<u>\$ 846,800</u>	<u>\$ 872,100</u>	<u>\$ 972,700</u>	<u>\$1,038,500</u>	<u>\$ 939,600</u>	<u>\$4,140,900</u>	<u>\$8,810,600</u>

Legal Contingencies:

The Department is party in various administrative proceedings, legal actions, environmental suits, and claims brought against it. In the opinion of the Department's management and legal counsel, the ultimate resolution of these proceedings, actions, and claims will not materially affect the financial position or net costs of the Department.

The Department and other federal agencies are subject to liabilities for a variety of environmental cleanup costs, many of which are associated with the Second World War, at various sites within the U.S. The exact amount of these claims against the U.S. government is unknown, but may exceed \$1.6 billion as of September 30, 2004. It is not possible to speculate as to a range of loss for these matters. In the absence of a settlement agreement, decree, or judgment, there is neither an allocation of response costs between the U.S. government and other potentially responsible parties, nor is there an attribution of such costs to or among the federal agencies implicated in the claims. Although the Department has been implicated as a responsible party, the U.S. Department of Justice was unable to provide an amount for these claims that is attributable to the Department. Of these claims, all will be funded by Treasury's Judgment Fund, if any amounts are ultimately due.

The Department and other federal agencies are party to other suits, with claim amounts that may exceed \$1.1 billion as of September 30, 2004. In addition, there are other suits with no claim amounts. For all of these suits, it is reasonably possible that an adverse outcome will result. It is not possible, however, to speculate as to a range of loss. Of these claims, most will be funded by Treasury's Judgment Fund, if any amounts are ultimately due.

The Department is subject to suits where adverse outcomes are probable and claims are approximately \$22.8 million and \$48.0 million as of September 30, 2004 and 2003, respectively. The estimated loss for these suits is \$22.8 million as of September 30, 2004, and between \$42.5 million and \$48.0 million as of September 30, 2003. Accordingly, \$22.8 million and \$42.5 million of contingent liabilities were accrued on the *Consolidated Balance Sheets* as of September 30, 2004 and 2003, respectively. For these cases, any amounts ultimately due will be paid out of Treasury's Judgment Fund.

Once the claims are settled or court judgments are assessed against the Department, the liability will be removed and an Imputed Financing Source From Costs Absorbed by Others (representing the amount paid by Treasury's Judgment Fund) will be recognized.

Guaranteed Loan Contingencies:

Fishing Vessels Obligation Guarantee Program: This loan guarantee program has outstanding non-acquired guaranteed loans (fully guaranteed by the Department) as of September 30, 2004 and 2003, with outstanding principal balances totaling \$45.2 million and \$56.6 million, respectively. A liability for loan guarantees of \$3.0 million and \$2.9 million is recorded for the outstanding guarantees at September 30, 2004 and 2003, respectively.

Emergency Steel Loan Guarantee Program: This program has two outstanding non-acquired guaranteed loans as of September 30, 2004 and 2003, with outstanding principal balances of \$246.1 million and \$167.4 million as of September 30, 2004 and 2003, respectively. The Department's guarantee percentages range from 85 to 88 percent for these loans. A liability for loan guarantees of \$70.1 million and \$46.9 million is recorded for the outstanding guarantees at September 30, 2004 and 2003, respectively.

Related to an outstanding non-acquired guaranteed loan, the Department has additionally guaranteed two Letters of Credit totaling \$12.1 million and \$13.0 million as of September 30, 2004 and 2003, respectively. The Department's guarantee percentages for these Letters of Credit are 95 percent and 90 percent. The guaranteed portion of these Letters of Credit total \$11.3 million and \$12.1 million as of September 30, 2004 and 2003, respectively.

Emergency Oil and Gas Loan Guarantee Program: This program has three outstanding non-acquired guaranteed loans as of September 30, 2004 and 2003, with outstanding principal balances totaling \$1.2 million and \$1.8 million, respectively. The Department's guarantee percentage is 85 percent for these loans. A liability for loan guarantees of \$605 thousand and \$1.3 million is recorded for the outstanding guarantees at September 30, 2004 and 2003, respectively.

NOTE 17. Net Position - Change in Accounting Principle

FY 2003: In accordance with Statement of Federal Financial Accounting Standard No. 21, *Reporting Corrections of Errors and Changes in Accounting Principles*, a change in accounting principle is not shown as a restatement to the prior-period financial statements. In FY 2003, the Department received new Treasury guidance regarding the recording of NOAA intra-bureau transfers, from a special fund to an appropriated fund, as nonexpenditure transfers, rather than as appropriations transfers. This change, for transfers in FY 2000 and FY 2001, increased Unexpended Appropriations and decreased Cumulative Results of Operations by \$135.9 million as of October 1, 2002.

NOTE 18. Consolidated Statements of Net Cost

FY 2004:

The Department capitalizes the costs of constructing weather satellites as Construction-in-progress, a component of General Property, Plant, and Equipment, Net. In September 2003, a polar-orbiting operational environmental satellite under construction was damaged. The incident occurred while a NASA contractor was performing an operation that required rotation of the satellite on its construction platform. At the time of the accident, the satellite's planned launch was in FY 2008. Capitalized costs through the date of the incident were approximately \$232 million.

As a result of the reviews of the damaged spacecraft, in FY 2004 it was determined that the satellite will be rebuilt. The rebuild will provide assurance that the satellite will be available for launch in FY 2008.

In FY 2004, NOAA calculated the damage to the satellite and the instruments at \$131.4 million. This amount was written off from General Property, Plant, and Equipment, Net on the FY 2004 *Consolidated Balance Sheet*, with the loss included on the FY 2004 *Consolidated Statement of Net Cost*, Strategic Goal 3, Gross Costs With the Public.

FY 2004 Consolidating Statement of Net Cost:

	NOAA	USPTO	ESA	TA	Others	Departmental Management	Combining Totals	Intra-Departmental Eliminations	Consolidating Totals
COSTS:									
Strategic Goal 1: Provide the Information and Tools to Maximize U.S. Competitiveness and Enable Economic Growth for American Industries, Workers, and Consumers									
Intragovernmental Gross Costs	\$	\$	\$ 247,055	\$	\$ 170,383	\$ 62,637	\$ 480,075	\$ (68,392)	\$ 411,683
Gross Costs With the Public	-	-	736,507	-	737,070	44,933	1,518,510	-	1,518,510
Total Gross Costs	-	-	983,562	-	907,453	107,570	1,998,585	(68,392)	1,930,193
Intragovernmental Earned Revenue	-	-	(235,151)	-	(28,091)	(80,652)	(343,894)	68,392	(275,502)
Earned Revenue From the Public	-	-	(16,740)	-	(11,282)	-	(28,022)	-	(28,022)
Total Earned Revenue	-	-	(251,891)	-	(39,373)	(80,652)	(371,916)	68,392	(303,524)
Net Program Costs	-	-	731,671	-	868,080	26,918	1,626,669	-	1,626,669
Strategic Goal 2: Foster Science and Technological Leadership by Protecting Intellectual Property, Enhancing Technical Standards, and Advancing Measurement Science									
Intragovernmental Gross Costs	-	246,632	-	110,312	13,501	62,637	433,082	(74,116)	358,966
Gross Costs With the Public	-	1,042,548	-	772,411	98,974	45,127	1,959,060	-	1,959,060
Total Gross Costs	-	1,289,180	-	882,723	112,475	107,764	2,392,142	(74,116)	2,318,026
Intragovernmental Earned Revenue	-	(5,427)	-	(118,183)	(22,071)	(80,652)	(226,333)	74,116	(152,217)
Earned Revenue From the Public	-	(1,233,596)	-	(57,152)	-	-	(1,290,748)	-	(1,290,748)
Total Earned Revenue	-	(1,239,023)	-	(175,335)	(22,071)	(80,652)	(1,517,081)	74,116	(1,442,965)
Net Program Costs	-	50,157	-	707,388	90,404	27,112	875,061	-	875,061
Strategic Goal 3: Observe, Protect, and Manage the Earth's Resources to Promote Environmental Stewardship									
Intragovernmental Gross Costs	599,428	-	-	-	-	62,657	662,085	(65,275)	596,810
Gross Costs With the Public	3,202,726	-	-	-	-	44,945	3,247,671	-	3,247,671
Total Gross Costs	3,802,154	-	-	-	-	107,602	3,909,756	(65,275)	3,844,481
Intragovernmental Earned Revenue	(154,157)	-	-	-	-	(80,675)	(234,832)	65,275	(169,557)
Earned Revenue From the Public	(57,682)	-	-	-	-	-	(57,682)	-	(57,682)
Total Earned Revenue	(211,839)	-	-	-	-	(80,675)	(292,514)	65,275	(227,239)
Net Program Costs	3,590,315	-	-	-	-	26,927	3,617,242	-	3,617,242
NET COST OF OPERATIONS	\$ 3,590,315	\$ 50,157	\$ 731,671	\$ 707,388	\$ 958,484	\$ 80,957	\$ 6,118,972	\$ -	\$ 6,118,972

FY 2003:

The FY 2003 *Consolidated Statement of Net Cost* and this footnote have been reclassified to properly present certain NOAA operating lease expenses with GSA as Strategic Goal 3 Intragovernmental Gross Costs, rather than as Strategic Goal 3 Gross Costs With the Public.

Reclassified FY 2003 Consolidating Statement of Net Cost:

	NOAA	USPTO	ESA	TA	Others	Departmental Management	Combining Totals	Intra-Departmental Eliminations	Consolidating Totals
COSTS:									
Strategic Goal 1: Provide the Information and Tools to Maximize U.S. Competitiveness and Enable Economic Growth for American Industries, Workers, and Consumers									
Intragovernmental Gross Costs	\$ -	\$ -	\$ 262,597	\$ -	\$ 224,239	\$ 60,097	\$ 546,933	\$ (67,901)	\$ 479,032
Gross Costs with the Public	-	-	704,660	-	836,927	44,313	1,585,900	-	1,585,900
Total Gross Costs	-	-	967,257	-	1,061,166	104,410	2,132,833	(67,901)	2,064,932
Intragovernmental Earned Revenue	-	-	(233,117)	-	(42,849)	(77,014)	(352,980)	67,901	(285,079)
Earned Revenue From the Public	-	-	2,135	-	(13,146)	-	(11,011)	-	(11,011)
Total Earned Revenue	-	-	(230,982)	-	(55,995)	(77,014)	(363,991)	67,901	(296,090)
Net Program Costs	-	-	736,275	-	1,005,171	27,396	1,768,842	-	1,768,842
Strategic Goal 2: Foster Science and Technological Leadership by Protecting Intellectual Property, Enhancing Technical Standards, and Advancing Measurement Science									
Intragovernmental Gross Costs	-	245,924	-	118,441	234	60,097	424,696	(64,783)	359,913
Gross Costs with the Public	-	959,019	-	762,874	84,339	44,485	1,850,717	-	1,850,717
Total Gross Costs	-	1,204,943	-	881,315	84,573	104,582	2,275,413	(64,783)	2,210,630
Intragovernmental Earned Revenue	-	(5,159)	-	(105,284)	-	(77,013)	(187,456)	64,783	(122,673)
Earned Revenue From the Public	-	(1,159,042)	-	(43,924)	-	-	(1,202,966)	-	(1,202,966)
Total Earned Revenue	-	(1,164,201)	-	(149,208)	-	(77,013)	(1,390,422)	64,783	(1,325,639)
Net Program Costs	-	40,742	-	732,107	84,573	27,569	884,991	-	884,991
Strategic Goal 3: Observe, Protect, and Manage the Earth's Resources to Promote Environmental Stewardship									
Intragovernmental Gross Costs	517,531	-	-	-	-	60,116	577,647	(65,438)	512,209
Gross Costs with the Public	2,998,851	-	-	-	-	44,325	3,043,176	-	3,043,176
Total Gross Costs	3,516,382	-	-	-	-	104,441	3,620,823	(65,438)	3,555,385
Intragovernmental Earned Revenue	(152,571)	-	-	-	-	(77,036)	(229,607)	65,438	(164,169)
Earned Revenue From the Public	(61,927)	-	-	-	-	-	(61,927)	-	(61,927)
Total Earned Revenue	(214,498)	-	-	-	-	(77,036)	(291,534)	65,438	(226,096)
Net Program Costs	3,301,884	-	-	-	-	27,405	3,329,289	-	3,329,289
NET COST OF OPERATIONS	\$3,301,884	\$ 40,742	\$ 736,275	\$ 732,107	\$1,089,744	\$ 82,370	\$ 5,983,122	\$ -	\$ 5,983,122

Gross Costs and Earned Revenue by Budget Functional Classification

FY 2004			
Budget Functional Classification	Gross Costs	Earned Revenue	Net Cost
300 Natural Resources and Environment	\$ 3,760,953	\$ (190,388)	\$ 3,570,565
370 Commerce and Housing Credit	3,887,610	(1,763,086)	2,124,524
450 Community and Regional Development	371,984	(20,254)	351,730
500 Education, Training, Employment, and Social Services	72,153	-	72,153
Total	\$ 8,092,700	\$ (1,973,728)	\$ 6,118,972

FY 2003			
Budget Functional Classification	Gross Costs	Earned Revenue	Net Cost
300 Natural Resources and Environment	\$ 3,500,590	\$ (198,448)	\$ 3,302,142
370 Commerce and Housing Credit	3,764,920	(1,636,386)	2,128,534
450 Community and Regional Development	480,867	(12,991)	467,876
500 Education, Training, Employment, and Social Services	84,570	-	84,570
Total	\$ 7,830,947	\$ (1,847,825)	\$ 5,983,122

Intragovernmental Gross Costs and Earned Revenue by Budget Functional Classification

FY 2004			
Budget Functional Classification	Intragovernmental Gross Costs	Intragovernmental Earned Revenue	Intragovernmental Net Cost
300 Natural Resources and Environment	\$ 578,772	\$ (144,628)	\$ 434,144
370 Commerce and Housing Credit	776,601	(435,140)	341,461
450 Community and Regional Development	11,788	(17,508)	(5,720)
500 Education, Training, Employment, and Social Services	298	-	298
Total	\$ 1,367,459	\$ (597,276)	\$ 770,183

Reclassified FY 2003			
Budget Functional Classification	Intragovernmental Gross Costs	Intragovernmental Earned Revenue	Intragovernmental Net Cost
300 Natural Resources and Environment	\$ 505,419	\$ (149,965)	\$ 355,454
370 Commerce and Housing Credit	800,273	(410,870)	389,403
450 Community and Regional Development	45,229	(11,086)	34,143
500 Education, Training, Employment, and Social Services	233	-	233
Total	\$ 1,351,154	\$ (571,921)	\$ 779,233

Major Programs: The following tables illustrate major programs of the Department. "Other Programs" refers to the other programs within each strategic goal. The "Others" column refers to the Department's reporting entities that are not listed. The Others column data and the Other Programs data are presented solely to reconcile these tables to the Combining Totals columns on the *Consolidating Statements of Net Cost*.

FY 2004 Statement of Net Cost by Major Program (Combining Basis):

	NOAA	Census Bureau	NIST	USPTO	Others	Combining Totals
PROGRAM COSTS:						
Strategic Goal 1: Provide the Information and Tools to Maximize U.S. Competitiveness and Enable Economic Growth for American Industries, Workers, and Consumers						
Decennial and Periodic Censuses						
Intragovernmental Gross Costs	\$ -	\$ 16,111	\$ -	\$ -	\$ -	\$ 16,111
Gross Costs With the Public	-	212,181	-	-	-	212,181
Total Gross Costs	-	228,292	-	-	-	228,292
Intragovernmental Earned Revenue	-	-	-	-	-	-
Earned Revenue From the Public	-	-	-	-	-	-
Total Earned Revenue	-	-	-	-	-	-
Net Program Costs	-	228,292	-	-	-	228,292
Other Programs						
Intragovernmental Gross Costs	-	202,508	-	-	261,456	463,964
Gross Costs With the Public	-	471,741	-	-	834,588	1,306,329
Total Gross Costs	-	674,249	-	-	1,096,044	1,770,293
Intragovernmental Earned Revenue	-	(233,447)	-	-	(110,447)	(343,894)
Earned Revenue From the Public	-	(15,034)	-	-	(12,988)	(28,022)
Total Earned Revenue	-	(248,481)	-	-	(123,435)	(371,916)
Net Program Costs	-	425,768	-	-	972,609	1,398,377
Net Program Costs for Strategic Goal 1	-	654,060	-	-	972,609	1,626,669
Strategic Goal 2: Foster Science and Technological Leadership by Protecting Intellectual Property, Enhancing Technical Standards, and Advancing Measurement Science						
Measurement and Standards Laboratories						
Intragovernmental Gross Costs	-	-	62,959	-	-	62,959
Gross Costs With the Public	-	-	467,876	-	-	467,876
Total Gross Costs	-	-	530,835	-	-	530,835
Intragovernmental Earned Revenue	-	-	(64,598)	-	-	(64,598)
Earned Revenue From the Public	-	-	(28,403)	-	-	(28,403)
Total Earned Revenue	-	-	(93,001)	-	-	(93,001)
Net Program Costs	-	-	437,834	-	-	437,834
Patents						
Intragovernmental Gross Costs	-	-	-	219,171	-	219,171
Gross Costs With the Public	-	-	-	926,706	-	926,706
Total Gross Costs	-	-	-	1,145,877	-	1,145,877
Intragovernmental Earned Revenue	-	-	-	(5,218)	-	(5,218)
Earned Revenue From the Public	-	-	-	(1,064,853)	-	(1,064,853)
Total Earned Revenue	-	-	-	(1,070,071)	-	(1,070,071)
Net Program Costs	-	-	-	75,806	-	75,806

(Continued)

FY 2004 Statement of Net Cost by Major Program (Combining Basis) - Continued:

	NOAA	Census Bureau	NIST	USPTO	Others	Combining Totals
Trademarks						
Intragovernmental Gross Costs	-	-	-	27,461	-	27,461
Gross Costs With the Public	-	-	-	115,842	-	115,842
Total Gross Costs	-	-	-	143,303	-	143,303
Intragovernmental Earned Revenue	-	-	-	(209)	-	(209)
Earned Revenue From the Public	-	-	-	(168,743)	-	(168,743)
Total Earned Revenue	-	-	-	(168,952)	-	(168,952)
Net Program Costs	-	-	-	(25,649)	-	(25,649)
Other Programs						
Intragovernmental Gross Costs	-	-	37,541	-	85,950	123,491
Gross Costs With the Public	-	-	278,984	-	169,652	448,636
Total Gross Costs	-	-	316,525	-	255,602	572,127
Intragovernmental Earned Revenue	-	-	(38,519)	-	(117,789)	(156,308)
Earned Revenue From the Public	-	-	(16,937)	-	(11,812)	(28,749)
Total Earned Revenue	-	-	(55,456)	-	(129,601)	(185,057)
Net Program Costs	-	-	261,069	-	126,001	387,070
Net Program Costs for Strategic Goal 2	-	-	698,903	50,157	126,001	875,061
Strategic Goal 3: Observe, Protect, and Manage the Earth's Resources to Promote Environmental Stewardship						
Advance Short-term Warning Forecast Service						
Intragovernmental Gross Costs	251,283	-	-	-	-	251,283
Gross Costs With the Public	1,479,061	-	-	-	-	1,479,061
Total Gross Costs	1,730,344	-	-	-	-	1,730,344
Intragovernmental Earned Revenue	(66,094)	-	-	-	-	(66,094)
Earned Revenue From the Public	(3,402)	-	-	-	-	(3,402)
Total Earned Revenue	(69,496)	-	-	-	-	(69,496)
Net Program Costs	1,660,848	-	-	-	-	1,660,848
Other Programs						
Intragovernmental Gross Costs	348,145	-	-	-	62,657	410,802
Gross Costs With the Public	1,723,665	-	-	-	44,945	1,768,610
Total Gross Costs	2,071,810	-	-	-	107,602	2,179,412
Intragovernmental Earned Revenue	(88,063)	-	-	-	(80,675)	(168,738)
Earned Revenue From the Public	(54,280)	-	-	-	-	(54,280)
Total Earned Revenue	(142,343)	-	-	-	(80,675)	(223,018)
Net Program Costs	1,929,467	-	-	-	26,927	1,956,394
Net Program Costs for Strategic Goal 3	3,590,315	-	-	-	26,927	3,617,242
NET COST OF OPERATIONS	\$3,590,315	\$ 654,060	\$ 698,903	\$ 50,157	\$ 1,125,537	\$6,118,972

Reclassified FY 2003 Statement of Net Cost by Major Program (Combining Basis):

	NOAA	Census Bureau	NIST	USPTO	Others	Combining Totals
PROGRAM COSTS:						
Strategic Goal 1: Provide the Information and Tools to Maximize U.S. Competitiveness and Enable Economic Growth for American Industries, Workers, and Consumers						
<i>Decennial and Periodic Censuses</i>						
Intragovernmental Gross Costs	\$ -	\$ 25,903	\$ -	\$ -	\$ -	\$ 25,903
Gross Costs With the Public	-	170,450	-	-	-	170,450
Total Gross Costs	-	196,353	-	-	-	196,353
Intragovernmental Earned Revenue	-	-	-	-	-	-
Earned Revenue From the Public	-	-	-	-	-	-
Total Earned Revenue	-	-	-	-	-	-
Net Program Costs	-	196,353	-	-	-	196,353
<i>Other Programs</i>						
Intragovernmental Gross Costs	-	212,249	-	-	308,781	521,030
Gross Costs With the Public	-	481,787	-	-	933,663	1,415,450
Total Gross Costs	-	694,036	-	-	1,242,444	1,936,480
Intragovernmental Earned Revenue	-	(231,420)	-	-	(121,560)	(352,980)
Earned Revenue From the Public	-	4,135	-	-	(15,146)	(11,011)
Total Earned Revenue	-	(227,285)	-	-	(136,706)	(363,991)
Net Program Costs	-	466,751	-	-	1,105,738	1,572,489
Net Program Costs for Strategic Goal 1	-	663,104	-	-	1,105,738	1,768,842
Strategic Goal 2: Foster Science and Technological Leadership by Protecting Intellectual Property, Enhancing Technical Standards, and Advancing Measurement Science						
<i>Measurement and Standards Laboratories</i>						
Intragovernmental Gross Costs	-	-	69,695	-	-	69,695
Gross Costs With the Public	-	-	471,450	-	-	471,450
Total Gross Costs	-	-	541,145	-	-	541,145
Intragovernmental Earned Revenue	-	-	(59,088)	-	-	(59,088)
Earned Revenue From the Public	-	-	(16,056)	-	-	(16,056)
Total Earned Revenue	-	-	(75,144)	-	-	(75,144)
Net Program Costs	-	-	466,001	-	-	466,001
<i>Patents</i>						
Intragovernmental Gross Costs	-	-	-	219,413	-	219,413
Gross Costs With the Public	-	-	-	855,699	-	855,699
Total Gross Costs	-	-	-	1,075,112	-	1,075,112
Intragovernmental Earned Revenue	-	-	-	(5,049)	-	(5,049)
Earned Revenue From the Public	-	-	-	(1,000,707)	-	(1,000,707)
Total Earned Revenue	-	-	-	(1,005,756)	-	(1,005,756)
Net Program Costs	-	-	-	69,356	-	69,356

(Continued)

Reclassified FY 2003 Statement of Net Cost by Major Program (Combining Basis) - Continued:

	NOAA	Census Bureau	NIST	USPTO	Others	Combining Totals
Trademarks						
Intragovernmental Gross Costs	-	-	-	26,511	-	26,511
Gross Costs With the Public	-	-	-	103,320	-	103,320
Total Gross Costs	-	-	-	129,831	-	129,831
Intragovernmental Earned Revenue	-	-	-	(109)	-	(109)
Earned Revenue From the Public	-	-	-	(158,336)	-	(158,336)
Total Earned Revenue	-	-	-	(158,445)	-	(158,445)
Net Program Costs	-	-	-	(28,614)	-	(28,614)
Other Programs						
Intragovernmental Gross Costs	-	-	38,781	-	70,296	109,077
Gross Costs With the Public	-	-	262,333	-	157,915	420,248
Total Gross Costs	-	-	301,114	-	228,211	529,325
Intragovernmental Earned Revenue	-	-	(32,879)	-	(90,331)	(123,210)
Earned Revenue From the Public	-	-	(11,880)	-	(15,987)	(27,867)
Total Earned Revenue	-	-	(44,759)	-	(106,318)	(151,077)
Net Program Costs	-	-	256,355	-	121,893	378,248
Net Program Costs for Strategic Goal 2	-	-	722,356	40,742	121,893	884,991
Strategic Goal 3: Observe, Protect, and Manage the Earth's Resources to Promote Environmental Stewardship						
Advance Short-term Warning Forecast Service						
Intragovernmental Gross Costs	229,360	-	-	-	-	229,360
Gross Costs With the Public	1,252,590	-	-	-	-	1,252,590
Total Gross Costs	1,481,950	-	-	-	-	1,481,950
Intragovernmental Earned Revenue	(49,055)	-	-	-	-	(49,055)
Earned Revenue From the Public	(19,911)	-	-	-	-	(19,911)
Total Earned Revenue	(68,966)	-	-	-	-	(68,966)
Net Program Costs	1,412,984	-	-	-	-	1,412,984
Other Programs						
Intragovernmental Gross Costs	288,171	-	-	-	60,116	348,287
Gross Costs With the Public	1,746,261	-	-	-	44,325	1,790,586
Total Gross Costs	2,034,432	-	-	-	104,441	2,138,873
Intragovernmental Earned Revenue	(103,516)	-	-	-	(77,036)	(180,552)
Earned Revenue From the Public	(42,016)	-	-	-	-	(42,016)
Total Earned Revenue	(145,532)	-	-	-	(77,036)	(222,568)
Net Program Costs	1,888,900	-	-	-	27,405	1,916,305
Net Program Costs for Strategic Goal 3	3,301,884	-	-	-	27,405	3,329,289
NET COST OF OPERATIONS	\$3,301,884	\$ 663,104	\$ 722,356	\$ 40,742	\$1,255,036	\$5,983,122

NOTE 19. Combined Statements of Budgetary Resources

The amount of Appropriations Received on the *Combined Statements of Budgetary Resources* (SBR) reconciles to the amount reported on the *Consolidated Statements of Changes in Net Position* (SCNP) as follows:

	<u>FY 2004</u>	<u>FY 2003</u>
Appropriations Received per SBR	\$ 6,134,774	\$ 5,964,718
Less:		
Appropriated Receipts for USPTO, Classified as Exchange Revenue ¹	-	(166,771)
Other Special Receipts for NOAA, Classified as Exchange Revenue	(8,554)	(6,540)
Other	(1,299)	(860)
Appropriations Received per SCNP	<u>\$ 6,124,921</u>	<u>\$ 5,790,547</u>

¹ For FY 2003, USPTO was appropriated \$166.8 million of fees collected in prior fiscal years. For FY 2004, there were no Appropriations Received for USPTO.

