OFFICE OF INSPECTOR GENERAL
U.S. DEPARTMENT OF COMMERCE

OIG

Semiannual Report to Congress

March 2005

IG's Semiannual Report to Congress

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

March 2005

The Honorable Carlos M. Gutierrez
Secretary of Commerce
Washington, D.C. 20230

Dear Mr. Secretary:

I am pleased to provide you with the Inspector General's *Semiannual Report to Congress* for the first half of fiscal year 2005. The Inspector General Act requires that we twice annually prepare this report summarizing our assessments of Commerce activities and operations and that you transmit it, with any comments you may wish to add, to Congress within 30 days of receiving it.

This is the first semiannual report we have prepared under your watch as Commerce Secretary. You will find that it contains the outcome of much of the work I briefed you on in our initial meeting shortly after your confirmation. My purpose with each semiannual is to offer you a concise, ready source of insight into the strengths and weaknesses of departmental operations and to highlight any improvements we believe are necessary to correct deficiencies. The ultimate goal in this and of all our reporting and other communications is to ensure this Department fulfills its many critical roles as effectively as possible. I view Commerce's success in this endeavor as very much a partnership between us, and I am confident that under your leadership the Department will continue to make strides toward resolving the management challenges and any other issues my office identifies.

In fact, during the past 6 months, we have noted significant progress on several key challenge areas, as evidenced by the Department's development of a plan to eliminate its information security material weakness, steps to strengthen acquisition planning and management, and actions to further enhance the export control process. In work currently under way, I am pleased to report strong focus on the part of your senior officials in addressing other crucial issues—emergency preparedness, the 2010 decennial, and marine resource management, to name a few. At the same time, Commerce continues to face considerable challenges in addressing these issues and a number of other fundamental areas such as improving performance measurement throughout the Department and enhancing human resource operations at USPTO.

Secretary Gutierrez, I trust that you will find this and future semiannual reports useful in your efforts to guide this Department. I again welcome you to Commerce, and I look forward to working with you.

Sincerely,

Johnnie E. Frazier

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Inspector General's Message to Congress

I am pleased to submit the Office of Inspector General's semiannual report covering our work from October 1, 2004, through March 31, 2005—our first semiannual report for the 109th Congress and the new Secretary of Commerce, the Honorable Carlos Gutierrez, as well as the first to reflect the priorities set out in our draft FY 2005-2007 work plan. We look forward to working with you, Secretary Gutierrez, and Department officials to address the management challenges that face Commerce and respond to the President's Management Agenda.

"Our partnership with Congress and departmental officials is essential to ensuring that Commerce not only effectively fulfills its stated mission but also reaches its potential for promoting the public good."

During the past 6 months, we identified savings for the Department of more than $20 million in just 23 audits. Our investigations have recovered significant taxpayer dollars as well, and resulted in a number of criminal convictions. We have made numerous recommendations that, when implemented, will improve Commerce's acquisition management, strengthen security over its critical data, enhance program delivery, and promote operational efficiency.

For example, we audited several task orders issued under a Census Bureau contract that to date has paid out some $63 million. In one case, we recommended that $2.3 million of the $5.8 million billed under the task order be disallowed. In another, we identified approximately $1.7 million in unsupported billings and more than $3 million in unapproved subcontract costs.

We continued our focus on information security with efforts to help the Department eliminate the material weakness we identified in our FY 2004 evaluation, performed under the Federal Information Security Management Act (FISMA). This is the fourth consecutive year that our FISMA work has reported deficiencies serious enough to warrant a material weakness finding because of certification and accreditation (C&A) problems in many Commerce operating units. During this reporting period, we provided comment on the Department's plan for eliminating the material weakness and began discussions with the units on ways to strengthen their C&A packages. We plan to work closely with the Department's Chief Information Officer and other officials until the security status of all Commerce IT systems and data has improved.

Securing technologies and technical information that have potential military applications was another key focus of our work: pursuant to the National Defense Authorization Act, we assessed the Bureau of Industry and Security's (BIS') licensing process for chemical and biological commodities as our part in the annual interagency review of U.S. licensing processes. Enhancing export controls for dual-use commodities to ensure they do not fall into the hands of countries and entities of concern remains a critical management challenge for the Department. I am pleased to report that BIS' licensing operations are generally sound, and the agency was receptive to our recommendations for further improvement.

With regard to our investigative activities, we concluded several key cases during the reporting period—one involving the conviction of the last of four local officials in connection with the fraudulent use of federal grant funds. This individual was ordered to pay $723,553 to the government, including $145,221 that will be returned to Commerce's Economic Development Administration, and sentenced to 41 months in prison. He will also be debarred from receiving future federal contracts or awards.

Over the course of the coming months, as we pursue other priority areas, we will keep you apprised of our findings as well as Commerce's progress at meeting the management challenges we have identified. This communication and our partnership with you and departmental officials are essential to ensuring that Commerce not only effectively fulfills its stated mission but also reaches its potential for promoting the public good. I look forward to our continued collaboration toward that end.

Major Challenges for the Department

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

TOP 10 MANAGEMENT CHALLENGES

1. Strengthen Department-wide information security.
2. Effectively manage departmental and bureau acquisition processes.
3. Enhance USPTO's ability to manage and operate its own processes.
4. Control the cost and improve the accuracy of Census 2010.
5. Monitor the effectiveness of NOAA's ocean and living marine resources stewardship.
6. Promote fair competition in international trade.
7. Enhance export controls for dual-use commodities.
8. Enhance emergency preparedness, safety, and security of Commerce facilities and personnel.
9. Continue to strengthen financial management controls and systems.
10. Continue to improve the Department's strategic planning and performance measurement in accordance with GPRA.

Challenge 1

STRENGTHEN DEPARTMENT-WIDE INFORMATION SECURITY

In FY 2005, the Department will spend some $1.4 billion of its $5.7 billion budget on information technologies and related security. Systems supporting NOAA's ocean and environmental missions, the Census Bureau's statistical operations, and BIS' export control activities are just a few of Commerce's many critical information assets that provide data and operations essential to the nation's well-being. Despite improvements in cyber security over the years, Commerce continues to face significant challenges in adequately protecting its systems and data from loss or compromise.

For the past 4 years we have advised the Department to report information security as a material weakness, based on the findings of our annual review mandated by the Federal Information Security Management Act of 2002 (FISMA).[1] The Department has reported it as such in its *Performance & Accountability Report* for all 4 years.

Our most recent FISMA evaluation continued to identify problems with certification and accreditation (C&A) in many of the Department's operating units, particularly in their conduct of such critical C&A activities as assessing risk, accurately identifying system components, and testing security controls. When implemented properly, certification is a powerful tool for helping ensure that appropriate security controls are in place, functioning properly, and producing the desired outcome. Through accreditation, agency officials formally accept responsibility for the security of the systems over which they have management, operational, and budget authority and for any adverse impacts to the Department should a breach in security occur.

In February 2005, the Department's Chief Information Officer issued a plan to address the material weakness. The plan's goal is to ensure that sufficient progress is made to eliminate the basis for the IT security material weakness by the end of FY 2005. It focuses on putting in place repeatable processes that produce acceptable quality C&A packages in all operating units and completing packages for all national-critical systems and some mission-critical systems by fiscal year-end. It includes schedules that were developed in collaboration with the operating units and plans of action and milestones to track progress. It also provides for increased oversight by the Department and bureau CIOs. The Department CIO believes the plan establishes achievable schedules and an approach that will yield acceptable quality C&A packages. We have not yet had the opportunity to review the schedules.

[1] FISMA provides a comprehensive framework for ensuring that information resources supporting federal operations and assets have effective security controls. The act requires OIGs to perform independent security evaluations of their agencies annually.

Department-wide Contract Security Deficiencies Remain

Last fiscal year, to help Commerce secure information and information systems handled by contractors, we recommended that it take steps to incorporate its two new security clauses[2] into service contracts and provide appropriate contract oversight. (See September 2004 *Semiannual Report*, page 43.) The first clause contains requirements for protecting Commerce information resources used by contractors, as well as contractor-owned systems that interconnect with a Department network or store or process Commerce data. The second clause requires appropriate background investigations and IT security awareness training for contractor personnel who access Commerce systems.

In response to our recommendations, the Department's acquisition management and CIO offices reviewed a sample of IT service contracts and presented their results in the annual *Department of Commerce IT Contract Compliance Review Report.*[3] The review looked at 80 of the Department's nearly 2,600 IT service contracts, found that only 29 percent of the sample contained both security clauses, and noted considerable confusion among contracting officials regarding their applicability. These findings point to the need for further efforts to clarify the clauses and ensure their appropriate inclusion in contracts. In addition, it is not clear whether the Department has identified all contractor operations and facilities subject to IT security safeguards (i.e., all those connected to Commerce networks or that process or store sensitive Commerce information). As part of our FISMA work this fiscal year, we are reviewing IT service contracts for this purpose as well as to determine whether such contracts incorporate and appropriately implement the security clauses.

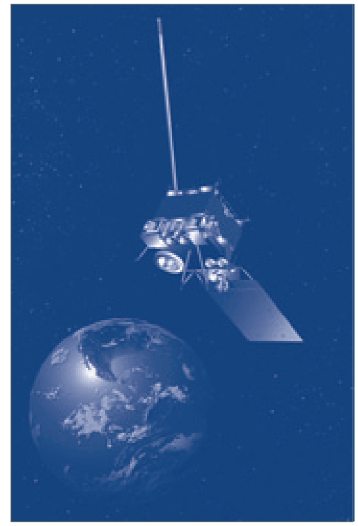
Challenge 2

EFFECTIVELY MANAGE DEPARTMENTAL AND BUREAU ACQUISITION PROCESSES

The Department spends more than $1.75 billion annually—nearly 30 percent of its budget—procuring goods and services. Yet for Commerce and most other federal agencies, effective acquisition management has been a long-term problem, and both OMB and the Government Accountability Office fault agencies for inadequate oversight of procurements.

[2] Issued in November 2003 by the Office of Acquisition Management.

[3] *Department of Commerce IT Contract Compliance Review Report,* prepared for U.S. Department of Commerce, Office of the Chief Information Officer, Office of IT Security, Infrastructure and Technology, by GNS, Inc., Germantown, MD, September 30, 2004, ITCR-2004-004-001.



NOAA's Geostationary Operational Environmental Satellites orbit the earth monitoring impending severe weather conditions. The first GOES was launched in 1974. NESDIS currently is acquiring several additional GOES through NASA.

Source: www.nosa.noaa.gov/ descriptions/ nesdis/goes.html.

Commerce has acknowledged the need for better acquisition planning and management, and has taken steps to improve. These include increasing training for contracting officer representatives and other contracting professionals, and creating an intradepartmental task force to develop guidance for standardizing the interagency agreement process Department-wide. But our reviews continue to identify weaknesses stemming from inadequate oversight of one or more aspects of the acquisition process—solicitation; development of clear, consistent contract specifications; open and rigorous competition to secure best value; and contract management. For example, our recent audits of three task orders for $17.6 million in ITservices issued under a Census Bureau contract questioned a total of $8.5 million in unsupported or unapproved costs. (See page 19.)

With numerous high-cost acquisitions planned for the coming years, the Department must continue to give careful attention to its acquisition policies and procedures to protect the investment of public dollars and ensure best value. NOAA's planned acquisition of geostationary operational environmental satellites (GOES-R project) is one such procurement that will bear close watching. This project will be the largest single acquisition contract NOAA has ever awarded—with total cost expected to exceed $4 billion.

Challenge 3

ENHANCE THE U.S. PATENT AND TRADEMARK OFFICE'S ABILITY TO MANAGE AND OPERATE ITS OWN PROCESSES

USPTO continues its transformation to a performance-based organization that, like a business, has the flexibility to adapt to changing market forces and meet the needs of consumers. Controlling its budget, procurements, and personnel decisions offers the agency opportunities for operational efficiencies and strengths, but brings new management challenges as well.

USPTO's new headquarters in Alexandria, VA.

Source: USPTO.

Our recent work on patent examiner production goals, performance appraisal plans, and awards; USPTO's new headquarters complex; and its Office of Human Resources identified problems that could potentially undercut its efficiency as a performance-based organization. (See September 2004 *Semiannual Report*, pages 38-40.) To improve examiner production, we recommended that USPTO consider revising patent examiner goals to reflect efficiencies in automated work processes and evaluate its patent examiner award system to determine whether a more effective way of increasing production exists. USPTO concurred with our recommendations and agreed to reassess the current patent examiner goals, performance, performance appraisal plans, and award system.

Our report on the agency's move to its new headquarters recommended that USPTO finalize an occupancy agreement with the General Services Administration and submit the required documentation for additional space to accommodate future staff growth. USPTO's current complement of staff will fill all available space in the new complex.

Finally, our audit of Office of Human Resources activities concluded that USPTO had ignored hiring practices, merit system principles, and sound human resource policies and procedures when recruiting a new personnel director. The agency was generally receptive to our recommendations for improving administration of human resources, but, unfortunately, our ongoing work continues to reveal serious problems in its personnel practices, which must be resolved. USPTO anticipates hiring hundreds of examiners and other staff in the coming fiscal year. It is crucial that its policies and practices for doing so comply with all applicable federal requirements.

We will continue to monitor the agency's handling of critical functions, its success at using its flexibilities as a performance-based organization, and any related impacts on the effectiveness of its operations.

Challenge 4

CONTROL THE COST AND IMPROVE THE ACCURACY OF CENSUS 2010

Commerce is at the midpoint of its decade-long preparations for the 2010 decennial. With estimated costs of more than $9 billion,[4] this decennial census is one of the most costly operations—and among the most critical—the Department undertakes.

