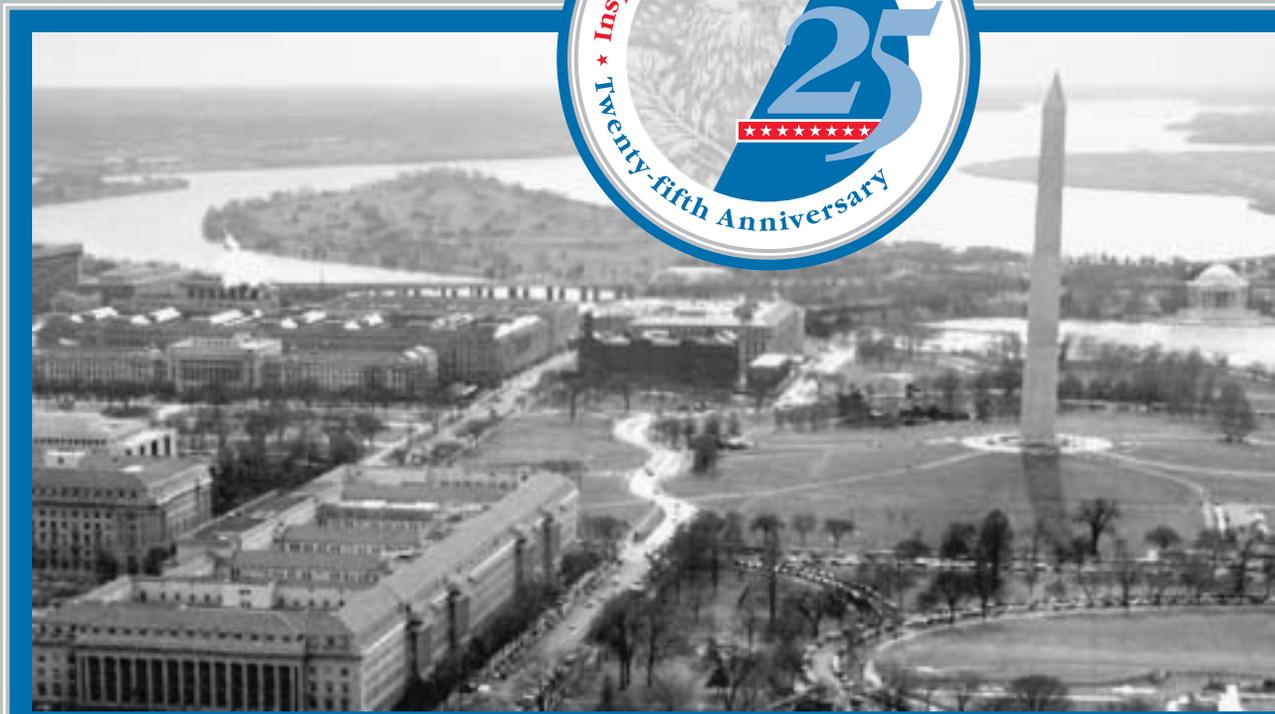
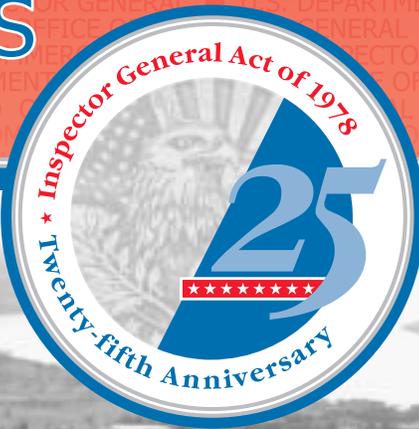




Semiannual Report to Congress



September 2003

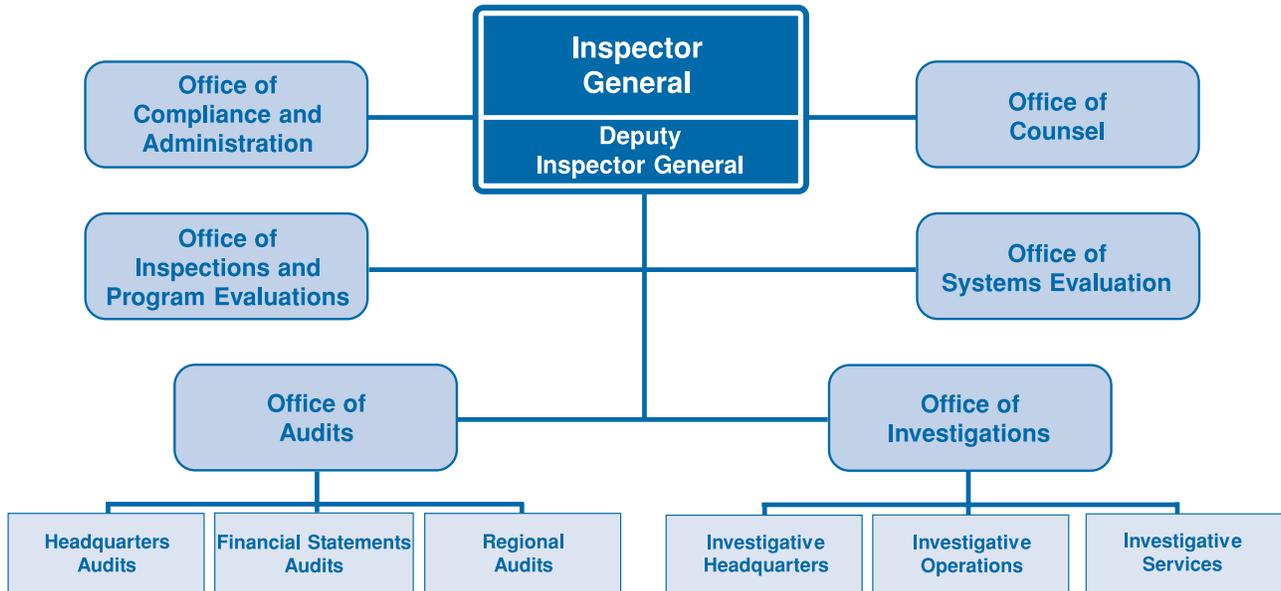


IG's Semiannual Report to Congress



September 2003

Office of Inspector General Organizational Chart



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

September 2003

The Honorable Donald L. Evans
Secretary of Commerce
Washington, D.C. 20230

Dear Mr. Secretary:

I am pleased to provide you with the Inspector General's Semiannual Report to Congress for the second half of fiscal year 2003. Section 5 of the Inspector General Act requires that you transmit this report, with any comments you may wish to add, to the appropriate committees within 30 days of your receiving it.

Since its beginning, with the Inspector General Act of 1978, this office has worked diligently to fulfill its mission. Our mandate was and is clear; and through our work we continue to strive to design recommendations to promote economy, efficiency, and effectiveness and to prevent and detect fraud and abuse in Department of Commerce programs and operations. During this silver anniversary of the Inspector General Act, I reaffirm our commitment to working with you, other Commerce officials, and unit managers to achieve excellence throughout this Department.

During this semiannual period, we made significant progress in meeting the goals we outlined in our work plan, monitored improvement in challenge areas, and addressed issues brought to our attention by members of Congress. We deepened our commitment to work with Department managers to strengthen Commerce IT and physical security, clarify and enhance performance measures, highlight and promote best practices and improved procedures, and ensure the efficient and effective progress of Commerce activities.

I am gratified to say that we have identified many policy and procedural improvements made within Commerce agencies to address our findings and recommendations. Through these improvements, we remain conscious of the impact of our work and dedicated to diligence and timeliness. Commerce's varied national and international roles and responsibilities play an important part in the nation's well-being. We are proud of our association with this Department and look forward to continued years of success through cooperation.

Sincerely,

A handwritten signature in blue ink that reads "Johnnie Frazier".

Johnnie Frazier



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IG's Message to Congress

This year marks an important milestone for Offices of Inspector General throughout the federal government: for 25 years we have been partners in a strong and, I believe, highly beneficial relationship with Congress and the respective agencies we have been charged with overseeing.

To quote the vice chair of the President's Council on Integrity and Efficiency, "the role of the IG is to protect the integrity of government programs through traditional audits and other reviews; improve program effectiveness; and prevent and detect fraud, waste, and abuse." I believe, as a community, IGs have done much to accomplish these goals. And equally important, our efforts have been instrumental in improving program, financial, and management operations and reducing fraud and abuse of public resources.

I have had the privilege of being both a witness to and participant in the strength of the Congress/Commerce/OIG partnership. This office has been instrumental in monitoring and nurturing the evolution of policies and processes to meet ever more complex challenges.

This *Semiannual Report to Congress* details our most recent efforts to build on the strengths and accomplishments engendered by this 25-year partnership. Highlights of that work are detailed below.

Contracts/Financial Responsibilities. Our work in these areas revealed some especially disturbing contract and financial-related weaknesses in a number of bureau projects and activities:

- Our evaluation of a modification to a NOAA/NWS contract for acquiring transitional power sources for the Next Generation Weather Radar (NEXRAD) system found, among other things, that the change was made without adequate negotiation, review, or oversight, and resulted in increased contract costs of approximately \$4.5 million. Moreover our evaluation identified various technical, management, and contractual problems that warrant management's attention (see page 25).
- An audit of reimbursable activities at NOAA's Environmental Technology Laboratory identified significant instances of noncompliance with Department and agency policies and procedures for administrative control of funds such as failure to recover full costs for reimbursable projects as well as inappropriate transfers of

expenditures between reimbursable and nonreimbursable projects (see page 28).

- A review of airfreight charges paid by the Census Bureau during Census 2000 revealed that the bureau—by failing to estimate charges prior to shipping and to reconcile billing statements with services provided—overpaid some \$2 million during an 11-month period (see page 21).

Program/Operational Management. Our evaluation of Census 2010 plans and preparations has begun, and we are monitoring Census Bureau activities in light of our recommended improvements issued in *Improving Our Measure of America: What Census 2000 Can Teach Us in Planning for 2010*. During this semiannual period, we assessed bureau efforts thus far to update its address/mapping system and found that its late start in implementing a project management process has increased the risk that the system will not be thoroughly tested before the 2008 dress rehearsal (see page 20).

We also evaluated two NOAA activities:

- **Critical Hydrographic Survey Backlog.** NOAA has committed to eliminating the backlog of hydrographic surveys of the roughly 43,000 square nautical miles designated as "critical" to ocean-going commerce, travel, and scientific research by FY 2017. Our review of its progress toward this goal revealed that NOAA
 - has made "undocumented" changes to the baseline survey area;
 - obligated \$6.5 million of its Address Survey Backlog funding to survey locations outside the critical survey backlog area;
 - does not adequately track program costs or enforce contractor delivery deadlines; and
 - lacks a detailed work plan to eliminate the critical survey backlog (see page 26).
- **National Marine Fisheries Service's Groundfish Survey.** Our review of NMFS' policies and procedures for collecting this vital data revealed that the agency lacks sufficient protocols for properly operating and maintaining survey gear, and documenting these efforts; responding to stakeholder concerns; and tracking gear-related cost data (see page 30).

IT Security. In my testimony before Congress on federal IT security weaknesses during this reporting period, I noted that Commerce has made progress, but significant improvements are needed to adequately secure its hundreds of critical systems. Our annual review of Department-wide information security, this year performed under the newly enacted Federal Information Security Management Act (FISMA), confirmed the magnitude of the problem: we found that while Commerce is addressing systems and data vulnerabilities identified in prior-year reviews, IT security remains a material weakness. (See page 37.)

Performance Reporting. Our reviews of performance measurement and reporting during this semiannual period found instances of inaccurate and unverified data (see page 24) and insufficient internal controls to ensure reported data was accurate, complete, and understandable (see page 28). These problems call into question the reliability of performance information used in congressional decision-making.

A FINAL NOTE

The IG Act entrusted Offices of Inspector General with the responsibility for making government work better, and required that we apprise Congress of our progress in doing so. For a quarter century, these semiannual reports have served as the key vehicle for sharing this information.

With our submission of this report, we at the Commerce OIG look forward to many more productive years of working with Department officials and Congress to identify and eliminate administrative, operational, and financial weaknesses across the board. In so doing we can avoid potential problems before they occur and further our ultimate goal of ensuring that this Department is fully competent to do its part to strengthen the economy, advance the sciences and technologies, and protect the environmental resources of America.

MAJOR CHALLENGES FOR THE DEPARTMENT

The Office of Inspector General, in assessing its work at the close of each semiannual period, develops the Top 10 Management Challenges the Department faces. Each challenge meets one or more of the following criteria: (1) it is important to the Department's mission or the nation's well-being, (2) it is complex, (3) it involves sizable expenditures, or (4) it requires significant management improvements. Because of the diverse nature of Commerce activities, many of these criteria cut across bureau and program lines. We believe that by addressing these challenges the Department can enhance program efficiency and effectiveness; eliminate serious operational problems; decrease fraud, waste, and abuse; and achieve substantial savings.

You will note that with this Semiannual Report to Congress we have revised our list of Top 10 Management Challenges facing the Department to reflect shifting priorities for the various challenges and a new area of concern. We have added controlling the cost and improving the accuracy of Census 2010 as a new challenge, with the hope that attention paid to this issue in the

early part of the decade will reap great benefits as the time for the decennial draws near. Finally, instead of having a separate challenge related to the effective management of major Commerce renovation and construction projects, we have folded that challenge into the existing challenge for the effective management of departmental and bureau acquisition processes.

CHALLENGE 1

STRENGTHEN DEPARTMENT-WIDE INFORMATION SECURITY

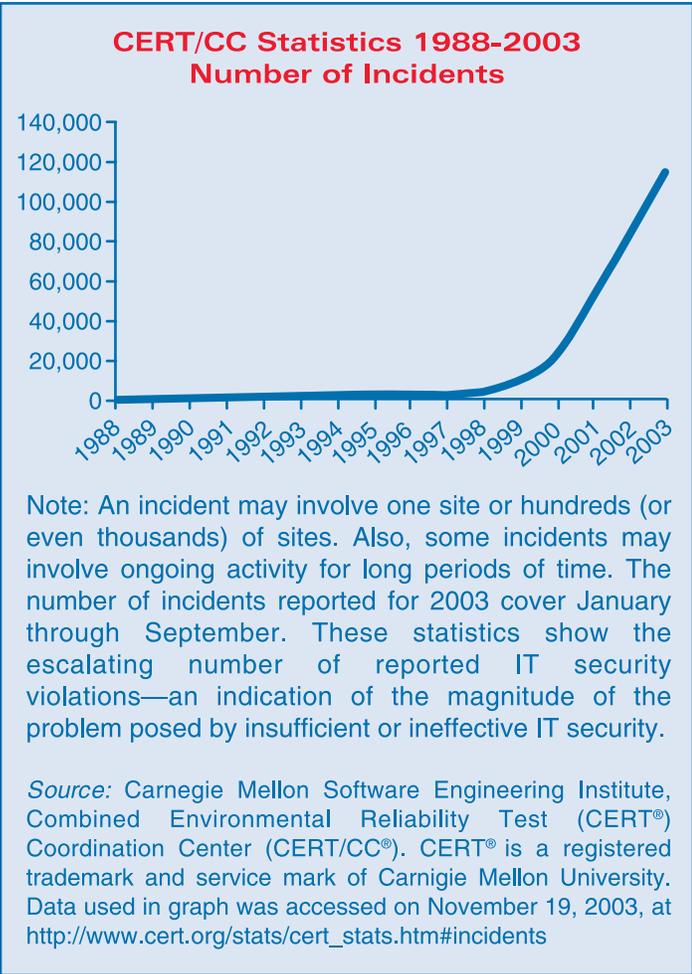
Many of Commerce's information technology systems and the data they contain have national significance: the Bureau of Industry and Security's (BIS') export license data helps control the release of dual-use commodities to countries and entities of concern; the National Oceanic and Atmospheric Administration's (NOAA's) satellite, radar, and weather forecasting data and systems provide information used to protect lives and property; Economics and Statistics Administration's economic indicators have policymaking implications that can affect the movement of global commodity and financial markets; and U.S. Patent and Trademark Office's (USPTO's) patent and trademark information is essential to administering patent and trademark law, promoting industrial and technical progress, and strengthening the national economy. Loss of or serious damage to any of these critical systems could have devastating impacts, which makes identifying weaknesses and recommending solutions a continuing top priority for this office.

The Federal Information Security Management Act, signed into law on December 17, 2002, provides a comprehensive framework for ensuring that information resources supporting federal operations and assets employ effective security controls. FISMA requires Offices of Inspector General to perform independent security evaluations of their agencies annually.

Our security reviews found that Commerce's senior management continues to give that issue due attention and priority. With the support of the Deputy Secretary, the Chief Information Officer (CIO) has worked hard to improve information security Department-wide. As we reported in our last semiannual, the Department issued the *Information Technology Security Program Policy and Minimum Implementation Standards* and the *Policy and*

MAJOR CHALLENGES FOR THE DEPARTMENT

1. Strengthen Department-wide information security.
2. Effectively manage departmental and bureau acquisition processes.
3. Successfully operate USPTO as a performance-based organization.
4. Control the cost and improve the accuracy of Census 2010.
5. Increase the effectiveness of marine resource management.
6. Increase fair competition in international trade.
7. Enhance export controls for dual-use commodities.
8. Enhance emergency preparedness, safety, and security of Commerce facilities and personnel.
9. Strengthen financial management controls and systems.
10. Continue to improve the Department's strategic planning and performance measurement in accordance with GPRA.



Implementation Standards for Remote Access Security, which, together, comprehensively define Commerce’s program for protecting agency information systems. In addition, these documents clearly delineate the responsibilities of senior agency officials and CIOs and plainly specify system life-cycle information security requirements. The result is that security is becoming better integrated into the capital planning and investment control process.

The Department’s noteworthy progress is moderated, however, by the considerable challenges that persist, the greatest being ensuring adequate security on the hundreds of Commerce systems, including (1) assessing risk and determining appropriate security controls, (2) testing and evaluating these controls, (3) certifying and accrediting systems,¹ and (4) ensuring that personnel with specialized information security responsibilities

¹ Certification is the formal testing and evaluation of the security safeguards on a computer system to determine whether they meet applicable requirements and specifications. Accreditation is the formal authorization by management for system operation, including an explicit acceptance of risk.

receive the necessary training.

The Department has reported information security as a material weakness in its *Accountability Report* for the past 2 fiscal years. In our FY 2002 independent evaluation, we stated that the Department should continue to do so until all systems that are part of the critical infrastructure and mission critical have been certified and accredited. The Department, in turn, set a goal for complete certification and accreditation by the end of FY 2003. Although 97 percent of the Department’s systems have been reported as certified and accredited, our FY 2003 FISMA evaluation and individual system reviews revealed numerous systems that had been reported as certified and accredited but contained significant deficiencies in their risk assessments, security plans, and contingency plans—i.e., certification and accreditation materials. Most also lacked evidence that security controls had been tested.

We commend the Department on its efforts to certify and accredit its critical systems but believe that information security should continue to be reported as a material weakness for FY 2003. We understand that some certifications and accreditations are being reworked, using improved processes, to meet the requirements of the Department’s new information security policy; but until improvements are made, the risk to Commerce IT systems remains (see page 37).

CONTRACT SECURITY WEAKNESSES

Inadequate security provisions in Commerce IT service contracts also place systems at risk (see September 2002 *Semiannual Report*, page 51). IT expenditures accounted for nearly half (\$500 million) of all Commerce’s contract/procurement obligations in FY 2002, with IT services accounting for roughly two-thirds of that amount (approximately \$334 million). Our FY 2003 FISMA evaluation found that while some progress has been made in incorporating security provisions into recent IT service contracts (see page 37),² provisions for controlling access to Department systems and networks are generally absent and there is little evidence of contract oversight or of coordination among contracting, technical, and information security personnel in the development of appropriate contract security. We believe these two weaknesses place Commerce systems and data at continued risk.

USPTO INFORMATION SECURITY REVIEW

At USPTO, information security has become better integrated into that agency’s capital planning and investment control process, and system life-cycle information security requirements

² The term “contract” includes task orders and delivery orders issued under multiple award contracts and government-wide agency contracts.

and processes are being improved. In addition, the agency continues to work to ensure that its senior program officials understand and accept their responsibilities for information security, a prerequisite for any effective and long-lived program. Significantly, USPTO is well on its way to having its systems certified and accredited. It does not grant interim accreditations without comprehensive risk assessments, security plans, and testing; and uses a disciplined certification and accreditation process that includes rigorous testing of security controls. Using this approach the agency has gained a great deal of insight into system-specific weaknesses that must be corrected and organization-wide security policies, procedures, and processes that must be improved.

Our last evaluation found that USPTO lacked current certifications and accreditations for its systems and suggested that it report information security as a material weakness until its mission-critical systems are fully certified and accredited. (USPTO has no systems designated as national critical.) The agency did so in its *FY 2002 Performance & Accountability Report* and set a goal of certifying and accrediting all high-risk systems by the end of FY 2003. The agency subsequently revised its system inventory by consolidating more than 100 systems into 19³—9 mission critical and the remainder business essential. It planned to have its 9 mission-critical systems and 1 classified system certified and accredited by the end of FY 2003. By the end of the fiscal year, all 10 systems had undergone certification testing; 9 had been granted 120-day interim accreditations and 1 had received final accreditation.

Because of the security weaknesses identified by the certification process and the lack of final accreditations, however, we believe USPTO should continue to report information security as a material weakness for FY 2003 (see page 37).