Total borrowing authority available for NOAA's loan programs amounted to \$331.7 million and \$293.9 million at September 30, 2004 and 2003, respectively. The Borrowing Authority amounts reported in the SBR Budgetary Resources section represent only borrowing authority realized during the reporting period. See Note 1L, *Debt to Treasury*, for debt repayment requirements, financing sources for repayments, and other terms of borrowing authority used.

Approximately 90 percent of the Department's reporting entities have one or more permanent no-year appropriations to finance operations.

Rescissions to the Department's appropriations under Public Law 108-199 amounted to \$207.2 million for FY 2004, while rescissions for FY 2003 under Public Law 108-7 amounted to \$44.2 million. These rescissions are included in the SBR Budgetary Resources section as follows: Permanently Not Available subsection, Enacted Rescissions (\$204.5 million and \$7.9 million for the years ended September 30, 2004 and 2003, respectively), Pursuant to Public Law (\$0.0 million and \$36.3 million for the years ended September 30, 2004 and 2003, respectively), and Temporarily Not Available Pursuant to Public Law (\$2.7 million and \$0.0 million for the years ended September 30, 2004 and 2003, respectively). These rescissions are also included on the line Other Adjustments in the SCNP.

Resulting from Treasury's recent efforts to clarify and/or implement guidance for temporary rescissions of Spending Authority From Offsetting Collections, Treasury determined that previous rescissions of USPTO's budget authority should be reversed. Accordingly, Treasury issued warrants in February 2004 totaling \$75.6 million to USPTO, reversing rescissions from FY 1999 through FY 2002. The rescission reversals are reported in the FY 2004 SBR Budgetary Resources section, Permanently Not Available subsection, Enacted Rescissions – Reversals, and included on the line Other Budgetary Financing Sources (Uses), Net in the FY 2004 SCNP.

The FY 2004 SBR, Budgetary Resources section, Permanently Not Available subsection, Cancellation of Expired and No-year Accounts line includes a \$52.7 million cancellation of unobligated balances as of December 31, 2003 for the Emergency Steel Loan Guarantee Program's program fund group. The cancellation was required by OMB because the authority for the Emergency Loan Guarantee Board to make guaranteed loans for this program expired on December 31, 2003. The cancellation is also included on the line Other Adjustments in the FY 2004 SCNP. The \$52.7 million was then reappropriated in FY 2004, and is included in the Appropriations Received lines on the SBR and SCNP.

Legal arrangements affecting the Department's use of Unobligated Balances of Budget Authority and/or Fund Balance with Treasury during FY 2004 and FY 2003 include the following:

- The Omnibus Budget Reconciliation Act of 1990 established revenue withholding on certain statutory patent fees collected by USPTO. Subsequent legislation extended the revenue withholding through the end of FY 1998. These revenues were deposited into the Patent and Trademark Surcharge Fund, a Special Fund Receipt Account at Treasury. The USPTO may use monies from this account only as authorized by Congress and made available by the issuance of a Treasury warrant. At September 30, 2004 and 2003, \$233.5 million is held in the Patent and Trademark Surcharge Fund.
- The Coastal Zone Management Fund, which accounts for the Coastal Energy Impact Program direct loans, has \$32.0 million and \$29.7 million of unapportioned authority that was not provided obligational authority pursuant to 16 United States Code 1456a, as of September 30, 2004 and 2003, respectively.
- For loan programs prior to the Federal Credit Reform Act of 1990 (pre-FY 1992 loans), most or all liquidating fund unobligated balances in excess of working capital needs are required to be transferred to Treasury as soon as practicable during the following fiscal year.
- For direct loan programs under the Federal Credit Reform Act of 1990 (post-FY 1991 loans) that have outstanding debt to Treasury, regulations require that most unobligated balances be returned to Treasury on September 30, or require that the borrowing authority be cancelled on September 30.
- For loan guarantee programs under the Federal Credit Reform Act of 1990 that have outstanding debt to Treasury, regulations require that unobligated balances in excess of the outstanding guaranteed loans' principal and interest be returned to Treasury on September 30.

Apportionment Categories of Obligations Incurred:

The amounts of direct and reimbursable obligations incurred against amounts apportioned under Categories A, B, and Exempt from Apportionment are as follows:

	FY 2004		
	Direct	Reimbursable	Total
Category A	\$ 2,063,051	\$ 1,581,570	\$ 3,644,621
Category B	4,298,025	97,413	4,395,438
Exempt from Apportionment	168,658	695,411	864,069
Total	\$ 6,529,734	\$ 2,374,394	\$ 8,904,128

	FY 2003		
	Direct	Reimbursable	Total
Category A	\$ 2,016,305	\$ 1,523,100	\$ 3,539,405
Category B	4,270,073	79,284	4,349,357
Exempt from Apportionment	168,944	644,894	813,838
Total	\$ 6,455,322	\$ 2,247,278	\$ 8,702,600

NOTE 20. Consolidated Statements of Financing

The section Components Requiring or Generating Resources in Future Periods, shown on the *Consolidated Statements of Financing*, includes costs that are included in the Liabilities Not Covered by Budgetary Resources reported in Note 15. This section does not include costs incurred in prior fiscal years that are also included in Liabilities Not Covered by Budgetary Resources.

NOTE 21. Custodial Nonexchange Activity

NOAA receives interest, penalties, and fines primarily related to its past due Accounts Receivable, while BIS receives civil monetary penalties from private entities that violate the Export Administration Act. These collections are required to be transferred to Treasury. For FY 2004, the Department had custodial nonexchange revenue of \$8.0 million; custodial nonexchange revenue of \$1.1 million was payable to Treasury at September 30, 2004. For FY 2003, the Department had custodial nonexchange revenue of \$5.7 million; custodial nonexchange revenue of \$507 thousand was payable to Treasury at September 30, 2003.

CONSOLIDATING BALANCE SHEET





United States Department of Commerce Consolidating Balance Sheet
As of September 30, 2004 (In Thousands)

ASSETS	Intra-Consolidating		Census Bureau	DM/G&B	DM/S&E	DM/WCF	EDA	ELGP	ESA/BEA	Franchise Fund	ITA	MRDA	NIST	NOAA	NTIA	NTIS	OIG	TA	USPTO
	Departmental	Eliminations																	
Total Intragovernmental	6,751,935	(71,274)	333,804	381	80,436	36,568	923,339	136,303	16,974	3,535	138,297	13,117	668,158	3,144,690	121,363	32,363	2,445	4,007	1,141,673
Cash	13,694	-	-	-	-	-	-	-	-	-	101	-	1	1,688	-	33	-	-	11,871
Accounts Receivable, Net	59,901	-	2,940	-	10	15	120	1	3	-	167	1	14,621	39,246	14	602	2	-	1,303
Loans Receivable and Related	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred Property, Net	317,138	-	-	-	-	-	43,041	25,080	-	-	-	-	-	249,017	-	-	-	-	-
Inventory, Materials, and Supplies, Net	99,515	-	888	-	-	580	-	-	-	-	-	-	25,157	72,642	-	248	-	-	248
General Property, Plant, and Equipment, Net	4,652,882	-	600	9	53	11,368	42	-	609	332	3,204	12	607,162	3,827,199	1,503	217	-	-	137,303
Advances and Prepayments	31,516	-	1	-	8	1	9,081	-	-	-	2,372	6	289	14,510	-	86	-	-	5,162
Other	9,726	-	-	3	-	-	-	-	-	-	-	-	1	4,271	-	5,451	-	-	-
TOTAL ASSETS	\$11,936,307	\$(71,274)	\$400,901	\$393	\$80,507	\$48,532	\$975,623	\$161,384	\$17,586	\$3,867	\$144,141	\$13,136	\$1,315,389	\$7,353,263	\$122,880	\$39,000	\$2,447	\$4,008	\$1,297,312
LIABILITIES																			
Total Intragovernmental	807,196	(71,274)	91,270	-	50,820	33,119	127,422	34,326	823	1,821	12,643	728	119,060	366,081	10,049	14,849	433	243	11,756
Accounts Payable	259,631	-	35,181	88	6,713	6,246	263	128	1,129	260	8,113	1,772	16,474	102,923	1,211	1,465	359	91	75,067
Accrued Payroll and Annual Leave	321,114	-	45,994	-	3,551	6,269	2,591	11	5,153	281	22,614	778	26,302	119,258	2,264	1,285	1,488	418	79,300
Actuarial FICA Liability and	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NDAA Corps Employee Retirement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Benefits Liabilities	557,679	-	79,774	-	842	2,102	2,130	-	366	78	10,425	2,277	10,352	437,633	785	550	1,332	-	7,484
Accrued Grants	350,452	-	-	-	-	-	241,328	-	-	-	11,760	2,005	25,303	33,890	35,227	-	-	939	-
Environmental and Disposal Liabilities	78,687	-	-	-	-	-	-	-	-	-	-	-	36,689	41,998	-	-	-	-	-
Capital Lease Liabilities	18,331	-	-	-	-	-	-	-	-	-	-	-	3,993	14,338	-	-	-	-	-
Unearned Revenue	740,491	-	6,390	-	24	-	3	-	-	-	3,240	-	16,711	47,600	1,731	5,248	-	10	654,653
Other	116,618	-	129	-	4,869	-	-	70,674	11	-	9,953	-	3,319	26,721	18	-	-	5	-
TOTAL LIABILITIES	\$3,250,199	\$(71,274)	\$260,128	\$88	\$61,950	\$52,005	\$373,737	\$105,139	\$7,482	\$2,440	\$78,748	\$7,560	\$258,203	\$1,190,442	\$51,285	\$23,397	\$3,612	\$1,706	\$828,260
NET POSITION																			
Unexpended Appropriations	4,209,311	-	14,956	-	19,836	-	606,271	60,121	11,254	-	97,878	8,824	432,614	2,756,492	71,712	-	1,563	2,528	23
Cumulative Results of Operations	4,476,797	-	(3,095)	305	(1,279)	(3,473)	(4,395)	(3,876)	(1,150)	1,427	(32,495)	(3,248)	624,572	3,406,329	(117)	15,603	(2,728)	(226)	469,029
TOTAL NET POSITION	\$8,686,108	-\$	\$11,921	\$305	\$18,557	\$(3,473)	\$601,886	\$56,245	\$10,104	\$1,427	\$65,393	\$5,576	\$1,057,186	\$6,162,821	\$71,595	\$15,603	\$(1,165)	\$2,302	\$469,052
TOTAL LIABILITIES AND NET POSITION	\$11,936,307	\$(71,274)	\$400,901	\$393	\$80,507	\$48,532	\$975,623	\$161,384	\$17,586	\$3,867	\$144,141	\$13,136	\$1,315,389	\$7,353,263	\$122,880	\$39,000	\$2,447	\$4,008	\$1,297,312

See accompanying independent auditors' report.



REQUIRED
SUPPLEMENTARY
INFORMATION

(UNAUDITED)





Required Supplementary Information (unaudited)

(All Tables Are Presented In Thousands)

A Deferred Maintenance

Deferred maintenance is maintenance that was not performed when it should have been, that was scheduled and not performed, or that was delayed for a future period. Maintenance is the act of keeping property, plant, and equipment (PP&E) in acceptable operating condition and includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it can deliver acceptable performance and achieve its expected life. Maintenance excludes activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from or significantly greater than those originally intended. The significant portions of Departmental deferred maintenance relate to the PP&E of both NOAA and NIST (see below for abbreviations). These two entities represent 95 percent of the Department's General PP&E, Net balance as of September 30, 2004.

National Oceanic and Atmospheric Administration (NOAA):

The NOAA uses the Condition Assessment Survey (CAS) method to identify and quantify deferred maintenance for assets meeting NOAA's \$200 thousand capitalization threshold. The CAS method requires a periodic inspection of real property to determine its current condition and to estimate the cost likely to be incurred by the corrections of any deficiencies.

The following shows NOAA's deferred maintenance for projects with estimated costs greater than \$50 thousand, as of September 30, 2004:

PP&E Category	Asset Condition	Estimated Cost to Return to Acceptable Condition
Buildings and Structures	3	\$10,600 to \$13,000
Heritage Assets	5,3	\$11,760 to \$14,370
Total		\$22,360 to \$27,370

While the CAS method for the above buildings and structures indicates that one or more of the building systems is in less than acceptable operating condition, NOAA has not established a facility condition code to classify the condition of individual facilities. The CAS method for heritage assets is based on a five-point scale, with 1 representing excellent condition; 2 - good condition; 3 - fair condition; 4 - poor condition; and 5 - very poor condition. The amount reported for heritage assets represents non-critical maintenance to bring them to good condition. There is an annual call each year to the NOAA components, requesting their submissions of new projects and updates to existing projects to reflect changes in requirements or costs.

National Institute of Standards and Technology (NIST):

NIST also uses the CAS method to estimate deferred maintenance. The NIST values the condition of assets using a five-point scale, with 1 representing excellent condition; 2 - good condition; 3 - acceptable condition; 4 - poor condition; and 5 - very poor condition. Assets that are assessed at 4 or 5 require repairs and maintenance to increase their value to 3, or acceptable condition. The following shows NIST's deferred maintenance as of September 30, 2004:

PP&E Category	Asset Condition	Estimated Cost to Return to Acceptable Condition
Mechanical and Electrical Devices	5	\$383,000 to \$387,500
Buildings (Internal Structures)	4	63,400 to 78,100
Buildings (External Structures)	4	46,000 to 51,400
Total		\$492,400 to \$517,000

B Segment Information

Departmental Management/Working Capital Fund (DM/WCF):

The DM/WCF's mission is to provide, in the most efficient and economical manner possible, the centralized services required by the operating entities of the Department and other federal entities. The DM/WCF operates on a revolving fund basis, whereby current operating expenses charged to the customer finance the cost of goods and services. The overall financial goal of the fund is to remain at break-even position.

Services: The DM/WCF provides a variety of administrative services to the Department and to other federal entities. These include personnel-related services, financial and budget management, legal services, security, acquisition, telecommunications, and public affairs.

Major Customers: The major customers of DM/WCF are NOAA, ITA, and Census, accounting for 29 percent, 20 percent, and 17 percent of earned revenue, respectively.

Note: Information about assets, liabilities, and net position as of September 30, 2004 can be found on the Consolidating Balance Sheet, which is included as additional information.

DM/WCF Summary of Costs and Related Exchange Revenue by Line of Business For the Year Ended September 30, 2004					
	Personnel-Related Services	Financial Management	Legal Services	Administrative Services	Total
Full Cost of Services Provided	\$ 19,277	\$ 22,666	\$ 31,506	\$ 58,395	\$131,844
Less: Exchange Revenue	(18,073)	(21,250)	(29,539)	(54,749)	(123,611)
Excess of Costs over Exchange Revenue	\$ 1,204	\$ 1,416	\$ 1,967	\$ 3,646	\$ 8,233

Franchise Fund:

The Department’s Franchise Fund has three major goals:

- To operate along the lines of a commercial business by becoming self-sustaining and capable of achieving full cost recovery and by becoming competitive, without subsidies, in an open-market environment
- To encourage competition and the operation of market forces in the delivery of administrative services to lower costs and to promote better service
- To create a customer-oriented workforce that is capable of providing quality services and products

Services: The Franchise Fund is composed of only one service provider, the Office of Computer Services (OCS). The OCS provides IT services to the Department and to other federal entities, including the U.S. Department of Homeland Security and U.S. Department of Energy.

Major Customers: The Department of Homeland Security is the major customer for the Franchise Fund, accounting for approximately 60 percent of earned revenue.

Franchise Fund Summary of Costs and Related Exchange Revenue by Line of Business For the Year Ended September 30, 2004	
	Computer Services
Full Cost of Services Provided	\$ 6,683
Less: Exchange Revenue	(6,324)
Excess of Costs over Exchange Revenue	\$ 359

Note: Information about assets, liabilities, and net position as of September 30, 2004 can be found on the Consolidating Balance Sheet, which is included as additional information.

**United States Department of Commerce Intragovernmental Assets and Liabilities
As of September 30, 2004 (In Thousands)**

Intragovernmental Assets:

Trading Partner		Fund Balance with Treasury	Accounts Receivable, Net	Advances and Prepayments	Total
Name	Number				
Department of the Treasury	20	\$ 6,652,727	\$ 156	\$ -	\$ 6,652,883
Environmental Protection Agency	68	-	16,302	-	16,302
Department of Transportation	69	-	14,703	-	14,703
National Aeronautics and Space Administration	80	-	8,457	-	8,457
Office of the Secretary of Defense - Defense Agencies	97	-	6,919	-	6,919
General Services Administration	47	-	378	6,273	6,651
Department of Energy	89	-	6,617	-	6,617
U.S. Army Corps of Engineers	96	-	6,527	-	6,527
Department of Homeland Security	70	-	790	3,965	4,755
Agency for International Development	72	-	3,491	-	3,491
Department of Agriculture	12	-	3,086	-	3,086
U.S. Postal Service	18	-	-	2,530	2,530
Others		-	16,602	2,412	19,014
Total		\$ 6,652,727	\$ 84,028	\$ 15,180	\$6,751,935

Intragovernmental Liabilities:

Trading Partner		Accounts Payable	Debt to Treasury	Resources Payable to Treasury	Unearned Revenue	Other	Total
Name	Number						
Department of the Treasury	20	\$ 2,375	\$ 274,426	\$ -	\$ 2,649	\$ -	\$ 279,450
Office of the Secretary of Defense - Defense Agencies	97	17,963	-	-	99,596	-	117,559
Treasury General Fund	99	-	-	63,931	-	12,889	76,820
Department of Labor	16	184	-	-	17,470	31,424	49,078
Department of Homeland Security	70	-	-	-	48,273	-	48,273
Department of Health and Human Services	75	5,000	-	-	27,001	-	32,001
Department of Justice	15	441	-	-	29,000	-	29,441
Department of Transportation	69	877	-	-	22,299	-	23,176
General Services Administration	47	12,651	-	-	2,771	143	15,565
Office of Personnel Management	24	1,275	-	-	137	14,076	15,488
Department of the Air Force	57	4,254	-	-	9,277	-	13,531
Environmental Protection Agency	68	171	-	-	11,989	-	12,160
Department of State	19	5,129	-	-	3,162	15	8,306
Department of Energy	89	616	-	-	6,273	-	6,889
National Science Foundation	49	1,470	-	-	5,304	-	6,774
Others		13,087	-	-	62,450	(2,852)	72,685
Total		\$ 65,493	\$ 274,426	\$ 63,931	\$ 347,651	\$ 55,695	\$ 807,196

**United States Department of Commerce Intragovernmental Transfers
For the Year Ended September 30, 2004 (In Thousands)**

Trading Partner		Transfers In	Transfers Out
Name	Number		
Appropriations Transfers:			
Agency for International Development	72	\$ 9,573	\$ -
U.S. Army Corps of Engineers	96	1,026	1,026
Independent Agencies	95	-	1,194
Total		\$ 10,599	\$ 2,220
Transfers Without Reimbursement:			
Department of Agriculture	12	\$ 79,724	\$ -
Department of the Navy	17	20,447	68
Department of Interior	14	4,337	49
Environmental Protection Agency	68	2,429	-
Unidentified	00	453	166
Treasury General Fund	99	-	2,727
Total		\$ 107,390	\$ 3,010

**United States Department of Commerce Intragovernmental Earned Revenue
and Related Costs
For the Year Ended September 30, 2004 (In Thousands)**

Intragovernmental Earned Revenue:

Trading Partner		
Name	Number	Amount
Department of Labor	16	\$ 78,800
Department of Health and Human Services	75	73,313
Department of Justice	15	55,026
Department of Transportation	69	50,311
Office of the Secretary of Defense - Defense Agencies	97	49,623
Environmental Protection Agency	68	32,985
Department of Housing and Urban Development	86	26,725
Department of Homeland Security	70	26,384
Department of Energy	89	24,613
National Science Foundation	49	20,287
National Aeronautics and Space Administration	80	19,113
Department of Education	91	18,198
Department of the Army	21	16,622
Department of State	19	13,540
U.S. Army Corps of Engineers	96	11,410
Department of the Air Force	57	11,112
Agency for International Development	72	10,241
Unidentified	00	10,140
Departmental of Agriculture	12	9,239
Department of the Treasury	20	9,204
Department of the Navy	17	6,887
Department of Interior	14	6,610
General Services Administration	47	5,389
Independent Agencies	95	3,203
Central Intelligence Agency	56	1,993
Department of Veterans Affairs	36	1,569
Social Security Administration	28	1,127
Small Business Administration	73	915
U.S. Nuclear Regulatory Commission	31	452
Securities and Exchange Commission	50	383
U.S. Postal Service	18	356
Export-Import Bank of the United States	83	326
Independent Agencies	48	222
Congressional Budget Office	08	165
Consumer Product Safety Commission	61	164
Tennessee Valley Authority	64	156
Government Printing Office	04	99
Executive Office of the President	11	99
Federal Communications Commission	27	96
Smithsonian Institution	33	59
U.S. Equal Employment Opportunity Commission	45	46
Library of Congress	03	29
International Trade Commission	34	23
Federal Deposit Insurance Corporation	51	16
Government Accountability Office	05	9
Federal Trade Commission	29	6
Architect of the Capital	01	4
Overseas Private Investment Corporation	71	2
Federal Maritime Commission	65	1
National Archives and Records Administration	88	1
National Labor Relations Board	63	(7)
Office of Personnel Management	24	(10)
Total		\$ 597,276

Gross Costs that Generated Intragovernmental Earned Revenue:

Budget Functional Classification	Amount
300 Natural Resources and Environment	\$ 144,627
370 Commerce and Housing Credit	435,393
450 Community and Regional Development	17,508
Total	\$ 597,528

United States Department of Commerce Schedule of Budgetary Resources by Major Budget Account
For the Year Ended September 30, 2004 (In Thousands)