The Census Bureau's plans and activities for the upcoming decennial remain a major focus of our work, as we monitor its attempts to capitalize on new technologies. Our assessment of the 2004 census test found that handheld computers and related automation are promising replacements for paper-based processes, and that the enumerator workforce was able to use the devices. This was the first of two scheduled site tests of concepts, systems, and procedures being evaluated for the 2010 census. (See September 2004 *Semiannual Report*, page 20.) But we noted problems with data transmissions, technical field support, enumerator training, testing of revised group quarters definitions, and various management and administrative activities. These must be resolved for the bureau to meet accuracy and cost-containment goals.

Enumerators tested the feasibility of using handheld computers to gather census data in the 2004 test. Refinements to the process will be tested in 2006.

Source: U.S. Census Bureau.

[4] In constant 2000 dollars.

We have initiated work to assess the bureau's response to our recommendations regarding efforts to improve the master address file.[5] We are also reviewing the bureau's Field Data Collection Automation (FDCA) program—a massive effort to acquire and manage field automation for the 2008 dress rehearsal and 2010 census. The Census Bureau had intended to develop FDCA in-house with contractor support. But in early 2004, Census determined that it did not have the technical resources to do so while simultaneously supporting the 2004 and 2006 field tests. Consequently, the bureau plans to hire a contractor to develop, test, and deploy technology and provide support services for 12 regional centers and more than 450 local census offices, which at their peak, support more than 500,000 temporary field staff employees.

We will soon begin work on the 2006 census test, which will include follow-up on issues identified in our report on the 2004 test (*Improving Our Measure of America: What the 2004 Census Test Can Teach Us in Planning for the 2010 Decennial Census*, OIG-16949/September 2004).

NOAA has been removing thousands of tons of debris, contaminated soil, and inactive landfills in the Pribilof Islands Environmental Restoration Project. The U.S. Fish and Wildlife Service Vessel PENQUIN II, seen here off a cobblestone beach in the Pribilof Islands, supplies everything needed by the Aleuts who live there.

Source: NOAA photo library.

Challenge 5

MONITOR THE EFFECTIVENESS OF NOAA'S STEWARDSHIP OF OCEAN AND LIVING MARINE RESOURCES

The U.S. Commission on Ocean Policy, in its final report—*An Ocean Blueprint for the 21st Century*—pointed to NOAA's critical role in protecting our nation's ocean and coastal resources. As the lead agency for marine resource protection, NOAA encompasses the single largest number of civilian ocean programs, and the commission report envisioned these responsibilities expanding.

We plan to give close attention to a number of NOAA's broader environmental stewardship responsibilities in the coming years, targeting such high-profile activities as Coastal Zone Management, the National Estuarine Research Reserve System, National Marine Sanctuary programs, and the Pribilof Islands restoration project. We may also focus on NOAA's coral reef, aquaculture, and marine debris responsibilities; expansion of the tsunami detection and warning system; and the proposed Integrated Ocean Observing System.

Our series of reviews of salmon recovery programs continued during this semiannual period with audits of three more programs funded by NOAA's Pacific Coastal Salmon Recovery Fund. As with the audits we detailed in our September 2004 semiannual report (pages 31-32), we questioned significant costs and noted administrative weaknesses in two of the programs we reviewed. We are working with NOAA to resolve any common problems we identify with administration of these grants as our series progresses.

Other key areas we hope to focus on include the effectiveness of specific areas of scientific research and research management at NOAA, including the agency's process for maintaining scientific integrity and quality.

Challenge 6

PROMOTE FAIR COMPETITION IN INTERNATIONAL TRADE

The Department of Commerce, through ITA, is charged with promoting trade, opening overseas markets to American firms, and ensuring compliance with U.S. laws designed to protect U.S. industry from unfair competition from imports. As foreign exporters continue to spawn aggressive strategies targeting lucrative American markets, ITA's mission becomes ever more difficult and the need for a strong response, imperative.

During this semiannual period, we assessed ITA's management of the administrative review program for antidumping[6] duty orders, a function of the agency's Import Administration (IA). Adminis-

[5] U.S. Department of Commerce Office of Inspector General, *A Better Strategy Is Needed for Managing the Nation's Master Address File*, Report Number OSE-12065/September 2000.

[6] The U.S. antidumping statute is designed to prevent foreign firms from selling a good in the United States at prices below those at which the good is sold in their home market, or, in some limited instances, below the cost of production.

trative reviews determine the final duty rates on imports from a specific country that have been found previously to be dumped in U.S. markets. We found, among other things, that the agency needs to strengthen its policies, procedures, and standards for conducting these reviews and improve several administrative practices (see page 21).

In upcoming reporting periods, we plan to assess the Department's efforts to expand U.S. market opportunities and overcome trade barriers in some of the most difficult and potentially rewarding foreign markets—China, Russia, and perhaps some South American countries. We will continue to monitor the effectiveness of overseas posts and domestic U.S. export assistance centers in helping U.S. companies compete for market share abroad, assess customer satisfaction with ITA products and services, and evaluate ITA's export success reporting—one of its key performance measures. Our inspections of post activities in Turkey, Greece, and India and our reviews of export assistance centers in Chicago, the Pacific Northwest, and Philadelphia identified problems with export success reporting, including inaccurate and overstated U.S. value and unverifiable success stories (see March and September 2004 *Semiannual Reports,* pages 24 and 25, respectively). In response, ITA has taken a number of steps to improve quality controls, oversight, and management accountability for the accuracy and integrity of export success reports. We will continue to monitor these areas, including ITA's financial controls and resource management, and will report on the Department's efforts to resolve issues we identify.

We also intend to build on our survey work at the Import Administration by looking at the verification process for antidumping cases, and to assess ITA's new Manufacturing and Services Unit and its efforts to enhance competitiveness of U.S. manufacturers and industry.

Challenge 7

ENHANCE EXPORT CONTROLS FOR DUAL-USE COMMODITIES

Commerce must balance the nation's economic interests in increasing trade with the realities of national security by controlling the export of technology and materials that have both civilian and military applications. The Bureau of Industry and Security (BIS) oversees the federal government's export licensing and enforcement system for these dual-use commodities, and we devote considerable, ongoing attention to its efforts. Rogue countries and terrorist groups pose great threats to U.S. national security and foreign policy goals. A strong, effective export control system is essential to keeping sensitive items and technology from those seeking weapons of mass destruction.

NDAA Reviews

The National Defense Authorization Act (NDAA) for Fiscal Year 2000, as amended, directed the inspectors general of Commerce, Defense, Energy, and State, in consultation with the directors of Central Intelligence and the Federal Bureau of Investigation, to report to Congress annually (through 2007) on the adequacy of export controls and counterintelligence measures in preventing the acquisition of sensitive U.S. technology and information by countries and entities of concern.

To meet NDAA's FY 2005 requirement, we assessed BIS' licensing process for chemical and biological commodities to determine whether the process is timely, complies with statutory and regulatory requirements, and considers the cumulative effect of prior technology transfers to end users. We also assessed information sharing among the various agencies involved in reviewing licenses, their process for resolving disputes, and BIS' procedures for revising the Commerce Control List. (See page 11.)

EXAMPLES OF DUAL-USE TECHNOLOGIES

Technologies	Civilian Use	Military Use
Remote sensing (optical radar)	Earth observation satellites for weather forecasting, mapping, etc.	'Spy' satellites for combat intelligence, arms control verification, etc.
Advanced ballistics and missiles	Space transportation systems (launchers); sounding rockets (for microgravity experiments)	ICBMs (Intercontinental Ballistic Missiles); short range surface-to-surface missiles
Biotechnologies	Aerospace medicine; medical research	Biological weapons
Satellite communications	Telephony, Internet, broadcasting	Military communications

Source: www.futuraspace.com/Dual_Use_fact_sheet.htm.

NDAA for FY 2001 requires the IGs to also report on the status of recommendations made in prior-year reviews. This year's follow-up covered reviews conducted from 2001 through 2004 (no recommendations remain outstanding from our FY 2000 report). We were pleased to find that Commerce made progress on a number of outstanding issues, but some key recommendations remain unresolved (see page 13).

With regard to our 2004 NDAA review, which looked at whether deemed export controls[7] are effective in preventing the inappropriate transfer of sensitive technologies to foreign nationals in the U.S., we are encouraged by BIS' bolstered commitment to enhancing its administration and enforcement of these controls. We believe the bureau's increased attention to the problems we identified—along with greater awareness among industry, academia, and federal research laboratories—will result in greater compliance and reduce opportunities for inappropriate transfer of protected technology and information. (See March 2004 *Semiannual Report,* page 14.)

BIS must remain vigilant in targeting federal licensing and enforcement efforts on those exports that present the greatest proliferation and national security risks and in streamlining or eliminating controls that unnecessarily hamper trade. Legislation to replace the expired Export Administration Act is essential to these efforts and to bolstering BIS' regulatory authority, stiffening penalties, and demonstrating America's commitment to a strong, effective system of export controls.

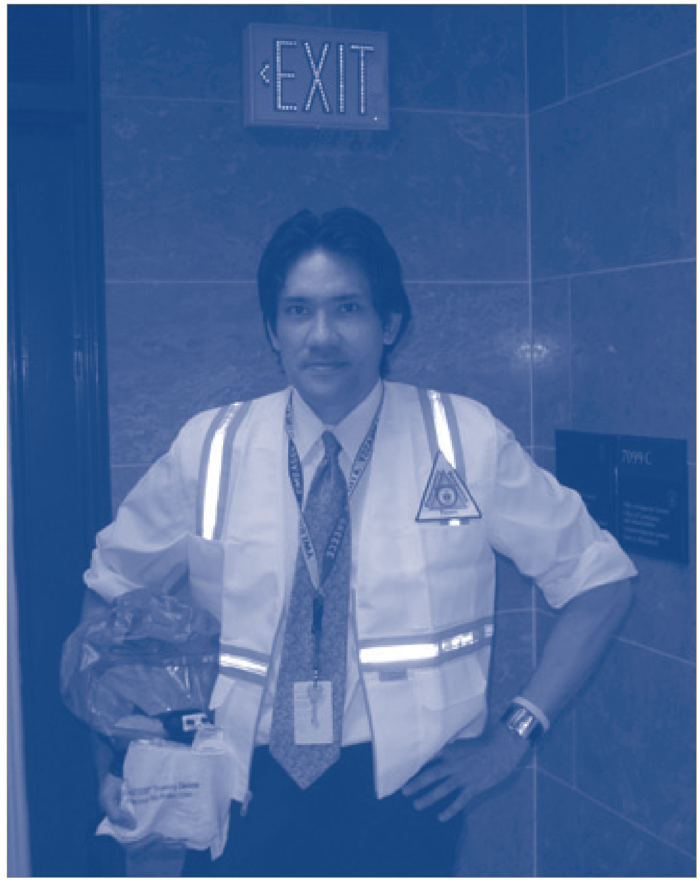
Challenge 8

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

Tense international conditions have increased America's need to prepare for physical threats to U.S. government facilities and personnel. For Commerce—with more than 35,000 employees in hundreds of facilities worldwide—the task of safeguarding departmental personnel and property is daunting. After our April 2002 report on the status of Commerce's emergency preparedness and security programs identified significant vulnerabilities, we added this issue to our list of top management challenges.

During this reporting period, we began reviewing the Department's progress in addressing the concerns raised in our 2002 report and examined several key initiatives it has undertaken. Current policy assigns Commerce's Office of Security (OSY) responsibility for overseeing and coordinating emergency preparedness, but leaves primary responsibility for implementing site-specific measures with the bureaus and facility managers. We found that OSY more than tripled the number of risk assessments it conducted in fiscal year 2004.

Our preliminary findings also indicate that the Department has improved building security, access controls, and the response capabilities of its security guard forces. But we have noted inadequate



The Department has assembled and equipped teams of volunteer employees at its facilities to implement evacuation procedures in case of an emergency.

Source: OIG.

departmental guidance on implementing effective preparedness programs and insufficient oversight of bureau compliance with established policies and procedures, which may undercut its efforts. We will report the final results of this review in our next semiannual.

Challenge 9

CONTINUE TO STRENGTHEN MANAGEMENT CONTROLS AND SYSTEMS

Commerce has significantly improved its financial management over the past decade: it has received unqualified opinions on its consolidated financial statements for 6 consecutive years, implemented the Commerce Administrative Management System (now called Commerce Business Systems), and substantially complied with the Federal Financial Management Improvement Act. These successes reflect management's commitment to and success at addressing the findings of deficient internal controls and financial management systems identified in our audits and other reviews.

[7] According to the Export Administration Regulations, any release to a foreign national of technology or software subject to the regulations is "deemed to be an export to the foreign national's home country."

EXCERPT: Dec. 21, 2004, Transmittal Letter for Circular No. A-123, Revised, from the Office of Management and Budget

Actions Required. Agencies and individual federal managers must take systematic and proactive measures to (i) develop and implement appropriate, cost-effective internal control for results-oriented management; (ii) assess the adequacy of internal control in federal programs and operations; (iii) separately assess and document internal control over financial reporting consistent with the process defined in Appendix A; (iv) identify needed improvements; (v) take corresponding corrective action; and (vi) report annually on internal control through management assurance statements.

