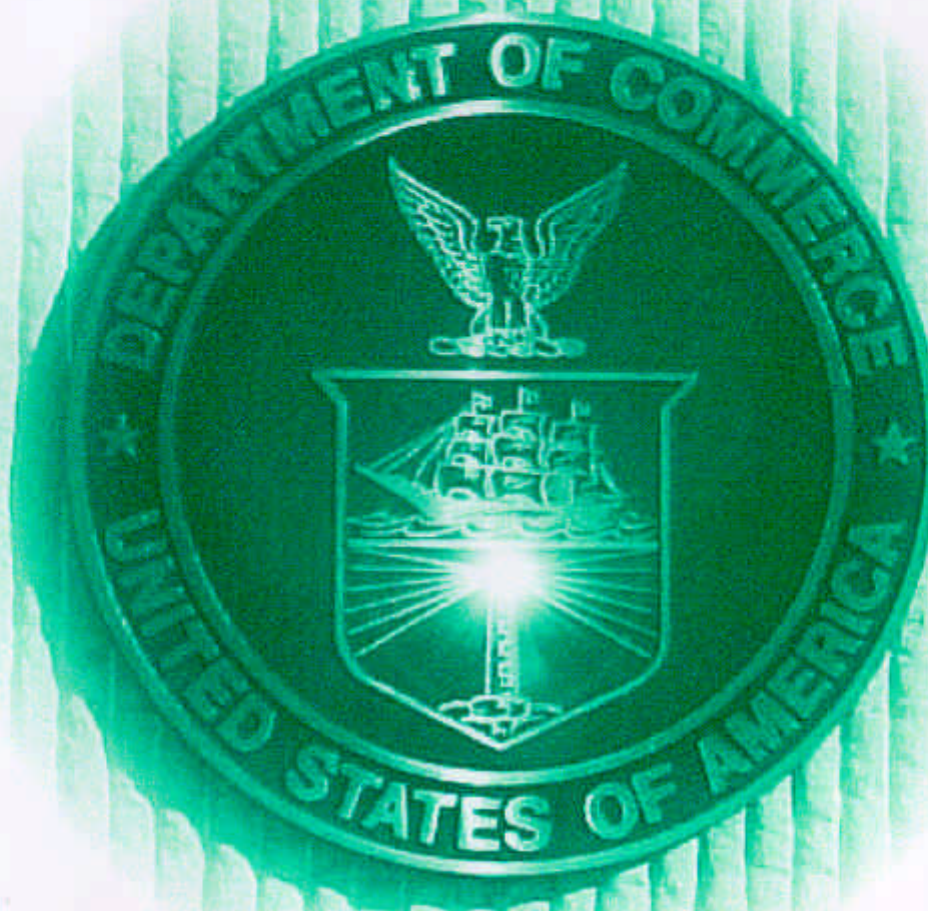


# Semiannual Report to the Congress

September 30, 1999



U.S. DEPARTMENT OF COMMERCE  
Office of Inspector General



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

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

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

# IG's Message for the Secretary



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

October 31, 1999

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

Mr. Secretary:

I am pleased to provide you with the Office of Inspector General's semiannual report to the Congress for the second half of fiscal year 1999. Section 5 of the Inspector General Act requires that you transmit this report, with any comments you may wish to add, to the appropriate congressional committees within 30 days of its receipt.

This is the first semiannual report that I will be submitting to you and the Congress since I was sworn in as Inspector General in July. I appreciate the support you provided during my tenure as Acting IG, and I look forward to continuing to work with you to improve departmental operations. I believe that the efforts described in this report demonstrate the value of the cooperative, productive relationships that we have tried to foster between OIG officials and your Executive Management Team.

The first section of the enclosed report discusses what we have identified as the major challenges facing the Department. For each challenge, we highlight the progress made in the past six months, as well as further actions that we believe need to be taken. As you might expect, we have focused considerable time and effort on monitoring the Department's efforts to address three of the most visible and immediate challenges—improving the accuracy and controlling the cost of the 2000 Decennial Census, addressing the Y2K problem, and improving financial management. Much progress has been made in these areas, but continued oversight is essential.

This report also describes the progress made to address other major challenges, most notably the challenges of expanding private sector participation in NOAA's marine and aeronautical data gathering, implementing the Advanced Weather Interactive Processing System, and resolving issues relating to NTIS's mission and financial viability.