	Combining Totals	NOAA Operations, Research, and Facilities	USPTO Salaries and Expenses	NOAA Procurement, Acquisition, and Construction	NIST Industrial Technology Services	ITA Operations and Administration	Census Bureau Periodic Censuses and Programs	EDA Grant Fund	Other Programs
BUDGETARY RESOURCES:									
Budget Authority									
Appropriations Received	\$ 6,134,774	\$ 2,703,671	\$ -	\$ 996,256	\$ 218,782	\$ 382,123	\$ 436,053	\$ 288,115	\$ 1,109,774
Borrowing Authority	169,997	-	-	-	-	-	-	-	169,997
Net Transfers	88,106	65,054	-	204	-	6,025	-	67	16,756
Unobligated Balance	1,060,343	133,778	3,540	186,367	22,778	73,992	49,660	29,468	560,760
Beginning of Period	31,315	-	-	-	-	623	-	20,404	10,288
Cancellations and Adjustments to Unobligated Balance, Beginning of Period	4,277	-	-	(2,500)	-	200	-	(76)	6,653
Spending Authority From Offsetting Collection Earned	2,662,978	178,552	1,247,238	5	441	12,155	203	15,351	1,209,033
Collected	(59,938)	16,304	(168)	-	-	(282)	-	-	(75,792)
Receivables	-	-	-	-	-	-	-	-	-
Changes in Unfilled Customer Orders	84,185	5,498	74,649	-	-	(2,004)	-	12,658	(6,616)
Advances Received	30,915	15,078	-	-	-	1,696	-	-	14,141
Without Advances	-	-	-	-	-	-	-	-	-
Total Spending Authority From Offsetting Collections	2,718,140	215,432	1,321,719	5	441	11,565	203	28,009	1,140,766
Recoveries of Prior-years Obligations	112,432	3,253	10,362	2,880	15,925	13,481	3,805	14,248	48,478
Temporarily Not Available Pursuant to Public Law	(176,759)	-	(175,485)	-	-	-	-	-	(1,274)
Permanently Not Available	(119,076)	(3,524)	-	(35,364)	(11,012)	(2,465)	(20,002)	(48,253)	(64,834)
Cancellation of Expired and No-year Accounts	(204,494)	(51,777)	-	-	(52,381)	(24,259)	-	(9,699)	(24,259)
Enacted Rescissions	75,584	-	75,584	-	-	-	-	-	(46,062)
Reversals	(46,062)	-	-	-	-	-	-	-	(25,852)
Capital Transfers and Redemption of Debt	(25,852)	-	-	-	-	-	-	-	-
Other Authority Withdrawn	-	-	-	-	-	-	-	-	-
TOTAL BUDGETARY RESOURCES	\$ 9,822,725	\$ 3,065,887	\$ 1,235,720	\$ 1,147,848	\$ 246,914	\$ 433,163	\$ 469,719	\$ 322,283	\$ 2,901,191
STATUS OF BUDGETARY RESOURCES:									
Obligations Incurred									
Direct	\$ 6,529,734	\$ 2,752,344	\$ -	\$ 1,017,189	\$ 233,111	\$ 406,221	\$ 465,097	\$ 284,216	\$ 1,371,556
Reimbursable	2,374,394	208,915	1,233,357	-	-	11,566	-	28,009	892,547
Total Obligations Incurred	8,904,128	2,961,259	1,233,357	1,017,189	233,111	417,787	465,097	312,225	2,264,103
Unobligated Balance									
Apportioned	514,717	93,294	1,844	130,659	12,151	11,959	3,190	6,484	295,136
Exempt From Apportionment	221,548	-	-	-	-	-	-	-	221,548
Unobligated Balance Not Available	182,332	11,334	519	-	1,652	3,417	1,432	3,574	160,404
TOTAL STATUS OF BUDGETARY RESOURCES	\$ 9,822,725	\$ 3,065,887	\$ 1,235,720	\$ 1,147,848	\$ 246,914	\$ 433,163	\$ 469,719	\$ 322,283	\$ 2,901,191
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:									
Obligated Balance, Net, Beginning of Period (Unpaid)	\$ 5,044,374	\$ 1,341,786	\$ 327,789	\$ 582,793	\$ 378,814	\$ 111,179	\$ 120,103	\$ 957,559	\$ 1,224,351
Adjustments to Obligated Balance, Beginning of Period (Unpaid)	4,765	-	-	-	-	-	4,450	(1)	316
Obligated Balance, Net, Beginning of Period, as Adjusted (Unpaid)	\$ 5,049,139	\$ 1,341,786	\$ 327,789	\$ 582,793	\$ 378,814	\$ 111,179	\$ 124,553	\$ 957,558	\$ 1,224,667
Obligated Balance, Net, End of Period (Unpaid)	\$ (154,749)	\$ (105,955)	\$ 875	\$ -	\$ -	\$ (1,504)	\$ -	\$ -	\$ (48,165)
Accounts Receivable	(117,950)	(68,649)	203,014	784,084	245,284	(2,144)	109,633	652,260	(47,157)
Unfilled Customer Orders (Unpaid)	4,650,799	1,521,356	100,489	62,756	77,796	39,251	36,143	241,327	1,057,372
Undelivered Orders (Unpaid)	842,464	151,022	-	-	21,959	-	-	-	189,517
Accounts Payable	-	-	-	-	-	-	-	-	-
Total Obligated Balance, Net, End of Period (Unpaid)	\$ 5,220,564	\$ 1,497,774	\$ 304,378	\$ 846,840	\$ 267,243	\$ 113,399	\$ 145,776	\$ 893,587	\$ 1,151,567
Outlays									
Disbursements	\$ 8,649,295	\$ 2,770,636	\$ 1,246,573	\$ 750,261	\$ 328,757	\$ 400,672	\$ 440,068	\$ 361,946	\$ 2,350,382
Collections	(2,747,163)	(184,050)	(1,321,887)	(5)	(441)	(10,151)	(203)	(28,009)	(1,202,417)
Total Outlays	5,902,132	2,586,586	(75,314)	750,256	328,316	390,521	439,865	333,937	1,147,965
Less: Offsetting Receipts	(14,515)	-	-	-	-	-	-	-	(14,515)
NET OUTLAYS	\$ 5,887,617	\$ 2,586,586	\$ (75,314)	\$ 750,256	\$ 328,316	\$ 390,521	\$ 439,865	\$ 333,937	\$ 1,133,450

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

(UNAUDITED)





Required Supplementary Stewardship Information (unaudited)

This section provides information on certain resources entrusted to the Department and certain stewardship responsibilities assumed by the Department. These resources and responsibilities are not required to be included in the assets and liabilities reported in the Department's financial statements; they are, however, important to understanding the operations and financial condition of the Department. This section also includes major investments made for the benefit of the U.S.

A Stewardship Property, Plant, and Equipment (Stewardship PP&E)

Stewardship PP&E are assets, the physical properties of which resemble those of the General PP&E that is traditionally capitalized in the financial statements of federal entities. Due to the nature of these assets, however, valuation would be difficult and matching costs with specific periods would not be meaningful.

Heritage Assets:

Heritage assets are unique for their historical or natural significance, for their cultural, educational, or artistic importance, or for their significant architectural characteristics. The Department generally expects that these assets will be preserved indefinitely.

In cases where a heritage asset also has a practical and predominant use for general government operations, the asset is considered a multi-use heritage asset. The costs of multi-use heritage assets are capitalized as General PP&E and are depreciated over the useful life of the asset.

National Oceanic and Atmospheric Administration (NOAA):

Collection-type Heritage Assets: The NOAA’s collection-type heritage assets are comprised primarily of books, publications, manuscripts, records, and nautical chart plates. The NOAA uses the Condition Assessment Survey (CAS) method to describe the condition of its heritage assets. The CAS method is based on a five-point scale with 1 representing excellent condition; 2 - good condition; 3 - fair condition; 4 - poor condition; and 5 - very poor condition. Assets with the condition assessment level between 1 through 3 are defined as being suitable for public display. The books, publications, and manuscripts which make up the majority of the assets are in 4 - poor condition, and 5 - very poor condition.

Collection-type Heritage Assets					
Entity	Description of Assets	Quantity of Items Held September 30, 2003	FY 2004 Additions	FY 2004 Withdrawals	Quantity of Items Held September 30, 2004
National Environmental Satellite, Data and Information Service Library	Publications, books, manuscripts, photographs, and maps	150,477	47	2	150,522
Others	Artifacts, artwork, books, films, instruments, maps, and records	1,562	1,265	153	2,674
Total		152,039	1,312	155	153,196

Galveston Laboratory: Galveston Laboratory is comprised of seven buildings that were originally part of Fort Crockett, an Army coastal defense facility built shortly after 1900. These buildings are eligible for placement on the National Register. Due to their historic significance, exterior architectural features, and predominant use in government operations, the Galveston Laboratory is considered a multi-use heritage asset. This facility is undergoing a renovation in three phases. Phase II is complete, and Phase III is anticipated to begin in the first quarter of FY 2005. As of September 30, 2004, the renovations are 60 percent complete.

National Marine Fisheries Service (NMFS) Aquarium: In Woods Hole, Massachusetts, this aquarium is used to educate the public, raise public awareness of NMFS activities, and accommodate in-house research for the Northeast Fisheries Science Center, part of NOAA’s mission. The aquarium houses 16 separate exhibition tanks holding more than 30 species of fish. The tanks range in size from 75 to 2,800 gallons. The general condition of the aquarium is good. The NMFS Aquarium is considered a multi-use heritage asset because of its predominant use for scientific research.

Office of Atmospheric Research (OAR) Great Lakes Environmental Research Laboratory (GLERL): The Great Lakes Environmental Research Laboratory carries out research and provides scientific products, expertise, and services required for effective management and protection of Great Lakes and coastal ecosystems. Built in 1900 and formerly a Coast Guard base at Muskegon, Michigan, the GLERL includes three buildings and a research vessel dockage. The function of the field station is to provide a base of operations for GLERL’s primary research vessel, which is presently the Research Vessel Shenehon, and to provide a focal point for GLERL’s research on Lake Michigan.

*Stewardship Marine Sanctuaries and Coral Reef Reserve:***NOAA:**

National Marine Sanctuaries: In 1972, Congress passed the Marine Protection, Research, and Sanctuaries Act (Act) in response to a growing awareness of the intrinsic environmental and cultural value of our coastal waters. The Act authorized the Secretary of Commerce to designate discrete areas as National Marine Sanctuaries. These protected waters provide a secure habitat for species close to extinction, and also protect historically significant shipwrecks and prehistoric artifacts. The sanctuaries are also used for recreational diving and sport fishing, and support valuable commercial industries such as fishing and kelp harvesting. As of September 30, 2004, 13 National Marine Sanctuaries, which include near-shore coral reefs and open ocean, have been designated, covering a total area of 19 thousand square miles. The waters and resources of the National Marine Sanctuaries are generally in good condition, though some specific resources (e.g. certain coral reefs, some commercial and recreational fisheries, and some benthic habitats) are threatened. Each individual sanctuary site (Monterey Bay, the Florida Keys, the Olympic Coast, and Channel Island are the largest four) conducts research and monitoring activities to characterize existing resources and document changes.

Northwestern Hawaiian Islands (NWHI) Coral Reef Ecosystem Reserve: Approximately 70 percent of all coral reefs located in U.S. waters surround the NWHI. The NWHI Coral Reef Ecosystem Reserve is the Nation's largest marine protected area, and was established by Executive Orders in December 2000 and January 2001 in accordance with the National Marine Sanctuaries Amendments Act of 2000. The NOAA is presently developing an operations plan for the Reserve, which covers 132 thousand square miles, and has also initiated the process to designate the Reserve as a National Marine Sanctuary. The final draft of the Reserve's Operations Plan (ROP) has been completed but remains to be officially cleared and approved. The ROP serves as a guide for management of the reserve during the sanctuary designation process. The conclusion of the designation process is expected in the spring of 2006.

B Stewardship Investments

Stewardship investments are substantial investments made by the U.S. government for the benefit of the U.S., but are not physical assets owned by the U.S. government. Though treated as expenses when incurred to determine the Department's Net Cost of Operations, these items merit special treatment so that users of federal financial reports know the extent of investments that are made for the long-term benefit of the U.S.

Investments in Non-federal Physical Property:

Non-federal physical property investments are expenses included in the Department's Net Cost of Operations for the purchase, construction, or major renovation of physical property owned by state and local governments. Based on a review of the Department's programs, NOAA and EDA have significant investments in non-federal physical property.

NOAA:

National Estuarine Research Reserves: The National Estuarine Research Reserves System consists of 26 estuarine reserves protected by federal, state, and local partnerships. Estuarine reserves are the areas where freshwater from rivers meet the ocean. These areas are known as bays, swamps, sloughs, and sounds. These important coastal habitats are used as spawning grounds and nurseries for at least two-thirds of the U.S.'s commercial fish and shellfish. Estuaries filter much of the polluted runoff from rivers and streams that would otherwise contaminate oceans. The program was created with the passage of the Coastal Zone Management Act of 1972, and, as of September 30, 2004, encompassed

approximately 1.1 million acres of estuarine waters, wetlands, and uplands. Most of the reserves are state-operated and managed in cooperation with NOAA. The investments fund the acquisitions of land, as well as the development or construction of facilities, auxiliary structures, and public access routes for reserve sites. Two additional reserves are in the process of development.

Coastal Zone Management Fund: The Coastal Zone Management Program (CZMP) is authorized by the Coastal Zone Management Act of 1972 and administered at the Federal level by the Coastal Programs Division (CPD) within the Office of Ocean and Coastal Resource Management. CPD is a federal-state partnership dedicated to comprehensive management of the nation’s coastal resources ensuring their protection for future generations, while balancing competing national economic, cultural and environmental interests. The CPD is responsible for advancing national coastal management objectives and maintaining and strengthening state and territorial coastal management capabilities. It supports states through financial assistance, mediation, technical services and information, and participation in priority state, regional, and local forums. Investment activities of the CZMP include incidental expenses of land acquisition and low-cost construction on behalf of various state and local governments for the purpose of preservation or restoration of coastal resources and habitats. Activities include redevelopment of deteriorating and urbanized waterfronts and ports, and providing public access to beaches and coastal areas.

Coastal and Estuarine Land Conservation Program: The Coastal and Estuarine Land Conservation Program was established under the Commerce, Justice, and State Appropriations Act of 2002, “for the purpose of protecting important coastal and estuarine areas that have significant conservation, recreation, ecological, historical, or aesthetic values, or that are threatened by conversion from their natural or recreational state to other uses.” Since FY 2002, matching grants were directed to 63 projects in coastal and estuarine areas, to be awarded to state and local governments for land acquisition.

NOAA's investments in non-federal physical property for FY 2000 through FY 2004 were as follows:

(In Millions)

Program	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	Total
National Estuarine Research Reserves	\$ 11.5	\$ 31.6	\$ 27.5	\$ 24.0	\$ 0.5	\$ 95.1
Coastal Zone Management Fund	2.8	5.3	5.9	-	-	14.0
Coastal and Estuarine Land Conservation Program	-	-	14.0	3.6	21.8	39.4
Total	\$ 14.3	\$ 36.9	\$ 47.4	\$ 27.6	\$ 22.3	\$ 148.5

Economic Development Administration (EDA):

Public Works: The Public Works program promotes long-range economic development in distressed areas by providing investments for vital public infrastructure and development facilities. These critical investments enable communities to attract new, or support existing, businesses that will generate new jobs and income for unemployed and underemployed residents. Among the types of projects funded are water, sewer, fiber optics, access roads, and facilities such as industrial and business parks, business incubator and skill training facilities, and port improvements.

Economic and Defense Adjustments: The Economic and Defense Adjustments program provides flexible investments for communities facing sudden or severe economic distress to diversify and stabilize its economy. Factors that seriously threaten the economic survival of local communities include essential plant closures, military base closures or realignments, defense laboratory or contractor downsizings, natural resource depletion, out-migration, under-employment, and destructive impacts of foreign trade.

Disaster Recovery: The Disaster Recovery program awards grants for the repair of infrastructure and economic development related facilities damaged by floods and other natural disasters. Funding for the Disaster Recovery program is generally through supplemental funding from Congress for recovery efforts to save, sustain, and preserve private enterprise and job creation in economically distressed communities.

The EDA's investments in non-federal physical property for FY 2000 through FY 2004 were as follows:

(In Millions)

Program	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	Total
Public Works	\$ 173.5	\$ 174.9	\$ 182.5	\$ 232.8	\$ 194.8	\$ 958.5
Economic and Defense Adjustments	112.9	131.6	109.0	88.7	75.3	517.5
Disaster Recovery	57.6	28.7	36.7	22.5	18.5	164.0
Total	\$ 344.0	\$ 335.2	\$ 328.2	\$ 344.0	\$ 288.6	\$ 1,640.0

The above investments require matching funds by state and local governments of 20 to 50 percent.

Investments in Human Capital:

Human capital investments are expenses, included in the Department's Net Cost of Operations, for education and training programs that are intended to increase or maintain national economic productive capacity and produce outputs and outcomes that provide evidence of the constant or increasing national productive capacity. These investments exclude education and training expenses for federal civilian and military personnel. Based on a review of the Department's programs, the most significant dollar investments in human capital are by NOAA.

NOAA:

National Sea Grant College Program: This program is a partnership between U.S. colleges and NOAA, and comprises 30 Sea Grant Colleges. The partnership was initiated in 1966 when Congress passed the National Sea Grant College Program Act, with the objective of making the U.S. the world leader in marine research and in the sustainable development of marine resources. The program funds research programs, and transfers new knowledge to coastal businesses, marine industries, the public, and governments. Research projects are funded on the basis of rigorous, highly-competitive peer reviews. To date, the program has supported the work of nearly 14 thousand graduate research assistants while they work(ed) on marine and Great Lakes science.

National Estuarine Research Reserve Program: This program supports activities designed to increase public awareness of estuary issues, provide information to improve management decisions in estuarine areas, and train graduate students in estuarine science. The National Estuarine Research Reserve System’s Graduate Research Fellowship (GRF) Program offers qualified master’s and doctoral students the opportunity to address scientific questions of local, regional and national significance. The result is high-quality research focused on improving coastal management issues. All GRF projects must be conducted in a National Estuarine Research Reserve and enhance the scientific understanding of the reserve’s ecosystem. In FY 2004, 48 Graduate Research Fellowships were awarded.

National Research Council Research Associateship Program: The National Research Council, through its Associateship Programs office, awards outstanding scientists and engineers, at recent post-doctoral and experienced senior levels, with tenure as guest researchers at participating laboratories. The participants interact with NOAA scientists and learn new approaches, methods, and ideas, thereby increasing their capacities as scientific researchers. The participants provide the results of their research in scientific journals and through other means.

The following summarizes NOAA’s investments in human capital for FY 2000 through FY 2004:

(In Millions)

Program	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	Total
National Sea Grant College Program	\$ 14.5	\$ 19.5	\$ 20.5	\$ 21.1	\$ 1.1	\$ 76.7
National Estuarine Research Reserve Program	0.7	0.8	0.8	0.1	0.8	3.2
National Research Council Research Associateship Program	1.7	3.0	0.4	1.5	1.6	8.2
Total	\$ 16.9	\$ 23.3	\$ 21.7	\$ 22.7	\$ 3.5	\$ 88.1

The following table further summarizes NOAA’s human capital investments for FY 2004 by performance goal:

(In Millions)

FY 2004	
Performance Goal	Total
1: Protect, restore, and manage the use of coastal and ocean resources through ecosystem-based management	\$ 3.5
2: Understand climate variability and change to enhance society’s ability to plan and respond	-
3: Serve society/s needs for weather and water information	-
4: Support the Nation’s commerce with information for safe, efficient, and environmentally sound transportation	-
Total	\$ 3.5

Note: In addition to the human capital investments indicated above, the National Sea Grant College Program received, on a pass-through basis from other federal agencies, \$1.5 million, \$1.6 million, \$1.9 million, \$1.1 million, and \$0.2 million for FY 2000, FY 2001, FY 2002, FY 2003, and FY 2004, respectively. Additionally, Sea Grant universities contributed matching funds to the National Sea Grant College Program in the amounts of \$8.5 million, \$11.1 million, \$11.5 million, \$11.0 million, and \$0.0 million in FY 2000, FY 2001, FY 2002, FY 2003, and FY 2004, respectively.

Investments in Research and Development (R&D):

Investments in R&D are expenses that are included in the Department’s Net Cost of Operations. The investments are divided into three categories: 1) basic research, the systematic study to gain knowledge or understanding of the fundamental aspects of phenomena and of observable facts without specific applications toward processes or products in mind; 2) applied research, the systematic study to gain knowledge or understanding necessary for determining the means by which a recognized and specific need may be met; and 3) development, the systematic use of the knowledge and understanding gained from research for the production of useful materials, devices, systems, or methods, including the design and development of prototypes and processes. The investments are made with the expectation of maintaining or increasing national economic productive capacity, or yielding other future economic and societal benefits. Based on a review of the Department's programs, the only significant investments in R&D are by NIST and NOAA.

National Institute of Standards and Technology (NIST):

NIST Laboratories Program: The NIST Laboratories have been the stewards of the U.S.’s measurement infrastructure since their inception in 1901 as the National Bureau of Standards. In fulfilling the Constitutional responsibility to fix the standards of weights and measures, these laboratories provide measurement methods, reference materials, test procedures, instrument calibrations, fundamental data, and standards that comprise essential tools for research, production, and buyer-seller transactions. The laboratories focus on two strategic goals: 1) provide technical leadership for the Nation’s measurement and standards infrastructure; and 2) assure the availability and efficient transfer of measurement and standards capabilities essential to established industries.

Advanced Technology Program (ATP): This program is a collaborative effort with industry to identify and promote investment in technologies with significant potential for broad-based economic benefits but inadequate levels of private investment. ATP uses joint ventures and informal teaming arrangements to combine private investment and the best available scientific and technological talent in industry, universities, and government. Cost-shared research is funded through an annual competitive awards process. Awards are made only after rigorous examination of the technical and business merits of each proposal and of the potential benefits to the U.S. economy and quality of life. In FY 2004, the program selected 59 new industrial research projects to receive cost-shared support totaling \$270 million in federal and industry funds (if carried to completion). The awards target a broad array of technologies, including pharmaceutical design, tissue engineering, industrial catalysts, energy generation and storage, manufacturing technologies, electronics manufacturing, computer software, and electro-optics. Forty-seven of the awards were made to small businesses, and at least 32 universities are involved as joint venture partners or subcontractors.

The following table summarizes NIST’s R&D investments for FY 2000 through FY 2004:

(In Millions)

	Measurement and Standards Laboratories					Advanced Technology Program					Total				
	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Basic Research	\$ 48.6	\$ 62.5	\$ 63.5	\$ 74.2	\$ 65.0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 48.6	\$ 62.5	\$ 63.5	\$ 74.2	\$ 65.0
Applied Research	239.0	255.6	288.8	307.9	319.7	91.8	85.0	76.6	86.8	96.9	330.8	340.6	365.4	394.7	416.6
Development	20.0	20.8	19.1	19.4	13.7	91.8	85.0	76.6	86.9	96.9	111.8	105.8	95.7	106.3	110.6
Total	\$307.6	\$338.9	\$371.4	\$401.5	\$398.4	\$183.6	\$170.0	\$153.2	\$173.7	\$193.8	\$491.2	\$508.9	\$524.6	\$575.2	\$592.2

The following table further summarizes NIST's R&D investments for FY 2004 by performance goal:

(In Millions)

FY 2004				
Performance Goal	Basic Research	Applied Research	Development	Total
1: Provide Technical Leadership for the Nation's Measurements and Standards Infrastructure; and 2: Assure the Availability and Efficient Transfer of Measurement and Standards Capabilities Essential to Established Industries	\$ 65.0	\$ 319.7	\$ 13.7	\$ 398.4
3: Accelerate Private Investment in and Development of High-risk, Broad-impact Technologies	-	96.9	96.9	193.8
Total	\$ 65.0	\$ 416.6	\$ 110.6	\$ 592.2

NOAA:

The NOAA conducts a substantial program of environmental R&D in support of its mission, much of which is performed to improve the U.S.'s understanding of and ability to predict environmental phenomena. The scope of research includes:

- Improving predictions and warnings associated with the weather, on time scales ranging from minutes to weeks
- Improving predictions of climate, on time scales ranging from months to centuries
- Improving understanding of natural relationships to better predict and manage renewable marine resources and coastal and ocean ecosystems

The NOAA also conducts research that is intended to provide a solid scientific basis for environmental policy-making in government. Examples of this research include determining the stratospheric ozone-depleting potential of proposed substitutes for chlorofluorocarbons (CFCs), and identifying the causes of the episodic high rural ozone levels that significantly damage crops and forests.

The NOAA conducts most R&D in-house; however, contractors to NOAA undertake most systems R&D. External R&D work supported by NOAA includes that undertaken through federal-academic partnerships such as the National Sea Grant College Program, the Cooperative Institutes of the Environmental Research Laboratories, the Climate and Global Change Program, and the Coastal Ocean Program.

Here is a brief description of the major R&D programs of NOAA:

Environmental and Climate: The Office of Oceanic and Atmospheric Research is NOAA's primary research and development office. The NOAA's research laboratories, Office of Global Programs, and research partners conduct a wide range of research into complex climate systems. The NOAA's research organizations conduct applied research on the upper and lower atmosphere as well as the space environment. The NOAA's research, in cooperation with its research partners, explores and investigates ocean habitats and resources.

Fisheries: The NOAA's NMFS is responsible for the collection and analysis of information on the status of fishery resources and protected species, and for conducting programs that develop fisheries for economic growth. The Magnuson-Stevens Fishery Conservation and Management Act (Act) mandates strong action to conserve and manage fishery resources that contribute to the food supply, economy, and health of the Nation. The Act's provisions require NMFS to end over-fishing, rebuild all over-fished stocks, and conserve essential fish habitat through research and consultations on Federal and state actions that may adversely affect habitats. The NMFS's four major research priorities include research to support fishery conservation and management, conservation engineering research, research on the fisheries, and information management research.