CHALLENGE 2

EFFECTIVELY MANAGE DEPARTMENTAL AND BUREAU ACQUISITION PROCESSES

Federal acquisition legislation in the 1990s mandated sweeping changes in the way federal agencies buy goods and services. The intent was to reduce the time and money spent on purchasing and to improve the efficiency of the process. Commerce now must focus on effectively managing the acquisition processes those initiatives fostered—balancing the desire to streamline the

³ After our report was published, USPTO further revised its system inventory, reducing the number of systems to 18.

process with the need to ensure that taxpayer dollars are wisely spent and laws and regulations followed.

Streamlined processes must not come at the expense of basic acquisition principles: careful planning, promotion of competition, prudent review of competitive bids, adept contract negotiations, well-structured contracts, and effective contract management and oversight. Moreover, the Department's increasing reliance on contractors to provide services makes following basic acquisition principles essential. Problems we have identified with service contracting in the past include failure to use performance-based task orders where they would be beneficial; inadequate training in the use of performance-based service contracting; insufficient planning for contract administration and monitoring; and the need to ensure that adequate security provisions are included and enforced in IT service contracts (see page 37 for a discussion of this last concern).

The Department agrees that acquisition planning and management need greater emphasis. It notes that efforts by its Office of Acquisition Management (OAM) to improve procurement management include (1) establishing an acquisitions review board to oversee all major acquisitions; (2) evaluating Commerce's delegation and warrant program, with the goal of realigning contracting authorities to increase overall effectiveness and accountability; (3) revising the contracting officer's technical representative (COTR) certification program to improve accountability and training; and (4) assessing these initiatives to determine their effectiveness. We have not evaluated the effectiveness of these actions, however.

The need for increased attention to basic acquisition principles—and for continued improvements and oversight—are highlighted by our recent findings discussed below.

SELECTED ACQUISITION PROGRAMS AND CONTRACTS

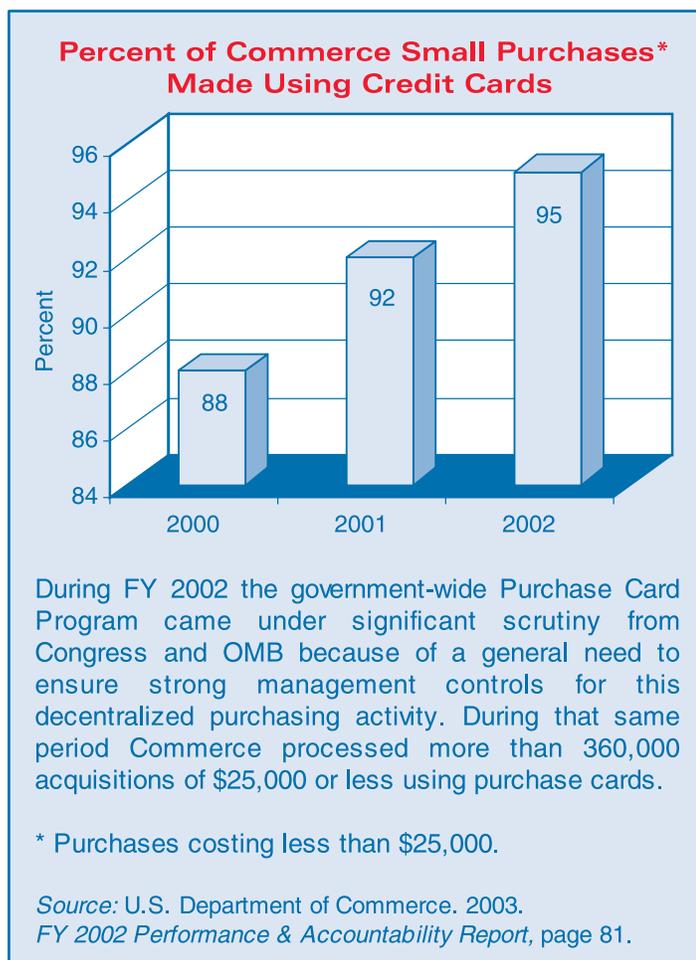
In response to a congressional inquiry, we reviewed a major modification to a NOAA/National Weather Service (NWS) contract for a transition power source (TPS) for the NEXRAD weather radar (see page 25). We found that the modification was executed without adequate negotiation or appropriate review and oversight of the contract, its management, or technical issues by NOAA's Acquisition and Grants Office and NWS, and that NWS paid for defective equipment. These deficiencies resulted in an estimated increase in contract costs of \$4.5 million and purchase of a product that may not be the best choice for NEXRAD.

Our review of a NIST contract using simplified acquisition procedures for evaluating and soliciting commercial items revealed weaknesses in the procurement process. Among them, an error in citing the relevant procurement law caused some

confusion and, if applied, could have resulted in unfair penalties being assessed to certain offers. Also, an incomplete explanation in the combined solicitation document denied offerors full information about the rules governing the procurement. In response to our review, NIST officials agreed to improve their internal quality assurance program, develop supplemental policy and guidance, and provide training to their acquisition workforce (see page 32).

PURCHASE CARD PROGRAM

In response to increased scrutiny from this office, Congress, and OMB, and in light of Commerce’s increasing use of purchase cards, the Office of Acquisition Management is implementing a purchase card improvement plan that includes mandatory refresher training for all cardholders and approving officials. Under the auspices of the Chief Financial Officer and Assistant Secretary for Administration, an intradepartmental, cross-functional team was formed to evaluate options to further strengthen the Department’s purchase, travel, and fleet card programs. In addition, OAM, along with other agencies and



industry, developed the *Seven Steps to Performance-Based Service Acquisition* guide. Similarly, the President’s Council on Integrity and Efficiency published *A Practical Guide for Reviewing Government Purchase Card Programs* (see September 2002 *Semiannual Report*, page 59) to ensure the integrity and prudent use of the purchase card by federal cardholders.

During this semiannual period we issued our final audit report on the purchase card program at NOAA’s Environmental Technology Laboratory, in Boulder, Colorado (see page 29). While we noted a number of weaknesses in internal controls and instances of noncompliance with the Commerce Acquisition Manual, we found no fraud or material misuse. Many of the internal control weaknesses identified in this review were previously reported (see March 2000 *Semiannual Report*, page 60), but had remained unresolved. NOAA agreed with our recommendations and described actions planned or taken to implement them.

MAJOR CONSTRUCTION AND RENOVATION PROJECTS

Effective management of contracts for construction and/or renovation of Commerce facilities is a critical challenge for the Department because of the numerous inherent risks involved in planning and managing contracts for large, costly, and complex capital improvement and construction projects. Departmental leadership and OIG oversight are needed to maximize Commerce’s return on its investment in these projects. Detecting and addressing potential problems during the developmental stages rather than after a project is begun or completed saves time and money. For this reason, we continue to actively monitor the progress of the Department’s current and planned contracts for construction projects.

As part of that effort, we are currently reviewing USPTO’s progress on the construction of its new headquarters complex in northern Virginia (see Challenge 3, page 8). In addition to USPTO’s buildings, the Department has plans for numerous major⁴ renovation and construction projects:

- NOAA has 20 projects scheduled or in process including a Marine and Environmental Health Research Laboratory in South Carolina, a Center for Weather and Climate Prediction in College Park, Maryland, and a satellite operations facility in Suitland, Maryland.
- The National Institute of Standards and Technology (NIST) will continue its multimillion-dollar program to upgrade existing laboratories in Gaithersburg, Maryland,

⁴ According to the U.S. Department of Commerce’s Office of Real Estate Policy and Major Programs, “major” projects are those costing \$2.3 million or more.



Construction of NIST's Advance Measurement Laboratory, as of September 2003, is shown in the photo above. The artist's rendition shows what the mostly underground facility will look like on completion.

Source: NIST's Advanced Measurement Laboratory web site (<http://aml.nist.gov/>), accessed November 2003.

and Boulder, Colorado, and to complete construction of the Advanced Measurement Laboratory building in Gaithersburg and a central utilities plant in Boulder. NIST also plans to install a perimeter security fence at the Boulder site.

- Two buildings will be constructed for Census at its Suitland, Maryland, headquarters.
- Commerce is planning to modernize its headquarters, the Herbert C. Hoover Building in Washington, D.C. A Renovation Program Office has been established to plan and monitor this project.

CHALLENGE 3

SUCCESSFULLY OPERATE THE U.S. PATENT AND TRADEMARK OFFICE AS A PERFORMANCE-BASED ORGANIZATION

As a performance-based organization,⁵ USPTO has not only expanded control over its budget allocations and expenditures, personnel decisions and processes, procurement, and information technology operations, it also has broader responsibility for managing its operations more like a business.

In response to concerns of its stakeholders USPTO, in June 2002, issued its 5-year, 21st Century Strategic Plan. The plan was intended to help the agency overcome the challenges accompanying its transition to performance-based operations—successfully develop necessary personnel policies; establish procurement and administrative policies as well as performance-oriented processes and standards for evaluating cost-effectiveness; and, simultaneously, meet its performance goals under the Government Performance and Results Act (GPRA) in addition to the timeliness standards of the American Inventors Protection Act.

In February 2003 USPTO revised this plan. According to the agency, it is now more aggressive and far-reaching and provides a roadmap for major changes in patent and trademark processes, including steps to (1) move to a paperless environment and promote e-government, (2) enhance employee development, (3) explore competitive sourcing, and (4) improve and maintain quality assurance. The plan also calls for the agency to work with worldwide intellectual property offices to create a global framework for enforcing intellectual property rights.

⁵ The American Inventors Protection Act of 1999 established the U.S. Patent and Trademark Office as a performance-based organization, giving it greater flexibility and independence to operate more like a business.

Our office is currently auditing USPTO's trademark application process as well as its efforts to reduce trademark application pendencies. We are also performing an evaluation of patent examiner production goals, awards, and performance appraisal plans to determine whether they maximize production and reduce patent pendency. We recently completed a review to follow up on complaints regarding patent processing (see page 36).

As part of our effort to monitor USPTO operations, we are currently reviewing progress on the construction of the agency's new headquarters complex in Alexandria, Virginia. Construction of USPTO's state-of-the-art office complex is one of the federal government's largest real estate ventures. When completed in 2005, the five-building complex will consolidate the majority of the USPTO employees and contractors currently scattered among 18 buildings in Crystal City, Virginia. With construction well under way, USPTO must monitor progress to help ensure the project stays on schedule and to carefully implement the relocation of its facilities to minimize costs and adverse effects on operations, employees, patent and trademark applicants, and the public. We are conducting a follow-up review of USPTO's management of this project, looking at construction costs as well as issues we identified during the project's planning and design phases, such as space planning and allocation, relocation strategies, and actual versus target costs and completion schedules.

We view the successful operation of USPTO as a performance-based organization as being critical to its success and ability to address other challenges we have identified in recent years.

CHALLENGE 4

CONTROL THE COST AND IMPROVE THE ACCURACY OF CENSUS 2010

Few Commerce activities have more ambitious goals, higher costs, or more intensive resource requirements than the constitutionally mandated decennial census. And few are therefore more deserving of the scrutiny of this office.

This decade marks the third in the tenure of the Commerce Office of Inspector General in which we will closely monitor and evaluate the Census Bureau's plans and preparations for conducting its decennial population count. Our goal, as always, is to support and enhance its readiness by identifying problems early on, offering solutions, and informing the decision-making process at all levels—bureau, departmental, and congressional.

With each decade, the decennial becomes more costly, complex, and challenging. Over the course of the three that this office has

monitored, for example, costs of \$1 billion in 1980 rose to \$2.6 billion in 1990, and to \$6.5 billion in 2000. For 2010, Census estimates the cost will be between \$10 and \$12 billion.

Much has changed in the methods and technologies for decennial census taking during our watch, and the population has grown and diversified dramatically. But the primary weaknesses we have noted have remained the same and are at least partially responsible for the ever-increasing decennial expenditures: insufficient planning and upfront funding for an operation that by its very nature requires long-term vision and development and ongoing testing at key points along the way. We advised the Department of these weaknesses as we monitored the decennial process, recommending in 1984 that planning for the 1990 census be reported as a major internal control weakness until the Census Bureau formulated a master

plan that addressed cost containment and systems life-cycle development (see March 1985 Semiannual Report to Congress, page 18). In 1991 we urged the Department to seek sufficient funding for fiscal years 1992 through 1996 to support early planning for Census 2000 (see March 1991 Semiannual Report to Congress, page 8). However, the bulk of funding and a final decision on the design did not come until 1999. To contain costs, the Department originally proposed sending enumerators to only a sample of households that did not return census forms. This proposal was ultimately disallowed by the Supreme Court in January 1999. Surprisingly, given the controversy surrounding the use of sampling, the bureau had done little contingency planning and thus needed a huge infusion of resources to make it possible to visit 50 percent more nonresponding households than originally anticipated and to process this additional data. Numerous operational and accuracy

OIG RECOMMENDATIONS FOR IMPROVING THE DECENNIAL CENSUS

1. Reach early consensus on the 2010 design to facilitate effective planning and obtain sufficient funding. Delays in finalizing the Census 2000 design and obtaining needed funding left insufficient planning, developing, and testing time for many key components.
2. Produce accurate, complete address lists and maps. The bureau's master address file (MAF) and associated mapping system (Topologically Integrated Geographic Encoding and Referencing, or TIGER) contained a higher-than-acceptable level of unreliability, which meant too many forms and too many enumerators could not reach the intended households.
3. Conduct a carefully targeted and aggressive public awareness campaign. The bureau's efforts to increase public awareness of and participation in Census 2000 were successful, enabling the bureau to achieve a response rate of 67 percent—6 percentage points beyond the projected rate of 61 percent. Census needs to further refine its public outreach program to achieve even higher rates in 2010.
4. Strengthen quality control of nonresponse follow-up. Instances of falsified and questionable data in Census 2000 required costly reenumeration and undermined confidence in the overall census results.
5. Implement clear policies and guidance for managing temporary staff. The logistics of hiring, training, and supervising nearly 1 million temporary workers requires strong management policies and procedures.
6. Determine whether sampling has a role beyond measuring coverage. Sampling has been a contentious issue in the past two decennials, and initial plans to use it to improve coverage were ultimately overruled.
7. Implement rigorous system and software development processes and effective information security measures. The bureau's approach to systems and software development for Census 2000 provided inadequate controls, insufficient testing, and poor or no documentation, all of which led to inefficiency and disruptive errors.
8. Upgrade and maintain contracting and program management expertise. The bureau lacked adequate in-house management skills to oversee decennial contracts and contractor-operated programs.
9. Generate timely and accurate management and operational information. The bureau lacked procedures for evaluating operations and thus failed to identify improprieties in a timely manner. Nor did it have expeditious methods for collecting and disseminating information to stakeholders.
10. Mitigate potential disruptions and distractions to the work environment and workforce. The bureau must have plans to counter the potentially negative impacts of two major events: the possible retirement of roughly half of the bureau's decennial staff during this decade, and the anticipated move to new facilities in 2008—the year of the dress rehearsal for Census 2010.

Source: *Improving Our Measure of America: What Census 2000 Can Teach Us in Planning for 2010*. U.S. Department of Commerce Office of Inspector General. Report No. OIG-14431, Spring 2002.

issues reported during Census 2000 were a direct result of these late-stage events.

The Census Bureau has committed to making 2010 different and has already begun working toward that end. In September 2002 it adopted a reengineered framework for 2010, proposing to collect and tabulate long-form data throughout the decade via the American Community Survey; enhance and improve address lists and geographic information databases; and institute a program of early planning, development, and testing (see Census Milestones schedule below) for a short-form-only census. The bureau believes these redesigned processes will improve the relevance and timeliness of long-form data; reduce operational risk; improve the accuracy of census data; and contain costs. The three-pronged strategy is aggressive and intended to capitalize on the latest technology, such as hand-held global positioning system devices and the Internet.

Our work assessing the bureau's efforts to achieve its reengineering goals is under way, against the backdrop of our recommendations for improving the 2010 decennial in light of the Census 2000 experience (see *OIG Recommendations*, page 9) and in consideration of the concerns of Congress, the General Accounting Office, the National Academy of Sciences, and other oversight organizations.

CENSUS 2010 MAJOR MILESTONES

- 2002** Begin planning and develop method for 2004 test
- 2004** Conduct census test (methodology)
- 2005** Analyze results and refine methodology
- 2006** Conduct census test (systems integration)
- 2007** Analyze results, refine/integrate systems/methods
- 2008** Conduct dress rehearsal
- 2009** Begin to implement operations
- 2010** Conduct census

Source: Census Briefing to the National Academy of Sciences, September 2002.

During this semiannual period we assessed the bureau's progress in modernizing its MAF/TIGER processing system (see page 19). The successful redesign of this system is crucial to improving Census 2010 operations, and must be ready to support the decennial dress rehearsal in 2008. We are concerned that the bureau's 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, preventing it from being thoroughly tested before the dress

rehearsal. We will continue to closely monitor this and other aspects of systems and software acquisition and development throughout the decade, as well as the bureau's actions to ameliorate any problems we identify.

We also concluded work related to the 2000 census that is instructive for 2010, in that it again underscores the need for vigilant management oversight of census operations in order to contain costs. Prompted by information from the General Services Administration (GSA), we audited the bureau's use of and payments for airfreight services to deliver census materials in the field. We identified a failure to follow proper procedures for monitoring and approving charges. As a result, the bureau overpaid some \$2 million for these services during an 11-month period (see page 20).

Our focus will intensify in subsequent semiannual periods as the bureau's plans and preparations continue to unfold; and we have set a broad agenda for review that will cover such areas as the following:

- completeness of the plan for the 2010 census as well as the coordination and integration of its elements;
- systems/software acquisition, development, testing and security;
- correction of address and map information;
- field tests in 2004 and 2006;
- planning for incorporation of the American Community Survey;
- approach to measuring data quality;
- conduct of the 2008 dress rehearsal;
- impact of construction and occupancy of Census' new headquarters on decennial scheduling; and
- implementation of decennial operations beginning in 2009.

We will report on the bureau's progress in these areas as its work proceeds through the decade.

CHALLENGE 5

INCREASE THE EFFECTIVENESS OF MARINE RESOURCE MANAGEMENT

The National Marine Fisheries Service (NMFS) must balance two competing interests: (1) promote commercial and recreational fishing as vital elements of our national economy and (2) preserve populations of fish and other marine life. Eight

regional fishery management councils, along with NMFS, are responsible for developing plans for governing domestic fisheries in federal waters. Their combined goal is to prevent overfishing, rebuild overfished stocks, and protect, restore, and promote the long-term health and stability of U.S. fisheries.

Developing conservation and management measures requires collecting, analyzing, and reporting demographic information about fish populations via stock assessments. These reports are a key element of the fishery management process; they are used to determine whether additional regulations are necessary to rebuild fish stocks or whether greater fishing opportunities can be allowed. Because of their potential impact on commercial and recreational fishing, these assessments are often controversial, and the methods used to create the estimates typically undergo intense scrutiny by fishers and conservation groups.

During this semiannual period we reviewed data collection processes and equipment an NMFS science center used to survey New England groundfish, specifically addressing concerns about the calibration of sample-collection equipment (see page 30).

In addition, OIG recently evaluated the enforceability of fishing regulations and the enforcement methods used by NMFS' Office for Law Enforcement (OLE) and found many of the regulations are too complex and lack sufficient clarity for viable enforcement. We also found that NMFS' joint enforcement initiative with coastal states and territories is beneficial in supplementing federal enforcement efforts (see March 2003 *Semiannual Report*, page 25).

We are currently reviewing NMFS' observer program. Observers deployed on U.S. commercial fishing vessels collect catch statistics, monitor bycatch and protected species interactions, and perform biological sampling to obtain information for use by NMFS as well as industry and academic researchers. Their reported data is used to supplement research and aid in the management of living resources. We are reviewing how NMFS ensures data quality, and whether the data is meeting research and fishery management needs. We expect to report our findings in the next issue.

CHALLENGE 6

INCREASE FAIR COMPETITION IN INTERNATIONAL TRADE

To compete effectively in today's global marketplace, many U.S. companies need help identifying and taking advantage of new or expanded export market opportunities as well as addressing unfair trade practices, trade disputes with foreign firms,

noncompliance with or violations of trade agreements, inadequate intellectual property protection, and other impediments to fair trade. Commerce must ensure that its export promotion assistance and trade compliance and market access efforts adequately serve U.S. exporters, and that its import assistance helps eliminate unfair competition from imports priced at less than fair market value or subsidized by foreign governments.

To help meet the challenges in highly competitive world markets, Commerce and its International Trade Administration (ITA) work with the Office of the U.S. Trade Representative, the Departments of State and Agriculture, and numerous other federal agencies to monitor and enforce trade agreements. The number and complexity of those agreements have increased substantially in recent years, and the Secretary of Commerce has made monitoring and enforcing trade agreements a top priority for ITA and the Department as a whole. Commerce received additional funding for trade compliance activities in FY 2001 and redirected other resources so that it could place additional officers at select overseas posts and in Washington to specifically monitor market access and compliance issues. A recent OIG audit found that with the increased funding, ITA's Market Access and Compliance unit was able to effectively recruit and hire sufficient staff for critical trade and compliance positions (see March 2003 *Semiannual Report*, page 20).

