

Semiannual Report to the Congress

March 31, 2000



U.S. DEPARTMENT OF COMMERCE
Office of Inspector General



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.

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IG's Message for the Secretary



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

April 30, 2000

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

Mr. Secretary:

I am pleased to provide you with the Office of Inspector General's semiannual report to the Congress for the first half of fiscal year 2000. 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 of its receipt.

During this semiannual period, we have devoted considerable effort to addressing the varied and complex issues facing Commerce, its programs, and its managers. Most notably, this has included reviewing and monitoring the Department's efforts to address three of the most visible and immediate of its top 10 management challenges—improving the accuracy and controlling the cost of the 2000 Decennial Census, achieving an unqualified opinion on its consolidated financial statements, and addressing the Y2K computer problem. I am now pleased to report that two of these challenges have been met, and we are removing them from our top 10 list.

Specifically, the Department received its first ever unqualified opinion on its FY 1999 consolidated financial statements, and Commerce's computer systems handled the rollover to the year 2000 without major problems. You should be proud of these noteworthy achievements. The Department's success in meeting these challenges is directly attributable to the cooperative efforts of managers and staff from the Office of the Secretary, Commerce operating units, and the OIG.

This report also describes the substantial progress made to address other major issues, most notably the challenges of expanding private sector participation in NOAA's marine and aeronautical data gathering, implementing the Advanced Weather Interactive Processing System, and maximizing competition in the Department's discretionary financial assistance programs.

Sincerely,

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

Johnnie E. Frazier

Enclosure



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IG's Message for the Congress

FOREWORD

Notwithstanding our serious budgetary constraints at a time of increasing demands and expanding requirements, we have worked judiciously to achieve the maximum impact from our limited resources and respond appropriately to the wide range of issues affecting Department of Commerce operations. In the pages immediately following this foreword, we describe the Department's success in addressing several of what we view as its top 10 challenges, provide updates on the status of the remaining challenges, and highlight other issues of concern. In the sections organized by Commerce operating unit, we discuss a broad spectrum of reviews completed by our office during this semiannual period. For example:

- In the first of a series of annual reviews required by the National Defense Authorization Act for FY 2000, we assessed the adequacy of BXA's efforts to help prevent the illicit transfer of sensitive U.S. technology to countries of concern.
- As the Census Bureau was making final preparations for the 2000 Decennial Census, we completed reviews of selected aspects of the bureau's personnel and payroll system, its controls over accountable property at regional centers, and pay problems experienced by temporary employees in the Atlanta region.
- We continued our comprehensive inspections of Commerce's overseas operations, reporting on our work at U.S. and Foreign Commercial Service posts in France, Hong Kong, and Vietnam.
- As part of our congressionally requested examination of Commerce discretionary financial assistance programs, we completed reviews of 1 ITA and 3 NOAA programs, bringing the total number of programs reviewed to 26.
- We reported on two aspects of the National Institute of Standards and Technology's Advanced Technology Program—its intramural and focused research efforts—and evaluated its proposal for a ballistics testing facility.
- In the financial management area, we expanded the work of the independent public accounting firms that conduct the audits of the Department's and its reporting entities' financial statements to include security reviews of each financial management system to identify vulnerabilities that could hamper the production of accurate financial data.

As always, our primary objective is to provide congressional and departmental decision-makers with objective analyses and recommendations aimed at ensuring that Commerce programs and activities are operated as efficiently and effectively as possible.

IG's Message for the Congress

MAJOR CHALLENGES FOR THE DEPARTMENT

In pursuing its programs and missions, the Department of Commerce is faced with a number of problems, concerns, and difficult issues, including some that we view as major management challenges. This section highlights what we consider to be the top 10 management challenges facing the Department.

We have identified these issues as the top 10 challenges because they meet one or more of the following criteria: importance to the Department's mission or the nation's well-being, complexity, sizable expenditures, or need for significant management improvements. By addressing these challenges, the Department and the Congress can enhance program effectiveness, eliminate serious operational problems, decrease vulnerability to fraud and waste, and achieve substantial savings. Given the dynamics, diversity, and complexity of Commerce programs and activities, we maintain this top 10 list on an ongoing basis, and as challenges are met, we plan to remove them from the list and replace them with other challenges.

We are pleased to report that the Department generally recognizes these challenges and has made considerable progress in addressing them. In fact, two of the Department's challenges—obtaining a clean opinion on its consolidated financial statements and addressing its Y2K problem—have been met, and we have removed them from our top 10 list as of March 31, 2000. Substantial progress has also been made on three other challenges—namely, implementation of the Advanced Weather Interactive Processing System, NOAA marine and aeronautical data gathering efforts, and competition in discretionary financial assistance programs. Given the management attention being paid to these issues, we are

hopeful that we can remove them from the list during our next update at the end of the fiscal year.

In the following sections, we describe the progress made on these major challenges, highlight issues that are likely to move into the top 10 list in our next semiannual report, and discuss other significant issues of concern for the Department.

Obtain an Unqualified Opinion on All of the Department's Consolidated Financial Statements

The Chief Financial Officers Act of 1990, the Government Performance and Results Act of 1993, the Government Management Reform Act of 1994, and the Federal Financial Management Improvement Act of 1996 were designed to improve the financial management practices of federal agencies. The statutes require audited annual financial statements that present an entity's financial position and results of operations, as well as other information needed by the Congress, agency executives, and the public to assess management's performance.

With the passage of the CFO Act, we recognized that to obtain an unqualified opinion on its consolidated statements, the Department would need to make major investments of time, effort, and resources, and achieve an unprecedented level of leadership and cooperation from senior Commerce officials, bureau managers, and the OIG. We were not overly optimistic, given the Department's track record on financial management, its shortage of qualified financial managers and staff, and the absence of a single integrated financial management system.

Despite these obstacles, we are pleased to report that the Department received an unqualified opinion on its FY 1999 consolidated financial statements. This is the first year that the Department has received a “clean” opinion on all of its financial statements—an achievement largely attributable to the leadership and commitment that the Secretary has demonstrated in working with our office to address this major challenge. The Department’s Chief Financial Officer and other senior management officials also deserve to be commended on the significant improvements made in financial management during FY 1999.



tems, the improvement of financial management, and the receipt of unqualified opinions on all of its financial statements. As a result, obtaining an unqualified opinion on its financial statements is no longer considered a major challenge for the Department. However, the Department and its reporting entities must continue to emphasize financial management improvements—including the necessary resources and management commitment—to correct the material weaknesses and other deficiencies identified in the FY 1999 audits and to maintain clean opinions in future years.

Address Commerce's Year 2000 Computer Problem

To receive unqualified opinions on their FY 1999 financial statements, the Department and all of its reporting entities overcame significant obstacles, including the correction of many of the material weaknesses that in the past have undermined the reliability of some financial management information and precluded unqualified opinions. (Material weaknesses are serious flaws in the design or operation of an internal control component that increase the risks that errors, fraud, or noncompliance in material amounts may occur and not be readily detected.) This is evidenced by the substantial decrease in the number of material weaknesses between 1998 and 1999 at both the departmental and reporting entity levels—from 6 to 1 for the Department and from 12 to 7 for its reporting entities.

In our September 1998 issue, we identified the year 2000 (Y2K) computer problem as a major challenge for the Department. While 76 percent of the Department’s mission-critical systems were reported as being Y2K compliant at that time, our analysis suggested that the statistic was neither reliable nor a good indicator of the amount of work remaining. Given the importance of these diverse systems to the Department’s operations and their major contributions to the nation’s well-being, we were concerned that this matter receive prompt, thorough attention. The Department had recently hired a new Chief Information Officer, who along with the Secretary, Deputy Secretary, and Chief Financial Officer, expressed his commitment to ensuring that Y2K preparation efforts received high-level attention.

The Department has demonstrated its commitment to the establishment of sound financial sys-

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Working closely with the Chief Information Officer and the bureaus, we reviewed conversion, testing, and business continuity planning activities, identified key issues that warranted management's attention, and recommended actions to mitigate the risk of Y2K failures. We are pleased to report that Commerce's computer systems handled the rollover to the year 2000, as well as the leap year rollover, without major problems. Departmental and bureau officials and their staffs are to be commended for the cooperation and assistance they provided us during our reviews and, more importantly, for accomplishing a smooth transition to the new century by successfully addressing the Y2K computer problem.

Increase the Accuracy and Control the Cost of the 2000 Decennial Census

The decennial census is an enormous and complex task—certainly one of the most difficult that the federal government has to undertake. The accuracy of the data produced by the decennial is critical because it is the basis for apportioning seats in the House of Representatives and is used by state legislatures for redistricting purposes. The data is also used to distribute billions of dollars of federal

funds to state and local governments. The Department recognizes the challenges presented by the 2000 Decennial Census and is clearly providing increased oversight of and management support to the Census Bureau for this important mission.

Given the complexity and importance of the 2000 decennial, we continue to make oversight of decennial planning and execution one of our top priorities. We have issued more than 20 audit and inspection reports on various aspects of the Census Bureau's decennial preparation efforts and have made numerous recommendations aimed at helping to improve the accuracy of the decennial and control its cost. We have also conducted audits and inspections

of bureau activities and operations that may indirectly affect the bureau's ability to conduct the decennial efficiently, effectively, and economically. And, finally, we are actively monitoring the bureau's actions to address our recommendations for correcting identified weaknesses and are continuing to mount an aggressive effort to audit, inspect, and investigate issues relevant to the accuracy and cost of the decennial census.

In reviews completed during this semiannual period, we identified and reported on a number of concerns that need to be addressed in preparing for and conducting the 2000 decennial. Specifically:



- Our review of the Pre-Appointment Management System/Automated Decennial Administrative Management System (PAMS/ADAMS), the personnel and payroll system for the decennial, disclosed that the bureau did not use a well-managed software development process. Therefore, the accuracy, completeness, and performance of the system could not be assessed through a review of test results or other independent testing—activities usually associated with a systematic software development effort. However, because of extensive operational use of the system since the dress rehearsal, the bureau has been able to correct problems and achieve reasonable assurance that the system can support the decennial. We urged the bureau to make a concerted effort after the decennial to improve software development for all future programs, decennial and non-decennial alike (see page 30).
- Our review of accountable property in three regional centers disclosed weaknesses in internal controls. We found that the bureau had not properly recorded hundreds of items in its property books or automated system, had not conducted the required annual physical inventories of accountable property, and had not always adequately controlled transfers of such property. We are pleased to note that the bureau has taken prompt action to address our concerns (see page 32).
- Our review of the Atlanta Regional Census Center's payroll operations revealed that the center had encountered a variety of problems in paying its temporary employees. Although the problems pertained directly to payroll problems experienced by that region, we concluded that many of the same circumstances could also exist in the other

regions. For example, our review of PAMS/ADAMS found that the way in which daily payroll forms were being processed during the 1998 Dress Rehearsal allowed employees to be paid multiple times for the same hours worked. The bureau took appropriate actions to correct the problems with the Atlanta regional center employees' payroll (see page 33).

The Department continues to face challenges related to logistical, technical, and other issues involved in conducting the 2000 decennial. As of March 31, 2000, the bureau had completed the delivery of census questionnaires to 120 million households and was processing millions of completed questionnaires at its four data capture centers located across the country. In addition, outreach and promotion efforts had peaked, the bureau's temporary workforce was approaching maximum levels, and certain coverage improvement programs, such as those aimed at hard-to-count populations, were nearing completion.

As might be expected with any undertaking of this magnitude and complexity, our office is receiving a significant number of complaints relating to decennial operations through the OIG Hotline and other sources. These complaints cover a wide range of issues, from routine payroll concerns to charges of mismanagement or discrimination at local census offices. We are working with the bureau, congressional offices, and other federal oversight agencies to ensure that these allegations are thoroughly reviewed and appropriately addressed.

The success of the operations that have been launched will have a major impact on the results of the decennial. In addition to evaluating these ongoing efforts, we will continue our reviews of various other aspects of the bureau's efforts to address the challenge of increasing the accuracy and controlling the cost of the 2000 decennial. For example, our

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ongoing and planned work includes reviews of the bureau's efforts to process completed questionnaires and follow up on nonresponding households, and to use sampling methods to measure and adjust for the expected undercount. We will also assess recurring complaints, monitor critical logistical operations, and examine selected decennial contracts.

Successfully Implement NWS's Advanced Weather Interactive Processing System

The Advanced Weather Interactive Processing System (AWIPS) is the key integrating element of the National Weather Service's modernization program and the last major system of the modernization to be implemented. AWIPS provides the capability to acquire data from advanced observing systems and to give forecasters tools to rapidly analyze the data, integrate it with the information provided by weather service guidance centers, and prepare timely and accurate warnings and forecasts for dissemination to the public.

As a result of its history of escalating costs and schedule delays, the AWIPS program has been subject to a legislatively mandated cost cap of \$550 million. The legislation required that AWIPS be developed within the cost cap with sufficient capabilities to replace NWS's aging field office systems, most importantly the Automation of Field Operations and Services (AFOS). At the time of our last semiannual report, deployment to all NWS sites had been completed, but NOAA was continuing to correct deficiencies that would have prevented AWIPS from replacing AFOS and from being commissioned (that is, being used officially as the primary system for preparing and distributing NWS data products). Since then, NOAA has corrected the deficiencies and reports that it has completed AWIPS within the cap.

In monitoring NWS's progress in meeting this important challenge, we have been tracking AWIPS commissioning progress. Commissioning began this January, and as of April 25, 73 systems had been commissioned. NWS had planned to commission 86 systems by the end of April, but is now projecting that only 77 will be completed by that time because additional time was needed to perform certain commissioning activities at several sites. According to NWS, there are no outstanding obstacles or issues related to commissioning, and it expects to complete commissioning of all 139 systems (121 weather forecast offices, 13 river forecast centers, and 5 national centers) by the end of August.

The commissioning of AWIPS at 73 sites and aggressive efforts to implement it at the remaining sites represent significant progress in completing the NWS modernization. We will continue our monitoring and assess any issues that arise during commissioning and operational use. If commissioning progresses as planned and no major issues arise, we expect that NOAA and the Department will have met the AWIPS implementation challenge by the end of the next semiannual reporting period in September.

Expand Private Sector Participation in NOAA's Marine and Aeronautical Data Gathering

The Congress, the OIG, the General Accounting Office, and others have long been concerned about how NOAA can most efficiently and effectively obtain its marine and aeronautical data. While the debate continues, there is a general recognition that NOAA should expand the private sector's participation in this effort.

Marine Data

While NOAA has made progress in expanding private sector participation in acquiring hydrographic data, we remain concerned that it has focused its efforts on designing, owning, and operating four new fishery research vessels without thoroughly assessing and aggressively pursuing other alternatives for meeting its fisheries data collection needs. NOAA plans to acquire these new vessels in FYs 2000-03. As we have said many times before, we believe that NOAA should clearly articulate its program needs for ship services to the private sector, academia, and other government ship operators, with the goal of identifying modern, more cost-effective platforms for its data collection needs.

NOAA has prepared a detailed data acquisition plan for its fisheries mission, which outlines its approach for acquiring the four fishery research vessels. Funding for one vessel has been approved by the Congress; however, NOAA's plan does not address the possibility that the bureau will not receive follow-on funding for the remaining vessels in FYs 2001-03. Nor does it indicate how the data needed by the various fisheries programs would be collected if the additional vessels are not acquired. The absence of such a contingency plan may put NOAA's fisheries programs at risk. NOAA's challenge is to thoroughly assess viable alternative approaches to acquiring marine data instead of relying so heavily on its in-house fleet.

Aeronautical Data

Since its establishment in 1983, NOAA's Aircraft Operations Center, now located at MacDill Air Force Base near Tampa, has been responsible for gathering atmospheric, oceanographic, and other data for such programs as hurricane and major storm research, nautical and aeronautical charting, climate and global change, and snow and aerial surveys. The center operates a fleet of 14 aircraft,

composed of 2 heavy craft, 1 mid-size jet, 8 light fixed-wing aircraft, and 3 helicopters.

In December 1996, the President's Council on Integrity and Efficiency reviewed the management of the federal civilian aircraft fleet, including NOAA's, and found that it costs the government in excess of \$1 billion annually to operate its aircraft programs. Additional studies commissioned by the General Services Administration reported that costs could be reduced by up to \$92 million annually if agencies consolidated their aircraft operations and entered into sharing arrangements.

We conducted an audit of NOAA's light aircraft fleet to determine whether outsourcing is more cost-effective than in-house operation in meeting the bureau's aircraft requirements (see September 1998 issue, page 44). Our audit concluded that the full in-house cost of operating NOAA's light fixed-wing aircraft and helicopters averaged 42 percent more than the cost of operating similar aircraft in the private sector. We recommended that NOAA privatize its light aircraft operations.

NOAA did not agree with our position and believes that the cost data it has collected indicates that its light aircraft are cost competitive and that no savings would be achieved by using other sources to meet its data collection needs. NOAA recently hired a consultant to review its light aircraft costs and the cost of contracting with the private sector for aircraft services. The consultant's analysis supports many of our conclusions and recommendations, such as our recommendation that NOAA seek alternatives to some of its current operating practices. These alternatives include greater use of private-sector contractors to provide light aircraft services and the potential disposal of its costly and underutilized aircraft. We believe that the results of the study will assist NOAA and the OIG in resolving the outstanding recommendations and meeting this challenge.

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Maximize Competition in the Department's Financial Assistance Programs

In previous issues, we have reported on the progress of our comprehensive review of the criteria, procedures, and practices used to make funding decisions under the Department's discretionary financial assistance programs. Discretionary programs involve a significant portion of the Department's budget and operations. Seven Commerce operating units administer 72 financial assistance programs that provide a total of about \$1 billion a year to state and local governments, educational institutions, other organizations, and individuals.

Our review focused on the FY 1997 awards processes of 33 programs we classified as "full discretion" programs. For the purpose of our review, we defined full discretion programs as those whose authorizing legislation places no significant limitations on the Department's ability to independently determine the recipients or funding levels of the awards made under the programs. These programs accounted for more than 1,700 awards and \$801 million in FY 1997 funding. We have completed audits of all 33 programs, issued final reports on 26, and are in the process of preparing a report that will summarize the results of the individual audits; identify crosscutting issues; highlight "best practices"; identify weaknesses in departmental

policies, procedures, and practices; and offer recommendations for improvement.

Our Department-wide review found that most Commerce discretionary financial assistance programs are competitively administered and employ decision processes that are designed to result in merit-based awards. Competition is generally recognized as the most effective method of ensuring that financial assistance awards are made on the basis of merit. The Federal Grant and Cooperative Agreement Act encourages the use of competition to the maximum extent practicable in order to fairly and objectively identify and fund the best possible projects proposed by applicants, and thereby more effectively achieve program objectives.

As shown in the following table, among the 33 full discretion programs we examined, 21—or nearly two-thirds—were administered competitively using appropriate merit-based evaluation criteria and award procedures. The nearly 1,500 awards made by those 21 programs accounted for about 86 percent of the total discretionary awards made by the Department in FY 1997, and about 92 percent of the total funds obligated. The other 12 programs, representing only 236 awards and \$63 million in obligations, did not use competitive procedures. Instead, they disbursed program funds through one or more noncompetitive awards, which were often inappropriately or inadequately justified as "sole source awards."

Commerce Discretionary Financial Assistance Programs Reviewed			
OIG Assessment	Number of Programs	Number of Awards	Obligations
Competitive	21	1,477	\$738 million
Not competitive	12	236	63 million
Total	33	1,713	\$801 million

Although our findings were generally positive, we did identify opportunities for improvement in specific aspects of the various awards processes. For example, we determined that several of the programs could enhance the integrity of or bring more discipline to their award processes by:

- Expanding proposal solicitation efforts to provide greater awareness of available financial assistance.
- Including outside participants on proposal review panels to ensure greater objectivity in the process.
- Adequately documenting justifications for deviations from review panel recommendations.

We are encouraged by the Department's and bureaus' constructive responses to our findings and recommendations, as well as their immediate efforts to make improvements. The Department is well on its way to maximizing competition in its financial programs, and we expect that this major challenge will soon be met.

Successfully Implement a Department-Wide Financial Management System

Since FY 1989, the Department's lack of a single, integrated financial system has been reported as a material internal control weakness in the Secretary's annual reports to the President under the Federal Managers' Financial Integrity Act. The weakness is stated in the reports as follows:

“Many of the Department's financial systems are seriously outdated and fragmented; they are unable to provide timely, complete and reliable financial

information; they are inadequately controlled; and they are costly and difficult to maintain. The financial systems, taken as a whole, are not compliant with GAO principles and standards, nor with requirements of the CFO Act, the Joint Financial Management Improvement Program (JFMIP), or OMB.”

To correct this weakness, Commerce began planning for the acquisition and development of a Department-wide financial system in 1992 and awarded a contract for system development in 1994. However, notwithstanding large investments of time, money, and effort, implementation of the system, known as the Commerce Administrative Management System (CAMS), proved more difficult than anticipated. The difficulties occurred, in part, because established milestones were not met and departmental requirements were not satisfied. These factors caused the Department to delay and revise its implementation strategy several times.

In FY 1997, to improve the reliability of the system development effort, the Department added contractor support outside of the original prime contractor. Assisted by a private consulting firm, the Department also conducted a review of CAMS to address concerns about costs incurred and schedule delays. In FY 1998, based on the results of the review, the Department redefined the composition and functionality of CAMS and drastically revised the CAMS implementation strategy. The Department also reorganized its systems development project management structure.

The revised strategy called for pilot implementation and testing of the redefined CAMS (core CAMS) at the Census Bureau before implementing the system at other bureaus. The pilot implementation of core CAMS at Census was completed in June 1998. An independent verification and validation of the system, as implemented at Census, concluded that it met departmental requirements and

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was as good as or better than other core financial management systems that have been implemented at other large federal agencies.

The Department's current strategy is to replace non-compliant systems with ones that are compliant, and develop a Department-wide financial database that will integrate financial data from all reporting entities and produce the consolidated financial statements, as required by OMB. During FY 1999, the Department began developing the database, commonly referred to as the Corporate Database. The Department's Office of Financial Management has completed the development of functional requirements, basic programming, and draft user instructions for the Corporate Database, and expects to begin pilot testing during FY 2000. The database, when successfully implemented by the Department, will comply with OMB's requirements.

As we have frequently pointed out, serious difficulties were encountered with the implementation of CAMS. However, for a variety of reasons, we believe that FY 1999 marked a turning point for the Department in its efforts to improve its financial management systems and resolve this major management challenge. Most notably:

- The Bureau of the Census continued full production of core CAMS; deployed access to regional and decennial census sites; implemented additional modules for travel, budget, and inventory functions; and deployed a data warehouse, making access to financial information easier and more timely for program managers.
- After determining that the Department of the Interior's National Business Center could not provide financial services at a lower cost and risk than could be achieved through the implementation of CAMS, NOAA continued with its CAMS implementation efforts. However, because

NOAA did not receive all of the funding it requested for CAMS implementation for FY 2000, it has revised its target date for full implementation until FY 2003.

- ITA entered into a cross-servicing agreement with Interior's National Business Center for full-scope accounting services. This changeover started in July 1999 and was completed in August. The center's accounting system is compliant with OMB and JFMIP requirements. ITA's prior accounting system was not compliant with these requirements and contributed to the bureau's inability to produce auditable financial statements in 1998.
- EDA began using CAMS as the official accounting system for its financial assistance programs on October 1, 1999.
- NIST intends to determine its requirements and finalize a plan for implementing CAMS at one of its current Financial Accounting and Reporting System clients, the Office of the Secretary. An accelerated schedule is planned under which that office would be operational on CAMS starting on October 1, 2000. After successful operation of CAMS there during the first half of FY 2001, NIST plans to implement CAMS at its remaining client sites during the remainder of the fiscal year, so that all clients would be operational on CAMS by October 1, 2001. NIST will defer completion of its detailed plan for implementing CAMS at NIST until the first half of FY 2001, but still plans to complete CAMS implementation by the end of FY 2003.

Despite these noteworthy accomplishments, future improvements require both significant resources and the continued attention of senior management. By FY 2004, the Department plans to

have all 14 of its reporting entities operating under compliant financial management systems integrated with the Corporate Database.

Given the large amounts of time and money that have already been invested in CAMS implementation, the critical need for a reliable financial management system, and the remaining obstacles to be overcome in implementing the system, we are continuing to monitor and review selected aspects of the Department's progress in implementing core CAMS in its reporting entities. For example, OIG representatives attend NOAA's monthly status meetings on CAMS implementation and participate in the Department's meetings to discuss progress in developing the Corporate Database. Later this fiscal year, we also plan to initiate a review of CAMS's software configuration management and change controls at the CAMS Support Center.