Sincerely,

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

Johnnie E. Frazier

Enclosure



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# IG's Message for the Congress

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## FOREWORD

We continue to devote a large portion of our resources to exploring what we have identified as the major challenges facing the Department. A primary focus during the past six months has been on three of these challenges—the 2000 Decennial Census, the Y2K problem, and financial management. In addition, we examined a broad array of important Commerce programs, including the Department's efforts to control the export of sensitive technologies and munitions.

We conducted four reviews of key aspects of the decennial during this semiannual period. One examined the operation during the Census Dress Rehearsal of the quality check survey, which will be used to independently measure the quality of the direct count of the population. Another looked at multiple response resolution, a process designed to help ensure that no one is counted more than once. A third considered whether the Census Bureau had done all it could to ensure the effectiveness of its public awareness campaign. And a fourth assessed the bureau's plans for archiving decennial data and disposing of questionnaires to ensure that sensitive information will be protected. The bureau has taken prompt action to address the concerns and recommendations discussed in our reports.

In addition, as part of an ongoing review of efforts by the Department and its bureaus to ensure that their critical computer systems are Y2K compliant, we completed our examination of the Y2K compliance activities of two Commerce operating units—the Patent and Trademark Office and NOAA's National Environmental Satellite, Data, and Information Service. Overall, both agencies' systems were ready to handle the change to the year 2000, but we made recommendations concerning retesting and contingency planning designed to further decrease the risk of service disruptions. We will also be reporting in the near future on the Y2K status of several other important Commerce agencies, including the Census Bureau and the National Weather Service.

Although our audits of the Department's FY 1999 financial statements will not be completed until next March, we have worked with departmental and bureau managers on an ongoing basis to improve financial management and reporting. For example, we have participated in several forums on financial management issues and have met regularly with departmental financial managers to discuss issues of mutual concern.

Several major OIG reviews completed during this period looked at export-related programs managed by BXA and ITA. For example, at the request of the Chairman of the Senate Committee on Governmental Affairs, we and five other OIGs conducted an interagency review of the export licensing process for dual-use commodities and munitions, and testified on the review results. In keeping with the intent of the requirements of the Omnibus Trade Act of 1988, we also continued to examine U.S. and Foreign Commercial Service overseas operations, reporting on our reviews of the posts in Brazil, China, and South Africa. In addition, the Inspector General testified on the progress being made in implementing the U.S. Export Assistance Centers as "one-stop shops" providing a wide range of federal assistance to U.S. exporters.

We plan to continue our work on these critical Commerce issues in order to provide departmental and congressional decision-makers with the sound, objective information and recommendations they need to take decisive action to meet the major challenges facing the Department.

## IG's Message for the Congress

### MAJOR CHALLENGES FOR THE DEPARTMENT

The Department of Commerce, with its many important and diverse programs and missions, is faced with its share of problems, concerns, and difficult issues that we view as key management challenges. This section highlights what we consider to be the major challenges facing the Department.

We have identified these issues as major challenges because of their importance to the Department's mission or the nation's well-being, their complexity, their sizable expenditures, or their need for management improvements. By addressing these challenges, the Department and the Congress can improve program management, eliminate serious operational problems, decrease vulnerability to fraud and waste, and achieve significant cost savings.

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

The decennial census is an enormous and complex task—certainly one of the most difficult that the federal government has to undertake. The accuracy of the data produced by the decennial is critical because it is the basis for apportioning seats in the House of Representatives and is used by state legislatures for redistricting purposes. The data is also used to distribute billions of dollars of federal funds to state and local governments. The Department recognizes the challenges presented by the 2000 Decennial Census and is clearly providing increased oversight and management support to this important undertaking.

Given the complexity and importance of the 2000 decennial, we continue to make oversight of decennial planning one of our top priorities. We have already issued nearly 20 audit and inspection reports

on various aspects of the Census Bureau's decennial preparation efforts, and additional reviews are underway. We have made numerous recommendations aimed at helping to improve the accuracy of the 2000 census and control its cost. Likewise, we have conducted audits and inspections of other Census Bureau activities and operations (such as financial management systems, interagency agreements, and Y2K compliance efforts) that may indirectly affect the bureau's ability to conduct the decennial efficiently and effectively. In all instances, we are actively monitoring the bureau's efforts to address the recommendations made in our reports.