Federal law requires agencies to prepare and disseminate financial information, including audit reports on their financial statements, to enable Congress, agency executives, and the public to assess an agency's operational and program management and to determine whether its financial management systems comply with legislative mandates. But reliable financial reporting and effective, efficient program operations depend on strong internal controls. And beginning in FY 2006 under the revised OMB Circular A-123, agencies must assess internal controls over financial reporting, document those controls and the assessment process, and provide an assurance statement on the effectiveness of internal control over financial reporting in their annual *Performance & Accountability Report.*

We will continue to monitor a range of financial management issues, including the Department's efforts to implement the new A-123 requirements, improve internal controls, and achieve other operating efficiencies identified in the annual audit management letter. We will also continue to monitor the International Trade Administration's progress toward complying with OMB Circular A-25 requirements for fully recovering the costs of products and services it provides, and the use of Commerce Business Systems to conduct financial and budgeting operations.

CHALLENGE 10

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

The basic tenet of GPRA is that measuring performance will inform funding decision-making and ultimately improve government programming and spending. Performance budgeting—as implemented by OMB—is based on a similar assumption: that by putting performance information alongside budget amounts, funding choices focus on program results and budget decision-making improves. The success of either approach relies on the quality of reported data.

Though the Department has strengthened its performance reporting under GPRA, our audits of six Commerce operating units continue to identify the need for enhanced internal controls to ensure that performance measures are appropriate and understandable, and reported data is accurate and reliable for making funding decisions.

The Department is reviewing its performance and data validation processes in response to our findings and recommendations. It has developed a new quarterly monitoring process that examines performance data and the measures themselves. The process requires bureau under secretaries to attest to the validity of data and verify that the measures and reported information accurately reflect a bureau's accomplishments.

We are now conducting our ninth audit specifically aimed at performance measurement and reporting—this time at the Minority Business Development Agency (MBDA). Our earlier reviews of MBDA grant recipients found varying degrees of noncompliance with performance guidance and inadequate management controls for ensuring that claimed performance is accurate, properly documented, and occurs within specified time frames. We have initiated a follow-up review of our prior audits to (1) assess bureau and departmental efforts to address identified deficiencies and strengthen performance measurement, and (2) determine whether additional efforts are needed to ensure that reported performance results are reliable and meaningful.

EXCERPT: Government Performance Results Act of 1993

SECTION 2. FINDINGS AND PURPOSES.

(a) Findings. The Congress finds that-

(1) waste and inefficiency in federal programs undermine the confidence of the American people in the government and reduce the federal government's ability to adequately address vital public needs;

(2) federal managers are seriously disadvantaged in their efforts to improve program efficiency and effectiveness, because of insufficient articulation of program goals and inadequate information on program performance; and

(3) congressional policymaking, spending decisions and program oversight are seriously handicapped by insufficient attention to program performance and results.

BUREAU OF INDUSTRY AND SECURITY

The **Bureau of Industry and Security** is primarily responsible for administering and enforcing the nation's system for controlling exports of sensitive dual-use goods and technologies. BIS' major functions include formulating and implementing export control policy; processing export license applications; conducting various policy, technical, and economic analyses; promulgating regulations; conducting industry outreach; and enforcing the Export Administration Act and regulations. BIS is divided into two units:

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

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

Review Finds Few Problems with Licensing Process for Chemical and Biological Commodities

To comply with the FY 2005 requirement of the National Defense Authorization Act (NDAA), the inspectors general at the departments of Commerce, Defense, Energy, State, Agriculture, Health and Human Services, and Homeland Security, in consultation with the director of Central Intelligence, evaluated the U.S. export licensing process for chemical and biological commodities to determine whether current practices help deter the proliferation of chemical and biological weapons.

Within Commerce, we evaluated BIS' licensing process for these commodities to determine whether the process is timely, complies with statutory and regulatory requirements, and considers the cumulative effect of prior technology transfers to end users. We also assessed whether the various agencies involved in license review share information among themselves and whether the dispute resolution process is working. We did not evaluate the overall outcome of the licensing process and whether countries or entities were able to illegally acquire biological or chemical commodities by circumventing the licensing process altogether.

Our Findings

We found that BIS is catching some potentially problematic exports through its licensing process and denied 25 applications for chemical and biological commodities in FY 2003. We also noted the following:

Licensing process generally resulted in timely decisions

We compared 90 of the 1,803 chemical and biological license applications submitted in FY 2003 against BIS' guidance for reviewing and processing them, and found the average time to process those that are not disputed by the other U.S. licensing agencies was 43.7 days—slightly higher than the agency's goal of 40 days. (Defense, State, and Energy all completed their review of BIS applications within the 30-day deadline mandated by Executive Order 12981.)

Executive Order 12981 and the Export Administration Regulations do not set explicit time requirements for the completion of license applications approved by the interagency group, but not escalated. The executive order and the regulations only provide time frames for escalated cases after the initial interagency referral process is completed. Currently, licensing officers have no time requirement for processing license applications once they are returned from interagency review. Setting internal BIS processing time frames could encourage timelier disposition of undisputed license applications.

Interagency review of license applications needs to sustain improvements in timeliness

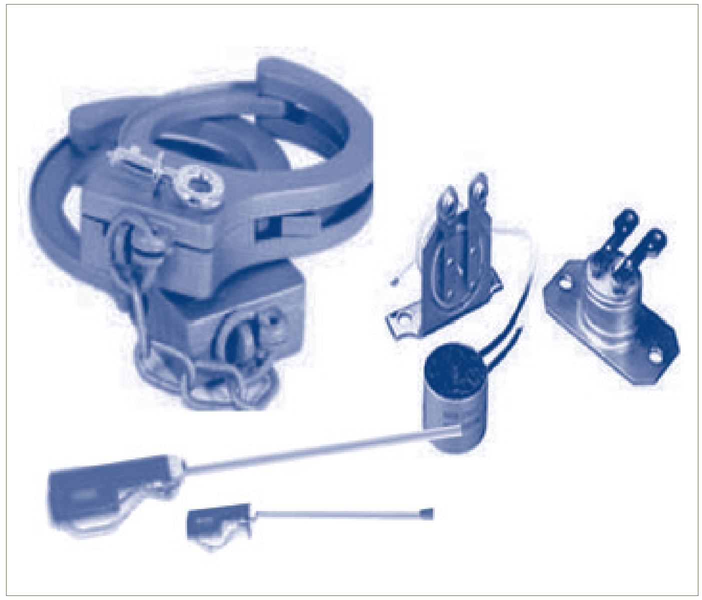
License applications for chemical and biological commodities also are reviewed by the Chemical and Biological Weapons Control Group, an interagency body of working-level representatives from State, Commerce (BIS), Defense, CIA, and Energy, commonly known as SHIELD. Should the agencies not reach agreement at SHIELD, applications are escalated to the operating committee, which has 14 days to reach a decision under Executive Order 12981. The committee has improved its time to render decisions in recent years, but still rarely meets the 14-day requirement. In FY 2003, the committee averaged 51 days to reach a decision, but reduced that average to 22 days in FY 2004. The committee should work to sustain this significant improvement in the timeliness of its decisions.

Recent improvements in the timeliness of changes to the Commerce Control List need to be maintained

The Australia Group—which consists of the European Commission and 38 member countries—works to prevent the proliferation of chemical and biological weapons, and typically recommends new chemical and biological items for control each year. But for the past 7 years, BIS has taken an average of 10 months after receiving the group's recommendations to publish newly regulated items on the Commerce Control List. BIS and the other licensing agencies cannot disclose such items to U.S. companies and cannot prevent newly regulated items from being exported until the items are published on the list. Changes from the Australia Group's June 2004 meeting, however, were published on the list in just 6 months. BIS officials say there were special reasons for speeding up the publication process in this instance. We recommend that BIS do whatever is necessary to maintain the relatively fast publication of the group's guidelines and rule changes that impact the Commerce Control List.

Australia Group should be notified of all license denials to trigger "no undercut" policy

Under the Australia Group's "no undercut" policy, members agree not to approve a license for an identical sale that was previously denied by another member without a consultation. The Department of State, as the lead U.S. representative to the Australia Group, is responsible for submitting license denials to the group, but only submits denials that involve exports to nongroup countries. State's rationale for its decisions is not documented, which leads to confusion. Since August 2002, Commerce and State have disagreed about the U.S. policy for submitting denials to the Australia Group.



Items on the Commerce Control List subject to Export Administration Regulations range from thermal switches to electric cattle prods to plastic handcuffs.

Sources: Thermal switches—www.thermalswitch.com/ts250.shtml.
Cattle prods—www.redhillgeneralstore.com/A24333.htm.
Plastic handcuffs—www.sillyjokes.co.uk/wacky/props/plastic-handcuffs.html.

Unfortunately, the group's policy on the reporting of denials is not detailed, so State interprets the policy one way and Commerce another. We recommend that BIS ask the State Department to seek a ruling from the Australia Group chair on which denials should be sent to the group and, based on the response, work with all the licensing referral agencies to develop and implement a written policy and procedures for handling the group's denial notification process.

BIS outreach efforts mainly target the biological exporting community and could be expanded

Outreach to the exporting community is a critical component of BIS' mission to build awareness of and compliance with export controls. BIS has a robust outreach program to the biological exporting community, but outreach to the chemical exporting community has been limited. BIS should explore ways to increase its outreach to the chemical community. The agency should also seize opportunities to conduct outreach to entities that work with select agents and toxins on the Commerce Control List and that are registered with the U.S. Department of Agriculture's Animal and Plant Health Inspection Service (APHIS) and the U.S. Department of Health and Human Services' Centers for Disease Control and Prevention (CDC).

BIS' export enforcement office needs to act on the Treaty Compliance Division's investigative referrals

BIS' Treaty Compliance Division helps ensure U.S. industry compliance with the Chemical Weapons Convention and other international treaties. One of the convention's requirements imposed on industry is the submission of end-use certificates, within 7 days of the date of export, that state the types and quantities of chemicals being exported, the intended end-use for the chemicals, and certification that the chemicals will only be used for purposes not prohibited by the convention. Between FY 2002 and 2004, the Treaty Compliance Division identified 13 instances in which companies did not submit end-use certificates to BIS, and referred all 13 cases to BIS' Office of Export Enforcement (OEE) for investigation.

The Office of Export Enforcement opened nine investigations on cases referred by the Treaty Compliance Division, but had not given feedback to the division about the status of any of them. OEE officials reported to us that three of these cases had been closed—two of them prematurely and would thus be reopened. The remaining six cases remained open, with no action taken. We recommended that OEE keep the division informed about the status and outcome of investigations, and that the division track its referrals to OEE so it can follow up if it has not received status reports after a specified period of time.

Agency Response

BIS officials agreed with all of our recommendations and noted that some issues, such as publication of Australia Group guidelines and rule changes for inclusion on the Commerce Control List, still need clearance by the departments of State and Defense, and prior to publication, the Office of Management and Budget. In other areas, such as outreach to the chemical exporting community and the APHIS and CDC registered entities, BIS has already begun exploring ways to implement the recommendations.
(Office of Inspections and Program Evaluations: IPE-16946)

Export Control Follow-up Review Identifies Open Recommendations

The National Defense Authorization Act requires the Office of Inspector General to report annually to Congress on the status of export control recommendations made in prior-year OIG reviews. This year's follow-up covered annual reviews dating back to 2000.[8] We noted that the Department has made progress on a number of outstanding issues. However, recommendations remain open in all but the March 2000 report, for a total of 30 open items.

March 2004

Last year's review looked at the effectiveness of deemed export controls in preventing the transfer of sensitive technology to foreign nationals in the United States. We made a total of 20 recommendations: 7 each to BIS and NIST, 5 to NOAA, and 1 to the Office of the Secretary. These mainly pertained to weaknesses in export control regulations and policies, as well as bureau compliance with licensing requirements. BIS has completed action on 2 of the issues we identified, and is actively working with industry, academia, and federal research laboratories to address other key recommendations. NIST has completed action on 3 recommendations and made significant progress in addressing the 4 that remain open. Neither NOAA nor the Office of the Secretary has completed action on the recommendations pertaining to them.

March 2003

This review made 55 recommendations to BIS and 4 to ITA regarding their efforts to enforce export control laws and regulations, including those involving investigative processes, interactions with other law enforcement agencies and the intelligence community, license determinations, monitoring of compliance with license conditions, outreach to U.S. exporters, and end-use checks. All but 6 BIS recommendations have been resolved. Those open deal primarily with checking exporters' prior compliance history when processing their new license applications, improving interagency enforcement efforts, automating licensing referrals, and expanding industry outreach.

February 2002

In this report, we focused on BIS' plans for and progress toward modernizing its Export Control Automated Support System (ECASS) for dual-use export licensing. Four of our 13 recommendations remain open. These involve pressing project needs: identifying and securing adequate funding, determining system and security requirements, completing the target architecture, and selecting a location to house the system.

[8]All recommendations from our March 2000 review, *Improvements Are Needed in Programs Designed to Protect Against the Transfer of Sensitive Technologies to Countries of Concern* (IPE-12454), have been addressed. Open recommendations remain in the following reports: March 2001, *Management of the Commerce Control List and Related Processes Should Be Improved* (IPE-13744); February 2002, *BXA Needs to Strengthen its ECASS Modernization Efforts to Ensure Long-Term Success of the Project* (IPE-14270); March 2002, *Interagency Review of Federal Automated Export Licensing Systems* (D-2002-074); March 2003, *Improvements Are Needed to Better Enforce Dual-Use Export Control Laws* (IPE-15155); March 2004, *Deemed Export Controls May Not Stop the Transfer of Sensitive Technology to Foreign Nationals in the U.S.* (IPE-16176).