Until the Department is in compliance with the federal requirement for a single, integrated financial system, we will view the Department's efforts to develop such a system as a major challenge warranting the close attention of senior officials and continued oversight by our office.

Evaluate NTIS's Mission and Financial Viability

In recent years, questions have arisen about NTIS's future. In our last issue (see September 1999 issue, page 7), we discussed our concern that disappointing operating results continued to call into question NTIS's ability to be self-sustaining. In FY 1999, total revenue dropped by \$3.4 million to \$33.3 million, and only by taking aggressive cost-cutting actions, such as transferring some of its staff to other Commerce agencies, was NTIS able to avert a loss and report a surplus of \$652,000 at the end of the year. While such drastic cost-cutting measures may resolve NTIS's problems in the short-run, they cannot help NTIS solve its major prob-

lem—a steady decline in the sales of its products and services caused by fundamental changes in the marketplace.

To address NTIS's problems, the Department formed a working group made up of senior managers from the Department and the Technology Administration. Based on the group's efforts, the Department developed a legislative proposal that would provide for closing NTIS by the end of FY 2000 and transferring its collection of scientific, technical, business, and engineering publications to the Library of Congress to ensure permanent public access to such documents.

The U.S. National Commission on Libraries and Information Science is also studying the issue of NTIS's future, and has issued a position paper and held three public hearings on the matter. The Commission's anticipated recommendations include keeping NTIS in Commerce for another year so that the Department's plans and other alternatives can be further studied, providing \$5 million in appropriations to pay for NTIS's archiving functions, and appropriating an additional undetermined amount so that NTIS can begin a program for supplying the depository libraries with federal publications. The continuing challenge for the Department is to work closely with the Congress and other stakeholders to reach agreement on the future of NTIS.

Continue to Improve the Department's Strategic Planning and Performance Measurement in Accordance with GPRA

Despite the inherent difficulties in determining how to best plan and measure its performance in accordance with the Government Performance and Results Act of 1993 (GPRA), the Department has continued to make progress in meeting this challenge. More specifically, the Department submitted to OMB and the Congress its second Annual

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Performance Plan, for FY 2000, in February 1999 and its third plan, for FY 2001, in February 2000. Also, the Department submitted its initial Accountability Report, which reports both financial and performance results, for FY 1999, on March 1, 2000. The submission of the Department's first Annual Program Performance Report for FY 1999, in March 2000, brought to a close the first full cycle of GPRA activity that began in 1996.

While the Congress, GAO, and the OIG all agreed that the Department's FY 2000 Annual Performance Plan was significantly better than its FY 1999 plan, it was also recognized that there was room for additional improvement. Of particular concern is the need for the Department to ensure that the data to be used in measuring performance is accurate, complete, and reliable. In preparing its FY 2001 Annual Performance Plan, the Department made concerted efforts to address concerns expressed about its earlier plans. Continued management attention is essential, however, not only to satisfy GPRA requirements, but to measure and report on performance.

We have regularly provided advice and assistance to the Department on the implementation of GPRA, as well as on the linkage between the act's required performance reporting and the financial reporting contained in the annual financial statements. We have made presentations to the Department on the importance of ensuring that the information related to performance results can be relied upon, and have provided informal comments on various GPRA-related documents. We have continued to work with the Department's offices for strategic planning and financial reporting on financial and performance reporting issues. These efforts have yielded positive results, two of which are evident in the Department's FY 1999 Accountability Report: a statement of net cost that accurately reflects the Department's activities, and a management discussion and analysis that reports its most significant performance results.

Another substantial challenge for the Department will be to ensure that its second strategic plan, which is due to the Congress by September 30, 2000, provides appropriate focus and direction for its future actions. The Department's initial strategic plan, covering FY 1997-2002, drew criticism from both the Congress and GAO.

We will continue to monitor the Department's efforts to implement GPRA, provide advisory comments on GPRA-related documents, and, where resources permit, perform targeted reviews. For example, we are currently performing an audit to identify the best practices for verifying and validating performance measures at business centers operated by EDA, ITA, MBDA, and NIST. Several other audits, while not necessarily directed at GPRA implementation, have identified issues related to the identification of performance measures and the reporting of performance information.

Manage PTO's Space Requirements and Lease Costs

The Patent and Trademark Office's space consolidation project is expected to be one of the largest real estate ventures that the federal government will undertake in the next decade. On March 29, 2000, PTO officially became a performance-based organization (PBO). As a PBO, PTO will assume almost sole responsibility for its day-to-day management and operations. PTO's space consolidation project will be one of many major challenges that the agency's managers will have to tackle as it completes the transition to a PBO and revamps its business processes for greater efficiency and effectiveness (see page 17).

On behalf of PTO, the General Services Administration (GSA) has issued a solicitation to award a contract to a private developer to construct a new facility or renovate an existing one and lease it to PTO for at least 20 years with two 5-year options

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and the option to buy. The solicitation calls for the construction of the building shell, to include basic electrical and mechanical systems, with the interior to be “built out” later. The project has been delayed for more than a year by challenges raised in two separate federal court actions. GSA and PTO hope to award the contract by early June 2000, with occupancy of the computer facility to begin in 2003, and full occupancy of the building expected in 2004.

Given the size and importance of the planned PTO consolidation project, we conducted a review of the project in 1998 to determine whether it was justified and whether PTO was effectively managing its critical acquisition phase (see March 1998 issue, page 54). Our review concluded that the project was justified and should continue. We further concluded that PTO was managing many aspects of the lease/development procurement well, although we also made a number of recommendations to improve PTO's management and planning for this major procurement.

Since completion of our 1998 review, we have continued to monitor the status of the PTO project. We are pleased that all of the outstanding issues related to the implementation of our report recommendations have been successfully resolved, including placement of a legislative cap on the costs of the above standard build-out. PTO's challenge is to continue to work with the numerous interested parties to obtain space that best meets its needs at the best possible value. This will involve aggressively holding the line on all project costs, including remaining within the legislatively mandated cap on build-out costs. For our part, we will conduct follow-up reviews in order to stay abreast of the cost control measures PTO plans to put in place for all project-related costs, including building structure, interior build-out, and new furniture.

OTHER ISSUES OF CONCERN

In the following sections, we discuss other serious challenges warranting management attention and OIG oversight. The first three issues, related to information security, acquisition reform, and export controls, are leading candidates to join the top 10 list in our next semiannual report.

Strengthen Department-wide Information Security

Protecting the Department's computer systems from cyber-attack is a significant challenge today and will continue to be so in the future. The number of cyber-attacks on our nation's computer systems has grown dramatically over the last few years and is projected to grow at an even faster rate in the future. In addition, the sophistication of such attacks continues to increase, posing a severe threat to computer system security. Industry and government research has shown that cyber-attacks are carried out not just by hackers, but by foreign governments, and organized criminal and terrorist groups with harmful intent.

An increasing number of interconnected, widely distributed computer systems support vital Commerce operations and provide essential services to the public. As the Department's systems have become more widely distributed and interconnected, security vulnerabilities have also increased, creating a need to improve procedural and technical security measures. Strong computer security measures are vital to protect the secrecy and privacy of information, the integrity of computer systems and their networks, and the availability of services to users.

We are conducting an assessment of the Department's implementation of Presidential Decision Directive 63, which was created in part to address the growing cyber-threat. This directive establishes a national program to assure the security of cyber-based systems essential to the operations of the U.S. economy and government. We are in the first phase of a planned two-phase assessment in which we are reviewing the Department's critical infrastructure protection plan, the prioritized list of computer systems identified as critical to the Department, system security plans, and system security vulnerability assessments. During the second phase, we will evaluate the Department's plans and strategies for mitigating system security vulnerabilities, responding to a coordinated cyber-attack, obtaining additional resources if needed to implement vulnerability mitigation plans, and recruiting, retaining, and educating information security personnel. We plan to report our findings and recommendations during the next semiannual period.

Also, as part of the Department's FY 1999 financial statements audits, we contracted for and oversaw security reviews of each of Commerce's financial management systems and their related networks, using as a guide GAO's *Federal Information System Controls Audit Manual*. The reviews disclosed security weaknesses that, if not corrected, could adversely affect the ability of the Department and its operating units to produce accurate data for their financial statements. For example, we discovered security plans that were outdated or not finalized, security risk assessments that were outdated or nonexistent; inadequate systems administration of user accounts; inadequate controls over the powerful system administrator account; and a lack of security monitoring to detect unauthorized access. Beginning with the FY 2000 financial statements audits, we plan to expand the security reviews to include intrusion detection analysis.

Successfully Implement Acquisition Reform Initiatives

Since the 1980s, various commissions and review panels have cited the need to streamline and simplify the federal procurement system. In 1986 the Packard Commission concluded that procurement laws needed to be recodified to create one simplified procurement statute. In 1993 the National Performance Review recommended decentralizing government management and introducing competition and market forces into the delivery of government products and services to create a government “that works better and costs less.” To implement these improvements, major acquisition reform legislation was enacted.

The Federal Acquisition Streamlining Act of 1994 provided for a major overhaul of the laws governing federal acquisition. In 1996 the Federal Acquisition Reform Act and the Clinger-Cohen Act continued these reforms by substantially altering the way the government acquires and manages information technology. Implementation of these laws necessitated changes in the way government contracting officers did their jobs. The following are examples of these reforms:

- **Commercial Items Acquisition.** Acquisition reform regulations encourage the purchase of commercial items and greatly simplify their acquisition.
- **Past Performance.** Under current regulations, a contractor’s performance under prior contracts is considered relevant information in evaluating that contractor for new contracts.
- **Performance-Based Service Contracting.** This approach focuses on the intended results of a service contract and the manner in which the work is performed, and provides for the development of performance standards and the use of quality assurance and oversight plans.
- **Simplified Acquisition Tools.** Acquisition reform legislation recommends the use of innovative approaches, such as the expanded use of the purchase card and establishment and use of government-wide agency contracts (GWACs), and permits agencies to make purchases from other agencies’ contracts, which results in time and cost savings.

The Department of Commerce—which annually procures goods and services in excess of \$1 billion—has been an active participant in implementing federal acquisition reform initiatives. For example, Commerce has developed and implemented a streamlined acquisition process known as CONOPS, which has reduced procurement lead times. The Bureau of the Census has also used performance-based service contracting in acquiring services and equipment for the 2000 Decennial Census. More recently, the Department awarded the Commerce Information Technology Solutions contract, the only GWAC for information technology services set aside for small, disadvantaged, and women-owned businesses.

However, GAO recently identified some common problems in federal agencies’ implementation of GWACs. For example, agencies have sometimes used various devices to avoid holding vendor competitions, and have tended to make awards to large rather than small and disadvantaged businesses. The Office of Federal Procurement Policy is also planning to evaluate the effectiveness of federal acquisition reform, specifically agencies’ use of GWACs, because it has concerns that many agencies are not focusing on results

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when contracting for services. In past reports, we have identified problems with the administration of the purchase card program, improper use of task order contracts, and inadequate documentation of market surveys.

Implementing acquisition reform and its various streamlining initiatives necessitates changing old ways of acquiring goods and services. The emphasis on past performance and performance-based contracting requires a more focused way of monitoring contractor performance through the use of performance measurement tools. It also requires contracting offices to develop new skills. Given the concerns cited by other oversight agencies and our office, we believe that the Department's implementation of acquisition reform initiatives warrants extra scrutiny. The challenge facing the Department is to achieve the benefits of the acquisition reform initiatives while still maintaining the necessary controls and oversight to ensure that the government is getting what it pays for.

Maintain Effective Export Controls for Dual-Use Commodities

The United States controls the export of certain goods and technologies for national security and foreign policy (including nonproliferation) purposes. To strengthen the U.S. government's export licensing and enforcement process, new legislative authority is needed to replace the expired Export Administration Act of 1979 and implement effective export control policies. The Export Administration Act was passed during the Cold War primarily to help block the export of critical goods and technologies to the Communist bloc countries for national security reasons. In the post-Cold War era, there are new threats to U.S. national security and foreign policy goals posed by rogue countries and international terrorist groups who seek to acquire weapons of mass destruction and weapons delivery systems.

BXA is working with the Administration and the Congress on legislation to renew the act and address the challenge of balancing the need to protect U.S. national security and foreign policy interests with the desire to not unduly hamper U.S. trade opportunities and competitiveness. Reauthorization of the act is also needed to strengthen BXA's regulatory authority and penalties, which have been weakened under interim export control regulations, and to demonstrate that the United States is firmly committed to maintaining strong export controls as it encourages other countries to do the same.

Given the importance of export licensing controls to national security, we have devoted considerable attention to the challenges facing BXA in issuing licenses authorizing the export of certain goods and technologies that have both civilian and military uses. In 1993 we participated in a special interagency review of export licensing processes for munitions and dual-use commodities (see September 1993 issue, page 15). The 1993 report highlighted the need for more transparency in the dual-use export licensing process. In response to this need, in 1995 the President issued Executive Order 12981, which expanded the authority of the Defense and State Departments and other involved federal agencies to review all export license applications.

In October 1998, in response to a request from the Senate Governmental Affairs Committee, the OIGs of the Departments of Commerce, Defense, Energy, State, and the Treasury, and the Central Intelligence Agency, began a follow-up review to evaluate the status of actions taken to implement the recommendations from the 1993 review. We also evaluated the effectiveness of the Department's current policies, procedures, and practices for licensing dual-use goods and technologies. In our report, issued in June 1999, we stated our

conclusion that the multi-agency licensing process for U.S. dual-use exports is balanced and appropriately considers divergent policy views and information in deciding on export license applications (see September 1999 issue, page 17).

While our report described significant areas of improvement in export controls since our 1993 work, it also identified some weaknesses in the licensing process that still need to be addressed. Specifically, we found that (1) more transparency is needed in the commodity classification and license appeals processes, (2) the intelligence community does not review all dual-use export license applications or always conduct a comprehensive analysis of applications it does review, (3) license applications need to be screened against a key database maintained by the U.S. Customs Service, (4) BXA needs to improve its monitoring of license conditions with reporting requirements, and (5) BXA needs a new automated system to process export license applications efficiently and effectively.

In October 1999, the National Defense Authorization Act for FY 2000 directed the same six OIGs to report to the Congress by March 30, 2000, on the adequacy of current export controls and counterintelligence measures to prevent the acquisition of sensitive U.S. technology and technical information by countries and entities of concern. To meet this requirement, each OIG reviewed its agency's export controls and counterintelligence measures and reported on the results. Two interagency reports highlighting crosscutting issues were also prepared. Our report focused on three activities that the Commerce Department, principally through BXA, carries out or participates in to help prevent the illicit transfer of sensitive U.S. technology: deemed export controls, the Visa Application Review Program, and the Committee on Foreign Investment in the United States (see page 21).

The challenge for BXA, as well as the Administration and the Congress, will be to pass a new Export Administration Act and to focus the federal government's licensing and enforcement efforts on targeting those exports that present the greatest proliferation and national security risks and on streamlining or eliminating controls that unnecessarily hamper trade. Through our various export control reports, we strive to play a useful role in current and future congressional and public debates on the reauthorization of the Export Administration Act and the revamping of the nation's export controls. We will continue to monitor BXA's efforts to improve dual-use export controls through annual reports required until 2007 under the Defense Authorization Act.

Successfully Implement PTO's Transition to a Performance-Based Organization

The American Inventors Protection Act of 1999 (P.L. 106-113), which was signed into law on November 29, 1999, establishes PTO as a performance-based organization with greater flexibility and independence to be run more like a business. As a PBO, PTO has increased authority and hence the responsibility for decisions regarding the management and administration of its operations and exercises more independent control of its budget allocations and expenditures, personnel decisions and processes, and procurement. PTO's transition to a PBO officially began on March 29, 2000.

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PTO management views the passage of the act and the transition to a PBO as critical in addressing two challenges, both of which have been the subject of recent OIG reviews. First, PTO has experienced a massive increase in patent and trademark filings and appeals, leading to the hiring of hundreds of new examiners and administrative judges. Second, PTO has plans to consolidate its operations in northern Virginia (see page 12). According to PTO management, the PBO transition will enable it to make the rapid decisions needed to process the increased number of patent and trademark filings and appeals in a timely manner, while maintaining high quality, and to more efficiently manage its resources.

Despite the act's potential benefits, the transition is a formidable undertaking. PTO must formulate the necessary personnel, procurement, and administrative policies and develop a performance-based process with standards for evaluating cost-effectiveness, while meeting its performance goals under GPRA.

PTO already faces enormous challenges in trying to deliver essential information technology capabilities. With its increased focus on operational efficiency and new provisions requiring information technology solutions, the act will intensify the demands placed on automated systems and further strain PTO's ability to deliver systems. For example, under the new law, patent applications that have been filed abroad must be published within 18 months of their U.S. filing date, and PTO has decided to publish the applications in electronic form. Yet implementation of this and other provisions of the law will require new and enhanced systems.

Increase the Effectiveness of Fishery Management

Ensuring healthy stocks of fish and other marine animals in the coastal waters beyond each state's jurisdiction is a federal responsibility carried out principally by NOAA's National Marine Fisheries Service (NMFS) and eight regional fishery management councils under the Magnuson-Stevens Fishery Conservation and Management Act of 1976, as amended. Among other things, NMFS and the councils track the condition of these species, determine the levels of catch that will provide the greatest benefit to the nation, and measure the economic impacts of fishery regulations and policies. Measures to manage fish and marine species are usually developed by the councils, reviewed by NMFS, and approved by the Secretary of Commerce. These measures are controversial because they impose fish quotas that affect both the survival of a species and the economic health of the fishing industry and many coastal communities.

A recent GAO report concluded that NMFS appears to be using the best available scientific information to determine the condition of fish and other marine species, appropriately considers the economic impacts of conservation and management measures on fishing communities, and has technically met the requirements of the Magnuson-Stevens Act by identifying essential fish habitats and developing a consultative process for addressing potential adverse impacts to those habitats. However, GAO concluded that improvements were needed in all three areas and made recommendations to strengthen NMFS's data collection efforts, improve communications between the government and the fishing industry, improve economic analysis, and identify the costs of achieving compliance with the act's fish habitat provisions.

We are completing a review that focuses on the regional fishery management councils and is aimed at identifying the management practices that have proven most effective in achieving fisheries management goals and determining where improvements are needed.

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, 1999) for which no management decision had been made by the end of the period (March 31, 2000). The following table presents the overall status.

Type of Audit Report	Unresolved
Performance	2
Financial Assistance	2

The two performance audits deal with the NMFS laboratory structure and NOAA's light aircraft operations. While both audits have been unresolved for more than a year, we have continued to explore alternative approaches to resolution with NOAA (see page 63).

The two unresolved financial assistance audits involve EDA grant awards. We did not agree with EDA's response to our final report on one of the audits and are reviewing the agency's revised audit resolution proposal. With respect to the second audit, EDA has requested clarifying information from the grantee (see page 29).

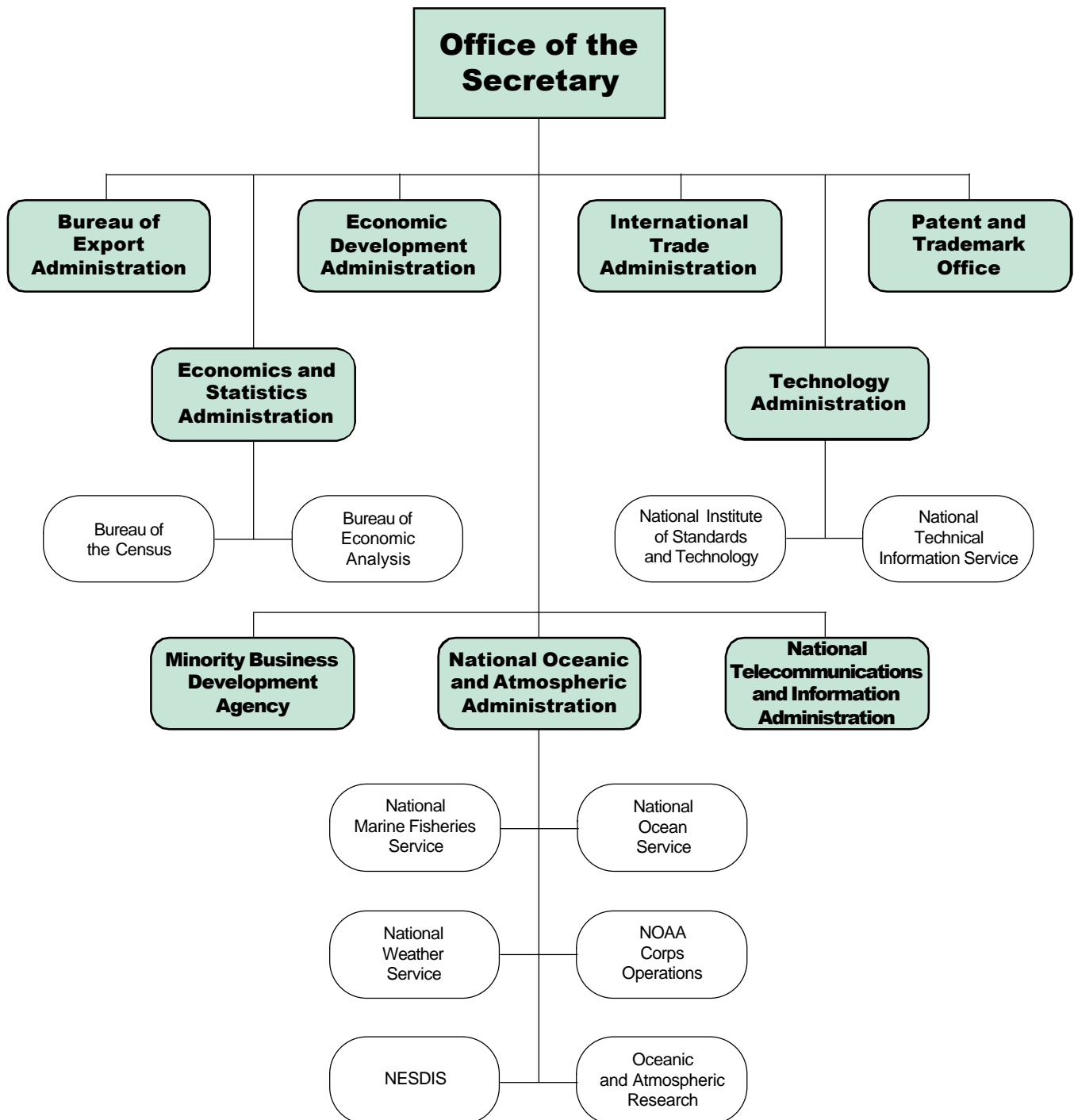
Department Administrative Order 213-5, "Audit Resolution and Follow-up," provides procedures for management to request a modification to an approved audit action plan, or for a financial assistance recipient to appeal an audit resolution determination. The following table summarizes modification and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

Report Category	Modifications	Appeals
Actions pending (October 1, 1999)	0	16
Submissions	1	3
Decisions	1	12
Actions pending (March 31, 2000)	0	7

All seven appeals pending final decision by the Department involve NIST financial assistance audits.



Department of Commerce Organization Chart



Bureau of Export Administration



Actions Needed to Help Prevent Transfer of Sensitive Technology to Countries of Concern

The National Defense Authorization Act for Fiscal Year 2000 directed the OIGs of the Departments of Commerce, Defense, Energy, State, and the Treasury, and the Central Intelligence Agency to assess the adequacy of current export controls and counterintelligence measures to prevent the acquisition of sensitive U.S. technology and technical information by countries and entities of concern. The legislation mandates that the OIGs report to the Congress annually until 2007.

To meet the first annual reporting requirement of the act, the Commerce OIG focused on three activities that the Department, principally through BXA, carries out or participates in to help prevent the illicit transfer of sensitive U.S. technology: deemed export control activities, the Visa Application Review Program, and efforts in support of the Committee on Foreign Investment in the United States (CFIUS). Our specific observations follow:

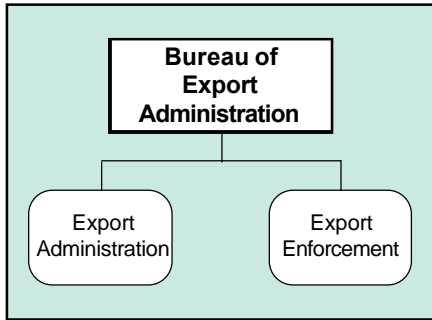
Deemed Export Control Regulations and Compliance Need to Be Reviewed

Any release to a foreign national of technology or software subject to the Export Administration Regulations is deemed to be an export to the home country of the foreign national. Such "deemed exports" may involve the transfer of sensitive technology to foreign visitors or workers at U.S. research laboratories and private companies. In a June 1999 report on the export licensing process, we concluded that not only are the deemed export control policy and regulations ill-defined and poorly understood by many, but the implementation of the regulations and compliance with them by federal agencies and private companies appeared lax (see September 1999 issue, page 17). The lack of understanding by industry and federal agencies regarding the applicability and requirements of deemed export control regulations could result in a transfer of sensitive technology to inappropriate end users.