In the last issue of our semiannual report, we reported on a number of problems with bureau processes and operations, some of which, if not corrected, could have serious implications for the decennial. For example, our review of the 1998 dress rehearsal operation of a pre-production version of DCS 2000, the data capture system being developed for the decennial census, disclosed that the system experienced serious problems in processing dress rehearsal forms as a result of inadequate control of system requirements and insufficient testing (see March 1999 issue, page 30).

Also, our review of the bureau's use of interagency and other special agreements identified the need for significant improvements in the agreements themselves, as well as in the policies and procedures for preparing, reviewing, and tracking them (see March 1999 issue, page 32). In addition, our review of a Census Bureau regional office's use of bankcards called for strengthening internal controls over bankcard purchases (see March 1999 issue, page 34). We are pleased to report that in all three instances, the bureau has been working hard to address our concerns, and that many corrective actions have already been taken.

In several reviews completed during this semi-annual period, we expressed a number of additional concerns that need to be addressed in preparing for the 2000 decennial. Specifically:

- Our review of the 1998 dress rehearsal test of the quality check survey identified the need for improvements prior to the decennial (see page 24).
- Our review of the bureau's planned approach for ensuring that multiple responses to the decennial received from the same housing units are resolved correctly and on schedule identified the need for modifications to ensure accurate, timely processing (see page 26).
- Our review of the bureau's plans for archiving decennial data and disposing of questionnaires identified the need for the bureau to select the method it proposes to use to archive the decennial data and to finalize its procedures for disposing of the questionnaires (see page 30).

Of equal note, our work revealed that a number of activities critical to the decennial are working well. Foremost, in our recent audit of the bureau's public awareness campaign, we found that the paid advertising campaign has been planned and, in its early stages, implemented in a manner that is meeting its program objectives. In addition, the partnership program—the other component of the public awareness campaign—has been effective in establishing relationships with state and local governments and other organizations essential to conducting an accurate census. Together, these two approaches are being aggressively pursued to increase the mail response rate and reduce the undercount (see page 28).

The Department continues to face challenges as it grapples with the logistical, technical, and other issues involved in conducting the 2000 decennial.

For example, the bureau originally planned to integrate statistical methods into the decennial census design to produce a single-number count, rather than two sets of totals, as was done in 1990. However, in November 1998, the administration agreed that the bureau would plan for both a sampling and a non-sampling census while awaiting a Supreme Court ruling on the legality of using sampling techniques as part of the decennial census methodology. On January 25, 1999, the Court ruled that, according to the Census Act of 1986, statistical sampling techniques cannot be used for apportionment. But the bureau still intends to provide a statistically adjusted number for non-apportionment purposes, believing that the adjusted count is more accurate.

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

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

The Department received an unqualified opinion on its Consolidated Balance Sheet as of September 30, 1998. However, because the Department had received a disclaimer of opinion on its FY 1997 financial statements, we were unable to express an opinion on its Consolidating Statements of Net Cost and Changes in Net Position and Combined Statements of Budgetary Resources and Financing for the year ended September 30, 1998 (see March 1999 issue, page 76). In addition, individual disclaimers on these FY 1998 financial statements of

## IG's Message for the Congress

NOAA, the Bureau of the Census, and the Franchise Fund, along with the fact that ITA's FY 1998 statements could not be audited, resulted in the disclaimer on the Department's other FY 1998 consolidated financial statements.

Although the Department and several bureaus received improved audit opinions on their FY 1998 financial statements, it will not be easy for the Department to obtain an unqualified opinion on all of its FY 1999 financial statements. Further improvements are necessary.

NOAA and the Census Bureau, for example, face some special challenges and must be proactive in identifying and resolving the potential impediments to the preparation and audit of their FY 1999 financial statements. In addition, the FY 1999 audit of ITA's financial statements will constitute, in essence, a first-year audit. It is typically difficult for federal organizations to receive an opinion on all financial statements in the first year. Until these bureaus receive other than disclaimers on their remaining statements, it is unlikely that the Department will receive an unqualified opinion on all of its consolidated financial statements.

It is important to highlight, however, the progress that has been made in addressing many of the problems, weaknesses, and conditions that have undermined the reliability of some bureaus' financial management systems and precluded unqualified opinions on their financial statements. This is probably most apparent in the decrease in the number of "material weaknesses" over the past two years—from 37 in FY 1996 to only 12 in FY 1998.

Material weaknesses represent serious conditions where the design or operation of an internal control component does not minimize the risk that errors, fraud, or noncompliance in material amounts may occur and not be readily detected. The substantial progress made in reducing the number of material weaknesses reflects the Department's commitment to establishing sound financial manage-

ment systems, improving financial management, and achieving an unqualified opinion on all of its financial statements.

