



**THE INSPECTOR GENERAL'S STATEMENT OF MANAGEMENT CHALLENGES**

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The order of the management challenges changed in FY 2006. This comparison chart shows the new order for FY 2007. A description of the challenges and bureau responses to them follows this crosswalk.

2007 MANAGEMENT CHALLENGE CROSSWALK		
2006 CHALLENGES	CHALLENGE NUMBER	2007 CHALLENGES
Strengthen Department-wide information security	1	Control the cost and improve the accuracy of the decennial census [Moved up from 5]
Effectively manage Departmental and bureau acquisition processes	2	Strengthen Department-wide information security [Moved down from 1]
Strengthen internal controls over financial, programmatic, and business processes	3	Effectively manage Departmental and bureau acquisition processes [Moved down from 2]
Ensure that the U.S. Patent and Trademark Office (USPTO) uses its authorities and flexibilities as a performance-based organization to achieve better results	4	Strengthen internal controls over financial, programmatic, and business processes [Moved down from 3]
Control the cost and improve the accuracy of the decennial census	5	Ensure that USPTO uses its authorities and flexibilities as a performance-based organization to achieve better results [Moved down from 4]
Effectively manage the development and acquisition of environmental satellites	6	Effectively manage the development and acquisition of environmental satellites
Promote fair competition in international trade	7	Promote fair competition in international trade
Effectively manage the National Oceanic and Atmospheric Administration's (NOAA) stewardship of ocean and living marine resources	8	Effectively manage NOAA's stewardship of ocean and living marine resources
Aggressively monitor emergency preparedness, safety, and security responsibilities	9	Aggressively monitor emergency preparedness, safety, and security responsibilities
Enhance export controls for dual-use commodities	10	Enhance export controls for dual-use commodities

### **Challenge 1: Control the Cost and Improve the Accuracy of the Decennial Census**

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At an estimated cost of \$11.3 billion, the 2010 census will be the country's most expensive decennial ever, both per capita and overall. The Census Bureau's redesigned decennial plan, established after the 2000 census, is heavily dependent on automating critical field operations to accurately count the Nation's population within budget. The Bureau has established an ambitious testing schedule to monitor development and implementation of the strategy, identify problems, and incorporate solutions in time for 2010. During the past year, the Bureau reviewed various aspects of the its 2006 test held in Travis County, TX, and the Cheyenne River Reservation and Off-Reservation Trust Land in South Dakota.

The Cheyenne River Reservation was an effort designed to reduce the historic undercount of American Indians living on reservations. Update/enumerate is used in communities where residents are less likely to return a completed questionnaire, so enumerators go door to door to collect census information in person and update the address lists and maps. The Office of Inspector General's (OIG) extensive field observations and data analysis revealed a host of problems that prevented the Bureau from completing update/enumerate in the allotted timeframe. Among the most serious were the poor maps and incorrect address lists generated during address canvassing and supplied to update/enumerate staff, which made it nearly impossible for enumerators to find all housing units and for quality control staff to conduct their follow-up checks. This finding underscores the deficiencies the Bureau noted in last year's evaluation of the address canvassing test. The OIG also found that changes to the questionnaire designed to identify and count all household members yielded a negligible increase in enumerations, and, given that the Bureau did little to test alternative enumeration methods, the OIG questions whether the Bureau devoted adequate time and attention to the test.

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

### **Challenge 2: Strengthen Department-Wide Information Security**

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Since enactment of the Federal Information Security Management Act (FISMA) in 2002, agencies have spent millions of dollars to improve the security of information stored on their computer systems and shared via the Internet. Yet weaknesses persist and breaches continue. At the Department, information technology (IT) security has been a material weakness since 2001.

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

In addition to C&A issues, other IT security concerns came to forefront in FY 2007. In September 2006, the Department reported that 1,138 laptop computers had been lost or stolen over the past five years, and more than 20 percent contained sensitive personal data. In October it reported that 297 instances of compromise had occurred since 2003, involving laptops, handheld devices, and thumb drives. Publicized breaches in the security of personally identifiable information have prompted new Office of Management and Budget (OMB) requirements for protecting this information and a new policy at the Department. OMB requires that all mobile computing devices encrypt sensitive data and that agencies report related security breaches to the U.S. Computer Emergency Readiness Team (US-CERT) within one hour of discovering them. Under the Department's new policy, only laptops



equipped with approved encryption software may store personally identifiable information. Carrying this information on thumb drives, CDs, and similar devices is prohibited.