March 2002

In addition to the February report we issued on BIS, the interagency OIG review team issued a report that contained four recommendations for the bureau. Three of these remain open. They involve coordinating automation efforts among the various licensing agencies, establishing a common repository for all unclassified licensing data records, and tracking and reporting on licensing system development.

March 2001

Two of 14 recommendations remain open from our review of BIS policies and procedures for designing and administering the Commerce Control List: BIS should work with the National Security Council to assess and possibly revise commodity classification guidance and procedures, and provide State with copies of the final determinations on commodity classifications that it reviews. *(Office of Inspections and Program Evaluations: IPE-17361)*

ECONOMIC DEVELOPMENT ADMINISTRATION

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

Audit Questions the Value of Utah Grantee's In-Kind Match

A Utah economic development organization received an EDA public works grant in 2001 to help rural communities compete for technology-based jobs outsourced by businesses located anywhere in the world. Known as Utah Smart Sites, the initiative seeks to bring skilled employment opportunities to the state's rural residents via high-speed Internet connections. The EDA grant was for the purchase of computers and related equipment for Smart Site facilities where residents would be trained and interface directly with clients to offer such services as software development and testing, database management, web site maintenance, graphics design, remote transcription, and data entry. The grant originally covered 12 sites but was expanded to cover 21 in 2004. Total estimated cost of the project was $1 million—with the federal share capped at $500,000 and the state providing a $500,000 match. When the project concluded in September 2004, final costs claimed were $1,000,397, and EDA had reimbursed the economic development organization for the maximum federal share.

Source: www.smartsites.utah.gov/.

Our audit originally questioned $218,000 of the state match—roughly half the stated value of an in-kind donation of educational products and user licenses—because the recipient could not document how the claimed value was determined, which Smart Sites received the donations, and whether any sites actually used them. Federal regulations require such documentation for in-kind contributions that count toward a recipient's cost-share to ensure amounts claimed are reasonable and necessary for performance of the project. During our audit fieldwork, we located some of the donated items at one site. Most of it remained unused, and the site administrator stated it probably never would be.

We also noted a minor administrative deficiency in a memorandum of understanding (MOU) between the organization and one of the counties participating in the project: the MOU referenced only two county Smart Sites as having equipment purchased with grant funds when there were actually five sites.

In response to our finding concerning the valuation, the recipient provided additional documentation that fully supported the $218,000 value of donated products. As a result, we recommended that EDA ensure the grantee adequately documents its matching share in the future, as required by OMB Circular A-87. *(Denver Regional Office of Audits: DEN-17065)*

Investigations

RLF Administrator Sentenced for Program Fraud and Conspiracy

On October 7, 2004, the last of four local officials convicted of conspiracy and fraud in connection with the administration of federal grant funds awarded by EDA and other agencies to a municipal economic development organization was sentenced in U.S. District Court for the District of Massachusetts to 41 months' incarceration, followed by 3 years of supervised release. The official was also ordered to pay a total of $723,553 in restitution to the government, including $145,221 for losses sustained by an EDA-funded revolving loan fund, which amount will be returned to the agency. In addition, debarment proceedings have been initiated against the defendant and one of his co-conspirators to preclude them from receiving future federal contracts or financial assistance awards. The other two convicted officials have already been debarred—one for 10 years and the second for 3 years. *(Alexandria Resident Office)*

ECONOMICS AND STATISTICS ADMINISTRATION

ECONOMICS AND STATISTICS ADMINISTRATION

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

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

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

BEA, ESA, and Census Need Stronger Management Controls for Reimbursable Activities and Direct Sales to the Public

OIG reports have identified problems with departmental reimbursable activities, such as agencies' failure to recoup full costs or consistently comply with federal requirements. In addition to their congressional appropriations, the Economics and Statistics Administration (ESA) and its component bureaus—the Bureau of Economic Analysis (BEA) and Census—generate revenue by conducting work for other federal agencies under reimbursable agreements and by selling products and services to the public (transactions commonly referred to as "fee-funded activities"). In FY 2004, the three agencies earned a combined total of roughly $247 million from reimbursable activities and $4.5 million in sales to the public.

We completed two audits of reimbursable and fee-funded activities during this reporting period—one at ESA headquarters and BEA, the other at the Census Bureau. Our findings are detailed below.

ESA and BEA

ESA operates STAT-USA, a subscription service that offers customers Internet access to business, economic, and trade statistics.[9, 10] STAT-USA assembles data from other government sources, prepares and distributes it to the public, and designs information products. In FY 2004, STAT-USA generated $1.5 million in sales. During the same period, BEA generated about $182,000 from sales of CD-ROMs containing Regional Input-Output Modeling System (RIMS) multipliers, which help analyze the economic impacts of projects on regions. In FY 2004, ESA earned $1.1 million from reimbursable services provided to other government agencies and BEA earned $500,000.

Source: www.stat-usa.gov/.

[9] Public Law 103-317, 108 Stat. 1744 (August 26, 1994) provided that "the Secretary of Commerce is authorized to disseminate economic and statistical data products . . . and . . . charge fees necessary to recover the full costs incurred in their production."

[10] OMB M-95-2 (the "Rivlin Memorandum") was issued to provide agencies with guidance on reviewing their information dissemination practices for compliance with OMB Circular A-130.

Our audit sought to identify the agencies' reimbursable and fee-funded services and products, and assess whether these activities are consistent with their statutory missions and comply with applicable laws and regulations. We also examined whether the agencies had appropriate and effective management controls over these activities.

Reimbursable agreements. To recover the full costs of services provided to other federal agencies through reimbursable agreements, BEA and ESA bill customers for the direct costs incurred and use an overhead rate to recover indirect costs. Commerce requires that agencies review and document the charges they assess, but neither agency had reviewed or revised their overhead rates in 3 years, and neither maintained documentation to justify the rates. In addition, one of the six BEA agreements we reviewed did not contain the proper authorization to begin work, which could have jeopardized the agency's ability to recover its costs from the customer. We recommended that both BEA and ESA develop procedures to establish, document, review, and adjust overhead rates. In addition, BEA needs to ensure that it does not begin work for another agency until an interagency agreement is properly executed.

Fee-funded activities. BEA establishes the price of RIMS products on the basis of its labor costs (e.g., RIMS staff hourly salaries, leave and benefits, customer service, preparation of distribution package) and overhead costs (management, administration, and space). BEA had initially estimated the cost of producing a RIMS CD-ROM for FY 2005 at $283—which represented $160 for direct labor and $123 for overhead (43 percent of the total price). We could not determine how BEA arrived at this overhead amount or if it was reasonable. In response to our audit, BEA agreed that overhead costs need closer scrutiny, reanalyzed its costs, and found that the FY 2004 CD cost was still appropriate and should be used in FY 2005.

For STAT-USA, ESA must recover the costs of labor, equipment, supplies, rent, utilities, and overhead associated with operating the service, but could not provide us with documentation of how it calculated these costs or the associated subscription fees.

Agency Response

The Under Secretary of Economic Affairs accepted our recommendations and noted that some corrective actions had already been taken. For example, both BEA and ESA have developed new procedures to establish, document, and apply overhead rates charged to customers in reimbursable agreements, and the agency has recalculated these rates with the latest data. *(Financial Statements and Accountability Division: FSD-16824-5-0001)*

Census Bureau

During FY 2004, the Census Bureau earned total revenue of approximately $246 million from reimbursable agreements with government agencies and roughly $2.9 million from product sales to the public.

Census Mission Statement

The Census Bureau serves as the leading source of quality data about the nation's people and economy. We honor privacy, protect confidentiality, share our expertise globally, and conduct our work openly.

Our audit showed that the bureau's reimbursable activity and product sales are consistent with its mission. Census fully documents its cost estimates for reimbursable projects and recovers all costs for the work it performs.

However, 13 of the 43 reimbursable agreements we reviewed, which had estimated costs of about $132 million, either were not signed by an authorized official prior to the initiation of work or did not have an accompanying temporary work agreement in place before any work was done. Census issues temporary agreements to authorize work within 30 days of receiving a letter of intent from the federal customer. The customer then has up to 90 days to sign a formal agreement. For six projects that had temporary agreements, Census failed to obtain a signed formal agreement from the customer within 90 days and thus allowed the temporary agreements to remain in effect beyond the allotted time period.

Census officials informed us that they have met with major federal customers to discuss the timeliness requirements for signing interagency agreements, but we noted instances in which temporary agreements were still being signed more than 30 days after receipt of letters of intent.

Legal review policy unclear. The Census Bureau's *Policies and Procedures Manual* states that all reimbursable agreements require legal review "unless specifically exempted," but does not specify what exemptions apply. None of the 43 reimbursable agreements in our audit sample had received legal review. Bureau officials informed us that agreements for certain special projects are exempt from legal review. However, these exceptions were not included in the *Policies and Procedures Manual*. We recommended that clear guidance as to which reimbursable agreements require legal review be included in the *Policies and Procedures Manual*.

Database ineffective tool for monitoring and documentation. Census's Acquisition Division maintains a database of reimbursable agreements but the information it contains is incomplete and its usefulness for monitoring reimbursable activity is limited.

In addition, the bureau does not maintain all required documentation pertaining to agreements in a centrally located official file and has not assigned responsibility for maintaining such files to any specific division.

Readily accessible and complete documentation is essential to effectively monitor reimbursable work. The director of the Census Bureau should ensure that official reimbursable agreement files containing all required documentation are maintained.

Agency Response

Census officials agreed that stronger management controls for reimbursable agreements are warranted, particularly in the areas of policy, monitoring, and official files. They provided a plan of action to address issues such as late executions of interagency agreements and have already corrected some problems (e.g., specification of which reimbursable agreements require legal clearance). *(Financial Statements and Accountability Division: FSD-16824-5-0002)*

Audit Questions $8.5 Million Billed Under Census Contract for IT Services

In 1999 the Census Bureau awarded a Virginia IT services company an indefinite delivery/indefinite quantity contract to provide up to $150 million worth of information technology services to the bureau and all departmental operating units. The 1-year contract was implemented through a series of task orders and included the option of 12-month extensions through April 2004.

During this semiannual period, we audited 3 of the 32 task orders awarded under the contract to determine whether costs billed by the firm were reasonable, allowable, and allocable under contract terms and conditions and federal regulations. After a series of amendments, estimated total costs for the 3 orders were $17 million.

In all three audits, we found that the firm had failed to comply with numerous contract and federal requirements, which caused us to question slightly more than $8.5 million in direct labor and reimbursable costs billed under the task orders. We recommended that Census disallow and seek recovery of this entire amount, and take various other actions to rectify the problems that permitted the noncompliance and resulting unallowable billings.

Agency Response

The audit reports for the three task orders were provided to the agency incrementally. The findings and recommendations identified in the first report were common to all three. Census provided an action plan in January 2005 that included specific steps to address each of the findings. *(Denver Regional Office of Audits: DEN-16724-5-0001, 0002, and 0003)*

Investigations

Assignment of Fictitious Census Contract Leads to Conspiracy Charge

On February 2, 2005, a Louisiana businessman was charged in U.S. District Court for the Eastern District of Louisiana with conspiracy to commit bank fraud, based on evidence developed by a joint OIG/FBI investigation. To obtain a $6 million loan from a New Orleans bank, the defendant executed a security agreement that purported to pledge as collateral his company's interest in the proceeds of an $18.5 million contract with the Census Bureau. Our investigation disclosed, however, that documents submitted to the bank to support the assignment were forged, and that no such contract actually existed. If convicted on the felony charge, the defendant could face a substantial fine and up to 5 years' imprisonment. The trial is scheduled for April 2005. (*Alexandria Resident Office)*

Former Census Employee Sentenced for Theft of Government Funds

In our September 2004 *Semiannual Report* (page 48), we reported the felony theft conviction of a Census employee, which resulted from a joint investigation with the U.S. Department of Agriculture OIG. The investigation found that the defendant had falsely reported the amount of income she received as a Census employee in order to qualify for and receive food stamps and child care benefits from USDA. On December 15, 2004, she was sentenced in U.S. District Court for the District of Maryland to 3 years' supervised probation—including 6 months' home detention with electronic monitoring—and 100 hours of community service, and was ordered to pay $39,446 in restitution. Prior to her sentencing, the defendant resigned from her position at Census. *(Washington Field Office)*

Census Contractor Arrested for Theft from Government

On March 1, 2005, OIG agents, working with local police, arrested a Census Bureau vendor in Elgin, Illinois, on state charges that he stole approximately $20,000 from the bureau over a period of approximately 8 months. Our investigation found that between January and August 2004, the vendor had billed more than 20 fraudulent charges to a government purchase card account using online software. The theft went undetected for a period of time because the purchase card was routinely used to pay the vendor for legitimate services rendered to the bureau, so similar charges were initially overlooked when monthly statements were reviewed. The fraudulent charges were identified as a result of routine random audits conducted by the agency and were immediately reported to OIG.

At the time of his arrest, the defendant was charged with two counts of unauthorized use of a credit card in violation of state criminal statutes. Further proceedings are pending.

The agency informed us that it has taken steps to reinforce the need for monthly reconciliation of billing information. (*Alexandria Resident Office)*

INTERNATIONAL TRADE ADMINISTRATION

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

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

Manufacturing and Services undertakes industry trade analysis, shapes U.S. trade policy, participates in trade negotiations, organizes trade capacity-building programs, and evaluates the impact of domestic and international economic and regulatory policies on U.S. manufacturers and service industries.

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

U.S. Commercial Service promotes the export of U.S. products and helps small and medium-sized businesses market their goods and services abroad. It has 100 domestic offices and more than 150 overseas posts in 84 countries.