Obtaining an unqualified audit opinion on all of the Department's FY 1999 consolidated financial statements is still a major challenge. But, as progress is being made, it is also becoming increasingly clear that the extensive cooperation among the Department, the bureaus, the OIG, and the OIG's contractors is going a long way toward further reducing the number of material weaknesses and bringing the Department closer to achieving an unqualified opinion.

Our audits of the Department's FY 1999 financial statements will be completed during the next semiannual period. Nevertheless, we have worked with departmental and bureau managers during this period to improve financial management and reporting. For example, we have participated in such ongoing forums as the GPRA Task Force and the Accountability Report Committee. We have also met regularly with the Department's CFO Office to discuss issues that affect the consolidated financial statements and to provide coordinated comments to OMB on audit and financial reporting regulations.

### **Address Commerce's Year 2000 Computer Problem**

As the century draws to a close, we continue to play an important role in monitoring and highlighting key issues related to addressing the Y2K problem in Commerce computer systems and in recommending actions to mitigate the risk of Y2K failures. In our last issue (see March 1999 issue, page 78), we discussed the results of our inspection of the Department's efforts to improve the accuracy of its reporting of its systems' Y2K compliance status. In this issue, we discuss the findings of some of our specific evaluations of the efforts made by individual bureaus to ensure that their critical automated systems are, in fact, Y2K compliant.



Our review of the National Environmental Satellite, Data, and Information Service's process for renovating selected critical systems concluded that the likelihood of Y2K failure is low because these systems are not susceptible to many Y2K problems and because NESDIS exercised stringent quality control over system renovations and conducted thorough "end-to-end" tests (see page 48). Our review of selected critical systems at the Patent and Trademark Office found that they have been made Y2K compliant and were adequately tested (see page 60).

For both agencies, we identified the need to ensure that system inventories are complete and that any new systems identified by the inventories are made Y2K compliant. Both agencies also need policies to require that software changes to critical systems be limited or frozen after they are made Y2K compliant and that systems be retested if they are changed.

NESDIS agreed with all of our recommendations. PTO agreed with all but one of our recommendations—that it conduct an end-to-end test of several of its critical systems.

We also reviewed NESDIS's business continuity and contingency plan (BCCP). NESDIS agreed with our recommendation that it augment its standard procedures for handling problems with its satellite operations and data processing with contingencies for Y2K-specific failures. We are completing our review of PTO's BCCP and will report on our findings in the near future.

We are encouraged by our observations and other evidence showing that the Secretary, Deputy Secretary, Chief Financial Officer, and Chief Information Officer remain committed to carrying out activities needed to ensure that systems are Y2K compliant. The Department reported that all of its 473 mission-critical systems were compliant as of September 30, 1999.

The remaining challenge is for Commerce managers to ensure that the needed attention is directed to (1) testing and improving BCCPs, (2) ensuring that all systems have been identified and that any that were missed are confirmed to be compliant, and (3) maintaining compliance by freezing or minimizing further changes and retesting systems that are changed.

We are continuing to monitor the Department's Y2K program and are currently completing our evaluations of the readiness of the National Weather Service and the Census Bureau. We will apprise the Department and the bureaus of any concerns and recommendations we may have as quickly as possible. In our next issue, we plan to report on the bureaus' transition of their systems to the year 2000.

### **Successfully Implement NWS's Advanced Weather Interactive Processing System**

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

The AWIPS development program is operating under a congressionally mandated cost cap of \$550 million as a result of its history of escalating costs and schedule delays. Under the cap, AWIPS must be developed to provide sufficient capabilities to replace the aging field office systems, most notably the Automation of Field Operations and Services (AFOS). In our last issue, we reported that

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NOAA planned to complete AWIPS by June 1999. We also noted that the operational test and evaluation, which NOAA planned to conduct in May and June 1999, needed to clearly demonstrate that AWIPS has the capabilities to replace AFOS.

The operational test and evaluation of AWIPS, which was conducted as planned, showed that while much of the software is capable of replacing AFOS, some additional improvements are needed before the system can officially be used as the primary system for preparation and distribution of NWS data products (i.e., before AWIPS can be commissioned) and before AFOS is no longer the official system for this purpose (i.e., before AFOS can be decommissioned). NOAA has implemented corrections to commissioning-related problems identified during the operational test and evaluation and is in the process of correcting other problems found after testing that would prevent commissioning.