We believe that some of the noncompliance with the deemed export rule stems from ambiguity in the policy and the regulations. For example, the term "fundamental research" needs to be better defined, and some of the regulatory exemptions that affect national security need to be further examined by policymakers.

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



To help determine whether U.S. high technology companies are complying with the deemed export regulations, we sought to obtain a reasonable estimate of what the level of license applications would be with good compliance. But, because BXA was unable to provide such an estimate, we instead compared the number of deemed export license applications submitted to BXA during FY 1999 (783) with the number of “high technology” employment visas issued to foreign nationals during the same period (115,000). High technology visas are issued under a temporary visa category that includes such occupations as architects, engineers, doctors, college professors, and computer programmers. Although clearly not all such visa applicants would require export licenses, the tremendous gap between the two numbers does indeed raise questions about U.S. companies’ knowledge of and compliance with the regulations. We believe that BXA needs to be more proactive in “getting the word out” to high technology companies and industry associations.

In addition, evidence suggests that some federal agencies and research facilities may not be in full compliance with the deemed export regulations. For instance, when we provided BXA officials with the names of a limited sample of 16 foreign nationals working on projects at NIST, the officials made a preliminary determination that 3 of these individuals might require deemed export licenses. In fact, we found that only two federal agencies had submitted a total of five deemed export license applications during FY 1999. This number appears low given the number of foreign visitors and workers at federal research facilities that might have access to export-controlled technology.

Visa Application Review Program Shows Promise, but Refinements Are Needed

In 1998 BXA restructured its Visa Application Review Program to better target applications of individuals who might be involved with products and technologies most often needed for weapons of mass destruction. From our review of a sample of 74 visa application referrals, we conclude that the program is showing potential for helping achieve the agency’s export enforcement mission. For example, some referrals to BXA’s Office of Export Enforcement resulted in investigations aimed at preventing illegal exports of sensitive technologies, and one referral to the State Department resulted in a visa being denied.

Yet the program can be further improved. For example, the process for reviewing visa applications would be enhanced by having checklists for BXA’s analysts. In addition, the process for referring problematic applications to the Office of Export Enforcement could be made more efficient by

making certain changes to the enforcement database to improve the way in which referrals into existing open cases are routed to BXA field offices. Improvements are also needed in the timeliness of referrals of potential visa fraud cases to the State Department.

The Visa Application Review Program is part of a larger U.S. government review of visa applications under the State Department's Visas Mantis program. The Visas Mantis program is an effort to prevent foreign nationals from countries or entities of concern from gaining access to U.S. high technology by having various federal agencies review visa applications. However, some of the agencies that receive the Visas Mantis cables have curtailed their reviews because of resource shortages and limited results from referrals to State. There is also a need for improved coordination and clearer delineation of each agency's responsibilities under the program. Furthermore, State officials say that they are limited in their ability to deny visas because the Immigration and Nationality Act is vague about when a visa may be denied. Also, State is not providing feedback to the agencies involved in the program as to what action is taken on their referrals. We suggested that BXA work with the other involved agencies to formalize the Visas Mantis review program in a memorandum of understanding to help correct these problems.

Federal Efforts to Monitor Foreign Investment Need to Be Reviewed

CFIUS, the interagency committee that reviews foreign investment in U.S. companies for national security implications, is another mechanism intended to assist in the federal government's efforts to counter the loss of sensitive technologies. Based on our limited survey work, we have concerns about the effectiveness of CFIUS, including the lack of mandatory foreign investment reporting, the low number of investigations conducted on company filings, and the appearance of a conflict of interest on the part of the Treasury office that is charged with overseeing CFIUS in that it has the dual responsibilities of "promoting" foreign investment as well as "preventing" such investment when it could result in the loss of sensitive technologies.

Therefore, we are suggesting that the interagency OIG review team undertake a study to determine the scope of the problem regarding foreign investment in U.S. companies with sensitive technologies by countries and entities of concern, and to review CFIUS's effectiveness and recommend improvements, as necessary, to the way the federal government monitors foreign investment in U.S. companies.

Bureau of Export Administration

We are also highlighting two issues involving Commerce's process for reviewing CFIUS filings that warrant further assessment: (1) Should Commerce's lead responsibility for this program remain with the International Trade Administration, the Department's primary trade promotion agency, or be moved to BXA, the Department's primary national security agency? (2) Should BXA's export enforcement and export licensing units play a larger role in reviewing CFIUS notifications?

BXA agreed with most of the recommendations we made to address our concerns, but said that current budget shortfalls would inhibit its ability to implement some of them. BXA claimed that we did not thoroughly assess the problems with deemed exports or demonstrate that our recommended remedies are appropriate. BXA also questioned the usefulness of our comparison of the number of high technology visas to the number of deemed export licenses. We believe that the number of such visas is a valid indicator of the possible universe of deemed export license applications, and we note that BXA used an increase in such visas as a justification for requesting additional funding and positions for FY 2001.

BXA also questioned our recommendations that it both work to clarify the deemed export regulations, and proceed with programs to ensure compliance with the regulations. While we believe that the regulations would benefit from clarification, which we first recommended in our June 1999 report, we also recognize that they are not so ambiguous that they cannot be effectively enforced as is. (*Office of Inspections and Program Evaluations: IPE-12454*)

Audit of FY 1999 Financial Statements

In accordance with the CFO Act, as amended by the Government Management Reform Act of 1994, an audited financial statement must be prepared covering all accounts and activities of each office, bureau, and activity of the Department. For the audit of BXA's FY 1999 financial statements, as well as the audits of the statements of the other Commerce reporting entities, the OIG contracted with independent public accounting (IPA) firms. We defined the audit scope, selected the contractors, and oversaw the performance of the audits and the delivery of the audit results.

An IPA firm issued an "unqualified" opinion on BXA's FY 1999 financial statements for the second consecutive year. Financial statements audits are a key measure for evaluating a bureau's progress in meeting the goals and objectives of the CFO Act. An unqualified opinion indicates that

BXA and NOAA, which provides accounting support services to BXA, have been successful in establishing an internal control structure that facilitates the preparation of reliable accounting and financial information.

Although the IPA firm's report did not identify any material weaknesses, it did cite two reportable conditions in BXA's internal control structure:

- Interagency agreement policies and procedures should be implemented and followed.
- Accounts receivable balances should be supported.

BXA concurred with the facts, findings, and recommendations contained in the audit report. (*Financial Statements Audits Division: FSD-11883-0-0001*)

Y2K Preparations Were Effective, but Further Risk Mitigation Was Recommended

The OIG reviewed the readiness of BXA's critical systems for the arrival of the year 2000. Our review involved assessing the bureau's preparations and recommending practical risk mitigation and contingency planning activities. We focused primarily on BXA's business continuity and contingency plan (BCCP), which included strategies for dealing with any Y2K-related disruptions, and its Day One plan, which covered the days surrounding the century change.

At the time of our review, BXA operated two mission-critical information systems: the Export Control Automated Support System and the Communications Infrastructure system. A third mission-critical system, the Chemical Weapons Convention Information Management System, was to become operational in calendar year 2000.

Our review revealed that BXA's two existing mission-critical systems had been successfully modified for Y2K compliance and that its new system had been developed with Y2K-compliant software and hardware. Moreover, BXA had initiated independent verification and validation in October 1998 and reported in July 1999 that all three systems were Y2K compliant. On this basis, we concluded that it was reasonable to expect that the systems would function properly after December 31, 1999.

We also found, however, that although BXA had developed a thorough BCCP to identify contingencies for performing its core business processes in the event that critical systems were not available, the bureau had not tested its contingency plans, which were based primarily on alternative manual processes. The Department had requested all of its bureaus to follow GAO's BCCP guidance, which stated that contingency plans need to be tested to validate that they will satisfy the bureaus' needs.

We recommended that BXA validate its BCCP by conducting tests and rehearse its Day One plan with the team responsible for responding to Y2K-related failures. BXA responded that it did not plan to test the BCCP because alternative core business processing methods had been used successfully during the 1996 furloughs. BXA also stated that there was insufficient time before the end of the year to run the recommended test and that the marginal gains to be achieved from testing would not justify the resources expended.

In response, we pointed out that during furloughs, systems were not disabled, as they could be as a result of Y2K problems, and observed that only export license applications submitted in paper format were processed during those furloughs, whereas 60 percent of applications were now submitted electronically. Ultimately, however, BXA opted not to perform the recommended testing before the century change, and fortunately experienced no Y2K-related problems. (*Office of Systems Evaluation: OSE-12551*)

Employee Retired to Avoid Facing Disciplinary Action for False Representation

A BXA employee retired from federal service in the face of proposed disciplinary action stemming from an OIG investigation that found he had leased office space for personal use by falsely representing that it was to be used for official government business. (*Denver Field Office of Investigations*)



Audit of FY 1999 Financial Statements

EDA received an unqualified opinion on its FY 1999 financial statements for the second consecutive year. However, the IPA firm under contract to us that conducted the audit identified two reportable conditions, the first of which is a material weakness:

- EDA did not collect actual data from grantees to estimate its accrued grant expense.
- EDA's financial management systems contained control weaknesses.

This performance represented an improvement from FY 1998, when the auditors identified four reportable conditions, one of which was a material weakness.

Under the Federal Financial Management Improvement Act of 1996, auditors are required to report on whether the bureau's financial management system substantially complies with federal financial management system requirements, applicable accounting standards, and the U.S. Government Standard General Ledger at the transaction level. The firm identified two instances of material noncompliance with the act:

- The financial management system used by EDA for its grant accounting does not comply with the Standard General Ledger at the transaction level.
- The financial management system used by EDA for salaries and expenses does not comply with certain system requirements.

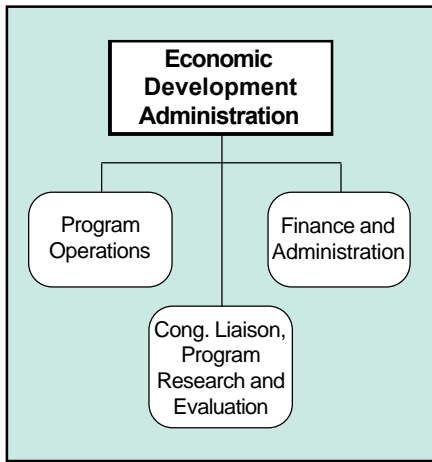
Although progress has been made in strengthening financial management, EDA must continue its efforts to resolve the identified material weakness and reportable condition. Of particular importance is the need to address EDA's methodology for determining accrued grant expense. (*Financial Statements Audits Division: FSD-11885-0-0001*)

Defense Adjustment Implementation Grant Was Properly Administered

In July 1995, EDA awarded a \$3 million Title IX Defense Adjustment Implementation grant to a private organization to renovate several buildings at the former Castle Air Force Base in California to create a U.S.

The **Economic Development Administration** was established under the Public Works and Economic Development Act of 1965, as amended, including the comprehensive amendments by the Economic Development Administration Reform Act of 1998, 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



Aviation Discovery Exposition. The project was part of an intense coordinated response to negative economic conditions in the state, long-term poverty and unemployment in Merced County, and the September 1995 closure of the base and the consequent loss of its combined civilian and military annual payroll of over \$225 million. In 1998, because of changed conditions, EDA provided the agency with an additional \$1.3 million in federal funds to complete the project. The amendment brought the EDA share of the award to \$4.3 million, or about 90 percent of the total estimated project cost of nearly \$4.8 million.

The EDA-funded project was officially completed in July 1999. An OIG audit of the project revealed no significant deficiencies or adverse findings. No problems came to our attention during the audit; the organization complied with the award terms and conditions, accomplished the scope of work of the award, accounted properly for project expenditures, and claimed the appropriate share of federal costs. Accordingly, we made no recommendations. *(Seattle Regional Office of Audits: STL-12659-0-0001)*

Quality Control Review of Nonfederal Audit Found Minor Deficiencies

The OIG performed a quality control review of an audit conducted by an independent public accountant of a Massachusetts nonprofit organization responsible for implementing a trade adjustment assistance program for manufacturing firms located in the New England States. The organization's primary support is an EDA award to assist firms that have experienced a decline in revenue due to foreign competition. During 1998 the organization spent approximately \$1.8 million under the award, of which \$1.1 million was federal funds. As the oversight agency for the organization, we performed our review to determine whether the audit was conducted in accordance with government and generally accepted auditing standards, and whether the audit report meets the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Our review found that the auditor's working papers supported the audit report and that the audit complied with audit standards. However, we identified certain deficiencies that, although not material, needed to be addressed. To address these minor deficiencies, we recommended that the auditor provide sufficient information on the effect of each audit finding reported, verify that information on the data collection form submitted to the audit clearinghouse is accurate, and obtain all appropriate management

representations related to federal awards that are recommended by the American Institute of Certified Public Accountants. (*Atlanta Regional Office of Audits: ATL-12073-0-0001*)

Audit Reports Unresolved for Over Six Months

As of March 31, 2000, two financial assistance audit reports had recommendations that have remained unresolved for more than six months.

The first report, DEN-10586-9-0001 (see March 1999 issue, page 28), has been carried over from the last two reporting periods. The audit found that a nonprofit grantee in Texas had disregarded procurement standards in awarding a \$244,250 contract to a consulting firm. The audit also questioned \$258,838 in salary costs and in-kind contributions because of inadequate supporting documentation. We did not concur with EDA's initial audit resolution proposal, and we are continuing to work with EDA to resolve our disagreement.

In the second report, ATL-09999-9-0031, the auditors found that the grantee had not complied with procurement standards. In February 2000, EDA requested that the grantee provide clarification of the applicable grant numbers. EDA is awaiting that clarification before submitting an audit resolution proposal.

Economics and Statistics Administration



Decennial Personnel and Payroll System Appears Adequate, but Better Software Practices Needed

As the largest peacetime civilian mobilization in the United States, the 2000 Decennial Census will process over 3 million applicants for more than 860,000 temporary jobs. The Census Bureau will rely on the Pre-Appointment Management System/Automated Decennial Administrative Management System (PAMS/ADAMS) for all applicant processing, personnel actions, and payroll functions for temporary employees during the decennial. PAMS/ADAMS, initially deployed to support the 1998 Dress Rehearsal, has been in use since then and has undergone significant changes.

The OIG conducted an evaluation to determine whether PAMS/ADAMS would provide accurate, timely hiring and payroll processing during the decennial. Because an earlier OIG review found that the way in which daily payroll forms were being processed during the dress rehearsal allowed employees to be paid more than once for the same hours worked, we also checked to see whether the bureau had solved this problem. As a consequence of other dress rehearsal problems, the bureau is developing an alternative data entry system, called PAMS/ADAMS Data Entry (PADE). At the bureau's request, we also assessed its approach to testing PADE.

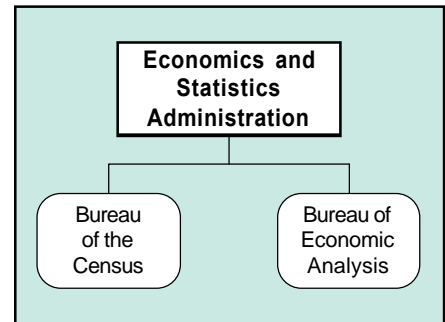
In developing PAMS/ADAMS, the bureau did not follow a well-managed software development process. As a result, the bureau did not have current and complete requirements and test documentation. Consequently, the accuracy and completeness of PAMS/ADAMS cannot be determined by reviewing the bureau's documentation or by independent testing, activities normally associated with a systematic software development effort. However, we believe that the extensive operational use of PAMS/ADAMS since the dress rehearsal, which has allowed the bureau to identify and correct errors and to evaluate changes, provides reasonable assurance that the system can support decennial operations.

The bureau addressed the duplicate pay issue by implementing procedures that required local census office (LCO) payroll clerks to request a report from PAMS/ADAMS identifying employees who submitted multiple payroll forms for a particular day and then review the report to check for duplicate reporting of hours worked. The possibility of duplicate pay remained, however, because the approach relied on human action to request the report. A more effective approach would be for the PAMS/ADAMS software to automatically check for multiple payroll forms and produce the report.

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.

Economics and Statistics Administration

The new data entry system, PADE, was developed without requirements, design, or testing documentation; therefore, we were unable to assess the adequacy of testing. In addition, the software that transfers the data from LCOs to regional census centers has serious performance problems, so this component is being redesigned. Nonetheless, operational testing and use of PADE in the field suggest that it processes data correctly and has the potential to significantly improve the efficiency of payroll and applicant processing operations. Therefore, we concluded that the bureau should continue to develop PADE, test it at headquarters, and use it operationally, with the goal of having it ready for use in all LCOs in time for the February 2000 update/leave operation. Based on PADE's performance in that operation, the bureau could decide whether it should be used as the principal system during the decennial.



Although the operational use of PAMS/ADAMS provided assurance that the system would work as intended, a well-managed software development process would have increased the bureau's and our confidence by producing documentation and applying techniques to allow issues regarding accuracy, completeness, and performance to be identified and corrected during development rather than in operation. Moreover, such a process would have prevented disruptive problems during the dress rehearsal, obviated the need for the late redesign of the data entry component, and reduced cost.

We have found similar problems with software development for other decennial information processing systems, and we reported that while the bureau has software engineering standards, their use is not required, nor are they widely used. Better software management practices would improve timeliness, quality, and user satisfaction and reduce development and maintenance costs for all census systems. Although it is too late to attain significant improvements for the 2000 Decennial Census, the bureau should make a concerted effort to improve software development for all future programs, decennial and nondecennial alike.

We recommended that the bureau strengthen its procedures for identifying and avoiding duplicate pay; continue development, testing, and field evaluation of PADE; and ensure that the capability to use the non-PADE version of PAMS/ADAMS is retained in every LCO in the event that PADE cannot be deployed for the decennial. The bureau has agreed with and implemented all of our recommendations. After we issued our report, PADE was used successfully for the update/leave operation, and it is now being used for the remaining applicant processing and payroll functions. (*Office of Systems Evaluation: OSE-11684*)

Accountable Property Used for the Decennial Census Needs Improved Controls

In preparation for the 2000 Decennial Census, the Census Bureau has established temporary field offices throughout the United States and in Puerto Rico. At the close of 1999, there were 12 regional census centers (RCCs), a Puerto Rico area office, 520 local census offices, and four data capture centers in operation. Over \$60 million in personal property will be placed in these temporary field offices for the decennial.

The OIG conducted an audit of the adequacy of controls over accountable personal property in the Boston, Dallas, and Los Angeles RCCs. Accountable personal property includes capitalized personal property, equipment with a unit cost of \$2,500 or more, sensitive items (those that are easily convertible to personal use or have a high potential for theft), borrowed or leased property, and contractor or grantee accountable or sensitive property. We also conducted physical inventories at the three RCCs, the Puerto Rico office, and six local census offices, two in each of the three regions visited. Finally, we reviewed bankcard transactions at the three RCCs and Puerto Rico. Our audit of bankcard transactions disclosed that the bureau was properly administering the bankcard program, and that regional personnel were following appropriate internal control procedures and exercising sound management practices in the order, receipt, and recording of purchases.

However, we identified the following areas where the bureau needs to better manage its accountable personal property:

- **Property recording.** Bureau personnel did not properly record hundreds of items in the property books or in its automated property management system. Much of the accountable personal property located at the RCCs was not on the headquarters' or the RCCs' inventory lists. We recommended that the bureau require each RCC and area office to designate staff specifically to receive personal property and maintain adequate accountability.
- **Physical inventories.** The bureau requires that complete physical inventories of accountable personal property be conducted regularly, generally once a year. But physical inventories had not been conducted at any of the RCCs we visited, although they had been open for more than a year. Moreover, bureau capitalizable property records were not reconciled with financial records in a timely manner. We recommended that the bureau ensure that required

inventories of accountable property are conducted annually and that property and accounting records are adjusted to reflect the inventory results.

- **Transferred property.** Bureau personnel did not adequately control transferred personal property. Specifically, approval for transferring property was not always documented, and transferred property was not always posted on property records. In addition, personnel did not obtain approval for and improperly documented a loan of accountable property to another agency. We recommended that the bureau strengthen controls and oversight of the property management system to ensure that transfers and loans of accountable personal property are approved and documented in accordance with procedures.

The bureau concurred with our recommendations, and we commend it for its responsiveness in taking quick action to address our concerns. For example, the bureau has now conducted full physical inventories in all 12 regions, and has designated staff to be responsible for receiving and recording personal property. (*Economics and Statistics Audits Division: ESD-11781-0-0001*)

Decennial Employees in Atlanta Region Experienced Problems with Late Pay

In late 1998, the Census Bureau made certain policy and procedural changes for the 2000 Decennial Census on the basis of lessons learned from the 1998 Dress Rehearsal. Among these changes was to forgo scanning forms for payroll processing and instead rely on keypunching for data entry. As the bureau's regional offices began their initial decennial work in late 1998, the OIG's Hotline began receiving complaints from temporary decennial employees about late pay. Of the 204 late pay complaints received by either the OIG or the bureau as of January 1999, 82 (40 percent) came from the Atlanta region. We therefore conducted an audit of that region's payroll operations to determine if the region's temporary decennial employees were being paid promptly and accurately.

Our audit disclosed that during late 1998 and early 1999, the Atlanta Regional Census Center experienced a variety of pay problems that led employees to complain that they either had not been paid or had received late or incorrect pay. We were concerned that, if not corrected, these problems could undermine the bureau's ability to hire and retain qualified employees for the decennial. The specific problems experienced are discussed below.

- **Earnings statements were not received on time.** Seventy percent of the sampled resolved pay complaints received by the Atlanta center involved misunderstandings about pay, rather than actual late or incorrect pay. Starting in September 1998, earnings statements were generated by the bureau's national processing center, rather than by the regions, as had been the case before. Because the Atlanta center was late in providing its input to the national processing center during the first month after the change, employees did not receive their earnings statements on time. As a result, they had difficulty reconciling the amount of their pay with their records of hours worked and contacted Atlanta center payroll personnel for further information.
- **Employee pay was delayed.** In examining pay records for 30 Atlanta region employees from October through December 1998, we found that records for 27 (90 percent) showed instances of late pay. Employee pay was delayed for two reasons. First, focusing more on data production than personnel administration, crew leaders did not always collect daily work records from their employees and did not always provide daily records in time for forwarding to the Atlanta center to meet payroll cutoff dates. Second, employees' failure to provide sufficient payroll information (such as bank routing symbols, bank account numbers, or mailing addresses) caused automated payroll deposits to be rejected or paychecks to be returned as undeliverable.
- **Some employees received duplicate pay.** When they became concerned about not receiving their pay for certain days, some employees resubmitted work records or submitted new work records for those days, which resulted in their being paid twice for the same work. In response to an earlier OIG recommendation about this problem, the bureau added a "flag edit" to the pay system, which is designed to generate an exception report when multiple work records are submitted for the same date.

We made several recommendations to address the identified pay problems. The bureau agreed with our recommendations and has taken steps to implement them. (*Atlanta Regional Office of Audits: ATL-11640-0-0001*)

Census Bureau Y2K Preparations Effective, but Improved Contingency Planning Needed

The OIG reviewed the readiness of the Census Bureau's critical systems for the Y2K century change. Our review involved assessing the bureau's preparations and recommending practical risk mitigation and contingency planning activities. At the time of our review, the bureau had successfully replaced and tested its systems in preparation for Y2K and had made progress in developing a business continuity and contingency plan. The bureau reported that all of its mission-critical systems were Y2K compliant.

We found, however, that further actions were needed to ensure the continuity of critical business processes in the event of Y2K-related systems failures. The following were our specific observations:

- **Contingency plans needed further development, and test plans and tests were needed for critical systems included in the September draft BCCP.** Our review disclosed that the bureau had not developed detailed contingency plans, and therefore implementation of its BCCP could not ensure the continued delivery of minimally acceptable levels of outputs or services in the event of Y2K failures. Moreover, test plans needed to be developed, test teams established, business resumption teams rehearsed, and tests executed to validate contingency plans.
- **Contingency plans, test plans, and tests were needed for November additions to the BCCP.** The bureau originally excluded all decennial systems from its BCCP because most would not begin production until March 2000 or later. But three mission-critical systems were operating in preparation for the decennial, and at our suggestion, the bureau added them to the November 1999 draft of its BCCP. Because they were added late in the process, these important systems were not supported by detailed contingency or test plans.