Commerce has numerous mechanisms to monitor and help enforce U.S. trade agreements and review trade complaints from a variety of sources. When warranted, its Trade Compliance Center forms a compliance team to follow up on complaints and bring them to satisfactory conclusion, although we found that the center needs to improve its coordination within ITA. (See page 50 of our March 2002 *Semiannual Report to Congress* for an inspection report on the Trade Compliance Center.) In addition, ITA's overseas U.S. & Foreign Commercial Service (US&FCS) offices and other operating units perform a substantial amount of market access and trade compliance work. Overall ITA's approach to trade compliance and market access is to engage the issue at the working level wherever possible—avoiding formal dispute settlement structures such as the World Trade Organization, which can take years to resolve trade disagreements. The Department also pursues important policy issues—including intellectual property rights protection, standards development, trading rights, and distribution services—in government-to-government negotiations. For example, the Secretary and ITA officials recently met with senior Chinese officials to press for full implementation of trade agreements, market access, and a level playing field for U.S. products and services.

Commerce's extensive network of overseas US&FCS offices and domestic Export Assistance Centers also identifies specific export market opportunities or trade leads for U.S. companies,

especially small and medium-size firms that are new to exporting or looking to expand their overseas markets. During this semiannual period, we reviewed the operations of the US&FCS office in Greece to assess its effectiveness in assisting U.S. companies increase sales in the Greek market (see page 22). This review was similar to one we recently completed in Turkey (see March 2003, page 19), but the review in Greece was specifically requested by the U.S. ambassador to that country who had concerns about the adequacy of management controls in place. We also are currently reviewing US&FCS' domestic network of U.S. Export Assistance Centers.

We will continue our oversight of the Department's promotion of U.S. exports and also look at Commerce's administration of the antidumping and countervailing duty regulations and other efforts to track, detect, and combat unfair competition to U.S. industry in domestic markets.

CHALLENGE 7

ENHANCE EXPORT CONTROLS FOR DUAL-USE COMMODITIES

The effectiveness of export controls is an ongoing issue. Advancing U.S. national and economic security interests through export controls is a significant challenge for the parties involved, particularly for Commerce's Bureau of Industry and Security, which oversees the federal government's export licensing and enforcement system for dual-use commodities (goods and technologies that have both civilian and military uses). Strengthening dual-use export licensing and enforcement requires new, comprehensive legislative authority to replace the expired Export Administration Act of 1979 and appropriately address current export control needs and realities. Passed during the Cold War, the act sought to prevent the export of critical goods and technologies to Communist bloc countries. In today's political climate, hostile countries and terrorist groups seeking weapons of mass destruction and the systems to deliver them pose new threats to global security and U.S. foreign policy goals. Legislation is needed to address these threats as well as to bolster BIS' regulatory authority, strengthen penalties for violations, and demonstrate America's commitment to maintaining strong export controls while encouraging other countries to do the same.

Given the importance of export controls to national security, we have devoted considerable attention to the challenges facing BIS. The National Defense Authorization Act (NDAA) for Fiscal Year 2000, as amended, directed the inspectors general of the Departments of Commerce, Defense, Energy, and State, in consultation with the directors of the Central Intelligence

Agency and the Federal Bureau of Investigation, to report to Congress by March 30, 2000, and annually until the year 2007, on the adequacy of export controls and counterintelligence measures to prevent the acquisition of sensitive U.S. technology and technical information by countries and entities of concern. In addition, NDAA for FY 2001 requires the IGs to discuss in their annual interagency report the status or disposition of recommendations made in earlier reports submitted in accordance with the act. To date, we have completed four reviews of export controls in compliance with the act as well as three separate follow-up reports. Together with the other IGs, we have also issued four interagency reports on export controls for dual-use items and munitions.

CURRENT REVIEW OF DEEMED-EXPORT CONTROLS

To comply with NDAA's 2004 requirement, the IGs⁶ agreed to conduct an interagency review to assess whether the current deemed-export control laws and regulations⁷ adequately protect against the illegal transfer of controlled U.S. technologies and technical information by foreign nationals to countries and entities of concern. Our efforts will focus on the effectiveness of the dual-use, deemed-export regulations and policies, including their implementation by BIS, and on compliance with the regulations by U.S. industry (particularly federal contractors) and academic institutions. We will also follow up on prior OIG findings and recommendations from our March 2000 report, *Improvements Are Needed in Programs Designed to Protect Against the Transfer of Sensitive Technologies to Countries of Concern* (IPE-12454-1), as appropriate.

FOCUSED PRIORITIES

An important element needed to enhance export controls remains enactment of a new Export Administration Act, while BIS, the administration, and Congress (1) work to target federal licensing and enforcement efforts on exports that present the greatest proliferation and national security risks and (2) streamline or eliminate controls that unnecessarily hamper trade and do not augment national security or foreign policy concerns. We will continue to monitor BIS' efforts to improve dual-use export

⁶ This year's review includes the participation of the Department of Homeland Security's OIG.

⁷ According to the Export Administration Regulations, any release to a foreign national of technology or software subject to the regulations is deemed to be an export to the home country of the foreign national (unless the foreign national is a U.S. permanent resident). These exports are commonly referred to as "deemed exports," and may involve the transfer of sensitive technology to foreign visitors or workers at U.S. research laboratories and private companies.

controls through the annual reviews required by the National Defense Authorization Act.

CHALLENGE 8

ENHANCE EMERGENCY PREPAREDNESS, SAFETY, AND SECURITY OF COMMERCE FACILITIES AND PERSONNEL

Since our March 2002 report on the status of emergency preparedness and security programs at a cross-section of Commerce facilities in the Washington, D.C., area and across the nation, the Department has made significant improvements, although more needs to be done. Heightened security requires a variety of measures: infrastructure risk assessments, emergency backup sites, upgraded physical security, and employee awareness and training, to name a few. With this complexity of measures, Commerce will have to regularly revisit its procedures for ensuring the safety and security of its employees and operations, and modify them as needed.

In its efforts to enhance security, thus far this year Commerce reportedly

- increased in-house security expertise to allow for close coordination with the Department of Homeland Security, the FBI's Joint Terrorism Task Force, and various intelligence agencies;
- created an emergency operations center—a central location for receiving critical information from other emergency centers and coordinating necessary responses during and after an emergency event;
- completed some continuity of operation plan (COOP) exercises to help improve communication and operations capabilities; and
- modified occupant emergency plans (OEP) to incorporate shelter-in-place guidance, revised procedures addressing special-needs individuals, and conducted periodic tests and assessments of emergency preparedness capabilities and related systems.

Given the size of its workforce and the geographical spread of its 481 facilities nationwide and more than 150 locations overseas, complying with recent security-related guidance is a complex, resource-intensive undertaking for Commerce. In recent inspections of overseas posts operated by the U.S. and Foreign Commercial Service, we identified the need for more timely security upgrades, improved oversight of security operations, and better management of resources. We believe Commerce is

making progress on many of these fronts, but the challenge is massive. We will continue to monitor its efforts and report our findings accordingly.

CHALLENGE 9

STRENGTHEN FINANCIAL MANAGEMENT CONTROLS AND SYSTEMS

The Chief Financial Officers Act of 1990, the Government Performance and Results Act of 1993, the Government Management Reform Act of 1994, and the Federal Financial Management Improvement Act of 1996 require that agencies prepare information needed by Congress, agency executives, and the public to assess the management of federal programs and operations. An entity's financial position and results of operations, presented in findings of audits of the agency's financial statements, help determine whether an agency's financial management systems comply with federal requirements.

The Department as a whole has made substantial improvements in financial management; however, maintaining a clean audit opinion remains a major challenge, especially under the accelerated financial reporting dates mandated by the Office of Management and Budget (OMB). On its FY 2002 consolidated financial statements, the nonfederal auditors gave the Department an unqualified (clean) opinion—the fourth consecutive year for this accomplishment despite continuing obstacles including the absence of a single, integrated financial management system. Although the Department resolved most of the financial management and reporting weaknesses noted in the previous year's audit, the audit of the Department's FY 2002 statements identified two reportable conditions (one of which is considered a material weakness⁸) and several instances of noncompliance with laws and regulations, all of which are repeat findings (see March 2003 *Semiannual Report to Congress*, page 34). We retained an independent certified public accounting firm to audit the Department's consolidated financial statements for FY 2003 and review the adequacy of information technology security controls over financial systems. Their results will be presented in our March 2004 *Semiannual Report to Congress*.

The Department has made significant progress in implementing

⁸ Material weaknesses are serious flaws in the design or operation of an internal control component that increase the risk that errors, fraud, or noncompliance in material amounts may occur and not be readily detected.

the Commerce Administrative Management System (CAMS).⁹ The Bureau of the Census and NOAA use CAMS as their financial system of record. When fully deployed in 2003 CAMS will be the single system of record for Census, NIST, NOAA, and 10 of the Department's operating units whose accounting functions are handled by either NIST or NOAA. NOAA services the Bureau of Industry and Security. NIST services the Bureau of Economic Analysis (BEA), Economic Development Administration (EDA), Economics and Statistics Administration (ESA), Minority Business Development Agency (MBDA), National Telecommunications and Information Administration (NTIA), Technology Administration (TA), Office of the Secretary, Office of Computer Services (OCS), and Office of Inspector General.

Three of the Department's operating units will not use CAMS—International Trade Administration, U.S. Patent and Trademark Office, and National Technical Information Service. These will submit data, along with other units, into a Commerce-wide database that serves as the source for the Department's consolidated financial reports. The Department expects that CAMS, in conjunction with the database, will bring Commerce into compliance with federal financial systems requirements, including that for a single, integrated financial management system.

CHALLENGE 10

CONTINUE TO IMPROVE THE DEPARTMENT'S STRATEGIC PLANNING AND PERFORMANCE MEASUREMENT IN ACCORDANCE WITH THE GOVERNMENT PERFORMANCE AND RESULTS ACT

Congress and agency managers require relevant performance measures and credible performance data to effectively fulfill their oversight responsibilities with respect to federal programs. The

Government Performance and Results Act of 1993 was designed to ensure the availability of such data by mandating that agencies set goals for program performance and report outcomes measured against those goals. As the government moves toward integrating budget and performance information and using performance data to make funding decisions, the validity of reported performance results will be increasingly important.

Although we believe the Department has made progress toward meeting the challenge of measuring its performance, significant opportunities for improvement remain for meeting GPRA and other reporting requirements. One such opportunity concerns data quality: Commerce should more clearly articulate the level of reliability that can be placed on the performance data it provides in its annual *Performance & Accountability Report*.

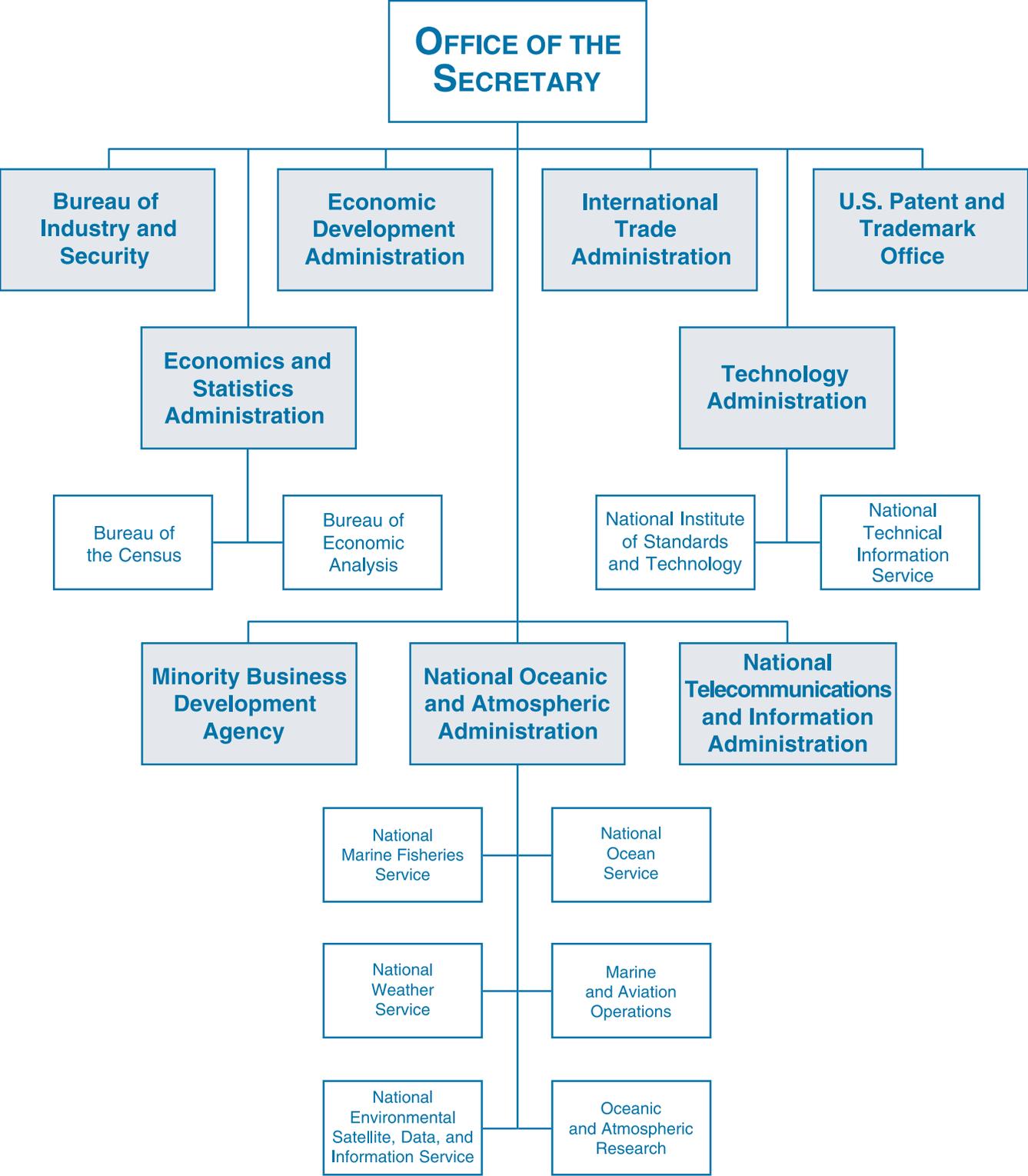
Another opportunity for improvement involves performance measures: our audits of several such measures used by departmental units over the past few years have identified the need for stronger internal controls to ensure accurate reporting of performance data and improved explanations and disclosures of results. For example, procedures should be established to ensure that (1) reported information is reconciled against supporting data and (2) only appropriate data is included in performance results.

These issues again emerged in our recent audit of selected performance measures at NOAA (see page 28). We are concerned that—for the measures we evaluated—NOAA needs to (1) improve internal controls, (2) restate data that was incorrectly reported in the past, (3) provide additional performance measures to more clearly articulate results, (4) provide additional disclosures and explanations of performance results, and (5) assess the value of certain measures to determine whether they should be revised or dropped.

We will continue to evaluate performance measurement and reporting at NOAA and other bureaus and, as warranted, make recommendations to the Department and its operating units regarding the accuracy, appropriateness, reliability, and usefulness of accumulated performance data.

⁹ CAMS is a software package based on a commercial off-the-shelf accounting system application that was extensively modified and substantially augmented with capabilities to support both departmental accounting and financial management needs as well as individual Commerce unit requirements.

Department of Commerce Organization Chart





BUREAU OF INDUSTRY AND SECURITY

SOME ADMINISTRATIVE FINE-TUNING WOULD ENHANCE OPERATIONS AT OFFICE OF EXPORT ENFORCEMENT

The Bureau of Industry and Security

is primarily responsible for administering and enforcing the nation's system for controlling exports of sensitive dual-use goods and technologies. BIS' major functions include formulating and implementing export control policy; processing export license applications; conducting various policy, technical, and economic analyses; promulgating regulations; conducting industry outreach; and enforcing the Export Administration Act and regulations. BIS' activities also include promoting federal initiatives and public-private partnerships across industry sectors to protect the nation's critical infrastructures. BIS is divided into two units:

Export Administration implements U.S. export control and nonproliferation laws and policies through export licensing, commodity classifications, and advisory opinions; technical, economic, foreign availability, and policy analyses; promulgation of regulations; and industry outreach. It also conducts various defense industry activities and enforces industry compliance with arms control treaties.

Export Enforcement participates in reviews of export license applications and conducts criminal and administrative investigations relating to the export control portions of the Export Administration Act and regulations. It also administers and enforces the antiboycott provisions of the act and regulations.

Our review of export enforcement activities at the Bureau of Industry and Security (BIS), detailed in our March 2003 *Semiannual Report to Congress* (page 12), uncovered a number of administrative issues at the bureau's Office of Export Enforcement (OEE) that, while outside the scope of our evaluation, are nonetheless important to the bureau's sound and efficient functioning. We therefore detailed these matters, as follows, in a separate report to BIS' Under Secretary.

Confidential Funds. These funds, available to pay for informant information, are rarely used for this purpose by the OEE field offices we visited. However, they are used for a variety of undercover activities that are not specifically delineated as either permissible or impermissible in the authorizing guidance—OEE's *Special Agent Manual*. We believe BIS should issue clearer guidance on the appropriate use and handling of confidential funds.

Vehicle Inventories. Field offices are supposed to have one leased vehicle per agent. They are not permitted to lease vehicles for prospective employees and must relinquish vehicles for a vacated position that is not filled within 2 months. However, we found that OEE field offices had surplus vehicles, representing excess leasing expenditures of at least \$106,908 for fiscal years 2000-2002.

Building Security. Each field office differed in its physical security measures, and lacked certain safeguards that we believe to be essential.

Office Locations. BIS did not have a clear, mission-related rationale for its choice of locations for OEE's eight field offices, but has developed such criteria to support proposals for new sites—degree of risk for export violations and dollar volume of exports passing through the area. To ascertain whether existing field locations are the most appropriate for accomplishing BIS' enforcement mission, the bureau should evaluate these sites against the same criteria. (Office of Inspections and Program Evaluations: IPE-15155-2)



ECONOMIC DEVELOPMENT ADMINISTRATION

REVOLVING LOAN FUNDS

The Economic Development Administration was established by the Public Works and Economic Development Act of 1965 to generate new jobs, help retain existing jobs, and stimulate commercial and industrial growth in economically distressed areas of the United States. EDA continues to fulfill this mission under the authority of the Economic Development Administration Reform Act of 1998, which introduced the concept of Comprehensive Economic Development Strategies, a local planning process designed to guide the economic growth of an area. Based on these locally and regionally developed strategies, EDA works in partnership with state and local governments, regional economic development districts, public and private nonprofit organizations, and Indian tribes to help distressed communities address problems associated with long-term economic deterioration and recent, severe economic dislocations, including recovery from the economic impact of natural disasters, the closure of military installations and other federal facilities, changes in trade patterns, and the depletion of natural resources. EDA provides eligible recipients with technical assistance, as well as grants for public works and economic development, planning, training and research, and economic adjustment.

EDA's Economic Adjustment Program provides, among other things, grants to capitalize revolving loan funds (RLFs). Currently more than 600 RLFs are operating throughout the country, with a total capital base of about \$1 billion. This includes EDA's share of the initial investment and matching funds contributed by state and local governments, nonprofit organizations, and other eligible recipients that operate RLFs. The program focuses on communities and regions that have experienced or are threatened by serious structural damage to their underlying economic base. The purpose of an RLF is to leverage other public and private investment in key sectors of the local economy and to stimulate employment for the local workforce. RLFs offer loans to local businesses that otherwise cannot secure sufficient private financing, providing a continuous infusion of economic development funds into the affected community.

Because RLFs manage cash and other liquid assets, they are particularly susceptible to fraud, waste, and abuse if not adequately managed and monitored. Recognizing the sizable federal investment in these funds, we have worked cooperatively with EDA over the past 2 years to identify high-risk investments and have conducted a series of RLF audits targeting projects on the basis of a variety of factors that typically suggest heightened vulnerability. Such factors include minimal use of grant funds, large uncommitted cash balances, and lack of single audit coverage. Our audits have identified several recurring issues, the most serious of which are

- unneeded funds from recapitalization grants,
- excessive cash reserves,
- inappropriate loans,
- inadequate accounting for RLF assets (cash and loans), and
- inadequate audit coverage.

Based on findings in individual audits, we have made recommendations, as appropriate, to recoup unused grant funds, remedy fiscal and administrative deficiencies, and ensure compliance with applicable laws and program requirements. In all cases, EDA has required grant recipients to take prompt corrective action.

Summarized below are the results of the two RLF audits we conducted this semiannual period, which include recommendations that more than \$2.4 million of revolving loan funds be put to better use. EDA is reviewing the audit findings and recommendations to develop corrective action plans.

VIRGINIA RLF HAS ALMOST \$1.5 MILLION IN EXCESS CASH RESERVES

In September 1980 EDA awarded a \$500,000 Long-Term Economic Deterioration Implementation grant to a Virginia district commission to capitalize a revolving loan fund. The grant required 25 percent in matching funds. Three subsequent grant amendments brought the RLF's total capitalization to \$1,625,002 consisting of \$1,250,000 in EDA funds and \$375,002 of local funds. The RLF was to be used to stimulate economic diversification and create permanent employment in three counties in south central Virginia.

Our audit disclosed that the commission had almost \$1.5 million in excess cash as of April 2003 and had retained excess cash for at least seven consecutive semiannual reporting periods. The excess funds demonstrated persistent noncompliance with the capital utilization standard at 13 CFR §308.17(c) and is contrary to RLF program objectives. The excess resulted from a lack of loan demand in previous years, although the commission recently identified possible uses for its RLF funds.