### **Challenge 3: Effectively Manage Departmental and Bureau Acquisition Processes**

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With the Department spending nearly \$2 billion a year on goods and services, the potential for waste, fraud, or abuse looms large within the Department. The OIG continues to closely monitor procurement processes in the bureaus and at the departmental level. Recent OIG audits and evaluations have identified the need for improvements in acquisition planning, to include accurate independent cost estimates, effective market research, and full and open competition whenever possible.

To enhance oversight of the Department's acquisition activities, the OIG has established a new contract audits division. The division will audit individual contracts and look at crosscutting acquisition issues to identify opportunities to improve departmental and bureau procurement policies and to minimize the likelihood of fraud, waste, and abuse. It will also look for and report on best practices and innovative approaches that can be adopted Department-wide. The division's initial area of emphasis is the Census Bureau's procurement of products and services to support the 2010 decennial census. The Bureau estimates that 17 percent (\$1.9 billion) of its 2010 budget will be spent on contracts for IT systems, advertising, and leases for local office space. Contract audits staff is currently monitoring the Bureau's efforts to procure advertising and other communications services. These are considered essential to the Bureau's efforts to lower operational costs by obtaining a high return rate for mailed questionnaires and thereby minimizing the number of households that require nonresponse follow-up.

The Census Bureau awarded another major contract in September 2007 for communications services. The 2010 communications contractor will be responsible for developing an integrated communications plan that will be implemented with the Census Bureau in support of the 2010 Census communication goals.

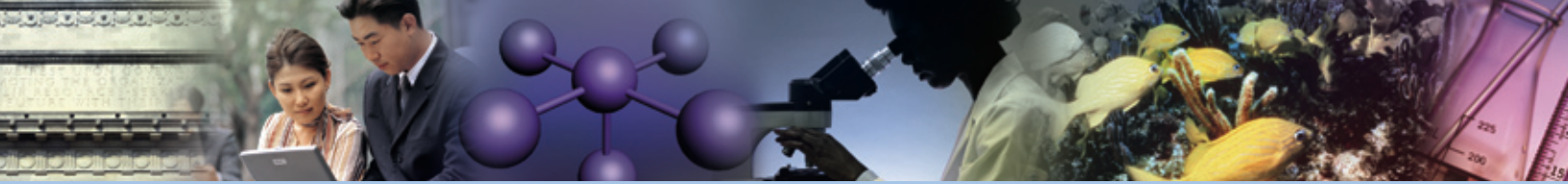
The Census Bureau issued a request for proposals for communications services in January 2007 and plans to award a single indefinite delivery/indefinite quantity contract, with maximum costs capped at \$300 million, in the fall of 2007. The OIG is monitoring the progress of this procurement, and plans to pay close attention to its management at every phase. Among other things, the OIG will focus on how the Bureau measures the contractor's performance and whether it uses award fees appropriately. Other contracts of interest to the OIG include one issued by the National Oceanic and Atmospheric Administration's (NOAA) National Data Buoy Center (NDBC), a part of the National Weather Service (NWS) that designs, develops, operates, and maintains a network of data collecting buoys and coastal stations. In 2005 the center awarded a 10-year contract worth up to \$500 million for technical services support for its marine observation network. The OIG plans to review NOAA's management of this contract, as well as its oversight of the associated tasks performed to maintain and repair data buoys and other observation platforms for marine weather forecasting.

### **Challenge 4: Strengthen Internal Controls Over Financial, Programmatic, and Business Practices**

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Internal controls are the steps agencies take to make sure their operations are effective, efficient, and in compliance with laws and regulations. Internal controls also ensure that financial reporting is reliable and assets are safeguarded from waste, loss, or misappropriation. Under OMB's revised Circular A-123, agencies in FY 2006 began implementing new internal accounting controls and since FY 2005 have had to issue audited financial statements within 45 days of the fiscal year's close. The Department has met this deadline both years, and has continued to receive a clean opinion on its consolidated statements.

