



*U.S. DEPARTMENT OF COMMERCE
Office of Inspector General*



*NATIONAL INSTITUTE OF
STANDARDS AND TECHNOLOGY*

*Financial Statements
Fiscal Year 1997*

Audit Report No. FSC-9864-8-0001/March 1998

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Office of Audits, Financial Statements Audit Division



UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, D.C. 20230

March 19, 1998

MEMORANDUM FOR: Raymond G. Kammer
Director
National Institute of Standards and Technology

FROM: 
Johnnie E. Frazier
Acting Inspector General

SUBJECT: Audit of NIST's FY 1997 Financial Statements
Audit Report No. FSC-9864-8-0001

The attached audit report presents the results of the audit of the National Institute of Standards and Technology's (NIST) Combined Statements of Financial Position as of September 30, 1997, and 1996, and the related Combined Statements of Operations and Changes in Net Position for the years then ended. Also provided are reports on NIST's internal controls and compliance with laws and regulations, including management's comments. The accompanying overview and financial statements were prepared by NIST.

In accordance with the Chief Financial Officers (CFO) Act of 1990, as amended by the Government Management Reform Act of 1994, an audited consolidated financial statement must be prepared covering all accounts and associated activities of each office, bureau, and activity of the Department. To facilitate the consolidated audit process, the independent certified public accounting firm of Price Waterhouse LLP (PW) was contracted to audit NIST's FY 1997 financial statements. The Office of Inspector General defined the audit scope, oversaw the process of selecting the contractor, and oversaw the performance and delivery of the audit.

In the opinion of PW, the financial statements present fairly, in all material respects, the financial position of NIST as of September 30, 1997, and 1996, and the results of its operations for the years then ended, in conformity with the hierarchy of accounting principles and standards approved by the principals of the Federal Accounting Standards Advisory Board. This is a comprehensive basis of accounting other than generally accepted accounting principles.

Financial statement audits are a key gauge for measuring the progress of a bureau in meeting the goals and objectives of the CFO Act. The results of the audit indicate that NIST has been successful in establishing internal controls that facilitate the preparation of reliable accounting and financial information. The PW FY 1997 report on internal controls identified no material weaknesses and one matter that they consider to be a reportable condition. As identified in previous reports, NIST needs to appoint a Chief Financial Officer.

During fiscal year 1997, the CFO position was filled on a temporary basis by two individuals; however, the appointment of a permanent CFO is still pending. A number of events scheduled to transpire during fiscal year 1998 will have a direct impact on the financial statements NIST will prepare in the future. These include the planned move to a new fixed asset management system, and the implementation of OMB Bulletin No. 97-01. This Bulletin will require NIST to issue an entirely new set of financial statements that have never been issued in the past. In addition, PW documented, in a separate management letter, a number of weaknesses in the overall security of NIST's information systems. We believe that these are examples of significant changes to NIST's business and will require the attention and leadership of a permanent CFO.

Our office reviewed a draft version of NIST's overview to its FY 1997 financial statements. The overview provides the linkage between the financial statements and the Government Performance and Results Act (GPRA) of 1993, the legislation that requires government entities to collect and report information on their performance in meeting goals and objectives. We shared our observations and recommendations in a January 9, 1998, discussion paper and a subsequent meeting with NIST management. NIST was responsive to our observations and recommendations, making some revisions to the FY 1997 overview and indicating a willingness to make additional revisions in the overview for future years.

The overview (1) identifies that NIST supports two of the three themes contained in the Department's *Strategic Plan*; (2) discusses financial condition and results, including the reporting of certain financial measures; (3) includes significant discussion of performance results (output and some outcome measures); and (4) discusses management challenges, including the planned use of the alternative format for determining performance results. However, NIST can still make improvements (i.e., additional years worth of data to facilitate trend analysis and more complete discussion of results) to strengthen its presentation of performance results.

In order to improve the usefulness of the overview to decision-makers, such as OMB and the Congress, we encourage NIST to address the observations contained in our discussion paper. Also, continued improvement will be needed for the overview to be consistent with OMB Bulletin 97-01, *Form and Content of Agency Financial Statements*, to "provide a clear and concise description of the reporting entity and its mission, activities, program and financial results, and financial condition." The OIG realizes that improving the overview is an iterative process and encourages NIST to strengthen its discussion of the bureau's results in next year's overview.

We recognize NIST's commitment to preparing high quality and meaningful financial statements. As stated earlier, it is necessary that the accounting requirements set forth in OMB Bulletin 97-01 are taken into consideration for preparation of the FY 1998 financial statements. Implementation of OMB Bulletin 97-01 poses tremendous challenges for various reasons. In particular, this bulletin requires six statements to be prepared as compared to OMB Bulletin 94-01, which required two. One of the six statements, the Statement of Net Cost, requires NIST to report its costs by sub-organizations and programs, which should be based on the missions and outputs described in NIST's GPRA strategic and annual plans, its budget structure, and the Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Standards*. As the federal government has not been required previously to report information in such a manner for

financial or budgetary purposes, NIST will need to place appropriate emphasis on implementation of OMB Bulletin 97-01.

As requested by DAO 213-5, please provide an audit action plan addressing the recommendation in the attached report within 60 days of this memorandum. In addition, due to the sensitive nature of the weaknesses documented in PW's separate management letter, please submit an audit action plan to address the EDP findings. The format for the plan is Exhibit 7 of the DAO. Under the DAO, the Office of Inspector General must concur with your proposal. The DAO prescribes procedures for handling any disagreements this office may have with the audit action plan.

If you wish to discuss the contents of this report, please contact George E. Ross, Assistant Inspector General for Auditing, at (202) 482-1934, or Thomas McCaughey, Director, Financial Statements Contract Audits Division, at (703) 603-0301. We appreciate the cooperation and courtesies extended by NIST during the audit.

cc: Gary Bachula
Acting Under Secretary for Technology

W. Scott Gould
Chief Financial Officer and
Assistant Secretary for Administration

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