We made recommendations to address our concerns. Responding after the start of the new century, the bureau stated that all of its systems, including the three added to the November BCCP, had been tested and that no Y2K-related errors had been found, and that all operations were functioning properly in the year 2000. (*Office of Systems Evaluation: OSE-12200*)

Audit of Census's FY 1999 Financial Statements

For FY 1999, the Census Bureau received an unqualified opinion on its financial statements. This is an especially noteworthy accomplishment, considering that the bureau received a disclaimer of opinion on its FY 1998 Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Financing.

While we commend the bureau for achieving an unqualified opinion, it still needs to address deficiencies in its internal controls. The IPA firm conducting the audit under contract to us identified three reportable conditions in the bureau's internal control structure, all of which are material weaknesses:

- **Financial management and reporting.** The bureau continued to experience significant difficulties and delays in producing complete, accurate financial statements in accordance with departmental guidelines. Moreover, it did not provide sufficient financial management oversight and supervisory review of the financial statements throughout the year-end reporting process, nor did it prepare timely financial statements throughout the year. Bureau management, at the highest level, must make financial management improvement a top priority. Addressing the material weaknesses is a prerequisite to improving financial responsibility. Concerted efforts are needed to improve the internal control structure and promptly implement corrective actions for the preparation of financial statements for FY 2000.
- **Account reconciliations.** The firm found that many key financial statement account balances were not reconciled in a timely manner throughout the fiscal year and at year-end. Specifically, account reconciliations and accompanying journal vouchers for Fund Balance with Treasury, Fixed Assets, Deferred Revenue, Accounts Payable, Other Liabilities, and Budgetary Accounts were not adequately supported or properly reviewed, and required extensive follow-up and revisions.
- **Information system reporting and controls.** In connection with the FY 1999 audit, the bureau worked diligently to improve its routine reporting functions and information system requirements. However difficulties still existed in its ability to routinely produce timely reports.

In conjunction with the audit, the IPA firm conducted a general and environmental controls review of the bureau's information systems in accordance with applicable sections of GAO's *Federal Information System Controls Audit Manual*. The review identified weaknesses in five of the six review areas set forth in the *GAO Manual*: (1) entitywide security program planning and management, (2) access control, (3) system software control, (4) segregation of duties, and (5) service continuity. Together, these weaknesses, if not resolved, could adversely affect the security of the data, programs, and hardware maintained at the bureau and have a negative impact on both the bureau's financial statements and the Department's consolidated statements. The firm considered the aggregation of these weaknesses, coupled with the lack of compensating controls, to be a material internal control weakness and included this issue in its *Report on Internal Control*, as discussed above.

The IPA firm discussed these weaknesses, and made recommendations for correcting them, in a separate report on systems issues. The bureau generally agreed with the accountants' recommendations for addressing the identified weaknesses and stated that corrective actions would be taken. Issues with which the bureau disagreed relating to system deficiencies will be addressed in detail during the FY 2000 financial statements audit. (*Financial Statements Audits Division: FSD-11884-0-0001, FSD-11884-0-0002*)

Audit of ESA and BEA's FY 1999 Financial Statements

An IPA firm under contract to us issued an unqualified opinion on the FY 1999 consolidated financial statements of the Economics and Statistics Administration and the Bureau of Economic Analysis. This was the fifth consecutive year that these bureaus had received a clean (unqualified) opinion. Moreover, for the first time, the accountants identified no material weaknesses or reportable conditions in ESA and BEA's internal control structure, and no instances of noncompliance with laws and regulations. This represented a substantial improvement over the FY 1998 audit, which identified two reportable conditions and one instance of material noncompliance with laws and regulations. (*Financial Statements Audits Division: FSD-11886-0-0001*)



International Trade Administration

The International Trade

Administration is responsible for most nonagricultural 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. Its main objectives are to obtain market access for American firms and workers and to achieve full compliance by foreign nations with trade agreements signed with the United States.

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-sized businesses market their goods and services abroad. It has 105 domestic offices and 138 overseas posts in 75 countries.

Audit of FY 1999 Financial Statements

An IPA firm under contract to us issued an unqualified opinion on ITA's FY 1999 financial statements. This notable achievement, the first "clean" opinion received by ITA, was largely the result of significant financial management improvements made by the bureau, including a number of organizational and managerial reforms, such as hiring managerial staff, outsourcing accounting processing, and working to clean up its financial records.

The firm, however, did identify three reportable conditions, all of which were considered to be material weaknesses. The weaknesses were in (1) the control environment, (2) the financial reporting process, and (3) financial management systems.

In reviewing ITA's compliance with laws and regulations, the firm also found that ITA's financial management systems did not substantially comply with the Federal Financial Management Improvement Act. Specifically, the bureau's accounting system, which was replaced near the end of FY 1999, was not compliant with Joint Financial Management Improvement Program requirements. In addition, ITA grants were processed by EDA's non-JFMIP compliant system for a significant part of the year. In both cases, ITA has begun using the Department of the Interior's JFMIP-compliant accounting system. Because the new system is to be fully operational for FY 2000, no remedial actions were recommended.

Other matters discussed included ITA management's representation that certain budgetary authority was used for other than intended purposes, and the IPA firm's inability to determine whether ITA was in full compliance with the requirements of OMB Circular A-25, *User Charges*. The firm recommended that ITA resolve the user charges issue by September 30, 2000. (*Financial Statements Audits Division: FSD-11887-0-0001*)

MDCP Award Procedures Promote Merit-Based Decisions, but Practices Need More Discipline

Through its Market Development Cooperator Program (MDCP), ITA provides financial assistance to nonprofit industry organizations, trade associations, state departments of trade, and other industry groups for projects that develop, maintain, and expand foreign markets for U.S. nonagricultural goods and services. In FY 1997, ITA officials received 41 applications seeking program funding of over \$10 million, selected 38 for review, and ultimately awarded 6 grants, totaling about \$1.8 million.

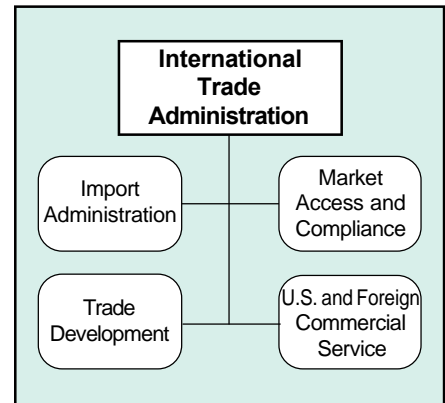
International Trade Administration

As part of our Department-wide review of discretionary financial assistance programs, we examined ITA's criteria, procedures, and practices for soliciting, reviewing, and selecting MDCP awards. Our review disclosed that ITA's application solicitation and selection processes complied with statutory, departmental, and ITA requirements. ITA's application review practices, however, did not fully meet those requirements. Specifically, we found that ITA:

- Developed and published merit-based technical and public policy criteria that were consistent with the program's objectives.
- Conducted application solicitation efforts that exceeded the Department's and ITA's requirements for an annual notice in the *Federal Register* and were sufficient to obtain a widespread response from eligible applicants.
- Evaluated applications using a review panel that did not fully meet the Department's independence requirement and could not provide documentation to verify that the panel reviewed all eligible applications.
- Contrary to published review procedures, allowed program staff to review and rank FY 1998 applications.

We recommended that ITA (1) discontinue the prescreening of applications by program staff and ensure that all eligible applications are reviewed by an independent review panel, (2) ensure that the review process is adequately documented and that documentation is retained for seven years, as required, and (3) ensure that the review and selection process is consistent with the public announcement.

ITA agreed with our second and third recommendations, but disagreed with our first recommendation, that it discontinue its practice of allowing applications to be initially reviewed and ranked by program staff. ITA considers program staff comments to be an invaluable part of the application review process. Our recommendation was not intended to prohibit ITA from considering the comments of program staff, but rather to prevent program staff from effectively eliminating eligible applications from an independent panel review. We are currently reviewing ITA's action plan submitted in response to our report. (*Atlanta Regional Office of Audits: ATL-10999-0-0001*)



OIG Overseas Work Continues with Reviews of Three US&FCS Posts

During this semiannual period, the OIG continued its reviews of Commerce overseas posts, which are under the direction of ITA's U.S. and Foreign Commercial Service (US&FCS). Our reviews are generally designed to evaluate the posts' operational effectiveness and determine whether they are efficiently accomplishing their mission of providing U.S. companies, especially small and medium-sized ones, with export assistance. In the following sections, we summarize the reports we issued on three US&FCS posts—Hong Kong, Vietnam, and France.



Hong Kong

On July 1, 1997, Hong Kong reverted to Chinese sovereignty after more than 150 years of British rule. The island has long been economically integrated with China due to its proximity and cultural ties. The strong economic relationship that Hong Kong has with the United States is evident in the over 1,100 U.S. businesses represented in Hong Kong, the \$19 billion in U.S. direct investment in the island, and two-way trade of more than \$23 billion in 1998. Hong Kong is both a major destination for U.S. exports and a springboard for trade with southern China.

The US&FCS post in Hong Kong had a FY 1998 operating and administrative budget of nearly \$2 million and a staff of 4 foreign commercial officers, 10 foreign service nationals, and 14 personal services contractors. An OIG inspection of the post found that it was fulfilling its trade promotion mission and appeared to be meeting the needs of U.S. businesses. However, we identified the need for improvements in strategic planning, coordination, and internal controls. Some of our specific findings are discussed below.

- **Post was meeting clients' needs with high-quality products and services, but better targeting was needed.** Clients whom we interviewed rated the post's services quite highly, and our review of a sample of products and services confirmed that favorable opinion. For example, the post had developed an innovative fax-back and on-line system to enable U.S. companies to obtain weekly up-to-date commercial and economic reports that outline business opportunities in the Asia-Pacific region. However, we found that the Industry Sector Analyses relied excessively on standardized sections, and the Agent/Distributor Service and the Gold Key Service need better targeting.

- **Reporting of success stories was insufficient in FY 1998, but improved in FY 1999.** US&FCS Hong Kong reported only 32 success stories in FY 1998 (its average number of success stories per staff member was about half the average for the East Asia-Pacific region). But the post had increased its number of success stories to 46 in just the first quarter of FY 1999 as a result of staff training and an emphasis by the Senior Commercial Officer (SCO) on reporting such accomplishments.
- **Coordination was excellent with the consulate and nonfederal trade promotion organizations, but could be improved with other ITA units.** Officials from the U.S. consulate gave high marks to the work of US&FCS Hong Kong. The SCO was meeting regularly with his counterparts in the economic and political sections and cooperating with them on export control activities, trade shows, and other events. Officials of nonfederal trade promotion organizations in Hong Kong complimented the post on its efforts to coordinate activities and help their member companies. The degree of coordination with other ITA units was mixed, however. Although the post worked well with some Trade Development offices, coordination with Market Access and Compliance was limited to high-level visits, and the post did not fully utilize the US&FCS domestic teams.
- **BXA end-use checks were being conducted properly and in a timely fashion.** In compliance with export control regulations, US&FCS Hong Kong completed 12 post-shipment verifications and 1 pre-license check in FY 1997 and routinely coordinated both types of end-use checks with most other consulate sections, such as the economic and political sections and the U.S. Customs Service. The post agreed with our suggestion that it also coordinate these checks with the consulate's defense attaché.
- **Better regional planning was needed.** The US&FCS Regional Director for East Asia-Pacific in Washington, who is charged with management oversight of the region, had not provided the necessary guidance and support to the post on programmatic planning issues. Washington had not developed a regional plan for US&FCS Hong Kong and other closely linked markets that identified joint projects and events for the posts to work on. We suggested that headquarters build on the excellent draft plan for the China Economic Area that the current SCO in Hong Kong developed when he was the post's deputy.

International Trade Administration

- **The SCO should develop a strategic plan.** Although it was too soon to thoroughly evaluate the post's new management at the time of our visit, it was nonetheless clear that US&FCS Hong Kong needed a formal strategic plan to effectively define, prioritize, and analyze its goals to better serve U.S. firms. The post's input into Consulate Hong Kong's Mission Program Plan was the only planning document the post produced.
- **Budget was closely monitored, but some areas needed more attention.** US&FCS Hong Kong's budget was closely monitored because of sound management practices established by the former SCO, systems implemented by the administrative assistant, and good service provided to the post by staff of the consulate's Budget and Fiscal Office. However, we questioned whether some representational expenses were used effectively to promote U.S. commercial interests and whether some expenditures for recruiting job candidates were justified.
- **Post should improve internal controls.** More documentation was needed to support justifications for representational funds, time and attendance records, and use of the official vehicle. The SCO should also exercise greater control over the authorization of overtime. Moreover, the post needed to officially document all property purchased for officers' residences to ensure that property and other assets are safeguarded against fraud, waste, and abuse. Duties related to the deposit of user-fee collections needed to be separated, and a foreign commercial officer should be approving deposits of funds and ensuring that they were made weekly.
- **ICASS was working well at Hong Kong Consulate.** The International Cooperative Administrative Support Service (ICASS), the State Department system for distributing overseas support costs to federal agencies overseas based on the services received, appeared to be working well in Hong Kong. US&FCS was actively participating in the ICASS Council, which had a positive relationship with the service providers. In addition, the council's formation of working groups composed of foreign service officers and foreign service nationals who have expertise in and knowledge of the specific service issues was a "best practice" that we hope to see adopted by other ICASS Councils.
- **Environmental Partnership program was cooperating well with US&FCS Hong Kong staff, but coordination with other ITA units was inadequate.** The United States-Asia Environmental Partnership, an interagency program led by the U.S.

Agency for International Development, is well integrated with the US&FCS Hong Kong commercial operation. The program and US&FCS jointly recruit for and sponsor seminars and trade missions and share client databases. However, the program, which provides market research and promotes U.S. environmental technology exports, has little interaction with Trade Development's Office of Environmental Technologies Exports. The program could also benefit from working more with ITA's domestic field offices.

US&FCS generally agreed with our recommendations, and described actions already taken or planned to implement some of them. For some of our recommendations, the agency either said it would consider them further or offered alternative suggestions to meet their intent. We will continue to monitor US&FCS's actions to correct the weaknesses we identified. (*Office of Inspections and Program Evaluations: IPE-11330*)

Vietnam

During most of the 1990s, Vietnam had one of the fastest growing economies in the world, with an 8-percent average annual GDP growth rate fueled primarily by direct investment from its Asian neighbors. During the recent financial crises in Southeast Asia, however, traditional sources of capital in Vietnam dried up, and opportunities increased for other foreign sources to enter the market. With an educational emphasis on applied sciences and vocational training and a literacy rate near 90 percent, Vietnam's labor force remains attractive to foreign enterprises seeking to develop their own manufacturing facilities in Vietnam.

However, many challenges remain for Vietnam and for firms choosing to do business there. For example, the government requirement that domestic laborers working in foreign-owned manufacturing plants be paid in foreign currency exposes foreign firms to a greater foreign exchange rate risk on their production costs than they would face elsewhere. Corruption, threats to intellectual property rights, and burdensome product licensing requirements also pose obstacles for foreign firms considering entry into the market.

Soon after the United States normalized relations with Vietnam in 1995, US&FCS sent an officer to Hanoi. In February 1997, the Hanoi US&FCS office officially opened, and in September 1998, a constituent post opened in Ho Chi Minh City, formerly known as Saigon. At the time of our inspection, the staffing in Vietnam included 4 foreign commercial



International Trade Administration

officers, 14 foreign service nationals, and 2 personal services contractors. In FY 1998, US&FCS Vietnam's total operating expenses were \$1.82 million.

Our inspection of US&FCS Vietnam operations disclosed that both posts were generally well run. Each post was engaged in innovative initiatives that may be appropriate for adoption elsewhere. For example, in Ho Chi Minh City, management developed and conducted a seminar that was effective in educating Vietnamese businesses on the resources available to develop trade between the two countries. Management also started a program in which its local staff share their expertise with one another through in-house training courses. In addition, the Hanoi post has taken the initiative to organize regional Gold Key Services for American companies. At the same time, however, we found administrative oversight and controls lacking in important areas that, if left unaddressed, could diminish the posts' efficiency and effectiveness. Our specific findings were as follows:

- **US&FCS Vietnam is taking appropriate steps to build its commercial program.** During its first four years in Vietnam, US&FCS has carried out much of the activity needed to establish an effective commercial service presence in a new market. It has focused resources on key program activities, including developing contacts with local government officials, helping to establish complementary U.S. government programs in Vietnam, and starting to deliver core US&FCS program services. However, many challenges remain for US&FCS to become an effective, sustainable presence in Vietnam.
- **Greater cooperation is needed in partnering efforts.** US&FCS has developed good working relationships with Vietnamese trade promotion organizations in Hanoi and Ho Chi Minh City, and has used them to develop contacts with local businesses and government officials. In addition, in Ho Chi Minh City, US&FCS has used the local commercial trade group to recruit Vietnamese business representatives to participate in the International Buyer Program and the post's education seminar. Furthermore, US&FCS has formed a partnership with the state of Florida, whereby a contractor works for the state out of the Hanoi post and serves US&FCS interests part-time. While the relationship between the US&FCS staff and the state representative is good, the parties' roles and responsibilities need to be more clearly defined.

- **Weak internal control systems raise concern over the use of funds and government property.** US&FCS Vietnam has developed a good system to track its finances, but it has not implemented proper internal controls to prevent fraud, waste, and abuse of government funds and property. We found examples of waste and abuse with operating and administrative funds, especially with respect to charges for telephone calls. Specifically, in response to our questioning, more than \$10,000 worth of telephone calls were identified as being personal calls, and reimbursements to the government were made. Loose controls over the multiple financial tracking systems in place at post—those of the State Department, US&FCS, and ITA—create problems reconciling revenue from the sale of products and services. In addition, more oversight of administrative charges levied under ICASS is needed to ensure that US&FCS is paying appropriate costs for the services it receives. Finally, lack of controls over vehicles and cellular phones has led to questionable use of government property.
- **Underutilized Space in Hanoi and Ho Chi Minh City is of concern.** Each post has more office space than it uses or intends to use within the next few years. Both facilities were designed and built-out under a “business center” concept, justified by expectations that U.S. businesses and other partners would collocate with US&FCS under various short-term arrangements. Such expectations have not been realized, and no planning for further recruiting is underway. In addition, US&FCS’s decision to relocate its Hanoi operation could have resulted in unnecessary facility costs had we not questioned some of these costs, causing US&FCS to renegotiate its space requirements. In the future, US&FCS needs to better assess and justify office space requirements overseas when moving into commercial buildings, especially when it bases its requirements on plans to share space with potential partners.

We made a number of recommendations to address our concerns. US&FCS generally agreed with our recommendations and said that it appreciated our balanced assessment of the strengths and weaknesses of one of its newest posts. Acknowledging the lapses in the day-to-day management of post operations, US&FCS said it had begun taking corrective actions to address our concerns. (*Office of Inspections and Program Evaluations: IPE-11798*)

International Trade Administration



France

France, with the world's fourth largest industrial economy, is one of the United States' most important political, cultural, and economic partners. In 1998 U.S. exports to France totaled about \$18 billion, and imports were valued at about \$24 billion. France is the United States' ninth largest trading partner and its third largest market in Europe (after the United Kingdom and Germany).

US&FCS's eighth largest post is in France, with a budget of \$1.9 million in FY 1999. At the time of our review, the post employed 6 American officers, 22 foreign service nationals, and 8 personal services contractors. According to US&FCS senior officials, until recently US&FCS France had been considered a productive export promotion post, with a dedicated and professional staff.

In late September 1999, however, the US&FCS Director General asked the OIG to conduct a limited, quick-response review of US&FCS France, due to management's concerns about administrative, financial, and management problems that had developed in Paris.

Our review focused on identifying the key management, administrative, and financial problems in Paris that needed to be addressed immediately by the interim SCO, who was temporarily assigned to the post from a nearby US&FCS post, and by the new SCO and Deputy SCO, who were to arrive at the post in the coming months. Because of the need for swift action, the scope of our review did not include the post's program operations or effectiveness.

We found that the US&FCS office in Paris had a very serious morale problem, had been operating with an ineffective organizational structure, and was beset with financial and administrative problems. By most accounts, the problems were attributable to the ineffective management styles and lack of leadership and appropriate oversight of two previous sets of senior managers. Our specific observations were as follows:

- **Administrative and financial problems and errors were widespread.** Our review of US&FCS France's administrative and financial practices, transactions, and procedures uncovered a significant pattern of errors since FY 1998. Specifically, adequate internal controls were not in place; policies, procedures, and regulations were not adhered to; multiple errors occurred in the FY 1999 trust fund data; questionable expenditures were made;

unliquidated obligations were not deobligated; personnel matters were not handled appropriately; and relationships with the embassy's Budget and Fiscal Office and Personnel Office deteriorated. These problems had two primary causes: First, successive management groups paid little or no attention to administrative and financial operations. Second, the absence of staff due to long-term leave and the inadequate training of the remaining staff left the post's administrative group temporarily short-handed.

- **Controls and oversight for credit card purchases were inadequate.** ITA has not implemented adequate controls over the use of credit cards to ensure that overseas posts stay within funds authorization limits, expenditures are charged against the appropriate accounts, only acceptable expenditures are charged, and procurement regulations are followed. Recent changes by ITA's Office of Financial Management, instructing posts to forward credit card statements directly to the processing center in Denver, thus bypassing Washington, leave serious oversight gaps. Without receiving post credit card statements, neither the Office of Financial Management nor US&FCS headquarters can ensure that correct accounting classifications have been applied to itemized expenditures and that posts have not exceeded authorizations. In reviewing statements for US&FCS France, we found many expenditures that had not been authorized by headquarters for payment by credit card.
- **Reorganization needed to account for vacancies and officer reassignment.** US&FCS France needed to reorganize its personnel and functions in light of resignations, extended vacancies in key positions, current overstaffing in the administrative group, and the reassignment of one of the US&FCS Paris officers to Toulouse. Other staffing adjustments were needed to address the attrition of staff within the industry groups, the SCO's and Deputy SCO's offices, and the Commercial Information Center. Finally, staff at US&FCS France's three constituent posts (Lyon, Marseilles, and Strasbourg) were being underutilized. Given these factors, we proposed a reorganization of the post's personnel, functions, and reporting relationships. US&FCS France has since expanded, improved upon, and implemented our proposal.
- **Post staff morale and credibility with other embassy elements have been damaged.** US&FCS headquarters took a number of interim steps to try to deal with some of the management

problems at the post. However, considerable damage had already been done to staff morale and the post's credibility with the embassy's budget, finance, and personnel offices, and with top embassy officials. According to post staff, junior officers, and headquarters officials, previous management groups were inadequately engaged in post operations and, when they were engaged, set unrealistic goals, communicated poorly with the staff, and failed to provide adequate guidance. While US&FCS headquarters' actions were ultimately unsuccessful, they were measured responses that eventually supported more serious steps taken later. We made a number of recommendations to address the remaining management problems, including measures designed to improve the new post leadership's communication with the staff, strengthen its planning and performance measurement, and increase US&FCS headquarters' near-term monitoring of the post's internal operations.

US&FCS officials said that our draft report was a useful, comprehensive review of the post's recent problems and an excellent tool for new post management and headquarters to use in addressing the problems. The agency agreed with most of our recommendations and noted that significant progress had been made in implementing them. (*Office of Inspections and Program Evaluations: IPE-12428*)

Y2K Risk of Interrupted Operations Was Low, but Day One Planning Needed Improvements

The OIG conducted a review of ITA's efforts to reduce the risk of business interruptions in the event that its computer systems' were unable to accommodate the Y2K century change. Specifically, we examined ITA's Day One plan for managing the critical period from December 30, 1999, through January 4, 2000, and its contingency plans for continuing operations in the event of computer system failures. Our review reached the following conclusions:

- **The risk of interrupted service was low.** ITA's risk of business interruption due to Y2K system failures was generally low because most of the activities supported by computers were not time critical and, for most potential failures, bureau staff could revert to other computers or manual operations without significantly degrading performance.

- **The Message Processing System contingency plan needed to be completed.** This system, which sends and receives cables via the State Department's cable services, is an important means of communication for ITA headquarters and worldwide offices. Contingency plans for this system involved relying on the services of two other federal telecommunications facilities. Yet, at the time of our review, a memorandum of understanding with these facilities to formalize the contingency arrangements had not been completed.
- **The Day One plan needed to be updated and validated.** ITA's plan did not contain the level of detail necessary to carry out an effective Day One strategy, although the bureau said it was updating its plan with more details. Moreover, ITA needed to validate its plan through an independent review to ensure that it would work properly.