ITA's Import Administration Can Further Improve Its Antidumping Administrative Review Program

During this period, we assessed the Import Administration's administrative review process for antidumping[11] duty orders to determine whether the agency is meeting its statutory requirements for completing these reviews; has sufficient policies, procedures, and guidance in place; and has adequate tools and controls to manage administrative reviews. Our findings are as follows:

Import Administration meets most statutory deadlines, but needs stronger management and administrative controls to ensure continued compliance

Import Administration operates under specific time frames for completing annual antidumping administrative reviews. Title 19, Section 1675 of the U.S. Code requires the agency to make a preliminary determination "within 245 days after the last day of the month in which occurs the anniversary of the date of publication of the order or suspension agreement for which the review . . . is requested."

A 1993 OIG review found that 32 percent of the agency's administrative reviews were late, but our recent survey found that the agency was meeting its deadlines for reviewing antidumping cases most of the time. The agency extends statutory dates if deadlines fall on weekends. According to agency management, deferring weekend deadlines for case determinations to the next business day has been an accepted practice for many years. But this is not an official policy. The agency's chief counsel's office acknowledges that under a strict interpretation of the statute, Import Administration does not have the flexibility to extend weekend deadlines.

Import Administration has multiple management and administrative controls to help it meet deadlines, such as the Case Management Database—the agency's primary system for calculating statutory deadlines and tracking progress toward meeting them—and managers' weekly status reports, but these tools could be strengthened. The Case Management Database, for example, contains some erroneous information. In addition, the database does not record the actual dates of signature for determinations. Import Administration used information generated by the database to report in the Department's FY 2004 Annual Performance Plan that it met case deadlines 100 percent of the time in FY 2002. But the database does not reconcile statutory deadline dates or target dates

[11] The U.S. antidumping statute is designed to prevent foreign firms from selling a good in the United States at prices below those at which the good is sold in their home market, or in some limited instances below the cost of production.

against the actual dates that determinations are signed, so it is not really providing reliable information for the agency to use to determine whether it always completes cases on time. If Import Administration wants to continue using the database to generate performance information, the system must provide a report based on the determination's actual rather than target signature dates.

Policies, procedures, and standards need improvement

Import Administration does not have adequate written guidance or an operations handbook that gives systematic instructions for conducting administrative reviews, defines staff roles and responsibilities in the process, and details agency practices. We could not find any document containing the necessary information in a concise and easy-to-use format. In addition, verification reports, which confirm IA's findings in an antidumping review, were markedly different in content and format. This lack of standardization produces reports of varying quality.

Apr 05, 2005	
Separate Rates and Combination Rates in Antidumping Investigations involving Non-Market Economy Countries	
Announcement of Change in Practice	
Policy Bulletin 05.1	
Mar 25, 2005	
Superalloy Degassed Chromium from Japan Initiation of Antidumping Investigation	
Factsheet	
Mar 25, 2005	
Ishar UAE Scope Ruling on Whether Stainless Steel Bar is Subject to the Scope of the Antidumping and Countervailing Duty Orders on Stainless Steel Wire Rod from Subject Countries	
Final Scope Ruling (signed: February 7, 2005)	
Mar 16, 2005	
Bottle-Grade Polyethylene Terephthalate Resin from India, Indonesia, Taiwan, and Thailand Final Antidumping and Countervailing Duty Determinations	
Factsheet	
Mar 11, 2005	
Steel Import Monitoring and Analysis System Interim Final Rule	
FR Notice	Factsheet

The Import Administration's antidumping and countervailing duty decisions span a wide range of issues of great importance to American businesses.

Source: http://ia.ita.doc.gov/ia-highlights-and-news.html.

Though Import Administration does have an antidumping manual, it does not reflect current review practices. Published in 1998, the manual has been outdated by several policy bulletins and court decisions issued subsequently. The agency should develop an internal operations handbook, and include in it a standard template for the content and format of verification reports. IA also should update its antidumping manual to reflect current review practices.

Management of official files needs attention

Import Administration is required to keep official files for 20 years after a case is closed and to maintain the public version for 5 years after case closure.[12] Files for cases challenged in court must be kept indefinitely.

IA's official case files are inadequately maintained. Our review of a sample of official case files, which are stored primarily in the Department's Central Records Unit, found that many were incomplete—devoid of *Federal Register* notices, decision memoranda, and other required documentation. In addition, most electronic media files (e.g., data sets and margin calculations), which are considered part of the official case documentation, were not maintained in the required location.

In addition, official files in the Central Records Unit at Commerce headquarters are vulnerable to fire because the unit does not have an automatic fire suppression system.

The agency hopes to resolve these issues and improve its compliance with records management requirements with the implementation of an electronic documents management system recently purchased by ITA. Import Administration estimates that phase I of the system will be operational by late 2005.

Computer support needs restructuring

In August 2004, Import Administration completed a reorganization of its antidumping and countervailing duty operations, but left management of computer support staff unchanged. Previously, each of the three Deputy Assistant Secretaries (DASs) for Operations had a two-person computer support team that trained analysts to use statistical analysis software for calculating dumping margins. Each team reported to a different office director who in turn reported to one of the three Deputy Assistant Secretaries. Under the reorganization, the office directors now report to only one Deputy Assistant Secretary, but the three computer support staff teams are still separate. Having the computer support staff report

[12]Based on ITA's records retention policy and National Archives and Records Administration guidelines.

to one manager could help improve consistency in service and support and facilitate the best allocation of resources.

Analyst training program should be improved

Import Administration offers three training modules for new analysts (new analyst training, verification, and statistical analysis software training), but no formal training for existing analysts. New analysts say they are overwhelmed by the amount of information given in the training classes. More experienced analysts complain about a lack of continuing career development. Both situations may negatively impact the agency's operations. Import Administration should reassess its training program to ensure that it meets the needs of new and existing analysts, particularly in light of the large number of vacancies (87) it anticipated filling at the time of our review.

Agency Response

Import Administration is taking steps to address the report's recommendations, such as publicly clarifying its practice of rolling to the next business day statutory deadlines that fall on weekends or legal holidays, establishing a standard process for vetting and resolving cases in a timely manner, drafting instructions to update the case management database, and updating the Antidumping Manual to reflect changes in IA practice. *(Office of Inspections and Program Evaluations: IPE-16952)*

Investigations

Multiple Arrests in Visa Fraud Investigation

In February 2004, the Diplomatic Security Service (DSS), U.S. Department of State, requested that OIG join an ongoing investigation, which had disclosed the possible involvement of an ITA employee in visa fraud. During the first week of March 2005, OIG agents participated along with personnel from DSS and the Bureau of Immigration and Customs Enforcement in the arrest of four foreign nationals, who will be held as material witnesses in the case. (*Seattle Resident Office*)


1871
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NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION

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

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

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

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

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

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

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

Recommendations in Consultant Study Lack Support for Changes at NOAA

In September 2003, NOAA contracted with the management consulting firm of Booz Allen Hamilton, Inc., for a comprehensive analysis of its finance and administrative services. The purpose of the study was to evaluate the performance of these functions, recommend cost-effective service improvements, and develop a plan for implementing the recommended changes. We reviewed how NOAA is using the study's results and whether its findings, assumptions, conclusions, and recommendations are adequately supported. Our audit did not assess whether the recommended functional management structure was an appropriate choice for NOAA.

Validity of study's conclusions about costs, savings, staffing, and organizational structure could not be verified

Although Booz Allen's reports indicated extensive data gathering and analyses, we concluded that the study's assumptions, findings, and recommendations lacked support and should not serve as the sole justification for specific action by NOAA.

The Booz Allen consultants who prepared the reports in the study advised us that in their opinion the reports contained all the evidence necessary to understand the basis for their recommendations, but we did not find that to be the case.

We were unable, for example, to see how information reportedly gathered in Booz Allen's interviews with NOAA and departmental officials supported the reports' findings and conclusions. Likewise, we could not assess the validity of estimated costs and savings Booz Allen identified because these reports lacked sufficient analysis supporting the formulation of those amounts. We could not reconcile the key cost and staffing figures contained in the reports with other verifiable data, such as NOAA's audited accounting records. In addition, we were unable to analyze Booz Allen's adjustments to the activity based costing data produced by NOAA or to validate the productivity gains Booz Allen assumed NOAA could achieve. Similarly, we could not assess the validity of Booz Allen's decision to recommend a specific organizational structure because the reports did not contain sufficient analysis supporting that decision or indicating why the structure chosen suited NOAA better than any other option identified.

Our concerns persisted even after meeting with the Booz Allen consultants who prepared the reports and discussing the issues that troubled us. As a result, we concluded that neither the findings nor recommendations contained in the Booz Allen reports should serve as the sole justification for action by NOAA.

Agency Response

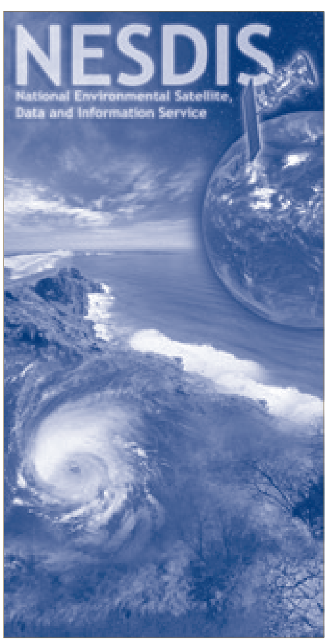
NOAA suggested that the Booz Allen study played a limited role in its decisions and subsequent actions to change the manner in which it delivers finance and administrative services, noting that it considered findings and recommendations from previous studies in making that decision. This response was consistent with our conclusion that the Booz Allen reports should not serve as the sole basis for agency action. *(Denver Regional Office of Audits: DEN-16498)*

NESDIS Needs to Follow Latest Guidance for Acquiring Satellites Via Memorandums of Agreement

As a follow-up to our September 2000 series of reviews on the Department's implementation and oversight of interagency agreements, we audited two memorandums of agreement (MOAs) used by NOAA's National Environmental Satellite, Data, and Information Service (NESDIS) to acquire environmental satellites through the National Aeronautics and Space Administration (NASA).

Our findings are as follows:

New processes and procedures exist for appropriately preparing, reviewing, and clearing interagency agreements



Source: www.nesdis.noaa.gov.

The Department recently issued the *Interim Interagency and Other Special Agreements Handbook* to provide guidance for the use, management, and oversight of interagency agreements. NESDIS issued its own manual for interagency agreements, *Review and Clearance Procedures for Agreements*, on October 31, 2002. The NESDIS manual, coupled with the requirements of the departmental handbook and the specific authorizing legislation, provides sufficient guidance for preparing, reviewing, and clearing interagency agreements.

NESDIS entered into agreements without justifying its selection of NASA as the procurement source

The agreements originally cited the Department's joint project authority. However, the Department's Office of General Counsel approved the agreements under the authority of the Economy Act of 1932, as amended. This act ensures that agencies do not circumvent the procedures, time, and cost of open competition, and thus NESDIS should therefore have conducted market research to show that NASA was the best choice for the work. NESDIS did not conduct any formal analysis showing that NASA's acquisition services for the satellites were more convenient or economical than those of any other contractor. We also found that the agreements for Polar Operational Environmental Satellites (POES) and Geostationary Operational Environmental Satellites (GOES) did not include budget or management information.

We recommended that the Deputy Under Secretary for Oceans and Atmosphere ensure proper legal authority is cited in the POES and GOES memorandums of understanding, as well as in future agreements; comply with the Economy Act; and update the POES and GOES agreements to follow the Department's *Interim Interagency and Other Special Agreements Handbook* (May 2004) and NESDIS' *Review and Clearance Procedures for Agreements.*

Agency Response

NOAA's chief administrative officer agreed with our recommendations. He noted that NOAA will ensure that current agreements are amended to comply with past and present regulations and that future agreements comply with applicable laws, regulations, and policies. *(Office of Audits: BSD-16927)*

Pacific Coastal Salmon Recovery Fund

As detailed in our September 2004 *Semiannual Report* (pages 8 and 31-32), OIG is auditing a series of projects operating under the Pacific Coastal Salmon Recovery Fund—the multimillion dollar federal grant program administered by NOAA to enhance salmon recovery in Alaska, California, Idaho, Oregon, and Washington. Since the program's inception in FY 2000, these states and select Indian tribes have received some $436 million to support local salmon conservation efforts. One Washington grantee—a Native American commission—is using a 5-year, $27.3 million recovery fund award to finance salmon projects operated by its 20 member tribes.

Tribal employees place sandbags in a tributary to force smolts into a channel that moves them into a box-and-screen trap for counting. Smolts are juvenile salmon that migrate from fresh water to estuaries where fresh and salt water mix so they can adjust before moving out to sea as adults.

Source: OIG.

We reported on our interim audits of projects conducted by two tribes in the last semiannual. During this reporting period, we audited the projects of three additional tribes. Our findings are detailed below.