Deployment of AWIPS hardware was completed on schedule in June 1999. NOAA projects that the total base program cost at completion, including corrections for software and hardware problems, will fall within the cap. We are encouraged by NOAA's recent efforts, and we are continuing to monitor AWIPS's progress toward fully replacing AFOS and becoming commissioned.

### **Successfully Implement a Department-Wide Financial Management System**

The Department's FY 1999 report to the President on management and internal accounting controls is again expected to state that Commerce is not in compliance with the requirement that each federal agency have a single, integrated financial management system capable of providing timely, complete, and reliable financial information. To address this material internal control weakness, Commerce began developing a Department-wide financial system in 1992.

Notwithstanding large investments of time, money, and effort, implementation of the system, known as the Commerce Administrative Management System (CAMS), proved more difficult than anticipated. The difficulties occurred, in part, because the original CAMS contractor did not meet established milestones and experienced problems in satisfying departmental requirements. These factors caused the Department to revise its implementation strategy and schedule several times.

During FY 1998, the Department redefined the composition and functionality of CAMS and drastically revised its implementation strategy for the system. The Department also reorganized its management structure for the CAMS systems development program. The revised strategy called for pilot implementation and testing of the redefined CAMS (core CAMS) at the Census Bureau before deploying the system at other bureaus.

The pilot implementation of core CAMS at Census was completed in June 1998. An independent verification and validation study of the system, as implemented at Census, concluded that it met departmental requirements and was as good as or better than other core financial management systems that have been fully implemented at other large federal government agencies.

In September 1998, the Office of the Chief Financial Officer and Assistant Secretary for Administration, using the results of the independent study, completed a business case analysis of CAMS. The analysis compared alternative strategies for implementing core CAMS and recommended a modified approach, which involved implementing core CAMS at the larger bureaus and having the smaller bureaus obtain financial services through cross-servicing agreements. The Department agreed with the recommendation and decided that core CAMS would be implemented next at NOAA and then at NIST.

NOAA initially developed a two-year plan to implement core CAMS. However, in January 1999, NOAA established a limit on the funds available for implementation of core CAMS, effectively extending the implementation schedule to three years.

In discussing Commerce's FY 2000 budget request, Office of Management and Budget officials suggested that the Department consider acquiring accounting services for NOAA from the Department of the Interior. Accordingly, in February 1999, the Department's Chief Financial Officer asked Interior if it could provide the same financial management services, using American Management System's Federal Financial System, at a more competitive cost and with lower management risk than could be provided by CAMS.

In April 1999, NOAA completed an analysis that compared the cost, schedule, risks, and requirements of implementing CAMS to obtaining the accounting services from Interior. The analysis concluded that implementing CAMS would be less costly and risky and would better meet NOAA's requirements. In May 1999, the Acting Chief Financial Officer and Assistant Secretary for Administration agreed with NOAA and informed the Secretary of her decision to proceed with implementation of core CAMS at NOAA.

FY 1999 marked a significant milestone for the Department in its implementation of CAMS. The Census Bureau continued full production of core CAMS, deployed access to regional and decennial census sites, and implemented additional modules for travel, budget, and inventory functions. Also, the Economic Development Administration began implementing core CAMS in support of its financial assistance programs. NOAA continued its implementation of CAMS, with the conversion of accounts payable transactions as well as a very limited amount of small purchase acquisitions. In addition, the Department undertook an initiative to develop a corporate database to integrate financial data from all reporting entities.

NIST intends to complete its implementation plan for core CAMS in FY 2000. After an independent verification and validation study of the plan, NIST will begin implementing the system in FY 2001.

Until the Department is in compliance with the federal requirement for a single, integrated financial system, we will view the Department's efforts to develop such a system as a major challenge warranting the attention of senior officials and oversight by our office. We are continuing to monitor and review selected aspects of the Department's progress in implementing core CAMS in all of its operating units. For example, we are completing an audit of computer security at the CAMS Support Center to determine whether the center is complying with the requirements of the Computer Security Act of 1987.

### ***Evaluate NTIS's Mission and Financial Viability***

In our last issue (See March 1999 issue, page 14), we discussed the need for the Department and the Technology Administration to develop a solution to the National Technical Information Service's longstanding financial problems. NTIS supports itself through fees charged for its products and services. In our September 1998 audit of NTIS's business operations, we reported that between FYs 1995 and 1998, the agency incurred a cumulative loss of \$4.8 million. We concluded that if this trend continued as expected, NTIS would exhaust its retained earnings by the end of FY 1999 (see September 1998 issue, page 68).

