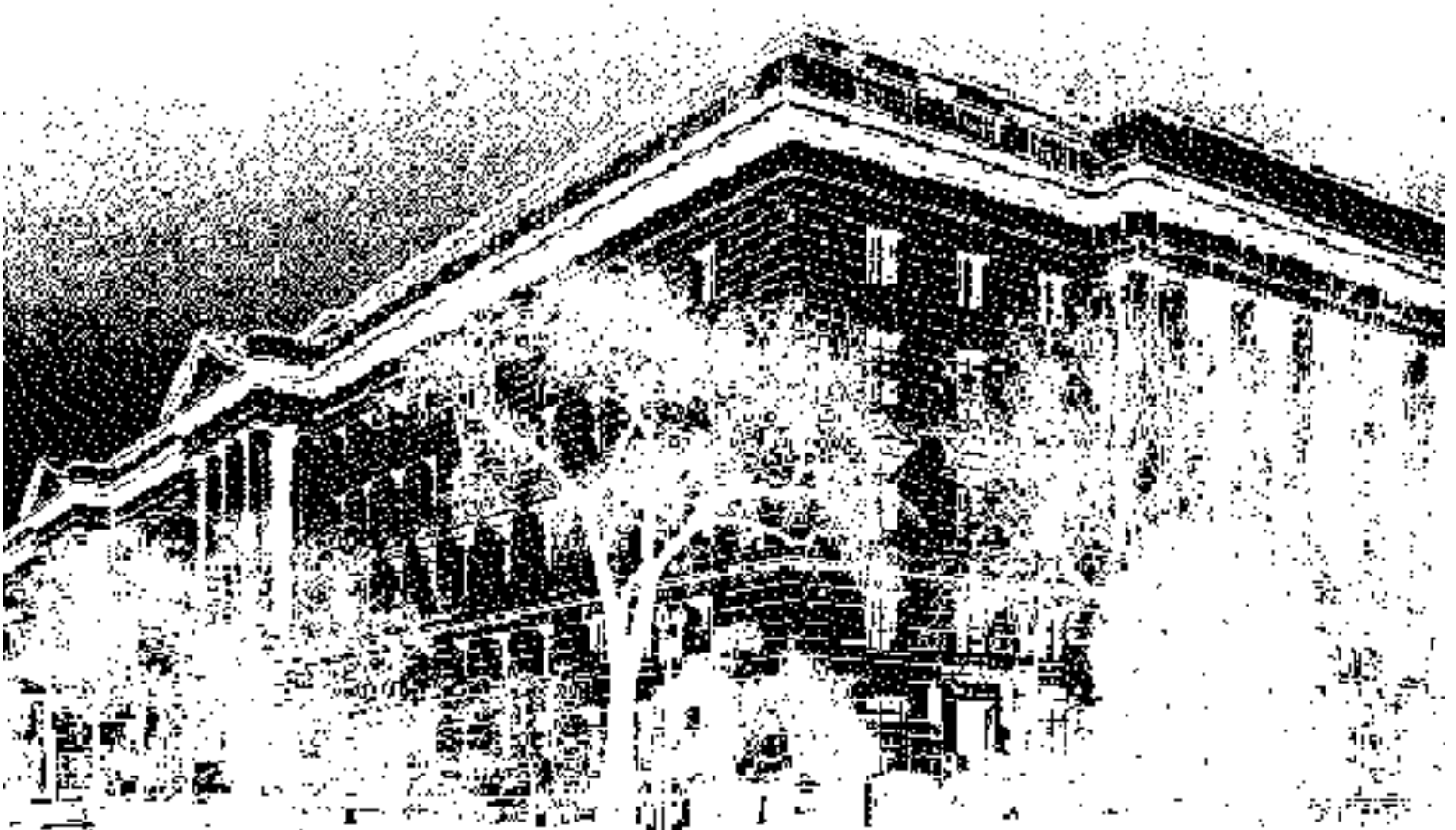


U.S. DEPARTMENT OF COMMERCE
Office of Inspector General



Semiannual Report
to the Congress

March 31, 1998



Under the provisions of the Inspector General Act of 1978, Public Law 95-452, as amended, we report twice yearly to the Congress on the activities of the Office of Inspector General. We describe the major problems, abuses, and deficiencies identified during audits, inspections, and investigations, along with our recommendations for corrective action.

Requests for this document, in this form or in an alternative format to meet the needs of persons with disabilities, should be addressed to Office of Inspector General, U.S. Department of Commerce, Room 7099C HCHB, 14th & Constitution Ave., NW, Washington, DC 20230. Telephone requesters can call (202) 482-0231 or TDD (202) 482-5897.

An electronic version of this report, along with all performance audit and inspection reports issued during the semiannual period, can be obtained via the OIG's Internet Home Page at <http://www.oig.doc.gov/reports>.

Message for the Secretary



April 30, 1998

The Honorable William M. Daley
Secretary of Commerce
Washington, DC 20230

Mr. Secretary:

This report provides a comprehensive overview of Office of Inspector General activities for the first half of fiscal year 1998. Section 5 of the Inspector General Act requires that you transmit this report, with any comments you may wish to add, to the appropriate congressional committees within 30 days.

In December 1997, Francis D. DeGeorge retired after many years of dedicated service as Inspector General. Mr. DeGeorge came to Commerce as the Department's first Deputy Inspector General in June 1982 and was sworn in as Inspector General on April 18, 1988. The OIG extends its appreciation to Mr. DeGeorge for his commitment to promoting economy and efficiency in the Department of Commerce.

Since January 1998, when I became the Acting Inspector General, our office has reemphasized and devoted significant additional resources to our ongoing reviews of the Department's major management issues, such as the 2000 decennial census and financial management. We have also undertaken several new initiatives. Two of these initiatives are focused on cross-cutting issues within the Department. One involves a review of the use of memorandums of understanding and interagency agreements to assess the relevance of projects done under these agreements to Commerce's goals and objectives, as well as the effectiveness and efficiency of the processes for undertaking such projects. A second initiative involves a review of all Commerce financial assistance programs to assess whether funding decisions for discretionary awards are being made properly, in accordance with statutory and administrative criteria.

I am excited by the opportunities and challenges I face as Acting Inspector General. My primary goal is to ensure an independent, impartial, and accurate assessment of the most important issues confronting the Department.

Sincerely,

A handwritten signature in black ink, reading "Johnnie E. Frazier". The signature is written in a cursive, flowing style.

Johnnie E. Frazier
Acting Inspector General

Enclosure



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Message for the Congress



FOREWORD

This year marks the 20th anniversary of the Inspector General Act. It seems an appropriate time for us not only to reflect on our accomplishments but also to examine our current activities to ensure that we are still meeting the Act's mandate to provide leadership and coordination and make objective recommendations for reducing waste, fraud, and abuse, and promoting economy, efficiency, and effectiveness in Commerce programs and operations.

Consistent with the IG Act, early on the Commerce OIG embraced the concept of "up-front" auditing and other mechanisms to better "prevent" problems. Rather than solely waiting until projects are completed, much of our work is conducted while projects are still underway, so that potential problems can be identified and corrections made before schedules have slipped and considerable funds have been expended. We have, for example, operated a highly successful inspections and program evaluations program, which has enabled us to meet the need for timely feedback to program managers on a wide range of issues. In addition, recognizing the need for effective OIG oversight of the Department's many mission-critical systems, we established an Office of Systems Evaluation, which focuses exclusively on information systems and technology issues.

During this semiannual period, our work has continued to emphasize those programs and activities that we believe offer the greatest potential for improvements and cost savings. For example, we issued reports on the 2000 Census Master Address File, PTO's space consolidation project, the National Marine Fisheries Service laboratory structure, and the financial statements of each Commerce operating unit. We also continued to work closely with senior departmental and bureau officials in monitoring NOAA's efforts to modernize and restructure the National Weather Service and to explore private sector alternatives to owning and operating an in-house fleet of ships.

During the next six months, our work will increasingly focus on such major initiatives as the 2000 decennial census, the Year 2000 computer problem, and the Department's efforts to achieve its goal of an unqualified audit opinion on the Commerce FY 1999 consolidated financial statements.

We look forward to continuing to provide the Department and the Congress with independent, timely analyses to support decision-making.

A handwritten signature in cursive script that reads "Johnnie E. Frazier".

Johnnie E. Frazier
Acting Inspector General

MAJOR AREAS OF CONCERN

This section highlights what we consider to be the major areas of concern for the Department. By addressing these areas, the Department and the Congress can improve program management, eliminate serious operational problems, decrease vulnerability to fraud and waste, and achieve significant cost savings.

2000 Decennial Census

In our November 1995 report on the Census Bureau's readiness for the 2000 decennial census and in our subsequent work, we have encouraged the bureau to prioritize, assess, and simplify the major components of the 2000 decennial census design to reduce risks. In December 1997, at the request of Senate Commerce Committee Chairman John McCain, we provided the Committee with an analysis of key decennial census milestones and their associated risks for its use in monitoring the bureau's progress in planning for the decennial census (see page 23).

We expressed concern that the bureau's fundamental problem is that it simply may not have enough time to plan and implement a design that achieves the bureau's dual goals of containing cost and increasing accuracy. We concluded that as a result of its lack of time to complete various aspects of the design, the bureau may have to request additional funding, reprogram funds, or experience quality shortfalls. We suggested that the bureau immediately (1) prioritize and assess the readiness of its major design components, (2) simplify the design, (3) realistically reassess costs, (4) communicate results both internally and externally, and (5) redirect the dress rehearsal accordingly.

However, it is apparent that the design process has been complicated, rather than simplified, by the "dual-track" agreement with the Congress, which requires the bureau to plan for both a sampling and a non-sampling census. And there is an additional burden placed on staff resources in order to plan for both alternatives. Calendar year 1998 is a critical time in Census 2000 preparations. The bureau will be implementing and evaluating the dress rehearsal and finalizing plans for 2000. These preparations require continued support from staff assigned to these tasks.

Since our 1995 report, we have issued four reports related to decennial census planning. Our July 1996 report on the acquisition of a data capture system for the 2000 census found that the bureau's planned approach of selecting two contractors to design and test prototype systems was not justified and, due to the relatively short development time frames allowed,

would add risk to the program (see September 1996 issue, page 27). We recommended that the bureau select a single contractor and work with it to develop the data capture system. The bureau agreed with our recommendation and awarded a single development contract in March 1997.

In our September 1997 report on the expanded targeted questionnaire program, we recommended that the bureau reevaluate the effectiveness of the various elements of the program and make changes as necessary (see September 1997 issue, page 24). We found that test results indicated that the current targeted questionnaire program was not likely to substantially improve coverage for hard-to-count populations, but that the bureau was continuing to pursue the program as a means of promoting local partnerships. To contain costs and promote a more accurate decennial, we recommended that the bureau define the targeted questionnaire program with regard to cost, schedule, performance, and public perception. Further, we recommended that the bureau discuss program details and justification with local partners as soon as possible.

In November 1997, we issued an inspection report on the bureau's headquarters information processing systems for the 2000 decennial census (see page 26). During the decennial, data must be processed within severe time constraints, and statistical results must be correct. We found that the bureau was using an ad hoc software development process that did not provide adequate controls, testing, or documentation. Census management has agreed with our findings and has moved to implement our recommendation that it strengthen its procedures for software development.

In March 1998, we issued a report on the 2000 Census Master Address File (MAF) building program (see page 24). Our review focused on the results of the bureau's July 1997 assessment of the MAF-building program, which centered on partnerships with the U.S. Postal Service and local governments. Finding that the program was complex, risky, and could not provide an adequate final product, the bureau concluded that a 1990-style, 100-percent field canvass is essential.

Despite these conclusions and the associated need for an additional \$108.7 million to fund the canvass and other redesign improvements, the bureau developed performance measures related to the percentage of local governments that participate in MAF building. These participation measures appeared to be on an equal footing with quality measures. This emphasis on participation rates was troubling because evidence suggests that, on balance, unverified local lists add more error than they correct. Unless the emphasis on local participation is focused on quality concerns, it could either further increase cost and complexity or decrease MAF

Message for the Congress

accuracy. Our report made recommendations for addressing these issues. The Census Bureau generally agreed with our conclusions and recommendations.

In recent months we have developed an oversight strategy that will provide broad coverage of the remaining risks related to Census 2000 planning. For example, we plan to monitor the bureau's dress rehearsal operations at each of the three sites—Sacramento, California; Columbia, South Carolina; and the Menominee Indian Reservation in Wisconsin.

We also plan to evaluate the bureau's approach to matching and unduplicating census responses. Moreover, we will assess the bureau's procedures for local updates to the MAF; review the bureau's contracting strategy for printing the forms to be used in the decennial, as well as other procurement issues; and evaluate selected information systems.

NOAA Fleet and NOAA Corps

The Commerce legislative proposal and transition plan for eliminating the NOAA Corps has gone to the Congress, where no further action has been taken. We continue to believe that the transition plan for the Corps should be implemented by (1) retiring all officers with at least 15 years of service, (2) identifying the most critical positions in the line offices and support activities and filling as many as possible with non-retiring officers, (3) determining which of the critical positions cannot be filled immediately by such officers, and (4) hiring qualified temporary personnel for such positions until these officers can be trained. This process will provide fair treatment for all officers, minimize disruptions in essential services, and allow NOAA greater flexibility in increasing its use of outsourcing options for ship- and aircraft-related activities.

We also continue to believe that NOAA should not be in the business of designing, owning, maintaining, and operating ships. Instead, NOAA should clearly articulate its programs' requirements for ship-based services to the private sector, academia, and other government ship operators that can provide more cost-effective and modern research vessels.

We are currently completing an audit to determine whether outsourcing is a more cost-effective alternative than in-house operation in meeting NOAA's aircraft requirements. Our review has focused on the bureau's light aircraft and helicopters, excluding aircraft that possess unique capabilities related to hurricane research. We expect to issue a final report during the next semiannual period.

PTO Management and Program Issues

As the Congress continues to consider legislation to establish PTO as a performance-based organization, we have concerns about many aspects of the agency's current operations that could affect its ability to function in that role. The patent application backlog is growing, and productivity is static. This past year, patent pendency exceeded 20 months for the first time in nine years, apparently because of such factors as the decreased time examiners spend on patent examination and the increased complexity of patent applications (see page 58).

In addition, PTO's heavy investments in automation and business process reengineering have not led to significant productivity improvements. The Patent Application Management system, now called Electronic Patent Application Processing, is one of the few components of the Automated Patent System (APS) plan that is expected to improve productivity. However, the concept of electronic processing has been on the drawing board for more than 15 years, has been repeatedly postponed, and is now not scheduled to be fully deployed until the year 2003. We have recently begun an evaluation of PTO's progress in planning and implementing this component.

In February 1997, PTO replaced its long-standing principal systems contract for APS with a new systems development and maintenance contract, which was awarded to two contractors in an effort to improve their performance by maintaining ongoing competition for specific tasks. In December 1997, we issued an inspection report on the progress of PTO's transition to the new contractors (see page 55). We found that although progress had been made, the transition had not been receiving the attention it required and that PTO needed to take full advantage of the period of overlap between the old and new contractors. PTO accepted our recommendation to extend the old contract by three months, giving the original contractor more time to transfer information to the new contractors. PTO also agreed to quickly finish developing configuration management procedures so that the new contractors would be able to access and manipulate application software in an efficient, orderly fashion.

In addition, PTO is involved in a more than \$1 billion project, along with the General Services Administration (GSA), to consolidate the bureau's facilities and operations and accommodate space expansion needs in a 2 million-square-foot facility. This project is expected to be one of the largest real estate ventures that the federal government will undertake in the next decade.

Message for the Congress

The basic procurement strategy is sound, and PTO and GSA are performing adequately to complete the effort. Nonetheless, we are concerned that PTO has not finalized its space requirements for the new facility or completed some of the critical milestones, which may delay the project and expose the government to increased cost risk. We have also recommended that the bureau apply a contractual ceiling to its “build-out” costs associated with the internal design of the proposed facility and incorporate any beneficial effects of its reengineering and automation initiatives in finalizing its space requirements. Finally, we believe that PTO needs to complete a written interagency agreement with GSA to define the critical rights and obligations of each agency and allocate the underlying project risk between them (see page 54).

NWS Modernization

The FY 1998 Appropriations Bill (Public Law 105-119) required the Secretary of Commerce to certify that the Advanced Weather Interactive Processing System (AWIPS) could be completed within the funding cap of \$550 million before FY 1998 funds for the project could be spent. AWIPS, the key integrating element of NWS’s \$4.5 billion modernization program, processes meteorological data and distributes it to NWS facilities. On March 30, 1998, the Secretary made this certification in a letter to the Congress, which included a discussion of changes being made to the program in order to contain costs within the cap. Previously, the program was to deliver all of the capabilities needed to replace existing, outdated information processing systems and reduce staffing at NWS field offices to target levels. Because of cost and schedule overruns, however, the advanced forecast preparation capabilities cannot be delivered within the cap, resulting in a smaller-than-planned reduction in staffing.

With certification completed, NOAA requested and in mid-April received approval from the Secretary to proceed with nationwide deployment of AWIPS. This acquisition milestone is known as Key Decision Point-4 (KDP-4). KDP-4, the last Secretarial decision point for this program, signifies the Department’s confidence that the system has reached a level of maturity, stability, and supportability sufficient to commit program funds for hardware procurement.

Based on our analysis, evaluation, and hands-on testing of AWIPS during the System Acceptance Test and the Operational Test and Evaluation conducted last fall, and our review of the AWIPS Program Management Plan, we concluded that NOAA needed to address several important technical and management problems before KDP-4. These issues include the quality of system testing, the instability of the system, the need to redesign and reimplement certain software and hardware

components, the problematic performance of the facility for centrally controlling AWIPS systems in the field, and the incomplete development schedule and budget estimate to finish AWIPS.

Since the time of our review, some steps have been taken to improve the central control facility, although issues remain. However, NOAA has focused primarily on AWIPS cost issues and a management realignment, giving less attention to technical issues. Nonetheless, the request for the recent KDP-4 decision does acknowledge the technical issues that remain and expresses a commitment to dealing with them. We will continue to monitor the progress of this important program.

Financial and Administrative Management

In the following sections, we discuss a number of critical areas related to the Department's financial and administrative management. Among these are the Department's efforts to address the year 2000 (Y2K) computer problem, to overcome schedule delays and rising costs in implementing the critically important Commerce Administrative Management System (CAMS), to work with the bureaus in continuing to improve their financial statements, and to implement the financial management and performance reporting requirements of the Federal Financial Management Improvement Act and the Government Performance and Results Act.

Year 2000 Computer Problem

In February 1998, based on information provided by individual Commerce bureaus, the Department reported that 298 out of 470 mission-critical computer applications are already year 2000 compliant, that all bureaus will meet the March 1999 deadline for full compliance, and that no system has fallen behind schedule by two months or more. However, the Department has not performed work to verify the accuracy of the information supplied by the bureaus. Until such work is performed, the Department will not have assurance that it is receiving and reporting accurate information.

Converted systems must undergo comprehensive testing procedures to ascertain their compliance. We believe that software testing tools and expert help must be available to support and accelerate the conversion process. The Department must monitor and assist the bureaus as much as possible, and help them perform verification and validation of converted systems.

More specifically, the Department must assist the bureaus in developing cross-project standards for consistency of measures, resource

identification, and reporting; work with the bureaus to prioritize and determine levels of effort for critical projects and then assess resource shortages; and procure Y2K conversion and testing tools for the bureaus to use. The Department must also develop contingency plans for major systems, including those believed to be compliant. Failure to take these actions could result in widespread system failures and risk potentially undermining Commerce's ability to conduct business. We will continue to monitor and assess the Department's progress in converting its systems to be Y2K compliant.

Commerce Administrative Management System

The Department is looking to CAMS to provide an effective internal control environment that meets the CFO Act's requirement for a single integrated financial management system. Despite noteworthy progress, the Department continues to face significant challenges and experience considerable delays in deploying CAMS. Due to schedule delays and rising costs, the Department has revised its strategic plan and approach to CAMS implementation. Resources are now focused on completing a pilot project at the Census Bureau to assess the system's viability before implementing it at three other bureaus, as previously planned.

Census is on schedule to complete the pilot by the end of June 1998, and CAMS should provide it with an updated accounting system to support the 2000 decennial census. However, given the long history of increased costs, extended deadlines, and diminished time frames to implement CAMS Department-wide, we continue to have concerns. Any delays will most likely extend CAMS deployment dates for bureaus other than Census into 2000. Clearly, CAMS needs close, top-level departmental oversight.

Financial Statements Audits

During this semiannual period, the Department prepared its second consolidated financial statements, on which the OIG disclaimed an opinion (see page 68). We also issued an individual audit report for each bureau. Our audits revealed that the Department has strengthened its financial management, with six bureaus receiving improved audit opinions. In addition, the overall number of audit findings has decreased in recent years. Although much remains to be done, we congratulate the Department for its commitment to improving its financial management, and encourage it to continue working toward the Secretary's goal of an unqualified audit opinion on the Commerce FY 1999 consolidated statements.

For FY 1997 statements, unqualified opinions were received by BEA/ESA, MBDA, NIST, NTIA, PTO, TA, the Department's Working Capital Fund, and the Department's Salaries and Expenses Fund. BXA, Census, and NTIS received unqualified opinions on their balance sheets with disclaimers on their income statements. EDA and NOAA received qualified opinions on their balance sheets with disclaimers on their income statements. Disclaimers of opinion were received by the Department's Franchise Fund and ITA (for details, see page 66 and the individual bureau sections). For definitions of some of the terms used in financial statements audits, see page 94.