The next step is government-wide integration. In 2006, under an initiative known as Financial Management Line of Business (FMLoB), OMB began requiring all agencies to consolidate their core financial operations (accounting, payments, and recording) with those of other agencies. The goals of the initiative are to standardize systems, promote seamless data exchange, improve



## MANAGEMENT DISCUSSION AND ANALYSIS

the quality and efficiency of financial operations, reduce costs, and eliminate redundancy. Agencies have until 2015 to move to or become shared services providers. They must begin reporting in June 2007 how well their financial services perform as part of the FMLoB, using metrics OMB published March 30, 2007. These evaluations will serve as blueprints for identifying needed internal control improvements and the steps required to migrate to shared services.

The Digital Television Transition and Public Safety Act of 2005 requires the FCC to auction recovered analog spectrum and deposit the proceeds into a special fund. Under the act, the National Telecommunications and Information Administration (NTIA), one of the Department's smaller agencies, is slated to manage up to nine new programs, two of which have potential combined budgets totaling \$2.5 billion. Successfully implementing these new programs is a significant management challenge for the Department. The OIG recently examined certain aspects of the accounting system and financial records of a broadcasting consortium slated to receive a \$30 million grant under the act. The OIG provided Agency management with information it could use to ensure the grantee's accounting structure complied with federal requirements and supported appropriate use of federal funds prior to the funds' disbursement. The OIG is also monitoring the Agency's implementation of the converter box program and the interoperable communications grant program.

The Department also needs to strengthen internal controls for select programs and administrative operations. A review of the Department's Federal Employees Compensation Act (FECA) program found a variety of problems caused by poor internal controls, including people who were overpaid or who remained on workers' compensation rolls for years without medical justification. During FY 2007, the OIG audits of the Economic Development Administration's (EDA) revolving loan fund (RLF) program and the Department's management of premium-class travel revealed numerous deficiencies in program controls. The OIG also began looking at the Census Bureau's property management policies and practices, in light of the loss of several hundred laptops. Because the design and implementation of program and property controls can significantly impact the effectiveness of departmental operations, the OIG expects that this area will remain an important aspect of the OIG's audit and inspection work.

### **Challenge 5: Ensure that USPTO Uses Its Authorities and Flexibilities as a Performance-Based Organization to Achieve Better Results**

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

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

The long-standing and growing backlog highlights other issues for USPTO and OIG attention: the need to expedite a fully electronic patent examination process and to carefully monitor the Agency's billion-dollar investment in high-risk time and materials and award fee contracts for related IT services. The OIG has reviewed USPTO's procurement process to learn whether the Agency's acquisition criteria have changed since the Patent and Trademark Office Efficiency Act took effect. The OIG noted several areas that could benefit from improved guidance, particularly with regard to applying the *Patent and Trademark Office Acquisition Guidelines*. The OIG also found data input errors that could have been prevented with better controls.



### **Challenge 6: Effectively Manage the Development and Acquisition of Environmental Satellites**

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

The Department OIG's oversight work involves looking at the Department and NOAA's efforts to establish effective monitoring organizations, policies, and procedures and the mechanisms NOAA will use to leverage the National Aeronautics and Space Administration's (NASA) oversight expertise. The OIG also examines whether program staff report significant issues to senior Department and NOAA oversight officials in a timely fashion and whether those officials take appropriate action. The OIG's acquisition focus is on the program office's overall approach to procuring key satellite instruments, identifying potential risks, and implementing associated mitigation strategies. The OIG is also assessing the acquisition contracts' award fee plans to determine whether they are structured to promote excellent performance.

The OIG's September 2006 *Semiannual Report* detailed the findings of the OIG's audit of the National Polar-orbiting Operational Environmental Satellite System (NPOESS). The OIG's findings revealed how far afield satellite procurement projects can run when management oversight slides. This has put new pressure on Agency officials and program planners to have strong mechanisms in place for tracking every phase of the program to contain costs and promptly mitigate problems.