To resolve the excess funds finding, we recommended that EDA's Philadelphia regional director require the commission to (1) deposit the \$1,477,696 in excess funds into a separate interest-bearing account and remit the interest monthly to the U.S. Treasury, (2) use the excess funds within 6 months to make direct loans or loan guarantees in accordance with RLF program objectives, and (3) remit EDA's share of any unused excess funds remaining in the account after 6 months to the U.S. Treasury.

Our audit also disclosed that the commission made \$324,000 in improper payments from the fund including a \$250,000 disbursement to fund a non-RLF loan, charges for unsupported management fees, and payments for unauthorized foreign travel, alcoholic beverages, and entertainment. The commission subsequently repaid the \$250,000 to the RLF. We recommended that EDA's Philadelphia regional director require the commission to reimburse the RLF account for the remaining \$74,000 in improper payments and ensure that RLF personnel are familiar with applicable federal cost principles. (Atlanta Regional Office of Audits: ATL-15985)

EXCESS CASH RESERVES AND INEFFECTIVE MANAGEMENT AT MONTANA RLF

EDA awarded a Sudden and Severe Economic Dislocation Defense Adjustment grant of \$1.5 million to a Montana development authority in September 1996 to establish a revolving loan fund. EDA recapitalized the grant by adding \$750,000 in May 2000 and requiring an additional local match of \$750,000.

Our audit disclosed that the authority was not managing the RLF effectively. As of September 30, 2002, the authority failed to provide \$286,500 of required matching funds, had \$1,426,242 in excess cash with no marketing plan or strategy to utilize it, maintained inadequate documentation for its loan portfolio, and failed to obtain audits conducted in accordance with the Single Audit Act.

Based on these findings, we recommended that EDA's Denver regional director require the authority to (1) provide the remaining matching funds of \$286,500 applicable to the grant, (2) sequester \$1,426,242 in excess cash reserves in an interest bearing account and remit to the U.S. Treasury the portion of the interest earned on the account attributable to the grant, (3) use the excess funds within 6 months in accordance with RLF program objectives, (4) remit EDA's share of any unused excess funds remaining in the account after 6 months to the U.S. Treasury, (5) revise its RLF plan to develop effective marketing strategies, (6) establish and maintain adequate documentation for its loan portfolio, and (7) obtain audits conducted in accordance with the Single Audit Act for the two fiscal years ended June 30, 2003. (Denver Regional Office of Audits: DEN-15180)



ECONOMICS AND STATISTICS ADMINISTRATION

SLOW START FOR REDESIGN OF CENSUS 2010 ADDRESS/MAPPING SYSTEM INCREASES PERFORMANCE AND COST RISKS

The Economics and Statistics

Administration analyzes economic developments, formulates policy options, and produces a major share of U.S. government economic and demographic statistics. The Chief Economist monitors and analyzes economic developments and directs studies that have a bearing on the formulation of economic policy. ESA has two principal agencies:

Bureau of the Census is the country's pre-eminent statistical collection and dissemination agency. It publishes a wide variety of statistical data about the nation's people and economy, conducting approximately 200 annual surveys, in addition to the decennial census of the U.S. population and the decennial census of industry.

Bureau of Economic Analysis prepares, develops, and interprets the national income and product accounts (summarized by the gross domestic product), as well as aggregate measures of international, regional, and state economic activity.

To conduct the decennial census and other statistical work, the Census Bureau developed and maintains the master address file (MAF) and the Topologically Integrated Geographic Encoding and Referencing (TIGER) databases. MAF is an inventory of address information covering an estimated 115 million residences and 60 million businesses and other structures. TIGER is a digital map containing the locations and names of streets, rivers, railroads, boundaries, and other geographic features and their geospatial relationship to each other and to MAF addresses.

The complex, voluminous MAF and TIGER databases are essential to the success of the bureau's census and survey activities. However, the current data contains an unacceptable level of inaccuracy, and the systems that manage the data are cumbersome, outdated, and difficult to integrate with newer technology. The bureau has thus launched a major effort to redesign these systems and improve the data's accuracy. Known as the MAF/TIGER Enhancement Program, this 8-year, roughly \$500 million undertaking is part of Census' overall 2010 decennial census strategy to reduce operational complexity and risks, contain costs, and improve results.

The computer and software upgrade portion of the enhancement program—the MAF/TIGER Processing Environment Redesign—is crucial to the bureau's attainment of these goals, and is being developed in-house with the aid of contractors. The redesign will combine a standard, commercial off-the-shelf database management platform with geographic information system computer products to support hand-held global positioning system devices for field operations, Internet access for local governments, and faster response to operational requests while simplifying error-prone operations, such as database updates, and reducing training time for new MAF/TIGER programmers.

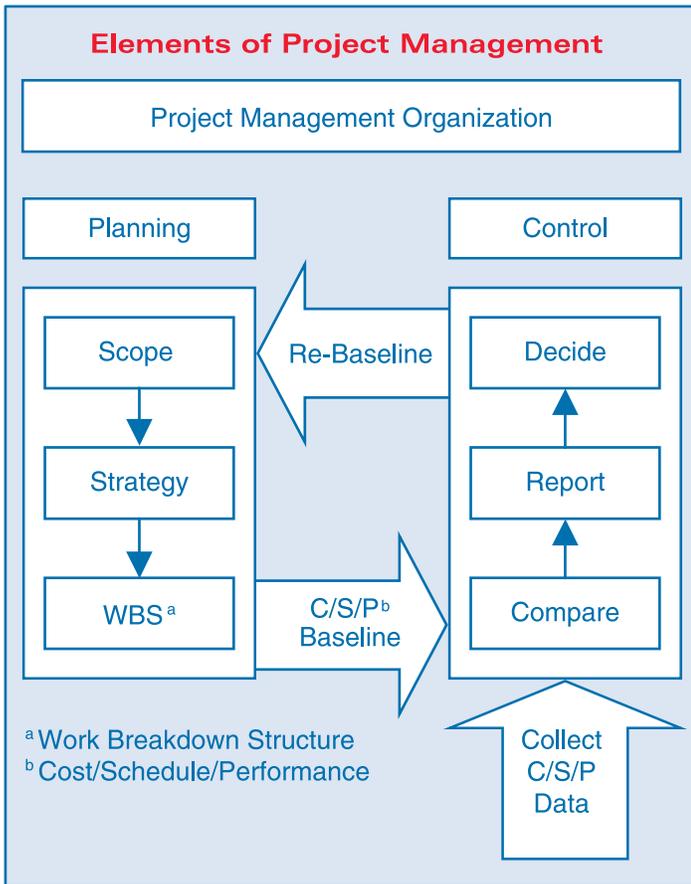
To have this complex, technically challenging system thoroughly tested before the 2008 dress rehearsal and within its estimated \$50 million budget, Census must use a disciplined project management process that conforms with federal guidelines and accepted business practices,¹⁰ and have methodical software processes.

Our evaluation sought to determine whether Census has established and is following accepted processes for managing and developing the redesigned MAF/TIGER system. Our findings and recommendations were as follows:

¹⁰ See the Clinger-Cohen Act of 1996; OMB Circular A-11 Part 7, Planning, Budgeting, Acquisition, and Management of Capital Assets; and, for example, the Program Management Institute's Program Management Body of Knowledge.

LATE START IMPLEMENTING PROJECT MANAGEMENT PROCESS HAS INCREASED RISKS

Although the project had been under way for 1.5 years at the start of our evaluation, Census had not yet implemented a comprehensive project management process (see figure)—it had



not established a management organization (the sponsor, review board, a full-time project manager, and key project team members); or developed a comprehensive plan identifying the scope of work (i.e., the system’s requirements and architecture), the strategy for building the system and all major intermediate products, and the activities needed for project completion (the work breakdown structure). It had not assigned baseline activity-level cost, schedule, or performance (C/S/P) parameters. Nor had it implemented required controls such as earned value management.¹¹ In the absence of an effective management process, several initial project activities did not produce the results needed to proceed to the next stage of development and had to be reworked.

¹¹ Earned value management is an objective, quantitative technique for measuring progress by obtaining reliable, timely project data and evaluating it against the baseline to support decision-making throughout the project’s life cycle.

Census officials attributed their slow start to understaffing and other work priorities, but have since begun implementing more disciplined project management. We recommended that Census fill staffing needs for the redesign as quickly as possible and implement a comprehensive project management process.

TECHNICAL CHALLENGES WARRANT ACCELERATING SOFTWARE PROCESS IMPROVEMENT

Because the bureau had no structured process for determining requirements, implementing software, conducting testing, and providing quality assurance for Census 2000, last minute system requirements and software changes were a way of life. This experience prompted the bureau in 2002 to implement a multiyear software process improvement program using the five-level Capability Maturity Model® (CMM®)¹² for software, developed by the Carnegie Mellon Software Engineering Institute. Since the redesign and the software improvement program both started around the same time, the project’s initial activities did not benefit from improved software processes. The bureau is attempting to bring the redesign project up to speed with the more mature software processes envisioned by the model and thereby increase the likelihood that it will meet system requirements and cost and schedule projections. The current goal is to accelerate development and implementation of CMM® level

CMM® LEVEL 2

Maturity Level 2	Description	Key Process Areas
Repeatable Project management processes	Basic project management processes are established to track cost, schedule, and functionality. The necessary process discipline is in place to repeat earlier successes on projects with similar applications.	Requirements management Software project planning Project tracking and oversight Subcontract management Software quality assurance Configuration management

Source: Software Engineering Institute. The Capability Maturity Model: Guidelines for Improving the Software Process. ©

¹² Capability Maturity Model and CMM are registered in the U.S. Patent and Trademark Office by Carnegie Mellon University.

2 capabilities (see table, page 20) for the redesign, which would provide the elements most critical to controlling a complex software project—requirements management; project planning, tracking, and oversight; configuration management; and quality assurance.

However, the median time for advancing from level 1, the bureau's current status, to level 2 is 2 years, so the bureau needs a plan and strategy to significantly shorten its progression time. We recommended that Census provide the management commitment, resources, and oversight needed to attain CMM® level 2 capabilities as soon as possible. Census agreed with our recommendations. (Office of Systems Evaluation: OSE-15725)

CENSUS BUREAU OVERPAID \$2 MILLION FOR AIRFREIGHT SHIPMENTS DURING 2000 DECENNIAL

The General Services Administration is required by law to audit government transportation bills. After reviewing airfreight bills for Census 2000 delivery services, GSA reported to our office that it found evidence of substantial overcharges on government bills of lading (GBLs) submitted to Census by the two carriers that made the air shipments out of the Census National Processing Center (NPC). Census, through its NPC, paid more than \$11 million for

airfreight services over an 11-month period to ship decennial materials to regional and local offices around the country.

Based on GSA's information, we undertook an audit to review the practices used by the bureau to procure air transportation and determine whether the two carriers had in fact overcharged the government. GSA suspended its review pending the completion of our audit.

We found that both carriers had overcharged Census and that the bureau did not (1) follow federal transportation management regulations for acquiring the airfreight services or (2) independently estimate the cost of shipments beforehand or thoroughly audit the final charges on the GBLs, and was therefore unaware that it was being overcharged. We also found that a freight weight specialist, with no contracting authority, negotiated rates and signed agreements with the carriers.

In light of our findings, GSA resumed and completed its review of GBLs and has since billed the carriers for refunds of more than \$2 million in shipping overcharges.

We recommended a series of actions to the Census Bureau to prevent this situation from recurring. We emphasized that the bureau must improve management and oversight of this and all operations for Census 2010, if it is to contain costs and ensure an efficient and successful decennial.

The bureau agreed with our recommendations and described actions it has taken or plans to take to address them. (Economics and Statistics Audits Division: ESD-14911)



INTERNATIONAL TRADE ADMINISTRATION

A FEW KEY WEAKNESSES UNDERCUT GENERALLY SOUND OPERATIONS AT US&FCS GREECE

The International Trade Administration

is responsible for trade promotion and policy issues associated with most nonagricultural goods and services. ITA works with the Office of the U.S. Trade Representative to coordinate U.S. trade policy. ITA has four principal units:

Market Access and Compliance develops and implements international economic policies of a bilateral, multilateral, or regional nature. Its main objectives are to obtain market access for American firms and workers and to ensure full compliance by foreign nations with trade agreements signed with the United States.

Trade Development advises on international trade and investment policies pertaining to U.S. industrial sectors, carries out programs to strengthen domestic export competitiveness, and promotes U.S. industry's increased participation in international markets.

Import Administration defends American industry against injurious and unfair trade practices by administering the antidumping and countervailing duty laws of the United States and enforcing other trade laws and agreements negotiated to address such trade practices.

U.S. and Foreign Commercial Service promotes the export of U.S. products and helps small and medium-sized businesses market their goods and services abroad. It has more than 250 domestic and foreign offices.

Greece—an import-dependent country of 10.6 million residents—is a difficult market for U.S. firms. American exports totaled \$1.15 billion in FY 2002—a 4.5 percent share of Greece's import market. One reported reason for this small market share is that Greece is a member of the European Union, and European companies offer stiff competition to exporters from the United States.

The U.S. and Foreign Commercial Service¹³ post in Greece has a very active advocacy program and a full menu of trade events to assist firms seeking to tap the Greek market. Located in the capital city of Athens, the post had an FY 2002 budget of \$1.14 million. Until February 2002, it also maintained a presence in Northern Greece (in the city of Thessaloniki).

We inspected US&FCS Greece at the request of the U.S. ambassador, who was concerned about the integrity of post operations following problems associated with services provided to a U.S. firm seeking to enter the Greek market.

SUMMARY OF FINDINGS

MANAGEMENT ENHANCEMENTS

Though the post's senior commercial officer (SCO) and staff were praised by colleagues and clients for their cooperation and responsiveness, we found gaps in management oversight of US&FCS Greece operations that undercut the efficacy of established controls and procedures and ultimately led to problems associated with the services provided to the U.S. firm. We also noted that when assisting U.S. companies that are seeking contracts in Greece, the post needs to improve its coordination with ITA's Advocacy Center (see box) to ensure that

ITA established the Advocacy Center in 1993 to help ensure U.S. products and services have the best possible chance of selling abroad. The center promulgates guidelines to help government personnel determine whether and to what extent they should assist U.S. firms interested in a specific commercial transaction or opportunity overseas—for example, a tender sponsored by a foreign government.

US&FCS, the ambassador, and the rest of the U.S. mission do not appear to be giving favored or preferential treatment to any one U.S. company.

¹³ US&FCS is also known as the U.S. Commercial Service.

TIMELINESS OF SERVICES, MARKET RESEARCH PRODUCTION, AND EXPORT SUCCESS REPORTING

Though most US&FCS Greece's clients are pleased with the post's services and products, we found that certain core products and services were not delivered in a timely manner and the post's reporting on market developments was less frequent than that of similarly sized US&FCS posts. In addition, our review of 57 selected export successes reported by the post in 2002 and 2003 revealed 17 instances in which the post either overstated the value of the success, reported "anticipated" rather than actual sales, or took credit for a success it was not involved in or that did not occur. As a result, at a minimum, US&FCS Greece inflated the value of export successes reported for this period by more than \$118 million, or nearly half of the total dollar value of the export successes in our sample.

EXPORT SUCCESSES REPORTED BY US&FCS GREECE AND POSTS OF SIMILAR SIZE (FY 1999-2003)

US&FCS Post	1999	2000	2001	2002	2003
Greece	4	8	31	50	57
Portugal	35	43	85	106	89
Poland	39	53	112	50	86
Hungary	10	2	47	66	61
Czech Republic	0	42	65	111	91

Information for FY 2003 is incomplete, but despite increases in export successes reported by CS Greece, the number remains low compared to totals for other posts of similar size. At the time of our review of its export successes, Greece reported only 28. By the time our report was issued in draft, an additional 29 had been reported, equalling the total—57—shown here for FY 2003.

Source: US&FCS E-Menu.

FINANCIAL AND ADMINISTRATIVE OPERATIONS

Our review of US&FCS Greece's financial and administrative operations—collections, inventory, time and attendance, petty cash, procurements, representation funds, and the budget—found all to be properly managed. We also noted that the post had corrected weaknesses identified in an April 2002 review conducted by the Commercial Service's Office of Planning. Only one minor issue requires attention: the post does not appear to need all of its four vehicles and should either reassign or surplus two of them.

US&FCS RESPONSE

The Commercial Service agreed with our 14 recommendations for improving operations and submitted an action plan that outlines many specific steps it has taken to strengthen its oversight of its post in Greece. (Office of Inspections and Program Evaluations: IPE-15804)

MINORITY BUSINESS DEVELOPMENT AGENCY

WEAKNESSES IDENTIFIED IN MBDA'S PERFORMANCE REPORTING

The Minority Business Development Agency

was created to help minority-owned and operated businesses achieve effective and equal participation in the American free enterprise system, and overcome the social and economic disadvantages that have limited their participation in the past. MBDA provides management and technical assistance to minority firms upon request, primarily through a network of business development centers. It also promotes and coordinates the efforts of other federal agencies in assisting or providing market opportunities for minority businesses.

In January 2003 we initiated a preliminary review of MBDA's performance reporting in the Department's *FY 2002 Performance & Accountability Report* to determine the validity of the performance data reported under the measure for contracts awarded to assisted minority-owned businesses (MBEs). This measure is intended to indicate MBDA's progress in achieving its first performance goal: "Develop an entrepreneurially innovative market-focused economy."

The FY 2002 reported dollar value for just the Minority Business Opportunity Committee (MBOC) program was \$905 million, or nearly 70 percent of the total (\$1.3 billion) reported for the performance goal. We determined early in our audit process that this value appeared overstated, and we apprised MBDA of our observations. The \$905 million appeared to include the value of procurement opportunities that MBOC had merely disseminated information about to MBEs, rather than the value of contracts actually secured. We believe the composition of the reported results was not made clear in the Department's Accountability Report.

A factor contributing to the problem is the lack of clear, written guidance for program operators, managers, and evaluators regarding what constitutes performance accomplishments and how they should be documented and reported by MBDA to the Department and to OMB.

We are currently working with MBDA to come up with an appropriate way to address the noted deficiencies, correct past inaccuracies, and better define its performance measurement criteria.



NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION

INEFFECTIVE CONTRACT NEGOTIATIONS, REVIEW, AND OVERSIGHT COST NOAA \$4.5 MILLION ON NEXRAD TRANSITION POWER SOURCE ACQUISITION

The National Oceanic and

Atmospheric Administration

studies climate and global change; ensures the protection of coastal oceans and the management of marine resources; provides weather services; and manages worldwide environmental data. NOAA does this through the following organizations:

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

National Ocean Service issues nautical charts; performs geodetic surveys; conducts research; and develops policies on ocean mining and energy.

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

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

Office of Oceanic and Atmospheric Research conducts research related to the oceans and inland waters, the lower and upper atmosphere, space environment, and the Earth.

Office of Marine and Aviation Operations operates NOAA's ships and aircraft and provides NOAA programs with trained technical and management personnel from the nation's seventh uniformed service.

In 1992 NOAA's National Weather Service began exploring technical solutions to power supply problems affecting the 158 Next Generation Weather Radar (NEXRAD) systems—high resolution Doppler weather radar systems jointly designed, acquired, and operated by the Departments of Commerce (NWS), Defense (Air Force and Navy), and Transportation (Federal Aviation Administration). A tri-agency Radar Operations Center (ROC) located in Norman, Oklahoma, is responsible for meteorological, software, maintenance, and engineering support for all NEXRAD systems. The ROC is a component of NWS' Office of Operational Systems (OOS).

The search for supplementary power sources was prompted by two problems that degraded NEXRAD operability: power loss—and resultant loss of critical data—during transitions between commercial power and the standby engine generator; and poor power quality at remote NEXRAD sites, which shortens the life of the systems' electronics and increases maintenance costs. To solve these problems, the ROC sought to acquire transition power sources (TPS)—uninterruptible power systems that prevent power loss to the radar during power transfer and protect the electronics from commercial power anomalies.

The ROC assessed two TPS technologies: static and rotary. A static TPS consists of a rectifier/battery charger, battery, and inverter; rotary units consist of an electric motor mechanically connected to a generator. The ROC's testing showed commercial off-the-shelf rotary technology to be feasible, and NWS decided to acquire rotary TPS units for NEXRAD. NOAA executed a contract in 1997 with a prime contractor who would supply the rotary units via a subcontractor. (The prime contractor manufactured static TPS units only.)

Installation began the following year, and some units quickly began to present problems, the most serious being bearing noise and failures. Although the subcontractor attempted to solve each problem, some were resistant to solution. By May 2000, with 94 rotary TPS units installed, 33 were out of service, and the ROC directed that the TPS units be shut down immediately. In November 2000

NOAA modified the original TPS contract to authorize acquisition of the prime contractor's static TPS in place of the rotary units.

We conducted an evaluation of the TPS acquisition to determine whether (1) NWS paid for defective equipment (i.e., the original TPS units), (2) the actions of the NOAA contracting office to modify the contract received proper review and oversight, (3) program and

contracting decisions regarding the TPS were reasonable and supportable, (4) the acquisition was planned and managed effectively, and (5) goods and services were delivered as intended.

COST IMPACT OF MODIFICATION TO ORIGINAL CONTRACT

At the time the modification was executed, NOAA had paid \$3.9 million for equipment and associated costs, and was withholding payments of \$996,499. In negotiating the switch to its static units, the prime initially proposed the retrofit of the 94 rotary units at a cost of \$4.2 million and installation of 56 new static units at a cost of \$5.3 million. The proposal noted that this amount reflected \$2.6 million in credits and discounts, conditional upon NOAA's paying the withheld payments and fees.