Federal Financial Management Improvement Act

Compliance with applicable laws and regulations is the responsibility of the Department's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatements, the individual bureaus were tested for compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other OMB-designated laws and regulations, including the requirements of the Federal Financial Management Improvement Act of 1996.

Under the act, we are required to report on whether the Department's financial management systems substantially comply with federal requirements, applicable accounting standards, and the U.S. Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance using the act's implementation guidance, issued by OMB in September 1997.

The Department was not in substantial compliance with all of the act's requirements. Specifically, as indicated in the *Secretary's Annual Statement and Report - Federal Managers' Financial Integrity Act*, dated December 31, 1997, the Department is not in compliance with central agency requirements for a single, integrated financial system. Additionally, our report on internal control structure that was included in the Department's Consolidated Financial Statements identified 10 reportable conditions, of which 7 were material weaknesses related to the Department's and its bureaus' internal controls. As a result, the Department and bureaus were not in compliance with the guidance issued by the Federal Accounting Standards Advisory Board. Finally, BXA, ITA, and NOAA, representing approximately 60 percent of the Department's operations, did not record transactions at the Standard General Ledger level. These bureaus were unable to adequately perform a crosswalk between the general ledger and the financial statements.

Government Performance and Results Act

The Government Performance and Results Act of 1993 requires that the Department maintain a strategic plan, prepare annual performance plans, and prepare performance reports comparing results with target levels of performance. The Department submitted its first strategic plan, for FYs 1997-2002, in September 1997 and its first annual performance plan, for FY 1999, in February 1998. The Department will prepare its first performance report in the year 2000.

We reviewed the annual performance plan before it was submitted to OMB and the Congress. We compared the plan with recent OMB and General Accounting Office guidance on what information should be included, and we provided suggestions for improvement. Among the areas that we believed needed strengthening were verification and validation of data reliability, strategies for achieving targeted performance goals, and the presentation of targeted performance measures. The final plan submitted to OMB and the Congress reflected many of our suggestions. We will continue to work with the Department in its efforts to prepare information that will be useful both to management and to oversight groups such as OMB and the Congress.

Facilities Planning and Laboratory Consolidation

In a March 16, 1998, memorandum, the Deputy Secretary announced a Department-level initiative to review the structure and organization of Commerce's domestic field offices. We endorse this initiative, the objectives of which are to (1) improve service delivery, (2) reduce the total number of field offices, (3) make better use of current technologies, and (4) build a Department-wide, integrated approach. The initiative will involve five Commerce bureaus with extensive field structures—BXA, EDA, ITA, MBDA, and NOAA.

During recent years, the OIG has conducted many reviews that have either evaluated the proposed acquisition of new facilities or identified opportunities for using various streamlining or restructuring options, such as consolidation, collocation, or closure (see, for example, March 1994 issue, page 31; March 1995, page 39; September 1995, pages 45 and 55; March 1996, pages 33 and 48; and September 1996, page 33). Our recent work on the National Marine Fisheries Services (NMFS) laboratory network and NIST construction issues is described below.

NMFS Laboratory Structure

NMFS relies on a laboratory network of 29 facilities nationwide, divided into five regions. In a recent audit, we concluded that, in general, the NMFS laboratories are conducting high-priority research in well-utilized facilities (see page 39).

However, we also identified several opportunities for NMFS to streamline its field structure, including closing some laboratories and transferring their functions to other, underutilized facilities. By implementing our recommendations, NMFS could put approximately \$6 million to better use. NOAA has submitted its audit action plan but disagrees with our findings and recommendations, as well as the funds to be put to better use. We will be addressing NOAA's objections through the audit resolution process. We believe that our recommendations should be implemented in a manner that supports the streamlining initiative discussed in the Deputy Secretary's March 16 memorandum.

Follow-up on NIST Construction Issues

Beginning in 1991, the National Institute of Standards and Technology embarked on a 10-year, \$540 million plan to upgrade its laboratory facilities at both its Gaithersburg, Maryland, and Boulder, Colorado, campuses. NIST's Capital Improvements Facilities Plan (CIFP), now estimated to cost at least \$900 million due to inflation and added elements, includes a mix of new construction and renovations of existing buildings.

Over the last two years, we conducted a comprehensive four-part review of the CIFP. While acknowledging that NIST has effectively met many of its capital improvement program challenges, we detailed a number of concerns in the four reports (see March 1996 issue, page 59; September 1996 issue, page 56; and March 1997 issue, page 61). We have also emphasized the need for NIST and departmental managers to work together to more effectively manage this large, expensive capital development program.

Since the issuance of our fourth report, we are pleased that NIST, the Department, and OMB have all agreed on the importance of pursuing funding for unified construction of the Advanced Measurement Laboratory in Gaithersburg. The President's FY 1999 budget includes a request for such funding. Receiving funding for unified construction will enable NIST to build the laboratory more efficiently, and for less money, than possible

Message for the Congress

under traditional funding mechanisms. We strongly support this request. In addition, the Department has improved its oversight of the CIFP. It has taken a more active role in determining if CIFP budget requests are reasonable and justified, and it has coordinated a successful effort to obtain current, reliable information on NIST's facilities needs and plans.

However, we have continuing concerns about the latest version of NIST's CIFP. While an improvement over earlier versions, it still includes nearly \$220 million for renovations to NIST's metrology, physics, and chemistry buildings in Gaithersburg that we believe have not been adequately justified. Although some renovations are clearly needed, NIST has not provided sufficient documentation to justify their estimated cost. Further, by leasing one building, and constructing another, that were not in its original plans, NIST has greatly increased its total space without developing plans to cease using older, less useful space or to vacate its leased space in Gaithersburg in the near term. NIST should take budget implications into greater account when making and changing its facilities plans. And the Department should scrutinize current and future facilities plans to ensure that all construction and renovation costs are fully justified.

In addition, although NIST no longer plans to build a \$92 million Advanced Measurement Laboratory in Boulder, it now plans to construct a \$20 million "clean room" there. Construction of the clean room is scheduled to begin in FY 2000 and be completed in FY 2003. NIST has not, however, completed a benefit-cost analysis to justify the building.

Department-wide Review of Interagency and Other Agreements

Earlier OIG reviews of the bureaus' use of interagency and other agreements found significant deficiencies, such as improper accounting for project costs and undercharging for services provided. Concerned that such agreements were being, or could be, used to circumvent procurement guidelines or to improperly inflate budgetary resources, we have initiated a Department-wide review of interagency and other agreements.

During the initial stages of this review, it became evident that the Department did not have a comprehensive set of policies and procedures to guide its bureaus in undertaking and formulating agreements. We found that Commerce agencies also lack bureau-specific guidelines for preparing, reviewing, and administering agreements; lack centralized databases; do not consistently recover full costs under reimbursable agreements; sometimes use an agreement when a contract or grant would be more appropriate; and do not fully justify their use of certain legal authorities.

As part of our Department-wide review, we have looked at how each major departmental bureau handles its agreements. Commerce agencies have over 4,700 agreements in effect, involving approximately \$1.1 billion in funds for reimbursable activities or obligations to other parties to acquire goods or services. Upon completion of this review, we will have issued reports on the agreements process for most Commerce bureaus or line offices, as well as a cross-cutting report that will bring together all of the major issues we have identified.

The one report we issued during this semiannual period dealt with MBDA's use of joint project agreements for its Minority Business Opportunity Committee (MBOC) program (see page 36). During our review, discussions with MBDA, the Office of the Secretary, and the Office of General Counsel led us to conclude that cooperative agreements were a better mechanism for managing the MBOC program. MBDA has agreed to switch to cooperative agreements for funding program operators. This should improve the award process and strengthen departmental oversight and monitoring of the program. The remainder of the reports on agreements will be issued during the next semiannual period.

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

The Federal Managers' Financial Integrity Act of 1982 (Public Law 97-255) requires the heads of executive agencies to report annually to the President and the Congress on the adequacy of their accounting and management control systems. The annual report identifies material weaknesses and actions being taken to correct them.

The staffs of the OIG and the Department's CFO work together to assist bureaus in identifying their material weaknesses. This year, the Secretary reported the four material weaknesses listed below, all of which were reported in previous years. Progress has been made in each of these areas; nevertheless, they remain areas of serious concern for the Department.

- Modernization of the National Weather Service (NOAA).
- Fleet Modernization (NOAA).
- Financial Systems (Department-wide).
- Management of the Design and Implementation of the 2000 Decennial Census (Census).

RESOLUTION AND FOLLOW-UP

The Inspector General Act Amendments of 1988 require this report to present those audits issued before the beginning of the reporting period (October 1, 1997) for which no management decision has been made by the end of the period (March 31, 1998). The following table presents the overall status.

Type of Audit Report	Unresolved
Performance	0
Financial Assistance	10
Financial Statements	0
Preaward Contract	3
Postaward Contract	0

The number of unresolved financial assistance audit reports has increased from 3 to 10. One of these reports involves a NOAA award and remains unresolved after two years. NOAA is preparing a final audit resolution proposal based on OIG comments on a draft proposal. A second audit, involving an EDA grant, remains unresolved after one year. Resolution is pending the issuance of a report by state auditors. The other eight audits involve NIST awards under the Advanced Technology Program. Audit resolution proposals have been submitted; however, OIG-NIST discussions have not yet succeeded in resolving the reports. Additional details are presented on pages 22, 49, and 64.

Discussion of the three unresolved preaward contract audits can be found on page 79.

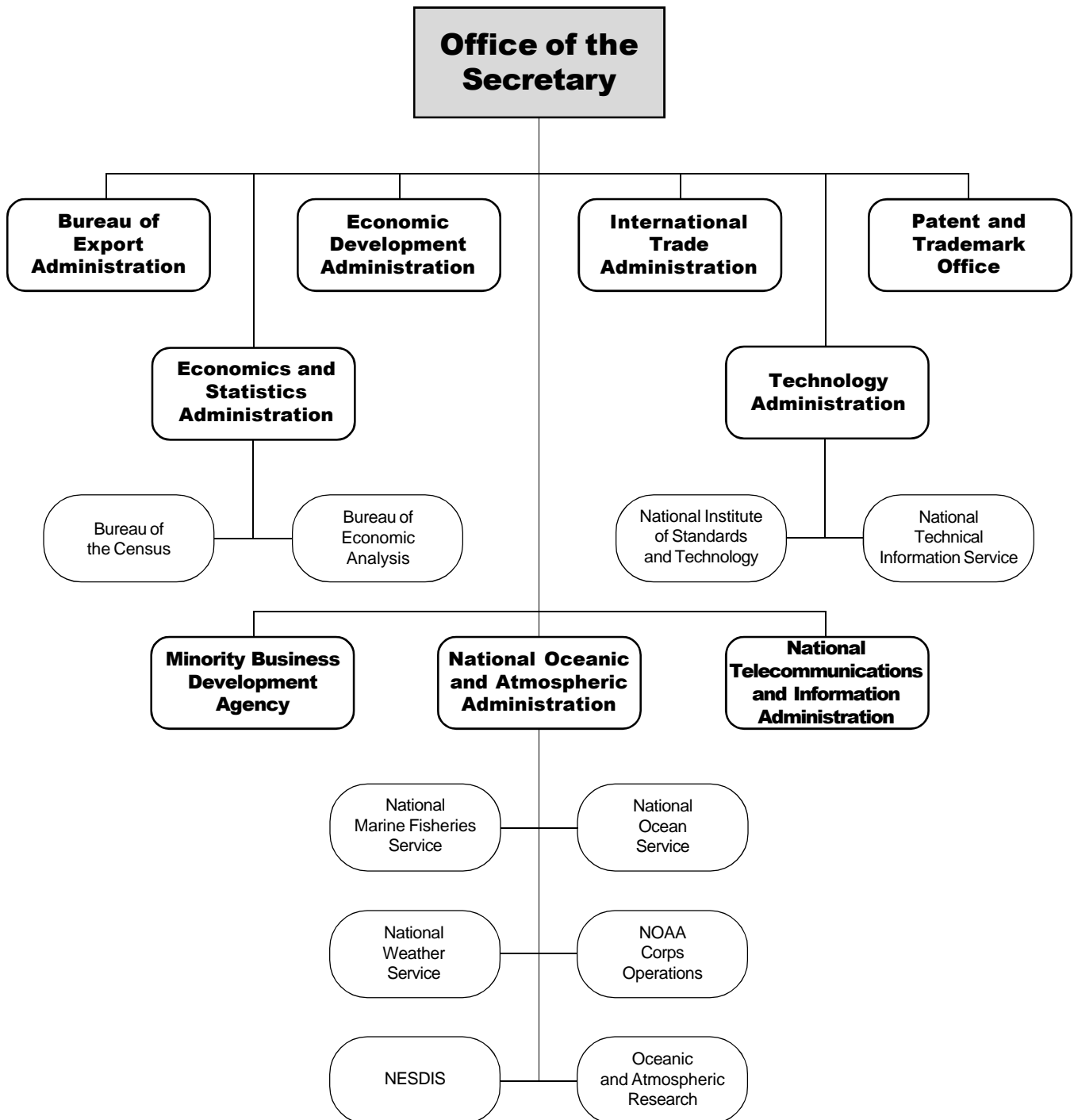
Department Administrative Order 213-5, "Audit Resolution and Follow-up," provides procedures for management to request a modification to an approved audit action plan, or for a financial assistance recipient to appeal an audit resolution determination letter. The following table summarizes the activity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

Report Category	Modifications	Appeals
Actions pending (October 1, 1997)	0	6
Submissions	5	7
Decisions	5	4
Actions pending (March 31, 1998)	0	9

The nine appeals pending final decisions by the Department include one NIST, six EDA, and two MBDA financial assistance audits.



Department of Commerce Organization Chart



Bureau of Export Administration



Audit of FY 1997 Financial Statements

The OIG contracted with a certified public accounting (CPA) firm to audit BXA's FY 1997 statement of financial position, and the related statement of operations and changes in net position. The firm issued an unqualified statement of financial position, and disclaimed an opinion on the related statement of operations and changes in net position because opening year balances were not audited.

We commend BXA for its significant progress in addressing prior year internal control findings of eight material weaknesses (see March 1997 issue, page 18). For FY 1997, the auditors identified one material weakness in BXA's internal control structure, relating to the need for proper recording and liquidation of accounts payable and undelivered orders, and one reportable condition, relating to the need for adequate review of the financial statements overview, which is to provide a description of the bureau's programs, activities, and results.

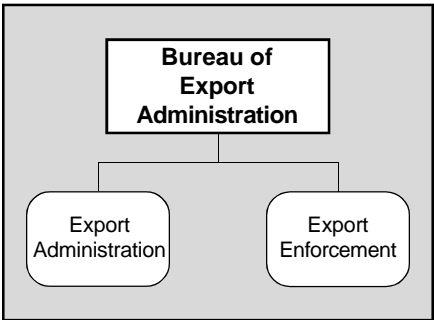
In its report on compliance with laws and regulations, the CPA firm identified two instances of non-compliance: BXA did not report the above material weakness in its 1997 Federal Managers' Financial Integrity Act report, as required, and its financial system does not substantially comply with the Federal Financial Management Improvement Act.

The auditors recommended that BXA improve its financial operations by: (1) establishing procedures for reviewing account balances on a regular basis, and for obtaining a complete list of all accruals to be recorded at the end of the fiscal year; (2) working closely with NOAA's finance office, which provides BXA with financial and accounting support, regarding implementation of accrual policies and procedures; and (3) continuing to support the implementation of the Commerce Administrative Management System, which is expected to replace NOAA's financial management system. In its comments on the audit report, BXA detailed the actions it plans to take to address these issues. Those proposed actions are fully responsive to the auditors' recommendations.

We reviewed a draft version of BXA's overview to its financial statements and shared our observations and recommendations with BXA management in a discussion paper. BXA revised its FY 1997 overview and indicated it will make additional improvements in future years. We have highlighted the need for BXA to continue to improve its future overviews by increasing its use of outcome and cost-effectiveness measures, listing an additional year's worth of data to facilitate the analysis of trends in performance over time, and strengthening its discussion of results. (*Financial Statements Contract Audits Division: FSC-9859-8-0001*)

The **Bureau of Export Administration** is primarily responsible for the administration and enforcement of the nation's system for controlling exports of sensitive dual-use goods and technologies. Under the Export Administration Act and regulations, BXA's 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 act and regulations. **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 base activities. **Export Enforcement** participates in reviews of export license applications and conducts criminal and administrative investigations of the export control portions of the Export Administration Act and regulations. It also administers and enforces the antiboycott provisions of the act and regulations.

Bureau of Export Administration



In Brief

Reprimands. In October 1997, six BXA employees and three employees of an agency contractor received letters of reprimand after an OIG investigation confirmed allegations that an illegal sports gambling pool was being operated in a BXA office using government time and equipment. In addition, the agency invoked the Department's alternative discipline initiative and directed the employees to make contributions to charity as part of their punishment. (*Washington Field Office of Investigations*)

Economic Development Administration



Audit of FY 1997 Financial Statements

A contractor CPA firm audited EDA's statements of financial position as of September 30, 1997, and 1996, and the related statements of operations and changes in net position for the years then ended. The firm expressed a qualified opinion on the statement of financial position because EDA had not established procedures to ensure that accrued grant expenses were recorded accurately in the financial statements and the firm was unable to obtain sufficient evidence to form an opinion regarding the basis on which these expenses were stated. EDA received a disclaimer of opinion on its statements of operations and changes in net position because of the carryover effect of the prior year disclaimer of opinion.

In its report on compliance with laws and regulations, the firm identified one instance of noncompliance: EDA's financial accounting system did not substantially comply with the Federal Financial Management Improvement Act of 1996 in that the bureau has not established an accounting system that conforms with applicable federal accounting standards with respect to accurately recording accrued grant expenses.

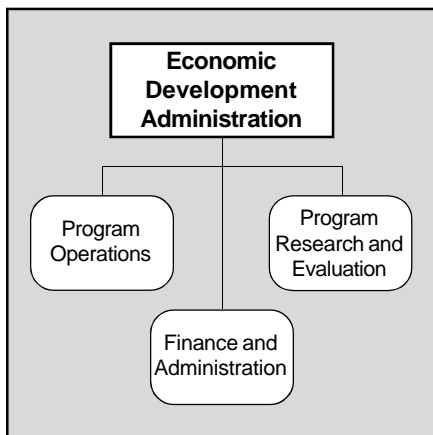
In its report on internal control structure, the firm identified five reportable conditions, which involved the need for EDA to (1) accurately record accrued grant expenses (material weakness), (2) strengthen the financial management control environment, (3) separate incompatible duties relating to computer program changes, (4) improve controls over access to, as well as changes made to, automated data systems, and (5) reconcile annual leave on a timely basis.

EDA has made substantial progress in improving its financial management. The decrease in the number of material weaknesses from four in FY 1996 to only one in FY 1997, and the receipt of a qualified opinion on its statement of financial position, are indications of EDA's commitment to improving its financial management. Nevertheless, EDA needs to resolve the remaining conditions, particularly its methodology for determining accrued grant expenses. This issue will have to be resolved before EDA can receive an unqualified opinion.

In examining the overview to EDA's financial statements, we found that it appropriately (1) links EDA's programs with the Department's Strategic Plan, (2) identifies management actions taken to address internal control deficiencies, and (3) reflects EDA's progress in meeting GPRA requirements. However, our review of the overview also found that improvements are needed. Specifically, EDA needs to better report on performance results and improve the presentation of performance data to

The **Economic Development Administration** was established under the Public Works and Economic Development Act of 1965 to generate new jobs, help protect existing jobs, and stimulate commercial and industrial growth in economically distressed areas of the United States. EDA does this by providing grants to public and private nonprofit organizations in communities with problems that are stifling economic growth; planning grants to states, cities, districts, and Indian reservations; special economic adjustment assistance to states and local governments with recent, severe problems or long-term economic deterioration; technical assistance to communities to build organizational capacity and solve specific economic development problems; and research and evaluation grants to increase knowledge about effective economic development tools.

Economic Development Administration



facilitate trend analyses and assessments of whether target levels of performance are being achieved. (*Financial Statements Contract Audits Division: FSC-9861-8-0001*)

Massachusetts Fisheries Grant Produced Limited Program Results

In July 1994, EDA made a \$1.5 million grant to a Massachusetts city under the Northeast Fisheries Initiative Program to assist the depressed fisheries industry in the Northeast States. The grant provided funds to capitalize two revolving loan funds (RLFs) and provide technical assistance related to the fishing industry. The grant terms required the city to provide a \$500,000 cash match.

The purpose of the RLF portion of the grant was to provide fishermen and businesses in the city with low-interest loans to (1) convert and retrofit commercial fishing vessels to harvest underutilized species and other seafood products, (2) purchase new equipment, (3) support existing and new marine-related businesses, and (4) assist start-up or expansion of non-fishing-related businesses.

The OIG performed an audit of the entire grant period from July 1994 through June 1997 to determine the status of the RLFs, the type of technical assistance received, and the program results achieved. We found that, although the city generally used project funds appropriately, it achieved only limited program results from the grant award because it had not made available to potential borrowers, or had not used, nearly two-thirds of the \$2 million in project funds. Specifically, the city (1) did not make its required \$500,000 cash match, (2) retained about \$716,000 in unloaned RLF cash, and (3) did not use \$107,000 in technical assistance funds.

Due to the seriousness of these problems, we requested EDA to suspend further grant activity until our findings could be resolved. EDA agreed and so notified the city in November 1997. We also found that the subgrantees operating the RLFs on behalf of the city had incurred \$12,500 in questioned administrative costs and failed to comply with EDA's requirements regarding financial and performance reports, annual RLF plan certifications, and loan file documentation.