We made several recommendations to address the weaknesses we identified. ITA agreed to implement our recommendations before the Y2K century change, and its information technology systems experienced no Y2K-related problems. (*Office of Systems Evaluation: OSE-12550*)

Two Former US&FCS Employees Convicted of Scheme to Defraud the Government

Two former employees of US&FCS's Eastern Regional Office in Baltimore were convicted of making false statements to the government after an OIG investigation revealed their participation in a scheme to defraud the government by submitting nearly \$12,000 in false travel vouchers and falsifying documents in an attempt to obtain \$1,500 cash awards. Both employees resigned from federal service during the investigation. They were each sentenced in the U.S. District Court for the District of Maryland to 3 years' probation, and ordered to make full restitution to the Department. (*Washington Field Office of Investigations*)

ITA Employee Reprimanded for Accepting Gifts

An international trade specialist received an official reprimand when an OIG investigation disclosed that over a two-year period he had repeatedly accepted meals and gifts from individuals whose business interests were subject to his official actions. (*Silver Spring Field Office of Investigations*)

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.

Audit of FY 1999 Financial Statements

An IPA firm under contract to us issued an unqualified opinion on MBDA's FY 1999 financial statements, the fourth consecutive year for which an unqualified opinion was received. The firm's audit disclosed no material weaknesses in MBDA's internal control structure, but did identify the following two reportable conditions:

- Controls over the preparation of the statement of budgetary resources need improvement to ensure that the amounts reported in the financial statements are accurate and supported.
- Controls over grant expenditure accruals need improvement to ensure that amounts are properly identified and computed.

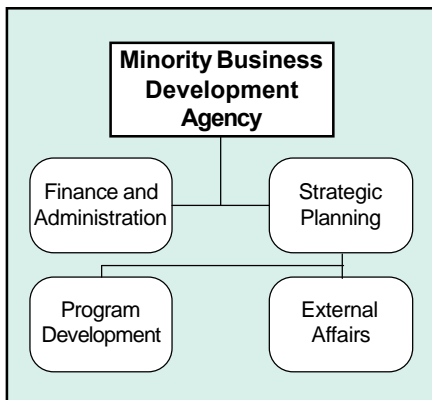
The firm did not identify any instances of noncompliance with laws or regulations. (*Financial Statements Audits Division: FSD-11888-0-0001*)

Internal Controls over Bankcard Use Are Sound

As part of its periodic reviews of Commerce units' use of bankcards, the OIG conducted an audit to determine whether MBDA was using its bankcards in accordance with federal and departmental requirements. During FY 1998, MBDA headquarters completed 462 bankcard transactions for a total of \$361,192. We selected a random sample of 60 transactions, or 13 percent of the total, to test for errors in cardholder records.

We found no prohibited transactions or other improper actions. Cardholders stayed within their purchase limits, approvals were properly documented, no transactions were split to avoid single purchase limits, competitive bidding was sought when required, and cardholders properly secured their cards to prevent unauthorized use.

We also found, however, that during FY 1998, MBDA's acting head contracting officer did not conduct the full annual review of card use required under the *Commerce Acquisition Manual*. Instead, he performed only limited procedures to determine whether authorizing officials had properly approved selected transactions. We recommended that in the future, complete annual reviews of bankcard use be conducted. MBDA agreed to implement our recommendation. (*Business and Trade Audits Division: BTD-12022-0-0001*)



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Audit of FY 1999 Financial Statements

For FY 1999, NOAA received, for the first time, an unqualified opinion on all of its financial statements. This is an especially noteworthy achievement considering that in FY 1998 the bureau had received a disclaimer of opinion on the Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Financing.

We commend NOAA management and staff on the significant progress made in strengthening financial management. The results of the FY 1999 audit, which identified only 4 reportable conditions and no material weaknesses, are in marked contrast to the results of the FY 1997 audit, which identified 17 reportable conditions, 6 of which were material weaknesses, and the FY 1998 audit, which identified 7 reportable conditions, of which 2 were material weaknesses.

The four reportable conditions were as follows:

- Accounting for construction work-in-progress should be improved.
- Information technology processing access control weaknesses and other financial system deficiencies should be addressed.
- Controls over monitoring the budget should be improved.
- Interagency agreement policies and procedures should be followed.

The IPA firm conducting the audit under contract to us also identified two instances of material noncompliance with laws and regulations:

- Capital leases were not fully funded during the year.
- The bureau's financial accounting system does not substantially comply with the Federal Financial Management Improvement Act of 1996 in that its financial management system does not support the preparation of timely, accurate financial statements.

We recognize NOAA's commitment to preparing high quality, reliable, and meaningful financial statements. While progress has been made in many areas, NOAA needs to address the remaining reportable conditions. We encourage NOAA's management to maintain concerted efforts to improve the internal control structure and the timely implementation of corrective action.

The **National Oceanic and Atmospheric Administration** studies climate and global change; ensures the protection of coastal oceans and the management of marine resources; provides weather services; and manages worldwide environmental data. 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.

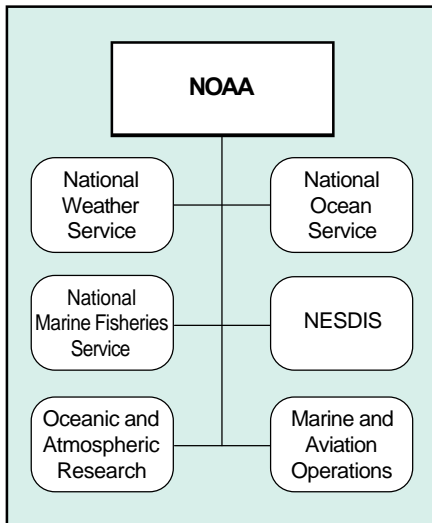
National Marine Fisheries Service. NMFS conducts a program of management, research, and services related to the protection and rational use of living marine resources.

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

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In connection with the FY 1999 audit, the IPA firm reviewed the general controls related to the information technology processing environment associated with NOAA's financial management systems in accordance with applicable sections of GAO's *Federal Information System Controls Audit Manual*. The review identified weaknesses in five of the six review areas set forth in the GAO *Manual*: (1) entitywide security program planning and management, (2) access control, (3) application software development and change control, (4) segregation of duties, and (5) service continuity. Together, these weaknesses, if not resolved, could adversely affect the security of the data, programs, and hardware maintained at NOAA and have a negative impact on both NOAA's financial statements and the Department's consolidated statements. These weaknesses, and the firm's recommendations for correcting them, were discussed in a separate report on systems issues. NOAA agreed with the IPA firm's recommendations for addressing the identified weaknesses and stated that corrective actions would be taken. (*Financial Statements Audits Division: FSD-11890-0-0001, FSD-11890-0-0002*)

NOAA Can Do More to Ensure Competition in Its Discretionary Funding Programs

During this semiannual period, the OIG issued reports on its audits of the criteria, procedures, and practices for soliciting, reviewing, and selecting applications in FY 1997 for awards under three NOAA discretionary financial assistance programs:

- Coastal Services Center (National Ocean Service).
- Undersea Research Program (Office of Oceanic and Atmospheric Research).
- Climate and Atmospheric Research Program (Office of Oceanic and Atmospheric Research).

The audits were conducted as part of a Department-wide review of Commerce's discretionary financial assistance programs. As discussed below, the three programs did not consistently follow competitive procedures in their awards processes.

Coastal Services Center

Through the Coastal Services Center, the National Ocean Service (NOS) provides financial assistance to universities, state and local governments, and public nonprofit organizations to support projects aimed at

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developing a science-based, multidimensional approach to improving environmental quality and promoting the economic growth of the nation's coasts. During FY 1997, the center awarded a total of \$2 million in three program areas through seven new grants and one renewal to an existing cooperative agreement.

We found that NOS's criteria, procedures, and practices for the solicitation, review, and selection of applications for funding under its information resources program area and its coastal and environmental technology commercialization program area did not comply with statutory, departmental, or NOAA requirements. Specifically, NOS did not:

- Develop and publish merit-based evaluation criteria against which applications for financial assistance could be reviewed.
- Publish the required notice in the *Federal Register* announcing the availability of funding, soliciting applications, and specifying the criteria and process to be used in selecting awardees.
- Comply with the requirements that all awards be made through a competitive review process, unless a waiver is obtained, and that the process meet certain minimum departmental standards.

In addition, the two awards made in these areas were made on a sole source basis without appropriate supporting documentation.

NOS generally followed competitive procedures in making six awards in FY 1997 under the coastal management fellowship program area, although it failed to maintain panel members' review forms and other documentation as required.

Not following required competitive procedures increases the potential for NOS to make questionable or inappropriate noncompetitive awards. The agency also risks forgoing the receipt of research proposals from a broad range of eligible applicants and may thereby miss out on opportunities to improve the quality and effectiveness of its programs.

We also found that NOAA's Grants Management Division did not question either NOS's lack of competitive award procedures or the appropriateness of the justifications for its noncompetitive awards.

One of our recommendations was that NOS ensure that Coastal Services Center awards are made through a competitive, merit-based process, unless otherwise mandated by law or adequately justified. We

provided specific guidance on the elements that should be included in such a process. We also recommended that panel members' review forms and other important aspects of the selection process be adequately documented. Finally, we recommended that the Grants Management Division require that grants officer reviews of proposed noncompetitive awards include procedures designed to objectively determine compliance with Department and NOAA competitive requirements.

NOAA generally agreed with our recommendations and stated that it is reviewing all financial assistance programs to determine which noncompetitive awards can be competed. (*Atlanta Regional Office of Audits: ATL-11000-0-0001*)

Undersea Research Program

Through its Undersea Research Program, the Office of Oceanic and Atmospheric Research (OAR) funds advanced undersea exploration, sampling, observation, and experimentation to promote the wise use of oceanic, coastal, and large lake resources. During FY 1997, the program awarded four new grants and nine renewal and supplemental amendments to existing grants, for a total of nearly \$10.9 million. All 1997 awards were made noncompetitively in response to unsolicited proposals.

We found that OAR's criteria, procedures, and practices for the solicitation, review, and selection of Undersea Research Program award recipients did not fully comply with departmental requirements. Instead of administering the program as a competition-based financial assistance program, as required by departmental guidance, OAR selected the awards on a sole-source, noncompetitive basis without the required justifications to support such actions. Our primary findings were similar to those discussed above in reference to the Coastal Services Center program. Specifically, OAR did not:

- Develop and publish merit-based evaluation criteria against which applications for financial assistance could be reviewed.
- Publish the required notice in the *Federal Register*, specifying the criteria and process to be used in selecting awardees.
- Comply with the requirements that all awards be made through a competitive review process that meets departmental standards.

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The effects of OAR's failure to follow competitive procedures are the same as those discussed above—namely, an increase in the potential for making questionable awards and a loss of the opportunity to increase the program's effectiveness.

And we again found that the Grants Management Division did not question OAR's lack of competitive procedures or the validity of the noncompetitive awards.

Our major recommendation for the Undersea Research Program was the same as for the Coastal Services Center: OAR should ensure that program awards are made through a competitive merit-based process, unless otherwise mandated by law or adequately justified, and that the award process complies with Department policies and procedures. Moreover, we again recommended that the NOAA Grants Management Division's reviews of proposed noncompetitive awards include procedures designed to determine compliance with competitive requirements.

In response to our report, NOAA expressed its commitment to ensuring that its discretionary programs are consistent with departmental policy, and agreed with our recommendation that proposed noncompetitive awards be effectively reviewed. It disagreed, however, with our conclusions and recommendations regarding awards made under the Undersea Research Program, contending that the program does not operate as a true discretionary program because its existence is entirely attributable to congressional action. In addition, the agency stated that such factors as an applicant's specialized facilities or equipment, or substantial project investment, are valid reasons for noncompetitive selection.

With respect to NOAA's assertions, we note that the FY 1997 appropriations process did not allocate program funds to any specific recipients, which indicates that the agency's authority to independently determine the recipients and funding levels for program awards was not so severely limited as to effectively eliminate its discretion. At the same time, we recognize that departmental policy allows for noncompetitive awards under certain circumstances. However, the awards we questioned were not justified by such circumstances, but by the unsupported rationale that each recipient was the only source that could meet program requirements.
(Atlanta Regional Office of Audits: ATL-11654-0-0001)

Climate and Atmospheric Research Program

Through the Climate and Atmospheric Research Program, OAR provides financial assistance to improve the nation's ability to observe, understand, predict, and respond to changes in the global environment. In FY 1997, OAR made 169 awards for \$35.1 million. We examined 92 of these awards, totaling \$28.8 million. On a positive note, we found that OAR had appropriate merit-based procedures for evaluating proposals that were consistent with the objectives of the competitive program, used an application solicitation process that was adequate to obtain a nationwide response, and developed review and selection procedures that, if followed, were sufficient to provide a competitive, independent, and qualified review of each application. However, we also noted that OAR:

- Treated letters of intent like full proposals by evaluating them against established criteria, but did not ensure that each letter of intent received an independent, objective review by one or more review panels consisting of at least three people.
- Did not consistently follow established procedures in evaluating and documenting application reviews, including the requirement to adequately justify decisions to fund lower-rated proposals over higher-rated ones.
- Did not provide adequate written justifications for funding two specific noncompetitive awards.

As a result, OAR cannot provide reasonable assurance that financial assistance awards made under the program were merit based or that NOAA's policy of seeking maximum competition was met.

We recommended that OAR ensure that (1) all proposals, including letters of intent, are independently and competitively evaluated, with selection decisions justified and adequately documented in the proposal files, (2) reasons for selecting lower-ranked proposals are thoroughly explained and documented, and (3) documented market searches are performed to verify that there is only one source for anticipated sole source awards. Finally, having again found the NOAA Grants Management Division's oversight of the program to be inadequate, we made the same recommendation that grants officer reviews of proposed noncompetitive awards include procedures designed to determine compliance with competitive requirements.

NOAA agreed that its reviews of proposed awards under this program should determine compliance with Department and NOAA competitive requirements. However, it disagreed with our findings on application review procedures and award justifications. It believes that OAR's actions were in compliance with NOAA and Department policy and responsive to the research needs of the program. (*Seattle Regional Office of Audits: STL-10949-0-0001*)

Internal Controls Over User Fees Needed Improvement

NOAA receives most of the funding needed to support its programs from no-year appropriations and user fees, which are levied on individuals or businesses directly benefitting from, or subject to regulation by, a government program or activity. User fees are levied under the principle that those who receive benefits from governmental services beyond those that accrue to the general public should bear the cost of providing the services. For example, the National Ocean Service sells nautical charts to mariners, the National Weather Service sells weather data to the private sector, and the National Marine Fisheries Service charges the seafood industry for voluntary inspection and certification services.

The OIG conducted an audit to determine whether NOAA was appropriately reviewing, charging, and reporting its user fees. However, because NOAA could not provide accurate and complete accounting information about its user fee activities, we limited our audit to an evaluation of the bureau's accounting controls for its user fees and its biennial review process. Our specific findings were as follows:

- **NOAA needs to ensure that it has accurate, complete information on user fees.** NOAA could not provide information from a central source on all of its products and services subject to user fees. Instead, the information was provided piecemeal from 10 organizations within four or five of NOAA's line offices, and much of the information provided was incomplete and inaccurate. Without accurate, complete, and timely accounting information regarding its user fee activities, NOAA can neither ensure that decisions affecting the efficiency and effectiveness of its operations are made on a sound basis nor adequately disclose the extent of its user fee activities in such decision-making tools as its annual financial statements.

- **NOAA needs to enforce its biennial review policies and procedures.** The CFO Act and OMB Circular A-25 require federal agencies to review their user fees biennially and make recommendations on revising the fees to reflect costs incurred. Our audit revealed that the NOAA line offices reporting user fees either did not perform thorough reviews or could not provide adequate documentation that they had done so. The offices did not comply with NOAA's requirement that they submit to the bureau's Finance Office complete lists of the special products and services subject to user fees, and the Finance Office did not conduct the required random audits of unit prices included on the lists submitted by the line offices. Unless these policies and procedures are followed, NOAA, the administration, and the Congress cannot be assured that the bureau's user fees are sufficient to recover the full cost to the government of providing the products or services.

We recommended that NOAA revise its policies and procedures to require each line and staff office to submit annually to the Finance Office a list of all special products and services, as well as certain information concerning such products and services, and a statement certifying the accuracy and completeness of the information. We also recommended that NOAA enforce federal and bureau requirements regarding the biennial reviews of user fees, lists of products and services subject to user fees, and random audits. NOAA generally agreed with our recommendations and stated that the Finance Office is revising its policies and procedures to ensure compliance with requirements. (*Science and Technology Audits Division: STD-11881-0-0001*)

Former Senior Executive Convicted of Witness Tampering in EEO Matter

In October 1999, a senior NOAA employee was convicted of two misdemeanor counts of tampering with a witness, after he paid \$1,000 to the complainant in a sexual harassment matter in an effort to persuade her to withdraw her equal employment opportunity complaint against him. Under the terms of a plea agreement, the employee also agreed to resign immediately from federal service.

The conviction was the result of a joint OIG/FBI investigation, initiated when the complainant reported to the OIG that the senior employee had offered to give her whatever she wanted if she would tell the EEO counselor handling her complaint that she had lied about the alleged harassment. When he contacted her again about the matter, the

complainant agreed to accept \$1,000, and a meeting was arranged. Immediately after passing the cash to the complainant, the senior employee was arrested by OIG and FBI agents who were monitoring the transaction. Further investigation revealed that he had also attempted to dissuade another employee from testifying against him in the EEO proceeding. On February 14, 2000, he was sentenced in U.S. District Court for the District of Columbia to 5 years' probation, 6 months' monitored home detention, a \$2,000 fine, and 100 hours of community service. (*Silver Spring Field Office of Investigations*)

National Weather Service Had Low Risk of Y2K Disruptions and Was Well Prepared

In reviewing the National Weather Service's efforts to prepare its computer systems for the Y2K century change, we found that its risks of Y2K-induced interruptions were low for three reasons: First, weather systems rarely use data that includes a year. Second, NWS had experience in using its well-documented, in-depth contingency plans for maintaining continuous operations. Third, NWS had adequately tested its ability to receive and send weather data both internally and with the domestic and international partners with whom it exchanges data. Moreover, NWS's eight national mission-critical systems—which had undergone thorough testing and retesting—were not due for upgrades before the end of the year, and the four systems it uses to notify the public of severe weather conditions had been confirmed to be Y2K compliant.

The greatest Y2K risk that we identified was the possible loss of international weather data from countries at risk of Y2K failures. However, NWS had developed contingencies, including alternate data sources and transmission paths, to compensate for the loss of this data. Because we found no significant weaknesses in NWS's Y2K program, we made no recommendations. (*Office of Systems Evaluation: OSE-12313*)

Internal Controls over Research Facilities' Bankcard Programs Need Improvement

As part of its periodic review of Commerce units' use of bankcards, the OIG conducted audits of the bankcard programs of several NOAA research facilities. One audit examined bankcard transactions at the Southeast Fisheries Science Center sites in Miami and Panama City, Florida. A second audit looked at transactions at two environmental

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research laboratories in Boulder, Colorado—the Space Environment Center and the Environmental Technology Laboratory. We reviewed a random sample of FY 1998 transactions at both sets of facilities.

Our audits found deficiencies in each of the facilities' implementation of the bankcard program, resulting in weaknesses in internal controls and instances of noncompliance with federal and departmental requirements. The following deficiencies were noted both at the fisheries science center sites and at the Boulder labs:

- Not all cardholders were using the required purchase order log for bankcard transactions.
- Cardholders were not always obtaining or documenting the required preapproval of bankcard purchases.
- Cardholders were not always properly controlling and accounting for accountable property purchased with bankcards.
- Not all cardholders were storing their bankcards in a secure location.
- Many cardholders had not received the required training on the use of bankcards.

At the fisheries science center sites, the controls over accountable property were so seriously inadequate that officials could not account for 65 pieces of computer equipment worth a total of \$293,000. We also found that some of the center's cardholders had allowed unauthorized persons to use their bankcards, some bankcard purchase records were missing, and some cardholders had failed to routinely request a sales tax exemption. Moreover, the center needed to reassess the status of 10 cardholders who did not use their bankcards during FY 1998.

The Boulder labs lacked controls to prevent cardholders from splitting bankcard purchases, as well as controls for bankcard purchases related to contracts with other federal agencies.

We made recommendations to address the internal control weaknesses we identified. NOAA agreed with all of our findings and recommendations. It also reported that the 65 pieces of unaccounted for computer equipment had been located and the property records reconciled. (*Atlanta Regional Office of Audits: ATL-11860-0-0001; Denver Regional Office of Audits: DEN-11627-0-0001*)

Nonfederal Audit Did Not Disclose Certain Reportable Conditions

The OIG performed a quality control review of an audit conducted by a nonfederal auditor of a Florida nonprofit organization that conducts scientific research to promote the development of commercial fisheries in the Gulf of Mexico and South Atlantic Ocean. The organization's primary support consists of NOAA awards and contracts, which totaled approximately \$892,000 in the year ended June 30, 1998. As the oversight agency for the organization, we performed our review to determine whether the audit was conducted in accordance with government and generally accepted auditing standards and whether the audit report met the requirements of OMB Circular A-133.

Our review found that although the auditor's working papers supported the audit report, the audit did not disclose certain reportable conditions relating to the administration of federal awards and federal financial reporting. Specifically, the auditor did not disclose that the organization had an ineffective cost allocation system; had an ineffective time tracking system; and did not properly identify the various awards and contracts received from NOAA and failed to make an accounting distinction between the financial assistance awards and fixed-price contracts.

We recommended that, in future audits, the auditor disclose reportable conditions for all ineffective internal controls over major programs and financial reporting, and evaluate whether the reportable conditions should be classified as material weaknesses. The auditor did not agree that there were any reportable conditions concerning the organization's internal controls over financial reporting. The auditor asserted that, based on the terms incorporated in the NOAA awards and contracts, the funds were properly expended and outcomes were accomplished and reported to the satisfaction of NOAA. We continue to maintain that the inadequate cost allocation and time tracking systems were reportable conditions that should have been disclosed.

We also recommended that NOAA (1) decide whether to fund the organization's indirect costs, which are being inaccurately reported as direct costs, and (2) direct the organization to submit an indirect cost allocation plan to the OIG for approval and require that effective systems for allocating costs and tracking employees' time be implemented before making any future awards to the organization. (*Atlanta Regional Office of Audits: ATL-11936-0-0001*)

NOAA Cooperates with Other Agencies in Hurricane Research and Forecasting

The OIG conducted a survey to determine the breadth of coordination and cooperation among federal and nonfederal agencies in hurricane research and forecasting. Specifically, we sought to determine whether the results of hurricane research being conducted outside of NOAA are being used to improve the accuracy and timeliness of National Weather Service forecasts.

In reviewing the activities of NOAA's Office of the Federal Coordinator for Meteorological Services and Supporting Research, we found that coordination and cooperation do exist between NOAA and the other three major federal agencies that conduct hurricane research and forecasting—the National Science Foundation, the National Aeronautics and Space Administration, and the Navy.

The Office of the Federal Coordinator oversees the implementation of hurricane research through the National Hurricane Operations Plan and hosts the annual Interdepartmental Hurricane Conference to provide a forum for federal agencies and representatives of user communities to review the nation's hurricane forecast and warning program. Other conferences, such as the National Hurricane Conference, provide forums for federal and nonfederal agencies to share information. In addition, federal agencies have representatives on the Office of the Federal Coordinator's committees, and both federal and nonfederal agencies are represented on working groups of NOAA's U.S. Weather Research Program.

Because our survey revealed no significant problems, we closed out the assignment without issuing an audit report. (*Denver Regional Office of Audits*)

Employee Sentenced for Imprest Fund Theft

In the September 1999 issue (see page 54), we reported on the theft conviction of a former NOAA employee who had obtained more than \$7,000 from an agency imprest fund by submitting 57 false vouchers for payment. On December 17, 1999, she was sentenced in U.S. District Court for the District of Maryland to 3 years' probation, and ordered to make restitution to the Department in the amount of \$7,175. (*Financial Fraud Division*)

Meteorologist Suspended for Conducting Private Business at Work

An NWS supervisory meteorologist was suspended without pay for two weeks as the result of an OIG investigation which found that he was conducting a private business on official time using government computer equipment. (*Denver Field Office of Investigations*)

Audit Reports Unresolved for Over Six Months

As of March 31, 2000, two performance audit reports had recommendations unresolved in excess of six months.

Light Aircraft Operations

The first performance audit report, *Light Aircraft Fleet Should Be Privatized*, STD-9952-8-0001 (see September 1998 issue, page 44), recommended that NOAA cease operating its eight fixed-wing light aircraft and three helicopters and release them, along with related spare parts. We also recommended that NOAA discontinue all interagency reimbursable work related to NOAA-owned fixed-wing light aircraft and helicopters. We added that, pending discontinuance of the reimbursable work, NOAA should complete current interagency agreements in accordance with its policy of full cost recovery, revise its billing practices to achieve full cost recovery, and seek reimbursement of the unrecovered full cost balances on all pending reimbursable projects.