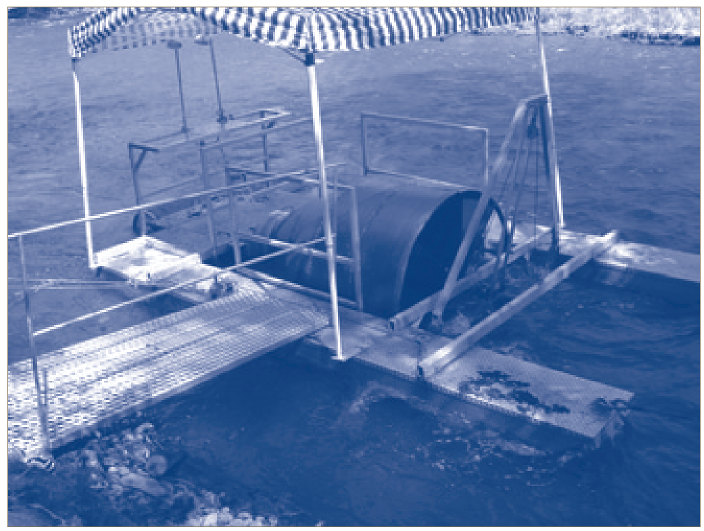
Recovery of Nearly $1 Million in Administrative Costs From Two Washington Tribes Recommended

One tribe submitted costs to the commission of $540,902 during our audit period (April 2000 through September 2003). We questioned this entire amount because the costs invoiced to the commission were for expenses incurred on projects that had other sources of funding and had already been billed against those awards. In making its claim to the commission, the tribe simply transferred costs from the other projects to the commission subgrant. In addition, the tribe could not show that claimed costs for labor, fringe benefits, and other direct expenses were incurred solely in support of subgrant activities, and failed to submit required progress reports.

The second tribe submitted costs of $696,269 during our audit period (April 2000 through September 2003). We questioned $441,250 claimed for labor and related fringe benefits and indirect costs because the tribe failed to adhere to federal cost principles and uniform administrative requirements. This tribe also did not submit the required semiannual progress reports. *(Seattle Regional Office of Audits: STL-16657-2 and -4)*

Northwest Washington Salmon Recovery Project on Track to Meet Performance Goals

Our interim audit of a third subgrant found that the tribe is making sufficient progress toward promoting multispecies salmon recovery throughout its targeted 120-mile fishing area that extends south from the Canadian border. We concluded that the tribe is on track to meet the objectives of the NOAA grant by the award's expiration date.



A smolt trap is used to quantify how many fish are moving through a water system. There are several types, including screw traps, which are used to catch fish moving downstream in big rivers and streams. Water turns the barrel of rotary screw traps (above), funneling smolts into a box to be counted and then released.

Source: OIG.

We accepted the entire $902,213 in costs invoiced to the commission during our audit period (April 2000 through September 2003), and found that the tribe had administered the project in accordance with award terms and conditions, and federal cost principles and administrative requirements. *(Seattle Regional Office of Audits: STL-16657-6)*


1911
RADIO
DIVISION

NATIONAL TELECOMMUNICATIONS AND INFORMATION ADMINISTRATION

The **National Telecommunications and Information Administration** serves through the Secretary of Commerce as the executive branch's principal advisor to the President on domestic and international telecommunications and information policy issues. NTIA manages the federal use of the electromagnetic spectrum, provides grants for national information and public broadcasting infrastructure projects, and performs telecommunications research and engineering. It works to enhance citizens' access to cable television, phone, and other telecommunications services; and educates state and local governments and other entities on ways to use information technology and telecommunications more effectively.

Sound Grant Administration Noted in New Hampshire Television Project

In September 2002, NTIA awarded a $1.2 million Public Telecommunications Facilities Program grant to a university-operated public television station in New Hampshire to convert three of its eight component stations from analog to digital transmission. The 1-year grant required matching funds of $2.1 million, for total project costs of $3.3 million. The stations serve a combined population of 1.2 million. At the expiration of the grant period, the recipient had incurred total project costs of $3,425,666.

We audited the award to determine whether the recipient had complied with federal laws and regulations and NTIA grant terms and conditions. We found only one minor instance of noncompliance—a piece of equipment purchased with grant funds was not labeled, as required, with the NTIA grant number. The recipient has corrected this minor instance of noncompliance by labeling the piece of equipment. *(Atlanta Regional Office of Audits: ATL-16981)*

TECHNOLOGY ADMINISTRATION

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

Office of Technology Policy works in partnership with the private sector to develop and advocate national policies and initiatives that use technology to build America's economic strength, promote the creation of high-wage jobs, and bring about improvements in our quality of life.

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

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

Millions of Dollars Questioned in Joint Venture Project

A publicly traded producer of software for health care providers received a $9.2 million ATP award to administer a joint venture formed to develop technologies for sharing medical data across clinical information systems. The 3-year project, which commenced in December 2001, required a recipient match of $9.6 million. In February 2004, NIST suspended payment under the cooperative agreement because of suspected noncompliance with award terms and conditions, and requested OIG assistance. The suspension is now lifted.

We audited costs claimed by the administrator for the period from December 2001 through June 2004—which totaled $7,401,589—and questioned millions of this amount, as follows:

Improper basis for software valuation. Among other things, we found that in 2002, the administrator claimed to have contributed software and allocated indirect costs on the claimed value of the software. It therefore received federal reimbursement, though the actual software transfer did not occur until 2004. Federal regulations require that product valuations be based on prices at which comparable goods sold in the 12 months prior to the transfer. Because the administrator's valuation was based on comparable sales from 3 years earlier, we questioned the amount of the claimed contribution.

Imputed interest on advance payment. We also found that the reimbursement for a transfer that had not yet occurred was, in effect, an advance payment. Federal regulations require grant recipients to deposit advanced federal funds in interest-bearing accounts and to remit earned interest to the agency annually. The administrator did not maintain the funds in an interest-bearing account, so we imputed interest owed to NIST.

Questionable accounting practices. The administrator inappropriately applied the award's indirect cost rate to the software valuation. Federal regulations define indirect costs as those incurred in the normal conduct of business, such as overhead expenses related to supporting direct labor and production. The software valuation was unrelated to direct production or other reasonable overhead expense.

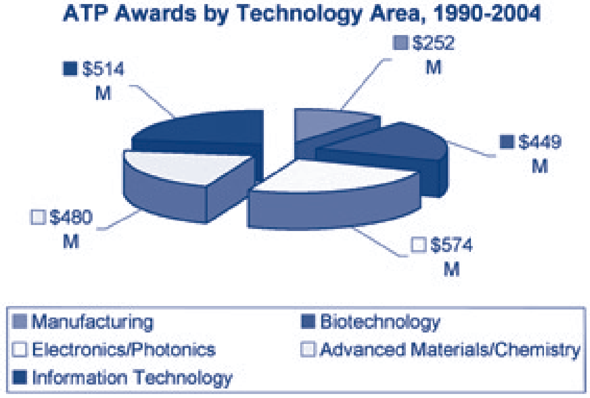
Inappropriate personnel and related indirect costs. Contrary to its own policies and federal cost principles, the administrator charged NIST for overtime and vacation pay for employees working on other projects, gave staff bonuses without NIST approval, and billed estimated rather than actual labor hours, all of which caused us to question $159,925 in personnel and related costs.

The company disagreed with our findings but provided no documentation to change our conclusions. We recommended that NIST disallow millions in questioned costs and recover the federal share, which includes imputed interest. *(Atlanta Regional Office of Audits: ATL-16872)*

NIST's Advanced Technology Program

As part of its efforts to spur technological development, NIST administers the Advanced Technology Program (ATP) to provide financial assistance through cooperative agreements, with the goal of transferring cutting-edge technology to industrial uses. Between 1990 and September 2004, ATP awarded $2.3 billion in funding to companies to develop promising, high-risk technologies. Industry has matched this funding with $2.3 billion in cost-sharing.

ATP Awards by Technology Area, 1990-2004



Source: www.atp.nist.gov/eao/statistics/.

Questioned Costs of $294,495 in Audit of Michigan ATP Grantee

In September 2003, NIST awarded a 3-year ATP cooperative agreement to a Michigan engineering firm to develop enhanced manufacturing assembly processes primarily for the automotive industry. Total estimated costs of the award are $2,117,299, with the federal share not to exceed $1,987,927, or 94 percent of allowable costs. During the project's first 9 months (October 2003 through June 2004), the firm reported costs of $490,065 and received reimbursement of $389,478.

Our interim audit of this 9-month period questioned $294,495 of the costs claimed: the recipient had received $193,907 of this amount for costs billed by a subcontractor with which it had no written contract, and the remaining $100,588 for unallowable equipment purchases. In addition, the grantee had

- billed NIST for costs not yet invoiced, thus accumulating grant funds before they were needed;
- failed to develop written standards for employee conduct; and
- used grant funds to give an employee a large pay raise, which may have reduced the amount available to cover agreed-upon costs or labor requirements.

We recommended that NIST disallow the total amount questioned, recover excess federal funds of $221,971, and direct the recipient to establish the required written standards for employee conduct. We also advised NIST to take appropriate action should the salary increase adversely affect the grantee's ability to achieve the award's stated goals. *(Denver Regional Office of Audits: DEN-16926)*

Audit Confirms Cost-Share Requirements Met by ATP Recipient

A Maryland engineering firm received an ATP award in September 2003 to mass produce a foil adhesive for bonding dissimilar materials, such as metal and ceramic, without the use of heat—a process with potentially wide application and benefit to the defense and aerospace industries. Total estimated costs of the 2-year project are $2.3 million, with the federal share for the first year not to exceed $1,186,884, or 84 percent of allowable direct costs. The firm claimed first-year project costs totaling $806,140 and received $615,000 in federal reimbursement.

We conducted an interim financial audit of costs claimed and reimbursed for the project's initial 11 months (October 2003 through August 2004), and found that the recipient had covered less than half of its share of direct costs for that period (7.24 percent versus the required 15.95 percent). In response to our draft report, the firm provided documentation demonstrating that it had balanced the excess federal payments it had received during these 11 months by absorbing all project costs incurred during the month of September 2004 ($143,159). NIST confirmed that it had not reimbursed any of these costs. As a result, the recipient had actually exceeded its first-year cost-share requirement, having covered 23.71 percent of direct costs. We therefore considered the matter resolved. *(Denver Regional Office of Audits: DEN-16983)*

Minor Noncompliance Found in Audit of California Joint Venture

We audited the costs claimed by a member of a two-company joint venture that received an ATP cooperative agreement to develop high-speed optical switches for the telecommunications industry. For the joint venture, total estimated costs of the 4-year project (October 2003 through September 2007) are $7.0 million, with the federal share capped at roughly $3.5 million, or 50 percent. The member's share of the total estimated costs is $4 million, with federal reimbursement limited to $999,505, or about 25 percent. For the award's first year, the federal cost-share to the member firm was capped at $231,602, or 22.47 percent.

During the project's first 6 months, the member firm billed the joint venture administrator for costs of $352,080 and received $30,961 in federal disbursements. We questioned $3,132 of these claimed costs, consisting of $1,592 in non-ATP payroll expenses and fringe benefits, and $1,540 in related indirect costs. During the same time frame, the firm had not claimed eligible project expenditures of $2,383. We therefore credited the firm for this amount, which reduced questioned costs to $749.

Our audit also revealed that the member's accounting system did not comply with federal cost principles in that it did not have written procedures for determining the reasonableness and allowability of costs.

We recommended that NIST disallow the questioned amount of $749, recover $168 in excess federal disbursements, and direct the joint venture member to develop the required written financial management procedures. *(Denver Regional Office of Audits: DEN-16869)*

Audit of NTIS' FY 2004 Financial Statements

NTIS received an unqualified opinion on its FY 2004 financial statements, and the independent auditors noted the agency has established an internal control structure that supports reporting of reliable financial and performance information. NTIS' financial statements showed no material weaknesses in internal control and fully complied with related financial management laws and regulations.

Assessment of IT Controls

The review of IT controls against the six criteria outlined in GAO's *Federal Information System Controls Audit Manual*[13] noted two open findings remaining from FY 2003. The independent auditors identified one new finding and made four recommendations in the areas of security planning and management, access control, and service continuity. *(Financial Statements and Accountability Division: FSD-16698 and 16699)*

Audits Unresolved for More than 6 Months

Massachusetts MEP

Our September 2004 *Semiannual Report* (page 37) detailed an audit of an MEP cooperative agreement as being unresolved for more than 6 months. Our audit had recommended that NIST disallow questioned costs of $8,177,606, recover the federal share of $1,599,349, and require the recipient to implement improvements to its financial reporting system. In its audit resolution proposal, NIST disallowed $715,097 and reinstated $7,462,509 in costs questioned in the audit report. In July 2004, after detailed analyses of NIST's audit resolution proposal and other documents provided by NIST and the recipient, we advised NIST that we concurred with its decision to disallow $715,097, but did not concur with reinstatement of the remaining $7,462,509. We continue to work with NIST to resolve this report.

Computer Aided Surgery, Inc., New York

An OIG audit of this NIST cooperative agreement (see September 2004 issue, page 35, ATL-16095) questioned costs totaling $547,426 in inappropriately charged rent, utilities, and certain salary, fringe benefit, and other expenses, because these costs were unallowable, in excess of budgetary limits, or incorrectly categorized. We have postponed NIST's submission of an audit resolution proposal.

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[13] The six criteria are entitywide security program planning and management, access controls, application software development and change control, system software, segregation of duties, and service continuity.


PATENT
OFFICE

UNITED STATES PATENT AND TRADEMARK OFFICE

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

Audit of USPTO'S FY 2004 Financial Statements

Fiscal Year 2004 marked the 12th consecutive year that the U.S. Patent and Trademark Office's annual audit received an unqualified opinion. The independent auditors found the agency's financial statements had no material weaknesses and complied with all applicable laws and regulations.