We recommended that EDA reduce the federal portion of the city's grant through a partial termination for convenience, reduce the city's matching requirement in the same ratio as the federal share reduction, and require the city to reimburse the \$12,500 in questioned costs. EDA and the city agreed to the partial termination, resulting in \$629,000 in funds to be put to better use. (*Atlanta Regional Office of Audits: ATL-10253-8-0001*)

Flood Act Grantee Lacked Adequate Accounting Records and a Plan for Using Program Income

In 1993 the Congress provided emergency supplemental appropriations to EDA to award disaster assistance grants to help in the economic recovery of communities, industries, and firms harmed by widespread flooding in the Midwest that spring. In November 1994, EDA awarded a flood act grant to a small Missouri town of 400 people to construct four industrial buildings in order to relocate flood-damaged businesses outside the flood plain. In addition to damage to businesses, the town was forced to relocate. The total approved project amount was \$2,775,000, including a federal share of over \$2,000,000 and a local matching share of nearly \$700,000. The town claimed total costs above the project amount, and EDA disbursed all the federal grant funds.

An OIG audit disclosed that the town had inadequate accounting records that did not support all costs claimed, resulting in more than \$190,000 in questioned project costs. We also found that the town failed to submit for EDA approval a plan for using program income, as required by the grant's terms and conditions, and improperly disbursed income without an approved plan.

We recommended that EDA disallow \$190,879 in questioned costs and recover \$103,549 in excess federal disbursements. We also recommended that EDA not award future grants to the town until it establishes an adequate fund accounting system, and require the town to develop a satisfactory plan for using program income or return 75 percent of all income to EDA. EDA and the town disagree. (*Denver Regional Office of Audits: DEN-9651-8-0001*)

Idaho RLF Used Funds Improperly and Did Not Maximize Private Investment

In 1989 EDA awarded a \$451,000 Title IX grant to an Idaho economic development association to capitalize a business development RLF. In 1994 the grant was amended to add another \$400,000 to the fund's capitalization. The RLF was intended to assist in stabilizing and diversifying the area's economy and employment base, which the association strove to do by establishing an active business development financing program. As of March 1997, the association had loaned out all but \$138,000 of the fund's \$851,000 initial capital, earning nearly \$360,000 in loan interest income, and had more than \$690,000 in outstanding loans.

The OIG initiated a joint investigative/audit effort in response to allegations that RLF funds had been embezzled or otherwise diverted for improper purposes. No evidence of criminal activity was found, but the financial portion of our audit disclosed that the association improperly used RLF principal totaling \$12,327 to pay for administrative expenses, and incurred \$4,000 in questioned costs by charging the full purchase price of equipment, instead of depreciation costs, to the RLF. We also found deficiencies in the association's internal controls in the areas of fidelity bonding of employees, separation of duties, and frequency of bank deposits.

In addition, the audit concluded that the association could improve RLF management by maximizing private dollar investment leveraging with its loans. The Title IX Economic Adjustment Program RLF Administrative Manual requires RLF loans to leverage private investment of at least \$2 for every \$1 of RLF investment, but the association was able to attain only a 1.65-to-1 ratio of private dollars to RLF dollars.

We recommended that EDA direct the association to (1) maximize the use of private dollars in making RLF loans, (2) correct the identified internal control deficiencies, and (3) replenish the RLF with \$16,327 for the improper use of RLF funds and the questioned costs. The association agreed with our first two recommendations, but disagreed with our financial findings, claiming that RLF principal had not been used for administrative expenses and that depreciation had been properly recorded and supported. (*Denver Field Office of Investigations and Seattle Regional Office of Audits: STL-9830-8-0001*)

Audit Reports Unresolved for Over Six Months

A financial assistance audit report, DEN-7037-7-0001 (see March 1997 issue, page 25), found that a Texas Title IX grant recipient could not support its project cost claims because it submitted inaccurate claims, commingled federal and state funds with local funds, made duplicative cost claims, and used some of the funds for ineligible or non-project-related purposes. As a result, we questioned over \$760,000 in costs claimed against the EDA grant, and nearly \$600,000 in costs claimed against state funds.

Resolution is pending the receipt of a report on a state audit of the grantee's financial records. EDA, State of Texas, and OIG officials will meet to resolve the cost-sharing issues once the state audit report is issued.

Economics and Statistics Administration



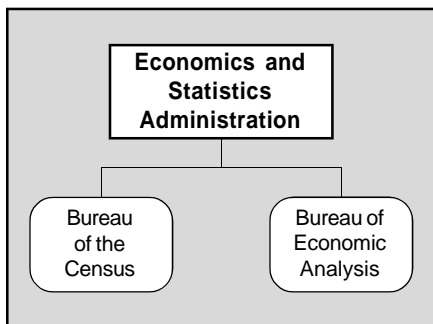
Senate Committee Chairman Seeks IG Views on Key Decennial Census Milestones and Risks

Beginning with the issuance of our November 1995 report on the Census Bureau's readiness for the 2000 decennial census and in our subsequent audit and inspection work, we have encouraged the bureau to prioritize, assess, and simplify the major components of the decennial design to reduce risks. During an oversight hearing on the Department's operations, the Chairman of the Senate Committee on Commerce, Science, and Transportation asked the OIG to provide the Committee with its views on what milestones need to be accomplished by what dates in order to ensure a successful 2000 decennial census. The Committee intended for this information to be used as a benchmark to track the bureau's progress in planning for the census.

In response to this request, in December 1997, we provided the Chairman with an analysis of key decennial census milestones and their associated risks. We concluded that although the 2000 decennial design was risky, the Census Bureau's fundamental problem was that it simply might not have enough time to plan and implement a census that achieves its dual goals of containing cost and increasing accuracy. The problem was amply evidenced by the tightness of the Master Activity Schedule—the primary decennial program management tool. The schedule's tightness was due to changing design details, lagging progress in some critical activities, less than full implementation of strategies and procedures, and a continuing lack of agreement between the administration and the Congress on the appropriate use of sampling. We noted that our analysis had not taken into account the recent congressional directive for dual-track planning.

A recurring theme of our analysis was that as a result of its lack of time to complete various aspects of the design, the bureau would have to ask for additional funding, reprogram funds, or experience potential quality shortfalls. To minimize the need for such actions, we concluded that the bureau would need to immediately prioritize and assess the readiness of its major design components, simplify the design, realistically assess costs, communicate results both internally and externally, and redirect the 1998 dress rehearsal accordingly. In recent months, we have developed an oversight strategy that will enable us to assess the remaining risks associated with the 2000 decennial census. In March 1998, we responded to questions posed by the Ranking Minority Member of the House Government Reform and Oversight Subcommittee on the Census, on the decennial census risks discussed in our December 1997 analysis. (*Economics and Statistics Audits Division*)

The **Economics and Statistics Administration** analyzes economic developments, develops 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.** Census is the country's preeminent statistical collection and dissemination agency. It publishes a wide variety of statistical data about people and the economy of the nation, 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.** BEA's goal is to provide a clear picture of the U.S. economy by preparing, developing, and interpreting the national income and product accounts (summarized by the gross domestic product) as well as aggregate measures of international, regional, and state economic activity.



Census Address-Building Program May Become More Complex, Costly, and Counterproductive

In March 1998, the OIG issued an audit report on the Census Bureau's 2000 decennial address list, known as the Master Address File. The address list that was used in conducting the 1990 decennial was a source of millions of errors and, therefore, a good candidate for reengineering. It was also a matter of great interest to local officials, who believed that they could help to improve the list. Partly in response to this interest, in October 1994, the Congress passed Public Law 103-430, which required the bureau to allow local governments to review the MAF before the 2000 decennial takes place.

Concerned about difficulties encountered in implementing the MAF, in 1997 the bureau initiated an assessment of the address-building program, which centered on partnerships with the U.S. Postal Service and 39,000 local governments. Finding that the program was complex and risky, and could not provide an adequate final product, the assessment team concluded that a 1990-style, 100-percent field canvass is essential for ensuring that the MAF is accurate.

Despite these conclusions and the associated need for an additional \$108.7 million for the canvass and other redesign improvements, the team identified the percentage of local governments that participate in MAF building as a measure of program success. While recognizing the value of achieving a high level of local government involvement, we were concerned that this participation measure appeared to be on equal footing with more important measures that focus on final MAF accuracy rates.

We concluded that by placing great emphasis on local participation, the bureau was putting MAF accuracy at risk. Although we recognize that the bureau is legally required to give local governments the opportunity to review their portions of the MAF and that such partnerships can be a helpful way to foster local cooperation, the bureau's goals of an accurate census and address list tend to conflict with local officials' desire for as high a count as possible. Using a more substantive measure, such as cost-effectiveness or a percentage of valid additions or deletions, could mitigate the conflict while acknowledging the role of local lists.

The bureau's emphasis on partnerships and the outcome of its assessment demonstrate its desire to satisfy local officials, who will likely expect to play an important role in the address-building process. Yet the bureau needs to strike the right balance among accuracy, cost, and local involvement. Clearly, accuracy must take precedence, give MAF's centrality to the decennial.

However, if accuracy and local involvement take precedence, costs may spiral upward because of the complexity involved in reconciling multiple lists and verifying thousands of discrepancies, especially if a 100-percent canvass does not occur. On the other hand, if cost and local involvement take precedence, quality is likely to suffer. For these reasons, the bureau must move forward with MAF refinements, communicating the results to its local partners soon.

The risk to the program is clearly diminished if a 100-percent canvass is conducted, because that operation can “clean up” any deficiencies before the decennial. However, we question whether the numerous initial operations designed to preclude extensive field work, which were designed to operate in tandem with *targeted* canvassing, are now needed in the current plan, which involves expanding some elements of local participation and conducting a *100-percent* canvass. The possible savings from curtailing earlier MAF-building operations or plans to expand local review may partially offset the funding increase requested for canvassing.

We recommended that the Census Bureau:

- ! Conduct a review of initial local address updates submitted through the reengineered MAF-building program to ascertain the cost-effectiveness of including local address data in the MAF.
- ! Reexamine components of MAF building initially designed to obviate the need for field work to determine whether savings are possible to partially offset the cost of the new canvassing operation.
- ! Adjust the MAF program accordingly and communicate the adjustments, and the justifications for them, to local partners as soon as possible.

The bureau generally agreed with our conclusions and recommendations. (*Economics and Statistics Audits Division: ESD-9608-8-0001*)

Bureau's Information Processing System Unit Lacks Plans and Procedures for the 2000 Census

The accuracy of decennial census data is critical because it is the basis for apportioning seats in the Congress and for distributing billions of dollars in federal assistance. The processing systems unit within the Census Bureau's Decennial Systems and Contracts Management office is responsible for the information processing systems at headquarters. The office is involved in all stages of decennial census operations, starting with the collection of census information, proceeding through the analysis and tabulation of census data, and ultimately, with the preparation of census results for dissemination.

During a survey of information processing systems, the OIG observed that the requirements for systems to support headquarters processing were not clearly defined, and we were unable to confirm that mechanisms required to manage software development were being implemented and that adequate progress was being made. We, therefore, conducted an inspection to (1) evaluate the appropriateness of the system requirements, (2) assess the system implementation strategy and plan, (3) evaluate the readiness and capabilities of the development organization and the planned use of support contractors, and (4) identify system development risks.

Our inspection report disclosed several deficiencies in the software development approach for headquarters processing systems:

- ! **Software was not being developed in accordance with any well-defined process.** Despite the significant capabilities and experience of managers and software developers within the office, a well-defined software development process based on software engineering principles was not being followed. The approach employed was not based on standards for (1) documenting and reviewing software specifications and design, (2) ensuring that rigorous, independent testing is carried out, and (3) ensuring the uniform and effective use of development and evaluation methods and tools. A software development process based on at least this minimal set of elements is necessary to better ensure accurate census results.

- ! **Estimates of software development schedules and resources for the 1998 dress rehearsal and the 2000 census were not realistic.** The bureau developed a master activity schedule that identifies activities, their interrelationships, and expected durations necessary to accomplish the dress rehearsal and the decennial

census. Durations specified in the plan for software development activities, however, did not indicate the expected effort required, but rather represented “windows of opportunity” or the time available for development. Without estimates of activity duration, management cannot reliably determine whether software development schedules are achievable or whether requests for staffing levels to support software development are realistic.

- !** **Requirements for headquarters processing are incomplete, subject to change, and likely to be late.** As planned, the dress rehearsal and the decennial census will rely on statistical processes that have not been used in previous censuses. Therefore, decisions concerning the details of these processes should be documented in requirements specifications for software that must still be developed. However, at the time of our review, statistical research was still being conducted, and important decisions concerning the details of some of these processes were not being made in a timely manner. Consequently, important specifications cannot be prepared within the required time frame. Developing software without specifications, or with frequently changing specifications, increases the risk that costly and time-consuming modifications will be needed later to accommodate changes in requirements. The bureau should focus on defining and refining requirements, rather than risk having to modify prematurely designed and developed software.

Our report contained recommendations to address these deficiencies. During our inspection, we discussed our concerns with bureau managers, who identified actions they would take to address the concerns. We found their proposed approach in agreement with our recommendations. (*Office of Systems Evaluations: OSE-10034*)

Audit of Census' FY 1997 Financial Statements

The contractor CPA firm that performed an audit of the Census Bureau's financial statements expressed an unqualified opinion on the combined statement of financial position as of September 30, 1997. This represents an improvement over the qualified opinion expressed on the FY 1996 statement of financial position. The auditors disclaimed an opinion on the related combined statement of operations and changes in net position for the year ended on September 30, 1997. The firm was unable to express an opinion on the latter statement because it could not readily extend its auditing procedures sufficiently to satisfy itself as to the balances of assets, liabilities, and net position as of October 1, 1996.

The auditors' report on internal controls identified three reportable conditions, the first of which is a material weakness:

- ! Reconciliations between Census' financial information system and its subsidiary records were not performed in a timely manner and did not sufficiently document and account for all reconciling items.
- ! No policies or procedures are in place for determining the actual cost of items held in inventory for sale to other government agencies and the public.
- ! The unbilled accounts receivable balance as of September 30, 1997, was not reviewed to determine if outstanding receivable amounts were collectible.

The report on compliance with laws and regulations disclosed that Census' financial management systems did not substantially comply with federal requirements.

After we reviewed the draft overview to Census' financial statements, the bureau made a number of improvements we suggested. However, in future years, the bureau needs to make further improvements by strengthening reported results of program performance and improving the presentation of results to facilitate analyses of trends and the assessment of the bureau's success in meeting its goals and objectives.

We commend Census' efforts in its role as pilot bureau for the Commerce Administrative Management System. This project required significant bureau resources in FY 1997 and will continue to do so until it is fully implemented. CAMS is critical because it is to provide (1) the Department with a single integrated financial management system, as required by the CFO Act, and (2) Census with an updated accounting system for the 2000 decennial. We encourage Census management to continue to devote the resources needed to implement CAMS on schedule. (*Financial Statements Contract Audits Division: FSC-9860-8-0001*)

Audit of BEA's and ESA's Consolidated Financial Statements as of September 30, 1997

A contractor CPA firm performed an audit of BEA's and ESA's Consolidated Statement of Financial Position as of September 30, 1997, and the related consolidated statements of operations and changes in net position. The firm was able to render unqualified opinions on the statements, indicating that significant improvements had been made to BEA's and ESA's financial and accounting practices over the past years.

Although the firm's report on internal controls contained no material weaknesses, it did identify one reportable condition related to controls over NIST's Financial Accounting and Reporting System, which is used in preparing BEA's and ESA's financial statements. Since BEA and ESA management are not responsible for the general controls over this system, recommendations related to the system controls were directed to the Department's Office of Computer Services, which maintains the system's hardware and software used to process transactions and data.

The firm also identified one instance of material non-compliance in its report on compliance with laws and regulations regarding BEA's and ESA's core financial management system. NIST's Office of Financial Management performs a significant portion of the financial transaction processing and reporting for BEA and ESA. However, its Financial Accounting and Reporting System does not maintain adequate commonality of data elements or transaction processing sufficient to ensure timely, accurate, and effective financial reporting, as required by federal regulations.

The OIG also reviewed a draft version of the joint BEA-ESA overview to the consolidated financial statements, and we shared our observations and recommendations in a discussion paper and subsequent meeting with management. We recommended that BEA and ESA improve their discussion of results by strengthening performance measures and improving the presentation of information to facilitate trend analyses and assessment of the bureau's success or failure to achieve performance targets. Management was responsive to our comments, adding language related to planned performance measures by goal and objective, while stating that additional improvements will be made in future overviews. (*Financial Statements Contract Audits Division: FSC-10113-8-0001*)

Census' Atlanta Office Needs to Improve Internal Controls over Bankcards

In conjunction with an OIG plan to periodically review Commerce units' use of bankcards, we conducted an unannounced audit of bankcard transactions at the Census Bureau's Atlanta Regional Office for the 12-month period ended July 1997 to determine whether the purchases were made in compliance with applicable federal and departmental requirements. The objectives of the bankcard program are to reduce administrative procurement costs, improve cash management by expediting and simplifying small purchases, and strengthen internal controls to eliminate the vulnerabilities to fraud and abuse of other small purchase methods.

Economics and Statistics Administration

We identified a number of minor deficiencies in the regional office's internal control practices, including: (1) bankcard activity was never reviewed by the contracting office head, (2) bankcards were not always stored in a secure location, (3) unauthorized card use was permitted and prohibited items were purchased, (4) purchases were not preapproved, receipt of goods was not documented, and property transaction forms were not completed, (5) records were not properly maintained, and (6) mandatory training was not performed. We also found that the office did not promote competition for purchases over \$2,500, as required.

We recommended that Census ensure that the Atlanta office follows effective internal control procedures, and that the bureau conduct a follow-up review of the office's bankcard activity within 18 months of our report and provide us with the results of that review. We also recommended that the office be required to use competitive procedures for purchases over \$2,500. Census officials generally agreed with our recommendations, stating they will ensure that our recommendation on internal controls is carried out and that cardholders will be reminded in a formal memorandum of the importance of the issues we addressed. (*Atlanta Regional Office of Audits: [ATL-10316-8-0001](#)*)

International Trade Administration



Audit of FY 1997 Financial Statements

Under the OIG's direction, a contractor CPA firm audited ITA's statements of financial position as of September 30, 1997, and 1996, and the related statements of operations and changes in net position for the years then ended. The firm was unable to determine the amounts of the adjustments that may be necessary to fairly state the financial statement balances in accordance with OMB guidance. As a result, the scope of the audit was not sufficient to enable the firm to express an opinion on the statements.

The firm was also unable to audit material account balances because of deficiencies in internal controls and automated systems. The nature and extent of these deficiencies indicate serious problems in ITA's financial management. The material weaknesses in internal controls involved the need for ITA to (1) provide adequate support for financial statement balances and sufficient reconciliations of those balances, (2) establish an effective personnel structure to ensure proper financial management control over its operations, (3) address the risk of its financial statements being interrupted at the end of FY 1998 should the accounting systems provider decide to discontinue servicing the system, (4) provide for sufficient segregation of functions, (5) establish adequate financial systems to identify and record overseas activity, and (6) perform key reconciliations to ensure that all cash collections are properly deposited and recorded.

The firm also reported several instances of material noncompliance with applicable laws and regulations that affected its decision to disclaim an opinion. Among these were ITA's failure to meet the requirements of Section 2 of Federal Managers' Financial Integrity Act in regard to material weaknesses in its financial management system; correct deficiencies in its internal control and financial management system in order to comply with OMB Circular No. A-127; transfer to its trust fund an amount equal to the current accrual for voluntary foreign service national separation pay; and adopt indirect cost allocation practices that enable it to ascertain whether its activities are operating on a full-cost-recovery basis. In addition, ITA did not adhere to other OMB guidance and did not substantially comply with the Federal Financial Management Improvement Act.

At ITA's request, we had developed a blueprint in July 1997 to improve the bureau's financial management and the quality of its financial statements by identifying critical areas needing immediate corrective actions (see September 1997 issue, page 29). The late date of the blueprint, however, limited ITA's ability to correct most of these weaknesses before September 30, 1997.

The **International Trade Administration** is responsible for most non-agricultural U.S. trade issues and works with the Office of the U.S. Trade Representative in coordinating U.S. trade policy. ITA has four principal units:

Market Access and Compliance. MAC develops and implements international economic policies of a bilateral, multilateral, or regional nature. It promotes trade, investment, and commercial relations, and maintains comprehensive commercial and economic data on countries and regions of the world.

Trade Development. TD 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. IA 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. & Foreign Commercial Service. US&FCS promotes the exports of U.S. companies and helps small and medium-size businesses market their goods and services abroad. It has 98 domestic offices and 138 overseas posts in 75 countries.

International Trade Administration



In reviewing the draft overview to ITA's financial statements, we found numerous strengths, such as definitions of the performance measures being used and a discussion of financial management challenges and plans, but also some deficiencies that require attention. Specifically, ITA needs to include several years worth of data, a comparison of actual results to target performance levels, a stronger discussion of performance results and plans for corrective action, and better linkage of results to goals and objectives.

Finally, although ITA appointed a Chief Financial Officer in early FY 1998, the appointment of a Deputy CFO is still pending. We recommend that the person appointed to this position have the strong financial background that is needed to resolve the accounting challenges facing ITA. (*Financial Statements Contract Audits Division: FSC-9862-8-0001*)

Trade Event Planning and Management Need Improvement

ITA supports the administration's export promotion strategy through its three components that are involved in trade events—Trade Development (TD), U.S. and Foreign Commercial Service (US&FCS), and Market Access and Compliance. ITA defines a trade event as “any organized activity that places U.S. exporters in contact with foreign markets.”