Fleet Maintenance and Aircraft Services: The NOAA's Marine and Aviation Operations manage a wide variety of specialized aircraft and ships to complete NOAA's environmental and scientific missions. The aircraft collect the environmental and geographic data essential to NOAA hurricane and other weather and atmospheric research, conduct aerial surveys for hydrologic research to help predict flooding potential from snowmelt, and provide support to NOAA's fishery research and marine mammal assessment programs. The NOAA's ship fleet provides oceanographic and atmospheric research and fisheries research vessels to support NOAA's strategic plan elements and mission.

Weather Service: The National Weather Service conducts applied research and development, building upon research conducted by NOAA laboratories and the academic community. Applied meteorological and hydrological research is integral to providing more timely and accurate weather, water, and climate services to the public.

Other Programs: As a national lead for coastal stewardship, National Ocean Service promotes a wide range of research activities to create the strong science foundation required to advance the sustainable use of our precious coastal systems. Our understanding of the coastal environment is enhanced through coastal ocean activities that support science and resource management programs. National Environmental Satellite Data and Information Service, through its Office of Research and Applications, conducts atmospheric, climatological, and oceanic research into the use of satellite data for monitoring environmental characteristics and their change. It also provides guidance for the development and evolution of spacecraft and sensors to meet future needs.

The NOAA's R&D investments by program for FY 2000 through FY 2004 were as follows:

(In Millions)

Program	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	Total
Environmental and Climate	\$ 257.4	\$ 266.2	\$ 289.9	\$ 351.4	\$ 317.9	\$ 1,482.8
Fisheries	241.3	125.8	121.7	156.4	70.6	715.8
Fleet Maintenance and Aircraft Services	14.7	18.0	19.3	90.4	51.7	194.1
Weather Service	7.7	11.1	11.0	20.4	17.6	67.8
Other	65.9	112.9	132.4	83.3	116.5	511.0
Total	\$ 587.0	\$ 534.0	\$ 574.3	\$ 701.9	\$ 574.3	\$ 2,971.5

The following table summarizes NOAA's R&D investments for FY 2000 through FY 2004 by R&D category:

(In Millions)

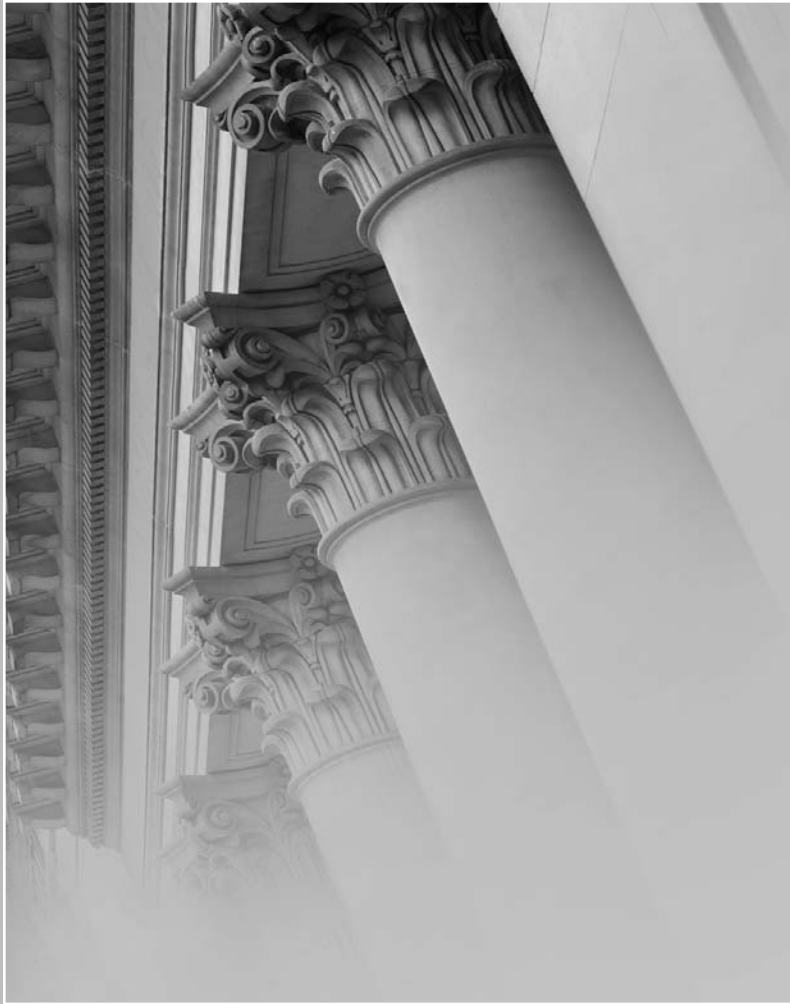
R&D Category	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	Total
Applied Research	\$ 563.7	\$ 511.0	\$ 546.0	\$ 680.8	\$ 546.7	\$2,848.20
Development	23.3	23.0	28.3	21.1	27.6	123.30
Total	\$ 587.0	\$ 534.0	\$ 574.3	\$ 701.9	\$ 574.3	\$2,971.5

The following table further summarizes NOAA's R&D investments for FY 2004 by performance goal:

(In Millions)

FY 2004			
Performance Goal	Applied Research	Development	Total
1: Protect, restore, and manage the use of coastal and ocean resources through ecosystem-based management	\$ 271.6	\$ 10.1	\$ 281.7
2: Understand climate variability and change to enhance society's ability to plan and respond	163.6	4.3	167.9
3: Serve society's needs for weather and water information	94.9	9.2	104.1
4: Support the Nation's commerce with information for safe, efficient, and environmentally sound transportation	16.6	4.0	20.6
Total	\$ 546.7	\$ 27.6	\$ 574.3

INDEPENDENT AUDITORS' REPORT







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

November 9, 2004

MEMORANDUM FOR: Donald L. Evans
 Secretary of Commerce

FROM: Johnnie E. Frazier *Johnnie Frazier*

SUBJECT: *Department of Commerce's FY 2004 Consolidated Financial Statements, Audit Report No. FSD-16696-5-0001*

I am pleased to provide you with the attached audit report, which presents an unqualified opinion on the Department of Commerce's FY2004 consolidated financial statements. The audit results indicate that the Department has established an internal control structure that facilitates the preparation of reliable financial and performance information. We commend the Department for the noteworthy accomplishment of once again attaining an unqualified opinion—the sixth consecutive year, and for meeting the fiscal year 2004 accelerated reporting deadline.

My office contracted with the independent public accounting firm of KPMG LLP (KPMG) to perform the audit of the Department's financial statements as of and for the year ended September 30, 2004. The contract required that the audit be done in accordance with U.S. generally accepted government auditing standards and OMB Bulletin 01-02, *Audit Requirements for Federal Financial Statements*.

In its audit of the Department, KPMG found that:

- the financial statements were fairly presented, in all material respects, and in conformity with U.S. generally accepted accounting principles;
- there was one reportable condition related to the Department's financial management systems (but not considered a material weakness in internal control as defined on page 3 of the audit report) due to weaknesses in general information technology controls;
- there were no instances in which the Department's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA); and
- there was one instance in which the Department did not comply with other laws and regulations tested—OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*.

We are pleased that the Department made significant progress in 2004 toward correcting internal control weaknesses. The auditor's report discusses the Department's success in fully implementing the Commerce Administrative Management System (CAMS) in October 2003, as well as some improvements made in general information technology controls. In addition, for the first time, during fiscal year 2004 ITA was deemed acceptably in compliance with OMB Circular A-25, *User Charges*, based on a plan submitted to OMB that outlines its full-cost

recovery initiatives. Thus, the finding of noncompliance with laws and regulations was removed in that area. These successes are surely the result of Commerce senior officials' commitment to sound financial management and reliable financial/performance information, as well as the important role and substantial efforts of the Department's financial managers and staff to improve internal controls and eliminate specific deficiencies identified by KPMG and our office in prior audits.

My office defined the audit's scope and oversaw its performance and delivery. We reviewed KPMG's report and related documentation, and made inquiries of its representatives. Our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards. However, our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the Department's consolidated financial statements, conclusions about the effectiveness of internal control, or conclusions on compliance with laws and regulations. KPMG is responsible for the attached audit report dated November 9, 2004, and the conclusions expressed in the report.

In accordance with Department Administrative Order (DAO) 213-5, we ask that the Department's Chief Financial Officer and Assistant Secretary for Administration provide for our review and concurrence an audit action plan that addresses all of the recommendations contained in this report within 60 days of the date of this memorandum.

If you wish to discuss the contents of this report, please call me on (202) 482-4661, or Edward Blansitt, Deputy Inspector General, on (202) 482-3516. We appreciate the cooperation and courtesies the Department extended to KPMG and my staff during the audit.

Attachment

cc: Otto J. Wolff
Chief Financial Officer and Assistant Secretary for Administration

Tom Pyke
Chief Information Officer



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

Office of Inspector General, U.S. Department of Commerce and
Secretary, U.S. Department of Commerce:

We have audited the accompanying consolidated balance sheets of the U. S. Department of Commerce (Department) as of September 30, 2004 and 2003, and the related consolidated statements of net cost, changes in net position, and financing, and the combined statements of budgetary resources (hereinafter referred to as consolidated financial statements), for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our audits, we also considered the Department's internal control over financial reporting and tested the Department's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on its consolidated financial statements.

SUMMARY

As stated in our opinion on the consolidated financial statements, we concluded that the Department's consolidated financial statements as of and for the years ended September 30, 2004 and 2003, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control over financial reporting resulted in the identification of one reportable condition, related to weaknesses in the Department's general information technology controls. However, we do not consider this reportable condition to be a material weakness.

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed one instance of noncompliance or other matters, relating to OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, that is required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The following sections discuss our opinion on the Department's consolidated financial statements, our consideration of the Department's internal control over financial reporting, our tests of the Department's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements, and management's and our responsibilities.



OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of the U.S. Department of Commerce as of September 30, 2004 and 2003, and the related consolidated statements of net cost, changes in net position, and financing, and the related combined statements of budgetary resources, for the years then ended.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Department as of September 30, 2004 and 2003, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The information in the Management Discussion and Analysis, Required Supplementary Stewardship Information, and Required Supplementary Information sections is not a required part of the consolidated financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The September 30, 2004 consolidating balance sheet is presented for purposes of additional analysis of the related consolidated balance sheet, rather than to present the financial position of the Department's bureaus individually. The September 30, 2004 consolidating balance sheet has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, based on our audits, is fairly stated in all material respects in relation to the September 30, 2004 consolidated balance sheet, taken as a whole. The information in the fiscal year 2004 Performance Report section is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. This information has not been subjected to the same auditing procedures and, accordingly, we express no opinion on it.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions by management in the consolidated financial statements.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the consolidated financial



statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

In our fiscal year 2004 audit, we noted certain matters relating to the Department's financial management systems, summarized below and in more detail in Exhibit I, that we consider to be a reportable condition. However, this reportable condition is not believed to be a material weakness.

General information technology controls. We found that although the Department has taken corrective actions to address certain information technology (IT) control weaknesses, general IT weaknesses still exist. Despite the positive efforts made by the Department, the Department needs to make continued improvement in its IT general control environment to fully ensure that financial data being processed on the Department's systems has integrity, is confidentially maintained, and is available when needed.

* * * * *

A summary of the status of prior year reportable conditions is included as Exhibit II.

We also noted other matters involving internal control over financial reporting and its operation that we have reported to the management of the Department in two separate letters addressing information technology and other matters, respectively.

COMPLIANCE AND OTHER MATTERS

Our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, as described in the Responsibilities section of this report, exclusive of those referred to in the *Federal Financial Management Improvement Act* (FFMIA), disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02, and is described below.

- **OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*. (Repeat Condition Since 1997)** As reported in prior years, we identified 11 capital leases that were not fully funded at NOAA, as required by OMB Circular A-11. In fiscal year 2004, NOAA took corrective action to fully fund all of these leases. NOAA also conducted an extensive follow-on analysis of its real and personal property lease portfolio and identified 65 additional leases that meet the criteria of capital leases under A-11 guidelines and that require full funding. The estimated budgetary authority required to fully fund these additional budgetary capital leases is approximately \$8 million, but will likely be reduced to approximately \$3.1 million with planned lease modifications and fiscal year 2005 payments. NOAA and the Department agreed with this finding and conducted the research to determine the scope of the issue. NOAA has indicated that it plans to submit a reprogramming request, early in fiscal year 2005, to fully fund these additional capital leases. We believe that the planned corrective actions are responsive to resolving this matter.

The results of our tests of compliance with certain provisions of other laws and regulations, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters



that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 01-02.

FFMIA. The results of our tests of FFMIA disclosed no instances in which the Department's financial management systems did not substantially comply with the three requirements discussed in the Responsibilities section of this report.

Additional Concern. We were informed by NOAA that during fiscal year 2004, it identified two reimbursable agreements, one signed in fiscal year 2000 and the other in fiscal year 2001, between NOAA and nonprofit entities that contained indemnification clauses. These clauses raise Anti-Deficiency Act concerns. The two agreements were amended in June and July 2004, eliminating future Anti-Deficiency Act concerns. The Office of General Counsel is reviewing this matter to determine whether an Anti-Deficiency Act violation occurred. However, although the outcome of this matter, and any resulting ramifications, is not presently known, NOAA has confirmed that no claims have been made against NOAA or the Department based on these agreement provisions.

RESPONSIBILITIES

Management's Responsibilities. The *Government Management Reform Act of 1994* (GMRA) requires each Chief Financial Officer (CFO) Act agency to report annually to Congress on its financial status and any other information needed to fairly present its financial position and results of operations. To meet the GMRA reporting requirements, the Department prepares annual consolidated financial statements.

Management is responsible for the consolidated financial statements, including:

- Preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America;
- Establishing and maintaining internal controls over financial reporting, and preparing the Management Discussion and Analysis (including the performance measures), Required Supplementary Information, and Required Supplementary Stewardship Information, and
- Complying with laws, regulations, contracts, and grant agreements, including FFMIA.

In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies. Because of inherent limitations in internal control, misstatements, due to error or fraud, may nevertheless occur and not be detected.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2004 and 2003 consolidated financial statements of the Department based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, and OMB Bulletin No. 01-02. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.



An audit includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall consolidated financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2004 audit, we considered the Department's internal control over financial reporting by obtaining an understanding of the Department's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to provide assurance on internal control over financial reporting. Consequently, we do not provide an opinion thereon.

As required by OMB Bulletin No. 01-02, we considered the Department's internal control over Required Supplementary Stewardship Information by obtaining an understanding of the Department's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. Our procedures were not designed to provide assurance on internal control over Required Supplementary Stewardship Information and, accordingly, we do not provide an opinion thereon.

As further required by OMB Bulletin No. 01-02 with respect to internal control related to performance measures determined by management to be key and reported in the Management Discussion and Analysis section, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether the Department's fiscal year 2004 consolidated financial statements are free of material misstatement, we performed tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the Department. Providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.



Under OMB Bulletin No. 01-02 and FFMIA, we are required to report whether the Department's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

DISTRIBUTION

This report is intended for the information and use of Department's management, Department's Office of the Inspector General, OMB, the Government Accountability Office, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 9, 2004

U.S. Department of Commerce
 Independent Auditors' Report
 Exhibit I – Reportable Condition

Financial Management Systems Need Improvement (*Repeat Condition Since 1998*)

For many years, the U.S. Department of Commerce (Department) Office of Inspector General (OIG), U.S. Government Accountability Office (GAO), and departmental self-assessments have identified weaknesses in the Department's information technology (IT) and financial systems controls. Our fiscal year 2004 assessment of the Department's general IT and financial systems controls, performed in support of the fiscal year 2004 consolidated financial statement audit, found that although the Department needs to make further progress with its general IT control environment, progress has been made in addressing many prior weaknesses. For example, at the beginning of fiscal year 2004, the Department successfully implemented the Commerce Administrative Management System, the Department's core financial system, at the National Institute of Standards and Technology (NIST), eliminating a large legacy system, and providing for the implementation of automated budgetary controls at that bureau.

During fiscal year 2004, the Department also made progress in addressing certain prior IT general control weaknesses. In particular, the Department provided increased focus on improving its information security program. The Department's efforts were commended by GAO¹, which noted that the Department was the only agency in their review that had an agency-wide process to routinely ensure quality of information security certification and accreditation (C&A) efforts. GAO also commended the Department OIG, noting that the OIG was only one of two OIGs in the GAO review that specifically addressed security C&A efforts as part of their required *Federal Information Security Management Act* (FISMA) reporting efforts².

Despite these improvements, we continued to identify weaknesses in general IT controls that we consider to be a reportable condition as defined by the American Institute of Certified Public Accountants. As part of the Department's fiscal year 2004 FISMA evaluation, the Department determined (and the OIG also confirmed) that a FISMA-related significant deficiency, related to IT information security, continues to exist. The Department had also classified IT security as a material weakness under the Federal Managers' Financial Integrity Act.

Effective general IT controls add assurance that data used to prepare and report financial information and statements is complete, reliable, and has integrity. Our fiscal year 2004 IT assessment was focused on the general IT controls over the Department's major financial management systems and supporting network infrastructure, using GAO's *Federal Information System Controls Audit Manual* (FISCAM) as a guide. The six FISCAM general IT control review elements, and our related findings, are as follows:

- **Entity-wide security program.** An entity-wide security program for security planning and management is the foundation of an organization's information security

¹ General Accounting Office - June 2004 report titled *Agencies Need to Implement Consistent Processes in Authorizing Systems for Operation*

² Ibid

U.S. Department of Commerce
Independent Auditors' Report
Exhibit I – Reportable Condition, Continued

control structure. The program should provide a framework and continuing cycle of activity for managing risk, developing security policies, assigning responsibilities, and monitoring the adequacy of computer-related security controls.

Although the Department has made improvements in this area, as noted earlier in this report, our fiscal year 2004 audit indicated that the Department should continue to improve. Specifically, we noted that (1) several bureaus should ensure that contractors sign non-disclosure agreements, (2) procedures for reporting security incidents to the U.S. Computer Emergency Readiness Team (US-CERT) should be better documented, and (3) system security plans should be improved. We also noted that one bureau needs to perform a system and data center risk assessment.

The Office of Management and Budget (OMB) Circular A-130, *Management of Federal Information Resources* provides key guidelines for establishing and maintaining an entity-wide information security program. Collectively, the identified entity-wide security planning and management issues, coupled with the access control issues described below, reduce the overall effectiveness of the entity-wide security programs for the individual bureaus and operating units, and the overall Department. The *Department of Commerce IT Security Program Policy and Minimum Implementation Standards*, reiterates OMB Circular A-130 guidance, and implements key elements of such guidance as Department-wide policy.

- **Security access controls.** In close concert with an organization's entity-wide information security program, access controls for general support systems and financial systems should provide reasonable assurance that computer resources such as data files, application programs, and computer-related facilities and equipment are protected against unauthorized modification, disclosure, loss, or impairment. Access controls are facilitated by an organization's entity-wide security program. Such controls include physical controls and logical controls.

The objectives of limiting access are to ensure that users have only the access needed to perform their duties; that access to very sensitive resources, such as security software programs, is limited to very few individuals; and that employees are restricted from performing incompatible functions or functions beyond their responsibility. This is reiterated by Federal guidelines. For example, OMB Circular A-130 and supporting NIST publications provide guidance related to the maintenance of technical access controls. In addition, the *Department of Commerce IT Security Program Policy and Minimum Implementation Standards* contain many requirements for operating Department IT devices in a secure manner.

During fiscal year 2004, we noted that access controls need improvement at certain bureaus, primarily in the areas of user account management and technical device security. We recognize that the Department and its bureaus have compensating controls in place to help reduce the risk that some of the access control vulnerabilities

U.S. Department of Commerce
Independent Auditors' Report
Exhibit I – Reportable Condition, Continued

identified could be exploited, and we have considered such compensating controls as part of our overall consolidated financial statement audit.

- **Application software development and change control.** The primary focus of application software development and change control is on controlling the changes that are made to software systems in operation. Establishing controls over the modification of application software programs ensures that only authorized programs and authorized modifications are implemented. This is accomplished by instituting policies, procedures, and techniques to determine that all programs and program modifications are properly authorized, tested, and approved, and that access to and distribution of programs is carefully controlled. Without proper controls, there is a risk that security features could be inadvertently or deliberately omitted or turned off, or that processing irregularities or malicious code could be introduced into the IT environment.

During fiscal year 2004, we noted that application software development and change controls should be improved at certain Department bureaus, primarily in the areas of better (1) monitoring for unauthorized personal and public software, and (2) documenting application software change control policies and procedures.

- **System software.** System software is a set of programs designed to operate and control the processing activities of computer equipment. System software helps control the input, processing, output, and data storage associated with all of the applications that run on a system. Controls over access to and modification of system software are essential in providing reasonable assurance that operating system-based security controls are not compromised and that the system will not be impaired.

During fiscal year 2004, we noted that system software controls should be improved at one bureau, in the areas of usage and monitoring of system software controls.

- **Segregation of duties.** Work responsibilities should be segregated so that an individual does not control more than one critical function within a process. Inadequately segregated duties increase the risk that erroneous or fraudulent transactions could be processed, improper program changes could be implemented, and computer resources could be damaged or destroyed. Key areas of concern for segregation of duties involves duties among major operating and programming activities, including duties performed by users, application programmers, and data center staff. Policies outlining individual responsibilities should be documented, communicated, and enforced. The prevention and/or detection of unauthorized or erroneous actions by personnel require effective supervision and review by management, as well as formal operating procedures.

During fiscal year 2004, we noted that controls over segregation of duties should be improved at one bureau, primarily related to segregating key functions and better documenting IT-related position descriptions.

U.S. Department of Commerce
Independent Auditors' Report
Exhibit I – Reportable Condition, Continued

- **Service continuity.** Losing the capability to process, retrieve, and protect information maintained electronically can significantly affect an agency's ability to accomplish its mission. For this reason, an agency should have: (1) procedures in place to protect information resources and minimize the risk of unplanned interruptions, and (2) a plan to recover critical operations should interruptions occur.

During fiscal year 2004, we noted that service continuity controls should be improved at certain Department bureaus, primarily in the areas of implementing additional service continuity related controls and testing service continuity plans.

Recommendations

Specific recommendations are included in a separate limited distribution IT general controls report, issued as part of the fiscal year 2004 consolidated financial statement audit. The Department should monitor bureau actions to ensure effective implementation of our recommendations.

Management's Response

Management agreed with our findings, conclusions, and recommendations related to improving the Department's financial management systems controls. The Department is in the process of finalizing corrective action plans to address the recommendations presented in the separate limited distribution IT general controls report. We believe the Department's planned corrective actions are responsive to our recommendations.

U.S. Department of Commerce
 Independent Auditors' Report
 Exhibit II – Status of Prior Year Findings

Reported Issue	Prior Year Recommendation	Fiscal Year 2004 Status
<i>Reportable Condition - Financial Management Systems Need Improvement</i>		
<p>a. <i>General information technology controls.</i> Weaknesses in general controls were identified in all six FISCAM review areas.</p>	<p>The Department should monitor bureau actions to ensure effective implementation of our recommendations.</p>	<p>Reportable Condition (see comments in Exhibit I).</p>
<p>b. <i>Integrated financial management systems.</i> The Department has not fully complied with OMB Circular A-127, <i>Financial Management Systems</i>. The Circular requires each agency to establish and maintain a single, integrated financial management system.</p>	<p>The Department ensure that the implementation of CAMS for NIST, NTIA, and TA, effective October 1, 2003, is successful and in compliance with OMB Circular A-127. In addition, the Department should continue to replace legacy feeder systems with integrated systems.</p>	<p>Completed.</p>
<p>c. <i>Automated budgetary controls</i> NIST's accounting system does not contain automated procedures or system controls to prevent over-obligation of apportioned funds at the required level.</p>	<p>Effective October 1, 2003, NIST implement the CAMS funds control modules at the level required by OMB Circular A-11, at a minimum.</p>	<p>Completed.</p>





APPENDICES

PERFORMANCE AND RESOURCE TABLES

To make the report more useful, this FY 2004 Performance and Accountability Report (PAR) reports on targets and measures from the FY 2005 Annual Performance Plan (APP), which more accurately reflects updated targets of each performance measure. Individual bureau-specific APPs can be found on the Department of Commerce Web site at http://www.osec.doc.gov/bmi/budget/budgetsub_perf_strategicplans.htm. The resource tables with the performance tables are also combined to make the information easier to follow.

The following tables provide an array of information that previously was shown in separate tables. The information should help the reader clearly understand the resources expended for each Strategic Goal, Objective, and Performance Goal. The system of reporting does not currently allow the Department to report on resources at the performance measure level but it is Commerce's hope to develop this capability in the future. It is important to note that if a performance measure has been met, a green circle will appear. All other ratings will represent an unmet measure, whether the rating is red or yellow.