NOAA did not concur with most of our findings and recommendations. NOAA believes that discontinuing use of the aircraft would compromise its ability to continue uninterrupted data collection efforts required to protect lives and property, and would increase the risk of accidents and the cost of aircraft support. In addition, NOAA did not agree with our recommendation to recover full costs, noting that cost sharing and waiving of overhead costs are appropriate for interagency agreements that are beneficial to NOAA, and that interagency agreements have proved to be cost-effective in meeting some of its data collection needs. NOAA also believes that our audit report overstated its aircraft costs by \$1.3 million and that its light aircraft are cost-competitive.

After thoroughly reviewing NOAA's audit action plan prepared in response to our final report, we reaffirmed our conclusion that the full in-house cost to operate NOAA's fleet of 10 light aircraft averaged 42 percent

more than the cost to contract for similar private-sector aircraft that can provide equivalent services. We also reaffirmed our conclusion that NOAA's Aircraft Operations Center is not recovering the full cost of work that it performs under reimbursable agreements with non-Commerce government agencies.

NOAA officials subsequently entered into a consulting contract to obtain an analysis of its aircraft fleet. The analysis included a review of light aircraft costs and the costs to contract for similar private-sector aircraft services and support. We have continued to work closely with NOAA to resolve this matter, including providing comments on the contractor's draft report and meeting with the Director, Office of Marine and Aviation Operations. Based on our meetings and the contractor's report, NOAA is redrafting its audit action plan.

NMFS Laboratory Structure

The second unresolved performance audit report, *NMFS Laboratory Structure Should Be Streamlined*, STL-8982-8-0001 (see March 1998 issue, page 39), recommended closing several laboratory facilities and transferring their programs and personnel to other NMFS laboratories in order to streamline operations and achieve related cost savings. We also recommended that one laboratory and most of its programs be transferred to the state of Maryland, and that the proposed Santa Cruz, California, facility be expanded to accommodate programs and personnel from another California laboratory. In addition, we differed with NMFS's plans to transfer some programs from a Seattle laboratory to the proposed Auke Cape facility in Alaska.

NOAA disagreed with our findings and recommendations. At our request, NOAA submitted a revised audit action plan in November 1998, but did not change its initial position. We have continued to explore options to resolve our differences. With one exception, we have agreed that it is not feasible at this time for NOAA to implement our original recommendations. As appropriate, we will revisit the issue of enhancing the efficiency of the NMFS laboratory structure. For one laboratory, the La Jolla Laboratory, we continue to be concerned about its structural safety. NOAA has agreed to have the Department's Office of Real Estate Policy and Major Programs make an assessment of that facility. We are awaiting the results of the assessment, which is scheduled for April 2000.

National Telecommunications and Information Administration



Audit of FY 1999 Financial Statements

In an audit conducted by an IPA firm under contract to us, NTIA received an unqualified opinion on its FY 1999 financial statements, representing the bureau's sixth straight year of unqualified opinions. The audit identified no reportable conditions or instances of material noncompliance with laws or regulations. (*Financial Statements Audits Division: FSD-11891-0-0001*)

Tribe Violated Procurement Procedures in Managing Award to Establish Radio Station

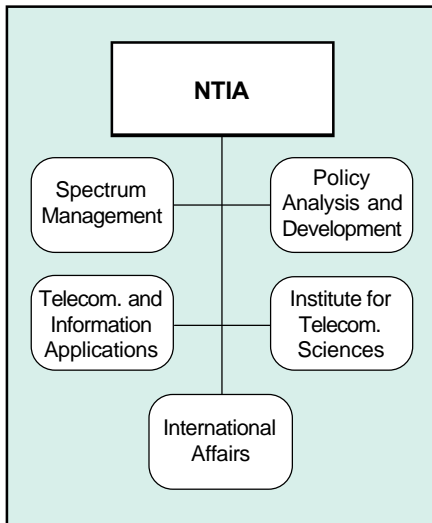
In 1995 NTIA awarded a Public Telecommunications Facilities Program grant for \$297,985 to a Native American tribe to establish a noncommercial, educational FM broadcast station on a reservation in Wyoming. The award period was from September 1, 1995, through July 31, 1999, at the time of our review, but was later extended to October 31, 2000. The grant required the tribe to provide a \$99,329 matching share, bringing the total estimated project cost to \$397,314.

An OIG audit of the grant found that the tribe's accounting and financial management systems were insufficient to properly administer the award. Our specific findings were as follows:

- **Violations of procurement procedures resulted in questioned costs.** We questioned a total of \$84,404 because the tribe (1) did not use competitive procurement procedures for selecting the project engineer or justify why such procedures were not used, (2) purchased equipment from sole source vendors without justification, (3) purchased equipment from other than the low bidder without a documented justification, and (4) paid for a radio tower that has not yet been erected.
- **Inadequate disbursement controls.** The tribe made two disbursements totaling \$181,228 without supporting documentation. These actions contradicted the internal control policies set forth in the tribe's personnel and procurement manual.
- **Inadequate equipment controls.** Contrary to its manual, the tribe did not conduct an annual inventory of project equipment and did not have adequate internal controls to safeguard the equipment. In fact, we observed that most of the equipment was in the possession of a construction company that was owed money by the tribe under a contract, and some of the equipment

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 Telecommunications and Information Infrastructure Assistance Program and the Public Telecommunications Facilities Program.

National Telecommunications and Information Administration



was exposed to the elements, at risk of damage. NTIA later informed us that the equipment had been installed and was in use at the radio station.

We recommended that NTIA disallow \$84,404 of questioned costs and seek recovery of \$63,303 of excess federal disbursements. Because of the deficiencies in the tribe's internal control structure, we also recommended that any remaining grant funds be disbursed only through the reimbursement method of payment. Finally, we recommended that NTIA, as a condition for any future award, require the tribe to use its documented system of internal controls. (*Denver Regional Office of Audits: DEN-10736-0-0001*)

Patent and Trademark Office



Audit of FY 1999 Financial Statements

In an audit conducted by an IPA firm under contract to us, PTO received an unqualified opinion on its FY 1999 financial statements, marking the sixth straight year of unqualified opinions for the bureau. The firm found no reportable conditions related to PTO's internal control structure, and its tests of compliance with laws and regulations disclosed no instances of noncompliance.

In connection with the FY 1999 audit, the firm performed a follow-up review of the general controls related to the information technology processing environment associated with PTO's Revenue Accounting and Management System in accordance with applicable sections of GAO's *Federal Information System Controls Audit Manual*. The review identified additional opportunities for improvement, as weaknesses continued to exist in four of the six review areas set forth in the *GAO Manual*: (1) entitywide security program planning and management, (2) access control, (3) system software, and (4) service continuity.

These types of weaknesses would normally affect the security of the data, programs, and hardware maintained at PTO and have a negative impact on both PTO's financial statements and the Department's consolidated statements. However, PTO has strong controls to compensate for these weaknesses, so the firm did not consider them to constitute a reportable condition in its *Report on Internal Control*.

The weaknesses, and the IPA firm's recommendations for correcting them, were discussed in a separate report on systems issues. PTO agreed with the recommendations for addressing the identified weaknesses and stated that corrective actions would be taken. (*Financial Statements Audits Division: FSD-11893-0-0001, FSD-11893-0-0002*)

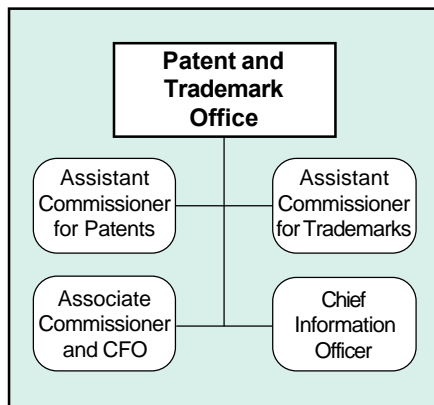
Y2K Continuity and Contingency Plan Was Sound, but More Risk Mitigation Was Needed

In December 1999, the OIG issued the second of two reports on PTO's Y2K readiness efforts. The first report addressed PTO's renovation, replacement, and testing of selected critical systems (see September 1999 issue, page 60). The second report examined the bureau's business continuity and contingency plan.

BCCPs are designed to safeguard an agency's ability to produce a minimum acceptable level of outputs and services in the event of failures of mission-critical information systems and services. They also link risk

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.

Patent and Trademark Office



management and mitigation efforts to the agency's Y2K program and help to identify alternative resources and methods needed to operate the agency's core business processes.

We concluded that PTO had prepared a comprehensive Y2K BCCP, but the plan needed several additional elements to better ensure continuity of operations and services should Y2K problems arise. Specifically we found that:

- Minimum acceptable levels of outputs and services needed to be documented.
- Specific sources and milestone dates for acquiring BCCP resources needed to be identified.
- Test plans needed to be further developed, test teams established, and tests executed to validate contingency plans.
- Risk mitigation procedures were needed for high-risk periods.
- The BCCP needed to be reviewed for potential legal issues.

PTO took actions to implement all of our recommendations for strengthening its BCCP. (*Office of Systems Evaluation: OSE-11693-2*)

Trademark Trial and Appeal Board Is Taking Actions to Reduce Its Large Case Inventory

The OIG conducted an audit of PTO's Trademark Trial and Appeal Board to assess how well it has managed its caseload and determine how best to reduce its large inventory of cases. As of May 1999, pending cases at the board totaled 12,300, up from about 8,000 at the end of FY 1995. Meanwhile, the time taken to process a case had increased from 22.5 to 43 weeks. The large case inventory resulted from several factors, including an increase in issued trademarks, case requirements and workload assignments, performance standards for board attorneys, and the quality of administrative assistance.

Board officials had already initiated or considered corrective actions on these issues, in part based on the actions taken by PTO's Board of Patent Appeals and Interferences in response to a 1998 OIG audit (see September 1998 issue, page 64). Among these actions were hiring more judges and attorneys, delegating signatory authority to lower level staff, delegating some work done by attorneys to paralegals, having certain

actions adjudicated by one judge rather than a three-judge panel, developing mechanisms to obtain performance data on legal assistants, and hiring a manager to relieve the Chief Judge of some of his considerable administrative duties.

As a result of the comprehensive actions being taken by the board, we concluded our audit without issuing a report. In a December 16, 1999, memorandum to the PTO Commissioner, we did, however, make two suggestions to expand on actions already in progress:

- A lack of specific performance standards had contributed to a high inventory of cases involving motions for summary judgment, which are complex, time-consuming matters for attorneys to handle. Because their performance plans did not dictate which type of motion takes priority, attorneys have tended to concentrate on processing simpler uncontested motions, thus delaying the disposition of summary judgment motions. We suggested that the board consider modifying attorney performance plans to promote the expeditious resolution of summary judgment cases.
- The board's strategic plan did not include specific goals for reducing the inventory to a manageable level. The Government Performance and Results Act specifies that an agency's annual performance goals should define an objective, measurable target level of performance for each program activity. We suggested that the board modify its strategic plan to include specific goals for reducing the inventory and identify additional measures needed to meet the goals. (*Business and Trade Audits Division*)

Large Patent Preexamination Backlog Eliminated and Cycle-Time Goal Met

In an audit of the effectiveness of PTO's Office of Initial Patent Examination (OIPE), the OIG focused on determining the size of the backlog of patent applications awaiting examination and the reasons for the substantial increases in that backlog in late 1997. Our audit disclosed that OIPE had completely eliminated the backlog as of December 1998, thereby meeting its cycle-time goal of 30 days for the first time since 1995. This represented a considerable achievement for OIPE since the backlog had swelled to 90,000 applications as of November 1997, resulting in an average cycle time of 141 days. Because of this dramatic improvement in OIPE's operations, we did not issue an audit report.

Patent and Trademark Office

In a December 7, 1999, memorandum to the PTO Commissioner, we did identify several minor issues that warranted management attention. To address these issues, we suggested that PTO strengthen the OIPE quality assurance program and increase customer satisfaction with the preexamination process by:

- Establishing quality goals, increasing employee accountability and incentives for quality, and reporting employee errors separately from production levels.
- Improving the output reporting and filing receipt correction processes to quickly analyze and correct errors when they occur, and devoting sufficient personnel to detecting and correcting errors.
- Improving communications with customers through an enhanced OIPE page on the PTO web site and upgrades to the OIPE telephone system. (*Business and Trade Audits Division*)

ATP Focused Program Needs Better Documentation of Selection Process

Investments under NIST's Advanced Technology Program (ATP) are intended to help U.S. companies accelerate the creation and commercialization of highly innovative technologies with strong potential for generating broad-based economic benefits for the nation. ATP relies on companies to submit proposals for technology development projects in response to two types of announced competitions: *general competitions*, open to proposals in all areas of technology, and *focused program competitions*, which support specific, predefined technology and business goals. During FYs 1994-98, most ATP funding was awarded through focused program competitions. In FY 1998, ATP made 23 awards totaling \$50 million in general competitions and 56 awards totaling \$184.5 million in focused program competitions.

Under the focused program, ATP solicits "white papers" (proposed ideas) from companies and industry groups on technology areas for consideration. When ATP identifies increasing interest from industry in a particular area, an ATP manager is assigned to develop the proposed ideas into a plan for a focused program that addresses four criteria: (1) potential for U.S. economic benefit, (2) good technical ideas, (3) strong industry commitment, and (4) the opportunity for ATP funds to make a difference. When the program manager decides that a proposal is sufficiently well developed, it is presented for consideration to a group of external reviewers, who help ATP senior management decide which programs to fund. The final decision is made by the ATP director.

After the OIG began its audit of the ATP focused program, NIST decided to suspend focused competitions in FY 1999 in favor of holding one general competition open to all areas of technology. Nevertheless, we completed our audit because ATP indicated that it might resume focused competitions in the future.

Our audit revealed that although ATP has improved its focused program selection process over time, it needs to do a better job of documenting it. Specifically:

- It was not always possible to trace the documentation for selected programs back to the original white papers. As a result, we were unable to determine whether all white papers received were given appropriate consideration.

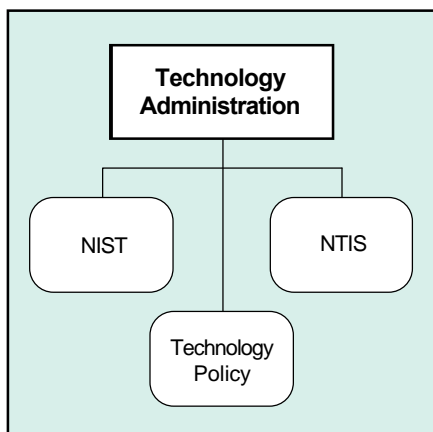
The **Technology Administration** serves the needs of technology-based industry, advocates federal actions and policies to speed the transfer of technology from the laboratory to the marketplace, and removes barriers for commercializing new technologies by industry. It includes three major organizations:

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.

Technology Administration



- Although ATP management uses outside reviewers to help select the best focused programs, not all reviewers were required to formally rank or score the program presentations. A formal ranking and assessment of the four selection criteria are essential to provide assurance that ATP has objectively evaluated the program proposals.
- The ultimate decision to establish a focused program is made solely by the ATP director with no documentation to show why one proposal was chosen over another. ATP should document its justification for selecting a focused program to improve internal controls and provide credibility to the selection process.

We made recommendations to address our concerns about the lack of documentation. In response to our draft report, NIST disagreed that documentation of white papers and reviewer evaluations was lacking, but provided no evidence to refute our finding. As a result, we reaffirmed our original findings and recommendations in the final report. (*Science and Technology Audits Division: STD-11113-0-0001*)

Management of ATP Intramural Research Program Can Be Strengthened

Through cooperative agreements, NIST's Advanced Technology Program assists private companies in carrying out research on high-risk technologies that will enable them to develop products, services, and manufacturing techniques. The ATP statute allows the program to use up to 10 percent of its appropriation internally for intramural projects, which consist of standards development and technical activities in support of ATP's mission. In FY 1998, ATP's appropriation was \$192.5 million, and it funded 114 intramural projects for \$13.8 million.

An OIG audit of the ATP intramural research program found that the criteria, procedures, and practices for the solicitation, review, and selection of intramural projects appear to be designed to result in funding decisions that meet the ATP legislative requirements. One of these requirements is that program managers avoid any projects that give undue advantage to specific companies. To meet this requirement, ATP officials revised the project selection criteria in FY 1997 to emphasize generic research that is not directed toward solving a specific company's problems, but rather toward producing industrywide benefits.

Our review of the 114 FY 1998 project files identified the following opportunities for improving the intramural research program:

- **Formal policies and procedures for intramural projects should be updated.** The program's written guidance, which dates back to 1993, does not reflect the current process. Moreover, to ensure that all NIST scientists are aware of the availability of intramural funds, the updated guidance should be included in the *NIST Administrative Manual*.
- **Policies and procedures emphasizing generic research and requiring approval of collaboration should be followed.** We found that for 14 projects, the research appeared to be closely linked to a specific ATP grant, and for 15 projects, NIST scientists did not obtain approval for their outside collaborations.
- **Project performance should be evaluated.** We found little evidence that ATP is evaluating the performance of its intramural projects. Without such evaluations, performance problems cannot be adequately addressed, and managers cannot assess the effectiveness of their decisions.
- **More effective methods for disseminating research results could increase program impact.** For example, two of the three ATP grantees we contacted were unaware of potentially beneficial research. Although this small sample is not statistically significant, it raises concerns about the adequacy of ATP's practice of relying on workshops and conferences to publicize the results of intramural projects.
- **Project files should contain documentation of management decisions and significant events, as well as copies of needed approvals.** Without such documentation, ATP managers cannot demonstrate that they are properly monitoring the projects and ensuring that all approvals have been obtained before funds are released.

We made a number of recommendations to address our concerns. NIST agreed that it needed to clarify which types of collaborations need approval, provide additional training to scientists on the policies and procedures governing generic research and collaborations, and ensure that all final reports include information needed to evaluate performance. However, with regard to the remaining recommendations, NIST did not agree or disagree, but stated that it would take them under advisement. We will address these issues further during the audit resolution process. (*Science and Technology Audits Division: STD-11551-0-0001*)

NIST Needs to Reevaluate Its Plans to Support Its Ballistics Testing Program

Since the early 1970s, NIST has conducted ballistics testing of ammunition, weapons, and protective equipment in support of its reimbursable agreement with the Department of Justice. While the agency has conducted some testing in old storage pits on its Annex Site—a former anti-aircraft missile installation near its main Gaithersburg, Maryland, campus—it has been searching for a more suitable site. NIST asserts that the current facility is inadequate for certain types of ballistics research and is not in compliance with health and safety standards. Although the agency has contracted out some of its testing work while searching for a replacement site, it rejects contracting as a permanent solution because it views contractor laboratories as being insufficiently responsive and prohibitively expensive.

As further justification of its requirement for a replacement facility, NIST cited the need for a firing range for its approximately 22 police officers, claiming that it was too difficult and costly for its officers to continue to qualify with their firearms on a quarterly basis at outside firing ranges. Although NIST management acknowledged that it would not be cost-effective to construct a firing range alone, they argued that it made sense to include a range in a new ballistics testing facility.

As a result, during the last two years, NIST began developing plans for a ballistics testing and firing range facility to be located in an abandoned barracks building—called Building 530—on the Annex Site. The building has not been used for more than 25 years and would require extensive interior and exterior renovations. NIST received approval and comments from the National Capital Planning Commission for the project and awarded a contract to a design team, which completed the designs, technical specifications, and cost estimates in May 1999.

NIST had planned to award a contract to renovate Building 530 in FY 1999 and complete the project in FY 2000. The specifications for the facility would have provided for either a basic renovation for use as a ballistics facility or an expanded renovation to accommodate a firearms qualification range, as well as offices, a conference room, storage areas, and bathroom/locker facilities. At the time of our review in June 1999, the blueprints for the facility were complete.

Our review confirmed that the existing facility is inadequate to support NIST's ballistics testing. However, we did not believe that renovating Building 530 was the most cost-effective option to meet this need,

nor did we believe that the building should be expanded to include space for a firearms qualification range. NIST did not adequately justify the extra cost associated with accommodating additional firing range requirements, given the availability of outside ranges.

We were also concerned that NIST evaluated its need for a ballistics testing facility/firing range without adequately considering other options. Had NIST determined earlier that it could not justify an on-campus firing range, it would likely have concluded that a much smaller facility was needed and therefore explored options other than renovating Building 530. Moreover, had NIST prepared better documentation and explored other options, it might have identified more cost-efficient options earlier, instead of spending significant staff time and about \$115,000 to create detailed architectural drawings and plans for a project that was ultimately rejected.

During our review, NIST abandoned plans to renovate Building 530 and, because of cost considerations, began reviewing options for accommodating its ballistics testing needs on its main campus. NIST also dropped plans to construct a firing range for its police officers and will instead continue to have them qualify at off-campus ranges.

We are pleased that NIST has reconsidered its plans and decided not to proceed with plans to renovate Building 530. We recommended that, before designing and constructing or renovating any future facilities to support its ballistics testing program, NIST carefully weigh the costs and benefits of all viable options (including contracting) and document them adequately. NIST agreed with our recommendation. Based on our work in this area, we believe that NIST will ultimately construct a facility for its ballistics testing needs only, which will be smaller in scope and less expensive to construct and maintain. As a result, funds that would have been spent on a larger facility will be available to be put to better use elsewhere at NIST. (*Office of Inspections and Program Evaluations: IPE-11923*)

Audit of TA's FY 1999 Financial Statements

As it had in the previous three fiscal years, TA received an unqualified opinion on its FY 1999 financial statements. The IPA firm under contract to us that conducted the audit did not identify any material weaknesses, reportable conditions, or instances of noncompliance with laws or regulations. (*Financial Statements Audits Division: FSD-11894-0-0001*)

Audit of NIST's FY 1999 Financial Statements

An IPA firm under contract to us issued an unqualified opinion on NIST's FY 1999 financial statements, representing the seventh straight year of clean opinions for the bureau. While the IPA firm found no material weaknesses, it did identify one reportable condition in NIST's internal control structure. This condition involved the need for NIST to strengthen its information systems' general control procedures.

Because of the weakness in general control procedures, the IPA firm noted that NIST did not substantially comply with the Federal Financial Management Improvement Act of 1996. Under the act, the auditors are required to report on whether the bureau's financial management systems substantially comply with federal financial management systems requirements, applicable accounting standards, and the U.S. Government Standard General Ledger at the transaction level.

OMB Circular A-130, *Management of Federal Information Resources*, Appendix III, "Security of Federal Automated Information Resources," establishes guidelines for control procedures to be used by federal agencies in developing and operating automated information systems. The firm reviewed the general controls related to NIST's information technology processing environment in accordance with applicable sections of GAO's *Federal Information System Controls Audit Manual*. The review identified weaknesses in all six review areas set forth in the *GAO Manual*: (1) entitywide security program planning and management, (2) access control, (3) application software development and change control, (4) system software, (5) segregation of duties, and (6) service continuity. Together, these weaknesses, if not resolved, could adversely affect the security of the data, programs, and hardware maintained at NIST and have a negative impact on NIST's financial statements, the financial statements of the other reporting entities that are supported by NIST (TA and NTIA), and the Department's consolidated statements.

These weaknesses, and the firm's recommendations for correcting them, were discussed in a separate report on systems issues. NIST generally agreed with the firm's recommendations for addressing the identified weaknesses. The agency stated that corrective actions had been initiated for the recommendations it considered feasible and cost effective, and it proposed acceptable alternative actions to address the other recommendations. (*Financial Statements Audits Division: FSD-11889-0-0001, FSD-11889-0-0002*)

Audit of NTIS's FY 1999 Financial Statements

NTIS received an unqualified opinion on its FY 1999 financial statements, as it had for FY 1998. The IPA firm under contract to us that conducted the audit identified no reportable conditions, material weaknesses, or instances of noncompliance with laws or regulations.

In connection with the FY 1999 audit, the firm reviewed the general controls related to the information technology processing environment associated with NTIS's financial management systems in accordance with applicable sections of GAO's *Federal Information System Controls Audit Manual*. The review identified weaknesses in four of the six review areas set forth in the *GAO Manual*: (1) entitywide security program planning and management, (2) access control, (3) application software development and change control, and (4) service continuity. Together, these weaknesses, if not resolved, could adversely affect the security of the data, programs, and hardware maintained at NTIS and have a negative impact on both NTIS's financial statements and the Department's consolidated statements. The firm, however, did not consider this deficiency to constitute a reportable condition in its *Report on Internal Control*.