In 1993 ITA established a Trade Events Board to provide policy direction on trade event planning, management, and financial matters. An interagency working group, the Trade Events Planning Committee, reviews trade event planning and management. The Trade Events Management System (TEMS), an ITA-wide system located within US&FCS, serves as ITA's planning and financial data system for trade events.

An OIG audit of trade events focused primarily on TD events held in FY 1996. Of the 419 ITA trade events held during that year, TD was responsible for 83. However, because most of ITA's trade events are carried out by US&FCS, we also evaluated certain aspects of US&FCS's FY 1996 events. Our audit identified a number of deficiencies that hamper ITA's ability to pursue its trade event activities.

- ! Communication and coordination between TD offices and US&FCS posts need improvement. TD event officers should give posts necessary information sufficiently in advance of events to allow for adequate preparation and increase the potential for success.

- ! Internal controls are needed throughout ITA to ensure that trade events, when canceled, are canceled in a proper and timely manner. Having the greatest percentage of canceled trade events, TD should establish an internal quality review procedure to evaluate its proposed events.
- ! The end-of-show data in TEMS is incomplete and does not provide the kind of management information that would be most useful for ITA. Moreover, ITA management needs to decide what role TEMS will have in providing performance measures.
- ! US&FCS trade event performance measures presented in ITA's budget submission relied on data from the posts, and not on TEMS, but the basis for the data used could not be explained by ITA's Office of Financial Management. Performance measures need to be clearly defined, and if ITA management intends to rely on TEMS for performance data, guidelines and internal controls are needed to ensure that this data is entered on a timely basis.
- ! Neither TEMS nor Office of Financial Management records can be used to determine the financial status of individual trade events, as TEMS lacks final obligation reports for most events, and many events do not have unique project numbers in Financial Management's records.
- ! The effectiveness of TD's principal types of trade event activities has not been assessed to determine if they represent an effective use of ITA resources.

We made a number of recommendations to correct these deficiencies. ITA generally agreed with our findings and recommendations. (*International Audits Division: IAD-9714-8-0001*)

Award Recipient Did Not Meet Goals or Provide Required Cash Contribution

In 1994 ITA awarded a \$420,000 cooperative agreement to a New England nonprofit organization as the federal share of a \$4 million project to develop a web site to serve as an electronic environmental business and technology information source. The project's goals were to establish and strengthen links between Mexican and American companies for marketing U.S. environmental technology to Mexico. The award, which was for a three-year period ending September 30, 1997, was later supplemented with another \$38,000 in ITA funds.

We audited the project for the first two years of the award period and determined that, although the recipient had drawn down \$434,571 of federal funds to develop the web site, it had failed to provide its required matching share or to meet projected financial and programmatic goals. Specifically, we found that the recipient did not:

- ! **Provide any cash contributions to the project.** In-kind contributions were provided, but the award required one-half of the non-federal match to be in cash.
- ! **Meet its revenue goals.** Although it had proposed paying for \$2 million of the project with program income, it had not generated any income during the period we reviewed.
- ! **Include all the information originally proposed for the web site.** Moreover, the information that was included was widely available from other sources.

We recommended that the Department disallow \$919,061 in questioned costs, recover the entire \$434,571 of disbursed federal funds, terminate the award, and deobligate the remaining \$23,429 of undisbursed federal funds. The recipient has provided no substantive response to our findings. (*Atlanta Regional Office of Audits: ATL-10082-8-0001*)

Import Administration Needs to Identify and Correct Causes of Errors in AD/CVD Program

At the request of the Assistant Secretary for Import Administration (IA), we reviewed the Antidumping/Countervailing Duty (AD/CVD) program to evaluate the quality of the work performed on antidumping investigations and administrative reviews. Concerned about the quality of the work performed in AD/CVD cases, he asked for our independent evaluation and any recommendations for improvement.

In an October 1997 memorandum to the Assistant Secretary, we identified one issue that warranted his attention: IA calculation errors that resulted in inaccurate duty margin determinations. In conducting our evaluation, we selected a random sample of 27 of 198 antidumping investigations and administrative reviews that had final determinations in 1996 and 1997. We then analyzed the changes in duty margins between the preliminary and final determinations to see if the changes were the result of IA errors.

In more than half of the cases in our sample, calculation errors by IA analysts had resulted in inaccurate determinations. Moreover, these errors were identified not by IA's review process, but by attorneys for respondents and petitioners. IA's correction of these errors in some cases resulted in significant changes to the duty margin determinations. The number of IA errors, and the fact that they were not identified during the internal review process, indicated a serious problem.

We suggested that IA categorize and summarize errors made in investigations and reviews to help identify which of its units are performing well or poorly, determine the frequency and types of errors made, and implement solutions to correct the causes of the errors. Because of steps IA has already taken to improve quality, we will wait to see the results of the actions it takes to implement our suggestions before deciding whether to do additional audit work in this area. (*International Audits Division*)

Minority Business Development Agency

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.

Using Cooperative Agreements Will Strengthen MBOC Program

As part of the OIG's Department-wide review of interagency and other agreements, we reviewed MBDA's use of joint project agreements for its Minority Business Opportunity Committee program. MBOCs are a collaboration between MBDA and other federal, local, or quasi-governmental organizations that are responsible for planning, creating, coordinating, and delivering resources to promote U.S. minority businesses in the national and global economies. Currently, there are 10 MBOCs operated by city, regional, and federal organizations.

We recommended that MBDA begin using cooperative agreements, instead of joint project agreements, to provide financial assistance to MBOCs. The use of cooperative agreements should improve the award process, and strengthen MBDA and departmental oversight and monitoring of MBOCs, especially as the program continues to grow.

We also recommended that MBDA take other actions to improve the MBOC program that include introducing competition into the award process; implementing and retaining a one-year, multiple award system; and eliminating irregular award or renewal actions, such as retroactive extensions. MBDA agreed with our observations and is taking steps to implement our recommendations. (*Office of Inspections and Program Evaluations: IPE-10309*)

Audit of FY 1997 Financial Statements

The OIG contracted with a CPA firm to audit MBDA's statements of financial position as of September 30, 1997, and 1996, and the related statements of operations and changes in net position for the years then ended. The firm expressed an unqualified opinion on the statements, indicating the existence of an internal control structure that facilitates the preparation of reliable accounting and financial information.

The auditors' report on internal controls did, however, cite two reportable conditions, which identified the need for MBDA to:

- !** **Review year-end financial reporting, including the estimation of accrued grant expenditures.** EDA is responsible for accruing MBDA's unreimbursed grant expenses based on a percentage of the balance of unliquidated grant obligations at the end of each year. Because it did not consider the effect of late and unliquidated obligations in its calculations, EDA over-accrued MBDA's grant expenses payable by about \$1 million.

Minority Business Development Agency

! **Improve controls over the Financial Accounting and Reporting System.** The firm identified one reportable condition related to controls over the Financial Accounting and Reporting System administered by NIST, which provides accounting services for MBDA. Since MBDA is not responsible for the general controls over this system, recommendations related to the system controls were directed to the Department's Office of Computer Services, which maintains the system's hardware and software used to process transactions and data.

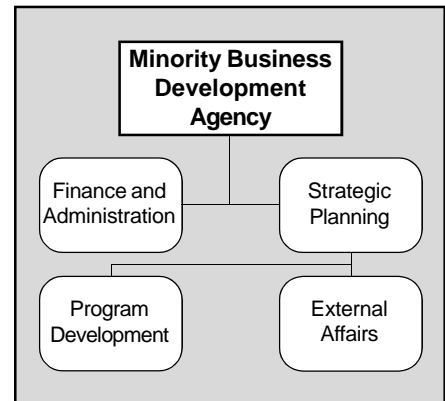
The CPA firm's report on compliance with laws and regulations identified one instance of material noncompliance. MBDA's core financial management system does not comply with certain Federal Financial Management Improvement Act requirements for federal financial management systems; for example, the Financial Accounting and Reporting System does not maintain adequate commonality of data elements and transaction processing.

In response to OIG suggestions, MBDA made a number of improvements to its financial statements overview. However, MBDA needs to strengthen its reported results of program performance to facilitate trend analyses and the assessment of whether target performance levels are being achieved. (*Financial Statements Contract Audits Division: FSC-9863-8-0001*)

Internal Disagreement Over Questioned Costs Resolved, but Recipient Appeals Decision

In the prior two issues of this report (see March 1997 issue, page 38, and September 1997 issue, page 32), we reported on a financial assistance audit, ATL-8882-7-0001, that questioned \$675,000 of costs claimed by a for-profit consulting firm operating a minority enterprise growth assistance center. In the resolution process, the OIG and the Department's Office of Executive Assistance Management agreed to disallow \$455,325 of the questioned costs. However, agreement could not be reached on an additional \$129,671 in questioned costs, and the matter was elevated to the Deputy Secretary for decision. The Deputy Secretary determined to allow \$112,811 of the disputed costs, which related to personnel, and to disallow the other \$16,860, which related to equipment.

In February 1998, an audit resolution determination letter was sent to the recipient, informing it of the decision. In March, the recipient submitted an appeal, which is in process.





National Oceanic and Atmospheric Administration

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

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

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

National Marine Fisheries Service. NMFS 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. NESDIS observes the environment by operating a national satellite system.

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

Office of NOAA Corps Operations. The Corps is the nation's seventh uniformed service. Its ships, aircraft, and personnel support NOAA's activities throughout the world.

Audit of FY 1997 Financial Statements

A contractor CPA firm audited NOAA's consolidated statement of financial position as of September 30, 1997, and the related consolidated statement of operations and changes in net position for the year then ended. The firm expressed a qualified opinion on the statement of financial position because NOAA (1) had no system to accurately and completely account for all of its capitalizable property and equipment, (2) was unable to support the classification of net position balances between appropriation categories, and (3) received later than expected an actuarial valuation relating to the NOAA Corps' liability for retirement benefits. NOAA received a disclaimer of opinion on its statement of operations and changes in net position because of the effects of the disclaimer in the previous year.

We commend NOAA management and staff on the significant progress made since the prior year's audit. Whereas the FY 1996 audit resulted in a disclaimer and identified 21 reportable conditions, of which 11 were material weaknesses, the FY 1997 audit expressed a qualified opinion and identified 17 reportable conditions, of which 6 were material weaknesses. The material weaknesses related to the need for NOAA to (1) improve the preparation, analysis, and monitoring of financial information, (2) make the financial reporting structure consistent with the bureau's organizational structure, (3) support and reconcile "on-top" adjustments to the financial statements, (4) support and reconcile budgetary execution transactions, (5) correct property, plant, and equipment detail records, and (6) improve the monitoring of grant recipients.

In its report on compliance with laws and regulations, the CPA firm identified three instances of noncompliance: NOAA did not fully fund its capital leases; it did not report all of the above-mentioned material weaknesses in its 1997 Federal Managers' Financial Integrity Act report; and its financial management systems do not substantially comply with the Federal Financial Management Improvement Act.

Our review of the management discussion and analysis (similar to an overview) to NOAA's financial statements identified a number of strengths. For example, the document identifies the seven NOAA goals, with associated performance measures, that support the Department's mission statement; discusses financial results and conditions; and presents output and outcome measures. However, NOAA could still make improvements by further strengthening reported performance measures, definitions of measures, and discussion of results; and providing additional discussion of trends.

National Oceanic and Atmospheric Administration

To work toward improving its financial management, we encourage NOAA to continue its efforts to recruit a Chief Financial Officer. Emphasis should also be placed on hiring additional financial management personnel to facilitate the prompt resolution of internal control deficiencies. Finally, we encourage NOAA management to continue its efforts to make the improvements to the internal control structure that are essential for preparing its FY 1998 statements. (*Financial Statements Contract Audits Division: FSC-9865-8-0001*)

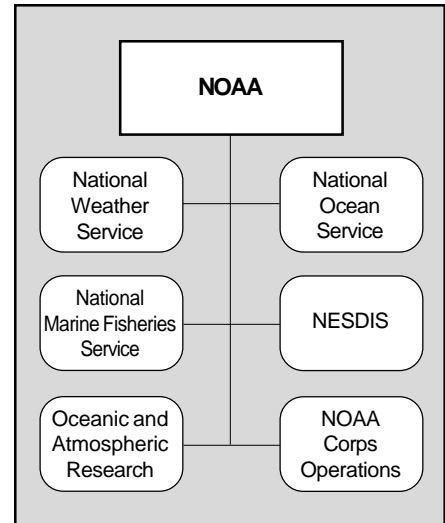
NMFS Laboratory Network Needs Streamlining

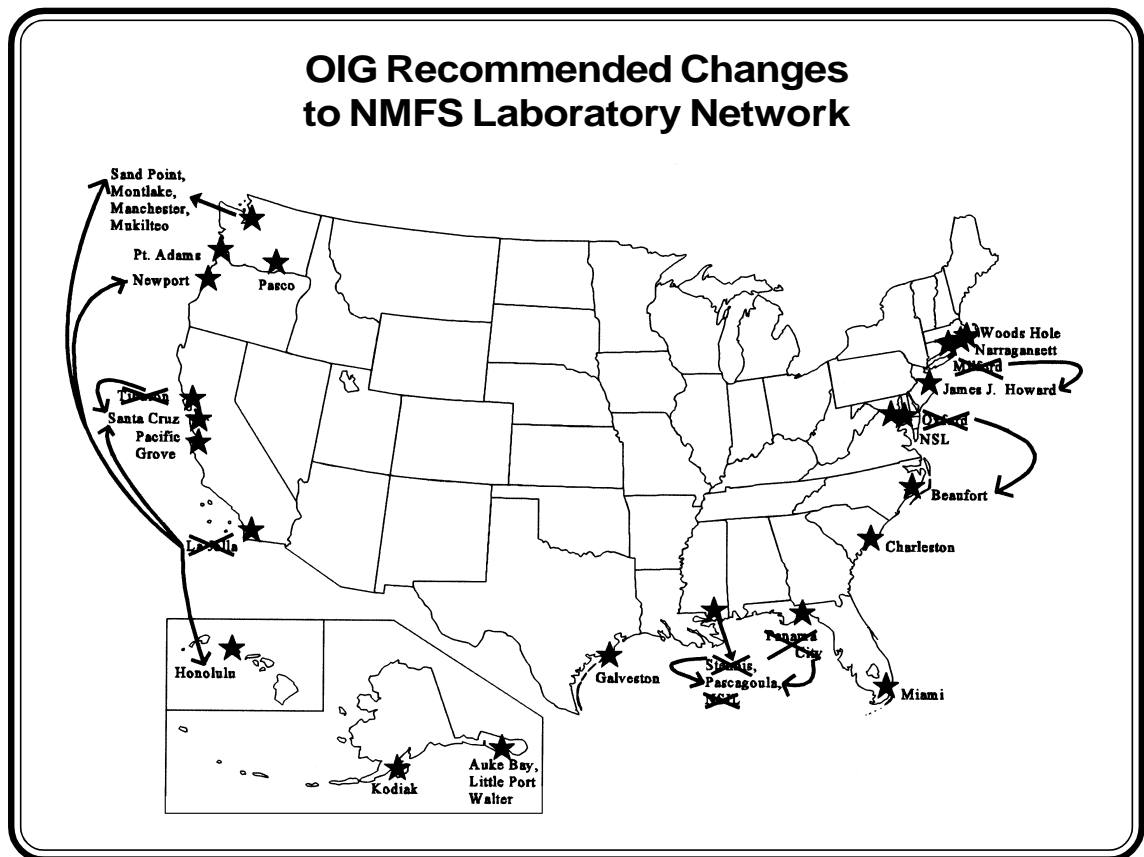
The National Marine Fisheries Service strives to ensure the conservation and management of the nation's living marine resources through a laboratory network of 29 facilities located within five regions: Northeast, Southeast, Southwest, Northwest, and Alaska. These facilities perform research, data collection, and analysis to assist NMFS in accomplishing its goals. Many of these facilities are greatly in need of repair, and several renovation and new construction projects are planned or underway.

The OIG conducted a performance audit to assess streamlining and reconfiguration opportunities within the NMFS laboratory network. We evaluated the need for each facility to be at its current location, the overall condition of each facility, and the utilization of both current and planned facilities. We also explored any special considerations related to individual facilities.

We concluded that, in general, the NMFS laboratories are conducting high-priority research in well-utilized facilities. We also identified several opportunities for NMFS to streamline its field structure that could result in a savings of approximately \$6 million over two years, the period normally used by this office to calculate savings for purposes of reporting under the IG Act. However, believing that a five-year period offers a more useful analysis for studies of this nature, we note that projected savings over five years would be more than \$25 million. We made the following recommendations based on our observations of the five individual regions (see illustration on the following page):

- **Northeast.** We recommended closing the Milford, Connecticut, laboratory and transferring its programs to the new James J. Howard Marine Sciences laboratory in Sandy Hook, New Jersey.





! **Southeast.** We recommended closing the National Seafood Inspection Laboratory in Pascagoula, Mississippi, and transferring the laboratory in Oxford, Maryland, and most of its programs to the State of Maryland. Programmatic work being done at Oxford that would continue to be NMFS's responsibility should be transferred to its Beaufort, North Carolina, laboratory. We also recommended moving the programs and personnel from the Bay St. Louis, Mississippi, and Panama City, Florida, laboratories into space to be vacated at the Pascagoula laboratory.

! **Southwest.** We recommended vacating the Tiburon, California, laboratory, as planned by NMFS, and the La Jolla, California, laboratory due to safety reasons, and transferring their programs and personnel to Honolulu; Sand Point, Washington; Newport, Oregon; and a proposed Santa Cruz, California, facility. As part of this recommendation, the proposed Tiburon replacement facility at Santa Cruz should be expanded to accommodate programs and personnel from La Jolla.

- **Northwest.** We considered the option of moving the programs for the Seattle-based Montlake laboratory to the Sand Point facility, in conjunction with the potential NMFS recommendation to relocate some of Sand Point's programs to Auke Cape. Our analysis revealed that this option should not be implemented because of inadequate types and amounts of space available at Sand Point.
- **Alaska.** We disagreed with NMFS's plans to transfer some programs from the Sand Point laboratory to the proposed Auke Cape, Alaska, facility due to potential programmatic, utilization, and cost inefficiencies.

In its recently submitted audit action plan, NOAA essentially disagreed with all of our findings and recommendations, as well as our calculations of the associated costs and benefits. We found NOAA's arguments unpersuasive and urged it to reassess its position and submit a revised action plan. We noted that our recommendations should be acted on in a manner that supports the Deputy Secretary's March 16 memorandum on the Department's field office review. (*Seattle Regional Office of Audits: STL-8982-8-0001*)

CZM and NERRS Programs Require Management Attention to Increase Effectiveness

NOAA's Coastal Zone Management (CZM) and National Estuarine Research Reserve System (NERRS) programs are federal/state partnerships through which the federal government, specifically NOAA's National Ocean Service, assists the states in exercising their responsibilities in the coastal zone and adjoining estuaries. The states' role is to protect and promote the wise use of land and water resources in the coastal zone. Currently, 32 of the 35 coastal states, including those of the Great Lakes and U.S. territories, have CZM programs that have been approved by NOAA. Two additional state programs are in various stages of development, and officials from the one remaining coastal state have expressed interest in participating in the program.

An OIG evaluation of the CZM and NERRS programs found that while NOAA was successful in getting the programs off the ground in the 1970s, the next decade was a difficult one, particularly for the CZM program. During the 1980s, the executive branch made several attempts to dismantle the program, but support and continued funding from the Congress and the coastal states kept the program intact. In the 1990s, the CZM program made a strong comeback with support from the current administration, Congress, and states. The program's service to and

relationships with state CZM managers and staffs have improved dramatically, and collaborative outreach was extended to other NOAA offices and federal agencies that have responsibilities in the coastal zone.

Although improvements have been made in the management and operation of the CZM and NERRS programs, we found several issues and concerns that warrant management attention:

- **NOAA coordination to aid coastal management is deficient.** NOAA has not effectively provided coastal zone decision-makers with objective science and evaluative techniques needed to make critical decisions. In addition, the National Ocean Service's Office of Ocean and Coastal Resource Management (OCRM) and the newly created Coastal Services Center need to work more closely together to improve service to coastal constituents.
- **Administration of CZM cooperative agreements warrants attention.** We found several cooperative agreement administration areas that offer opportunities for streamlining, thereby permitting more cooperative agreement funds to be spent on programmatic rather than administrative duties. These include: (1) using multi-year cooperative agreements, instead of the current annual awards; (2) permitting oversight costs to overlap award periods; and (3) improving the processing time on requests for no-cost extensions of time on awards.
- **Current coastal nonpoint source pollution provisions are unworkable.** In 1990 a new section was added to the Coastal Zone Management Act to address the impacts of nonpoint source pollution on the water quality of the coast. The new section's ambitious scope and time frame have generated significant controversy, and the states are having problems developing coastal nonpoint pollution programs under the statute. The current requirements of the statute are not workable without improvements, such as extending the time frames for program implementation.
- **The effectiveness of the CZM program has not been measured.** OCRM and the states have been unable to measure or evaluate "on-the-ground" outcomes of the CZM program because the necessary data has not been collected. OCRM needs to develop a strategy to measure the effectiveness of the CZM program, in order to understand what activities are best helping to achieve the goals of the act and to make effective future decisions.