The information in the tables will follow the following format:

- ◆ Strategic Goal and Resources
- ◆ Objective and Resources
- ◆ Performance Goal and Resources
- ◆ Performance Measure

Note: Unless otherwise noted, measures that do not have targets, are new, or are baseline are not included in any count in this document. Resources for each performance goal are estimates and may be updated in the budget for FY 2006.

STRATEGIC GOAL 1

Provide the information and tools to maximize U.S. competitiveness and enable economic growth for American industries, workers and consumers

STRATEGIC GOAL 1 TOTAL RESOURCES (Dollars in Millions)				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual
Total Funding	\$2,148.7	\$1,704.1	\$2,065.3	\$1,856.8
FTE ¹	15,315	11,827	11,343	12,019

¹ FTE – Full-Time Equivalent

STRATEGIC OBJECTIVE 1.1

Enhance economic growth for all Americans by developing partnerships with private sector and nongovernmental organizations


OBJECTIVE 1.1 RESOURCES (Dollars in Millions)				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual
Total Funding	\$992.9	\$677.5	\$662.2	\$681.4
FTE ¹	3,728	1,990	2,288	2,327





¹ FTE – Full-Time Equivalent

PERFORMANCE GOAL: Increase private enterprise and job creation in economically distressed communities (EDA)

PERFORMANCE GOAL RESOURCES (Dollars in Millions)				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual ²
Total Funding	\$362.3	\$296.6	\$258.3	\$252.4
FTE ¹	165	155	149	134

¹ FTE – Full-Time Equivalent
² Actuals reflect direct obligations for EDAP programs and S&E; totals do not include one-time, disaster investments or reimbursable funding.

PERFORMANCE GOAL MEASURES							
	MEASURE	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
EDA	Private sector dollars invested in distressed communities as a result of EDA investments	\$971M	\$640M	\$1,251M from FY 2000 investments and \$2,475M from FY 1997 investments	\$318M by FY 2007, \$795M by FY 2010, and \$1,590M by FY 2013	\$1,740M from FY 1998 investments (6 year) and \$947M from FY 2001 investments (3 year) ¹	



PERFORMANCE GOAL MEASURES (continued)							
MEASURE		FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
EDA	Jobs created or retained in distressed communities as a result of EDA investments	12,898 from FY 1998 investments	29,912 from FY 1999 investments	39,841 from FY 2000 investments and 47,607 from FY 1997 investments	9,140 by FY 2007; 22,850 by FY 2010; and 45,700 by FY 2013	68,109 from FY 1998 investments (6 year) and 21,901 from FY 2001 investments (3 year) ²	
EDA	State and local dollars committed per EDA dollar	\$1-\$1	\$1.1-\$1	\$1-\$1	\$1-\$1	\$1-\$1	
EDA	Percentage of investments in regions of highest distress	43%	40.1%	37.6%	37-43%	37.0%	
EDA	Percentage of EDA dollars invested in technology-related projects in distressed areas	N/A	11.8%	8.8%	7-10%	7%	






¹ Targets were \$650M from FY 1998 investments (6 year) and \$480M from FY 2001 investments (3 year).
² Targets were 27,000 from FY 1998 investments (6 year) and 14,400 from FY 2001 investments (3 year).

PERFORMANCE GOAL: Improve community capacity to achieve and sustain economic growth (EDA)

PERFORMANCE GOAL RESOURCES (Dollars in Millions)				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual ²
Total Funding	\$76.7	\$68.8	\$67.3	\$71.9
FTE ¹	89	84	80	72

¹ FTE – Full-Time Equivalent
² Actuals reflect direct obligations for EDAP programs and S&E; totals do not include one-time, disaster investments or reimbursable funding.



PERFORMANCE GOAL MEASURES							
MEASURE		FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
EDA	Percentage of economic districts and Indian tribes implementing economic development projects from the comprehensive economic development strategy process that lead to private investment and jobs	New	New	98.7%	95%	97%	
EDA	Percentage of sub-state jurisdiction members actively participating in the economic development district program	92%	95.3%	96.7%	89-93%	90.1%	

PERFORMANCE GOAL MEASURES (continued)							
MEASURE		FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
EDA	Percentage of University Center clients taking action as a result of the assistance facilitated by the University Center	New	New	78.1%	75%	78.4%	
EDA	Percentage of those actions taken by University Center clients that achieved the expected results	New	New	85.7%	80%	87.5%	
EDA	Percentage of Trade Adjustment Assistance Centers (TAACs) clients taking action as a result of the assistance facilitated by the TAACs	New	New	92.4%	90%	90%	
EDA	Percentage of those actions taken by Trade Adjustment Assistance Center clients that achieved the expected results	New	New	98.4%	95%	98%	
EDA	Percentage of local technical assistance and economic adjustment strategy investments awarded in regions of highest distress	32%	30%	30.2%	30-35%	30%	

PERFORMANCE GOAL: Increase trade opportunities for U.S. firms to advance the U.S.’ international commercial and strategic interests (ITA)

PERFORMANCE GOAL RESOURCES (Dollars in Millions)				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual
Total Funding	\$236	\$109.9	\$106.7	\$98.6
FTE ¹	1,488	619	489	591





¹FTE – Full-Time Equivalent



PERFORMANCE GOAL MEASURES							
MEASURE		FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
ITA	Number of new or enhanced ITA partnerships with public and private sector entities to promote U.S. exports	New	Not Implemented	88	45	45	
ITA	Trade policy and negotiations advancement	New	New	New	New	New	N/A
ITA	Dollar exports in targeted products and markets	New	\$166.3B	\$165.6B	\$160B to \$180B	\$179B	

PERFORMANCE GOAL: Expand U.S. exporter base (ITA)

PERFORMANCE GOAL RESOURCES (Dollars in Millions)				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual ²
Total Funding	\$129.0	\$75.3	\$97.2	\$121.9
FTE ¹	858	423	903	724

¹ FTE – Full-Time Equivalent
² Reflects ITA after all trade promotion was consolidated (post reorganization).





PERFORMANCE GOAL MEASURES							
MEASURE		FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
ITA	Percentage of undertaken advocacy actions completed successfully	New	11.8%	10%	10% to 15%	13%	
ITA	Dollar value of completed advocacies (U.S. export content)	New	\$8.64B	\$5.9B	\$4B to \$6B	\$6.5B	
ITA	Number of U.S. exporters entering a new market	5,386	5,740	6,278	6,200 to 6,300	4,759	
	<i>Performance was not met, because:</i> ITA helped U.S. companies enter a new market. Externalities have impacted this measure. Rising energy costs and creeping interest rates have reduced margins and limited firms from expanding to new markets as well.						
	<i>Strategies for Improvement:</i> ITA will continue to encourage U.S. exporters to enter new markets in regions of the world least impacted by stated externalities. For example, a firm exporting currently to Canada may be encouraged to enter Mexico. The Commercial Service will continue to keep its worldwide network informed of the targets and stress the need to meet them, in the face of the constraints outlined above.						
ITA	Number of U.S. firms exporting for the first time	742	699	896	880 to 900	704	
	<i>Performance was not met, because:</i> ITA helped U.S. companies export for the first time. Rising energy costs and creeping interest rates have reduced margins and limited firms from expanding as well. As the economy improves and oversea situations stabilize, conditions should improve.						
	<i>Strategies for Improvement:</i> ITA will encourage U.S. firms exporting for the first time to enter regions of the world least impacted by stated externalities. For example, a firm exporting for the first time would be encouraged to enter Canada or Mexico. The US&FCS will continue to keep its worldwide network informed of the targets and stress the need to meet them, in the face of the constraints outlined above.						

PERFORMANCE GOAL MEASURES <i>(continued)</i>								
MEASURE	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met		
ITA	Number of export transactions made as a result of ITA involvement	11,160	12,178	14,090	14,000 to 14,500	11,382		
	<p><i>Performance was not met, because:</i></p> <p><u>External Factors:</u> ITA's US&FCS facilitated export transactions. This indicator has been impacted by negative externalities (as stated in the two previous measures). Rising energy costs and creeping interest rates have reduced margins and limited firms from completing more transactions.</p> <p><u>Internal Factors:</u> The US&FCS instituted a new system of export-success credits for its employees. Prior to FY 2004, employees were rated on the number of export successes reported, creating a disincentive for teamwork and the potential for duplicative reporting. Results partially dipped in the first quarter as employees were trained on the new reporting policy.</p> <p><u>Goal Setting:</u> In general, the US&FCS set more aggressive goals for the first half of the year than in previous years.</p> <p><u>Strategies for Improvement:</u> ITA will encourage field staff to increase their incidence of involvement with ITA clients during the next fiscal year. ITA will also place more emphasis on increasing their involvement with firms to minimize expectations of stated externalities. The US&FCS will continue to keep its worldwide network informed of the targets and stress the need to meet them, in the face of the constraints outlined above.</p>							
	ITA	Percentage of TP/USFCS program fee funded	New	New	New	1%	1%	

PERFORMANCE GOAL: Improve customer and stakeholder satisfaction (ITA)

PERFORMANCE GOAL RESOURCES <i>(Dollars in Millions)</i>				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual
Total Funding	\$118.0	\$65.5	\$81.4	\$87.2
FTE ¹	744	420	552	535




¹ FTE – Full-Time Equivalent

PERFORMANCE GOAL MEASURES							
MEASURE	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met	
ITA	Customer satisfaction with ITA's products and services	New	New	70	70	70	
ITA	Customer perception of ease of access to export and trade information and data	New	New	74	74	74	
ITA	Level of awareness of ITA products and services	New	New	77%	77%	77%	
ITA	Number of U.S. exporter activities undertaken per customer surveyed	New	New	1	1	1	

PERFORMANCE GOAL: Improve the U.S. competitive advantage through global e-commerce (ITA)

PERFORMANCE GOAL RESOURCES (Dollars in Millions)				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual
Total Funding	\$43.0	\$33.1	\$22.6	\$20.5
FTE ¹	294	197	23	124



¹ FTE – Full-Time Equivalent






PERFORMANCE GOAL MEASURES							
	MEASURE	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
ITA	Number of new subscribers using BuyUSA.com e-services	339	564	2,078	5,000 to 5,500	5,675	
ITA	Customer perception of (Export.gov) portal ease of use	New	84.4%	69%	Greater than 70%	75%	
ITA	Percentage of ITA's significant products and services provided electronically to external customers	New	Not Implemented	82%	Greater than 85%	92%	

PERFORMANCE GOAL: Increase the opportunities and access of minority-owned businesses to the marketplace and financing (MBDA)

PERFORMANCE GOAL RESOURCES (Dollars in Millions)				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual
Total Funding	\$27.9	\$28.3	\$29.0	\$28.9
FTE ¹	90	92	92	92

¹ FTE – Full-Time Equivalent

PERFORMANCE GOAL MEASURES							
	MEASURE	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
MBDA	Total number of all clients receiving assistance	New	New	7,228	25,000	29,387	
MBDA	Number of contract awards obtained	New	New	3,125	3,200	1,925	
	<i>Performance was not met, because:</i> As a result of our Strategic Growth Policy, MBDA was successful in obtaining larger prime contract opportunities by targeting medium to large, high growth potential firms. Traditionally, smaller minority firms can only qualify for subcontracts. Therefore, the dollar value of awards increased significantly while the number decreased as indicated.						
	<i>Strategies for Improvement:</i> We will continue to work toward increasing the number of contract awards obtained in FY 2005.						

PERFORMANCE GOAL MEASURES <i>(continued)</i>							
MEASURE		FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
MBDA	Dollar value of contracts awards obtained	\$1.6B	\$1.3B	\$0.7B	\$0.8B	\$0.95B	
MBDA	Number of financial awards obtained	1,155	1,512	533	550	638	
MBDA	Dollar value of financial awards obtained	\$0.6B	\$0.4B	\$0.4B	\$0.4B	\$0.6B	
MBDA	Employees training hours	New	9,817	9,874	5,500	6,810	
MBDA	Number of national and regional strategic partnerships	New	6	8	150	210	

STRATEGIC OBJECTIVE 1.2

Advance responsible economic growth and trade while protecting American security




OBJECTIVE 1.2 RESOURCES <i>(Dollars in Millions)</i>				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual
Total Funding	\$130.9	\$160.4	\$162.5	\$166.2
FTE ¹	733	929	795	1,027

¹ FTE – Full-Time Equivalent

PERFORMANCE GOAL: Ensure fair competition in international trade (ITA)

PERFORMANCE GOAL RESOURCES <i>(Dollars in Millions)</i>				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual
Total Funding	\$68.0	\$92.8	\$85.8	\$89.5
FTE ¹	360	571	341	576

¹ FTE – Full-Time Equivalent

PERFORMANCE GOAL MEASURES							
	MEASURE	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
ITA	Percentage of antidumping countervailing duty cases completed on time	New	100%	100%	100%	100%	
ITA	Number of market access and trade compliance cases initiated	New	253	144	150 to 160	161	
ITA	Number of market access and trade compliance cases concluded	New	New	158	70 to 80	116	

PERFORMANCE GOAL: Protect the U.S. national security and economic interests by enhancing the efficiency of the export control system (BIS)

PERFORMANCE GOAL RESOURCES <i>(Dollars in Millions)</i>				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual
Total Funding	\$24.0	\$27.6	\$29.4	\$25.8
FTE ¹	164	156	190	201


¹ FTE – Full-Time Equivalent

PERFORMANCE GOAL MEASURES							
MEASURE		FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
BIS	Median processing time for referral of export licenses to other agencies (days)	New	New	4	9	3	
BIS	Median processing time for export licenses not referred to other agencies (days)	New	New	9	15	9	
BIS	Median processing time for issuing draft regulations (months)	New	New	7	3	2	
BIS	Level of exporter understanding of BIS export control requirements value of information (average score on scale of 1-5)	New	4.2	4.2	4.2	4.2	
BIS	Percent knowledge gained (index)	New	New	New	Establish Baseline	45%	N/A

PERFORMANCE GOAL: Ensure U.S. industry compliance with the chemical weapons convention (CWC) agreement (BIS)

PERFORMANCE GOAL RESOURCES (Dollars in Millions)				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual
Total Funding	\$6.5	\$4.5	\$5.9	\$7.0
FTE ¹	22	22	29	27



¹ FTE – Full-Time Equivalent

PERFORMANCE GOAL MEASURES							
MEASURE		FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
BIS	Number of site assistance visits conducted to assist companies prepare for international inspections	New	16	12	24	12	
	<i>Performance was not met, because:</i> The target for 24 SAVs was based on BIS's routine practice of conducting 12 visits annually pursuant to the Chemical Weapons Convention (CWC) Regulations and projected activities under the U.S. Additional Protocol. Since BIS cannot conduct SAVs pursuant to the U.S. Additional Protocol until enactment of implementing legislation, ratification of the treaty, and publication of regulations, which do not occur in FY 2004, BIS did not meet this measure.						
	<i>Strategies for Improvement:</i> This measure is discontinued in FY 2005 and revised to reflect the percentage of successfully completed SAV's which is more conducive to legislative changes and provides an outcome measure in accordance with OMB guidance.						

PERFORMANCE GOAL: Prevent illegal exports and identify violators of export prohibitions and restrictions for prosecution (BIS)

PERFORMANCE GOAL RESOURCES (Dollars in Millions)				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual
Total Funding	\$27.1	\$30.0	\$41.0	\$33.4
FTE ¹	178	171	226	214


¹ FTE – Full-Time Equivalent

PERFORMANCE GOAL MEASURES							
MEASURE		FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
BIS	Number of cases opened that result in the prevention of a criminal violation or the prosecution of a criminal or administrative case	81	82	250	250	310	
BIS	Number of Post-Shipment Verifications (PSV) completed	New	415	397	375	401	

PERFORMANCE GOAL: Enhance the export and transit control systems of nations that lack effective control arrangements (BIS)

PERFORMANCE GOAL RESOURCES <i>(Dollars in Millions)</i>				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual
Total Funding	\$5.3	\$5.5	\$9.2	\$7.7
FTE ¹	9	9	9	9

¹ FTE – Full-Time Equivalent

PERFORMANCE GOAL MEASURES							
MEASURE		FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
BIS	Number of targeted deficiencies remedied in the export control system of program nations	New	25	39	30	41	

STRATEGIC OBJECTIVE 1.3

Enhance the supply of key economic and demographic data to support effective decision-making of policymakers, businesses and the American public


OBJECTIVE 1.3 RESOURCES (Dollars in Millions)				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual
Total Funding	\$1,024.9	\$866.2	\$921.2	\$1,009.2
FTE ¹	10,854	8,908	8,223	8,579


¹ FTE – Full-Time Equivalent

PERFORMANCE GOAL: Meet the needs of policy makers, businesses and non-profit organizations, the public for current measures of the U.S. population, economy, and governments (ESA/CENSUS)

PERFORMANCE GOAL RESOURCES (Dollars in Millions)				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual²
Total Funding	\$377.7	\$411.6	\$422.3	\$461.7
FTE ¹	4,928	5,161	4,614	5,076

¹ FTE – Full-Time Equivalent
² Total obligations for performance goal excludes the Working Capital Fund obligations financed by other Census Bureau funds and are already reflected in the results for the other funds.

PERFORMANCE GOAL MEASURES							
	MEASURE	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
ESA/CENSUS	(1) Collect data for the planned number of households for Current Population Survey (CPS)	(1) New	(1) New	(1) New	(1) New	N/A ¹	N/A
	(2) Collect data for the planned number of households for National Crime Victimization Survey (NCVS)	(2) New	(2) New	(2) New	(2) New		
	(3) Collect data for the planned number of households for American Housing Survey (AHS)	(3) New	(3) New	(3) New	(3) New		
	(4) Collect data for the planned number of households for Survey of Income and Program Participation (SIPP)	(4) New	(4) New	(4) New	(4) New		
ESA/CENSUS	(1) Release data products from the SIPP	(1) Maintained FY 1999 actual time achieved	(1) Maintained FY 1999 actual time achieved	(1) One data product by 9/30/03	(1) Seven data products by 9/30/04	(1) Ten data products released for SIPP (2) N/A (3) N/A (4) N/A	
	(2) Release data products from the CPS	(2) New	(2) New	(2) New	(2) New		
	(3) Release data products from the CPS Supplements	(3) New	(3) New	(3) New	(3) New		
	(4) Release data products from the AHS	(4) New	(4) New	(4) New	(4) New		

PERFORMANCE GOAL MEASURES <i>(continued)</i>							
MEASURE		FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
ESA/CENSUS	Release Principal Economic Indicators	New	100% On Time	100% On Time	100% On Time	100%	
	Release the Annual Survey of Manufacturers (ASM), the Annual Trade Survey (ATS), the Annual Retail Trade Survey (ARTS), and the Service Annual Survey (SAS) on preannounced time schedules	New	New	New	New	N/A ²	N/A



¹ This is an annual target that was reworded in the FY 2005 APP to change the measure from reporting the household response rate to the number of households. The FY 2004 targets are (1) a 90% household response rate for CPS, NCVS, and AHS; (2) an 87% household response rate for the NHIS; and (3) a 75% household response rate for SIPP. For FY 2004, the 90% target was met: (CPS = 92.3%, NCVS = 91.6%, AHS = 90.8%), NHS achieved the 87% response rate; and SIPP achieved a 72% response rate.




² This is an annual target that was reworded in the FY 2005 APP from reporting unit response rate for the ASM, ATS, ARTS, and SAS to reporting on-time release for those surveys. In FY 2004, the Census Bureau was still tracking the response rates for these surveys. All four surveys had a target response rate of 75%. ASM actual was 81%, ATS actual was 81%, ARTS actual was 83%, and SAS actual was 78%.

PERFORMANCE GOAL: Support the economic and political foundations of the United States by producing benchmark measures of the economy and population for the administration and equitable funding of federal, state, and local programs (ESA/CENSUS)

PERFORMANCE GOAL RESOURCES (Dollars in Millions)				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual ²
Total Funding	\$520.8	\$250.8	\$206.7	\$111.2
FTE ¹	5,105	2,243	1653	937

¹ FTE – Full-Time Equivalent
² Total obligations for performance goal excludes the Working Capital Fund obligations financed by other Census Bureau funds and are already reflected in the results for the other funds.

PERFORMANCE GOAL MEASURES						
MEASURE	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
Conduct the Economic Census and Census of Governments	New	New	(1) Initial mailing for the finance phase of the Census Of Governments was complete by 10/31/02 and 5 Million Economic Census forms by 12/20/02	(1) Complete initial mailing of 2002 Survey of Business Owners forms to 1.5 million businesses without paid employees by 7/31/04	(1) Completed mailing	(1) 
			(2) Completed initial mailing of 2002 Survey of Business Owners forms to 1 million businesses with paid employees by 9/30/03	(2) Obtain an 80% response rate for the employment phase of the Census of Governments and an 82% response rate for the finance phase	(2) 77% employment phase and 77% finance phase	(2) 
<p><i>Performance was not met, because:</i> Rates were lower across all survey categories. Because these are voluntary surveys, this can be traced to the lack of resources at the local government level due to declining tax revenues. However, since these are unit and not weighted response rates, the impact to the published data was not significant. On a weighted basis, less than 2% of the major variables had to be imputed.</p> <p><i>Strategies for Improvement:</i> To mitigate the effect of a less than planned response, targeted non-response follow-up was conducted. This resulted in the collection of sufficient base data for the employment phase that permitted reliable imputation for non-respondent units. The impact of the unmet response rate on the employment phase of the Census of Governments was insignificant. While similar non-response follow-up activities were conducted for the finance phase, results were not as successful.</p>						



PERFORMANCE GOAL MEASURES (continued)							
MEASURE	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met	
ESA/CENSUS	(1) Release Decennial Census data products	100% of Scheduled Releases	100% of Scheduled Releases	(1) Five data products by 9/30/03	(1) None	(1) N/A	(1) N/A
	(2) Release Census of Governments data products			(2) One product released ahead of schedule. Second product being released on a flow basis beginning 9/03 to be completed by 12/03.	(2) Four data products by 9/30/04. This represents a more than 15% improvement in delivery time over the previous census.	(2) Four data products.	(2) 
	(3) Release Economic Census products			(3) New	(3a) Issue by March 2004, The 2002 Economic Census Advance Report. This first report shows a snapshot of the economy at broad NAICS levels. (3b) Issue 651 of the 1,700 Economic Census products by 9/30/04. This represents a 40% increase in the number of reports released over a comparable time period for the 1997 Economic Census. ¹	(3a) Issued 2002 Economic Census Advance Report, March 2004. (3b) Issued 577 reports.	(3a)  (3b) 
<p><i>Performance was not met, because:</i> The target to release 651 Economic Census reports in FY 2004 was substantially met. It was not fully met because of delays in receiving full funding (which was not available until March 2004), and lagging response rates extended data collection activities by four months. The four-month extension moved the projected release data for 651 products back to December 31, 2004.</p> <p><i>Strategies for Improvement:</i> The adjusted dissemination schedule satisfies the Bureau of Economic Analysis's needs and remains a significant improvement over the 1997 release schedule. The release of 577 Economic Census reports, including all 473 manufacturing series reports, was five months earlier than the 1997 Census. There were 117 additional reports released during the comparable period of time.</p>							
ESA/CENSUS	Release population estimates and survey controls for all subgroups and geographies	New	New	New	New	N/A	N/A
<p>¹ An additional 125 reports have been added, bringing the total number of products scheduled for release under the 2002 Economic Census cycle to 1,825. In FY 2004, 577 reports were released, 1,178 are planned for FY 2005, and the remaining 70 are scheduled for FY 2006. (The revised FY 2005 and FY 2006 targets will be reflected in the FY 2006 APP.)</p>							



PERFORMANCE GOAL MEASURES (continued)							
MEASURE	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met	
ESA/CENSUS	(1) Introduce new Census 2000-based samples for the consumer expenditures survey-quarterly (CE-Q)	New	New	New	New	N/A	N/A
	(2) Introduce new Census 2000-based samples for the consumer expenditures survey-diary (CE-D)						
	(3) Introduce new Census 2000-based samples for the National Crime Victimization Survey (NCVS)						
	(4) Introduce new Census 2000-based samples for the American Housing Survey-National (AHS-N)						

PERFORMANCE GOAL: Meet Constitutional and Legislative mandates by implementing a re-engineered 2010 Census that is cost-effective, provides more timely data, improves coverage accuracy, and reduces operational risk (ESA/CENSUS)

PERFORMANCE GOAL RESOURCES (Dollars in Millions)				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual ²
Total Funding	New	\$64.3	\$144.7	\$253.5
FTE ¹	New	598	1,067	1,660

¹ FTE – Full-Time Equivalent
² Total obligations for performance goal excludes the Working Capital Fund obligations financed by other Census Bureau funds and are already reflected in the results for the other funds.