The prime subsequently revised its proposal, agreeing to waive the outstanding payments but reducing the discount. The net effect of this offer was that it increased the total proposed price by \$996,449—the exact amount of the payments NOAA had withheld. NOAA accepted this proposal without adequate analysis and negotiation, and in so doing, paid for all defective or removed rotary units.

Prime's final proposed cost for retrofit of sites having rotary units	\$5,204,025
Less estimated savings ^a attributed to new TPS installations	(726,723)
Total estimated additional cost to NOAA	\$4,477,302

^a Based on the difference between the estimated cost delineated in the basic contract for the remaining new installations using a rotary TPS and the estimated cost for new installations with the static TPS. This estimate does not include maintenance, spares, or extended warranties.

We found that NWS did indeed pay for defective equipment, and contracting personnel modified the contract without adequate negotiation and in the absence of proper review and oversight from NOAA. The result was an estimated increase in contract costs of \$4.5 million (see box). We also found that once the rotary units began to fail, NOAA seriously mishandled the acquisition/management process, with the result that the rotary TPS was abandoned without sufficient evaluation and the prime contractor's static TPS was selected without serious consideration of any other alternatives. Specifically, the

decision to switch to the prime contractor's static TPS was made without closely monitoring the subcontractor's progress in implementing corrections and without assessing static units from other manufacturers. NOAA also did not consult with the FAA regarding that agency's positive experience with (1) rotary units supplied by the same subcontractor for its NEXRAD systems and (2) static units deployed on a similar FAA radar system that incorporated newer technology, which might be more suitable for NEXRAD than the static units provided by the prime.

We made a number of recommendations to rectify the problems we noted. NOAA agreed with them, stating they represent good business practice, but disagreed with most of our specific findings. NOAA described the decision of whether to continue with the rotary unit as a tough judgment call for its managers. We agree, and that is why we believe NOAA managers shortchanged themselves by failing to ensure their staffs provided accurate information and sound analysis for making their difficult judgments. We urged NOAA and NWS to give particular attention to our recommendation that they evaluate their acquisition policies, procedures, and oversight and identify actions needed to prevent similar problems from occurring on other acquisitions.

According to the Office of the Chief Financial Officer, the Department's procurement executive is reviewing this acquisition to determine what corrective action may be appropriate and whether operating unit or departmental oversight processes should be modified to prevent similar incidents in the future. (Office of Systems Evaluation: OSE-15676)

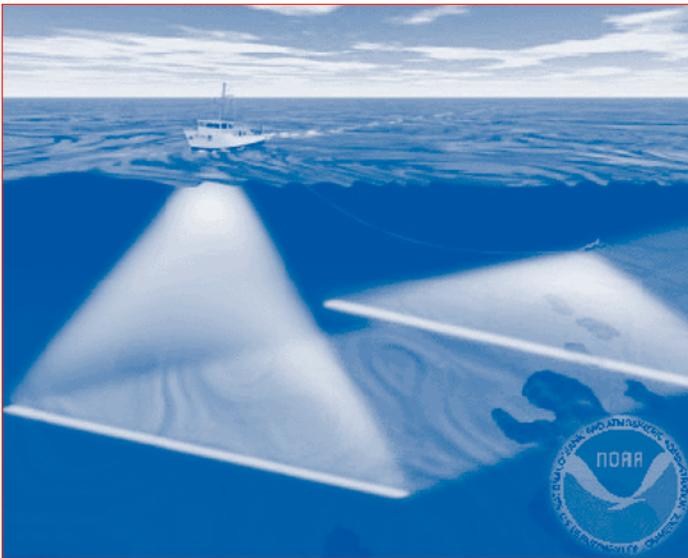
PROCESS FOR REDUCING THE CRITICAL HYDROGRAPHIC SURVEY BACKLOG LACKS KEY MANAGEMENT CONTROLS

NOAA has a statutory mandate to enable safe ocean transport of marine commerce by providing nautical charts and related information, and to collect basic hydrographic data that supports engineering, scientific, commercial, and industrial needs. To fulfill this mandate, NOAA—using state-of-the-art technology—conducts hydrographic surveys of the U.S. Exclusive Economic Zone, an area of more than 3 million square nautical miles that extends 200 nautical miles offshore from the nation's coastline. The resulting data is used to create the charts and to support a variety of maritime functions, including port and harbor maintenance (dredging), coastal engineering (beach erosion and replenishment studies), coastal zone management, and offshore resource development.

In 1994 NOAA identified approximately 43,000 square nautical miles, primarily coastal shipping lanes and approaches to major U.S. ports, as critical areas¹⁴ in need of hydrographic survey, known as “the critical survey backlog.”

In FY 1998 Congress specified that NOAA use private sector contractors to augment the data acquisition activities of its hydrographic vessels, and appropriated a total of \$89.7 million for FYs 1998 through 2002 to be used for such contracting.

We conducted an audit to determine and validate NOAA’s progress toward reducing the critical survey backlog, identify and assess agency goals and plans for ultimately eliminating it, and evaluate the effectiveness of NOAA’s management controls over the backlog reduction program.



Hull-mounted multibeam sonar (left) and towed side-scan sonar (right) represent some of the state-of-the-art technology NOAA uses to detect, locate, and identify wrecks and obstructions on the ocean floor.

Source: NOAA’s National Ocean Service.
<http://oceanservice.noaa.gov/mapfinder/products/hydro/welcome.html>
 Accessed November 2003.

¹⁴ Areas deemed critical are waterways that have (1) high volumes of commercial traffic (e.g., cargo, fishing, and cruise vessels and ferries), (2) extensive petroleum or hazardous material transport, (3) transiting vessels with low under-keel clearance over the seafloor; or that (4) prompt compelling requests for surveys from users.

SUMMARY OF FINDINGS AND RECOMMENDATIONS

CONTROLS FOR MANAGING, STABILIZING, AND DOCUMENTING THE CRITICAL BACKLOG ARE INADEQUATE

NOAA indicated that it does not have the original nautical charts that specify the critical backlog baseline established in 1994 and has since modified the baseline. We found that it continues to make undocumented changes. NOAA officials acknowledged they lack written policies and procedures for documenting the history of the backlog’s composition. Without such controls, NOAA cannot provide assurance that it is making progress toward reducing the backlog, nor were we able to determine the status of its efforts to do so. We recommended that such policies and procedures be implemented, the backlog’s composition be stabilized and only modified to reflect reductions of identified backlog areas, and that all related nautical charts and documentation be preserved.

APPROPRIATED FUNDS ARE SOMETIMES USED TO SURVEY AREAS OUTSIDE THE CRITICAL BACKLOG

During FYs 2001 and 2002, NOAA obligated \$6.5 million of its backlog funding for surveys of nonbacklog locations, despite Congress’s clear direction that the appropriation be used to hire private surveyors to help reduce the backlog. Not only is NOAA’s action inconsistent with the intent of the funding, it also increases the likelihood that the agency will need additional appropriations to achieve backlog reduction goals. NOAA must take steps to ensure that funds appropriated for reducing the backlog are used to survey those areas only. At present, the agency has no written policies and procedures for restricting use of these funds to critical survey backlog areas. We recommended that NOAA develop such guidance.

OTHER FINDINGS

We also determined that NOAA does not track full program costs, enforce delivery deadlines for completion of contractor surveys, and lacks a detailed, documented work plan for eliminating the backlog.

NOAA’S RESPONSE

NOAA generally concurred with all but one of our recommendations—disagreeing on the need for a detailed work plan. The agency stated that it will continue to develop general work plans and projections for eliminating the backlog based on

current appropriations and technology. We reaffirm our recommendation, noting that without documented plans that include specific cost and schedule goals, NOAA cannot fully account for the time and resources it expends. (Science and Technology Audits Division: STD-15120)

AUDITS OF NOAA PERFORMANCE MEASURES CONTINUE TO POINT UP NEEDED IMPROVEMENTS

Our series of performance measurement audits continued this past semiannual period with a review of another two of NOAA’s seven goals¹⁵ that support the Department’s environmental stewardship responsibilities: (1) advance short-term warnings and forecasts, and (2) implement seasonal to interannual climate forecasts. NOAA’s net cost of operations for activities related to these two goals in FY 2001 was more than \$1.5 billion—or more than half of the total amount spent for all seven NOAA goals. Within NOAA, the National Weather Service conducts most of the work related to our analysis.



We noted a commitment on the part of NOAA to report outcome-oriented measures and reliable information, and extensive efforts by NWS to ensure the accuracy of performance information. However, as in our prior review, we found that improvements were needed for all of the measures associated with the goals, to correct internal control weaknesses that were permitting inaccurate, incomplete, or unclear performance data to be

¹⁵ The March 2003 Semiannual Report to Congress detailed our review of two NOAA goals—promote safe navigation and sustain healthy coasts (FDS-14998).

reported. In some cases, we found that the measures themselves should be revised, augmented, or eliminated.

For example, measures for advancing short-term warnings and forecasts of tornadoes and flash floods, as currently calculated, reflect the average lead times NWS provides the public prior to the weather events for which it issued warnings ahead of time. They do not adequately reflect the fairly significant number of tornadoes and flash floods for which the agency’s warning provided the public with no lead time or for which it issued no warning at all. We also noted the omission of key details in reported results—for example, that some measures were based on estimates and others excluded data from certain parts of the country. Such omissions further limited the measures’ usefulness.

Similarly, measures for implementing seasonal to interannual climate forecasts—as titled and as described in annual performance reports—do not clearly articulate what is being assessed or what results have been achieved. For example, discussions concerning the measure, “new climate observations introduced” (which refers to climate-monitoring systems), suggest that NOAA is counting multiple types of systems brought on-line during the fiscal year, when in reality it is measuring the introduction of only one type. And the number it reported introducing in FY 2001 was actually the number budgeted for procurement rather than the number actually deployed.

NOAA concurred with our findings, with some qualifications, and is taking action to strengthen internal controls and thereby eliminate the weaknesses we identified. (Financial Statements Audits Division: FSD-15643)

ENVIRONMENTAL TECHNOLOGY LABORATORY REVIEWS NOTE ACCOUNTING DEFICIENCIES

NOAA’s Environmental Technology Laboratory (ETL) in Boulder, Colorado, develops remote sensing instrumentation that allows meteorologists and oceanographers to peer inside the Earth’s atmosphere and oceans. ETL works with local, federal, and international agencies, as well as universities and private corporations, to improve understanding of the atmospheric and oceanic processes that govern our weather and climate, and to develop new remote sensing systems

In November 2001 the Department of Defense Office of Inspector General reported that the lab had inappropriately charged \$1.6 million in expenses to a joint Defense/ETL

project.¹⁶ This report prompted us to conduct a broader examination of the lab's administration, management, and oversight of financial operations and programs. During this past semiannual period, we concluded two audits of ETL activities: one of its handling of work for which it receives reimbursement; the second, of its management of the purchase card program.

WEAKNESSES EXIST IN MANAGEMENT OF REIMBURSABLE FUNDS

Reimbursable work—activities for which ETL receives payment from other federal agencies—is a major source of funding for the lab, accounting for roughly 45 percent of its total obligations during fiscal years 2000-2002. Our audit sought to determine whether ETL properly identifies, records, and recovers the costs of this work; complies with federal and departmental requirements in doing so; and has a sound operating plan that appropriately balances reimbursable income and activities with NOAA funding and pursuits, and ultimately supports NOAA's mission.

We conducted a comprehensive examination of ETL's reimbursable operations and activities for fiscal years 2000, 2001, and through May 2002. We identified significant instances of noncompliance with Department and NOAA policies and procedures for administrative control of funds. Specifically, ETL's management of reimbursable activities did not comply with Economy Act mandates and departmental policies and procedures requiring the lab to recover the full cost of goods and services it provides. To compensate for funding shortfalls that occurred as a result, ETL inappropriately transferred expenditures between unrelated reimbursable tasks as well as between reimbursable and nonreimbursable projects.

In addition, we found two instances in which ETL appears to have reprogrammed appropriated funding from its intended purpose, in one case to cover unreimbursed expenditures and in another, to "repay" funds borrowed from a NOAA program in a prior year. Congress requires notification of such shifts 15 days in advance of their occurrence when they exceed a certain amount. Both of the shifts we identified required such notification, yet in the first instance, NOAA failed to provide it, and in the second, provided it 9 months after the fact.

We made a series of recommendations to the appropriate NOAA officials to improve internal controls on funds management and bring ETL into compliance with all applicable

¹⁶ Department of Defense, Office of Inspector General. November 23, 2001. Advanced Sensor Applications Program Joint Project, Report No. D-2002-017, p. i.

federal, departmental, and agency requirements. We also recommended that NOAA follow through on efforts already under way to reduce ETL's reliance on reimbursable funding and thus mitigate the financial uncertainty it brings. NOAA agreed with our recommendations. (Business and Trade Audits Division: BTD-14852)

VULNERABILITIES IN PURCHASE CARD PROGRAM PERSIST

Our audit of ETL's purchase card program identified a number of internal control weaknesses—some new and some noted in a 1999 audit of the program, but still unresolved—that leave the laboratory vulnerable to improper and wasteful spending. We found that ETL's policies and procedures for the program are unclear and are not routinely updated to reflect federal and departmental changes. In addition, the lab does not (1) require cardholders to obtain written preapprovals for applicable purchases, (2) promptly close accounts of all departing employees, (3) ensure that cardholders take the required card use refresher training, and (4) provide adequate management oversight of individual card expenditures. Cardholders, for their part, do not always protect their cards from theft or unauthorized use.

NOAA concurred with most of our findings and recommendations. (Business and Trade Audits Division: BTD-15139)

FISMA REVIEW AT NESDIS IDENTIFY IT SECURITY CONCERNS

As part of our Department-wide FISMA review (see page 37), we evaluated security controls for two systems at the National Environmental Satellite, Data, and Information Service (NESDIS)—(1) the local area network (LAN) that operates at NESDIS headquarters and (2) the agency's Research Data System (RDS)—and found similar weaknesses affecting both.

For example, system security measures and server room safety features such as fire suppression mechanisms do not adequately protect against the full range of vulnerabilities and thus need to be enhanced. Risk assessments and security and contingency plans are incomplete. The LAN and RDS were certified and accredited, though security controls were neither tested nor their effectiveness documented.

We made a number of recommendations specific to these findings, and also noted that NESDIS needs to ensure that agency officials give greater attention to information security. NESDIS

agreed with our recommendations and has taken action to address them. (Office of Systems Evaluation: OSE-15996-1 and 2)

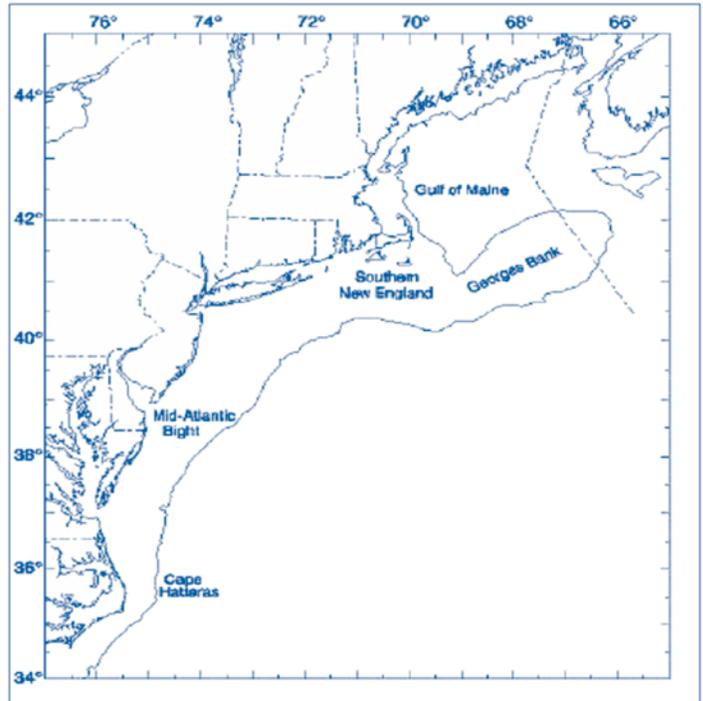
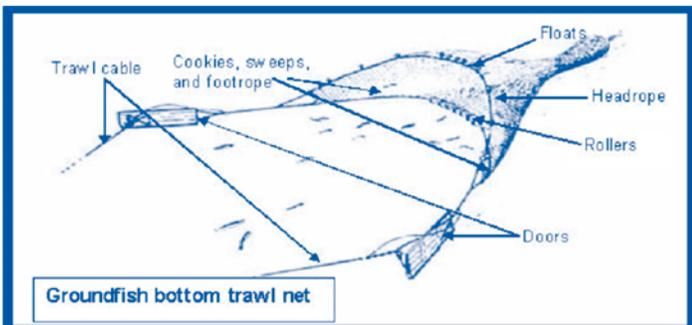
IT SECURITY WEAKNESSES NOTED AT NMFS MIRROR THOSE OF OTHER COMMERCE AGENCIES

NMFS' wide area network (WAN) and headquarters local area network were also among the Commerce systems we evaluated during our FY 2003 Department-wide FISMA review (see pages 29 and 37), and our findings for these two systems were similar to what we found elsewhere. Most notably, risk assessments and security plans for the NMFS systems were incomplete and inconsistent, and thus inadequate sources for identifying needed security controls. Though the agency has established controls, these have not been tested and their effectiveness therefore not verified; both actions are prerequisites for certification and accreditation, yet the systems were certified and accredited regardless. Additionally, NMFS has not completed its contingency planning for either system.

NMFS agreed with all of our recommendation for correcting the identified deficiencies and is taking steps to resolve them. (Office of Systems Evaluation: OSE-15693)

CONCERNS OVER IMPROPER CALIBRATIONS PROMPT REVIEW OF NMFS GROUND FISH SURVEY

The Magnuson-Stevens Act gives the National Marine Fisheries Service primary federal responsibility for managing marine fisheries. Along with eight regional fishery councils, NMFS is charged with preventing and ending overfishing of currently depressed stocks, rebuilding depleted stocks, and reducing bycatch.



Cape Hatteras, NC, to western Nova Scotia Shelf—Area covered by NEFSC's groundfish survey.

The status of both commercial and recreational fisheries—determined largely through stock assessments—is the basis of regulations governing catch limits, fishing days at sea, and so forth. For more than 400 years, the fishing industry off the northeastern U.S. coast has been identified both culturally and economically with harvesting groundfish (fish that swim in close proximity to the bottom of the ocean). Thus any regulations that affect fishing are of vital interest to the people of the region.

Data used in stock assessments is carefully scrutinized and the methods used to create the estimates often undergo intense scrutiny. This controversy is evident at NMFS' Northeast Fisheries Science Center (NEFSC), where the calibration of the gear used to tow the bottom trawl net that collects groundfish samples was a longstanding concern.

Based on that concern, NEFSC inspected the trawl cables on the NOAA Research Vessel (RV) Albatross IV and found that marks designating the length of each segment of the cables attaching the bottom-trawl net to the vessel differed. When in use during an average bottom-trawl survey, the mismarking caused one cable to be longer than the other by about 6.5 feet. The different lengths of cable deployed on either side of the net increased the risk that the net operated improperly and thus could potentially skew fish population counts. The mismarked cable was used in eight bottom-trawl surveys, from the winter of 2000 until spring 2002.

We focused our review on assessing whether (1) sufficient

policies and procedures are in place to effectively capture, identify, and, as appropriate, address concerns raised by stakeholders; (2) sufficient protocols are available to calibrate, operate, inspect, and maintain bottom-trawl survey gear; and (3) procedures are in place to ensure management information is available to assess the cost of gear calibration, operation, inspection, and maintenance activities.

Prior to and during our review, NOAA took several steps to address stakeholder concerns including issuing new protocols and conducting two peer reviews that concluded that the trawl cable problem did not have a significant impact on the actual survey catch data for 2000 and 2001. Despite these actions, we found several areas where additional improvements could be made.

NMFS NEEDS TO DEVELOP AN AGENCY POLICY FOR HANDLING COMPLAINTS OR CONCERNS RAISED BY OUTSIDE STAKEHOLDERS

We found that concerns about the calibration of trawl cables had been expressed but were not addressed for some time. While we are aware that not every concern raised by outside stakeholders will warrant action, having a process for collecting and assessing these concerns is important for ensuring that managers are aware of potential problems and can take sufficient action.

NMFS NEEDS TO INCLUDE, IN ITS NEW SET OF PROTOCOLS, ADDITIONAL POLICIES AND PROCEDURES FOR CALIBRATING, OPERATING, INSPECTING, AND MAINTAINING SURVEY GEAR

For example, NMFS needs to

- address calibration issues that remain, despite improved protocols for calibrating trawl cables;
- more completely address in the protocols concerns about the condition and operation of the gear;
- ensure, through instituting a better warehouse management system, that inspection, maintenance, and inventory records are complete and accurate; and
- take specific measures to better ensure protocol recommendations are followed.

NMFS ALSO NEEDS TO TAKE MORE STEPS TO ENSURE THAT THE COST OF GEAR-RELATED ACTIVITIES ARE UNDERSTOOD BY DECISION-MAKERS AND AGENCY MANAGERS

If such costs are not accurately reflected in budgets, NMFS risks not having enough funding to support critical survey procedures, such as calibration and maintenance, needed to maintain consistent survey quality and, thus, accurate measures of relative fish abundance.