- **The full potential of the NERRS program is not being realized.** The NERRS program faces a number of challenges in meeting its potential: (1) federal assistance has become inadequate to support the program's ambitious goals; (2) NOAA has not fully supported the use of NERRS sites for NOAA-funded research; (3) the NERRS program needs to play a greater role in the scientific community and achieve better utilization of its sites; and (4) key education and research coordinator positions have been left vacant, in some cases for several years, after the start-up of new NERRS sites.
- **An initiative to develop a coastal and marine management computer information system lacks sufficient resources.** The lack of a computerized information tracking system hampers the ability of OCRM and the grants management division to process grant applications and evaluate performance reports from the states. A new system is being developed to electronically process grant applications and performance reports. However, this promising new system has suffered setbacks because of insufficient resources.

NOAA agreed with all of the report's recommendations. The bureau either has taken steps that satisfy the intent of the recommendations or will implement changes or procedures in the near future. (*Office of Inspections and Program Evaluations: IPE-9044*)

State Deficient in Federal Reporting on Coastal Zone Management Program

In July 1995, NOAA awarded a \$2.3 million cooperative agreement to a Northeastern state to assist in the development and implementation of an effective coastal zone management program. The agreement required a \$2.1 million matching contribution from the state, bringing the total project budget to more than \$4.4 million.

The OIG conducted an audit of the project's two-year performance period, which ended June 30, 1997. We found that the state (1) submitted quarterly financial status reports to NOAA that did not accurately and completely report its federal expenditures, (2) did not submit required monthly federal cash transaction reports to NOAA, and (3) charged more than \$48,000 in questioned personnel, fringe benefit, and indirect costs, including about \$39,000 not allocable to the project and about \$9,000 of indirect costs that exceeded the approved budget.

The state's failure to accurately and completely report its federal expenditures and cash disbursements has restricted NOAA's ability to monitor compliance with the award's financial provisions. When we brought this matter to the state's attention, it acknowledged the reporting deficiencies and immediately addressed some of them by revising the previously submitted quarterly reports to correctly report federal expenditures. Nevertheless, we recommended that NOAA direct the state to accurately and completely report its federal expenditures in financial status reports for current and future CZM awards, and submit all required federal cash transaction reports. We also recommended that NOAA disallow questioned costs totaling \$48,275, disburse \$84,930 to the state as its final award payment, and deobligate the remaining award funds of \$26,465. (*Atlanta Regional Office of Audits: ATL-10278-8-0001*)

Improvements Needed in NWS Severe Storm Verification Process and Statistics

The National Weather Service helps protect the nation's people and property from the dangerous effects of severe and hazardous weather by issuing severe weather and flood warnings, public forecasts, and advisories. It measures the effectiveness of its forecasting and severe storm warnings through its verification process—a quality control process that essentially matches warnings to actual weather observations and compiles statistical results of forecasting performance.

NWS has made major advancements in the 1990s with new technology and modernized operations. Advanced radars, new computer systems, and other technological advances associated with NWS's modernization efforts have substantially improved its access to critical data and its ability to forecast weather events. In fact, today NWS issues twice as many severe thunderstorm and tornado warnings as it did in 1990. Unfortunately, NWS's severe storm verification process, which has remained largely unchanged since its inception in 1979, does not reflect NWS's modernized technology and field office structure, staffing, and workload requirements.

The OIG conducted an inspection of the severe storm verification system to assess whether the verification process and statistics are valid and reliable measures of NWS severe storm forecasting performance, and to determine whether NWS's modernization efforts have improved the accuracy of forecasting.

As part of our evaluation, we conducted a comprehensive survey of all forecast office warning coordination meteorologists—the primary liaisons

between weather forecast offices (WFOs) and the user community. Our survey questionnaire, developed in consultation with senior and cognizant NWS personnel, provided considerable insight into the NWS process and procedures for verifying severe and hazardous weather.

We found that NWS's modernization initiatives have resulted in more accurate forecasting; its verification statistics are vital indicators and, for the most part, valid measures of performance; and non-technological developments have also resulted in better forecasting and verification. However, based on the results of our survey, which had a 91-percent return rate, and other evaluation efforts, we concluded that the verification of severe and hazardous weather forecasting can be done more efficiently. We believe that with certain key changes and improved internal controls, NWS can significantly enhance its verification data credibility and dependability. Specifically, we recommended that NWS:

- **Increase quality control to reduce the subjectivity of verification information.** We found that WFO information is susceptible to inaccuracies and uneven quality. In addition, WFOs lack a standardized review process, local storm reports are not consistently entered correctly, verification training is inadequate, and automated data checks are incomplete.
- **Implement a verification system that provides immediate feedback and reduce the backlog of unpublished data on severe weather events.** NWS is not providing rapid feedback to WFOs, eliminating redundant data input of local storm reports and event information, or reducing the large backlog of unissued publications that serve as NWS's historical climatological record.
- **Reassess wind and hail warning thresholds to see if the number of marginally severe storm warnings can be reduced without any increased danger to public safety.** From 1990 to 1996, the number of warnings that just meet the minimum threshold level for verification more than doubled. This increase represents a disproportionately high percentage of the NWS/WFO verification workload.
- **Strengthen its headquarters and regional office oversight roles and responsibilities.** NWS's Office of Meteorology should reestablish its National Verification Committee to evaluate all of its verification programs, revise its verification manual to include new techniques, and update the requirements and goals of each verification program area in its National Verification Plan.

- **Expand the National Hurricane Center's verification efforts and test its emergency backup preparedness.** The Center needs to systematically (1) verify and document the portion of each warning area that did or did not receive hurricane force winds, and (2) verify its hurricane model wind radii forecasts. In addition, the Center's backup plan should be tested during the next off-season to ensure its effectiveness in an emergency.

NOAA agreed with the report's findings and recommendations, and has taken several steps to address our concerns. (*Office of Inspections and Program Evaluations: IPE-9255*)

NOAA Did Not Properly Record Indirect Costs for Superfund Programs

Under an interagency agreement with the Environmental Protection Agency, NOAA receives approximately \$2 million annually from EPA's Hazardous Substance Response Trust Fund, commonly known as the Superfund, to provide technical assistance and research on the risk to coastal resources and ecosystems from hazardous waste sites and spills.

The Superfund Amendment and Reauthorization Act of 1986 requires the OIG to conduct audits of all payments, obligations, reimbursements, and other uses of the Superfund. We reviewed NOAA's Superfund interagency agreements for FYs 1995 and 1996 and found that costs billed to EPA under the agreements were properly and accurately recorded, with the exception of indirect costs.

We determined that NOAA is not in compliance with EPA policy regarding allowable indirect costs. Billings to EPA contain charges for general, agencywide indirect costs, which is in conflict with the terms and conditions of the agreements and EPA policy guidance. We also determined that the audit of the Superfund interagency agreements could be incorporated into the scope of NOAA's annual financial statement audit. Past audit requirements under the Superfund statutes were superceded by passage of the Chief Financial Officers Act of 1990. Current EPA policy is to include tests of Superfund transactions within the scope of the annual audit of financial statements required by the CFO Act.

We recommended that NOAA (1) clarify EPA's policy regarding allowable indirect charges, and modify either the agreements or the billing practices, and (2) request that future audits of NOAA's financial statements include sufficient testing of NOAA/EPA Superfund transactions to satisfy Superfund audit requirements. Following the end of the reporting period,

NOAA agreed with our recommendation that testing of Superfund transactions be included in future audits of its financial statements. (*Seattle Regional Office of Audits: STL-10140-8-0001*)

Accounting System and Management Practices Prevented Negotiation of Indirect Cost Rate

A nonprofit foundation was incorporated in West Virginia in 1993 to facilitate economic development in the state by promoting high-technology industries and research facilities. The foundation's activities focus on research, education, and economic development. It has also constructed a \$12 million, 110,000-square-foot office and business incubator facility, financed in part with EDA grant funds.

Since its inception, the foundation has been awarded 15 grants and contracts totaling about \$22 million from federal, state, and private sources. The Department of Defense was the foundation's cognizant federal agency until October 1996, but did not audit or negotiate indirect cost rates for the organization. At that time, Commerce became the cognizant agency as a result of a \$5.85 million NOAA cooperative agreement made to the foundation to help the agency meet accelerating demands for storage and retrieval of data maintained at national environmental data centers. NOAA requested that the OIG review the foundation's indirect cost proposal and negotiate an indirect cost rate to be used for the award. We also performed a survey to assess the adequacy of the foundation's financial management system.

The foundation's accounting system and management practices, along with unforeseen delays, prevented the negotiation of an indirect cost rate for FY 1997. We found that the accounting system was not integrated and was cumbersome and prone to error, and that the foundation's procurement practices limited free and open competition. In addition, the foundation did not report to EDA on its use of rental income earned on the federally financed facility, and it improperly classified land improved with federal funds as investment property.

In July 1997, NOAA and the foundation agreed to terminate the cooperative agreement for the convenience of both parties. Under the circumstances, the report recommendations with respect to the NOAA project are now moot; however, our findings remain viable in connection with the EDA funding and other federal awards, and we plan to address them in a separate audit report to EDA. At NOAA's request, we are also conducting an audit of the foundation's termination claim and its actual indirect costs. (*Atlanta Regional Office of Audits: ATL-9259-8-0001*)

Government Obtains \$3.15 Million Settlement of Potential False Claims Act Suit

In March 1998, a NOAA contractor and its successor company agreed to pay the United States \$3.15 million to settle claims that the contractor sold the government spare parts for the Next Generation Weather Radar (NEXRAD) system at greatly inflated prices. The settlement resulted from an OIG investigation which concluded that the contractor knew that prices paid to a subcontractor for the parts were inflated when it passed on those prices to the government in connection with the cost reimbursable portion of its NEXRAD contract. We found that the contractor had agreed to pay the inflated prices in exchange for receiving discounts from the subcontractor on other items it was purchasing under the fixed-price portion of the contract.

Three months earlier, the United States filed suit against the subcontractor in U.S. District Court for the Eastern District of Virginia, charging the company with multiple violations of the False Claims Act arising out of the same series of transactions. The lawsuit cites the *quid pro quo* arrangement between the subcontractor and contractor, and also alleges that the subcontractor represented to the government that it did not discount spare parts, when, in fact, it had previously offered and granted such discounts to the contractor. A pretrial conference is scheduled for July and it is anticipated that a trial date will be set at that time. (*Financial Fraud Unit*)

Federal Contractor Indicted for False Statements and Conspiracy

A two-year investigation of a California manufacturer and distributor of electronic components has resulted in indictments against the firm and three of its employees for making false statements to the United States, conspiracy, and mail fraud. A related company and one of its employees were also charged. According to the indictments, the firm contracted to sell high-reliability semiconductors to the government under a series of contracts and subcontracts that required the semiconductors to be built and tested according to various specifications. Instead of conducting required tests and inspections, however, the firm directed that they be skipped, altered, or falsified. This conduct was allegedly part of a conspiracy to defraud the government by providing non-conforming parts which were falsely certified as meeting all requirements. Some of the improperly tested semiconductors were placed in units of the Department's NEXRAD system; others were used by the Department of Defense, Federal Aviation Administration, and National Aeronautics and Space Administration.

National Oceanic and Atmospheric Administration

The indictments grew out of a joint investigative effort by the Commerce and NASA OIGs, the Defense Criminal Investigative Service, the Defense Contract Management Command, and the Army Criminal Investigative Command. (*Denver Field Office of Investigations*)

In Brief

Conviction and Sentencing. In December 1997, a former NWS employee was convicted of theft in U.S. District Court for the District of Maryland after an OIG investigation disclosed that she had used an agency bankcard to make personal purchases totaling more than \$1,000. In March 1998, she was sentenced to two years' probation and 50 hours of community service, fined \$150, and ordered to make full restitution to the government. (*Silver Spring Field Office of Investigations*)

Reprimand. A senior NOAA official received a letter of reprimand as the result of an OIG investigation which found that he had used frequent flier miles earned on official business for personal travel. (*Washington Field Office of Investigations*)

Audit Reports Unresolved for Over Six Months

As of March 31, 1998, one financial assistance audit report and three preaward contract audit reports had recommendations unresolved for more than six months.

University of Hawaii

This financial assistance audit report, ATL-9999-5-0753 (see September 1995 issue, page 99) was an OMB Circular A-133 audit that questioned \$1.1 million of claimed costs. NOAA requested that resolution be deferred until a final determination of the allowability of costs has been made by the Defense Contract Audit Agency (DCAA). NOAA has received the DCAA report and has submitted a draft audit resolution proposal for OIG review. We have provided comments to NOAA and are awaiting its response.

Preaward Contract Audit Report

The three NOAA preaward contract audit reports are discussed on page 79.



National Telecommunications and Information Administration

The mission of the **National Telecommunications and Information Administration** is to (a) serve through the Secretary of Commerce as the principal executive branch advisor to the President on domestic and international communications and information policies, (b) ensure effective and efficient federal use of the electromagnetic spectrum, (c) develop with other federal agencies policies for international communications and standards-setting organizations, (d) serve as the federal telecommunications research and engineering center, and (e) administer grants under the Information Infrastructure Grants Program and the Public Telecommunications Facilities Program.

Audit of FY 1997 Financial Statements

The OIG contracted with a CPA firm to audit NTIA's combined statements of financial position as of September 30, 1997, and 1996, and the related combined statements of operations and changes in net position for the years then ended. The firm expressed an unqualified opinion on the financial statements. The firm's report on internal controls identified no material weaknesses or reportable conditions. The results of the audit clearly indicate that NTIA has taken major strides in improving its financial and accounting practices in recent years.

Our review of the overview to the financial statements found that it details how NTIA supports the three themes contained in the Department's strategic plan and identifies performance measures, lists many accomplishments by activity, and includes some discussion on financial position and results. NTIA could improve its discussion of results by strengthening reported performance measurement data and enhancing the presentation of information to facilitate trend analyses and assessments of whether target levels of performance have been achieved. (*Financial Statements Contract Audits Division: FSC-9866-8-0001*)

Awardee Did Not Complete Some Grant Tasks and Incurred Questioned Costs

In October 1994, NTIA awarded a grant for approximately \$400,000 to a regional government association in California to support its program of planning and organizing a government information network using the Internet. The total project budget, including local matching funds, was nearly \$800,000.

In June 1995, an OIG investigation was initiated based upon an anonymous allegation that the association had misused federal grant funds by directing employees to charge time to the grant when they were working on other projects. While the allegations were not substantiated, we did discover that the association was using questionable accounting methods during the grant period.

The OIG conducted a financial audit of the award and found that the association had incurred questioned costs of more than \$138,000 because it did not accumulate costs in categories that matched categories in the grant award budget. In addition, although the association met overall grant goals by establishing an information network on the Internet, it failed to complete two minor project tasks. We recommended that the Department disallow the questioned costs and recover \$65,000 in excess grant

National Telecommunications and Information Administration

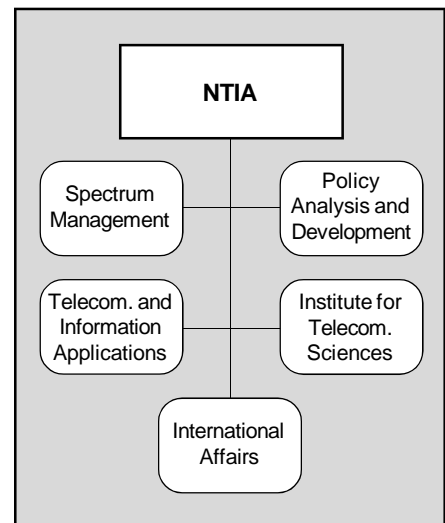
disbursements; assess the significance of the tasks not completed, and either modify the grant to eliminate the tasks or require the association to complete them; and advise the grantee to use cost categories for accounting purposes that parallel cost items in federal awards.

The association stated that requirements for project goals were fulfilled, and that adequate management control was maintained by tracking the actual and budgeted costs for each expense category. The Department decided that the association's failure to complete the two minor tasks was acceptable, but agreed that the association should change its cost categories. (*Denver Field Office of Investigations and Seattle Regional Office of Audits: STL-9491-8-0001*)

Allegations of Unallowable Lobbying Costs Unfounded

NTIA requested the OIG to perform an audit of an October 1995 grant to a West Coast organization, based on allegations of unallowable lobbying that had been raised by a congressman, by a private organization, and in hearings before a House subcommittee. NTIA awarded the \$400,000 grant, with a 50-percent matching share requirement, as part of its Telecommunications and Information Infrastructure Assistance Program. The grant was made to help the non-profit, member-funded organization broaden access to its on-line membership network via the Internet, establish a national training program, and conduct a national outreach campaign.

We concluded that the grantee had not used grant funds to lobby, as defined in the applicable laws and federal regulations, and that its performance was in accordance with NTIA grant requirements. We did find some minor unallowable costs charged to the NTIA project; however, the charges were offset by amounts overmatched by the grantee and additional valid project costs incurred but not charged to the project. Accordingly, no costs were questioned, and our report was issued without recommendations. (*Seattle Regional Office of Audits: STL-10522-8-0001*)



Staffing and Funding for the Office of Spectrum Management Need Reevaluation

The OIG conducted an audit of the performance of NTIA's Office of Spectrum Management (OSM), which included a detailed review of its funding, fee collection, and staffing practices. Although our field work revealed no significant conditions meriting the issuance of an audit report, we found several issues warranting management's attention, which we discussed in an October 1997 memorandum to the Assistant Secretary for Communications and Information.

Specifically, resource assessments essential for effective long-range spectrum planning have not been performed; hardware and software have not been maintained to meet current and future needs; and inadequate support has been provided for national and international policy development and execution. OSM also lacks the personnel to fulfill its responsibility of ensuring that other federal agencies are complying with the conditions of their spectrum authorizations and using the limited spectrum efficiently, or that radio interference problems are quickly detected and corrected. We noted that these deficiencies may be exacerbated because a large percentage of the OSM work force will become eligible for retirement within the next three years. Furthermore, Interdepartment Radio Advisory Committee member agencies have not promptly paid their FY 1997 spectrum management fees to NTIA.

We suggested that NTIA (1) evaluate the work that OSM has been unable to perform, determine priorities within the context of the agency's strategic plan, and begin planning to replace OSM staff who might retire within the next three years; and (2) take appropriate action to collect FY 1998 spectrum management fees in a timely fashion. (*Economic Development Audits Division*)

Office of Spectrum Management Acted Properly in Relocation and Licensing Decisions

The OIG conducted an audit of the role of OSM in the Federal Communications Commission's (FCC) decisions to relocate Digital Electronic Messaging Service licenses and award a license to a specific company. We conducted a detailed review of OSM's actions to determine whether NTIA met its statutory responsibilities for federal spectrum management with respect to these decisions.

National Telecommunications and Information Administration

Our audit work revealed no significant conditions meriting the issuance of an audit report. We found that OSM officials acted properly and protected government interests by offering spectrum for the FCC to use in the Messaging Service relocation. OSM officials also followed established procedures for consulting with the Interdepartment Radio Advisory Committee on the use of federal spectrum.

We noted, however, that an FCC licensing bureau had issued Messaging Service licenses without the knowledge of FCC headquarters or OSM officials, even though the technology interfered with existing licenses for federal government satellite operations in two geographic areas. It also interfered with planned use by private-sector satellite communications systems for which the U.S. government had negotiated an international agreement. In a November 1997 memorandum to the Assistant Secretary for Communications and Information, we suggested that NTIA work with the FCC to establish a real-time licensing information system between FCC licensing bureaus and OSM that would reduce the likelihood of issuing licenses that interfere with federal spectrum use. (*Economic Development Audits Division*)



Patent and Trademark Office

The 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, to invest in research, to commercialize new technology, and to draw attention to inventions that would otherwise go unnoticed. PTO also collects, assembles, publishes, and disseminates technological information disclosed in patents.

Better Space Planning Needed for Proposed Consolidated Facility

In October 1995, PTO was granted congressional authorization to procure up to a 2.4 million-square-foot facility in northern Virginia to consolidate its facilities and operations and accommodate space expansion needs. In conjunction with the General Services Administration, PTO plans to award a contract to a private developer to construct a new facility or renovate an existing facility and lease it back to PTO for a period of at least 20 years. The solicitation for offers calls for the construction of the building shell, to include basic electrical and mechanical systems, which will be "built out" upon completion of the interior design. It is anticipated that the lease development contract will be awarded in October 1998, with occupancy to begin in November 2001.

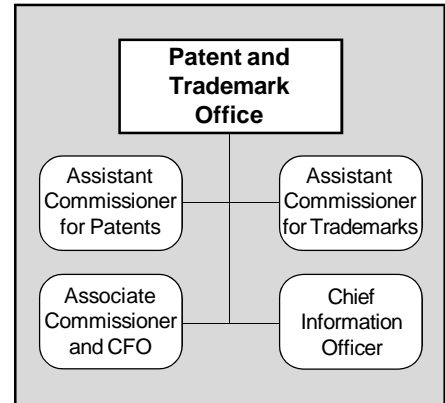
The OIG conducted an inspection to determine whether PTO is effectively managing the acquisition project, and if the facility and space expansion are justified. We found that PTO is managing many aspects of the lease/development procurement well: The PTO/GSA procurement strategy and its execution have generally been successful, and PTO has supported the basic requirements for and benefits of the new lease development based on its needs for modern, contiguous space.