Assessment of IT Controls

The review of IT controls against the six criteria outlined in *FISCAM* found that USPTO had fully resolved five of the seven weaknesses related to security controls that were identified in the FY 2003 audit. Auditors identified four new findings (for a new total of six) in the areas of security program planning and management, access controls, and service continuity. *(Financial Statements and Accountability Audits: FSD-16700 and 16701)*

Investigations

Former USPTO Employee Pleads Guilty to Possession of Child Pornography

A former patent examiner was convicted of possession of child pornography after an OIG investigation established that he had used both his government and personal computers to access and download sexually explicit material depicting children, which he transported between his USPTO office and residence. On January 31, 2005, the defendant waived indictment and pleaded guilty in U.S. District Court for the Eastern District of Virginia to a one-count criminal information charging him with violating 18 USC § 2252A (a)(5). As part of a plea arrangement, the former employee also agreed to forfeit to the government two personal computers seized during the course of the investigation. Sentencing is scheduled for April 2005. *(Washington Field Office)*


1912
FOREIGN & DOMESTIC
COMMERCE

DEPARTMENT-WIDE MANAGEMENT

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

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

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

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

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

Audit of Department's FY 2004 Consolidated Financial Statements

FY 2004 marked the sixth consecutive year that Commerce received an unqualified opinion on its consolidated financial statements. The independent auditors found that the Department has established an internal control structure that facilitates preparation of reliable financial and performance information, but noted one reportable condition related to its financial management systems. There also was one instance of noncompliance with OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*.

IT controls. Although the auditors again found IT controls in all six FISCAM areas had improved, they noted continuing weaknesses throughout the Department in entitywide security, and deficiencies at select bureaus in the areas of access controls, application software development and change control, system software, segregation of duties, and service continuity.

Automated budgetary controls and integrated financial management. NIST implemented the Commerce Business Systems (CBS) funds control module at the beginning of FY 2004 as recommended by the audit of FY 2003. The Department also completed implementation of CBS in NTIA and Technology Administration.

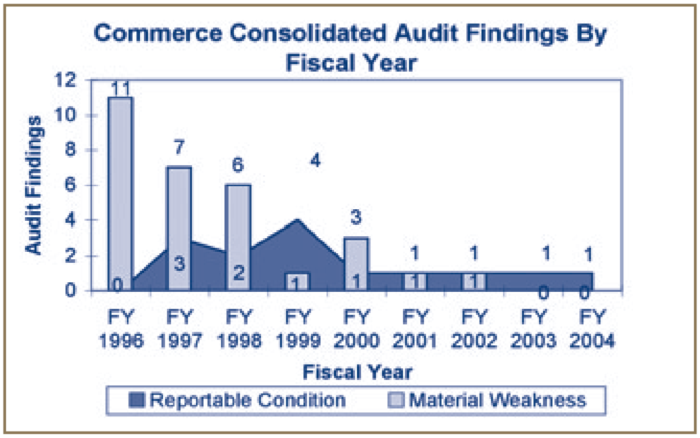
Compliance with Laws and Regulations

Compliance testing of the Department's financial management procedures and systems showed improvement in one area and remaining deficiencies in two others:

Federal Financial Management Improvement Act of 1996. The auditors determined that the Department's financial management systems substantially complied with the requirements of the act.

OMB Circular A-11, *Preparation, Submission, and Execution of Budget*. The Department was noncompliant with the circular in one instance: although NOAA fully funded the 11 capital leases identified as underfunded in the 2003 audit, it identified another 65 leases that require full funding. NOAA indicated that it has since reduced this number to 53 and plans to fully fund the remaining leases in FY 2005.

Additional Concern. NOAA identified two reimbursable agreements with nonprofit entities that contained indemnification clauses, which raised concerns about compliance with the Anti-Deficiency Act. NOAA amended the agreements in June and July 2004 to resolve the concerns. At the request of the Office of General Counsel, NOAA initiated an investigation into whether execution of the two agreements violated the act, and reported on October 8, 2004, that such violation did occur. The violations were reported to the President and Congress, as required by 31 USC § 1351. *(Financial Statements and Accountability Audits: FSD-16696 and16697)*



Source: FY 1996-FY 2004 U.S. Department of Commerce financial statements audit reports.

Preaward Financial Assistance Screening

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

On January 1, 2004, we implemented new policies and procedures for our preaward screening process. OIG and the Department determined that there are several categories of recipients for whom the costs and administrative burden of the screening process may well outweigh the government's risk of financial loss. Our new policies exempt from review recipients who (1) receive awards in amounts of $100,000 or less, (2) have received financial assistance from the Department for 3 or more consecutive years without any adverse program or audit findings, or (3) are units of a state or local government.

During this period we screened 100 proposed awards. For 6 of the awards, we found significant deficiencies—such as poor financial condition, unresolved audit findings, or criminal history—that could affect the ability of the prospective recipients to maintain proper control over federal funds. On the basis of the information we provided, the Department delayed 5 awards to resolve concerns and established special conditions for 1 award. (*Office of Audits*)

PREAWARD SCREENING RESULTS

	Award	
Results	**Number**	**Amount**
Awards delayed to resolve concerns	5	$3,235,148
Special award conditions established	1	$2,000,000

Nonfederal Audit Activities

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

We examined 161 audit reports during this semiannual period to determine whether they contained any audit findings related to Commerce programs. For 105 of these reports, the Department acts as oversight agency and monitors the audited entity's compliance with OMB Circular A-133 or NIST's program-specific reporting requirements. The other 56 reports are from entities for which other federal agencies have primary oversight responsibility. We identified 20 reports with findings related to the Department of Commerce.

Report Category	OMB A-133 Audits	ATP Program-Specific Audits	Total
Pending (October 1, 2004)	17	72	89
Received	87	93	180
Examined	94	67	161
Pending (March 31, 2005)	10	98	108

The following table shows a breakdown, by bureau, of the nearly $249 million in Commerce funds audited.

Bureau	Funds
EDA	$ 27,947,588
NIST*	125,932,093
NOAA	15,102,095
NTIA	1,165,587
MBDA	338,750
Multiagency	76,441,190
Agency not identified	1,978,342
Total	$248,905,645

** Includes $111,870,713 in ATP program-specific audits.*

In most reports the subject programs were not considered major programs; thus the audits involved limited transaction and compliance testing against laws, regulations, and grant terms and conditions. The 20 reports with Commerce findings are listed in Appendix B-1. (*Atlanta and Denver Regional Offices of Audits*)

OFFICE OF INSPECTOR GENERAL

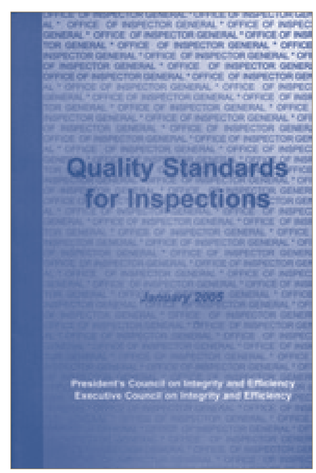
The mission of the **Office of Inspector General** is to promote economy, efficiency, and effectiveness and detect and prevent waste, fraud, abuse, and mismanagement in the programs and operations of the U.S. Department of Commerce. Through its audits, inspections, performance evaluations, and investigations,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

OIG Investigations Receives Top Mark in Quality Assessment Review

All OIGs granted statutory law enforcement authority under the Homeland Security Act are required by the Attorney General's Guidelines for such organizations to participate in a regular program of quality assessment review. Pursuant to this program, the investigative operations of each OIG are subject to a peer review by a fellow OIG every 3 years. The results of these reviews are communicated to the Attorney General and the reviewed OIG, and are intended to ensure compliance with applicable guidelines established by the President's Council on Integrity and Efficiency (PCIE) and the Attorney General, as well as to improve/facilitate substantive communications within the OIG investigative community regarding efficient procedures and best practices.

During this semiannual period, the General Services Administration's OIG completed the quality assessment review of our Office of Investigations, and found our internal safeguards and management procedures in full compliance with the quality standards established by the PCIE and the Attorney General's Guidelines.

Update of *Quality Standards for Inspections* Issued



In January 2005, the Commerce OIG disseminated a revised edition of the *Quality Standards for Inspections* (the "Blue Book")—a publication of the PCIE and the Executive Council on Integrity and Efficiency (ECIE) originally issued in 1993.

The 14 standards establish strict criteria against which offices of inspector general should plan and conduct inspections and evaluations. Such standards have been broadly embraced by OIGs at all levels of government to help maintain their strong reputations for impartiality and credibility. Though compliance with the standards is voluntary, Commerce IG Johnnie Frazier urged inspectors general to follow them. "These standards ensure that the findings of inspections and evaluations are as valuable, reliable, and irrefutable as those of our audits and investigations," Frazier stated. "At the same time, they allow the flexibility to approach the issues from our own perspectives and according to our own needs and interests." Frazier chairs the PCIE Inspection & Evaluation Committee, which updated the standards.

Two of the 14 standards are new—"Performance Measurement" and "Working Relationships and Communication." These reflect the government-wide focus on results—offices of inspector general should be able to document the impact of their work, like any other federal entity; and positive interactions with those they inspect make it more likely that recommended improvements will be accepted.

In revising the standards, the federal councils considered input from their membership and drew from the following sources:

- The PCIE *Quality Standards for Federal Offices of Inspector General* (the "Silver Book").
- The Association of Inspectors General *Principles and Standards for Offices of Inspector General.*
- The Government Accountability Office's *Government Auditing Standards* (the "Yellow Book").

The PCIE is an interagency group of inspectors general from cabinet-level departments and major federal agencies, who are appointed by the President of the United States.

The interagency ECIE is comprised of inspectors general from smaller federal agencies, who are appointed by their agency head.

Special Awards

Assistant Inspector General Receives Presidential Rank Award

Each year, the President honors a small group of career senior executives whose accomplishments are exceptional and long running, by conferring the Presidential Rank Award. This year, **Jill Gross, OIG's assistant inspector general for inspections and program evaluations**, was chosen to receive this prestigious honor. As head of the inspections and evaluations office, Gross is responsible for planning and managing a critical OIG work program that has significantly improved Commerce operations, saved millions of dollars for the Department and U.S. taxpayers, and ultimately made government work better. She has also been a key force in enhancing work processes and products throughout the entire IG community via her involvement in the President's Council on Integrity and Efficiency. Only about 5 percent of career executives receive the Presidential Rank award each year.

According to Commerce IG Johnnie Frazier, the work produced under Gross's leadership has been instrumental in improving the quality of Commerce programs. "Ms. Gross's accomplishments since taking the helm of our Office of Inspections and Program Evaluations in 1998 speak for themselves. She has consistently demonstrated an extraordinary commitment to the OIG mission, and under her direction, the impressive work of this office has prompted major improvements in the operation of Commerce facilities both at home and abroad."

Deputy IG Receives Department's Top Honor

Deputy Inspector General Edward L. Blansitt was recently awarded a Gold Medal, the highest honor bestowed by the Secretary of Commerce. The Gold Medal award is given only to employees whose exemplary achievements have directly enhanced the operations of the Department or the well-being of the nation.

Inspector General Frazier stated that Blansitt was nominated for the award for his leadership and management performance, for leading the senior staff in developing plans and budgets that reflect the office's most important priorities, and for improving the quality and impact of hundreds of performance audits, inspections, and program evaluations reports. Blansitt has been deputy inspector general at Commerce since March 2000.

OIG SILVER MEDAL WINNERS

OIG staff members **Martin Trocki, Frederick Meny, Patricia Derr,** and **David C. Rose** each received the Silver Medal—the second highest honor bestowed by the Secretary of Commerce to the select few whose work has significantly enhanced departmental operations. Trocki, Meny, and Derr were honored for their work on the Census Bureau's information technology modernization plans for the 2010 decennial census. Rose received the Silver Medal for his audits of the Department's performance reporting, which have significantly enhanced the quality of Commerce data reported to Congress.

Other Activities of Note

OIG Sponsors Federal Contracting Conference

OIG's Denver Regional Office held a successful 3-day conference on federal contracting February 7-9, 2005. "An Overview of Federal Contracting," presented by former Air Force contracting officer Gerald Francis, attracted 20 participating auditors interested in better oversight of federal contracts from the OIGs of the departments of Energy, Housing and Urban Development, Commerce, and the National Science Foundation. Topics covered ranged from acquisition planning and procurement requests to terminations, claims and disputes, and time and materials contracts.

IGs Frazier, Tinsley Presenters at Alaska Audit Forum

In October 2004, Commerce Inspector General Johnnie E. Frazier gave a joint presentation with IG Nikki Tinsley (Environmental Protection Agency) on the importance of federal, state, and local collaboration in improving government programs and operations at the 2-day Pacific Northwest Intergovernmental Audit Forum in Anchorage, Alaska. The forum brought together federal, state, and municipal auditors as well as representatives from the Government Accountability Office.

TABLES AND STATISTICS

Statistical Overview

TABLES	PAGE

APPENDIXES

Table 1. Investigative Statistical Highlights for this Period

Criminal Investigative Activities	
Arrests	7
Indictments and informations	3
Convictions	1
Personnel actions	6
Fines, restitutions, judgments, and other civil and administrative recoveries	**$69,971**
Allegations Processed	
Accepted for investigation	35
Referred to operating units	56
Evaluated but not accepted for investigation or referral	15
Total	**106**

Audit Resolution and Follow-up

The Inspector General Act Amendments of 1988 require us to present in this report those audits issued before the beginning of the reporting period (October 1, 2004) for which no management decision had been made by the end of the period (March 31, 2005). Two audit reports remain unresolved for this reporting period (see page 33).