NOAA agreed with 15 of our 18 recommendations and in most cases provided specific steps for implementing them. And although NOAA only partially concurred with a recommendation regarding evaluating an existing warehouse system for use by its other science centers, its response appeared to address the intent of our recommendation. (Science and Technology Audits: STD-15750)

CHARGE OF PREFERENTIAL TREATMENT IN CONTRACT AWARD PROMPTS AUDIT

The Technology Administration

serves the needs of technology-based industry, advocates federal actions and policies to speed the transfer of technology from the laboratory to the marketplace, and removes barriers for commercializing new technologies. It includes three major organizations:

Office of Technology Policy works to raise national awareness of the competitive challenge, promotes industry/government/ university partnerships, fosters quick commercialization of research results, promotes dedication to quality, increases industry's access to and participation in foreign research and development, and encourages adoption of global standards.

National Institute of Standards and Technology promotes U.S. economic growth by working to develop and apply technology, measurements, and standards. NIST manages four programs: the Advanced Technology Program, the Manufacturing Extension Partnership Program, the Baldrige National Quality Program, and NIST Laboratories.

National Technical Information Service is a self-supporting agency that promotes the nation's economic growth and job creation by providing access to information that stimulates innovation and discovery. NTIS accomplishes this mission through information collection and dissemination to the public and through information and production services to federal agencies.

A U.S. company charged that it did not receive fair, equal, or appropriate treatment during NIST's procurement process and that the agency showed preferential treatment to a foreign firm; the charge resulted in a letter from the Connecticut congressional delegation to the Secretary of Commerce. The complaint involved a contract awarded by NIST for a five-axis machining center to be used for several purposes including performing metrology and machining experiments. In December 2002 NIST forwarded to this office the delegation's letter requesting that we undertake a review of NIST's procurement decision.

In response, we audited the machining center contract and evaluated whether NIST followed the correct contracting procedures for the procurement, specifically addressing each of the concerns raised. We found that one issue, which helped create confusion and contradictions, was NIST's citation of the wrong procurement law in the solicitation document.

The Buy American Act was cited as the legislation governing how offers would be evaluated. In this instance, however, that law did not apply because of the value of the procurement. The Buy American Act generally is restricted to purchases valued at less than \$169,000, that are not domestic end products,¹⁷ and are to be used within the United States. However, this procurement exceeded the dollar limitation of the Buy American Act and was therefore subject to the Trade Agreements Act, which waives the applicability of the Buy American Act for some foreign supplies and construction materials. As a result, offers of foreign end products from countries defined in the Federal Acquisition Regulation (FAR) as a "designated country," countries of the Caribbean Basin, and member countries of the North American Free Trade Agreement (NAFTA) receive the same consideration as offers from U.S. companies.

Overall we concluded that NIST's procedural errors had no effect on the ultimate awarding of the contract. We recommended, however, that the NIST acting deputy director instruct the chief of the Acquisition and Assistance Division to develop and document procedures to ensure that all procurement actions comply with the provisions of the FAR. We also recommended that the chief be instructed to ensure that clear, accurate, and concise guidance is developed regarding how best value should be defined for procurement actions, as well as how technical, past performance, and pricing reviews should be conducted when using the test program under the simplified acquisition procedures,¹⁸ and ensure that the guidance is followed.

¹⁷ A domestic end product means an end product manufactured in the United States, if the cost of its components mined, produced, or manufactured in the United States exceeds 50 percent of the cost of all its components. (Source: FAR Subpart 25.1)

¹⁸ FAR subpart 13.6 authorizes, as a test program, use of simplified procedures for the acquisition of supplies and services in amounts greater than the simplified acquisition threshold but not exceeding \$5 million.

NIST officials agreed with our recommendations and are in the process of revising internal quality control policies and procedures to address the issues. (Science and Technology Audits: STD-15839)

NIST'S ADVANCED TECHNOLOGY PROGRAM AND MANUFACTURING EXTENSION PARTNERSHIP PROGRAM

As part of its efforts to spur technological development, NIST administers the Advanced Technology Program (ATP) to provide financial assistance through cooperative agreements, with the goal of transferring cutting-edge technology to industrial uses. In addition, its Manufacturing Extension Partnership Program (MEP) helps small and midsize companies integrate new technologies and related management practices in order to enhance their performance and productivity. MEP also provides financial assistance through cooperative agreements.

During this semiannual period we audited costs claimed under four ATP awards and two MEP awards, for which we questioned costs totaling more than \$6.1 million and identified federal funds be put to better use totaling more than \$3.5 million. Summarized below are the results of the audits.

EXCESSIVE DRAWDOWNS PROMPT SUSPENSION OF AWARD PAYMENTS

In September 2001 NIST awarded a \$2 million ATP cooperative agreement to a New York City firm that engineers technologies for computer-aided surgery. The purpose of the project was to develop and demonstrate innovative computerized anatomic models for use in cancer therapy. The 3-year agreement required a \$110,500 cost-share, bringing total estimated project costs to \$2,110,500.

NIST officials requested an audit of the award due to concerns about the company's ability to account for federal funds spent. Our audit revealed that the company (1) had not contributed any of its required matching funds, (2) had drawn down \$205,126 in excess of the federal share of project costs, and (3) had filed inaccurate financial reports to NIST by overstating expenses to justify excess drawdowns. On the basis of our report, NIST immediately suspended further award payments to the company.

We recommended that NIST continue its suspension of award payments until the company reimburses the \$205,126 of excessive drawdowns and submits accurate financial reports to NIST. We further recommended that NIST designate the company as "high risk" and place it on a reimbursement-only payment basis if the suspension of award payments is removed. (Atlanta Regional Office of Audits: ATL-16095)

ATP AWARD TERMINATED FOR PREMATURE DRAWDOWNS

In October 2001 NIST awarded a \$1,907,201 Advanced Technology Program cooperative agreement to a Torrance, California, company involved in innovative composite design and engineering. The purpose of the agreement was to develop a unique high-speed manufacturing process to enable the efficient, affordable manufacture of a new generation of advanced electrical conductors as an upgrade for new or replacement power transmission lines. The agreement was for a 2-year period with \$1,097,678 in funding for the first year and \$809,523 for the second year. The agreement required the company to provide a matching share of \$85,650 for each of the 2 years.

In February 2003 NIST suspended the cooperative agreement and requested that OIG perform an audit. The company had drawn down \$781,200, or 97 percent of the year 2 funds, while only reporting costs of \$474,753. Moreover, the company was not responding to NIST's request for documentation related to the difference of \$306,447.

In March 2003 we issued an audit report that revealed that the company had prematurely drawn down \$306,447 of federal funds for year 2. Our report recommended that NIST require the company to reimburse the premature drawdown. NIST agreed and gave the company until May 2003 to comply. When the company failed to comply, NIST terminated the cooperative agreement effective May 20, 2003, and established an account receivable for \$306,447.

Subsequent to our March 2003 report concerning the premature drawdowns, we conducted a second audit of the award to assess the allowability of project costs claimed. This second audit report questioned costs totaling \$668,153 due to lack of supporting documentation for personnel, fringe benefits, equipment, and accounting costs. We also found that the company had not submitted financial reports required by the award.

We recommended that NIST disallow \$668,153 in questioned costs and require the company to reimburse excess federal disbursements of \$934,207, which includes the \$306,447 in premature drawdowns identified in our prior audit report. (Atlanta Regional Office of Audits: ATL-15922-2)

CALIFORNIA-BASED COMPANY CLAIMS \$7 MILLION IN UNALLOWABLE INDIRECT COSTS

We performed audits of two NIST ATP joint venture cooperative agreements awarded to a California-based company that manufactures equipment for the semiconductor industry. The first audit involved a September 2000 cooperative agreement in which the company was the administrator of a three-member joint venture. The 3-year award period of November 1, 2000, through October 31, 2003, had total estimated costs of \$13,719,717, with the federal government's share not to exceed \$6,716,870, or 48.96 percent of allowable costs.

For the award period of November 1, 2000, through June 30, 2002, the company had submitted financial reports to NIST, on behalf of the joint venture, claiming total project costs of \$5,531,718, which included \$3,873,208 claimed by the administrator company. The company provided cost schedules to us indicating that it incurred an additional \$1,516,106 that was not reported to NIST, bringing the company's total project costs to \$5,389,314.

Our audit revealed \$1,500,048 of questioned indirect costs as a result of unallowable items included in the company's proposed overhead and general and administrative cost pools. We recommended that NIST disallow the questioned costs and recover \$17,894 of excess federal disbursements.

The second audit involved a September 1998 cooperative agreement in which the company was originally a partner but became the joint venture administrator when the original administrator company withdrew from the joint venture. The five-member joint venture, which includes two other for-profit companies and two universities, was established to work on a project involving intelligent control of the semiconductor patterning process. The 44-month award period of January 1, 1999, through August 30, 2002, had total estimated costs of \$18,292,775, with the federal government's share not to exceed \$9,110,456, or 49.8 percent of allowable costs.

For the award period of January 1, 1999, through June 30, 2002, the company had submitted financial reports to NIST on behalf of the joint venture, claiming total project costs of \$18,466,959, which included \$12,803,256 claimed by the administrator company. The company provided cost schedules to us indicating that it had incurred an additional \$848,438 that was not reported to NIST, bringing the company's total project costs to \$13,651,694.

Our audit revealed \$5,657,069 of questioned costs, including (1) \$5,532,430 of indirect costs as a result of unallowable items included in the company's proposed overhead and general and

administrative cost pools, (2) \$56,978 of salary and fringe benefits costs, and (3) \$67,661 in costs that were not included in the company's approved budget. We recommended that NIST disallow the questioned costs and recover \$1,983,936 of excess federal disbursements. (Denver Regional Office of Audits: DEN-14219-3-2 and -3)

EXCESS FEDERAL DISBURSEMENTS TO UNIVERSITY-BASED ENGINEERING SERVICE TOTAL \$771,555

In September 1999 NIST transferred an MEP cooperative agreement from a state of Texas economic development agency to an engineering service that is a component of a state university. We performed an interim audit of the period September 1, 1999, through January 31, 2001. After the September 1999 transfer, the award provided funding for the engineering service's headquarters, a statewide office, and several subrecipient centers.

Our audit revealed questioned costs of \$1,954,279, including \$1,610,252 in training costs primarily related to large manufacturing firms, which are outside the scope of work of the NIST award and are therefore not allocable to the award, and \$344,027 in facilities and administrative expenses charged in excess of allowable expenses, based on negotiated indirect cost-rate agreements. We also found that the recipient failed to reconcile cost claims with approved budget categories.

We recommended that NIST (1) disallow the questioned costs and seek recovery of the resulting \$771,555 in excess federal disbursements, (2) direct the engineering service to prepare financial analyses by award budget categories and obtain any required approvals for award budget deviations, and (3) require the engineering service to adjust subsequent financial reports to eliminate these questionable items. Implementation of our recommendations will result in \$3,360,000 in funds being put to better use during the remainder of the cooperative agreement period. (Denver Regional Office of Audits: DEN-14401)

RECOVERY OF \$1.6 MILLION RECOMMENDED FROM MASSACHUSETTS NONPROFIT

In March 2000 NIST transferred an MEP cooperative agreement from a department of the Commonwealth of Massachusetts to a local nonprofit organization. The original award to the state had been made in 1998 for purposes of improving the competitiveness and technical flexibility of small and medium-size manufacturers in Massachusetts through improvements to

their manufacturing and training processes. The project had an initial 1-year award period of February 9, 1998, through February 8, 1999, and estimated total costs of \$7,045,045. The award was amended twice in 1999 to extend the award period through February 8, 2000, at an additional cost of \$7,038,000, and to provide Y2K funding in the amount of \$1,305,226.

At the time of the transfer, the award had remaining federal funds of \$994,971, which were to be matched with \$1,989,942 in cost share, resulting in a federal cost-share of 33.33 percent of total allowable costs. The transferred award has been amended several times and now covers the period through April 30, 2004, with estimated total costs of \$43,652,897, including a federal share of \$14,541,155.

We audited the nonprofit's cost claims for the period from the transfer of the award, March 17, 2000, through June 30, 2001.

During this period, the recipient had claimed total costs of \$13,352,102, including a claim for preaward costs beginning March 1, 2000, and received federal disbursements totaling \$3,689,510.

Our audit revealed questioned costs totaling \$8,177,606, including improper matching cost claims of \$7,616,094, unsupported contract costs of \$513,333, and unallowable preaward travel costs of \$48,179. We also found weaknesses in the recipient's financial reporting system, resulting in a \$1,096,614 discrepancy between costs reported to NIST and costs recorded in the organization's accounting records. We recommended that NIST disallow questioned costs of \$8,177,606, recover the federal share of \$1,599,349, and require the recipient to implement improvements to its financial reporting system. (Denver Regional Office of Audits: DEN-14422)



UNITED STATES PATENT AND TRADEMARK OFFICE

ALLEGATIONS OF PATENT CORPUS WRONGDOING REFLECT PROCEDURAL LAPSES RATHER THAN INTENTIONAL MISDEEDS

The United States

Patent and Trademark Office

administers the nation's patent and trademark laws. Patents are granted and trademarks registered under a system intended to provide incentives to invent, invest in research, commercialize new technology, and draw attention to inventions that would otherwise go unnoticed. USPTO also collects, assembles, publishes, and disseminates technological information disclosed in patents.

In response to requests from a patent applicant, the Office of Inspector General looked into charges that USPTO personnel had purposely mishandled two patent applications and had manipulated the agency's Patent Application Location and Monitoring (PALM) system for personal gain.

We found no evidence of manipulation or falsification but concluded that the agency did fail to meet appropriate time frames for processing three of the complainant's petitions and two amendments.¹⁹ In addition, data from USPTO's PALM system indicated that the agency did lose the two applications for 1 and 2 months, respectively. Further, it appears USPTO's failure to delineate all pertinent information in its communications with the applicant and its use of vague terms, such as "promptly," to describe time frames for certain steps in the application process caused confusion and ultimately led to the complainant's perception of impropriety.

To resolve these weaknesses, we recommended that USPTO (1) quantify the term "promptly" as it relates to agency responses to inquiries regarding an application's status, (2) ensure that agency correspondence clearly identifies every status inquiry being addressed, (3) give applicants clear guidelines for submitting status inquiries, and (4) establish specific timeliness goals for handling and responding to applicant petitions.

USPTO concurred with all four of our recommendations. (Office of Inspections and Program Evaluations: IPE-16083)

¹⁹ An applicant may submit an amendment to change, add, or delete information in the patent application.



DEPARTMENT-WIDE MANAGEMENT

COMMERCE IT SECURITY CONTINUES TO IMPROVE, BUT SHOULD REMAIN A MATERIAL WEAKNESS

The
United
States

Department of Commerce

promotes job creation and improved living standards for all Americans by creating infrastructure that fosters economic growth, technological competitiveness, and sustainable growth. The Department has three strategic goals:

Goal 1: Provide the information and the framework to enable the economy to operate efficiently and equitably.

Goal 2: Provide the infrastructure innovation to enhance American competitiveness.

Goal 3: Observe and manage the Earth's environment to promote sustainable growth.

The Department has also established a Management Integration Goal that is equally important to all bureaus: **Strengthen management at all levels.**

OIG's independent evaluation of the Department of Commerce's information security program and practices was conducted this year pursuant to the Federal Information Security Management Act, which replaced the expiring Government Information Security Reform Act in December 2002. Unlike in years past, we did not separately evaluate and report on USPTO's IT security, but rather incorporated that agency into a single, Commerce-wide review. This consolidation is in keeping with OMB's FY 2002 Report to Congress on federal government information security reform, in which it combined USPTO with the rest of the Department.

In general, we found that senior management continues to give attention to information security. With support from the Deputy Secretary, the Department's chief information officer has worked hard to improve information security throughout Commerce and has made noteworthy progress. The Department issued a new security policy in January 2003 that comprehensively defines a program for assuring the protection of agency information systems, and its detailed requirements are helping improve the security programs of the operating units. At USPTO, information security also continues to improve, and the agency is well on its way to having systems certified and accredited.²⁰

Considerable challenges remain, however, for both the Department and USPTO, and as in the past 2 fiscal years, we again believe that both should report information security as a material weakness until all systems considered national critical and mission critical have been certified and accredited.

Our specific findings are noted below, with those for USPTO separately summarized when warranted.

Information Security in IT Service Contracts Is Improving, but Additional Efforts Are Needed. In last year's evaluation, we concluded that federal and departmental policy and guidance for incorporating security provisions into IT service contracts were lacking. In the intervening year, the Department drafted a standard contract provision for safeguarding the security of unclassified systems and information and developed acquisition-specific information security training. While we noted some progress in incorporating security provisions into recent IT service contracts, there remains (1) a general absence of provisions for controlling access to Department systems and networks; and (2) little evidence of contract oversight, or of coordination among contracting, technical, and information security personnel in developing appropriate contract security requirements.

The Department Has Established a Sound Plan of Action and Milestone (POA&M) Process. Commerce develops, implements, and manages POA&Ms for all systems that have identified security weaknesses. System owners²¹ prepare the POA&Ms for their systems,

²⁰ Certification is the formal testing and evaluation of the security safeguards on a computer system to determine whether they meet applicable requirements and specifications. Accreditation is the formal authorization by management for system operation, including an explicit acceptance of risk.

²¹ The Department's information security policy defines a system owner as a project manager with day-to-day management and operational control over the system and direct oversight of the system/network administrators and operations staff.

and the operating unit IT security officer prepares the POA&M for the unit's program. Units submit their POA&Ms to the Department CIO monthly. Commerce monitors these plans closely and uses them to manage corrective actions for identified weaknesses. The CIO's office intends to tie POA&Ms to the Department's system budget request in FY 2004.

USPTO. The agency develops, implements, and manages POA&Ms for all systems that have identified security weaknesses. Beginning in FY 2004, it will join the rest of the Commerce units in submitting its POA&Ms to the Department's CIO Office, for incorporation into Commerce's consolidated POA&M report to OMB.

Responsibilities and Authorities Are Clearly Specified. The responsibilities and authorities for the Department's CIO and program officials have been clearly delineated in the new information security policy. Accordingly, the CIO has primary oversight of all aspects of Commerce's information security program and reports to the Deputy Secretary on the status of information security within the Department. Operating unit heads have explicit responsibility for the unit's information security. Program officials must ensure implementation of an effective security program for the systems under their responsibility.

USPTO. Responsibilities and authorities for the agency's CIO and program officials are delineated in its draft Agency Administrative Order 212-4, Information Technology Security, which is expected to be finalized by the end of the fiscal year. The CIO and the Director of USPTO have initiated a concerted effort to improve information security, and the results of their commitment are evident in a considerably improved program.

Significant IT Investments Require CIO Concurrence. No operating unit can make a major IT investment without the Department CIO's review and concurrence. The unit's CIO must approve other significant IT investment proposals.

USPTO. A management council consisting of the CIO and other senior executives reviews and approves the agency's budget, including new IT investments having a life-cycle cost of more than \$100,000.

Steps for Managing Life-Cycle Information Security Are Prescribed. The Department's new policy specifies the requirements for managing information security for each system life-cycle phase and makes the system owner primarily responsible for fulfilling these requirements. Commerce has management and oversight processes for ensuring life-cycle information security for all but one phase—disposal—for which it lacks an oversight mechanism.

USPTO. USPTO's draft policy states that information security is managed throughout a system's life cycle, but it does not clearly

delineate requirements by life-cycle phase—and such information is also missing from the agency's system life-cycle management manual. These documents would be improved by the addition of such information so that program officials and system owners fully understand their roles. The draft policy does describe information security oversight reviews to be conducted at key system milestones. The certification testing conducted this past year identified areas throughout the system life cycle in which policies, procedures, and processes need to be improved.

Information Security and Critical Infrastructure Protection Responsibilities Are Well Integrated, and Coordination with Other Security Functions Is Increasing. Commerce's critical infrastructure and information security programs are under the authority of the Department CIO and are highly integrated. The Department's policy delineates partnerships that must be maintained with offices under the CFO that have other security responsibilities, including the Office of Security, the Office of Human Resources Management, and the Office of Acquisition Management.

USPTO. The agency's draft policy addresses coordination and cooperation between information security and other security programs, including interface with USPTO's physical security and human resource offices.

National- and Mission-Critical Asset Identification Efforts Continue to Be Refined. Commerce has identified its national-critical assets but has not determined the interdependencies among them. Both the Department and USPTO have identified and continue to refine their mission-critical assets,²² and to the extent that security plans for these systems follow the required NIST guidance, they identify direct information-sharing interconnections with other systems. As the Department and USPTO define and document their enterprise architectures—which show the relationship between business functions and the technologies and information that support them—they should identify any interrelationships with mission-critical systems.

The Information Security Policy Has Requirements for Documenting Incident Reporting Procedures. The policy defines the types of incidents that need to be reported and requires each operating unit to submit its response procedures to Commerce's CIO Office for review and approval. The policy requires operating unit computer incident response teams (CIRTs) and the Department's CIRT to report incidents to the Federal Computer Incident Response Center (FedCIRC), but does not set a time frame for doing so.

USPTO. USPTO has draft incident response procedures that, while detailed and specific, do not provide a time frame for

²² USPTO has no national-critical assets.

reporting incidents to FedCIRC or require notifying OIG when an incident occurs.

Risk Assessments, Security Plans, and Testing of Security Controls Continue to Need Serious Attention. Many risk assessments and security plans throughout Commerce do not provide essential information for determining appropriate system security controls, and others contain inaccurate or inconsistent information. Certifications were frequently granted without careful review of the documentation and with little or no testing.