However, we are concerned about the following aspects of PTO's planning and management of this major procurement:

- ! **Space Planning.** We found that PTO has failed to (1) finalize its space requirements, (2) reach an agreement with one of its major employee unions over working conditions related to space requirements, and (3) factor in the potential savings and efficiencies possible through systems reengineering and automation.
- ! **Build-Out Risk.** We are concerned that the methods PTO used to pursue the build-out of the facility needlessly expose the government to increased cost risk. PTO's strategy calls for a pool of \$88 million to be set aside for the build-out, funded through the lease with the developer. However, the bureau also is planning to spend at least \$29 million in additional funds for upgraded building systems and interiors. This process is flawed because the lease development project lacks a defined cost ceiling. Also, build-out specifications must be developed and issued by PTO upon award of the lease in order to limit the government's exposure to schedule risk and the likelihood of costly delays and numerous change orders because of incomplete specifications.

! **Lack of Interagency Agreement and Department Oversight.**

We also found that PTO does not have a formal interagency agreement with GSA. Without such an agreement, there are a number of important undefined factors that could adversely affect the project, including the fee structure for GSA's efforts, PTO's rights to turn back unneeded space, and GSA's role as construction manager. In addition, the Department has not provided PTO with sufficient real estate management oversight. In particular, the Department failed to foresee PTO's late start and the slow progress of its union discussions, which may delay award of the contract.



We provided numerous recommendations to address our concerns. PTO agreed to most of our findings and recommendations, but disagreed strongly with others. Specifically, PTO agreed to incorporate space savings in its draft Space Allocation Plan and execute an interagency agreement with GSA. In addition, the Department has greatly increased its oversight of the PTO facility project and recently added a chapter to its real property management manual describing its policy regarding major facility projects. However, PTO disagreed that the solicitation for offers, as drafted, does not set a limit on the government's liability for the build-out. PTO also disagreed that failure to establish a contractual ceiling would increase the project cost to the government. We find PTO's arguments concerning these two issues to be unconvincing. (*Office of Inspections and Program Evaluations: IPE-9724*)

PTO's Information Systems Acquisition Lacked Proper Transition Plans

In February 1997, PTO awarded a \$511 million, eight-year System Development and Maintenance (SDM) contract to two contractors, ending its 13-year Automated Patent System contract effective December 30, 1997. The purpose of the SDM contract was to consolidate APS and various non-APS system contracts and to improve contractor performance by maintaining ongoing competition for specific tasks. Crucial to PTO's business of examining and disseminating patents, APS allows examiners, attorneys, and the public to electronically search patent databases and enables PTO to service orders for patent and trademark documents. PTO had relied on the previous contractor for almost every aspect of planning, development, deployment, and maintenance of APS. The two SDM contracts officially began on May 15, 1997.

The OIG performed an inspection during the transition period to evaluate whether PTO had made adequate preparations for the SDM contractors to assume the previous contractor's APS development and maintenance activities. Specifically, we reviewed three aspects of the transition that were directly related to system development and maintenance: (1) transfer of APS materials, (2) training of the SDM contractors, and (3) preparation for configuration management.

During our review, we found that although progress had been made during the transition period, sufficient time and attention were not given to the transfer of SDM activities to the new contractors. In addition, the lack of a configuration management plan had impeded APS development and maintenance. We recommended that PTO:

- ! Extend the APS contract for a limited period to ensure that all systems were transferred appropriately.
- ! Develop and implement a configuration management plan that included a final determination of which configuration management system the SDM contractors would use immediately after the APS contract expired.
- ! Apply lessons learned to improve the transition process for non-APS systems.
- ! Increase training of the new SDM contractors for software development and maintenance.
- ! Improve the quality control of transferred material and ensure that documentation deficiencies were remedied.
- ! Improve transition management through the development of an internal transition team.

PTO concurred with our first three recommendations. Most importantly, the APS contract was extended from September 30 to the end of December 1997, giving the SDM contractors more time to learn about APS from the original contractor and fix APS problems. PTO also agreed to rapidly complete developing APS configuration management procedures so that the SDM contractors were able to access and manipulate the APS application code in an efficient, orderly fashion.

PTO disagreed with our other three recommendations, contending that the SDM contractors have received adequate APS training, that the cost of reviewing documentation for quality control is too high, and that its current transition management approach is adequate. (*Office of Systems Evaluation: OSE-10084*)

Audit of FY 1997 Financial Statements

In its audit of PTO's financial statements as of September 30, 1997, and 1996, the OIG issued an unqualified opinion on the FY 1997 principal statements, indicating that the bureau has an internal control structure that facilitates the preparation of reliable accounting and financial information.

Our tests of PTO's compliance with selected provisions of applicable laws and regulations disclosed no instances of material noncompliance. Our review of the bureau's internal control structure, however, disclosed three matters that we deemed reportable conditions. The conditions involved the need for PTO to improve procedures related to property, strengthen the analysis and monitoring of financial information, and deposit cash receipts more promptly.

The fact that two of these reportable conditions had been categorized as more serious material weaknesses in the prior year audit represents a substantial improvement in internal controls. Despite this improvement, we are concerned that several key financial management positions have yet to be permanently filled, most notably the Associate Commissioner and Chief Financial Officer and the Director of the Office of Budget.

To continue to meet its commitment to preparing high-quality, meaningful financial statements, PTO, like other agencies, will need to pay particular attention to the accounting requirements set forth in OMB Bulletin 97-01 and GPRA. We commend PTO's initial efforts to meet these new requirements. Besides participating as a pilot for the preparation of a strategic plan, PTO has begun to implement an activity-based costing methodology to capture costs in a way that should enable it to compile financial and performance data in compliance with both the bulletin and GPRA. For example, the overview to the FY 1997 financial statements effectively presented performance and financial measures indicating the bureau's successes and challenges. (*Financial Statements Audits Division: FSD-9755-8-0001*)

Increased Costs and Patent Pendency Are Hampering Agency Productivity

As part of an OIG audit survey, a business analysis of PTO was conducted to develop an overview of agency finances and operations in order to evaluate its future prospects. In performing the analysis, we focused extensively on financial and operational information included in PTO's audited financial statements and budgets.

We identified a number of critical issues facing PTO and concluded that significant problems related to the patent business do not appear to be adequately addressed. Three primary deficiencies were highlighted in our analysis—rising costs, increased patent pendency, and a disappointing effort to automate and reengineer the patent process. The principal conclusions of our analysis are as follows:

- ! **PTO is fully recovering its costs.** In the three years we have audited its financial statements, PTO has shown revenues in excess of expenses.
- ! **PTO's overall financial condition is good, but its net position (equity) is overstated.** The agency maintains a bank account with a balance of more than \$500 million. However, we believe that PTO's net position is overstated because it includes the cumulative amount of surcharge revenue withheld by the Congress, and such funds are unlikely to be returned to PTO.
- ! **The cost of processing a patent application has increased and could eventually require PTO to raise its fees above the inflation rate.** The cost of processing a patent application increased at an estimated annual rate of 10 percent between 1992 and 1996, apparently due to patent automation and declining productivity.
- ! **PTO's overhead is significant and growing.** Although PTO officials maintain that administrative costs have been cut sharply, some elements of overhead, such as mailroom services, have merely been contracted out, and others, such as administration and executive direction, have actually grown.

- ! **The productivity of patent examiners is declining, further increasing the cost of processing a patent.** The number of hours required to examine a patent has increased from 18.1 to 18.8 over the past five years. PTO attributes this decline in productivity primarily to the increasing complexity of technological patent applications.

- ! **Bottlenecks have developed in the pre-exam and post-exam process, contributing to the increase in pendency.** The backlogs of applications awaiting processing in the pre-exam and post-exam areas have grown more rapidly than those awaiting actual examination. PTO management states that low FTE ceilings have prevented it from hiring additional staff to handle the growing number of applications.

- ! **Automation efforts have been disappointing.** PTO's strategy to solve its operational problems through automation and reengineering has been ineffective. Many examiners still prefer paper files to the automated system, and few reengineering projects have shown results.

- ! **Trademark operations are more sound than patent operations.** Trademarks' costs of processing an application have been level, and it also has less overhead to support than patents as its automation plans have been more modest. However, new trademark applications are growing rapidly, making pendency a potential problem.

We will use our analysis to plan future work, and we suggested that PTO management use it to identify areas most in need of management attention as it works to improve patent and trademark operations. (*PTO Audits Division*)



Technology Administration

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 by industry. It includes three major organizations:

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

National Institute of Standards and Technology. NIST promotes U.S. economic growth by working with industry to develop and apply technology, measurements, and standards. NIST manages four programs: the Advanced Technology Program, the Manufacturing Extension Partnership Program, a laboratory-based measurement and standards program, and the National Quality Program.

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

Audit of TA's FY 1997 Financial Statements

The OIG contracted with a CPA firm to audit TA's statements of financial position as of September 30, 1997, and 1996, and the related statements of operations and changes in net position for the years then ended. The firm expressed an unqualified opinion on the statements, and reported no material weaknesses in its report on internal controls or instances of noncompliance in its report on compliance with laws and regulations. The results of the audit indicate that TA has been successful in establishing internal controls that facilitate the preparation of reliable accounting and financial information.

We reviewed a draft version of TA's overview to its financial statements, and provided management with a discussion paper highlighting our recommendations. Specifically, we noted that TA could improve its discussion of results by (1) improving the linkage of its results to its goals, objectives, and target performance levels, (2) strengthening its performance measures, and (3) improving the presentation of information to facilitate trend analyses and assessments of whether target levels of performance have been achieved. TA management was responsive to our comments, making some changes, while stating that additional improvements will be made in future overviews. (*Financial Statements Contract Audits Division: FSC-9868-8-0001*)

Audit of NTIS's FY 1997 Financial Statements

Under a contract with the OIG, a CPA firm audited NTIS's statement of financial position as of September 30, 1997, and the related statements of operations and changes in net position and cash flows for the year then ended. The firm expressed an unqualified opinion on the statement of financial position. However, NTIS received a disclaimer of opinion on its statements of operations and changes in net position and cash flows because of the carryover effect of the qualified opinion expressed on the prior year statement of financial position.

The fact that NTIS received an unqualified opinion on its statement of financial position represents a marked improvement in the bureau's financial management. However, in their report on NTIS's internal control structure, the auditors identified five reportable conditions, all of which have been reported in prior audits. These conditions dealt with the need for NTIS to improve controls over inventory (material weakness), improve controls over cash disbursements, properly prepare and review reconciliations with Treasury Department records, develop standard policies and procedures concerning elimination entries, and consistently apply policies related to the recording of fees, revenues, and advances.

The firm's report on compliance with laws and regulations noted two instances of noncompliance: (1) NTIS's financial management systems were not in compliance with the requirements of the Federal Financial Management Improvement Act of 1996, and (2) NTIS did not report certain reportable conditions, including a material weakness, in its 1997 Federal Managers' Financial Integrity Act report.

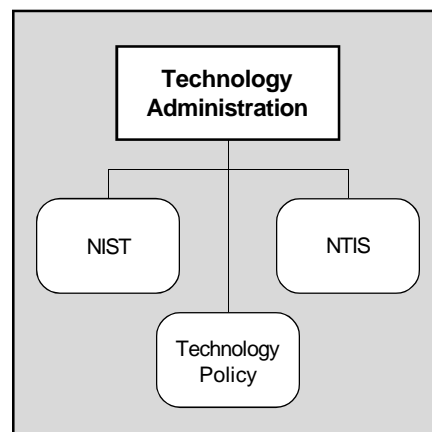
We reviewed a draft of the overview to NTIS's financial statements and made a number of recommendations for improvement, some of which the bureau implemented for the FY 1997 overview. Nevertheless, further improvements could be made in future overviews by including several years worth of data to facilitate trend analyses, comparing actual results to target levels of performance, and strengthening discussions of performance and financial results, as well as the performance measures themselves.

Because of our concerns about NTIS's financial position at year end and prior year trends, the CPA firm expanded its audit scope to determine whether the bureau could continue to operate as a going concern through FY 1998. Although the firm concluded that NTIS will be "in the black" at the end of FY 1998, we believe that the bureau's financial position needs to be closely monitored by management. If NTIS continues to lose money at the current rate, it may not have sufficient funds to sustain operations through FY 1999. (*Financial Statements Contract Audits Division: FSC-9867-8-0001*)

Audit of NIST's FY 1997 Financial Statements

A CPA firm audited NIST's combined statements of financial position as of September 30, 1997, and 1996, and the related combined statements of operations and changes in net position for the years then ended. The firm expressed an unqualified opinion on the financial statements, which indicates the agency's progress in meeting the goals and objectives of the CFO Act.

The auditors' report on internal controls identified no material weaknesses, but one reportable condition: the need to appoint a Chief Financial Officer. During FY 1997, the CFO position was filled on a temporary basis by two individuals, and the appointment of a permanent CFO is still pending. The auditors also identified a number of weaknesses in the security of NIST's information systems. These significant financial management challenges will require the attention and leadership of a permanent CFO.



We reviewed a draft of the overview to NIST's financial statements and made a number of recommendations for improvement. In particular, NIST can still strengthen its presentation of performance results. NIST was responsive to our recommendations, making some changes to the FY 1997 overview and indicating a willingness to make further changes in future years. (*Financial Statements Contract Audits Division: FSC-9864-8-0001*)

Accounting System Surveys and Audits of NIST Financial Assistance Recipients

As noted in earlier issues of this report, the OIG has been performing a series of accounting system surveys of first-time recipients of financial assistance awards under NIST's Advanced Technology and Manufacturing Extension Partnership programs (see, for example, September 1997 issue, page 49). During this semiannual period, key aspects of our work on NIST financial assistance programs involved conducting surveys of MEP recipients' accounting systems, responding to a congressional request seeking information on potential "double billing" in federal research and technology programs, and conducting a closeout audit of a recipient of an ATP cooperative agreement.

Manufacturing Extension Partnership Program

The 11 surveys reported on during this semiannual period covered projects that had award periods of two to three years and total estimated costs exceeding \$51 million, with a federal share that could ultimately be as much as \$24 million. Eight of the surveys identified weaknesses in the recipients' financial management and accounting systems, most commonly the failure to supply or document matching share funds, to properly claim and document allowable costs, and to implement adequate administrative policies and procedures.

Almost without exception, the recipients concurred with our findings and agreed to take prompt corrective actions. Identifying these weaknesses early in the award periods will help prevent future problems and avoid questioned costs in later audits. (*Denver Regional Office of Audits: DEN-9365-8-0001, DEN-9555-8-0001, DEN-9556-8-0001, DEN-9641-8-0001, DEN-9858-8-0001, DEN-9945-8-0001, DEN-9957-8-0001, DEN-10061-8-0001, DEN-10070-8-0001, DEN-10071-8-0001, and DEN-10116-8-0001*)

Congressional Request Related to Double Billing

At the request of the Chairman of the House Science Committee, we provided information on the operations of three Department programs: ATP,

MEP, and the Small Business Innovation Research program. The first two programs are unique to the Department of Commerce, while the third operates governmentwide. The Committee's concern was that companies might be receiving financial assistance from more than one federal source for the same or similar proposals, thereby increasing the risk of illegal double billing.

In examining NIST records, we found that no companies had received awards from all three programs and that only four had received awards in the same fiscal year from two of the programs. Our audits of these four small businesses found no double billing. (*Denver Regional Office of Audits: DEN-10128-8-0001, DEN-10129-8-0001, DEN-10130-8-0001, and DEN-10131-8-0001*)

Advanced Technology Program

At NIST's request, we also conducted a final closeout audit of an ATP cooperative agreement that had a total estimated federal share of nearly \$2 million. We recommended that NIST disallow about \$103,000 in questioned costs and deobligate about \$1.4 million of unexpended funds under the award. (*Denver Regional Office of Audits: DEN-8970-8-0001*)

Acting IG Testifies on Audit and Inspection Work at NIST and NTIS

On February 26, 1998, the Acting Inspector General testified at a hearing held by the House Science Committee's Subcommittee on Technology on the Technology Administration's budget. His statement focused on three important TA program areas: NIST's Capital Improvements Facilities Program, NIST's Advanced Technology Program, and NTIS's plans to become a performance-based organization.

In discussing the CIFP, the statement described the series of major reports we have issued in recent years and provided the current status of NIST's construction and renovation program (see page 11). The statement also highlighted the OIG's recent work on NIST accounting system surveys (see page 62); NIST's processes for selecting, monitoring, and evaluating awards (see September 1995 issue, page 71, and March 1996 issue, page 60); the accounting practices of joint ventures (see September 1997 issue, page 50); and NIST's administration of its authority to issue multi-year awards (see September 1997 issue, page 48). Also discussed were our concerns about NTIS's ability to meet the prerequisites of becoming a performance-based organization—a clearly defined mission and the ability to generate sufficient revenues to support business operations (see September 1997 issue, page 52).

NIST Properly Handled Superfund Interagency Agreement with EPA

Under interagency agreements with the Environmental Protection Agency, NIST conducts technical research to develop methods to counteract the effects of toxic waste spills. Funds appropriated for these agreements are made available through the Hazardous Substance Response Trust Fund, known as the Superfund, which is used to identify the nation's hazardous waste sites, assign priorities to the risks they create, and work to eliminate those risks.

The Superfund Amendments and Reauthorization Act of 1986 requires the OIG to audit all Department of Commerce payments, obligations, reimbursements, and other uses of the Superfund annually to ensure that it is being properly administered. During this semiannual period, we conducted an audit to determine whether NIST had properly managed the financial aspects of its one Superfund agreement entered into with EPA during FY 1997.

We determined that NIST had accurately accumulated, documented, and charged the Superfund for reimbursable costs under the agreement; funds had been received in advance for all work performed; the agency was in compliance with the relevant financial provisions of the legislation that created the Superfund and the terms and conditions of the interagency agreement; and controls over Superfund activities were adequate. As a result, we made no recommendations. (*Economic Development Audits Division: [EDD-10268-8-0001](#)*)

Audit Reports Unresolved for Over Six Months

As of March 31, 1998, there were eight financial assistance audit reports with recommendations unresolved for more than six months.

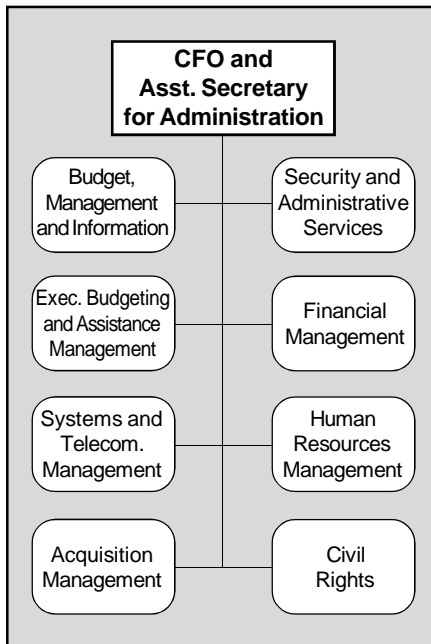
Seven of the eight reports are on joint venture ATP awards, in which we questioned a total of \$9.8 million in claimed costs generally involving transactions by software development companies that provided licenses, software maintenance and support, or other items from a commercial product line, for use on the projects (DEN-9752-7-0001, DEN-9760-7-0001, DEN-9767-7-0001, DEN-9774-7-0001, DEN-9776-7-0001, DEN-9779-7-0001, and DEN-9827-7-0001—see September 1997 issue, page 50).

The main issue concerns federal cost reimbursement rules that do not permit financial assistance award recipients to be reimbursed for previously invested development costs, corporate interest expenses, or profit—all of which can be significant ingredients of software commercial prices. We worked closely with NIST grant and program officials to develop a new rule, effective December 9, 1997, that addresses prospectively the valuation of transfers of goods and services, including computer software, between separately owned joint venture members. On March 27, NIST submitted audit resolution proposals for the seven audits, and we are in the process of evaluating the proposals.

One financial assistance interim audit of a Texas joint venture participant questioned a \$125,655 “cost of money” cost because it was not specifically identified in a cost proposal relating to the award under which this cost was claimed (DEN-9768-7-0001). NIST presented its views in an audit resolution proposal received at the close of this reporting period. We are reviewing the proposal.



Departmental Management



Financial Statements Audits

The OIG is responsible for the financial statements audit of the Department of Commerce in accordance with the CFO Act, as expanded by the Government Management Reform Act. During this semiannual period, the Department prepared its second consolidated financial statements, on which we disclaimed an opinion (see page 68).

In addition to reporting on the Department's consolidated financial statements, we issued an individual audit report for each bureau. Unqualified opinions were received by BEA/ESA, MBDA, NIST, NTIA, PTO, TA, the Department's Working Capital Fund, and the Department's Salaries and Expenses Fund. BXA, Census, and NTIS received unqualified opinions on their balance sheets with disclaimers on their income statements. EDA and NOAA received qualified opinions on their balance sheets with disclaimers on their income statements. Disclaimers of opinion were received by the Department's Franchise Fund and ITA.

The Department has strengthened its financial management over the prior year as indicated by six bureaus receiving improved audit opinions, as shown in the chart on the following page. In addition, the overall number of audit findings has decreased over the past several years. Despite this improvement, we remain concerned with the Department's ability to reach an unqualified opinion on its consolidated statements, given the upcoming reporting requirements included in GPRA and OMB Bulletin 97-01.

We reviewed the FY 1997 financial statement overviews prepared for the Department and its individual bureaus, and offered suggestions for improvement, many of which were incorporated. Our reviews found that the overviews generally did not provide sufficient performance and financial measures to provide clear descriptions of program and financial results. While some bureaus have made progress in developing performance measures and presenting performance results, further improvements are needed. Areas identified for improvement include (1) expanded usage of outcome and cost-effectiveness measures, (2) improved discussion of financial performance and results, (3) closer linkage to strategic goals and objectives, and (4) additional discussion of management plans to address identified deficiencies. Bureaus could also improve their presentation of performance results to facilitate trend analyses and assessments of whether target levels of performance have been achieved.