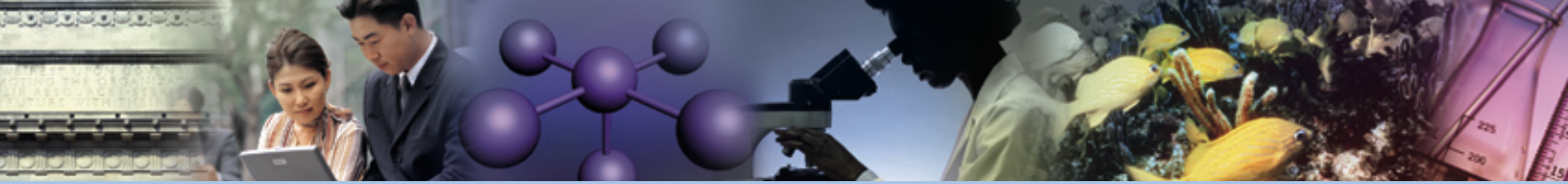
NPOESS—a joint project of NOAA, NASA, and the Department of Defense (DOD)—will be a critical element in the Nation's ability to provide continuous weather and environmental data for civilian and military needs through the coming two decades. In November 2005, DOD reported that NPOESS costs had grown by 25 percent over original estimates—triggering Congressional recertification of the program under the Nunn-McCurdy provision of the FY 1982 National Defense Authorization Act (NDAA). In addition to the staggering cost increases, the program was running 17 months behind schedule yet the contractor had received \$123 million in incentive payments. The OIG's audit uncovered two overarching management and contract weaknesses that contributed to the unchecked cost and schedule overruns: first, the NPOESS executive committee—top leaders from the three agencies charged with overseeing the project—never challenged optimistic assessments of the impact of technological problems. Second, the contractor received excessive award fees despite problems.

In June 2006, the House Science Committee accepted a triagency proposal to continue the program, but with four satellites instead of six. The first satellite will launch in 2013 rather than 2010, as proposed in the original program. Total acquisition costs were revised from the original estimate of \$6.4 billion to \$11.5 billion to support NPOESS satellite coverage through 2026. As a result of the OIG's audit, NOAA agreed to institute regular internal program reviews as well as annual and ad hoc independent program assessments, revise the award fee plan to better link award fees with desired outcomes, and assign responsibility for determining fee award to an official who does not directly manage the NPOESS program.

### **Challenge 7: Promote Fair Competition in International Trade**

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



## MANAGEMENT DISCUSSION AND ANALYSIS

In response to a request from members of the U.S. House of Representatives, the OIG reviewed various aspects of the Department's trade promotion efforts and the coordination of those efforts among various offices within the Department and with other federal and state agencies and other trade partners. The OIG found effective collaboration on trade promotion in many instances but also identified areas where the Department and members of the interagency Trade Promotion Coordinating Committee (TPCC) could enhance their cooperation on specific trade promotion activities, such as trade finance assistance. In addition, the OIG's review of Department Internet resources for exporters found that the Department could better organize its online content and consolidate information from other agencies to provide a one-stop source of U.S. government trade leads and other export assistance.

Recent OIG inspections focused on the management, program operations, and financial and administrative practices of three South American posts. The OIG's review of Commercial Service operations in Brazil found the post provides valuable assistance to U.S. companies in the complex Brazilian business environment and collaborates well with other trade promotion agencies, including key U.S. government offices and nongovernmental organizations (NGO). The report discussed challenges posed by the post's management structure and allocation of office resources, and the need to develop measurable long-term goals for the standards and IP attachés recently posted to Brazil. The OIG found that the post responded to budget cuts by adjusting its programmatic priorities and was concerned that they may impact Commercial Service Brazil's overall performance and delivery of products and services. In general, the OIG found the post's financial and administrative operations were sound but also identified some discrepancies in ITA and Commercial Service post accounting reports and some administrative policies not being followed. The OIG also found some questionable export success claims that did not appear to contribute to Commercial Service's mission to promote U.S. exports.

The OIG also received an action plan on its report about Commercial Service posts in Argentina and Uruguay. (About half of the recommendations the OIG made have been satisfied. Only seven remain open, and the OIG asked for a follow-up status report.) Significant export opportunities are opening in these countries as Brazil's large economy continues its steady growth, Argentina recovers from its 2001-2002 economic crisis, and Uruguay pursues closer trade relations with the United States.

### **Challenge 8: Effectively Manage NOAA's Stewardship of Ocean and Living Marine Resources**

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NOAA is charged with monitoring the health of the Nation's ocean, coastal, and Great Lakes resources; administering civilian ocean programs; and protecting and preserving the Nation's living marine resources through scientific research, fisheries management, enforcement, and habitat conservation. NOAA spends billions of dollars each year supporting a vast array of programs designed to protect and enhance these resources that "are critical to the very existence and well being of the Nation and its people." These are programs that require long-term commitments and years of funding to show their full effect.