USPTO. The agency’s one certified and accredited system had a thorough risk assessment and comprehensive security and contingency plans. Certification included extensive testing of security controls that identified weaknesses in the system itself, as well as organization-wide security issues. USPTO appears to be using the same rigorous process for certifying and accrediting its remaining systems.

Information Security Awareness Training Is Being Addressed, but Specialized Training Requirements Are Needed. The Department requires security awareness training for new employees and contractors, and annual refresher training for all existing employees and contractors who have access to systems containing sensitive information. The Department’s CIO appears to be providing awareness refresher training to Commerce employees and contractors. However, we found slow progress has been made in providing specialized training for personnel with significant information security responsibilities, and a pervasive lack of understanding of the objectives and requirements of system risk assessment, security planning, contingency planning, and certification and accreditation. USPTO is also providing the mandated annual awareness refresher training.

The Department CIO Continues to Make Progress in Improving Information Security. The Department CIO has focused intensely on improving information security and has made significant strides. In finalizing the new information security policy, he gave Commerce a comprehensive blueprint for securing agency information systems, and is making a determined effort to effectively implement the security program. Much remains to be done, however, particularly with regard to ensuring that program and IT officials as well as personnel with specialized information security roles understand their respective responsibilities and have the knowledge and skills to carry them out. The Department CIO Office is evaluating the performance of all Commerce operating units to validate the security information they report and assess the effectiveness of their information security programs.

USPTO. As mentioned earlier, USPTO is well on its way to certifying and accrediting all of its mission-critical systems and is using sound processes to do so. But it, too, has much to do to facilitate program officials’ understanding and acceptance of

their more active role and increased accountability. The CIO is working aggressively to bring these officials up to speed, and we believe the CIO’s effort is essential to initiating and maintaining an effective information security program. (Office of Systems Evaluation: OSE-16146)

PREAWARD FINANCIAL ASSISTANCE SCREENING

As part of our ongoing emphasis on prevention of fraud, waste, and abuse, we continue to work with the Department, NOAA and NIST grant offices, and EDA program offices to screen the Department’s proposed grants and cooperative agreements before they are awarded. Our screening serves two functions: it provides information on whether the applicant has unresolved audit findings and recommendations on earlier awards, and it identifies any negative financial or investigative history on individuals or organizations connected with a proposed award.

During this period we screened 1,597 proposed awards. For 36 of the awards, we found major deficiencies that could affect the ability of the prospective recipients to maintain proper control over federal funds. On the basis of the information we provided, the Department delayed 35 awards and had special award conditions established for 1 award. (Office of Audits)

Preaward Screening Results		
	Award	
Results	Number	Amount
Awards delayed to resolve concerns	35	\$69,376,233
Special award conditions established	1	599,430

NONFEDERAL AUDIT ACTIVITIES

In addition to undergoing OIG-performed audits, certain recipients of Commerce financial assistance are periodically examined by state and local government auditors and by independent public accountants. OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, sets forth the audit requirements for most of these audits. For-profit organizations that receive Advanced Technology Program funds from NIST are audited in accordance with Government Auditing

Standards and NIST Program-Specific Audit Guidelines for ATP Cooperative Agreements, issued by the Department.

We examined 197 audit reports during this semiannual period to determine whether they contained findings related to Department programs. For entities represented in 125 of these reports the Department acts as oversight agency and monitors compliance with OMB Circular A-133 or NIST’s program-specific reporting requirements. The other 72 reports are from entities for which other federal agencies have oversight responsibility. We identified 33 reports with findings related to the Department of Commerce.

Report Category	OMB A-133 Audits	ATP Program-Specific Audits	Total
Pending (April 1, 2003)	17	83	100
Received	120	60	180
Examined	113	84	197
Pending (September 30, 2003)	24	59	83

The following table shows a breakdown, by bureau, of the nearly \$441 million in Commerce funds audited.

Bureau	Funds
EDA	\$ 38,622,620
NIST*	109,741,439
NTIA	803,946
NOAA	7,256,753
Office of the Secretary	422,211
Multiagency	281,984,459
Agency not identified	1,733,963
Total	\$ 440,565,391

* Includes \$104,270,562 in ATP program-specific audits.

We identified a total of \$2,137,268 in questioned costs and \$456,398 in funds to be put to better use. In most reports the subject programs were not considered major programs; thus the audits involved limited transaction and compliance testing against laws, regulations, and grant terms and conditions. The 33 reports with Commerce findings are listed in Appendix B-1. (Atlanta and Denver Regional Offices of Audits)



OFFICE OF INSPECTOR GENERAL

IG'S TESTIMONY ON COMMERCE IT SECURITY NOTES PROGRESS, COMMITMENT, BUT STILL MUCH TO BE DONE

The mission of the Office of

Inspector General is to promote economy, efficiency, and effectiveness and detect and prevent waste, fraud, abuse, and mismanagement in the programs and operations of the Department of Commerce. Through its audit, inspection, performance evaluation, and investigative efforts, OIG proposes innovative ideas and constructive solutions that lead to positive internal and external changes for the U.S. Department of Commerce. By providing timely, useful, and reliable information and advice to departmental officials, the administration, Congress, and the public, OIG's work helps improve the Department's management and operations as well as its delivery of services to the public.

Commerce IG Johnnie Frazier and National Aeronautics and Space Administration IG Robert Cobb described the status of IT security at their respective agencies during a June 24, 2003, hearing before the U.S. House of Representatives' Subcommittee on Technology, Information Policy, Intergovernmental Relations and the Census, Committee on Government Reform.

The number of reported security incidents involving federal IT systems has skyrocketed in recent years, prompting Congress, the administration, and inspectors general to give close scrutiny to agency efforts to improve their IT security status. The Government Information Security Reform Act has for the past 2 years required IGs to conduct independent evaluations of their agencies' IT security programs. This requirement continued in fiscal year 2003 with enactment of the Federal Information Security Management Act, which replaced GISRA.

TESTIMONY CHARTS IMPROVEMENTS UNDER GISRA

IG Frazier testified that 2 years ago, when he addressed the subcommittee about Commerce IT security, the Department exhibited the six common IT security weaknesses identified by OMB: (1) lack of senior management attention to IT security; (2) poor security education and awareness among employees; (3) failure to fully fund and integrate security into the capital planning and investment control process; (4) failure to ensure that contractor services are adequately secure; (5) failure to detect, report, and share information on vulnerabilities; and (6) lack of IT security performance measures. As a result of these and other weaknesses, OIG identified information security as a top management challenge for Commerce and recommended that it be reported as a material weakness in fiscal year 2001 and again in FY 2002,²³ a recommendation the Department followed. Mr. Frazier reported that the Department has improved in these six areas identified by OMB, but significant challenges remain.

Senior management attention to IT security. Prior to GISRA, senior Department officials gave little regard to IT security. As a result, Commerce's IT policy was incomplete, out of date, and not enforced; systems had not been assessed for vulnerabilities nor certified as secure. However, the Secretary of Commerce has since directed top officials to give high priority and sufficient resources to IT security and to stress their leadership role in correcting deficiencies identified in OIG and General Accounting Office evaluations. Senior Commerce managers were given specific responsibility for protecting the security of operations and assets they control. Our subsequent reviews have noted this commitment at Commerce operating units, although some have been slower than others in giving the needed level of attention.

Security education and awareness. In FY 2001, security training at Commerce was not conducted on a rigorous or ongoing basis. The operating units have since made significant progress in providing awareness training to both employees and contractors. However, training

²³ OIG again recommended that IT security be reported as a material weakness in FY 2003, and as we went to press, the Department indicated that it plans to do so.

for personnel with significant IT security responsibilities (e.g., system administrators, IT security officers) remains inadequate.

Funding and integrating security into the capital planning and investment control process. Commerce ensures security is planned at the earliest stages of a system's life cycle by requiring Department CIO concurrence for IT investment decisions affecting all major systems. OIG reviews have determined that capital asset plans developed by most operating units need to better identify security risks throughout a system's life cycle so that security expenditures can be better developed and justified.

Ensuring that contractor services are adequately secure. OIG evaluations of IT service contracts revealed insufficient federal and departmental guidance for ensuring that contract documents contain adequate IT security provisions. At our recommendation, the Department has drafted a standard IT security contract provision.

Detecting, reporting, and sharing information on vulnerabilities. In FY 2001, OIG found that only 4 of 14 operating units had incident response capability, and that the Department's policy for reporting IT security incidents did not specify notification of OIG. The Department has since established a computer incident response team to support operating units that had no response capability.

IT security performance measures. Two years ago, OIG reviews found that nearly two-thirds of the Department's systems lacked risk assessments, almost half did not have a security plan, and more than 90 percent were not certified or accredited. But by the end of fiscal year 2002, 94 percent of systems had risk assessments, 96 percent had security plans, and 77 percent were certified and accredited.

Mr. Frazier noted that, while this track record is impressive, subsequent OIG evaluations suggest that the accreditation and certification process is sometimes being shortcut: risk assessments and security plans are sometimes inadequate, and controls go untested, all of which undermines the reliability of accreditation and certification in assuring that effective security controls are in place.

THE DEPARTMENT'S STATUS AT FY 2003 YEAR-END

Since Mr. Frazier's testimony, OIG has completed its FY 2003 independent evaluations of IT security under FISMA, which update the Department's security status described by Mr. Frazier at the subcommittee hearing. Summaries of our findings appear on pages 29 and 37 of this semiannual report.

HIGHLIGHTS OF THE OFFICE OF INVESTIGATIONS

The Office of Investigations (OI) systematically examines suspected or alleged fraud, waste, abuse, and mismanagement by Department of Commerce employees, contractors, recipients of financial assistance, and others connected to the Department's programs and operations. These investigations typically culminate in criminal and/or civil prosecution, as well as administrative sanctions for violation of federal regulations and the Standards of Ethical Conduct for Employees of the Executive Branch. With a staff of criminal investigators deployed throughout the United States, OI works in conjunction with the Department of Justice and the Federal Bureau of Investigation to investigate and prosecute those engaged in activities designed to defraud Commerce and its component agencies.

Section 812 of the Homeland Security Act of 2002 (P.L. 107-296), recently passed by Congress and signed by the President, will, when implemented, provide criminal investigators in this and other OIGs headed by presidentially appointed inspectors general, with statutory law enforcement authority to carry firearms, make arrests, and execute search warrants. Until then, investigators will retain law enforcement powers as special deputy U.S. marshals under a memorandum of understanding with the Department of Justice and the Federal Bureau of Investigation.

OI continually seeks to reinvent itself and its methods for preventing and detecting fraud, waste, and abuse by periodically evaluating its operations to ensure that they are optimally structured to protect the Department's resources and the integrity of its programs. These reviews help OI improve the timeliness of its work, enhance its collaboration with Department employees and program officials, and maximize the use of its limited resources through greater interaction with other OIG components. Within Commerce, OI has assumed a leadership role among its law enforcement peers from other bureaus, and is thus addressing issues that could potentially impact investigative operations Department-wide.

SIGNIFICANT INVESTIGATIVE ACTIVITIES DURING THIS SEMIANNUAL PERIOD

NTIA SENIOR OFFICIAL COUNSELED ON ETHICS REQUIREMENTS

OIG investigated allegations that a senior NTIA official improperly accepted a gift from telecommunications industry lobbyists in the form of a party at her home, and that the gift had

influenced the agency's official position on a policy matter of interest to the companies that hosted the party. Our investigation did not substantiate the charge that the performance of official duties was improperly influenced by the gift. It did, however, disclose several violations of the Standards of Ethical Conduct on her part, including prohibitions against accepting gifts from persons or entities whose interests may be substantially affected by the performance or nonperformance of the employee's duties, and engaging in or being party to actions that create the appearance of improper conduct. The official, who has since left federal service, was counseled about her responsibility for maintaining the highest levels of integrity, including taking all precautions necessary to avoid any appearance of impropriety. (Washington Field Office)

SENIOR MBDA OFFICIAL REMINDED OF ETHICS OBLIGATIONS

OIG initiated an investigation of a senior MBDA official after receiving allegations that the official had improperly accepted gifts and violated government travel and procurement regulations. Our investigation substantiated only one instance of impropriety—the official's receipt of an unsolicited gift of Cuban cigars, valued at approximately \$100, from a person who had business dealings with the Department. On advice from the Office of General Counsel, the official subsequently paid the donor the fair market value of the cigars. Based on our findings, the MBDA official was reminded of the need for strict adherence to the Standards of Ethical Conduct for Employees of the Executive Branch regarding the receipt of gifts, particularly from prohibited sources. (Silver Spring Resident Office)

FORMER NATIONAL WEATHER SERVICE EMPLOYEE SENTENCED

In our March 2003 Semiannual Report (page 40) we reported the theft conviction of a former National Weather Service employee, who had misused a government purchase card to acquire more than \$70,000 worth of items for personal use. On June 20, 2003, the defendant was sentenced in U.S. District Court for the Eastern District of Virginia to 5 months' imprisonment and 5 months' home detention/electronic monitoring, and was ordered to pay restitution to the government in the amount of \$71,052. (Washington Field Office)

FORMER CENSUS EMPLOYEE SENTENCED FOR RECEIVING A GRATUITY

In our March 2003 issue (page 39) we reported the conviction of a former community partnership specialist in the Census Bureau's Dayton, Ohio, regional office under 18 USC §201,

based on his acceptance of an illegal gratuity. The conviction arose from a joint OIG/FBI investigation that disclosed he had misused his position to solicit and receive at least \$1,750 from four vendors in exchange for favorable treatment in purchasing promotional items for the 2000 Decennial Census campaign. On May 30, 2003, the defendant was sentenced in U.S. District Court for the Southern District of Ohio to 4 months' home confinement with strictly monitored work and medical release, 3 years' probation, and a \$1,000 fine. (Washington Field Office)

FORMER NOAA EMPLOYEE SENTENCED FOR THEFT OF GOVERNMENT PROPERTY

An OIG investigation disclosed that a former NOAA program support assistant, who also served as the official timekeeper for her office, altered her time and attendance submissions after they were certified by her supervisor, which resulted in an overpayment of more than \$18,000. We also found that she had misused a government cellular telephone to make personal calls costing more than \$3,000. In July 2003 the former employee pleaded guilty to a one-count information charging theft of government property, and on September 4, 2003, was sentenced in U.S. District Court for the District of Columbia to 3 years' probation and full restitution in the amount of \$21,716. (Silver Spring Resident Office)

FORMER NOAA CONTRACTOR EMPLOYEE SENTENCED FOR THEFT OF GOVERNMENT PROPERTY

In our March 2003 issue (page 40) we reported that special agents from the Commerce and General Services Administration OIGs arrested a NOAA contractor employee after discovering a scheme through which he allegedly charged more than \$6,000 in fraudulent purchases to a GSA fleet vehicle fuel card. In July 2003 the employee pleaded guilty to one count of theft of government property in U.S. District Court for the District of Maryland. On August 13, 2003, he was sentenced to 4 months of incarceration in a halfway house, 3 years' probation, restitution in the amount of \$6,342, and 120 hours of community service. In addition, the individual's employment with the contractor was terminated. (Silver Spring Resident Office)

FORMER USPTO EMPLOYEE SENTENCED FOR THEFT OF GOVERNMENT PROPERTY

In our March 2003 Semiannual Report (page 40) we reported the theft conviction of a former USPTO employee who had used her supervisor's government purchase card number to make unauthorized purchases totaling more than \$2,000. On April 8, 2003, the defendant was sentenced in U.S. District Court for the

Eastern District of Virginia to 3 years' probation and ordered to make restitution to the government in the amount of \$2,133. (Silver Spring Resident Office)

FORMER EMPLOYEE SENTENCED FOR MISREPRESENTATION OF STATUS

As reported in our March 2003 issue (page 41), a former OIG employee now working in private industry pleaded guilty to a one-count misdemeanor charge of violating 18 USC §712 after our investigation confirmed that he had falsely represented himself as an OIG employee in an attempt to obtain proprietary information from a business competitor. On April 2, 2003, he was sentenced in U.S. District Court for the District of Columbia to a \$1,000 fine, 2 years' probation, and 50 hours of community service. (Silver Spring Resident Office)

FORMER USPTO EMPLOYEE SENTENCED FOR FRAUDULENT USE OF A SOCIAL SECURITY NUMBER

OIG investigated allegations that a USPTO employee unlawfully obtained the social security number and date of birth of a fellow employee and used that information to open several credit card accounts. Our investigation revealed that the employee had obtained his colleague's vital data from the colleague's desk drawer at a USPTO office in Crystal City, Virginia. Once the credit cards were issued, he used them to make purchases and cash withdrawals. On May 22, 2003, the employee pleaded guilty in the U.S. District Court for the Eastern District of Virginia to a one-count criminal information charging fraudulent use of a social security number. On September 12, 2003, he was sentenced to 2 years' probation, and ordered to pay a \$5,000 fine. The employee was also removed from his position at USPTO. (Silver Spring Resident Office)

FORMER GSA EMPLOYEE SENTENCED FOR CREDIT CARD THEFT

A joint Commerce/GSA OIG investigation established that a former GSA contractor employee, whose duties involved input of purchase order data submitted by federal agencies, illegally obtained and used Commerce government purchase card numbers to acquire goods for her personal use. The individual was arrested in Atlanta on August 25, 2003, by an OIG special agent and the Atlanta Police Department and indicted on six counts of credit card theft. She pleaded guilty to one count of credit card theft and on September 30 was sentenced in Georgia state criminal court to 3 years' probation and 40 hours of community service and ordered to pay restitution to the government in the amount of \$732.36. (Atlanta Field Office)

FORMER NWS EMPLOYEE ACCEPTED INTO PRETRIAL DIVERSION PROGRAM

An OIG investigation disclosed that a former purchasing agent with the National Severe Storms Laboratory had used a government purchase card to charge \$8,000 worth of personal items. She returned items totaling approximately \$4,700 to the government and was terminated from federal employment. Appearing in the U.S. District Court for the Western District of Oklahoma in September 2003, the employee agreed to pretrial diversion, received 6 months' probation and was required to pay restitution to the government in the amount of \$2,104. (Denver Resident Office)

FORMER CENSUS EMPLOYEE PLEADS GUILTY TO THEFT OF GOVERNMENT PROPERTY

A joint OIG/FBI investigation disclosed that a former Census payroll supervisor had embezzled approximately \$2,500 from the Bureau of the Census by issuing paychecks in the names of several former Census employees, which she then deposited into accounts belonging to her and her husband. The former employee was indicted in U.S. District Court for the Middle District of North Carolina on two counts of theft of government property. On July 14, 2003, OIG and FBI special agents arrested her in Stafford County, Virginia. Under the terms of a plea agreement, the former employee entered a guilty plea of one count of theft of government property on September 8, 2003. Sentencing is scheduled for December 2003. (Silver Spring Resident Office)

TIMEKEEPER ARRESTED FOR OVERTIME FRAUD

An administrative employee in the Office of the Secretary was arrested and charged with first degree theft under the D.C. Criminal Code after an OIG investigation revealed that she had used her position as timekeeper to obtain nearly \$3,300 in overtime pay for hours she had not worked. As a result of the investigation, in May 2003 the Office of the Secretary distributed a memorandum to its staff requiring all employees to (1) obtain a supervisor's signature on their time and attendance sheet, and (2) to properly receive overtime compensation, obtain signed Authorization for Paid Overtime and Compensatory Time forms for each occasion of overtime and submit the forms with the appropriate time sheets. The memorandum also prohibited timekeepers from processing their own time sheets. (Washington Field Office)

RLF GRANT FUND ADMINISTRATORS SUSPENDED FROM FEDERAL PROCUREMENT AND NONPROCUREMENT TRANSACTIONS

In our last issue (March 2003, page 39) we reported the indictment and arrest of four individuals in Massachusetts for misuse of EDA and other federal grant funds administered by a municipal economic development organization. Among other things, the organization operates an EDA-funded revolving loan fund and a Small Business Administration loan program. On April 25, 2003, all four individuals were prohibited from participating in any procurement or nonprocurement transactions with the executive branch of the federal government, based on the 88-count indictment charging conspiracy, federal program fraud, false statements, and money laundering. (Washington Field Office)

INVESTIGATION PROMPTS PROGRAM CHANGES IN OFFICE OF THE SECRETARY PROCUREMENT MANAGEMENT

An OIG investigation into alleged irregularities in a Department contract for elevator maintenance prompted the Office of the Secretary to require, as of April 2003, that its contracting officer's technical representatives receive training regarding their roles and responsibilities, job-related ethics, and conflicts of interest, and that all members of procurement evaluation teams sign conflict-of-interest and nondisclosure statements. (Washington Field Office)

NOAA CONTRACTOR FORCED TO PAY EMPLOYEES' BENEFITS

An OIG investigation disclosed that a NOAA janitorial contractor failed to pay health and welfare benefits owed to seven of its employees. As a result of the investigation, the contractor remitted a total of \$8,139 as full payment of their past-due benefits. The contractor also agreed to pay correct wages and benefits as stipulated in the NOAA contract. (Denver Resident Office)

INVESTIGATIVE STATISTICAL HIGHLIGHTS FOR THIS PERIOD

Criminal Investigative Activities

Arrests	3
Indictments and informations	4
Convictions and pretrial diversions	5
Personnel actions	5
Fines, restitutions, judgments and other civil and administrative recoveries	\$111,605

Allegations Processed

Accepted for investigation	46
Referred to operating units	56
Evaluated but not accepted for investigation or referral	14

TOTAL **116**

THE PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY

The presidentially appointed IGs work together, through the President's Council on Integrity and Efficiency (PCIE), to address integrity, economy, and effectiveness issues. Likewise, the IGs of designated federal entities work together to coordinate their activities through the Executive Council on Integrity and Efficiency (ECIE). Separately and together these councils promote collaboration on issues that transcend individual federal agencies and work to enhance the professionalism and effectiveness of OIG personnel throughout the government.