PERFORMANCE GOAL MEASURES							
MEASURE	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met	
ESA/CENSUS	Implement the American Community Survey (ACS)	New	Completed field activities supporting the release of 2001 data from the long form transitional database in summer of 2002	Evaluation reports not released.	(1) At least 92% overall weighted response rate for the ACS, using three modes of data collection – mail, telephone, & personal visit.	(1) 96.7%	(1) 
					(2) Meet reliability requirements for annual state estimates with a median coefficient of variation of 5% on typical characteristics that are reported for 10% of the population.	(2) 4.7%	(2) 




PERFORMANCE GOAL MEASURES (continued)							
MEASURE		FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
ESA/CENSUS	Implement Master Address File (MAF)/Topologically Integrated Geographic Encoding and Referencing System (TIGER) modernization	New	Prepared plan and systems by end of FY 2002 to measure housing unit coverage of the address list; list is at least as complete as it was for census 2000, as measured by the accuracy and coverage evaluation. ¹	Completed map feature corrections of 250 of the nation's counties by 9/30/03	TIGER features are within 7.6 meters of true GPS location for 26.3% of the nation's counties by 9/30/04.	26.3%	
	Conduct early 2010 Census planning, development, and testing	New	New	<ul style="list-style-type: none"> ◆ Selected test sites for 2004 census test by 12/31/02 ◆ Developed and documented design requirements for 2004 census test by 12/31/02 ◆ Developed detailed operational schedule for the 2004 census test in April 2004 by 9/30/03 	Implement the activities that support the following objectives of the 2004 census test: <ul style="list-style-type: none"> ◆ questionnaire content ◆ hand held computers (HHC) devices for field work ◆ coverage improvements ◆ special place/group quarters ◆ residence rules 	Activities completed	

¹ Based on and Inspector General recommendation and to clarify the FY 2002 reported actual performance, the revised actual results for FY 2002 should read: "Prepared plan and identified systems to measure housing unit coverage." Though unintentional, the original wording incorrectly implied that systems were complete measurement results were finalized. This is an ongoing program that will yield an annual national estimate of MAF coverage, with the first estimate available in FY 2006."

PERFORMANCE GOAL: Support innovation, promote data use, minimize respondent burden, respect individual privacy, and ensure confidentiality (ESA/CENSUS)

PERFORMANCE GOAL RESOURCES (Dollars in Millions)				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual ²
Total Funding	\$68.5	\$72.8	\$73.2	\$104.0
FTE ¹	347	418	395	365

¹ FTE – Full-Time Equivalent
² Total obligations for performance goal excludes the Working Capital Fund obligations financed by other Census Bureau funds and are already reflected in the results for the other funds.






PERFORMANCE GOAL MEASURES							
MEASURE		FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
ESA/CENSUS	Response to the Annual Boundary and Annexation Survey (BAS)	81%	81%	84% ¹	83%	85.5%	
ESA/CENSUS	Meet milestone dates for evaluating and expanding web-based technology solutions to include more functionality/ business processes	New	New	100%	100%	100%	
ESA/CENSUS	Segment score for overall customer satisfaction on the American Customer Satisfaction Index (ACSI)	New	New	New	72%	71% ²	



¹ Due to a data duplication error in the BAS production reporting system, the FY 2003 response rate was erroneously reported at 88%. This error has been corrected and the correct FY 2003 response rate was 84%.
² All surveys result in an estimate, not a real value, with a "confidence interval" based upon sample size. The "confidence interval" for this survey is +/- 2 percentage points. The current result of 71% falls within an acceptable "confidence interval" range of 70 to 74% (72% - 2% = 70% and 72% + 2% = 74%).

Performance Goal: Promote a better understanding of the U.S. economy by providing the most timely, relevant, and accurate economic data in an objective and cost-effective manner (ESA/BEA)

PERFORMANCE GOAL RESOURCES (Dollars in Millions)				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual
Total Funding	\$57.9	\$66.7	\$74.3	\$78.8
FTE ¹	474	488	494	541

¹ FTE – Full-Time Equivalent

PERFORMANCE GOAL MEASURES							
MEASURE		FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
ESA/BEA	Timeliness: Reliability of delivery of economic data (number of scheduled releases issued on time)	100%	50 of 50	48 of 48	54 of 54	54 of 54	
ESA/BEA	Relevance: Customer satisfaction with quality of products and services (mean rating on a 5-point scale)	N/A (survey postponed)	4.3	4.4	Greater than 4.0	4.3	
ESA/BEA	Accuracy: Percent of GDP estimates correct	New	83%	88%	Greater than 84%	88%	
ESA/BEA	Budget Related: Improving GDP and the Economic Accounts¹	New	Developed new measures to address gaps and updated BEA's accounts; designed prototype of new quarterly survey of international services; developed new pilot estimates that provide better integration with other accounts.	BEA completed all major Strategic Plan milestones related to improving the economic accounts (completed 164 milestones out of 171 overall).	Successful completion of related Strategic Plan milestones relating to improving the quality of the economic accounts.	BEA completed all major Strategic Plan milestones related to improving the economic accounts.	
ESA/BEA	Budget Related: Accelerating Economic Estimates¹	New	New	BEA completed all major Strategic Plan milestones related to accelerating economic estimates (completed 98 milestones out of 103 overall).	Successful completion of related Strategic Plan milestones related to efforts to accelerate economic measures.	BEA completed all major Strategic Plan milestones related to accelerating economic estimates.	

PERFORMANCE GOAL MEASURES (continued)							
MEASURE		FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
ESA/BEA	Budget Related: Meeting U.S. international obligations¹	New	New	BEA completed all major Strategic Plan milestones related to meeting U.S. international obligations (completed 99 milestones out of 103 overall).	Successful completion of related Strategic Plan milestones related to meeting international commitments as funded in FY 2003.	BEA completed all major Strategic Plan milestones related to meeting U.S. international obligations.	
	Budget Related: Upgrading information technology systems¹	New	Developed new systems, including implementation of prototype phase of new NIPA core processing system; developed improved interactive features on the BEA Web site; extended electronic reporting for international surveys.	BEA completed all major Strategic Plan milestones related to upgrading IT systems (completed 95 out of 98 overall).	Successful completion of related Strategic Plan milestones to improve the quality of BEA's information technology systems.	BEA completed all major Strategic Plan milestones related to upgrading IT systems.	

¹ Strategic Plan milestones are available in the BEA Strategic Plan on www.bea.gov, "About BEA." A report card of completed milestones also is available at www.bea.gov.

STRATEGIC GOAL 2

Foster Science and technological leadership by protecting intellectual property, enhancing technical standards, and advancing measurement science

STRATEGIC GOAL 2 TOTAL RESOURCES (Dollars in Millions)				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual
Total Funding	\$1,980.7	\$2,153.7	\$2,241.3	\$2,147.5
FTE ¹	9,729	10,068	10,074	10,005

¹ FTE – Full-Time Equivalent

STRATEGIC OBJECTIVE 2.1

Develop tools and capabilities that improve the productivity, quality, dissemination, and efficiency of research

OBJECTIVE 2.1 RESOURCES (Dollars in Millions)				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual
Total Funding	\$818.9	\$913.5	\$952.8	\$830.1
FTE ¹	3,207	3,231	3,242	3,109



¹ FTE – Full-Time Equivalent

PERFORMANCE GOAL: Provide leadership in promoting national technology policies that facilitate U.S. pre-eminence in key areas of science and technology (OTP)

PERFORMANCE GOAL RESOURCES (Dollars in Millions)				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual ²
Total Funding	\$8.2	\$8.1	\$9.8	\$6.5
FTE ¹	40	46	42	34

¹ FTE – Full-Time Equivalent
² The obligation amount reported in the Performance Report differs from the obligation amount reported in the Financial Statements by \$1.8M. The obligation amount reported in the Performance Report includes only current year accounts while the Financial Statements also include prior year obligations in expired and cancelled accounts.



PERFORMANCE GOAL MEASURES							
	MEASURE	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
OTP	Support and improve American innovation system	New	Completed	Completed	Activities complete	Activities completed	●
OTP	Advance role of technology in U.S. economic growth and homeland security	New	Completed	Completed	Activities complete	Activities completed	●





PERFORMANCE GOAL MEASURES (continued)							
MEASURE		FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
OTP	Strengthen competitive position of American technology industries	New	Completed	Completed	Activities complete	Activities completed	
OTP	Strengthen OTP's organization, capabilities, and resources to maximize the effectiveness of its activities and services	New	Completed	Completed	Activities complete	Activities completed	

PERFORMANCE GOAL: Provide technical leadership for the Nation's measurement and standards infrastructure. Assure the availability and efficient transfer of measurement and standards capabilities essential to established industries (NIST-A and NIST-B)

PERFORMANCE GOAL RESOURCES (Dollars in Millions)				
	FY 2001 Actual ²	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual
Total Funding	\$487.4	\$566.0	\$596.1	\$562.0
FTE ¹	2,596	2,607	2,639	2,598

¹ FTE – Full-Time Equivalent
² Includes discontinued goal: Protect the national information infrastructure.

PERFORMANCE GOAL MEASURES							
MEASURE		FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
NIST-A	Qualitative assessment and review of technical quality and merit using peer review	Completed	Completed	Completed	Complete	Completed	
NIST-A	Peer-reviewed technical publications produced	New	New	1,267	1,300	1,070	
	<i>Performance was not met, because:</i> The number of peer-reviewed publications produced in FY 2004 represents 82% of the expected level. Overall, the total number of NIST publications produced (including both peer-reviewed and non peer-reviewed) in FY 2004 is 2,074, and this is in line with past trend data (historically NIST produces between 2,000 - 2,200 publications each year.) The number of peer-reviewed publications is a new performance indicator implemented this year and historic trend data were not available when setting the FY 2004 target.						
	<i>Strategies for Improvement:</i> NIST will continue to track its publication count closely, and will also analyze trends that may indicate necessary adjustments to its annual projections and targets.						

PERFORMANCE GOAL MEASURES							
MEASURE		FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
NIST-A ¹	Citation impact of NIST-authored publications	New	New	New	Above Average	Available September 2005	N/A
NIST-B ²	Standard Reference Materials (SRMs) Sold	31,985	30,906	29,527	29,500	30,490	
NIST-B ²	NIST-maintained datasets downloaded	New	New	55,653,972	56,000,000	73,601,352	
NIST-B ²	Number of items calibrated	3,192	2,924	3,194	2,800	3,373	
NIST-B ²	Economic Impact Studies	Complete	Complete	No studies conducted	Complete	No studies conducted	
	<i>Performance was not met, because:</i> Due to significant budget restraints, NIST was unable to conduct any new assessment studies in FY 2004.						
	<i>Strategies for Improvement:</i> NIST values the data these assessments provide and is committed to conducting additional studies once funds become available.						
<p>¹ The measures that are denoted by NIST-A apply to the first portion of the performance goal, "Provide technical leadership for the Nation's measurement and standards infrastructure." This portion of the performance goal is being treated as a separate performance goal in the Strategic Goal 2 chapter of the Performance Section for discussion purposes.</p> <p>² The measures that are denoted by NIST-B apply to the first portion of the performance goal, "Assure the availability and efficient transfer of measurement and standards capabilities essential to established industries." This portion of the performance goal is being treated as a separate performance goal in the Strategic Goal 2 chapter of the Performance Section for discussion purposes.</p>							

PERFORMANCE GOAL: Accelerate private investment in and development of high-risk, broad-impact technologies (NIST)

PERFORMANCE GOAL RESOURCES (Dollars in Millions)				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual
Total Funding	\$175.8	\$198.1	\$199.7	\$187.2
FTE ¹	239	249	247	204

¹ FTE – Full-Time Equivalent

PERFORMANCE GOAL MEASURES							
MEASURE		FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
NIST	Cumulative number of publications	747	969	1,245	990	Available May 2005	N/A
NIST	Cumulative number of patents	800	939	1,171	1,220	Available May 2005	N/A
NIST	Cumulative number of projects with technologies under commercialization	195	244	271	250	Available May 2005	N/A

PERFORMANCE GOAL: Raise the productivity and competitiveness of small manufacturers (NIST)

PERFORMANCE GOAL RESOURCES (Dollars in Millions)				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual
Total Funding	\$106.4	\$108.5	\$111.3	\$46.9
FTE ¹	87	89	89	68


¹ FTE – Full-Time Equivalent

PERFORMANCE GOAL MEASURES							
MEASURE		FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
NIST	Number of clients served by Manufacturing Extension Partnership (MEP) Centers receiving federal funding	21,420	18,748	18,436	6,517	Available December 2005	N/A
NIST	Increased sales attributed to MEP Centers receiving federal funding	\$636M	\$953M	\$1,220M	\$228M	Available December 2005	N/A
NIST	Capital investment attributed to MEP Centers receiving federal funding	\$680M	\$940M	\$900M	\$285M	Available December 2005	N/A
NIST	Cost savings attributed to MEP Centers receiving federal funding	\$442M	\$681M	\$691M	\$156M	Available December 2005	N/A

PERFORMANCE GOAL: Catalyze, reward, and recognize quality and performance improvement practices in U.S. businesses and other organizations (NIST)

PERFORMANCE GOAL RESOURCES (Dollars in Millions)				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual
Total Funding	\$6.5	\$5.1	\$8.2	\$8.3
FTE ¹	49	54	44	40

¹ FTE – Full-Time Equivalent




PERFORMANCE GOAL MEASURES							
	MEASURE	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
NIST	Number of Baldrige Criteria Disseminated	New	New	948,832	1,032,486	795,726	
	<i>Performance was not met, because:</i> This is a new performance indicator implemented this year and historic trend data were not available when setting the FY 2004 target. Furthermore, this indicator does not capture additional dissemination channels, such as reproduction of the Baldrige Criteria in textbooks, articles, and other documents. Overall interest in the program and the Baldrige Quality concepts remain strong as evidenced by the increased number of applicants for the 2003 and 2004 Malcolm Baldrige National Quality Award and increased attendance at Baldrige sponsored conferences.						
	<i>Strategies for Improvement:</i> NIST will continue to track trends in hardcopy and on-line dissemination of the Baldrige Criteria and will adjust annual projections and targets, if necessary.						
NIST	Percent of applicants indicating satisfaction with the relevance of the feedback report	85%	86%	80% ¹	88%	Available April 2005	N/A

¹ FY 2003 data for this measure have been adjusted; previously reported data represented a projection. The revised figure reported above accurately represents the percent of applicants reporting satisfaction with the relevance of the feedback report.

PERFORMANCE GOAL: Enhance public access to world wide scientific and technical information through improved acquisition and dissemination activities (NTIS)

PERFORMANCE GOAL RESOURCES (Dollars in Millions)				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual
Total Funding	\$34.7	\$27.7	\$27.7	\$19.2
FTE ¹	196	186	181	165

¹ FTE – Full-Time Equivalent

PERFORMANCE GOAL MEASURES							
MEASURE		FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
NTIS	Number of new items available (annual)	505,068	514,129	530,910	525,000	553,235	
NTIS	Number of information products disseminated (annual)	14,524,307	16,074,862	29,134,050	18,000,000	25,476,424	
	Customer Satisfaction	97%	98%	97%	98%	96%	
NTIS	<i>Performance was not met, because:</i> In addition to an abnormally high number of customer complaints of non-receipt, the customer satisfaction performance measure was not met due to problems encountered with orders submitted over the internet. The shopping cart module was misinforming customers that their order had not been processed correctly, so when the customer resubmitted their order it was duplicated. This issue was addressed immediately, and corrective action included redesign of the shopping cart module as well as the interface with the order processing system.						
	<i>Strategies for Improvement:</i> Strategies for improvement include efforts to develop a new functional shopping cart based on the redesigned module mentioned above.						

STRATEGIC OBJECTIVE 2.2

Protect intellectual property and improve the patent and trademark system




OBJECTIVE 2.2 RESOURCES <i>(Dollars in Millions)</i>				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual
Total Funding	\$1,040.6	\$1,144.0	\$1,190.9	\$1,233.0
FTE ¹	6,278	6,593	6,581	6,627


¹ FTE – Full-Time Equivalent

Performance Goal: Improve the quality of patent products and services and optimize patent processing time (USPTO)

PERFORMANCE GOAL RESOURCES <i>(Dollars in Millions)</i>				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual
Total Funding	N/A	N/A	\$1,019.6	\$1,059.0
FTE ¹			5,815	5,832


¹ FTE – Full-Time Equivalent




PERFORMANCE GOAL MEASURES							
	MEASURE	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
USPTO	Patent Allowance Error Rate	5.4%	4.2%	4.4%	4.0%	5.3% ¹	
	<i>Performance was not met because:</i> The USPTO fell short of its 2004 target however under the 21st Century Strategic Plan, the Patents Organization is enhancing current quality assurance programs to include greater review of work in progress which USPTO anticipates will help achieve the projected 2006 goal.						
	<i>Strategies for Improvement:</i> The USPTO began implementing several quality initiatives, including an enhanced Quality Assurance Program that includes end product reviews, in-process reviews, and enhanced “second pair of eyes” reviews. The feedback from these reviews is used to identify and develop training modules and other quality enhancements. Additionally to ensure that our primary patent examiners maintain the knowledge, skills, and abilities (KSAs) necessary to perform a high quality examination, the USPTO implemented a recertification program, with primary examiners being recertified once every three years. A certification program was also implemented for junior examiners to ensure that they had the required KSAs prior to promotion to the level where they are given legal and negotiation authority.						
USPTO	Patent In-process Reviews Error Rate (New)	N/A	N/A	N/A	Baseline	N/A	N/A
USPTO	Patent First Action Pendency	14.4	16.7	18.3	20.2	20.2 ¹	
USPTO	Patent Total Pendency	24.7	24.0	26.7	29.8	27.6 ¹	
USPTO	Patent examiner certification	New	New	New	Baseline	N/A	N/A
USPTO	Patent examiner re-certification	New	New	New	Baseline	N/A	N/A

PERFORMANCE GOAL MEASURES (continued)							
MEASURE		FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
USPTO	Patent In-process reviews	New	New	New	Baseline	N/A	N/A
USPTO	Patent Efficiency	\$3,210	\$3,376	\$3,329	\$3,502	\$3,556	
	<p><i>Performance was not met, because:</i> This measure is a relative indicator of the efficiency of the patent process, which indicates the degree to which the program can operate within plan costs relative to examiner outputs. Actual costs on a unit basis were more than plan because, although production unit output was 3.5% greater than plan, the high production was offset by even higher costs. The measure is calculated by dividing total annual USPTO expenses associated with the examination and processing of patents, including associated overhead and support expenses, by annual production units. The target is calculated by dividing the enacted budget by the planned number of production units. Total annual USPTO expenses display full program costs that include the cost to the Federal government of providing pension and post-retirement health and life insurance benefits to eligible USPTO employees. These costs are not included in the enacted budget that was used to develop the efficiency measure target. If actual expenses were reduced by these benefit costs, the actual patent efficiency measure would be \$3,440, clearly within target.</p>						
	<p><i>Strategies for Improvement:</i> See USPTO Web site at www.uspto.gov.</p>						
USPTO	Patent Productivity (new)	N/A	N/A	N/A	Baseline	N/A	N/A
<p>¹ FY 2004 estimate that may be updated in the FY 2006 budget submission.</p>							

Performance Goal: Improve the quality of trademark products and services and optimize trademark processing time (USPTO)

PERFORMANCE GOAL RESOURCES (Dollars in Millions)				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual
Total Funding	N/A	N/A	\$119.4	\$112.0
FTE ¹			719	693
<p>¹ FTE – Full-Time Equivalent</p>				





PERFORMANCE GOAL MEASURES							
MEASURE		FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
USPTO	Trademark Final Action Deficiency Rate	3.1%	4.3%	5.3%	5.0%	5.9% ¹	
	<p><i>Performance was not met because:</i> Quality results achieved were within 1% of the target (margin of error) but were not met.</p>						
	<p><i>Strategies for Improvement:</i> Customers are rightly concerned with the quality of the products and services they receive in exchange for the fees they pay. The Trademark Organization has created a new "in-process review" standard for assessing work to create a more comprehensive and meaningful and rigorous review of what constitutes quality. The results of an Examiner's first and final office action are reviewed for the quality of the substantive basis for decision making, search strategy, evidence, and writing. The new measure considers more elements for review and evaluation with training targeted to topics that warrant improvement. Examiners are given specific feedback about their work to further improve quality.</p>						

PERFORMANCE GOAL MEASURES (continued)							
	MEASURE	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
USPTO	Trademark First Action Pendency (months)	2.7	4.3	5.4	5.4	6.6 ¹	
	<i>Performance was not met because:</i> New application filings were more than 8.5% above the prior year and 6% above plan – (% subject to change based on actual results). Process changes in the fourth quarter created a short-term negative impact by increasing first action pendency.						
	<i>Strategies for Improvement:</i> Trademarks has implemented an aggressive management plan to focus on pendency reduction. The initiatives identified in the USPTO 21st Century Strategic Plan will ultimately have a positive impact on reducing trademark pendency and substantially increase the tools available for the Office to better manage fluctuations in filings and control inventories in the future.						
USPTO	Trademark Average Total Pendency (months)	17.8	19.9	19.8	21.6	19.5 ¹	
USPTO	Trademark In-process reviews	New	New	New	Baseline	N/A	N/A
USPTO	Trademark Efficiency ²	\$501	\$487	\$433	\$583	\$539	
USPTO	Trademark Productivity (new)	N/A	N/A	N/A	Baseline	N/A	N/A
<p>¹ FY 2004 estimate that may be updated in the FY 2006 budget submission.</p> <p>² This measure is a relative indicator of the efficiency of the trademark process, which indicates the degree to which the program can operate within plan costs relative to outputs produced. Actual costs on a unit basis were less than plan because office disposals were 17% above plan. The measure is calculated by dividing total USPTO expenses associated with the examination and processing of trademarks, including associated overhead and support expenses, by outputs (office disposals). The target is calculated by dividing the enacted budget by the planned number of office disposals. The total annual USPTO expenses display the full program costs that include the cost to the Federal government of providing pension and post-retirement health and life insurance benefits to eligible USPTO employees. These costs are not included in the enacted budget that was used to develop the efficiency measure target. Although the Trademark efficiency measure is already within target, if actual expenses were reduced by these benefit costs, the actual trademark efficiency measure would be \$519, an even better result.</p>							

Performance Goal: Create a more flexible organization through transitioning patent and trademark applications to e-government operations and participating in Internet protocol development worldwide (USPTO)

PERFORMANCE GOAL RESOURCES (Dollars in Millions)				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual
Total Funding	N/A	N/A	\$51.9	\$62.0
FTE ¹			47	102

¹ FTE – Full-Time Equivalent

PERFORMANCE GOAL MEASURES							
	MEASURE	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
USPTO	Patent Applications filed electronically	N/A	New	1.3%	2.0%	1.5% ¹	
	<i>Performance was not met, because:</i> There is likely some reluctance on the part of the patent applicants to file electronically including: (1) customers are familiar with the paper based systems already in place; (2) they have not invested the time and resources necessary to upgrade their internal systems to enable them to file electronically; and (3) they want a simple, user-friendly system which does not require them to change their internal processes.						
	<i>Strategies for Improvement:</i> See USPTO Web site at www.uspto.gov .						
USPTO	Patent Applications Managed Electronically (new)	N/A	N/A	Baseline	70%	88% ¹	
USPTO	Trademark Applications Filed Electronically	Baseline	38.0%	57.5%	65.0%	73% ¹	
USPTO	Trademark Applications Managed Electronically (new)	N/A	N/A	Baseline	100%	98.4% ¹	
	<i>Performance was not met, because:</i> Performance was not met due to the electronic workflow and file management system delay in schedule. The system delivery date was changed several times. The last date was to have been November 2, 2003.						
	Prior to the passage of the Madrid Protocol it was to have been delivered by October 2002. The result was that the USPTO's plans to deliver full electronic processing of trademark applications was delayed. <i>Strategies for Improvement:</i> The schedule to ensure the ability to capture and use electronic file records is being revised to ensure that this measure will be met in the future.						

¹ FY 2004 estimate that may be updated in the FY 2006 budget submission.