These weaknesses, and the firm's recommendations for correcting them, were discussed in a separate report on systems issues. NTIS agreed that the report accurately reflected conditions at the time of the audit and stated that corrective actions had been initiated. (*Financial Statements Audits Division: FSD-11892-0-0001, FSD-11892-0-0002*)

Inspector General Testifies on Audit and Inspection Work at TA Agencies

On March 9, 2000, the Inspector General appeared before the House Science Subcommittee on Technology to discuss aspects of the OIG's audit and inspection work related to the Technology Administration's programs and operations. He first noted that we have continued to monitor NIST's construction and renovation efforts at its Gaithersburg, Maryland, and Boulder, Colorado, facilities. We have generally supported NIST's plans for constructing Advanced Chemical Sciences and Advanced Measurement Laboratories in Gaithersburg and addressing critical safety, capacity, and maintenance deficiencies at both locations. However, we are unable to evaluate the efficacy of approximately \$593 million in long-term projects whose plans are still indefinite, and we believe that NIST should continue to reassess the need for and prioritize these projects.

In addition, our security concerns about short-term visiting researchers at NIST facilities are being addressed. In response to our expressed concerns about the lack of adequate controls over visitors who worked at NIST facilities for less than 10 days a year, the agency began requiring a written agreement for all nonfederal researchers.

As part of our review of Commerce discretionary financial assistance programs, we found that all but one of NIST's programs were administered competitively, and concluded that the agency's use of outside peer reviewers constitutes a best practice that can be used in other funding programs. We also continued our financial-related audits of recipients of financial assistance awards under NIST's ATP and Manufacturing Extension Partnership programs.

The Inspector General also highlighted a number of issues that are discussed in detail elsewhere in this report. These issues included the "clean" opinions received in recent audits of TA's, NIST's, and NTIS's FY 1999 financial statements (see pages 75-77); the U.S. Library Commission's review of the Department's plans for NTIS (see page 11); our inspection of NIST's proposed small ballistics testing facility (see page 74); and our audits of NIST's administration of its ATP focused and intramural research programs (see pages 71 and 72).

Award Recipient Had Inadequate Financial Management System, Double-Billed Costs

In September 1997, NIST awarded a cooperative agreement under its Manufacturing Extension Partnership Program to a West Virginia organization that provides manufacturing extension services to small and medium-sized manufacturers in its designated service region. The award was for a 24-month period from October 1, 1997, through September 30, 1999, and had estimated costs of \$1,182,721, with the federal share not to exceed \$529,932. For the award period, the recipient claimed costs of \$1,352,104, which exceeded the agreement's estimated costs by \$169,383.

An OIG final incurred cost audit of the cooperative agreement determined that the recipient's financial management system did not comply with OMB standards. Specifically, the recipient's system did not compare program outlays with budgeted amounts, reported transactions in incorrect expense categories, did not account separately for unallowable costs, and double-billed costs. Moreover, the organization lacked written procedures for determining the reasonableness, allocability, and allowability of costs in accordance with federal cost principles and the award terms and conditions.

We also questioned \$169,383 in claimed costs, of which \$119,821 consisted of double-billed costs that had been claimed for a prior Manufacturing Extension Partnership award. The balance consisted of \$19,058 in other direct costs that were incurred without NIST's prior approval and \$30,504 in unallowable costs. However, because it had claimed costs in excess of the award amount, the recipient incurred sufficient allowable costs to offset the questioned costs, and we did not recommend recovery of any funds.

In response to our draft report, the recipient asserted that it had established an adequate financial management system, and included correspondence from an IPA firm certifying that compliance efforts were being implemented. We recommended that NIST monitor the recipient's implementation of its new system and verify that it performs periodic comparisons of budgeted and actual costs, and establishes written accounting policies and procedures. (*Denver Regional Office of Audits: DEN-12499-0-0001*)

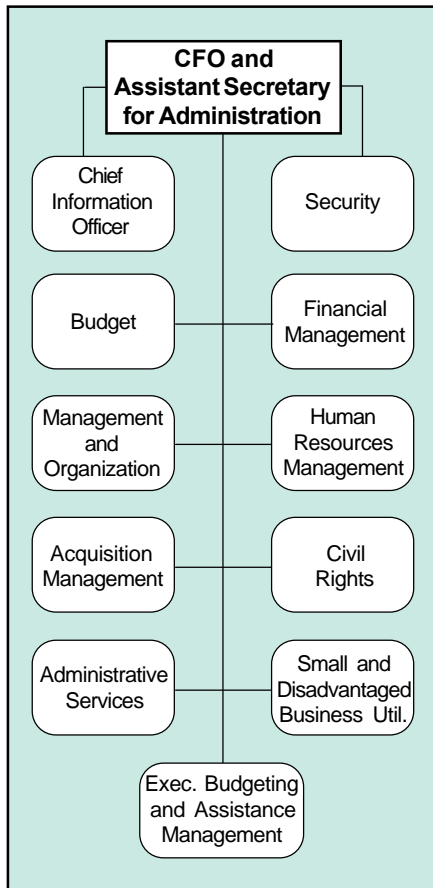
Nonfederal Auditor's Work Met All Auditing and Reporting Standards

The OIG performed a quality control review of an audit conducted by a nonfederal auditor of a New Mexico nonprofit organization that provides and facilitates assistance to small and medium-sized manufacturers in five western states. The organization matches consultants with manufacturers to help them apply new technologies, boost productivity and quality, and gain access to broader markets. The organization's primary support comes from NIST's Manufacturing Extension Partnership Program. During the 18 months ended on December 31, 1997, the organization spent approximately \$14.1 million for NIST-sponsored projects, which included about \$8.6 million in federal funds.

As the oversight agency for the organization, we performed our review to determine whether the audit was conducted in accordance with government and generally accepted auditing standards and whether the audit report met the requirements of OMB Circular A-133. Our review found that the auditor's working papers support the audit and that the audit complied with all applicable standards. (*Denver Regional Office of Audits: DEN-12072-0-0001*)



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Audit of the Department's FY 1999 Consolidated Financial Statements

For the first time, the Department received an unqualified opinion on its FY 1999 consolidated financial statements. The Department deserves to be commended for the significant progress it has made in improving its financial management during the past year, as evidenced by the unqualified opinions received by both the Department and all of its audited reporting entities on their FY 1999 statements. These "clean" opinions are especially noteworthy considering the obstacles that the Department and several entities had to overcome. There was also a reduction in the number of departmental and entity-level material weaknesses and reportable conditions, and no new weaknesses or conditions were identified at the departmental level.

However, five previously identified reportable conditions continue to exist. Although the Department has made progress in correcting these conditions, further improvements are needed in the following areas:

- **Financial management systems.** The Department needs to integrate financial systems and improve general controls to provide assurance that the data used to prepare financial statements is reliable. The Department's financial management systems continue to be ineffective tools for preparing and reporting its financial results and those of its reporting entities. In addition, audits of the FY 1999 financial statements of the Department's entities included reviews of the general controls associated with the major financial management systems. These reviews, conducted at the six locations that provide data processing support for the systems, revealed weaknesses in all general control areas, which could hamper the Department's ability to produce accurate data for the financial statements.
- **Financial management.** Several entities need to improve the timeliness and accuracy of their financial statements and provide sufficient financial management oversight and supervisory review of the statements. The entities also need to strengthen the overall control environment, monitor the budget execution process, properly analyze capital asset transactions, and better record and document property additions and deletions.
- **Controls surrounding property.** One entity needs to fully implement policies and procedures over accounting for construction work-in-progress. In addition, entities need to

improve the year-end reconciliation process and properly analyze capital asset transactions, as well as improve the process of recording and documenting property additions and deletions.

- **Controls surrounding accounts payable and accrued grant expenses.** Four entities need to improve policies and procedures related to estimating year-end accounts payable amounts. In addition, the entities need to monitor cut-off dates for accounts payable transactions and improve the methodology used to estimate grant expenses unpaid at year-end.
- **Performance of timely and accurate reconciliations.** Several entities need to improve their account reconciliation processes. Specifically, reconciliations need to be performed on a timely basis for all applicable accounts, and differences and errors identified need to be investigated and resolved promptly. In addition, the entities need to maintain supporting documentation for all reconciling items and perform thorough supervisory reviews.

We consider the first reportable condition, related to financial management systems, to be a material weakness. It is applicable to the Department as well as its reporting entities. The other four reportable conditions represent internal control deficiencies at various reporting entities.

In performing tests of compliance with selected provisions of applicable laws and regulations, we noted five instances of noncompliance:

- The Department was not in substantial compliance with the Federal Financial Management Improvement Act of 1996 in that it does not meet the requirements for a single integrated financial system. Furthermore, four of its financial management systems did not fully comply with federal requirements in FY 1999, and one system did not comply with the U.S. Government Standard General Ledger at the transaction level.
- NOAA did not fully fund its capital leases. OMB Circular A-11, *Preparation and Submission of Budget Estimates*, requires agencies to have sufficient budgetary resources immediately available to cover the present value of the lease payments for capital assets and lease purchases.
- For certain of its activities, ITA has not complied with OMB Circular A-25, *User Charges*, which requires federal agencies to recover the full cost of providing goods and services.

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- ITA also has not complied with 31 U.S.C. 1301(a), which states that public funds may be used only for the purpose for which they are appropriated. During FY 1999, ITA used certain budgetary authority for other than its intended purpose. ITA officials report that they have since acted to ensure that the funds will be used only for their intended purpose.
- The Working Capital Fund and the Franchise Fund reported a negative “Fund Balance with Treasury” as of September 30, 1999. As a result, these entities may not be in compliance with OMB Circular A-34, *Instructions on Budget Execution*, which precludes revolving funds from disbursing into a negative cash position in anticipation of receiving reimbursable funds. Although management does not believe that a violation exists, it has agreed to eliminate this negative balance in FY 2000 as a matter of improving business practices.

Department and reporting entity management generally concurred with the findings and recommendations in the report and have agreed to take corrective actions. (*Financial Statements Audits Division: FSD-11911-0-0001*)

Section 803 of Federal Financial Management Improvement Act requires agencies to determine whether they are in substantial compliance with the act. If not, they are required to prepare a remediation plan outlining the actions to bring them into compliance. Based partly on our audit of its FY 1998 financial statements, the Department concluded it was not in substantial compliance with the act’s three requirements. Accordingly, a plan was developed to correct the material weaknesses, with the goal of obtaining an unqualified opinion on the FY 1999 financial statements.

In FY 1999, the Department forwarded to OMB an updated plan based on the FY 1998 audit results. The Department made significant progress with its implementation by meeting target implementation dates. Specifically, the Department was found to be in compliance with federal accounting standards. Although at the end of FY 1999, one financial system did not meet compliance with the Standard General Ledger at the transaction level, this problem has now been corrected and is not expected to be reported in future years. The Department’s financial management systems requirement under the act will be corrected with the implementation of the Core Financial System.

Under Section 804(b) of the act, the OIG is required to notify the Congress when the Department does not meet intermediate target dates in the remediation plan. We did not identify any instances that would necessitate our notifying the Congress. The Department plans to update its remediation plan based on progress made and the results of the FY 1999 audit.

Lessons to Be Learned from Fire and PCB Accident at Commerce Building

Early in the morning of Friday, October 1, 1999, two fires occurred in the basement of the Commerce Department's Herbert C. Hoover Building in Washington, D.C. Both fires were contained in boxes that house metal capacitors, which are part of the electrical system that controls the building's clock system. It was soon determined that oil in the capacitors contained polychlorinated biphenyls (PCBs), a dangerously toxic chemical. As a result, 43 people (employees, contractors, and firefighters) who came into contact with the fire's smoke or the oil leaking from the capacitors underwent a decontamination process that began on the building grounds and ended at a nearby hospital.

The Hoover Building was closed on that Friday and throughout the weekend as testing and cleanup began. The above-ground floors of the building were determined to be safe to occupy by Monday, October 4, and the basement reopened the following day. The environmental cleanup process continued until December 3. Because the fire-damaged materials were removed and incinerated shortly after the incident, the cause of the fire is uncertain. However, building managers and General Services Administration personnel surmise that the fire was caused by an electrical overload of the capacitors.

The OIG performed a review to assess the circumstances surrounding the October 1 incident. We hope that our observations will serve as "lessons learned" for the Department in dealing with future incidents of this nature, and will provide a useful checklist of safety and environmental concerns that need to be addressed. Our observations were as follows:

- **Use of the capacitors was permitted, but other issues involving PCBs need to be addressed.** The use of the PCB-containing capacitors was legally permitted, and there was no requirement to mark them as containing PCBs. However, other sources of PCBs in the building, including fluorescent light ballasts and exterior floodlights, were not well inventoried or marked. In addition, vaults in the basement that have floors that were

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contaminated with PCBs before the fire either were not marked as required or had misleading signs, and the protective footwear required to work in these vaults was not being provided.

- **Building safety issues were highlighted due to the fire.** For example, the fire alarm rang for only nine minutes because someone turned it off prematurely, and we found that there is no departmental policy covering who is allowed to turn off a fire alarm and when. In addition, the building does not have a public address system to communicate with occupants in an emergency, a stairwell designated as an exit route was locked at the first floor level, and at least one exterior door was not unlocked for use as an exit during the evacuation.
- **Building security concerns need attention.** Although the building had been evacuated, employees were still able to enter, unchallenged, through certain key card entrances. In addition, we learned that the doors to the basement vaults, which contain critical electrical equipment, were not routinely locked. Finally, the sign-in/sign-out logs that are used outside normal working hours are not an accurate representation of who is in the building because not everyone was being required to sign in or sign out.
- **Inaccurate information and noncompliance with regulations led to problems during environmental cleanup.** Certain assumptions about where smoke traveled and where people with potentially contaminated footwear walked during the incident were made with little or no input from eyewitnesses. These assumptions had a direct impact on the decisions about what environmental tests to perform and where to clean up. In addition, in some instances, environmental regulations were not followed with regard to securing the cleanup areas.
- **More attention should have been paid to employee relations.** Employees and contractors praised both the assistance provided by departmental staff at the hospital and the support provided by the Department's workers' compensation program. However, relations and communications with employees could have been better in some areas. Specifically, employees involved in the incident were not offered counseling, an informational meeting with the affected employees and contractors was not held until 25 days after the incident, and little information about the incident was shared with other building occupants.

- **A Commerce command center is needed to better ensure communication and continuity of operations.** Several organizations and individuals tried to contact the Department on October 1 to provide expert assistance, but they were unable to do so because the building had been evacuated. Many of the external communication problems could have been prevented had the Department made provisions for a command center.
- **An assessment is needed to determine what type of environmental program is needed at Commerce.** Some departmental officials and employees expressed concern that the Department had to rely on the General Services Administration for guidance on environmental regulations because Commerce does not have its own environmental program. At the Department level, an assessment should be performed to ensure compliance with all statutory requirements, executive orders, and departmental orders, as well as provide adequate protection for the Department and its employees.

We offered a number of recommendations to address our concerns. The Department has taken action on most of the issues identified, and we are generally satisfied that these actions meet the intent of our recommendations. (*Office of Inspections and Program Evaluations: IPE-12453*)

Audit of the WCF's and S&E Fund's FY 1999 Financial Statements

An IPA firm under contract to us issued an unqualified opinion on the FY 1999 financial statements of the General Administration's Working Capital Fund (WCF) and Salaries and Expense Fund (S&E). The WCF and S&E are operated by one management team under the same internal control structure and procedures for compliance. While the firm did not identify any material weaknesses, it did identify one reportable condition in WCF's and S&E's internal control structure, namely that controls over the preparation of the Statement of Budgetary Resources need improvement.

The firm's report also discussed two other significant matters that need to be addressed:

- The basis for WCF's "negative fund balance with Treasury" needs clarification. Although management does not believe that a violation exists, it has agreed, as a matter of improving business practices, to put procedures into place to eliminate the negative cash balances.

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- Controls surrounding the Financial Accounting System need improvement. (*Financial Statements Audits Division: FSD-11895-0-0001*)

Audit of the General Controls of the Office of Computer Services' FARS

The OIG contracted with an IPA firm to perform a general controls review of the information systems environment of the Department's Office of Computer Services. This office maintains the hardware and software used to process transactions and data within the Financial Accounting and Reporting System (FARS). NIST uses FARS to provide accounting services to WCF and S&E, EDA, ESA/BEA, MBDA, and the Franchise Fund. The firm's review was conducted in accordance with GAO's *Federal Information System Controls Audit Manual*.

The review identified weaknesses in five of the six review areas set forth in the *GAO Manual*: (1) entitywide security program planning and management, (2) access control, (3) application software development and change control, (4) segregation of duties, and (5) service continuity. These weaknesses could adversely affect the security of the office's data, programs, and hardware and have a negative impact on the financial statements supported by FARS, as well as the Department's consolidated statements. The firm discussed these weaknesses, and made recommendations for correcting them, in a separate detailed report on systems issues. The Office of Computer Services agreed with the firm's recommendations and stated that corrective actions had been initiated. (*Financial Statements Audits Division: FSD-12196-0-0001*)

Audit of the General Controls of the CAMS Support Center

The Department established the CAMS Support Center, in Gaithersburg, Maryland, to facilitate the system's implementation. Because of the support center's significant role in the development and implementation of CAMS, the OIG reviewed its general controls. Effective controls help ensure that only authorized changes are made to CAMS.

Given the support center's initial mission of implementing CAMS, it was not created to function as a data center. As a result, many of the security features associated with a data center were lacking. Over time, however, the support center has evolved into a software development organization that is responsible for modifying and maintaining CAMS.

The support center's expanded role necessitated a significant expansion of its data processing environment. With this change in data processing capability, support center management recognized the need to improve both computer and physical security. Lacking sufficient in-house resources to properly assess potential risks and identify vulnerabilities, the support center contracted with a consulting firm to perform this assessment. The firm was tasked to assess risks and identify vulnerabilities, propose actions to minimize them, and develop contingency of operations and disaster recovery plans.

During our audit, we coordinated with the firm and reviewed the outcome of its security work. Our audit assessed the general controls designed to ensure the integrity, confidentiality, and availability of information associated with the support center. We used GAO's *Federal Information System Controls Audit Manual* as a guide in performing this audit.

The review identified weaknesses in five of the six review areas set forth in the *GAO Manual*: (1) entitywide security program planning and management, (2) access control, (3) system software, (4) segregation of duties, and (5) service continuity. (We did not review the sixth area—application software development and change control—as we plan to review it later this fiscal year.) Together, the weaknesses we identified, if not resolved, could adversely affect the security of the data, programs, and hardware maintained at the support center and have a negative impact on the Department's consolidated financial statements. The Department agreed with our recommendations for addressing the identified weaknesses and stated that corrective actions had been initiated. (*Financial Statements Audits Division: FSD-11846-0-0001*)

Additional Efforts Needed to Strengthen Management of Delinquent Debt

As part of the President's Council on Integrity and Efficiency's governmentwide review of non-tax delinquent debt, the OIG conducted an audit of the Department's efforts to comply with the Debt Collection Improvement Act of 1996 (DCIA). As of September 30, 1998, Commerce had assets of \$8.8 billion, of which \$253.2 million represented receivables from nonfederal entities; of this amount, \$94.5 million represented debt that was delinquent over 180 days. Approximately 98 percent of the delinquent debt balance related to NOAA, EDA, and MBDA.

DCIA was passed in response to congressional concerns about federal agencies' efforts to collect non-tax delinquent debt, such as civil penalties, amounts owed for goods and services provided to the public,

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and costs disallowed by audits of financial assistance awards. The act designates the Treasury Department's Financial Management Service (FMS) as the government's debt collection center. To facilitate collection, bureaus are to transfer all non-tax delinquent debt older than 180 days, with certain exceptions, to FMS.

Our audit found that most of the Department's effort to comply with DCIA took place in FY 1999. As of September 30, 1998, only \$23,000 out of \$13,600,000 eligible for FMS collection servicing had been transferred, whereas by June 30, 1999, about \$13,000,000 had been transferred. Despite the Department's substantial progress during FY 1999, we found that:

- **Additional efforts were needed to strengthen delinquent debt management.** The Department needed to improve its guidance on debt management, improve its reports on the age of delinquent debts, perform reconciliations between Commerce and FMS records, take prompt action on delinquent debts, and submit taxpayer identification numbers to FMS.
- **Action was needed to avoid the misstatement of receivables.** To avoid a misstatement of accounts receivable as of September 30, 1999, thorough reviews of existing receivables were needed to identify those that should be written off and to promptly recognize disallowed costs from financial assistance audits as receivables. Periodic reviews of this nature represent a basic internal control.

To address the weaknesses identified, we recommended that the Department finish revising its debt management handbook to reflect DCIA and Treasury implementation guidance, issue a memorandum encouraging the bureaus to prepare or update bureau-specific written procedures, and reconcile bureau reports of debt submitted to FMS with FMS records quarterly. We also recommended that the bureaus develop and maintain updated procedures relating to debt management, perform monthly reconciliations between their records and FMS's, and perform a thorough review of accounts receivable to identify those that should be written off. Further, we recommended that the bureaus provide taxpayer identification numbers to FMS and, should they find collecting the numbers to be administratively burdensome, discuss possible alternative procedures with FMS.

The Department stated that, on the whole, our report was balanced and provided recommendations that will strengthen its financial management, and the bureaus generally agreed with our recommendations. (*Financial Statements Audits Division: FSD-11882-0-0001*)

OIG Provides Comments on Proposed Government Information Security Act

In response to a request by Chairman Fred D. Thompson and Ranking Minority Member Joseph I. Lieberman of the Senate Committee on Governmental Affairs, we commented on a bill introduced in the Senate, S. 1993, the Government Information Security Act, which is intended to protect federal information systems from cyber-attack by strengthening information security practices throughout the government.

We fully support the objectives of the bill. The Department of Commerce has a vast array of information systems that are critical, complex, sensitive, and diverse, including those that support the nation's decennial census and other census and survey activities, patent and trademark functions, weather services and environmental protection, and principal economic indicators. The task of ensuring the security of these and a multitude of other Commerce information systems presents an enormous challenge to Department officials and oversight organizations alike.

Among other things, the bill would require each agency to establish a program containing procedures for detecting, reporting, and responding to security incidents. The agency would be required to mitigate risks associated with such incidents before substantial damage occurs and to notify and consult with law enforcement officials and other offices and authorities concerning security incidents. We recommended that the bill also explicitly require the agency to establish procedures for notifying and consulting with the agency's Inspector General.

Another provision of the bill would require annual independent evaluations to be performed by the OIG or by an independent external auditor, as determined by the Inspector General. We commented that with the increasingly decentralized and networked computer environment and growing use of the Internet, information security has become extremely complex and is undergoing continual and rapid change. As a result, our resources are no longer adequate to provide the necessary oversight even in the absence of this bill, and the bill's annual evaluation requirement would further increase our shortfall. We believe that it is appropriate and desirable for the OIGs to conduct the independent evaluations, but we emphasized that for us to do so effectively would require additional staff, training, tools, and contractor support and therefore additional budgetary resources. We also noted that most other OIGs have similar budget issues.

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Finally, we noted that just as OIGs are struggling to bring adequate resources to information security oversight, agency chief information officers and program officials, including those at Commerce, frequently lack the necessary technical and budgetary resources to ensure that systems and information are secure. Without additional resources, they will not be able to adequately strengthen their information security practices.

OIG Assisting Department in Establishing Steel and Oil/Gas Guaranteed Loan Program

On August 17, 1999, President Clinton signed legislation creating two loan guarantee programs under P.L. 106-51. The Emergency Steel Loan Program Act of 1999 provides guaranties for up to \$1 billion to qualified steel and iron ore companies. The Emergency Oil and Gas Guaranteed Program Act provides guaranties for up to \$500 million to qualified oil and gas companies. Both programs provide for a guaranty of up to 85 percent of the loan's principal amount.

The goal of the legislation is to assist steel and oil and gas firms that were adversely affected by the recent import crises while adequately protecting the government's funds by providing sound loan guaranties. The law established two Loan Guarantee Boards, each made up of the Chairman of the Board of Governors of the Federal Reserve System (as Board Chair), the Secretary of Commerce, and the Chairman of the Securities and Exchange Commission to oversee the programs. Funds were appropriated to the Department of Commerce to implement and administer the program, at the direction of the two Boards.

To assist Commerce in fulfilling its responsibilities, we worked with various groups in the Department, as well as representatives of the Federal Reserve, the SEC, and the Treasury Department, to promptly but prudently address this new legislation. We briefed the Department on our office's extensive experience conducting audits and investigations of prior loan guaranties made by the Department, with an emphasis on "lessons learned." We reviewed the legislation, commented on the proposed implementing regulations, attended public meetings, participated in conference calls with several potential lenders, and offered suggestions on the structure and content of the guarantee agreements.