This year in its combined annual report to the President, the councils offered impressive yearly statistics as well as a combined assessment of their accomplishments for FY 2002, reflecting the work of more than 11,000 OIG employees whose combined efforts, taken together, produced

- potential savings of nearly \$72 billion,
- nearly 10,700 successful criminal prosecutions,

- suspensions or debarments of more than 7,600 individuals or businesses,
- almost 2,200 civil or personnel actions,
- more than 5,700 indictments and criminal informations,
- more than 234,000 complaints processed, and
- more than 90 testimonies before Congress.

Reaching across agency boundaries, PCIE and ECIE provide leadership to the IG community, offering a forum for addressing shared concerns. Six standing committees are maintained by the two councils to examine crosscutting issues and assist ongoing efforts such as developing core competencies to standardize professional levels throughout the IG community. Commerce Inspector General Johnnie Frazier is a member of PCIE and chair of the PCIE Inspection and Evaluation Committee.

INSPECTION AND EVALUATION COMMITTEE

A primary function of the Inspection and Evaluation (I&E) Committee is to share ideas and develop better ways to communicate inspection and evaluation policies and procedures as well as findings and address cross-agency issues. By sharing best practices, training, and professional insights, and undertaking interagency projects, members of the committee more efficiently and effectively conduct the business of their own units.

Last year's publication of *A Practical Guide for Reviewing Government Purchase Card Programs* was hailed by the IG community as a valuable reference, offering those new to the profession handy access to years of accumulated experience. This year the committee is working to produce a guide to reviewing travel card programs, a companion compilation of solid advice from published OIG reports from multiple agencies. This volume will serve as a convenient and experience-based reference guide for conducting inspections and evaluations of

agency travel card programs. The guide outlines common problems, preventive measures, and proven solutions as well as best practices identified in the work of 25 OIGs that have reviewed travel card programs.

A more broadly based tool is the online Directory of OIG Reports on both purchase and travel card use. The directory—a searchable database of 125 reports—serves as a quick and useful resource to anyone seeking to review or improve management of purchase and travel card programs and is available at the PCIE/ECIE web site, IGnet.

Another project, a survey of OIG inspection and evaluation units, is attempting to profile the 24 federal OIGs that have such units. The purpose of this 2003 survey is to update what we know about the inspections and evaluations community and share information about operations, priorities, work products, and processes. The survey will highlight the capabilities of the I&E community, promote the sharing of ideas and techniques, and serve as a tool to promote the value of the I&E concept, particularly to new inspectors general. The survey will also help identify a broader range of possibilities for joint OIG reviews and crosscutting issues of concern to multiple OIGs.

Updating the Quality Standards for Inspections is another significant committee project. With OIGs' use of inspections to effectively review and improve their agency's operations, it is increasingly important to ensure that standards of quality are consistent in the inspection process. PCIE developed, in 1993, a set of standards to guide the conduct of inspection work. In developing Quality Standards for Inspections, it was necessary to reconcile several divergent points of view concerning the content, application, and need for inspections standards. The updated Quality Standards for Inspections will continue that tradition—reflecting the consensus expressed by members of the IG community, highlighting best practices as well as the most effective and efficient processes and procedures. Consistent application of the standards will protect the OIG community's reputation for impartiality, reliability, and credibility.

TABLES AND STATISTICS

STATISTICAL OVERVIEW

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AUDIT RESOLUTION AND FOLLOW-UP

The Inspector General Act Amendments of 1988 require us to present in this report those audits issued before the beginning of the reporting period (April 1, 2003) for which no management decision had been made by the end of the period (September 30, 2003). There are no audit reports remaining unresolved in excess of 6 months for this reporting period (see page 57).

Department Administrative Order 213-5, Audit Resolution and Follow-up, provides procedures for management to request a modification to an approved audit action plan or for a financial assistance recipient to appeal an audit resolution determination. The following table summarizes modification and appeal activity during the reporting period.

TABLE 1. AUDIT RESOLUTION FOLLOW-UP

Report Category	Modifications	Appeals
Actions pending (April 1, 2003)	0	13
Submissions	0	17
Decisions	0	9
Actions pending (September 30, 2003)	0	21

TABLE 2. AUDIT AND INSPECTION STATISTICAL HIGHLIGHTS FOR THIS PERIOD

Questioned costs	\$9,602,197
Value of audit recommendations that funds be put to better use	15,129,418
Value of audit recommendations agreed to by management	23,654,020

DEFINITIONS OF TERMS USED IN THE TABLES

Questioned cost: a cost questioned by OIG because of (1) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; (2) a finding that, at the time

of the audit, such cost is not supported by adequate documentation; or (3) a finding that an expenditure of funds for the intended purpose is unnecessary or unreasonable.

Unsupported cost: a cost that, at the time of the audit, is not supported by adequate documentation. Questioned costs include unsupported costs.

Recommendation that funds be put to better use: an OIG recommendation that funds could be used more efficiently if Commerce management took action to implement and complete the recommendation, including (1) reductions in outlays; (2) deobligation of funds from programs or operations; (3) withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds; (4) costs not incurred by implementing recommended improvements related to Commerce, a contractor, or a grantee; (5) avoidance of unnecessary expenditures identified in preaward reviews of contracts or grant agreements; or (6) any other savings specifically identified.

Management decision: management's evaluation of the findings and recommendations included in the audit report and the issuance of a final decision by management concerning its response.

TABLE 3. AUDITS WITH QUESTIONED COSTS

Report Category	Number	Questioned Costs	Unsupported Costs
A. Reports for which no management decision had been made by the beginning of the reporting period	16	\$ 8,464,702	\$1,673,845
B. Reports issued during the reporting period	32	9,602,197	1,907,114
Total reports (A+B) requiring a management decision during the reporting period ¹	48	18,066,899	3,580,959
C. Reports for which a management decision was made during the reporting period ²	29	8,975,049	1,970,446
i. Value of disallowed costs		7,996,801	6,041,856
ii. Value of costs not disallowed		1,185,176	73,672
D. Reports for which no management decision had been made by the end of the reporting period	19	9,091,850	1,610,513

¹Six audit reports included in this table are also included among reports with recommendations that funds be put to better use (see table 4). However, the dollar amounts do not overlap.

²In Category C, lines i and ii do not always equal the total on line C because resolution may result in values greater than the original recommendations.

TABLE 4. AUDITS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE

Report Category	Number	Value
A. Reports for which no management decision had been made by the beginning of the reporting period	9	\$ 14,454,402
B. Reports issued during the reporting period	10	15,129,418
Total reports (A+B) requiring a management decision during the reporting period ¹	19	29,583,820
C. Reports for which a management decision was made during the reporting period ²	11	15,908,235
i. Value of recommendations agreed to by management		15,657,219
ii. Value of recommendations not agreed to by management		306,447
D. Reports for which no management decision had been made by the end of the reporting period	8	13,675,585

¹Six audit reports included in this table are also included in the reports with questioned costs (see table 3). However, the dollar amounts do not overlap.

²In Category C, lines i and ii do not always equal the total on line C because resolution may result in values greater than the original recommendations.

APPENDIX A. REPORT TYPES THIS PERIOD

Type	Number of Reports	Appendix Number
Performance audits	7	A-1
Financial-related audits	8	A-2
Internal quality reviews	5	A-3
Inspections and systems evaluations	9	A-4
Total	32	

APPENDIX A-1. PERFORMANCE AUDITS

Report Title	Report Number	Date Issued	Funds to Be Put to Better Use
Economics and Statistics Administration			
Census Bureau's National Processing Center Needs to Improve Controls Over Government Bills of Lading	ESD-14911-3-0001	09/30/03	\$2,045,304*
National Institute of Standards and Technology			
Award for Five-Axis Machining Center Under RFQ SB1341-02-Q-0550 Justified but Procurement Process Needs Improvement	STD-15839-3-0001	09/30/03	—
National Oceanic and Atmospheric Administration			
Process for Reducing the Critical Hydrographic Survey Backlog Lacks Key Management Controls	STD-15120-3-0001	07/28/03	6,500,000
Environmental Technology Laboratory Needs to Improve Internal Controls for Accounting and Funds Management	BTD-14852-3-0001	09/30/03	—
Purchase Card Program at the Environmental Technology Laboratory Needs Heightened Monitoring and Strengthened Internal Controls	BTD-15139-3-0001	09/30/03	—
Improvements Needed in the Reporting of Performance Measures Related to Goals for Advancing Short-Term Warnings and Implementing Seasonal to Interannual Climate Forecasts	FSD-15643-3-0001	09/30/03	—
Recent Gear Protocols Should Improve NMFS Groundfish Bottom-Trawl Survey but More Should Be Done	STD-15750-3-0001	09/30/03	—

* Listed as questioned costs in audit report.

APPENDIX A-2. FINANCIAL-RELATED AUDITS

Report Title	Report Number	Date Issued	Value of Funds to Be Put to Better Use	Federal Amount Questioned	Federal Amount Unsupported
Economic Development Administration					
High Plains Development Authority, Inc., MT	DEN-15180-3-0001	07/22/03	\$1,426,242		
Southside Planning District Commission, VA	ATL-15985-3-0001	09/11/03	1,136,348	\$57,196	\$48,447
National Institute of Standards and Technology					
Computer Aided Surgery, Inc., NY	ATL-16095-3-0001	07/25/03	205,126		
Massachusetts MEP	DEN-14422-3-0001	08/27/03		2,725,596	
W. Brandt Goldsworthy & Associates, Inc., CA	ATL-15922-3-0002	09/04/03		613,097	613,097
Texas Engineering Extension Service	DEN-14401-3-0001	09/24/03	3,360,000	771,555	
KLA-Tencor Corporation, CA	DEN-14219-3-0002	09/30/03		702,022	
KLA-Tencor Corporation, CA	DEN-14219-3-0003	09/30/03		2,595,463	

APPENDIX A-3. INTERNAL QUALITY REVIEWS

OIG Division	Report Number	Date Issued
Business and Trade Audits Division, Science and Technology Audits Division, and Economics and Statistics Audits Division	DEN-15928-1	8/11/03
Financial Statements Audits Division	DEN-15928-2	8/05/03
Atlanta Regional Office of Audits	DEN-15928-3	8/06/03
Seattle Regional Office of Audits	DEN-15928-4	8/11/03
Denver Regional Office of Audits	HQA-15928-5	8/04/03

APPENDIX A-4. INSPECTIONS AND SYSTEMS EVALUATIONS

Report Title	Report Number	Date Issued
Bureau of Industry and Security		
Administrative Matters Concerning BIS' Export Enforcement	IPE-15155-2	6/4/03
Economics and Statistics Administration		
MAF/TIGER Redesign Project Needs Management Improvements to Meet Its Decennial Goals and Cost Objective	OSE-15725	9/30/03
International Trade Administration		
Generally Sound Operations at Commercial Service Greece Are Compromised by Key Weaknesses	IPE-15804	9/30/03
National Oceanic and Atmospheric Administration		
Acquisition of NEXRAD Transition Power Source Marred by Management, Technical, and Contractual Problems	OSE-15676	9/30/03
Stronger Security Controls Needed to Protect NESDIS' Headquarters Local Area Network	OSE-15996-1	9/22/03
Additional Management Attention Needed to Ensure Implementation of Effective Security Controls to Protect NESDIS' Research Data System	OSE-15996-2	9/22/03
Stronger Security Controls Needed to Protect NMFS Information Technology Systems	OSE-15693	9/17/03
U.S. Patent and Trademark Office		
OIG Review of Complaints and Concerns Related to USPTO's Handling of Patent Applications	IPE-16083	9/30/03
Office of the Secretary		
Independent Evaluation of the Department of Commerce's Information Security Program Under the Federal Information Security Management Act	OSE-16146	9/22/03

APPENDIX B. PROCESSED REPORTS

The Office of Inspector General reviewed and accepted 197 financial-related audit reports prepared by independent public accountants and local, state, and other federal auditors. The reports processed with questioned costs, recommendations that funds be put to better use, and/or nonfinancial recommendations are listed in Appendix B-1.

Agency	Audits
Economic Development Administration56
National Institute of Standards and Technology*92
National Telecommunications and Information Administration4
National Oceanic and Atmospheric Administration8
Office of the Secretary1
Multiagency33
Agency not identified3
Total197

*Includes 84 ATP program-specific audits.

APPENDIX B 1. PROCESSED FINANCIAL-RELATED AUDITS

Report Title	Report Number	Date Issued	Value of Funds to Be Put to Better Use	Federal Amount Questioned	Federal Amount Unsupported
Economic Development Administration					
City of Picayune, MS	ATL-09999-3-1356	06/11/03		\$75,897	
Economic Development Fund of Northern Vermont, Inc	ATL-09999-3-1372	06/11/03	\$234,340		
Operation Hope, Inc., CA	ATL-09999-3-1424	06/11/03		9,105	
The Oceanic Institute and Subsidiary, HI	ATL-99999-3-1385	06/11/03		562	
Native American Development Corporation, MT	ATL-09999-3-1468	09/16/03		112,500	
City of Blackfoot, ID	ATL-09999-3-1550	09/16/03		92,805	
Idaho Innovation Center	ATL-09999-3-1460	09/30/03	157,539		
Ark-Tex Council of Governments, TX	ATL-09999-3-1525	09/30/03			
National Institute of Standards and Technology					
Adept Technology, Inc., CA	ATL-09999-3-1203	05/05/03		122,678	\$94,822
Sarnoff Corporation, NJ	ATL-09999-3-1318	05/05/03		27,045	
Industrial Virtual Reality, Inc., IL	ATL-09999-3-1435	06/11/03		11,901	11,901
Zyvex Corp., TX	ATL-09999-3-1422	06/16/03		5,114	5,114
Perceptron, Inc., MI	ATL-09999-3-1288	06/25/03	27,591	17,425	17,425
Applied Biosystems, CA	ATL-09999-3-1428	06/26/03		43,570	43,570
Ford Motor Company, MI	ATL-09999-3-0676	06/27/03			
General Motors Corporation, MI	ATL-09999-3-0906	06/27/03			
General Motors Corporation, MI	ATL-09999-3-0907	06/27/03			
Electroplating Chemicals and Services, NY	DEN-09999-3-1166	07/02/03		211,363	211,363
Electroplating Chemicals and Services, NY	DEN-09999-3-1167	07/02/03		5,699	5,699

APPENDIX B 1. PROCESSED FINANCIAL-RELATED AUDITS (CONT'D.)

Report Title	Report Number	Date Issued	Value of Funds to Be Put to Better Use	Federal Amount Questioned	Federal Amount Unsupported
National Institute of Standards and Technology (cont'd.)					
Embrex Inc., NC	ATL-09999-3-1290	07/09/03		\$ 48,743	\$ 48,743
Honeywell International, Inc., MN	ATL-09999-3-1296	07/09/03		5,512	5,512
GE Global Research, NY	ATL-09999-3-1486	07/09/03		51,074	51,074
Coventor, Inc., NC	ATL-09999-3-1304	08/08/03		53,133	53,133
General Motors Corporation, MI	ATL-09999-3-0726	08/12/03			
Apelon, Inc., CT	ATL-09999-3-1487	08/12/03	\$36,928	12,452	12,452
Cell Based Delivery, Inc., RI	ATL-09999-3-1421	08/14/03		122,516	69,514
Ximerex, Incorporated, NE	DEN-09999-3-1331	08/18/03		57,361	57,361
M & M Precision Systems Corporation, OH	DEN-09999-3-1417	08/25/03		140,738	
i2 Federal, Inc., TX	ATL-09999-3-1533	09/30/03		152,887	152,887
National Oceanic and Atmospheric Administration					
The Oceanic Institute and Subsidiary, HI	ATL-09999-3-1385	06/11/03		20,279	
National Telecommunications and Information Administration					
Blue Ridge Public Television, Inc., VA	ATL-09999-3-1386	06/11/03		405,000	405,000
Monroe Chamber of Commerce, LA	ATL-09999-3-1508	09/30/03		323,820	
Office of the Secretary					
Minority Access, Inc., MD	ATL-09999-3-1524	09/30/03		8,089	

REPORTING REQUIREMENTS

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

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4(A)(2): REVIEW OF LEGISLATION AND REGULATIONS

This section requires the inspector general of each agency to review existing and proposed legislation and regulations relating to that agency’s programs and operations. Based on this review, the inspector general is required to make recommendations in the semiannual report concerning the impact of such legislation or regulations on the economy and efficiency of the management of programs and operations administered or financed by the agency or on the prevention and detection of fraud and abuse in those programs and operations. Comments concerning legislative and

regulatory initiatives affecting Commerce programs are discussed, as appropriate, in relevant sections of the report.

SECTION 5(A)(3): PRIOR SIGNIFICANT RECOMMENDATIONS UNIMPLEMENTED

This section requires identification of each significant recommendation described in previous semiannual reports for which corrective action has not been completed. Section 5(b) requires that the Secretary transmit to Congress statistical tables showing the number and value of audit reports for which no final

action has been taken, plus an explanation of the reasons why recommended action has not occurred, except when the management decision was made within the preceding year.

To include a list of all significant unimplemented recommendations in this report would be duplicative, costly, unwieldy, and of limited value to Congress. Any list would have meaning only if it explained whether adequate progress is being made to implement each agreed-upon corrective action. Management updates the Department's Audit Tracking System annually, most recently as of July 2003. Information on the status of any audit recommendations can be obtained through OIG's Office of Audits.

SECTIONS 5(A)(5) AND 6(B)(2): INFORMATION OR ASSISTANCE REFUSED

These sections require a summary of each report to the Secretary when access, information, or assistance has been unreasonably refused or not provided. There were no such instances during this semiannual period and no reports to the Secretary.

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

This section requires a summary of each audit report issued before the beginning of the reporting period for which no management decision has been made by the end of the reporting period (including the date and title of each such report), an explanation of why a decision has not been made, and a statement

concerning the desired timetable for delivering a decision on each such report. There were no unresolved audits more than 6 months old.

SECTION 5(A)(11): SIGNIFICANT REVISED MANAGEMENT DECISIONS

This section requires an explanation of the reasons for any significant revision to a management decision made during the reporting period. Department Administrative Order 213-5, Audit Resolution and Follow-up, provides procedures for revising a management decision. For performance audits, OIG must be consulted and must approve in advance any modification to an audit action plan. For financial assistance audits, OIG must concur with any decision that would change the audit resolution proposal in response to an appeal by the recipient. The decisions issued on the nine appeals of audit-related debts were finalized with the full participation and concurrence of OIG.

SECTION 5(A)(12): SIGNIFICANT MANAGEMENT DECISIONS WITH WHICH OIG DISAGREED

This section requires information concerning any significant management decision with which the inspector general disagrees. Department Administrative Order 213-5 provides procedures for elevating unresolved audit recommendations to higher levels of Department and OIG management, including their consideration by an Audit Resolution Council. During this period no audit issues were referred to the council.

ACRONYMS

ATP	Advanced Technology Program
BEA	Bureau of Economic Analysis
BIS	Bureau of Industry and Security (formerly Bureau of Export Administration)
CAMS	Commerce Administrative Management System
CIRT	computer incident response team
CIO	chief information officer
CMM	Capability Maturity Model®
COOP	continuity of operations plans
COTR	contracting officer's technical representative
COTS	commercial off-the-shelf
EDA	Economic Development Administration
ESA	Economics and Statistics Administration
ETL	Environmental Technology Laboratory
FAA	Federal Aviation Administration
FAR	Federal Acquisition Regulation
FedCIRC	Federal Computer Incident Response Center
FISMA	Federal Information Security Management Act
GBL	government bill of lading
GISRA	Government Information Security Reform Act
GPRA	Government Performance and Results Act
GSA	General Services Administration
GWAC	government-wide agency contract
IAIP	Information Analysis and Infrastructure Protection
ITA	International Trade Administration
LAN	local area network
MAF	master address file
MBDA	Minority Business Development Agency
MBE	minority-owned business
MBOC	Minority Business Opportunity Committee
MEP	Manufacturing Extension Partnership

NAFTA	North American Free Trade Agreement
NDAA	National Defense Authorization Act
NEFSC	Northeast Fisheries Science Center
NESDIS	National Environmental Satellite, Data, and Information Service
NEXRAD	Next Generation Weather Radar
NIST	National Institute of Standards and Technology
NMFS	National Marine Fisheries Service
NOAA	National Oceanic and Atmospheric Administration
NPC	National Processing Center
NTIA	National Telecommunications and Information Administration
NWS	National Weather Service
OAM	Office of Acquisition Management
OCS	Office of Computer Services
OEE	Office of Export Enforcement
OI	Office of Investigations
OLE	Office of Law Enforcement
OMB	Office of Management and Budget
PALM	Patent Application Location and Monitoring
PCIE	President's Council on Integrity and Efficiency
POA&M	Plan of Action and Milestone
OAM	Office of Acquisition Management
OMB	Office of Management and Budget
OEP	occupant emergency plan
OOS	Office of Operational Systems
RDS	Research Data System
RLF	revolving loan fund
ROC	Radar Operations Center
SCO	senior commercial officer
TA	Technology Administration
TIGER	Topologically Integrated Geographic Encoding and Referencing
TPS	transition power source
US&FCS	U.S. and Foreign Commercial Service
USPTO	U.S. Patent and Trademark Office
WAN	wide area network



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