STRATEGIC OBJECTIVE 2.3

Advance the development of global e-commerce and enhanced telecommunications and information services

OBJECTIVE 2.3 RESOURCES <i>(Dollars in Millions)</i>				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual
Total Funding	\$121.2	\$96.2	\$97.6	\$84.4
FTE ¹	244	244	251	269

¹ FTE – Full-Time Equivalent

Performance Goal: Increase competition within the telecommunications sector and promote universal access to telecommunications services for all Americans (NTIA)

PERFORMANCE GOAL RESOURCES <i>(Dollars in Millions)</i>				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual
Total Funding	\$3.7	\$4.2	\$3.9	\$4.4
FTE ¹	25	27	26	24

¹ FTE – Full-Time Equivalent

PERFORMANCE GOAL MEASURES							
	MEASURE	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
NTIA	Provide the policy framework for introduction of new technology	New	New	Policy successes: Spectrum for 3G ultra-wideband; .us and kids.us, ENUM, VoIP, ICANN, Rights of way, CIPA	Policy successes: Spectrum for 3G ultra-wideband; Internet management including ICANN reform; “.us” domain name administration	President’s Spectrum Initiative reports, broadband over power line (BPL) filings, next-generation Internet Protocols, ultrawideband technology, wireless broadband applications, wireless sensor technologies, and Internet management.	
	Policy customer survey	New	New	New	50 customers	50 customers	

Performance Goal: Efficient and effective allocation of radio spectrum (NTIA)

PERFORMANCE GOAL RESOURCES (Dollars in Millions)				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual
Total Funding	\$21.5	\$23.4	\$24.5	\$28.5
FTE ¹	133	141	147	159

¹ FTE – Full-Time Equivalent

PERFORMANCE GOAL MEASURES							
MEASURE		FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
NTIA	Timeliness of processing	New	New	15	12 business days	<12 business days ¹	
NTIA	Percentage of requests accomplished online	New	New	55%	95%	97%	
NTIA	Completeness and accuracy of agency assignment request	New	New	87%	90%	93%	
NTIA	Customer satisfaction survey on training course	New	New	90%	90% satisfactory or better	95%	

¹ NTIA has reduced the average time to process frequency assignment actions from 15 to less than 12 days. Requested actions to delete or make minor modifications to frequency assignments —approximately half of all frequency assignment actions —are now processed within 5 - 7 days; requested actions to make major modifications and add new frequency assignments —approximately half of all frequency assignment actions —are processed within 14 days. FY 2003 actuals have been changed to reflect this average total time computation.

Performance Goal: Ensure broader availability and support new sources of advanced telecommunications and information services (NTIA)

PERFORMANCE GOAL RESOURCES (Dollars in Millions)				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual
Total Funding	\$96.0	\$68.6	\$69.2	\$51.5
FTE ¹	86	76	78	86

¹ FTE – Full-Time Equivalent

PERFORMANCE GOAL MEASURES							
MEASURE		FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
NTIA	Digital broadcasting conversion	New	New	79	0	31	
NTIA	Quality of basic research as reflected in peer reviewed publications	New	New	5 Publications	6 Publications	7	
NTIA	Level of technology transfer activities conducted with the private sector through the Cooperative Research and Development Agreements	New	New	5 Cooperative Research and Development Agreements	3 Cooperative Research and Development Agreements	5	

STRATEGIC GOAL 3

Observe, protect, and manage the Earth's resources to promote environmental stewardship

STRATEGIC GOAL 3 TOTAL RESOURCES (Dollars in Millions)				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual
Total Funding	\$3,254.8	\$3,398.3	\$3,458.5	\$4,100.0
FTE ¹	11,473	11,585	11,898	12,086
¹ FTE – Full-Time Equivalent				

STRATEGIC OBJECTIVE 3.1

Advance understanding and predict changes in the Earth's environment to meet America's economic, social, and environmental needs

OBJECTIVE 3.1 RESOURCES (Dollars in Millions)				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual
Total Funding	N/A ²	\$1,665.1	\$1,780.7	\$2,254.9
FTE ¹		6,951	6,715	6,888
¹ FTE – Full-Time Equivalent				
² FY 2001 actual data not available by goal.				

PERFORMANCE GOAL: Improve accuracy and timeliness of weather and water information (NOAA)

PERFORMANCE GOAL RESOURCES (Dollars in Millions)				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual
Total Funding	N/A ²	\$1,325.3	\$1,403.9	\$1,763.2
FTE ¹		6,024	6,008	5,921
¹ FTE – Full-Time Equivalent				
² FY 2001 actual data not available by goal.				

PERFORMANCE GOAL MEASURES								
MEASURE			FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
NOAA	Lead time (minutes), accuracy (%), and false alarm rate (FAR, %) for severe weather warnings tornadoes	Lead Time	10	12	13	12	13 ¹	
		Accuracy	67%	76%	79%	72%	76% ¹	
		FAR	72%	73%	76%	70%	75% ¹	
	<p><i>Performance was not met, because:</i> Currently NOAA is meeting two of the three FY 2004 goals for tornadoes. The goal for False Alarm Ratio (FAR) was not met. There is a strong statistical relationship between accuracy and FAR using current technology and operational methodology. A higher rate of accuracy results in a higher FAR. Outyear goals included in the FY 2006 budget have been adjusted to reflect this. National emergency manager and media surveys indicate that a higher false alarm rate is "tolerable" if it results in longer lead times and increased accuracy.</p> <p><i>Strategies for Improvement:</i> Training: NOAA's National Weather Service (NWS) will train local Science Operations Officers on the latest tornado detection and analysis techniques in August and September 2004. Due to the strong statistical relationship between accuracy and FAR, the training for local Science Operations Officers will address warning methodologies which can reduce the FAR.</p> <p><u>NEXRAD/AWIPS (FY 2005-2006):</u> Enhanced Mesocyclone and Tornado Vortex Signature Algorithms will improve AWIPS tornado and analysis detection tools. The inclusion of Federal Aviation Administration Terminal Doppler Weather Radar data in AWIPS will supplement existing WSR 88D data, in some cases provide finer resolution data than the WSR 88D, and provide service backup data if the closest WSR 88D site is inoperable. The deployment of the Open Radar Data Acquisition platform will include Super Resolution WSR 88D data. This technological enhancement has the potential to add 3 minutes to the Average Tornado Warning Lead Time and reduce the FAR.</p>							
NOAA	Lead time (min) and accuracy (%) for severe weather warnings for flash floods	Lead Time	46	52	41	50	50 ¹	
		Accuracy	86%	89%	89%	88%	91% ¹	
NOAA	Hurricane forecast track error (48 hour)	Nautical Miles	New	122	107	129	Available November 2004	N/A
NOAA	Accuracy (%) (threat score) of day 1 precipitation forecasts		New	30	27	25	29	
NOAA	Lead time (hours) and accuracy (%) for winter storm warnings	Lead Time	13	13	14	14	16 ¹	
		Accuracy	90%	89%	90%	89%	90% ¹	
NOAA	Cumulative percentage of U.S. shoreline and inland areas that have improved ability to reduce coastal hazard impacts		8%	8%	17%	17%	17%	



¹ FY 2004 actual projection.

PERFORMANCE GOAL: Increase understanding of climate variability and change (NOAA)

PERFORMANCE GOAL RESOURCES (Dollars in Millions)				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual
Total Funding	N/A ²	\$339.8	\$376.7	\$491.7
FTE ¹		927	707	967

¹ FTE – Full-Time Equivalent
² FY 2001 actual data not available by goal.

PERFORMANCE GOAL MEASURES							
	MEASURE	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
NOAA	U.S. temperature forecasts (cumulative skill score computed over the regions where predictions are made)	20	18	17	21	17	
	<p><i>Performance was not met, because:</i> For each three month period, seasonal outlooks for U.S. surface temperature are produced by CPC and reported as either warmer than normal, cooler than normal or, where no definite seasonal guidance can be provided, equal chance. These forecasts are verified using a 48 month running mean of Heidke Skill scores computed for seasonal outlooks for each 3-month seasonal mean (e.g., January-February-March mean; February-March-April mean; March-April-May mean; and so on). It is calculated as follows: Heidke skill score: $S = ((c-e)/(t-e)) \times 100$, where c = number of stations where forecast was correct and e = number of stations expected to be correct by chance alone and t = total number of stations where the forecast was made.</p> <p>The FY 2004 goal was not met. This measure is computed using a 48-month running mean; the high scores from the end of the strong El Nino season of 1999-2000 (48 months ago) have dropped out; the current values for this measure are no longer artificially high due to the El Nino/La Nina, and are more indicative of a "real" or "normal" climate skill. The FY 2004 goal was set relatively high during the 1990s when El Nino and La Nina had an unusually strong influence on forecast skill; the current absence of an El Nino/La Nina affecting the climate adds to the difficulty of making a climate forecast.</p>						
	<p><i>Strategies for Improvement:</i> The new Climate Forecast Model was implemented in August of FY 2004. NOAA's National Weather Service (with OGP support) is developing a Climate Test Bed to accelerate the transition of research and development improvements to operational climate predictions. Future collaborative efforts between NWS and OAR's Climate Diagnostics Center (CDC) to address operational intraseasonal-seasonal science modeling ensemble and data assimilation deficiencies. The North American Monsoon Experiment (NAME) is led by CPC's principle scientist and is focused on improving warm-season predictions. NOAA is exploiting land-surface related predictability (e.g., soil moisture prediction) to improve model and statistical forecasts.</p>						
NOAA	New climate observations introduced	132	192	182	275	529	
NOAA	Assess and model carbon sources and sinks throughout the United States	New	Identified Five Pilot Carbon Profiling Sites and four New Oceanic Carbon Tracks	Reduce Uncertainty of Atmospheric Estimates of U.S. Carbon Source/Sink to +/- 0.8 Gt. Carbon per Year	Improve Model-data Fusion Techniques and Reduce Uncertainty of Atmospheric Measurement Estimates of U.S. Carbon Source/Sink to +/- Gt. 0.7 Carbon per Year	+/- 0.5 Gt. Carbon per year	

PERFORMANCE GOAL MEASURES <i>(continued)</i>							
MEASURE		FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
NOAA	Assess and model carbon sources and sinks globally	New	Established three New Global Background Sites as Part of the Global Flask Network	Completed a Working Prototype of a Coupled Carbon-climate Model	Develop Carbon-Climate Scenarios for Input to Assessment	Activities completed	
NOAA	Determine the actual long-term changes in temperature and precipitation over the United States	New	Captured more than 85% of true contiguous U.S. temperature trend and captured more than 35% of true contiguous U.S. precipitation trend.	Captured more than 95% of true contiguous U.S. temperature trend and captured 84% of true contiguous U.S. precipitation trend.	Capture more than 80% of true contiguous U.S. temperature trend and capture more than 55% of true contiguous U.S. precipitation trend.	Captured more than 96% of true contiguous U.S. temperature trend and captured more than 90% of true contiguous U.S. precipitation trend.	
¹ FY 2004 actual projection.							

STRATEGIC OBJECTIVE 3.2

Enhance the conservation and management of coastal and marine resources to meet America's economic, social and environmental needs





OBJECTIVE 3.2 RESOURCES <i>(Dollars in Millions)</i>				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual
Total Funding	N/A ²	\$1,733.2	\$1,677.9	\$1,845.1
FTE ¹		4,634	5,183	5,198




¹ FTE – Full-Time Equivalent
² FY 2001 actual data not available by goal.

PERFORMANCE GOAL: Improve protection, restoration, and management of coastal and ocean resources through ecosystem-based management (NOAA)

PERFORMANCE GOAL RESOURCES <i>(Dollars in Millions)</i>				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual
Total Funding	N/A ²	\$1,461.3	\$1,404.0	\$1,517.3
FTE ¹		3,707	4,005	4,231

¹ FTE – Full-Time Equivalent
² FY 2001 actual data not available by goal.

PERFORMANCE GOAL MEASURES							
	MEASURE	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
NOAA	Number of overfished major stocks of fish	46	45	43	43	43 ¹	
NOAA	Number of major stocks with an "unknown" stock status ²	120	88	94	84	85 ¹	
NOAA	Percentage of plans to rebuild overfished major stocks to sustainable levels ³	93%	90%	90%	96%	90% ¹	
NOAA	Increase in number of threatened species with lowered risk of extinction	2	7	7	5	7	

PERFORMANCE GOAL MEASURES (continued)						
MEASURE	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
NOAA Number of commercial fisheries that have Insignificant marine mammal mortality	2	3	3	8	3 ¹	
	<p><i>Performance was not met, because:</i> The target was not achieved due to delayed completion of regulations that would reduce the mortality of Bottlenose Dolphins in the Atlantic Ocean. The Bottlenose Dolphin Take Reduction Team developed consensus recommendations in 2002 that would have led to a proposed regulation. However, additional information on abundance and mortality was gathered in 2002, leading to revised Take Reduction Team recommendations in 2003. The regulation was further delayed due to an effort to combine this regulation with a regulation to reduce mortality of sea turtles, and also Bottlenose dolphins, in the large mesh gillnet fishery in North Carolina and Virginia state waters. While this process further delayed the publication of the Bottlenose dolphin regulation, the combined regulations were necessary to reduce Bottlenose Dolphin mortality to an acceptable level. The Bottlenose Take Reduction Plan is currently scheduled to be finalized in December 2004. Once completed, this plan will address 9 of the 15 fisheries targeted with this performance measure.</p>					
	<p><i>Strategies for Improvement:</i> NOAA anticipates meeting this target in FY 2005 because of the completion of the Bottlenose Take Reduction Plan.</p>					
NOAA Increase in number of endangered species with lowered risk of extinction	3	5	5	6	5 ¹	
	<p><i>Performance was not met, because:</i> Though many conservation actions have been implemented, resulting improvements in species condition were not deemed large enough to reduce the overall risk of extinction for any endangered species in FY 2004.</p>					
	<p><i>Strategies for Improvement:</i> Species conservation efforts implemented in FY 2004 will contribute to achieving our performance targets for FY 2005-2008.</p>					
NOAA Number of habitat acres restored (annual/cumulative)	1,520	4,300/5,820	5,200/11,020	3,760/14,780	5,562/16,582	

¹ Projection: Actual not available until May 2005.






² The definition of a "major" stock is one for which at least 200,000 pounds of landings occur. Since landings data are updated every 1-2 years, the group of stocks classified as "major" changes. NOAA's FY 2003 and FY 2004 targets were set according to the 2002 classifications. However, in the 2003 Report to Congress on the Status of Fisheries new landings data resulted in a classification of an additional eight stocks with an unknown status as "major." If adjusted to reflect this increase in stocks classified as major, the FY 2004 target would have been 92. Therefore NOAA has exceeded this adjusted target.


³ The original target of 96% was an error. Based on the 2002 Report to Congress on the Status of Fisheries, the FY 2004 target should be 90%.

PERFORMANCE GOAL: Support the Nation’s commerce with information for safe, efficient, and environmentally sound transportation (NOAA)

PERFORMANCE GOAL RESOURCES (Dollars in Millions)				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual
Total Funding	N/A ²	\$271.9	\$273.9	\$327.8
FTE ¹		927	1,178	967

¹ FTE – Full-Time Equivalent
² FY 2001 actual data not available by goal.

PERFORMANCE GOAL MEASURES								
MEASURE		FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met	
NOAA	Reduce the hydrographic survey backlog within navigationally significant areas (square nautical miles surveyed per year)	2,963	1,514	1,762	2,290	2,070		
	<i>Performance was not met, because:</i> Target for hydrographic surveying miles acquired was not met due to vessel constraints (activation of NOAA Survey Vessel FAIRWEATHER and contract vessel were unexpectedly delayed until FY 2004’s end), meaning loss of planned performance. FY 2004 production was impacted by emergency repairs to aging RAINIER’s propulsion system; time in dry dock was quite significant because it was during the limited good weather window for safe and efficient survey operations in critical Alaskan waters.							
	<i>Strategies for Improvement:</i> NOAA anticipates that in FY 2005, all ships will be fully operational throughout the year.							
NOAA	Percentage of National Spatial Reference System (NSRS) completed (cumulative %)	75%	83%	84%	87%	88.2% ¹		
NOAA	Accuracy (%) and false alarm rate (FAR) (%) for forecasts of ceiling and visibility (aviation forecasts)	Accuracy	New Measure	45	48	46	45 ¹	
		FAR	New Measure	71	64	70	64 ¹	
	<i>Performance was not met, because:</i> NOAA will meet the FY 2004 goal for aviation False Alarm Ratio, but will not meet the FY 2004 goal of 46% for aviation forecast accuracy (data thru July 2004). There is a tradeoff relationship between aviation forecast accuracy and aviation False Alarm Ratio (FAR). The tradeoff for improving FARs (Since 2002, the FAR has been reduced about 9%) is usually significantly lower accuracy scores. However, despite this tradeoff, accuracy scores have remained steady (currently only 2% below FY 2004 goal), while the FAR has been improved (lowered); this shows an improvement in forecasting.							
<i>Strategies for Improvement:</i> <u>AWIPS Software:</u> Aviation Forecast Preparation Software (AVNFPS) will begin testing in the first quarter of FY 2005 to improve the 0-6 hour portion of the TAF (Terminal Aerodrome Forecast). <u>Training:</u> In FY 2005 and FY 2006, NWS will fund two Distance Learning Aviation Courses (DLACs) developed by Cooperative Program for Meteorology, Education and Training (COMET). One course will focus on convective forecasting and the other on building a better TAF. Training will also be conducted with the Weather Event Simulator for ceiling and visibility. <u>Verification:</u> Updated and improved verification and forecaster feedback tools have been fielded and will be tested throughout FY 2005.								
NOAA	Accuracy (%) for marine wind speed forecasts	Accuracy	New Measure	52	57	57	57 ¹	

PERFORMANCE GOAL MEASURES								
MEASURE		FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met	
NOAA	Accuracy (%) for marine wave height forecasts	Accuracy	New Measure	68	71	69	67 ¹	
	<p><i>Performance was not met, because:</i> The target for Marine Wave Height was not met because not as many extreme events (only 210 through 7/31/04) occurred. Forecast wave height accuracy peaked in FY 2003 because there were a large number of extreme events (306 total, 297 by 7/31/03). Marine wave height forecast scores naturally vary (accuracy +/- 4% per year) due to fluctuations in the number of extreme events measured over NWS marine areas per year. The higher the number of extreme events, the greater opportunity a forecaster has to increase forecast performance/accuracy. 80-90% of extreme events occur during the cold season (Nov-Mar). Performance in first and second quarter has a high impact on final score.</p> <p><i>Strategies for Improvement:</i> <u>AWIPS Upgrades:</u> SAFESEAS (System on AWIPS for Forecasting and Evaluation of Seas and Lakes) decision assistance tools provide the capability to display and monitor marine observations, view past trends for these observations, and alert forecasters of intensifying conditions over maritime zones.</p> <p><u>Marine Observations:</u> Partnerships with boating organizations will provide new sources of observations, in places where none exist now, that can be displayed on AWIPS. The more sources of marine observations improve forecaster performance.</p> <p><u>Training:</u> Marine Professional Development Series is currently underway, with a new module scheduled to be online by the end of FY 2004. Regional marine workshops for marine program leaders will also help improve scores in the future.</p>							
¹ FY 2004 actual projection.								

MANAGEMENT INTEGRATION GOAL

Achieve organizational and management excellence






MANAGEMENT INTEGRATION GOAL RESOURCES (Dollars in Millions)				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual
Total Funding	\$65.9	\$74.9	\$73.4	\$75.8
FTE ¹	310	319	326	310




¹ FTE – Full-Time Equivalent

PERFORMANCE GOAL: Ensure effective resource stewardship in support of the Department's programs (DM)

PERFORMANCE GOAL RESOURCES (Dollars in Millions)				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual
Total Funding	\$36.0	\$43.0	\$39.4	\$42.9
FTE ¹	129	139	144	136

¹ FTE – Full-Time Equivalent

PERFORMANCE GOAL MEASURES							
	MEASURE	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
DM	Clean audit opinion on Department's consolidated financial statements	100%	100%	100%	100%	100%	
DM	Consolidate Commerce-wide integrated financial management system platforms	N/A	N/A	N/A	Reduce platforms from 5 to 3.	Platforms reduced from 5 to 4.	
DM	<p><i>Performance was not met, because:</i> The Office of Financial Management (OFM) did not reduce the number of platforms running CAMS from 5 to 3. Other program priorities have caused the Department to reschedule the completion of this milestone to the end of FY 2006.</p> <p><i>Strategies for Improvement:</i> The Department has identified this as a priority in focusing resources to enable it to accomplish this goal in FY 2006.</p>						
DM	Implement competitive sourcing	Inventory submitted on 6/29/01.	1% completed and management plan in place to accomplish cumulative goal for FY 2002/2003,	Combined target for FY 2002/2003 was 1203 FTEs. Competed 534 FTEs or 6.6% of new target of 800 FTEs.	Multi-year plan under development.	New Departmental FAIR Inventory Guidance has been developed.	
DM	Funds obligated through performance-based contracting	25% of eligible service contracting dollars.	31% of \$795M ¹	24% of \$605M ¹	40% of eligible service contracting dollars.	42% of \$806M ¹	
DM	Small purchases made using credit cards	92% of actions below \$25,000	95% of actions below \$25,000	97% of actions below \$25,000	90% of actions below \$25,000	> 90% of actions below \$25,000	

PERFORMANCE GOAL MEASURES (continued)							
MEASURE		FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
DM	Increase percentage of total obligations awarded as contracts to small businesses	Small business 50%	Small business 52%	Small business 53.34%	Small business 42%	Small business 61.95% ²	
DM	Ensure a secure workplace for all Commerce employees	Conducted 32 studies of classified computer systems.	Established DOC COOP; 47 risk assessments completed.	Reviewed COOPs for 16 Commerce components, including the Office of the Secretary, the Office of the Inspector General, and U.S. Patent and Trademark Office. Conducted compliance reviews of over 450 security containers and 550 sensitive documents. Conducted 40 risk assessment surveys.	Conduct 40 compliance reviews of security programs and classified systems, develop comprehensive COOP compliance and oversight program, and identify Commerce-specific security concerns.	Conducted compliance reviews of 368 security containers and 1,762 sensitive documents. Additionally, conducted 141 physical security risk assessment surveys. Further, performed reviews and tests (to include deployment exercises) related to DOC/Bureau COOP Plans. Lastly, completing final coordination of Departmental Administrative Order relating to Foreign Visitors, which has been designed to mitigate the Department's espionage risk.	
DM	Ensure a safe workplace for all Commerce employees	N/A	Developed safety action plan, reinvigorated the Commerce Safety Council to communicate safety issues, appointed a new agency safety and health official to spearhead safety efforts, established performance element for senior executives, and developed a web-based safety awareness training program.	Employee education and awareness training activities were implemented, including safety awareness training at the SES and supervisory levels, and evacuation training. Implemented safety website, published safety reports, and distributed safety brochures.	Implement a facility safety assessment program and conduct 10 facility safety assessments and 2 industrial hygiene surveys at DOC facilities, and provide safety training for 100 DOC employees.	Conducted 13 facility assessments and 5 industrial hygiene surveys at DOC facilities, provided safety training for escape hood training, fire extinguisher training, and new safety training for new employee orientation.	



¹ These dollar amounts represent eligible service contracting dollars, and are reported in the Federal Procurement Data System as of 9/17/04.




² Projection as of 9/23/04.

PERFORMANCE GOAL: Strategic management of human capital (DM)

PERFORMANCE GOAL RESOURCES <i>(Dollars in Millions)</i>				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual
Total Funding	\$3.0	\$4.0	\$4.1	\$5.3
FTE ¹	24	23	23	22

¹ FTE – Full-Time Equivalent








PERFORMANCE GOAL MEASURES							
	MEASURE	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
DM	Strategic competencies—ensure competency in leadership and in mission-critical occupations	Automated tools used by 3 pilot test offices	Completed final workforce restructuring plan in June 2002. Mission-critical competencies identified. Candidate development program (CDP) implementation plan was developed, which provides for the identification of gaps.	Implemented succession planning strategies, identified staffing and retention targets for 20 mission critical occupations, announced SES CDP, and received 204 applications.	Enroll new SES CDP participants.	The SES CDP kick-off began in September 2004 with 35 candidates selected from 270 applicants in mission-critical occupations through an OPM assessment center process.	
DM	Strategic competencies—ensure comprehensive training and development strategies	N/A	General and supervisory training policies implemented.	The Department completed needs assessments for targeted employee groups, and successfully implemented over 1200 e-learning courses in the learning management system (LMS).	Implement learning management online system in the Office of the Secretary.	The LMS was implemented in the Office of the Secretary. In addition, a memorandum of understanding was signed by all bureaus for Department-wide implementation which began in July 2004.	

PERFORMANCE GOAL MEASURES (continued)						
MEASURE	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
DM Strategic competencies—ensure diverse candidate recruitment	Developed and implemented resume database. Sponsored 19 recruitment activities and marketed more than 350 resumes with Department managers.	Completed refining resume data base, participated in 25 recruitment activities, implemented awareness campaign with Department managers.	Completed a survey of effectiveness and utilization of recruitment activities, and determined Department's hiring baseline, including analysis by race and national origin, and occupation.	Assess efficacy of recruitment approaches.	Corporate recruitment strategy implemented to include training and deploying 25 diverse recruiters to 45 career fair events. Four members of the SES met with University administrators to initiate 12 partnerships with Hispanic Serving Institutions (HSIs) and Minority Serving Institutions (MSIs). Results were 26% or 146 of 561 hires in 6/04 were members of minority groups, including 61 (3.7%) Hispanic hires. The Post Secondary Intern Program was used to develop a pipeline for entry-level diverse hires using the Student Career Employment Program (formerly Co-op program).	
DM Efficiency and effectiveness of hiring systems using the Commerce Opportunities On-Line (COOL) System	COOL phase III created and fill time identified at 38 days.	Incomplete data.	Reduced fill time to 21 days, and completed an assessment survey of the 304 managers who used COOL.	Maintain fill time standard of 30 days and assess applicants' and bureaus' satisfaction with COOL.	Maintained fill time at 21 days. Reviewed survey data of applicants' and bureaus' satisfaction with COOL.	
DM Increase the alignment of performance management with mission accomplishment	Tracking system for aligning ratings with mission accomplishment and overall recognition designed.	All SES were placed on new performance management system in June. The system links management of PMA, individual, and organizational performance and results.	Commerce GS and equivalent performance management systems are linked through the use of performance metrics tied to the APP.	Cascade new performance elements to 60% of the supervisory ranks.	Performance elements which align critical elements to the strategic plan were cascaded to 100% of the supervisory ranks. Commerce applied for provisional approval of new SES plans.	