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

Table 2. Audit Resolution Follow-Up

Report Category	Modifications	Appeals
Actions pending (October 1, 2004)	0	8
Submissions	0	7
Decisions	0	6
Actions pending (March 31, 2005)	0	9

Table 3. Audit and Inspection Statistical Highlights for this Period

Questioned costs	$14,915,037*
Value of audit recommendations that funds be put to better use	421,340
Value of audit recommendations agreed to by management	6,021,206

*This number includes costs questioned by state and local government auditors or independent public accountants.

Table 4. Audits with Questioned Costs

Report Category	Number	Questioned Costs	Unsupported Costs
A. Reports for which no management decision had been made by the beginning of the reporting period	28	$8,844,315	$1,805,765
B. Reports issued during the reporting period	23	14,915,037	6,451,608
Total reports (A+B) requiring a management decision during the reporting period[1]	51	23,759,352	8,257,373
C. Reports for which a management decision was made during the reporting period[2]	26	5,571,293	1,805,765
i. Value of disallowed costs		1,905,543	211,652
ii. Value of costs not disallowed		3,665,750	1,594,113
D. Reports for which no management decision had been made by the end of the reporting period	25	18,188,059	6,451,608

[1]Seven audit reports included in this table are also included among reports with recommendations that funds be put to better use (see table 5). However, the dollar amounts do not overlap.

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

Table 5. Audits with Recommendations that Funds Be Put to Better Use

Report Category	Number	Value
A. Reports for which no management decision had been made by the beginning of the reporting period	7	$6,834,605
B. Reports issued during the reporting period	3	421,340
Total reports (A+B) requiring a management decision during the reporting period[1]	10	7,255,945
C. Reports for which a management decision was made during the reporting period[2]	7	6,834,605
i. Value of recommendations agreed to by management		4,115,663
ii. Value of recommendations not agreed to by management		2,718,942
D. Reports for which no management decision had been made by the end of the reporting period	3	421,340

[1]Seven audit reports included in this table are also included in the reports with questioned cost (see table 4). However, the dollar amounts do not overlap.

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

Definitions of Terms Used in the Tables

Questioned cost: a cost questioned by OIG because of (1) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; (2) a finding that, at the time of the audit, such cost is not supported by adequate documentation; or (3) a finding that an expenditure of funds for the intended purpose is unnecessary or unreasonable.

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

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

Management decision: management's evaluation of the findings and recommendations included in the audit report and the issuance of a final decision by management concerning its response to such findings and recommendations, including actions concluded to be necessary.

Appendix A. Report Types this Period

Type	Number of Reports	Appendix
Performance audits	4	A-1
Financial assistance audits	12	A-2
Financial statements audits	6	A-3
Inspections and systems evaluations	3	A-4
Total	25	

Appendix A-1. Performance Audits

Report Title	Report Number	Date Issued	Funds to Be Put to Better Use
Economics and Statistics Administration			
Some Improvements are Needed in the Handling of Reimbursable Agreements and the Sale of Products and Services	FSD-16824-5-0001	03/31/05	—
Management Controls Over Reimbursable Agreements at the U.S. Census Bureau Need Improvement	FSD-16824-5-0002	03/31/05	—
National Oceanic and Atmospheric Administration			
Inadequate Support Undercuts Value of Booz Allen Study and Its Recommended Changes to NOAA's Finance and Administration Services	DEN-16948-5-0001	03/07/05	—
Satellite Memorandums of Agreement Should Be Improved By Using New Guidance	BSD-16927-5-0001	03/31/05	—

Appendix A-2. Financial Assistance Audits

Report Title	Report Number	Date Issued	Value of Funds to Be Put to Better Use	Federal Amount Questioned	Federal Amount Unsupported
Economic Development Administration					
Utah Department of Community & Economic Development	DEN-17065-5-0001	03/30/05	—	—	—
Economics & Statistics Administration					
ITS Services, Inc., VA	DEN-16724-5-0001	11/24/04	—	$2,331,514	$1,060,647
ITS Services, Inc., VA	DEN-16724-5-0002	02/22/05	—	5,576,197	1,751,758
ITS Services, Inc., VA	DEN-16724-5-0003	03/15/05	—	579,666	410,618
National Institute of Standards and Technology					
Reactive Nano Technologies, Inc., MD	DEN-16893-5-0001	02/17/05	—	—	—
Dimensional Control Systems, Inc., MI	DEN-16926-5-0001	03/28/05	—	252,235	166,081
AC Photonics, Inc., CA	DEN-16869-5-0001	03/31/05	—	704	—
National Oceanic and Atmospheric Administration					
Northwest Indian Fisheries Commission, Audit of the Subgrant with the Muckleshoot Tribe, WA	STL-16657-5-0002	02/11/05	—	540,902	50,618
Northwest Indian Fisheries Commission, Audit of Subgrant with the Tulalip Tribe, WA	STL-16657-5-0006	02/23/05	—	—	—
Northwest Indian Fisheries Commission, Audit of Subagreement with the Makah Tribe, WA	STL-16657-5-0004	03/31/05	—	441,250	441,250
National Telecommunications and Information Administration					

Appendix A-3. Financial Statements Audits

Report Title	Report Number	Date Issued
National Technical Information Service		
NTIS' FY 2004 Financial Statements	FSD-16698-5-0001	11/08/04
Assessment of Information Technology Controls Supporting NTIS' Financial Management Systems FY 2004 Financial Statement Audit	FSD-16699-5-0001	11/09/04
Office of the Secretary		
Department of Commerce's FY 2004 Consolidated Financial Statements	FSD-16696-5-0001	11/08/04
Assessment of Information Technology Controls Supporting DOC's Financial Management Systems FY 2004 Financial Statement Audit	FSD-16697-5-0001	11/09/04
United States Patent and Trademark Office		
USPTO FY 2004 Financial Statements	FSD-16700-5-0001	11/08/04
Assessment of Information Technology Controls Supporting USPTO's Financial Management Systems FY 2004 Financial Statement Audit	FSD-16701-5-0001	11/09/04

Appendix A-4. Inspections and System Evaluations

Report Title	Report Number	Date Issued	Funds to Be Put to Better Use
Bureau of Industry and Security			
The Export Licensing Process for Chemical and Biological Commodities Is Generally Working Well, But Some Issues Need Resolution	IPE-16946	3/31/05	—
Annual Follow-up Report on Previous Export Controls Recommendations, as Mandated by the National Defense Authorization Act for Fiscal Year 2000, as Amended	IPE-17361	3/31/05	—
International Trade Administration			
Import Administration Has Met Most Statutory Deadlines on Antidumping Reviews, But Management Attention Is Needed in Other Areas	IPE-16952	3/31/05	—

Appendix B. Processed Reports

The Office of Inspector General reviewed and accepted 161 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	29
National Institute of Standards and Technology*	77
National Oceanic and Atmospheric Administration	11
National Telecommunications and Information Administration	3
Minority Business Development Agency	1
Multiagency	33
Agency not identified	7
Total	**161**

*Includes 67 ATP program-specific audits.

Appendix B 1. Processed Reports with Audit Findings

Report Title	Report Number	Date Issued
Economic Development Administration		
Commonwealth of Puerto Rico, Municipality of Rincon	ATL-09999-5-2007	03/15/05
City of Fort Worth, TX	ATL-09999-5-1983	03/17/05
Genesee Finger Lakes Regional Planning Council, NY	ATL-09999-5-2043	03/17/05
City of Flint, MI	ATL-09999-5-1852	03/18/05
National Institute of Standards and Technology		
Molecular Applications Group, CA	ATL-09999-5-1920	10/21/04
Lexia Learning Systems, Inc., MA	ATL-09999-5-1596	11/04/04
GE Global Research, NY	ATL-09999-5-1834	11/05/04
NanoNexus, Inc., CA	DEN-09999-5-1739	11/05/04
nLine Corporation, TX	DEN-09999-5-1772	11/10/04
E.I. du Pont de Nemours and Company, NC	DEN-09999-5-1798	11/23/04
Georgia Tech Research Corporation	DEN-09999-5-1743	11/30/04
Phoenix Science & Technology, Inc., MA	ATL-09999-5-1481	12/14/04
Sarnoff Corporation, NJ	ATL-09999-5-1767	12/15/04
Delphi Delco Electronics Systems, IN	DEN-09999-5-1742	01/05/05
Organ Recovery Systems, Inc., SC	ATL-09999-5-1969	02/10/05
Intermet Corporation, MI	ATL-09999-5-1599	03/15/05
Microscan Systems, Inc., WA	ATL-09999-5-1835	03/15/05
Mississippi Technology Alliance	ATL-09999-5-2041	03/15/05
Minnesota Technology, Inc.	ATL-09999-5-1991	03/17/05
National Telecommunications and Information Administration		
Maine Public Broadcasting Corporation	ATL-09999-5-2000	03/15/05

REPORTING REQUIREMENTS

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

4(a)(2): Review of Legislation and Regulations

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

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

This section requires identification of each significant recommendation described in previous semiannual reports for which corrective action has not been completed. Section 5(b) requires that the Secretary transmit to Congress statistical tables showing the number and value of audit reports for which no final action has been taken, plus an explanation of the reasons why recommended action has not occurred, except when the management decision was made within the preceding year. To include a list of all significant unimplemented recommendations in this report would be duplicative. Information on the status of any audit recommendations can be obtained through OIG's Office of Audits.

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

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

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

This section requires a summary of each audit report issued before the beginning of the reporting period for which no management decision has been made by the end of the reporting period (including the date and title of each such report), an explanation of why a decision has not been made, and a statement concerning the desired timetable for delivering a decision on each such report. There were two NIST reports more than 6 months old. (See page 33.)

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

This section requires an explanation of the reasons for any significant revision to a management decision made during the reporting period. Department Administrative Order 213-5, Audit Resolution and Follow-up, provides procedures for revising a management decision. For performance audits, OIG must be consulted and must approve in advance any modification to an audit action plan. There were none for this period. For financial assistance audits, OIG must concur with any decision that would change the audit resolution proposal in response to an appeal by the recipient. The decisions issued on the six appeals of audit-related debts were finalized with the full participation and concurrence of OIG.

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

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

ACRONYMS

APHIS .... Animal and Plant Health Inspection Service

ATP .... Advanced Technology Program

BEA .... Bureau of Economic Analysis

BIS .... Bureau of Industry and Security

CBS .... Commerce Business Systems

C&A .... certification and accreditation

CDC .... Centers for Disease Control and Prevention

CIO .... chief information officer

DAS .... Deputy Assistant Secretary

DSS .... Diplomatic Security Service

ECASS .... Export Control Automated Support System

ECIE .... Executive Council on Integrity and Efficiency

EDA .... Economic Development Administration

ESA .... Economics & Statistics Administration

FDCA .... Field Data Collection Automation

FISCAM .... Federal Information System Controls Manual

FISMA .... Federal Information Security Management Act

FMFIA .... Federal Managers Financial Integrity Act

GOES .... Geostationary Operational Environmental Satellites

GPRA .... Government Performance and Results Act

IA .... Import Administration

IG .... inspector general

IT .... information technology

ITA .... International Trade Administration

MBDA .... Minority Business Development Agency

MOA .... memorandum of agreement

MOU .... memorandum of understanding

NASA .... National Aeronautics and Space Administration

NDAA .... National Defense Authorization Act

NIST .... National Institute of Standards and Technology

NESDIS .... National Environmental Satellite, Data, and Information Service

NMFS .... National Marine Fisheries Service

NOAA .... National Oceanic and Atmospheric Administration

NTIA .... National Telecommunications and Information Administration

NWS .... National Weather Service

OIG .... Office of Inspector General

OMB .... Office of Management and Budget

OSY .... Office of Security

PCIE .... President's Council on Integrity and Efficiency

POES .... Polar Operational Environmental Satellites

RIMS .... Regional Input-Output Modeling System

USDA .... U.S. Department of Agriculture

USPTO .... United States Patent and Trademark Office

TYPES OF OIG WORK PRODUCTS

The various kinds of audits, evaluations, inspections, and investigations at our disposal enable the IG's office to assess Commerce programs and operations from a range of perspectives. Thus we are able to provide program managers with reviews and recommendations that are either narrowly focused or comprehensive, as needed, to aid them in ensuring the most efficient and effective use of taxpayer dollars.

AUDITS

Performance Audits address 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. They may also involve reviewing the Department's financial assistance awards by assessing an award recipient's compliance with laws, regulations, and award terms; allowance of costs; and the degree to which projects achieved intended results.

Financial Audits determine whether (1) a reporting entity's financial statements are presented fairly and in accordance with generally accepted accounting principles; (2) the entity has an internal control structure that provides reasonable assurance of achieving the control objectives set forth by OMB; and (3) the entity complied with laws and regulations that could have a direct and material effect on the financial statements, the Federal Financial Management Improvement Act, and other laws and regulations.

Attestation Engagements involve examining, reviewing, or performing agreed-upon procedures on a subject matter or an assertion about a subject matter and reporting the results. Attestation engagements can have a broad range of financial or nonfinancial focuses, such as an entity's compliance with laws and regulations, management's discussion and analysis presentations, and allowability and reasonableness of final grant and contract costs.

INSPECTIONS

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

EVALUATIONS

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

Systems Evaluations review system development, acquisitions, operations, and policy, focusing on computer systems and other technologies.

INVESTIGATIONS

Investigations are conducted based on alleged or suspected wrongdoing by Department employees, contractors, recipients of financial assistance, and others responsible for handling federal resources. Investigations that expose violations of Department rules and regulations or acts of fraud committed against the U.S. government can result in administrative sanctions and/or criminal or civil prosecution.

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