The OIG recently wrapped up a series of reviews of one such program, the NOAA-funded salmon recovery project operating in the Pacific Northwest. The OIG conducted a follow-up review of the administrator of a five-year, \$27.4 million grant to fund the projects in Washington State. The OIG assessed whether the administrator had implemented recommendations from an earlier audit that were intended to improve the award and management of salmon recovery project subgrants. The OIG's review revealed that the recipient had improved some processes, but serious deficiencies remain, particularly in the area of fund administration.

NOAA awards millions of dollars in grants and loans each year to support its mission. The OIG plans to initiate additional audits of NOAA financial assistance programs and grant recipients and is preparing to initiate reviews of programs in three other stewardship areas: the National Marine Sanctuaries Program, the Consultation Process, and the Fisheries Finance Loan Program. Managing the marine sanctuaries presents significant challenges to NOAA, as it must balance commercial interests with conservation and research activities, and coordinate its efforts with the Coast Guard, the Department of Interior (DOI), and other agencies.



NOAA's National Marine Fisheries Service (NMFS) operates a loan program that provides financing for the purchase or reconstruction of used fishing vessels that will not add capacity to regulated fisheries. The OIG is starting an audit during the next semiannual period to evaluate NMFS management of the loan program and assess whether the program advances the complementary goals of ending over-fishing and rebuilding fisheries.

### **Challenge 9: Aggressively Monitor Emergency Preparedness, Safety, and Security Responsibilities**

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The Department has approximately 39,000 employees and hundreds of facilities it must keep safe. As a cabinet-level department, it also has a number of programs critical to national preparedness and recovery efforts, and it must support U.S. efforts to prepare for, respond to, and promote recovery from major disasters. The OIG continues to monitor the Department's progress in resolving departmental emergency preparedness and security weaknesses. As of February 2007, the Department had addressed virtually all of the outstanding recommendations from the OIG's 2002 and 2005 reviews of its 12 emergency preparedness efforts. Despite this progress, a dynamic security environment will continue to challenge the Department as it seeks to maintain effective oversight of emergency programs and plans, identify and mitigate security vulnerabilities, and protect critical assets.

During FY 2007, the OIG examined NWS actions in connection with a powerful tornado in Rogers, MN that killed a child and injured six other people in September 2006. The OIG was asked to evaluate the Agency's policies and technological capabilities for forewarning the public. The review concluded that the Chanhassen Weather Forecasting Office, the NWS Central Region Office, and the Storm Prediction Center generally followed Agency policies for handling severe weather events, and all have what is considered to be the best available technology for reading weather conditions. However, the OIG also noted several factors that may have adversely impacted Chanhassen's handling of the situation and that warrant close management attention.

### **Challenge 10: Enhance Export Controls for Dual-Use Commodities**

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Protecting U.S. national and economic security through export controls is a challenge that grows constantly more complex for federal agencies such as the Department's Bureau of Industry and Security (BIS). BIS is responsible for the federal government's export licensing and enforcement system for goods and technologies with both civilian and military uses. During FY 2007, the OIG completed BIS's final NDAA review, this time looking at the effectiveness of U.S. controls on dual use exports to India—a country that presents unique challenges for U.S. commercial interests and export control policy. Although India is recognized as a democratic partner in the fight against terrorism and as a counterbalance to China, U.S. nonproliferation specialists are concerned about its nuclear capabilities and intentions. As current U.S. policy moves toward full civil nuclear cooperation with India, it is essential that the U.S. government have effective export controls.

The OIG's 2007 review assessed (1) whether BIS's export control policies, practices, and procedures for India are clear, documented, and designed to achieve the desired goals; (2) whether BIS personnel were following the prescribed policies, practices, and procedures relating to India; and (3) how effective BIS was in detecting and preventing the diversion of sensitive commodities to weapons of mass destruction-related (WMD) programs within or outside India. While the license application review process was working adequately, the OIG identified a number of weaknesses in BIS administration of export controls for India and recommended a series of actions to resolve them. Although this review concluded the statutory reporting requirements under NDAA, the OIG will continue to monitor BIS efforts to implement and enforce dual-use export controls, follow up on previous NDAA recommendations, and report on the Bureau's progress in implementing them.