We will work with the Department and the bureaus to ensure that their corrective action plans address their internal control weaknesses. In addition, we will continue to assess the Department's and the bureaus' progress in addressing the new reporting requirements.

Departmental Management

Entity	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
Department					Disclaimer	Disclaimer
BEA	Survey	Balance Sheet Disclaimer	Balance Sheet Unqualified	Unqualified	Unqualified	Unqualified
BXA			Survey	Disclaimer	Disclaimer	Balance Sheet Unqualified; Income Statement Disclaimer
Census	Survey	Limited Scope	Disclaimer	Balance Sheet Qualified	Balance Sheet Qualified; Income Statement Disclaimer	Balance Sheet Unqualified; Income Statement Disclaimer
EDA	Limited Scope	Balance Sheet Disclaimer	Disclaimer	Disclaimer	Disclaimer	Balance Sheet Qualified; Income Statement Disclaimer
ESA	Survey	Balance Sheet Disclaimer	Balance Sheet Unqualified	Unqualified	Unqualified	Unqualified
Franchise Fund						Disclaimer
Gifts & Bequests		Disclaimer		*		
ITA	Survey	Limited Scope	Disclaimer	Disclaimer	Disclaimer	Disclaimer
MBDA			Survey	Balance Sheet Unqualified	Unqualified	Unqualified
NIST	Limited Scope	Balance Sheet Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
NOAA	Survey	**	Disclaimer	Disclaimer	Disclaimer	Balance Sheet Qualified; Income Statement Disclaimer
NTIA	Survey	Balance Sheet Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
NTIS	Unqualified	Unqualified	Unqualified	Unqualified	Balance Sheet Qualified; Income Statement Disclaimer	Balance Sheet Unqualified; Income Statement Disclaimer
PTO	Survey	Balance Sheet Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
S&E				Disclaimer	Balance Sheet Qualified; Income Statement Disclaimer	Unqualified
TA				Balance Sheet Unqualified	Unqualified	Unqualified
WCF	Survey	Balance Sheet Disclaimer	Balance Sheet Unqualified	Unqualified	Unqualified	Unqualified

Note: Definitions of the types of opinions appear on page 94.
 * An audit could not be performed.
 ** In FY 1993, we performed balance sheet audits of two NOAA entities—the Coastal Zone Management Revolving Fund and the Fishing Vessel Obligation Guarantee Program.

Audit of the Department's FY 1997 Consolidated Financial Statements

The OIG issued a disclaimer of opinion in its audit of the Commerce FY 1997 consolidated financial statements because of management's inability to support certain account balances and deficiencies noted in the Department's internal control environment. Our internal control review of the Department disclosed 10 reportable conditions, of which 7 were considered material weaknesses. The conditions dealt with the need for the Department to improve its financial management, systems, reconciliations, preparation of the consolidated financial statements, and procedures for the overview section of the statements. Improvements are also needed in controls over property; inventories; cash receipts and accounts receivable; obligations/undelivered orders, accounts payable, and expenses; and the identification of potential contingent liabilities and unasserted claims.

Implementation of Statement of Federal Financial Accounting Standards No. 5 and Interpretation of Federal Financial Accounting Standards No. 2 required the Department and its bureaus, beginning in FY 1997, to report *all* contingent liabilities associated with their operations, including transactions that are chargeable to the Treasury Department's Judgment Fund. However, departmental and bureau management were not sufficiently prepared for implementation of this standard. A significant, coordinated effort among the Office of General Counsel, the Office of Financial Policy and Assistance, and the OIG was initiated to address the challenge of meeting this new reporting requirement. This issue was a major factor contributing to the Department's inability to meet OMB's March 1, 1998, deadline for the issuance of audited financial statements.

In performing tests of compliance with selected provisions of applicable laws and regulations that may materially affect the consolidated statements, we noted several material instances of noncompliance. Specifically, we found that the Department was not in compliance with the Federal Financial Management Improvement Act of 1996, in part because it does not meet the requirements for a single, integrated financial system. Moreover, it is not in compliance with the Information Technology Management Reform Act of 1995, in part because a permanent Chief Information Officer has not been designated. In addition, similar tests of the individual bureaus disclosed material instances of noncompliance at ITA (see page 31) and NOAA (see page 38).

The Department concurred with our findings and our recommendations for corrective action and will prepare an audit action plan to address those recommendations.

To achieve an unqualified opinion in future years, the Department must meet the requirements set forth in OMB Bulletin 97-01. The bulletin poses tremendous challenges for the Department, particularly in its requirement that costs be reported in a new way—by suborganizations and programs, which are to be based on the missions and outputs described in the Department’s strategic and annual plans and its budget structures. (*Financial Statements Audits Division: FSD-9753-8-0001*)

Audit of the WCF and S&E Fund FY 1997 Financial Statements

The OIG performed audits of the General Administration’s Working Capital Fund (WCF) and Salaries and Expenses Fund (S&E) financial statements for the year ended September 30, 1997. We issued unqualified opinions on the financial statements for both funds. The statements were prepared by NIST’s Office of Comptroller, which provides accounting services for the funds. Both funds are managed by the Department’s Office of Executive Budgeting under the same internal control structure and procedures for compliance. Thus, the findings in our reports on internal control structure and on compliance with laws and regulations apply to both funds, unless otherwise specified.

Although progress continues to be made to improve the quality, usefulness, and timeliness of the funds’ financial and performance reporting, our review of the internal control structure identified seven reportable conditions related to (1) controls over property (material weakness); (2) controls over inventory for the WCF; (3) the basis for cost allocation rates and supporting documentation for the WCF; (4) controls surrounding obligations/undelivered orders, accounts payable, and expenses; (5) the analysis, monitoring, and review of financial information; (6) procedures for the overview section of the financial statements; and (7) controls over the Financial Accounting and Reporting System at the Office of Computer Services (OCS). Five of the seven reportable conditions, including the material weakness, were repeat conditions from prior audits. We also identified one material instance of noncompliance with laws and regulations, in that the funds were not operating in conformance with the Federal Financial Management Improvement Act.

In addition, we were concerned that the funds’ overviews to the financial statements were lacking sufficient financial performance measures to comply with GPRA requirements. For example, the few measures that were included were not presented in a manner that adequately reflects the funds’ successes or challenges. (*Financial Statements Audits Division: FSD-9754-8-0001*)

Audit of the Franchise Fund's FY 1997 Financial Statements

The Franchise Fund was established under the Government Management Reform Act of 1994 as a pilot program to provide common administrative services. The program's goal is to promote entrepreneurial business activities in common administrative services throughout the federal government, leading to a more competitive environment, which should in turn result in lower cost, higher quality, and more timely services. The services are to be provided on a full-cost-recovery basis, with no start-up appropriations.

In May 1996, OMB approved the Department as one of the six Franchise Fund pilot programs. The pilot involves projects in two Commerce entities—NOAA's Administrative Support Centers and the Office of the Secretary's Office of Computer Services. GMRA requires that the pilot program be audited; our audit of the FY 1997 statements was the first audit of the Fund. We expressed a disclaimer of opinion on the financial statements as of September 30, 1997, and for the year then ended. As explained in the report on internal control structure, significant internal control matters need to be addressed by the Franchise Fund's management to achieve the financial management objectives of the CFO Act, as amended by GMRA.

Our internal controls review of the Fund for the FY 1997 audit disclosed six reportable conditions, of which four are considered material weaknesses. The material weaknesses include the lack of an effective management structure to establish proper financial management control over Fund operations; inadequate controls over obligations/undelivered orders, accounts payable, and expenses; inadequate controls over cash receipts, accounts receivables, and revenues; and inadequate controls over capital assets. The remaining two weaknesses include the need to improve controls over automated data processing security and to strengthen the overview section of the financial statements.

We also found two material instances of noncompliance with applicable laws and regulations: (1) Certain aspects of OCS's procurement process were under review by the OIG and, at the time, we were unable to assess the impact of that issue on the financial statements; and (2) the Fund was not in substantial compliance with the Federal Financial Management Improvement Act of 1996, in that the Department's financial management systems are inadequate.

We made recommendations to address the above deficiencies. Management agreed with our findings and recommendations and expressed its intent to take the necessary actions to obtain an unqualified opinion. (*Financial Statements Audit Division: FSD-10240-8-0001*)

Office of Computer Services Needs Stronger Operational Controls

The Department's Office of Computer Services, located in Springfield, Virginia, provides data processing support for several financial application systems, including the Financial Accounting and Reporting System. Various Commerce entities utilize this system to produce their fiscal year-end financial statements.

As part of the OIG's FY 1997 consolidated audit of the Department, we performed a review of OCS operations to evaluate the effectiveness of general controls surrounding the Financial Accounting and Reporting System and Commerce financial data processing. The review focused on evaluating the adequacy and effectiveness of controls for mainframe system logical and physical security; computer center management and operations; software configuration management; and backup, recovery, and contingency planning.

We found several control issues that, if not resolved, could adversely affect the Department's ability to record and report financial data consistent with management's assertions. We identified controls needing improvement in OCS's entity-wide security program, access to the system, segregation of duties, system software, and service continuity.

We made numerous recommendations to OCS management to improve operations. Management concurred with our findings and recommendations and has provided a draft audit action plan detailing its planned corrective actions. (*Financial Statements Audits Division: FSD-10021-8-0001*)

Review of the Department's Discretionary Funding Programs

The Chairman of the Senate Committee on Commerce, Science, and Transportation requested that the OIG conduct a review of all of the Department's funding programs to assess how discretionary funding decisions are made. Specifically, he asked that we review and report on

Departmental Management

what criteria have been developed to guide Department officials in making such decisions and the extent to which the criteria are being applied. The Chairman was particularly interested in learning of discretionary funding programs that either have no formal merit-based criteria or have criteria that are not being properly applied.

Technically, all Commerce financial assistance programs are discretionary, rather than entitlement, programs. Six Commerce agencies—EDA, ITA, MBDA, NIST, NOAA, and NTIA—administer 71 categorical grant programs providing about \$1 billion a year in financial assistance to state and local governments, nonprofit and for-profit organizations, and individuals. Authorizing program legislation and agency policies, regulations, and solicitation, review, and selection procedures provide for varying degrees of discretion in making awards under the programs.

The OIG plans to meet the Chairman's request by systematically reviewing and reporting on all 71 grant programs. The review methodology will initially entail identifying (1) all programs for which competition or merit-based selection is significantly limited by the authorizing legislation, and (2) all earmarked projects, in order to determine their significance and impact in limiting competition or merit-based selection for program funds.

For each program for which the authorizing legislation or earmarks do not significantly limit competition or merit-based selection, we will evaluate agency procedures for soliciting, reviewing, and selecting proposals to determine if they comply with legislative intent and criteria, and evaluate whether they are designed to result in competitive or merit-based selections. We will issue a survey report during the next semiannual period on the results of this work.

For the programs that have solicitation, review and selection procedures which, if followed, should result in competitive or merit-based selections, we will review a representative sample of the solicitation, review, and selection *practices* for FY 1997 awards to determine if the procedures were followed. As for the programs that do *not* have competitive or merit-based procedures or have *inadequate* procedures, we will review a representative sample of the FY 1997 awards to determine how the funded proposals were selected. We will issue individual reports on the various agency programs, followed by a capping report summarizing the results of our overall review. (*Office of Audits*)

OIG Completed Project on Procedures for Prescreening Financial Assistance Recipients

As discussed in our previous report (see September 1997 issue, page 57), the Commerce OIG was instrumental in completing a survey report highlighting the procedures used by Offices of Inspector General and their respective agencies to prescreen federal financial assistance recipients. The survey report was an initiative of the President's Council on Integrity and Efficiency's Inspection and Evaluation Committee. The objective of the report was to identify the best practices used by individual organizations, so that other OIGs and agencies will have an opportunity to adopt such practices in their review procedures for federal assistance awards.

We were responsible for conducting a survey to identify successful techniques used by OIGs and their respective agency grant and loan offices to identify and screen out potentially problematic recipients of federal grants, loans, loan guarantees, or cooperative agreements before they receive federal funding.

Although most OIGs that participated in the survey do not have an active prescreening process, they expressed strong support for greater coordination in identifying problem recipients of federal financial assistance. We recommended that the President's Council conduct a review to determine the feasibility of the IG community developing an interagency database to facilitate the exchange of information on problem grantees and loan recipients. (*Office of Inspections and Program Evaluations*)

Preaward Financial Assistance Screening

We continue to work with the Office of Executive Assistance Management, NOAA and NIST grant offices, and EDA program offices to screen all of the Department's grants, cooperative agreements, and loan guarantees before award. Our screening (1) provides information on whether the applicant has unresolved audit findings and recommendations on earlier awards, and (2) determines whether a name check or investigation has revealed any negative history on individuals or organizations connected with a proposed award.

During this period, we screened 707 proposed awards. On the basis of information we provided, the Department delayed the awards, or designated certain recipients as "high risk" and required that the disbursement of federal funds be on a cost reimbursement basis. (*Office of Audits*)

Preaward Screening Results		
Results	Number	Amount
Awards delayed	4	\$14,352,284
Cost reimbursement basis	3	1,311,500

Indirect Cost Reviews

OMB has established a policy whereby a single federal agency is responsible for the review, negotiation, and approval of indirect cost rates for federal programs. Normally, the federal agency providing the most direct funding is the cognizant agency. OMB has designated Commerce as the cognizant agency for 280 economic development districts. In turn, the Department authorized the OIG to negotiate indirect cost rates and review cost allocation plans for each of its agencies. The OIG approves the methodology and principles used in pooling indirect costs and establishing an appropriate base for distributing those costs to ensure that each federal, state, and local program bears its fair share.

During this period, the OIG negotiated 18 indirect cost rate agreements with nonprofit organizations and governmental agencies, and reviewed and approved 21 cost allocation plans. We also provided technical assistance to recipients of Commerce awards regarding the use of rates established by other federal agencies and their applicability to our awards. Further, we have worked closely with first-time for-profit recipients of Commerce awards to establish indirect cost proposals that are acceptable for OIG review. (*Atlanta Regional Office of Audits*)

Nonfederal Audit Activities

In addition to OIG-performed audits, the Department’s financial assistance programs are audited by state and local government auditors and by independent public accountants. OMB Circulars A-128, *Audits of State and Local Governments*, and A-133, *Audits of Institutions of Higher Education and Other Non-Profit Institutions*, set forth the audit requirements for most of these entities. Entities that are for-profit organizations and receive ATP 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.

Circular A-133 was revised in June 1997. The revised circular, *Audits of States, Local Governments, and Non-Profit Organizations*, rescinds the previous Circular A-128 and incorporates that circular’s requirements and previous A-133 requirements into one document. It also raises the threshold for requiring an audit, and directs that entities submit reports directly to a federal clearinghouse instead of the Department. The revised Circular A-133 is effective for fiscal years beginning after June 30, 1996.

During this semiannual period, we received a total of 278 audit reports prepared by nonfederal auditors. All reports received during this period were prepared under the previous Circular A-128 and Circular A-133 requirements. We also had 84 unprocessed reports from the last semiannual period. For 177 of these reports, the Department is responsible for monitoring compliance with the two OMB circulars and NIST’s requirements applicable to its financial assistance. The other 185 reports are from entities for which other federal agencies have oversight responsibility. We examined 264 reports during this period to determine whether they contained audit findings on any Department programs.

Report Category	Number
Pending (October 1, 1997)	84
Received	278
Examined	264
Pending (March 31, 1998)	98

Departmental Management

The following table shows a breakdown by bureau of the \$168 million in Commerce funds audited.

Bureau	Funds
EDA	\$72,248,781
ITA	607,153
MBDA	765,053
NOAA	34,320,137
NTIA	4,625,515
TA	8,421,336
NIST	46,913,574
Total	\$167,901,549

We identified a total of \$1,333,820 in questioned costs. In most reports, the Department's programs were considered non-major, resulting in limited transaction and compliance testing against laws, regulations, and grant terms and conditions. The 18 reports with Commerce findings are listed in Appendix B-1. (*Atlanta Regional Office of Audits*)

Reporting Requirements



INDEX

The Inspector General Act of 1978, as amended (1988), specifies reporting requirements for semiannual reports. The requirements are listed below and indexed to the applicable pages.

Section	Topic	Page
4(a)(2)	Review of Legislation and Regulations	78
5(a)(1)	Significant Problems, Abuses, and Deficiencies	17-76
5(a)(2)	Significant Recommendations for Corrective Action	17-76
5(a)(3)	Prior Significant Recommendations Unimplemented	78
5(a)(4)	Matters Referred to Prosecutive Authorities	17-76
5(a)(5) and 6(b)(2)	Information or Assistance Refused	79
5(a)(6)	Listing of Audit Reports	87-93
5(a)(7)	Summary of Significant Reports	17-76
5(a)(8)	Audit Reports—Questioned Costs	83, 86
5(a)(9)	Audit Reports—Funds to Be Put to Better Use	84, 85
5(a)(10)	Prior Audit Reports Unresolved	15, 79
5(a)(11)	Significant Revised Management Decisions	15, 80
5(a)(12)	Significant Management Decisions with Which the OIG Disagreed	80

The OIG is also required by section 804(b) of the Federal Financial Management Improvement Act of 1996 to report on instances and reasons when an agency has not met the dates of its remediation plan. Our discussion of the act appears on page 9.

Section 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 that 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 in the administration 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. Our recommendations on legislative and regulatory initiatives affecting Commerce programs are discussed throughout the report.

Section 5(a)(3): Prior Significant Recommendations Unimplemented

This section requires an identification of each significant recommendation described in previous semiannual reports on which corrective action has not been completed. Section 5(b) requires that the Secretary transmit to the Congress statistical tables for audit reports for which no final action has been taken, plus a statement that includes an explanation of the reasons final action has not been taken on each such audit report, except when the management decision was made within the preceding year.

Prior Inspector General semiannual reports have explained that to include a list of all significant unimplemented recommendations in this report would be duplicative, costly, unwieldy, and of limited value to the Congress. Any list would have meaning only if explanations detailed whether adequate progress is being made to implement each agreed-upon corrective action. Also, as this semiannual report is being prepared, management is in the process of updating the Department's Audit Tracking System as of March 31, 1998, based on semiannual status reports due from the bureaus in mid-April. An accurate database is therefore not available to the OIG for reference here. However, additional information on the status of any audit recommendations may be obtained through the 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 commencement 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 the reasons such management decision has not been made, and a statement concerning the desired timetable for achieving a management decision on each such report.

As of March 31, 1998, 10 financial assistance audit and 3 preaward contract audits were in this category, as discussed below.

Financial Assistance Audits

The 10 unresolved audits relate to financial assistance awards made by EDA (1), NOAA (1), and NIST (8). Audit resolution proposals have been submitted in response to all the final audit reports; however, OIG and the bureaus were not able to resolve the reports on a timely basis. Additional details are presented on pages 22, 49, and 64.

Preaward Contract Audits

The Department's Audit Tracking System recorded three preaward contract audits unresolved in excess of six months. The audits, based on DCAA reviews of contract proposals, are resolved when a contracting officer takes final action on the pending procurement, such as awarding a contract or issuing a contract modification.

The unresolved preaward contract audits to be reported are listed below.

- ! ARA-08350-6-0082, August 6, 1996
- ! OCA-08350-7-0025, June 13, 1997
- ! OCA-08350-7-0030, August 14, 1997

Section 5(a)(11): Significant Revised Management Decisions

This section requires a description and explanation of the reasons for any significant revised management decision made during the reporting period. Department Administrative Order 213-5, "Audit Resolution and Follow-up," provides procedures for revision of a management decision. For performance audits, the OIG must be consulted and must approve, in advance, any modification to an audit action plan. For financial assistance audits, the OIG must concur with any decision that would change the audit resolution proposal in response to an appeal by the recipient.

During the reporting period, five modifications were submitted to the OIG for review. None of the modifications involved issues with current significance, and the OIG concurred with the proposed adjustments.

The decisions issued on the four appeals of audit-related debts were finalized with the full participation and concurrence of the OIG.

Section 5(a)(12): Significant Management Decisions with Which the OIG Disagreed

This section requires information concerning any significant management decision with which the Inspector General is in disagreement.

Department Administrative Order 213-5 provides procedures for the elevation of unresolved audit recommendations to higher levels of Department and OIG management, including an Audit Resolution Council. During this period, one audit issue was referred to the Deputy Secretary (see page 37).

Statistical Highlights



Audit Statistical Highlights	
Questioned costs this period	\$2,600,928
Value of audit recommendations made this period that funds be put to better use	\$8,571,588
Value of audit recommendations agreed to this period by management	\$2,348,787

Investigative Statistical Highlights	
Arrests	1
Indictments and informations	5
Convictions	1
Personnel actions*	24
Administrative actions**	10
Fines, restitutions, judgments, and other civil and administrative recoveries	\$3,152,245
* Includes removals, suspensions, reprimands, demotions, reassignments, and resignations or retirements in lieu of adverse action.	
** Includes actions to recover funds, new procedures, and policy changes that result from investigations.	