Implementing regulations for each program were issued on October 27, 1999. At the application deadline of February 28, 2000, 13 applications had been received under the steel program and 23 under the oil/gas program. We continue to work with the Department in fulfilling its evolving role under this important legislation. (*Financial Fraud Division*)

Preaward Financial Assistance Screening

We continue to work with the Office of Executive Budgeting and Assistance Management, NOAA and NIST grant offices, and EDA program offices to screen all of the Department’s proposed grants, cooperative agreements, and loans before award. Our screening serves two purposes: It provides information on whether the applicant has unresolved audit findings and recommendations on earlier awards, and it 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 434 proposed awards. On 10 of the awards, we found major deficiencies that could affect the ability of the proposed recipients to maintain proper control over federal funds. On the basis of the information we provided, the Department delayed the awards until concerns were satisfactorily resolved or established special award conditions to adequately safeguard federal funds. *(Office of Audits)*

Preaward Screening Results		
Results	Number	Amount
Awards delayed to resolve concerns	9	\$5,762,892
Special award conditions established	1	4,921,872

Indirect Cost Rates

Under OMB policy, a single federal agency—the “cognizant agency”—is responsible for the review, negotiation, and approval of indirect cost rates for public and private entities receiving funds under various federal programs. Normally, the federal agency providing the most direct funding to an entity is designated as its cognizant agency. OMB has designated Commerce as the cognizant agency for 280 economic development districts, as well as a number of state and local government units. From time to time, the Department also has oversight responsibilities for other recipient organizations. The Department has authorized the OIG to negotiate indirect cost rates and review cost allocation plans on its behalf. The OIG reviews and 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.

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During this period, we negotiated 20 indirect cost rate agreements with nonprofit organizations and governmental agencies, and reviewed and approved 16 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, certain of the Department's financial assistance programs are sometimes audited by state and local government auditors and by independent public accountants. OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, sets forth the requirements for most of these audits. For-profit organizations that 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. (Before June 30, 1996, such audits were subject to the requirements of Circular A-128, *Audits of State and Local Governments*, and the former Circular A-133, *Audits of Institutions of Higher Education and Other Non-Profit Institutions*. Some of the audits discussed below were conducted in accordance with these earlier circulars.)

We examined 181 audit reports during this semiannual period to determine whether they contained audit findings on any Department programs. For 126 of these reports, the Department acts as the cognizant agency and monitors the auditee's compliance with the applicable OMB circulars or the NIST program-specific reporting requirements. The other 55 reports are from entities for which other federal agencies have oversight responsibility.

Report Category	OMB A-133 Audits	ATP Program-Specific Audits	Total
Pending (October 1, 1999)	9	61	70
Received	147	75	222
Examined	141	40	181
Pending (March 31, 2000)	15	96	111

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The following table shows a breakdown by bureau of the \$205 million in Commerce funds audited.

Bureau	Funds
EDA	\$58,253,562
ITA	415,358
MBDA	311,573
NIST	95,610,954*
NOAA	41,108,007
NTIA	2,041,837
Agency not identified	6,970,952
Total	\$204,712,243

* Includes \$77,494,457 in ATP program-specific audits.

We identified a total of \$1,527,552 in questioned costs. In most reports, the Department's programs were considered nonmajor, resulting in limited transaction and compliance testing against laws, regulations, and grant terms and conditions. The eight 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 of this report.

Section	Topic	Page
4(a)(2)	Review of Legislation and Regulations	95
5(a)(1)	Significant Problems, Abuses, and Deficiencies	21-93
5(a)(2)	Significant Recommendations for Corrective Action	21-93
5(a)(3)	Prior Significant Recommendations Unimplemented	95
5(a)(4)	Matters Referred to Prosecutive Authorities	21-93
5(a)(5) and 6(b)(2)	Information or Assistance Refused	96
5(a)(6)	Listing of Audit Reports	103-108
5(a)(7)	Summary of Significant Reports	21-93
5(a)(8)	Audit Reports—Questioned Costs	100
5(a)(9)	Audit Reports—Funds to Be Put to Better Use	101
5(a)(10)	Prior Audit Reports Unresolved	19, 96
5(a)(11)	Significant Revised Management Decisions	19, 96
5(a)(12)	Significant Management Decisions with Which the OIG Disagreed	97

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. We discuss this matter on page 82.

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 comments concerning legislative and regulatory initiatives affecting Commerce programs are discussed in appropriate sections of the report. For example, during this semiannual period, we commented on S. 1993, the Government Information Security Act (see page 89).

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 an explanation of the reasons final action has not been taken on each such report, except when the management decision was made within the preceding year.

To include a list of all significant unimplemented recommendations in this report would be duplicative, costly, unwieldy, and of limited value to 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 was being prepared, management was in the process of updating the Department's Audit Tracking System as of March 31, 2000, based on semiannual status reports due from the bureaus in mid-April. An accurate database was 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.

Reporting Requirements

Sections 5(a)(5) and 6(b)(2): Information or Assistance Refused

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

Section 5(a)(10): Prior Audit Reports Unresolved

This section requires a summary of each audit report issued before the beginning of the reporting period for which no management decision has been made by the end of the reporting period (including the date and title of each such report), an explanation of 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, 2000, two performance audits and two financial assistance audits were in this category, as discussed below.

Performance Audits

The two NOAA unresolved reports address the bureau's light aircraft operations and NMFS's laboratory structure. These reports are discussed on page 63.

Financial Assistance Audits

The unresolved audits relate to two financial assistance awards made by EDA. We did not agree with EDA's response to one of the final reports and are reviewing its revised audit resolution proposal. On the second report, EDA has requested clarifying information from the grantee. Additional details are presented on page 29.

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

This section requires an 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.

The decisions issued on the 12 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, no audit issues were referred to the Council.



Statistical Highlights

Audit Statistical Highlights

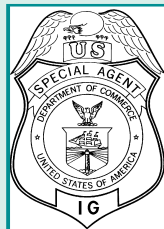
Questioned costs this period	\$1,590,855
Value of recommendations agreed to this period by management	\$1,586,583

Investigative Statistical Highlights

Arrests	1
Indictments and informations	3
Convictions	3
Personnel actions*	12
Fines, restitutions, judgments, and other civil and administrative recoveries	\$20,799

* Includes removals, suspensions, reprimands, demotions, and resignations or retirements in lieu of adverse action.

Allegations Processed by OIG Investigators



Accepted for investigation	22
Referred to operating units	50
Evaluated but not accepted for investigation or referral	70
Total	142

Note: Numerous other allegations and complaints were forwarded to the appropriate federal and nonfederal investigative agencies.

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Tables and Appendixes



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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>	

Tables and Appendixes

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	17	\$2,038,460	\$1,168,737
B. Reports issued during the reporting period	9	1,590,855	121,960
Total reports (A+B) requiring a management decision during the reporting period	26	3,629,315	1,290,697
C. Reports for which a management decision was made during the reporting period	17	3,170,946	989,350
i. Value of disallowed costs		1,586,583	951,192
ii. Value of costs not disallowed		2,006,966	298,234
D. Reports for which no management decision had been made by the end of the reporting period	9	\$458,369	\$301,347
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.			
In Category C, line i contains one report that had disallowed costs identified during the resolution process.			

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	3	\$18,631,904
B. Reports issued during the reporting period	—	—
Total reports (A+B) requiring a management decision during the reporting period	3	18,631,904
C. Reports for which a management decision was made during the reporting period	1	654,904
i. Value of recommendations agreed to by management		—
ii. Value of recommendations not agreed to by management		654,904
D. Reports for which no management decision had been made by the end of the reporting period	2	\$17,977,000
<p>Notes and Explanations:</p> <p>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.</p>		

Tables and Appendixes

Appendix A. Office of Inspector General Reports		
Type	Number	Appendix
Performance Audits	13	A-1
Inspections	12	A-2
Financial Statements Audits	22	A-3
Financial Related Audits	6	A-4
Total	53	

Appendix A-1. Performance Audits			
Agency	Subject	Number	Date
ESA	Atlanta Region Experienced Late Pay Problems for Census 2000 Employees	ATL-11640-0-0001	12/99
	Accountable Property Used for the Decennial Census Needs Improved Controls; Bankcard Program Is Well Managed	ESD-11781-0-0001	03/00
ITA	Market Development Cooperator Program Award Process Promotes Merit-Based Decisions, but Practices Need More Discipline, CFDA No. 11.112	ATL-10999-0-0001	12/99
MBDA	Internal Controls over Bankcard Use Are Sound	BTD-12022-0-0001	12/99
NOAA	Internal Controls over ERL's Bankcard Program Need Improvement	DEN-11627-0-0001	10/99
	NOS's Coastal Services Center Awards Were Not Competitively Selected, CFDA No. 11.473	ATL-11000-0-0001	03/00
	OAR's Undersea Research Program Awards Were Not Competitively Selected, CFDA No. 11.430	ATL-11654-0-0001	03/00
	Internal Controls over Southeastern Fisheries Science Center Bankcard Purchases Need Improvement	ATL-11860-0-0001	03/00
	Internal Controls over User Fees Need Improvement	STD-11881-0-0001	03/00
	Opportunities Exist to Improve the Competitive Review Practices of OAR's Climate and Atmospheric Research Program, CFDA No. 11.431	STL-10949-0-0001	03/00
O/S	Additional Efforts Necessary to Strengthen Department's Management of Its Delinquent Debt	FSD-11882-0-0001	12/99
TA-NIST	External Reviewers Help with ATP Focused Program Selection Process, but Key Steps in the Selection Process Were Not Documented	STD-11113-0-0001	03/00
	ATP's Management of Intramural Research Can Be Strengthened	STD-11551-0-0001	03/00

Tables and Appendixes

Appendix A-2. Inspections			
Agency	Subject	Number	Date
BXA	BXA's Year 2000 Preparations Are Effective, but Additional Risk Mitigation Is Needed	OSE-12551	12/99
	Improvements Are Needed in Programs Designed to Protect Against the Transfer of Sensitive Technologies to Countries of Concern	IPE-12454	03/00
ESA	Year 2000 Preparations Were Effective, but Business Continuity and Contingency Planning Needed Improvement	OSE-12200	02/00
	PAMS/ADAMS Should Provide Adequate Support for the Decennial Census, but Software Practices Need Improvement	OSE-11684	03/00
ITA	ITA Y2K Risk of Interrupted Operations Is Low, But Some Improvements Needed in Day One Planning	OSE-12550	12/99
	US&FCS Hong Kong Is a Strong Operation with Minor Management Issues	IPE-11330	01/00
	US&FCS Vietnam Is Fully Operational, but Some Areas Need Improvement	IPE-11798	03/00
	US&FCS France: Leadership in Post Management and Administrative Matters Needs to Be Reestablished	IPE-12428	03/00
NOAA	NWS Y2K Risks Are Low and Agency Is Well Prepared	OSE-12313	12/99
O/S	There Are Lessons to Be Learned from the October 1999 Fire and PCB Accident in the Herbert C. Hoover Building	IPE-12453	03/00
PTO	Year 2000 Business Continuity and Contingency Plan Is Comprehensive, but Additional Risk Mitigation Is Needed	OSE-11693(2)	12/99
TA	NIST Needs to Reevaluate Plans to Support Its Ballistics Testing Program	IPE-11923	03/00

Appendix A-3. Financial Statements Audits			
Agency	Subject	Number	Date
BXA	Financial Statements for FY 1999	FSD-11883-0-0001	03/00
EDA	Financial Statements for FY 1999	FSD-11885-0-0001	03/00
ESA	Census Bureau' s Financial Statements for FY 1999	FSD-11884-0-0001	03/00
	Improvements Needed in the General Controls Associated with Census Bureau Financial Management Systems	FSD-11884-0-0002	03/00
	Economics and Statistics Administration and Bureau of Economic Analysis's Combined Financial Statements for FY 1999	FSD-11886-0-0001	03/00
ITA	Financial Statements for FY 1999	FSD-11887-0-0001	03/00
MBDA	Financial Statements for FY 1999	FSD-11888-0-0001	03/00
NOAA	Financial Statements for FY 1999	FSD-11890-0-0001	03/00
	Improvements Needed in the General Controls Associated with NOAA's Financial Management Systems	FSD-11890-0-0002	03/00
NTIA	Financial Statements for FY 1999	FSD-11891-0-0001	03/00
O/S	Improvements Needed in the General Controls at the Commerce Administrative Management System Support Center	FSD-11846-0-0001	02/00
	Department of Commerce's FY 1999 Consolidated Financial Statements	FSD-11911-0-0001	02/00
	Improvements Needed in the General Controls Associated with the Office of Computer Services/Financial Accounting and Reporting System	FSD-12196-0-0001	02/00
	General Administration's Working Capital Fund and Salaries and Expense Fund Financial Statements for FY 1999	FSD-11895-0-0001	03/00
	FY 1999 Federal Agencies' Centralized Trial-Balance System Data Verification Agreed-Upon Procedures	FSD-11911-0-0002	03/00
PTO	Financial Statements for FY 1999	FSD-11893-0-0001	03/00
	Follow-up Review of the General Controls Associated with the Revenue Accounting and Management System	FSD-11893-0-0002	02/00

Tables and Appendixes

Appendix A-3. Financial Statements Audits—Continued			
Agency	Subject	Number	Date
TA	NIST's Financial Statements for FY 1999	FSD-11889-0-0001	03/00
	Improvements Needed in the General Controls Associated with NIST's Financial Management Systems	FSD-11889-0-0002	03/00
	NTIS's Financial Statements for FY 1999	FSD-11892-0-0001	03/00
	Improvements Needed in the General Controls Associated with NTIS's Financial Management Systems	FSD-11892-0-0002	03/00
	TA's Financial Statements for FY 1999	FSD-11894-0-0001	03/00

Appendix A-4. Financial Related Audits					
Agency	Auditee	Number	Date	Questioned Costs	Unsupported Costs
EDA	Castle Joint Powers Agency, CA	STL-12659-0-0001	03/00	—	—
	Quality Control Review of Daniel Dennis & Company, LLP, for the Audit of the New England Trade Adjustment Assistance Center	ATL-12073-0-0001	03/00	—	—
NOAA	Quality Control Review of Bollenback & Forret, P.A., for the Audit of the Gulf and South Atlantic Fisheries Development Foundation, Inc.	ATL-11936-0-0001	03/00	—	—
NTIA	Northern Arapaho Tribe, Wind River Reservation, WY	DEN-10736-0-0001	02/00	\$63,303	—
TA-NIST	Quality Control Review of Mackie, Reid & Company, P.A., for the Audit of Industry Network Corporation	DEN-12072-0-0001	03/00	—	—
	West Virginia Manufacturing Extension Partnership	DEN-12499-0-0001	03/00	—	—

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

Appendix B. Processed Reports

The Office of Inspector General reviewed and accepted 181 financial-related audit reports prepared by independent public accountants and local, state, and other federal auditors. The reports processed with questioned costs, recommendations that funds be put to better use, and/or nonfinancial recommendations are listed in Appendix B-1.

Agency	Audits
Economic Development Administration	68
International Trade Administration	1
Minority Business Development Agency	2
National Institute of Standards and Technology	49 *
National Oceanic and Atmospheric Administration	10
National Telecommunications and Information Administration	8
Multi-Agency	17
Agency Not Identified	26
Total	181

* Includes 40 ATP program-specific audits.

Tables and Appendixes

Appendix B-1. Processed Financial Related Audits					
Agency	Auditee	Number	Date	Questioned Costs	Unsupported Costs
EDA	City of Charleston, SC	ATL-9999-0-0123	01/00	\$1,368,873	—
	Mercer County, MO	ATL-9999-0-0160	01/00	8,476	\$8,476
	World Trade Association of Florida, Inc.	ATL-9999-0-0228	03/00	10,597	—
	Montachusett Regional Planning Commission, MA	ATL-9999-0-0230	03/00	26,122	—
ITA	Garment Industry Development Corporation, NY	ATL-9999-0-0118	02/00	12,266	12,266
NOAA	State of Alaska	ATL-9999-0-0101	01/00	6,266	6,266
	Mount Washington Observatory, NH	ATL-9999-0-0224	03/00	42,302	42,302
TA-NIST	Hudson Valley Technology Development Center, NY	ATL-9999-0-0119	02/00	52,650	52,650

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 Types 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 Government Management Reform Act, 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, acquisitions, 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.

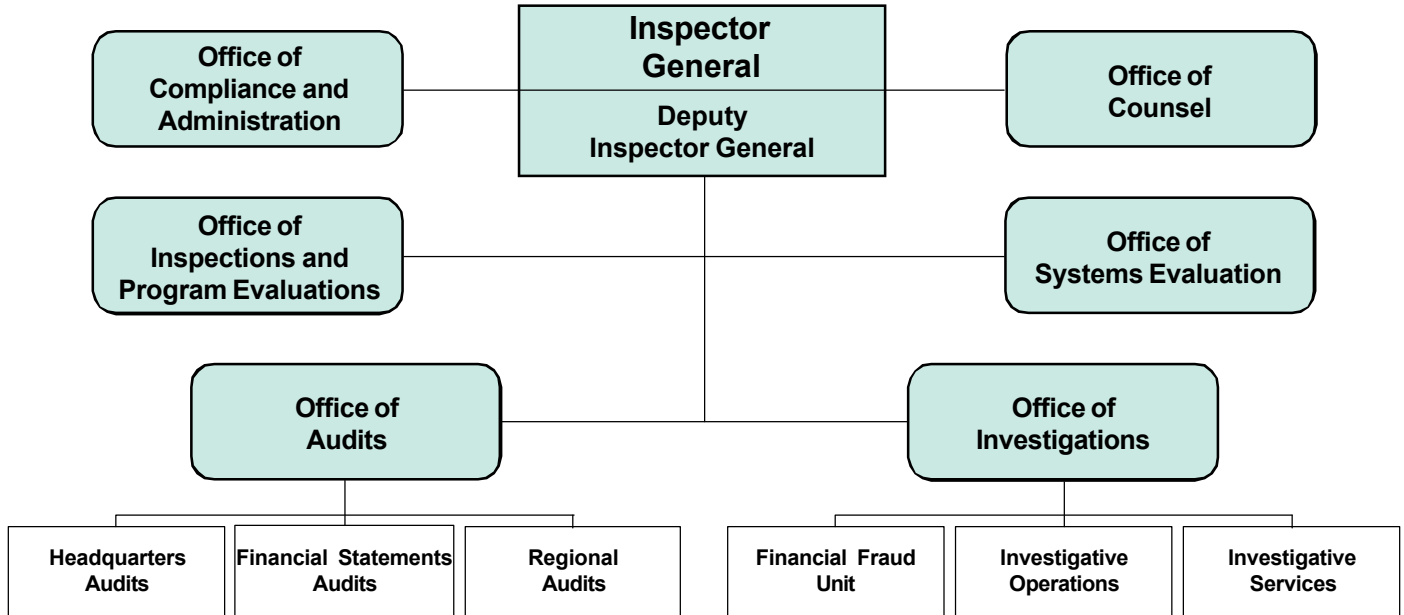
Disclaimer of Opinion — The auditor does not express an opinion on the financial statements.



Glossary of Abbreviations

AFOS	Automation of Field Operations and Services
ATP	Advanced Technology Program
AWIPS	Advanced Weather Interactive Processing System
BCCP	business continuity and contingency plan
BEA	Bureau of Economic Analysis
BXA	Bureau of Export Administration
CAMS	Commerce Administrative Management System
CFIUS	Committee on Foreign Investment in the United States
CFO	Chief Financial Officer
DCIA	Debt Collection Improvement Act of 1996
EDA	Economic Development Administration
ESA	Economics and Statistics Administration
FARS	Financial Accounting and Reporting System
FMS	Financial Management Service
GAO	General Accounting Office
GPRA	Government Performance and Results Act
GSA	General Services Administration
GWAC	government-wide agency contract
ICASS	International Cooperative Administrative Support Service
IG	Inspector General
IPA	independent public accounting
ITA	International Trade Administration
JFMIP	Joint Financial Management Improvement Program
LCO	local census office
MBDA	Minority Business Development Agency
MDCP	Market Development Cooperator Program
NIST	National Institute of Standards and Technology
NMFS	National Marine Fisheries Service
NOAA	National Oceanic and Atmospheric Administration
NOS	National Ocean Service
NTIA	National Telecommunications and Information Administration
NTIS	National Technical Information Service
NWS	National Weather Service
OAR	Office of Oceanic and Atmospheric Research
OIG	Office of Inspector General
OIPE	Office of Initial Patent Examination
OMB	Office of Management and Budget
PADE	PAMS/ADAMS Data Entry
PAMS/ADAMS	Pre-Appointment Management System/Automated Decennial Administrative Management System
PBO	performance-based organization
PCBs	polychlorinated biphenyls
PTO	Patent and Trademark Office
RCC	regional census center
SCO	Senior Commercial Officer
TA	Technology Administration
US&FCS	U.S. and Foreign Commercial Service
WCF	Working Capital Fund
Y2K	year 2000

Office of Inspector General Organization Chart



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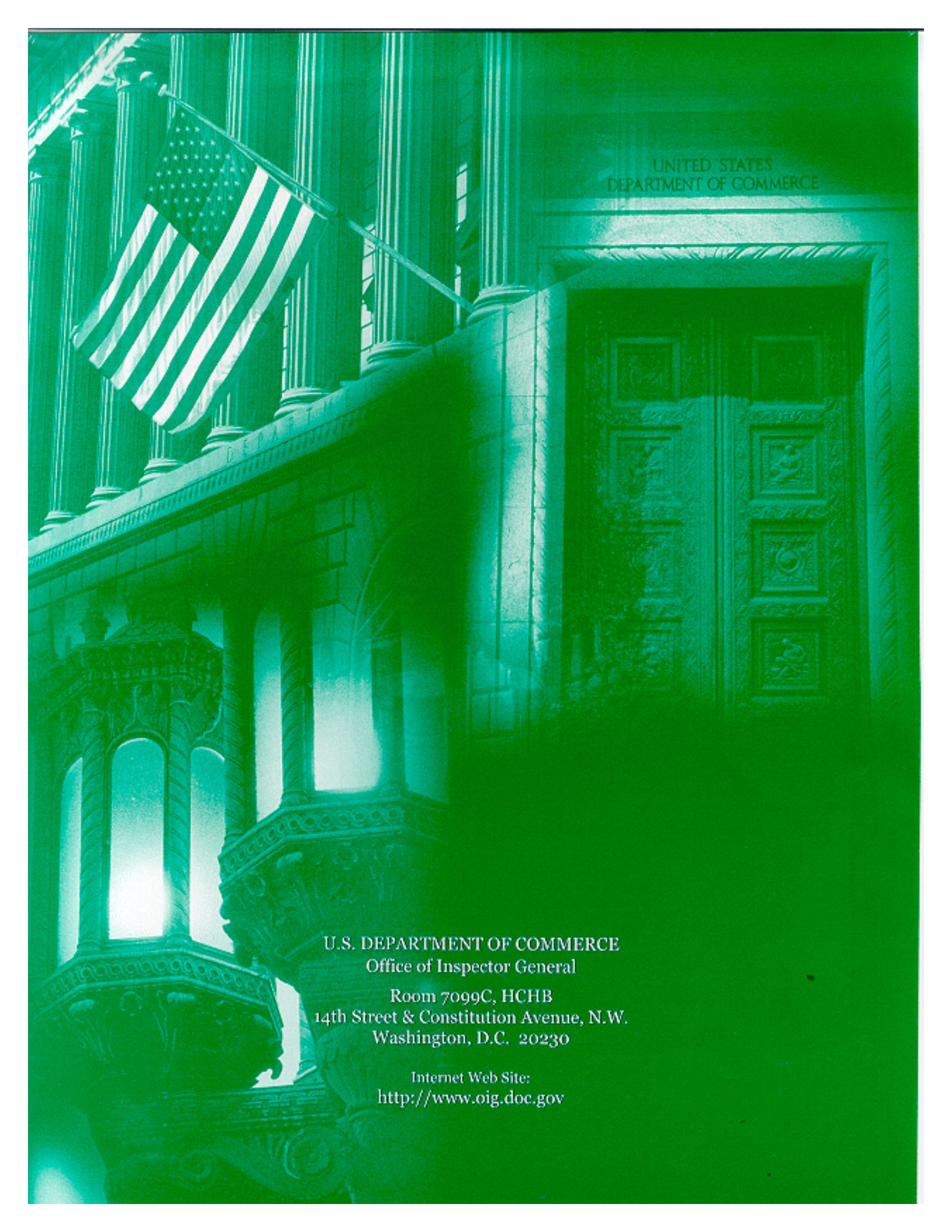
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