PERFORMANCE GOAL: Acquire and manage the technology resources to support program goals (DM)

PERFORMANCE GOAL RESOURCES <i>(Dollars in Millions)</i>				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual
Total Funding	\$7.0	\$7.0	\$7.9	\$6.6
FTE ¹	18	21	19	24





¹ FTE – Full-Time Equivalent

PERFORMANCE GOAL MEASURES							
MEASURE		FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
DM	Transactions converted to electronic format	28 (23% of 123 total)	67 (54% of 123 total)	107 (50% of 214 total)	149 (70% of 214 total)	172 (80% of 214 total)	
DM	IT planning and investment review program maturity <i>(on a scale of 0-5)</i>	2	41% at 3 or higher	73% at 3 or higher; 5% at 4 or higher	60% at 3 or higher; 10% at 4 or higher	68% at 3 or higher; 18% at 4 or higher	
DM	IT architecture program maturity <i>(on a scale of 0-5)</i>	1.5	82% at 2 or higher; 59% at 3 or higher	91% at 2 or higher; 77% at 3 or higher	60% at 3 or higher; 10% at 4 or higher	77% at 3 or higher; 36% at 4 or higher	
DM	IT security program maturity <i>(on a scale of 0-5)</i>	100% at 1 or higher; 60% at 2 or higher	70% at 2 or higher; 48% at 3 or higher; 26% at 4 or higher.	100% at 2 or higher; 79% at 3 or higher; 7% at 4 or higher	85% at 3 or higher; 33% at 4 or higher	100% at 3 or higher; 36% at 4 or higher	
DM	Percentage of IT system security plans completed	61%	98%	100%	100%	100%	
DM	Percentage of IT systems certified and accredited	N/A	N/A	N/A	85%	97%	
DM	Percentage of unsuccessful intrusion attempts	86% (1,380 of 1,620 intrusion attempts)	87% (1,441 of 1,655 intrusion attempts)	85% (560 of 661 intrusion attempts)	85%	94% (1,486 of 1,587 intrusion attempts)	

PERFORMANCE GOAL: Promote improvements to Commerce programs and operations by identifying and completing work that (1) promotes integrity, efficiency, and effectiveness and (2) prevents and detects fraud, waste and abuse (OIG)

PERFORMANCE GOAL RESOURCES <i>(Dollars in Millions)</i>				
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual
Total Funding	\$19.9	\$20.9	\$22.0	\$21.0
FTE ¹	139	136	140	128

¹ FTE – Full-Time Equivalent

PERFORMANCE GOAL MEASURES							
MEASURE		FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Met/Not Met
OIG	Percentage of Commerce's management challenges, stakeholder concerns and other critical issues addressed by OIG work products	Modified	Modified	58%	51%	60%	
OIG	Percentage of OIG recommendations accepted by departmental and bureau management	95%	95%	97%	90%	97.5%	
OIG	Dollar value of financial benefits identified by OIG	Modified	Modified	\$43,323,124	\$20,000,000	\$26,000,000	
OIG	Percentage of criminal and civil matters that are accepted for prosecution	Modified	Modified	50%	50%	67%	

IMPROPER PAYMENTS INFORMATION ACT (IPIA)

REPORTING DETAILS

I. Describe your agency's risk assessment premise(s) and process(es) that you performed subsequent to compiling your full program inventory.

To determine the nature and extent of possible improper payments, and to assess the level of internal controls and the overall risk of erroneous payments within the Department, a comprehensive questionnaire on erroneous payment was issued to the Department's payment offices in fiscal year (FY) 2003. The Department separated the risk assessment into different categories of payment such as Grants, Purchase Orders, Contracts, Purchase Cards, and Travel Reimbursements. The payment offices' responses were analyzed and a consolidated risk assessment was completed. In performing the risk analysis, the Department also looked at the results of different audits.

II. List the risk-susceptible program identified through your risk assessment. Don't omit the programs previously identified in the former Section 57 of OMB (Office of Management and Budget) Circular A-11.

The results of Department assessments revealed no risk-susceptible program, and demonstrated that overall the Department has strong internal controls over the disbursement process, the amounts of erroneous payments in the Department are immaterial, and the risk of erroneous payments is low.

III. Describe the statistical sampling process conducted to estimate the improper payment rate for each program identified.

The Department conducted a systematic sampling process to draw a stratified sample of disbursements from a Department-wide universe of FY 2004 disbursements. It then subjected each selected sample item to a rigorous review of original invoices and supporting documentation to determine that the disbursement was accurate, made only once, and that the correct vendor was compensated.

The results of the Department's review did not reveal any significant improper payments. Also, early in the year, Commerce's Office of Inspector General (OIG) conducted a comprehensive review of disbursements for improper payments at the Department's largest payment office. The audit revealed no significant erroneous payments.

IV. Explain the corrective action plan(s) your agency plans to implement to reduce the estimated rate of improper payments. Include in this discussion what is seen as the cause(s) of errors and the corresponding steps necessary to prevent future occurrences. If efforts are already underway, and/or have been ongoing for some length of time, it is appropriate to include that information in this section.

The results of Department assessments demonstrate that overall the Department has strong internal controls over the disbursement process, the amounts of erroneous payments in the Department are immaterial, and the risk of erroneous payments is low. However, the Department has further enhanced its current process and is actively working with each of its payment offices to identify and implement additional procedures to prevent and detect erroneous payments. Beginning

from FY 2004, the Department has implemented procedures that include quarterly reporting by its bureaus to the Department on erroneous payments, identifying the nature and magnitude of the erroneous payment along with any necessary control enhancements.

Additionally, the Department has reviewed all financial statement audit findings for indications of a breach of those controls. None of the financial statement audits have uncovered any problems with erroneous payments or the internal controls that surround disbursements. If future financial statement audits reveal problems with erroneous payments, the Department will prepare corrective actions to address them.

V. A. Based on the rate(s) obtained in Step III, set annual improvement targets through FY 2007.

The results of the Department's review did not reveal any significant improper payments. Also, early in the year, Commerce's OIG conducted a comprehensive review of disbursements for improper payments at the Department's largest payment office. The audit revealed no significant erroneous payments.

Due to the low level of erroneous payments and assessed low risk, Commerce is still determining the feasibility of a reduction goal.

VI. Discussion of your agency's recovery auditing effort, if applicable to your agency, including the amount of recoveries expected, the actions taken to recover them, and the changes to business process and internal controls instituted to prevent further occurrences.

The Department has contracted with a private vendor to perform recovery auditing across the Department's major payment offices. The audit is still in the beginning stages; as such, the Department is unable to estimate the amount of expected debts or recoveries at this time.

VII. Description of the steps (including timeline) the agency has taken and plans to take to ensure that agency managers (including the agency head) are held accountable for reducing and recovering improper payments.

The Department has not identified any significant problems with erroneous payments; however, it recognizes the importance of maintaining adequate internal controls to ensure proper payments, and the Department's commitment to the continuous improvement in the disbursement management process remains very strong. The Chief Financial Officer (CFO) has responsibility for establishing policies and procedures for assessing agency and program risks of improper payments, taking actions to reduce those payments, and reporting the results of the actions to agency management for oversight and other actions as deemed appropriate. The CFO has designated the Deputy CFO and Director for Financial Management to oversee initiatives related to reducing erroneous payments within the Department, and work closely with the bureau CFOs in this area.

In FY 2004, the Department introduced new reporting procedures that required quarterly reporting to the Department by its bureaus on any erroneous payments, identifying the nature and magnitude of the erroneous payment along with any necessary control enhancements to prevent further occurrence of the type of erroneous payments identified. The Department's analysis of the data collected from the bureaus shows that Department-wide erroneous payments are below 1 percent.

Also, the Department has contracted with a private vendor to conduct a recovery audit for contracts throughout the Department, as required by Section 831 of the Defense Authorization Act for FY 2002.

For FY 2005 and beyond, the Department will continue its efforts to ensure the integrity of its programs' payments.

VIII. A statement of whether the agency has the information systems and other infrastructure it needs in order to reduce improper payments to the levels the agency has targeted.

The Department has ensured that internal controls, manual as well as system, relating to payments are in place throughout the Department, and has reviewed all financial statement audit findings for indications of a breach of those controls. None of the financial statement audits have uncovered any problems with erroneous payments or the internal controls that surround disbursements.

IX. A description of any statutory or regulatory barriers, which may limit the agencies' corrective actions in reducing improper payments

The Department has not identified any barriers to date but will notify OMB and Congress on any barriers that inhibit actions to reduce improper payments if they occur.

X. The Department's Disbursement Best Practices

The following are some examples of the internal control procedures used by the Department's bureaus:

- ◆ Limited/controlled access to vendor files – access to basic vendor information (e.g., name, address, tax identification number (TIN), business size, etc.) is available to Office of Finance system users only. Access to banking information is restricted by system security to only those that require access to such records.
- ◆ Controlled access to the accounts payable screens – authority to create, edit, approve, process, and amend payment records is limited to essential Office of Finance system users only. Also, authority to add records to or revise records in the vendor database is granted only to Office of Finance system users that require such authority.
- ◆ Segregation of duties for data entry and review prior to transmitting disbursement file to Treasury – data entry duties are assigned to technicians in the Office of Finance who do not have authority to review and process payments. Authority to approve and process payments is assigned to accountants in the Office of Finance. Both data entry and approval/processing of payments are separate functions from transmitting disbursement files to Treasury that is an entirely automated process.
- ◆ System-edit reports that highlight potential items that may result in improper payments (e.g., invoice amount and accrual amount are not the same). There is a daily Invoice Workload Report that displays open amounts (not closed by a payment) on all invoices. This report is reviewed and action is taken to resolve partially open invoices. In addition, system settings prevent a payment in excess of the amount of the invoice.

- ◆ Daily pre-payment audit of invoices for properness and corrective actions prior to disbursement, which prevent erroneous payments from occurring.
- ◆ The system edits if the vendor's name on the payment does not agree with that on the obligation, or if the payment amount is greater than the obligation or accrual amount.
- ◆ The monthly Citibank statement for Purchase Cards is interfaced into the accounting system and automatically paid, thereby reducing data entry error.
- ◆ An accountant or supervisor reviews individual payments before releasing for payment to ensure that the correct banking information or addresses are used, and that the correct amount will be paid.
- ◆ Monthly post-payment random sample audits for detection purposes.
- ◆ Contracts include a clause requiring the contractor to notify the contracting officer if the government overpays when making an invoice payment or a contract financing payment under either a commercial item or a noncommercial item contract.

GLOSSARY OF KEY ACRONYMS

ABBREVIATION	TITLE	ABBREVIATION	TITLE
A ACS	American Community Survey	CIO	Chief Information Officer
ACSI	American Customer Satisfaction Index	CIRT	Computer Incident Response Team
AD	Antidumping	COOL	Commerce Opportunities Online
ADP	Automated Data Processing	COOP	Continuity of Operations Plan
AHS	American Housing Survey	COTR	Contracting Officer Technical Representative
AML	Advanced Measurement Laboratory (NIST)	CPD	Coastal Programs Division
APP	Annual Performance Plan	CPI	Consumer Price Index
ASAP	Automated Standard Application for Payments	CPS	Current Population Survey
ATP	Advanced Technology Program (NIST)	CRADA	Cooperative Research and Development Agreements
ATS	Annual Trade Survey	CSRS	Civil Service Retirement System
AWIPS	Advanced Weather Interactive Processing System	CVD	Countervailing Duty
		CWC	Chemical Weapons Convention
B BAS	Boundary and Annexation Survey	CWCIA	CWC Implementation Act
BDC	Business Development Centers (MBDA)	CZM	Coastal Zone Management (NOAA)
BEA	Bureau of Economic Analysis	CZMA	CZM Act
BIS	Bureau of Industry and Security	CZMP	CZM Program
BLS	Bureau of Labor Statistics		
BNQP	Baldrige National Quality Program	D DFI	Digital Freedom Initiative
		DHS	U.S. Department of Homeland Security
C CAMS	Commerce Administrative Management System	DM	Departmental Management
CBP	U.S. Customs and Border Protection	DOJ	U.S. Department of Justice
CCSPS	Climate Change Science Program Strategic Plan	DOL	U.S. Department of Labor
CEDS	Comprehensive Economic Development Strategies	DOL/OLMS	DOL Online Labor Management System
CEIP	Coastal Energy Impact Program (NOAA)	DPAS	Defense Priorities and Allocations System
CFO	Chief Financial Officer		
CFO/ASA	Chief Financial Officer and Assistant Secretary for Administration (OS)		

ABBREVIATION	TITLE	ABBREVIATION	TITLE
E EAA	Export Administration Act	FVOG	Fishing Vessel Obligation Guarantee Program (NOAA)
EAR	Export Administration Regulations	FWC	Future Workers' Compensation
ECASS	Export Control Automated Support System	FY	Fiscal-year
EDA	Economic Development Administration	G G&B	Gifts and Bequests (a fund that is part of DM)
EDD	Economic Development Districts	GAAP	Generally Accepted Accounting Principles
EEEL	Electronics and Electrical Engineering Laboratory (NIST)	GAO	U.S. Government Accountability Office
EFT	Electronic Funds Transfer	GDP	Gross Domestic Product
ELGP	Emergency Oil and Gas and Steel Loan Guarantee Programs	GFDL	Geophysical Fluid Dynamics Laboratory (NOAA)
ENC	Electronic Navigational Chart	GLERL	Great Lakes Environmental Research Laboratory
ENSO	El Niño/Southern Oscillation	GPRA	Government Performance and Results Act of 1993
EPO	European Patent Office	GPS	Global Positioning System
ESA	Economics and Statistics Administration	GSA	U.S. General Services Administration
F FAIR	Federal Activities Inventory Reform	GSP	Gross State Product
FAR	False Alarm Rate	GSS	Geographic Support System
FCC	Federal Communications Commission	H HR	Human Resources
FECA	Federal Employees Compensation Act	HRDS	HR Data System
FEGLI	Federal Employees Group Life Insurance Program	HSS	Heidke Skill Scores
FEHB	Federal Employees Health Benefit Program	I IA	Import Administration (ITA)
FEMA	Federal Emergency Management Agency	ICANN	Internet Corporation for Assigned Names and Numbers
FERS	Federal Employees Retirement System	ICEP	International Catalog Exhibition Program (ITA)
FFMIA	Federal Financial Management Improvement Act of 1996	ICT	Information and Communication Technology
FICA	Federal Insurance Contributions Act	IDS	Intrusion Detection Software
FISMA	Federal Information Security Management Act	IFQ	Individual Fishing Quota Direct Loans (NOAA)
FMFIA	Federal Managers' Financial Integrity Act of 1982	IFW	Image File Wrapper
FMP	Fishery Management Plan	IG	Immediate Office of the Inspector General (OIG)
FR	Field Representative		
FTA	Free Trade Agreement		
FTAA	Free Trade Area of the Americas		
FTE	Full-Time Equivalent		

APPENDIX C: GLOSSARY OF KEY ACRONYMS

ABBREVIATION	TITLE	ABBREVIATION	TITLE
IP	Intellectual Property	MEPNAB	MEP National Advisory Board
IP	Internet Protocol	MOU	Memorandum of Understanding
IRAC	Interdepartmental Radio Advisory Committee	MSEL	Materials Science and Engineering Laboratory (NIST)
IRC	Investment Review Committees	MTS	U.S. Marine Transportation System
IRS	Internal Revenue Service		
ISI	Institute for Scientific Information	N NABDC	Native American Business Development Centers (MBDA)
IT	Information Technology	NAICS	North American Industry Classification System
ITA	International Trade Administration	NAO	North Atlantic Oscillation
ITL	Information Technology Laboratory (NIST)	NAPA	National Academy of Public Administration
ITS	Institute for Telecommunication Sciences (NTIA)	NASA	National Aeronautics and Space Administration
ITU	International Telecommunication Union	NBS	National Bureau of Standards
K KSA	Knowledge, Skills, and Abilities	NCDC	National Climatic Data Center (NOAA)
L LMS	Learning Management System	NERR	National Estuarine Research Reserve
M MAF	Master Address File	NIH	National Institutes for Health
MAP	Measurement Assurance Programs (NIST)	NIPA	National Income and Product Accounts
MBDA	Minority Business Development Agency	NIST	National Institute of Standards and Technology
MBDC	Minority Business Development Centers (MBDA)	NM	Nautical Miles
MBE	Minority Business Enterprise	NMFS	National Marine Fisheries Service (NOAA)
MBIP	Minority Business Internet Portal	NOAA	National Oceanic and Atmospheric Administration
MBNQA	Malcolm Baldrige National Quality Awards	NOS	National Ocean Service (NOAA)
MBOC	Minority Business Opportunity Committee Program (MBDA)	NPV	Net Present Value
MDCP	Market Development Cooperator Program (ITA)	NRC	National Research Council
MECA	Minority Equity Capital Access Program (MBDA)	NSRS	National Spatial Reference System
MED	Minority Enterprise Development	NTIA	National Telecommunications and Information Administration
MEL	Manufacturing Engineering Laboratory (NIST)	NTIS	National Technical Information Service
MEP	Manufacturing Extension Partnership (NIST)	NWLON	National Water Level Observation Network
		O OA	Office of Audits (OIG)
		OAM	Office of Acquisition Management (OS)
		OCAD	Office of Compliance and Administration (OIG)

ABBREVIATION	TITLE	ABBREVIATION	TITLE
OCS	Office of Computer Services (Franchise Fund)	PP&E	Property, Plant, and Equipment, Net
OECD	Organization for Economic Cooperation and Development	PPS	Post-project Survey
OFM	Office of Financial Management (OS)	PRT	Program Review Team (NOAA)
OFPP	Office of Federal Procurement Policy	PSV	Post-shipment Verification
OHRM	Office of Human Resources Management (OS)	PTFP	Public Telecommunications Facilities Program (NTIA)
OI	Office of Investigations (OIG)	QFR	Quarterly Financial Report
OIG	Office of Inspector General (DM)	QPF	Quantitative Precipitation Forecasts
OIPE	Office of Inspections and Program Evaluations (OIG)	R&D	Research and Development
OMB	Office of Management and Budget	RLF	Revolving Loan Fund (EDA)
OPEM	Office of Planning, Evaluation and Management (BIS)	ROP	Reserve's Operations Plan (NOAA)
OPM	U.S. Office of Personnel Management	S&E	Salaries and Expenses
OS	Office of the Secretary (DM)	S&T	Science and Technology
OSDBU	Office of Small and Disadvantaged Business Utilization (OS)	SAS	Services Annual Survey
OSE	Office of Systems Evaluation (OIG)	SAV	Site Assistance Visits
OSM	Office of Spectrum Management (NTIA)	SBA	U.S. Small Business Administration
OSY	Office of Security (OS)	SBR	Combined Statement of Budgetary Resources
OTE	Office of Technology Evaluation	SCNP	Consolidated Statement of Changes in Net Position
OTP	Office of Technology Policy (TA)	SDDS	Special Data Dissemination Standards
PALM	Patent Application Location and Monitoring System	SES	Senior Executive Service
PAR	Performance and Accountability Report	SIPP	Survey of Income and Program Participation
PART	Program Assessment Rating Tool	SME	Small and Medium-sized Enterprise
PBSA	Performance-based Service Acquisitions	SNM	Square Nautical Miles
PBSC	Performance-based Service Contracting	SPD	Survey of Program Dynamics
PBViews	Panorama Business Views	SRD	Standard Reference Data
PKI	Public Key Infrastructure	SRM	Standard Reference Materials
PL	Physics Laboratory (NIST)	STEP	Standard for the Exchange of Product Model Data
PMA	President's Management Agenda		
PNA	Pacific North America		
PORTS®	Physical Oceanographic Real-time System		

APPENDIX C: GLOSSARY OF KEY ACRONYMS

ABBREVIATION	TITLE	ABBREVIATION	TITLE
T 3G	Third Generation	U UAE	United Arab Emirates
TA	Technology Administration	UC	University Center
TAA	Trade Adjustment Assistance Program (EDA)	US&FCS	U.S. and Foreign Commercial Service
TAAC	Trade Adjustment Assistance Center	US/OTP	Office of the Under Secretary/Office of Technology Policy (TA)
TABD	Trans-Atlantic Business Dialogue	USCRN	U. S. Climate Reference Network
TCC	Trade Compliance Center (ITA)	USDA	U.S. Department of Agriculture
TECI	Transshipment Country Export Control Initiative	USPTO	U.S. Patent and Trademark Office
TIC	Trade Information Center (ITA)	USTR	Office of the U.S. Trade Representative
TIGER	Topologically Integrated Geographic Encoding and Referencing System	USWRP	U.S. Weather Research Program
TIS	Trademark Information System	UWB	Ultra-wideband
TPA	Trade Promotion Authority	V VCAT	Visiting Committee on Advanced Technology
TPC	Tropical Prediction Center (NOAA)	VoIP	Voice over Internet Protocol
TPCC	Trade Promotion Coordinating Committee	W WCF	Working Capital Fund (DM)
TRAM	Trademark Reporting and Monitoring System	WMD	Weapons of Mass Destruction
Treasury	U.S. Department of the Treasury	WTO	World Trade Organization
TROR	Treasury Report on Receivables		
TRP	Take Reduction Plan		
TRT	Take Reduction Team		
TSP	Thrift Savings Plan		
TVA	Tennessee Valley Authority		

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DEPARTMENT OF COMMERCE WEB ADDRESSES FOR PLANNING AND PERFORMANCE



Department of Commerce
<http://www.commerce.gov/>

Department of Commerce Strategic Plan,
Performance Reports and Performance Plans
<http://www.osec.doc.gov/bmi/budget/docstplan.htm>

Department of Commerce Office of the Inspector General
<http://www.oig.doc.gov/>

Economic Development Agency Annual Reports
<http://www.eda.gov/AboutEDA/Annualreport.xml>

Bureau of Economic Analysis (BEA) Homepage
www.bea.gov

BEA Strategic Planning:

◆ BEA's Mission, Vision, Values, and Role
<http://www.bea.gov/bea/about/mission.htm>

◆ BEA Strategic Plan for FY 2005–FY 2009
<http://www.bea.gov/bea/about/Director.htm>

◆ BEA Strategic Plan Report Card for FY 2004
<http://www.bea.gov/bea/about/Director.htm>

BEA Organizational Assessment:

◆ Employees Rate BEA Among Top Federal Agencies,
January 5, 2004
<http://www.bea.gov/bea/about/Director.htm>

◆ BEA Organizational Assessment Survey, Results, 2003
<http://www.bea.gov/bea/about/Director.htm>

Other BEA Performance Related Links:

◆ BEA Customer Satisfaction Survey Report, 2004
<http://www.bea.gov/bea/about/Director.htm>

◆ Release Dates for 2005
<http://www.bea.gov/bea/newsrel/2005rd.htm>

International Trade Administration Performance
and Strategic Planning
<http://www.ita.doc.gov/ooms/ITAMeasures/>

U.S. Census Bureau
<http://www.census.gov>

Technology Administration
<http://www.technology.gov/>

Bureau of Industry and Security (BIS)
<http://www.bis.doc.gov/>

BIS Fiscal Year 2003 Annual Report
<http://www.bis.doc.gov/news/2004/03annualrept/index.htm>

Minority Business Development Agency Fiscal Year 2003
Annual Report
http://www.mbda.gov/documents/FY03_Annual_Performance_Report.pdf

United States Patent and Trademark Office (USPTO)
<http://www.uspto.gov>

USPTO FY 2003 Performance and Accountability Report
<http://www.uspto.gov/web/offices/com/annual/2003/index.html>

National Institute of Standards and Technology (NIST):

◆ NIST Performance Evaluation
http://www.nist.gov/director/planning/impact_assessment.htm#recent

◆ NIST Strategic Planning
<http://www.nist.gov/director/planning/strategicplanning.htm>

◆ NIST Advanced Technology Program, Performance Evaluation
and Economic Assessment
http://www.atp.nist.gov/eao/eao_main.htm

**National Telecommunications and Information
Administration (NTIA) Strategic Plan**
<http://www.ntia.doc.gov/ntiahome/annualrpt/strat99.html>

NTIA Annual Reports
<http://www.ntia.doc.gov/ntiahome/annreports.html>

**National Oceanic and Atmospheric Administration Strategic
Planning and Performance** <http://www.spo.noaa.gov/>