Allegations Processed by OIG Investigators	
	Accepted for investigation
	28
	Referred to operating units
	37
	Evaluated but not accepted for investigation or referral
	<u>35</u>
	Total
	100
In addition, numerous other allegations and complaints were forwarded to the appropriate federal and nonfederal investigative agencies.	
OIG HOTLINE	
Telephone:	(202) 482-2495 or (800) 424-5197
Internet E-Mail:	oighotline@doc.gov



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DEFINITIONS	
<p>The term questioned cost refers to a cost that is questioned by the 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.</p>	
<p>The term unsupported cost refers to a cost that, at the time of the audit, is not supported by adequate documentation. Questioned costs include unsupported costs.</p>	
<p>The term recommendation that funds be put to better use refers to a recommendation by the OIG 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 that are specifically identified.</p>	
<p>The term management decision refers to 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.</p>	

Table 1: Audits with Questioned Costs

Report Category	Number	Questioned Costs	Unsupported Costs
A. Reports for which no management decision had been made by the commencement of the reporting period	42	\$10,002,583	\$1,606,366
B. Reports issued during the reporting period	27	2,600,928	853,910
Total reports (A+B) requiring a management decision during the reporting period	69	12,603,511	2,460,276
C. Reports for which a management decision was made during the reporting period	34	3,079,808	883,699
i. Value of disallowed costs		1,591,589	467,549
ii. Value of costs not disallowed		1,488,219	416,150
D. Reports for which no management decision had been made by the end of the reporting period	35	\$9,523,703	\$1,576,577

Notes and Explanations:

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

Five audit reports included in this table are also included in the reports with recommendations that funds be put to better use (see Table 2). However, the dollar amounts do not overlap.

No postaward contract audits are included in this table; instead, any such audits are listed in Table 4.

Tables and Appendices

Table 2: 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 commencement of the reporting period	6	\$46,697,819
B. Reports issued during the reporting period	5	8,571,588
Total reports (A+B) requiring a management decision during the reporting period	11	55,269,407
C. Reports for which a management decision was made during the reporting period	6	46,697,819
i. Value of recommendations agreed to by management		757,198
ii. Value of recommendations not agreed to by management		45,940,621
D. Reports for which no management decision had been made by the end of the reporting period	5	\$8,571,588

Notes and Explanations:

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

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

No postaward contract audits are included in this table; instead, any such audits are listed in Table 3.

Table 3: Preaward Contract 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 commencement of the reporting period	4	\$1,062,459
B. Reports issued during the reporting period	—	—
Total reports (A+B) requiring a management decision during the reporting period	4	1,062,459
C. Reports for which a management decision was made during the reporting period	1	525,119
i. Value of recommendations agreed to by management		—
ii. Value of recommendations not agreed to by management		—
iii. Value of reports on proposals that were not awarded contract		525,119
D. Reports for which no management decision had been made by the end of the reporting period	3	\$537,340

Notes and Explanations:

Preaward audits of contracts include results of audits performed for the OIG by other agencies.

When there are multiple proposals for the same contract, we report only the proposal with the lowest dollar value for funds to be put to better use; however, in Category C, lines i-ii, we report the value of the awarded contract.

In Category C, lines i-iii do not always equal the total on line C since resolution may result in values greater than the original recommendations.

Tables and Appendices

Table 4: Postaward Contract Audits with Questioned Costs			
Report Category	Number	Questioned Costs	Unsupported Costs
A. Reports for which no management decision had been made by the commencement of the reporting period	—	—	—
B. Reports issued during the reporting period	—	—	—
Total reports (A+B) requiring a management decision during the reporting period	—	—	—
C. Reports for which a management decision was made during the reporting period	—	—	—
i. Value of disallowed costs		—	—
ii. Value of costs not disallowed		—	—
D. Reports for which no management decision had been made by the end of the reporting period	—	—	—
Notes and Explanations:			
In Category C, lines i and ii do not always equal the total on line C since resolution may result in values greater than the original recommendations.			

Appendix A. Office of Inspector General Reports		
Type	Number	Appendix
Performance Audits	6	A-1
Inspections	6	A-2
Financial Statements Audits	16	A-3
Financial Assistance Audits	24	A-4
Total	52	

Appendix A-1. Performance Audits				
Agency	Subject	Number	Date	Funds to Be Put to Better Use
Economics and Statistics Administration	2000 Decennial Census: Address-Building Program May Become More Complex, Costly, and Counterproductive	ESD-9608-8-0001	03/98	—
	Atlanta Bankcard Purchases Need Improved Internal Controls	ATL-10316-8-0001	03/98	—
International Trade Administration	Trade Events: Improvements Needed in Planning and Management	IAD-9714-8-0001	03/98	—
National Oceanic and Atmospheric Administration	NMFS Laboratory Structure Should Be Streamlined	STL-8982-8-0001	11/97	\$6,028,000
	NOAA/EPA Interagency Agreements for Support of Ongoing Superfund Activities - FY 1995 and FY 1996	STL-10140-8-0001	02/98	—
Technology Administration	FY 1997 Superfund Charges to the Environmental Protection Agency	EDD-10268-8-0001	02/98	—

Tables and Appendices

Appendix A-2. Inspections				
Agency	Subject	Number	Date	Funds to Be Put to Better Use
Economics and Statistics Administration	Headquarters Information Processing Systems for the 2000 Decennial Census Require Technical and Management Plans and Procedures	OSE-10034	11/97	—
Minority Business Development Agency	Use of Cooperative Agreements Will Improve Management and Oversight of the Minority Business Opportunity Committee Program	IPE-10309	03/98	—
National Oceanic and Atmospheric Administration	Coastal Zone Management and National Estuarine Research Reserve System Programs Require Management Attention to Increase Effectiveness	IPE-9044	12/97	—
	NWS' s Verification System for Severe and Hazardous Weather Forecasting Needs Modernization	IPE-9255	01/98	—
Patent and Trademark Office	Inadequate Contractor Transition Risks Increased System Cost and Delays	OSE-10084	12/97	—
	PTO Needs to Refine Its Space Consolidation Planning	IPE-9724	03/98	—

Appendix A-3. Financial Statements Audits				
Agency	Subject	Number	Date	Funds to Be Put to Better Use
Bureau of Export Administration	Financial Statements for FY 1997	FSC-9859-8-0001	03/98	—
Economic Development Administration	Financial Statements for FY 1997	FSC-9861-8-0001	03/98	—
Economics and Statistics Administration	BEA' s and ESA' s Consolidated Financial Statements for FY 1997	FSC-10113-8-0001	03/98	—
	Census' Financial Statements for FY 1997	FSC-9860-8-0001	03/98	—
International Trade Administration	Financial Statements for FY 1997	FSC-9862-8-0001	03/98	—
Minority Business Development Agency	Financial Statements for FY 1997	FSC-9863-8-0001	03/98	—
National Oceanic and Atmospheric Administration	Financial Statements for FY 1997	FSC-9865-8-0001	03/98	—
National Telecommunications and Information Administration	Financial Statements for FY 1997	FSC-9866-8-0001	03/98	—
Office of the Secretary	Office of Computer Services General Controls	FSD-10021-8-0001	02/98	—
	General Administration' s Franchise Fund's Financial Statements as of Sept. 30, 1997	FSD-10240-8-0001	02/98	—
	Department of Commerce' s Consolidated Financial Statements for FY 1997	FSD-9753-8-0001	03/98	—
	General Administration' s WCF and S&E Financial Statements as of Sept. 30, 1997	FSD-9754-8-0001	03/98	—
Patent and Trademark Office	Financial Statements as of Sept. 30, 1997 and 1996	FSD-9755-8-0001	03/98	—
Technology Administration	TA' s Financial Statements for FY 1997	FSC-9868-8-0001	03/98	—
	NIST' s Financial Statements for FY 1997	FSC-9864-8-0001	03/98	—
	NTIS' s Financial Statements for FY 1997	FSC-9867-8-0001	03/98	—

Tables and Appendices

Appendix A-4. Financial Assistance Audits						
Agency	Auditee	Number	Date	Questioned Costs	Unsupported Costs	Funds to Be Put to Better Use
Economic Development Administration	Clearwater Economic Development Association, ID	STL-9830-8-0001	02/98	\$3,055	—	\$12,327
	City of Pattonsburg, MO	DEN-9651-8-0001	02/98	143,159	\$99,740	—
	City of Gloucester, MA	ATL-10253-8-0001	03/98	12,500	—	629,310
International Trade Administration	International Environmental Business and Technology Institute, Inc., MA	ATL-10082-8-0001	03/98	105,049	—	352,951
National Oceanic and Atmospheric Administration	Massachusetts Coastal Zone Management Office	ATL-10278-8-0001	03/98	25,393	—	—
	West Virginia High Technology Consortium	ATL-9259-8-0001	03/98	—	—	—
National Telecommunications and Information Administration	Association of Bay Area Governments, CA	STL-9491-8-0001	11/97	69,078	7,094	—
	HandsNet, Inc., CA	STL-10522-8-0001	03/98	—	—	—
Technology Administration - NIST	Physical Optics Corporation, CA	DEN-10129-8-0001	10/97	—	—	—
	Reliable Software Technologies, VA	DEN-10128-8-0001	10/97	—	—	—
	Rhode Island Manufacturing Extension Services	DEN-10070-8-0001	10/97	—	—	—
	WestCAMP, Inc., UT	DEN-9945-8-0001	10/97	—	—	—
	Industry Network Corporation, NM	DEN-9555-8-0001	12/97	28,047	9,058	—
	Florida Manufacturing Extension Partnership	DEN-9365-8-0001	01/98	106,552	104,763	—
Note: The questioned costs and unsupported costs include only the federal share of the total questioned and unsupported costs cited in the reports.						

Appendix A-4. Financial Assistance Audits — Continued

Agency	Auditee	Number	Date	Questioned Costs	Unsupported Costs	Funds to Be Put to Better Use
Technology Administration - NIST	Manufacturing Extension Partnership of New Hampshire, Inc.	DEN-10116-8-0001	01/98	—	—	—
	Arkansas Science and Technology Authority	DEN-9556-8-0001	02/98	358,596	358,596	—
	Montana State University	DEN-9858-8-0001	02/98	30,373	—	—
	New Jersey Manufacturing Extension Program, Inc.	DEN-10061-8-0001	02/98	186,944	186,944	—
	Wisconsin Center for Manufacturing and Productivity, Inc.	DEN-9641-8-0001	02/98	—	—	—
	A.L. Philpott Manufacturing Center, VA	DEN-10071-8-0001	03/98	62,630	62,630	—
	Cubicon Corporation, CA	DEN-8970-8-0001	03/98	103,008	17,252	1,400,000
	Deltronic Crystal Industries, Inc., NJ	DEN-10130-8-0001	03/98	1,538	1,538	—
	Maine Science and Technology Foundation	DEN-9957-8-0001	03/98	31,186	—	—
	SDL, Inc., CA	DEN-10131-8-0001	03/98	—	—	—

Note: The questioned costs and unsupported costs include only the federal share of the total questioned and unsupported costs cited in the reports.

Tables and Appendices

Appendix B. Processed Reports

The Office of Inspector General reviewed and accepted 264 financial assistance 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	OMB A-128 and A-133 Audits
Economic Development Administration	88
International Trade Administration	6
Minority Business Development Agency	1
National Oceanic and Atmospheric Administration	14
Technology Administration	19
National Institute of Standards and Technology *	53
Multi-Agency	26
Agency Not Identified	57
Total	264

* Includes ATP program-specific audits.

Appendix B-1. Processed Financial Assistance Audits

Agency	Auditee	Number	Date	Questioned Costs	Unsupported Costs	Funds to Be Put to Better Use
Economic Development Administration	Georgia Mountains Regional Development Center	ATL-9999-8-0942	10/97	\$399,136	—	—
	Bonneville County, ID	ATL-9999-8-0243	03/98	6,913	—	—
National Oceanic and Atmospheric Administration	State of Idaho	ATL-9999-8-0046	12/97	25,000	—	—
	Woods Hole Oceanographic Institution, MA	ATL-9999-8-0250	03/98	21,339	—	—
Technology Administration - NIST	Soane BioSciences, Inc., GA	ATL-9999-8-0011	03/98	2,319	—	\$3,204
	Westinghouse Electric Corporation, FL	ATL-9999-8-0019	03/98	16,845	—	—
	Micron Optics, Inc., GA	ATL-9999-8-0020	03/98	—	—	—
	Caterpillar Inc., IL	ATL-9999-8-0023	03/98	3,091	\$3,091	—
	The Ingersoll Milling Machine Company, IL	ATL-9999-8-0025	03/98	457,975	—	—
	Intelligent Automation Systems, Inc., MA	ATL-9999-8-0033	03/98	98,244	—	—
	Norton Diamond Film, MA	ATL-9999-8-0035	03/98	13,620	—	—
	Chrysler Corporation, MI	ATL-9999-8-0039	03/98	—	—	—
	Ford Motor Company, MI	ATL-9999-8-0040	03/98	—	—	—
	General Motors Corp., MI	ATL-9999-8-0041	03/98	—	—	—
	International Business Machines Corporation, NC	ATL-9999-8-0045	03/98	—	—	—
	Sunquest Information Systems, Inc., PA	ATL-9999-8-0050	03/98	228,332	—	—
	International Business Machines Corporation, NY	ATL-9999-8-0052	03/98	—	—	—
	Advanced Product Development, Inc., PA	ATL-9999-8-0077	03/98	61,006	—	—

Note: The questioned costs and unsupported costs include only the federal share of the total questioned and unsupported costs cited in the reports.



Definitions of OIG Reviews and Financial Statements Audit Terms

OIG Reviews

Audits

Performance Audits — These audits look at the efficiency, effectiveness, and economy of the Department's programs, activities, and information technology systems. They may check a unit's compliance with laws and regulations, and evaluate its success in achieving program objectives.

Financial-Related Audits — These audits review the Department's contracts, grants, cooperative agreements, loans, and loan guaranties. They assess compliance with laws, regulations, and award terms; adequacy of accounting systems and internal controls; allowance of costs; and the degree to which a project achieved the intended results.

Financial Statements Audits — The CFO Act, as amended by GMRA, requires federal agencies to prepare annual financial statements and to subject them to audit. The OIG is responsible for conducting these audits and reporting the results to the Secretary.

Inspections

Operational Inspections — These are reviews of an activity, unit, or office, or a contractor or organization that receives funds from the Department. They focus on an organization, not a whole program, and are designed to give agency managers timely information about operations, including current and foreseeable problems.

Program Evaluations — These are in-depth reviews of specific management issues, policies, or programs.

Systems Evaluations — These are reviews of system development, acquisition, operations, and policy in order to improve efficiency and effectiveness. They focus on Department-wide computer systems and other technologies and address all project phases, including business process reengineering, system definition, system development, deployment, operations, and maintenance.

Financial Statements Audit Terms

Overview — This required component of financial statements is to provide a clear, concise description of the entity's programs, activities, and results. It contains the entity's performance measures and serves as a link between the statements and the requirements of GPRA.

Trend Analysis — This analysis of performance data from multiple years allows conclusions to be drawn about an entity's progress over time in improving its results. To facilitate this analysis, the entity should present data from several prior years, projected data for the following year, and a comparison of actual versus targeted performance.

Unqualified Opinion — The financial statements present fairly, in all material aspects, the entity's financial position and results of operations.

Qualified Opinion — Except for the effects of the matter(s) to which the qualification relates, the financial statements present fairly, in all material respects, the entity's financial position and results of operations.

Adverse Opinion — The financial statements do not present fairly the entity's financial position or results of operations.

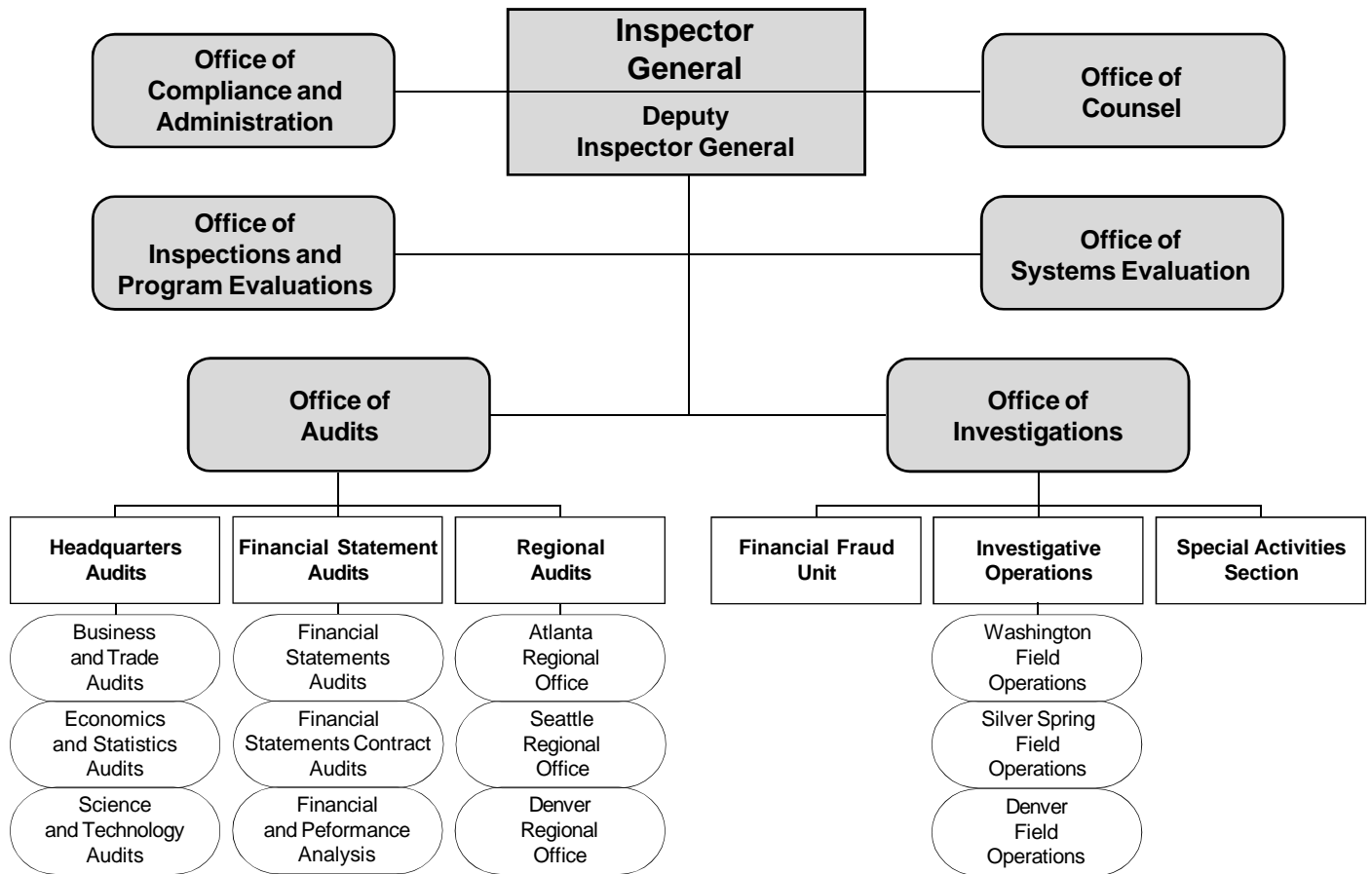
Disclaimer of Opinion — The auditor does not express an opinion on the financial statements.

Glossary of Abbreviations



AD/CVD	Antidumping/Countervailing Duty
APS	Automated Patent System
AWIPS	Advanced Weather Interactive Processing System
BEA	Bureau of Economic Analysis
BXA	Bureau of Export Administration
CAMS	Commerce Administrative Management System
CFO	Chief Financial Officer
CIFP	Capital Improvements Facilities Program
CPA	certified public accounting
CZM	Coastal Zone Management
EDA	Economic Development Administration
EPA	Environmental Protection Agency
ESA	Economics and Statistics Administration
FCC	Federal Communications Commission
GMRA	Government Management Reform Act
GPRA	Government Performance and Results Act
GSA	General Services Administration
IA	Import Administration
ITA	International Trade Administration
KDP-4	Key Decision Point-4
MAF	Master Address File
MBDA	Minority Business Development Agency
MEP	Manufacturing Extension Partnership
MBOC	Minority Business Opportunity Committee
NERRS	National Estuarine Research Reserve System
NEXRAD	Next Generation Weather Radar
NIST	National Institute of Standards and Technology
NMFS	National Marine Fisheries Service
NOAA	National Oceanic and Atmospheric Administration
NTIA	National Telecommunications and Information Administration
NTIS	National Technical Information Service
NWS	National Weather Service
OCRM	Office of Ocean and Coastal Resource Management
OCS	Office of Computer Services
OIG	Office of Inspector General
OMB	Office of Management and Budget
OSM	Office of Spectrum Management
PTO	Patent and Trademark Office
RLF	revolving loan fund
S&E	Salaries and Expenses Fund
SDM	System Development and Maintenance
TA	Technology Administration
TD	Trade Development
TEMS	Trade Events Management System
US&FCS	U.S. and Foreign Commercial Service
WCF	Working Capital Fund
WFO	weather forecast office
Y2K	Year 2000

Office of Inspector General Organization Chart



OIG Points of Contact

Inspector General (202) 482-4661	Office of Counsel (202) 482-5992
Congressional Liaison (202) 482-3052	Office of Inspections and Program Eval.. (202) 482-2754
Office of Audits..... (202) 482-1934	Office of Investigations (202) 482-0934
Office of Compliance and Admin. (202) 482-0231	Office of Systems Evaluation (202) 482-6186

TDD Number (202) 482-4948
Media Inquiries (202) 482-5992

REQUESTS FOR REPORTS:

Telephone (202) 482-0231
Internet E-Mail oigreports@doc.gov

OIG HOTLINE:

Telephone (202) 482-2495 or (800) 424-5197
Internet E-Mail oighotline@doc.gov

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<http://www.oig.doc.gov>