NTIS reported total revenues of \$33.3 million for FY 1999, a reduction of \$3.4 million from FY 1998. However, the agency was able to avert a loss, and actually report a surplus of \$652,000 at the end of the year, by implementing several cost reduction measures. These measures included transferring some of its staff to other Commerce

## IG's Message for the Congress

agencies, consolidating office space, eliminating performance awards, and restricting travel.

Nonetheless, a November 1998 consulting study commissioned by TA, at our recommendation, concluded that even with significant efforts to reduce costs and improve profitability, NTIS can no longer generate sufficient revenue to remain self-supporting. We are also concerned that in order to compensate for lost revenue, NTIS must seek business opportunities on the perimeter of its statutory mission, where it risks competing against private businesses.

NTIS's disappointing operating results raised questions not only about its ability to be self-sustaining, but also about the continuing need for a single federal clearinghouse for technical publications with the current structure and mission. NTIS's financial problems are just a symptom of a much larger problem—a steady decline in sales of its products and services caused by fundamental changes in the marketplace. Moreover, federal agencies are increasingly bypassing NTIS as a distribution channel, instead offering their publications directly to the public over the Internet.

To address the primary issues and concerns related to the short- and long-term operations of NTIS, a working group made up of senior managers from the Department and TA was formed to consider options for taking corrective actions. Based on the group's efforts, the Department has drafted legislation that, if passed by the Congress and signed by the President, would close NTIS by the end of FY 2000; transfer its collection of scientific, technical, and engineering publications to the Library of Congress; and ensure permanent public access to such publications. We will continue to monitor the Department's and TA's efforts to address this important Commerce challenge.

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

Since 1992, we have monitored and reported on NOAA's approach to acquiring marine and aeronautical data to support its programs. In a number of reports, we pointed out that NOAA could achieve greater economy, efficiency, and effectiveness by increasing private sector participation in its marine and aeronautical data gathering efforts.

#### **Marine Data**

While NOAA has made progress in expanding private sector participation in acquiring hydrographic data, we remain concerned about its emphasis on designing, owning, and operating four new fishery research vessels to meet some of its fisheries data collection needs, from FY 2000 through FY 2003, without thoroughly assessing and aggressively pursuing other alternatives. As we have said many times before, we believe NOAA should not focus its efforts on designing, owning, maintaining, or operating ships (see, for example, our March 1996 issue, page 43). Instead, NOAA should clearly articulate its program needs for ship services to the private sector, academia, and other government ship operators, with the goal of identifying modern, more cost-effective platforms for its data collection needs.

NOAA has prepared a detailed data acquisition plan for its fisheries mission, which outlines its approach for acquiring the four fishery research vessels. Funding for one vessel has been approved by the Congress; however, NOAA's plan does not address the very real possibility that the bureau will not receive follow-on funding for the remaining vessels in FYs 2001-2003. Nor does it indicate how the data needed by the various fisheries programs

would be collected if the additional vessels are not acquired. The absence of such a contingency plan puts NOAA's fisheries programs at serious risk. NOAA's challenge is to thoroughly assess viable alternative approaches instead of relying so heavily on its in-house fleet.

### **Aeronautical Data**

Since its establishment in 1983, NOAA's Aircraft Operations Center, now located at MacDill Air Force Base near Tampa, has been responsible for gathering atmospheric, oceanographic, and other data for such programs as hurricane and major storm research, nautical and aeronautical charting, climate and global change, and snow and aerial surveys. As NOAA's major flight operations group, the center operates a fleet of 14 aircraft, composed of 2 heavy craft, 1 mid-size jet, 8 light fixed-wing aircraft, and 3 helicopters.

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

We conducted an audit of NOAA's light aircraft fleet to determine whether outsourcing is more cost-effective than in-house operation in meeting the bureau's aircraft requirements (see September 1998 issue, page 44). Our audit concluded that the full in-house cost of operating NOAA's light fixed-wing aircraft and helicopters averaged 42 percent more than the cost to operate similar aircraft in the private sector. In FY 1996, NOAA and interagency programs spent an additional \$1.9 million to operate the bureau's in-house aircraft as compared to private

sector costs. We recommended that NOAA privatize its light aircraft operations.

NOAA disagrees with our position and believes that cost data it has collected indicates that its light aircraft are cost competitive and that no funds would be saved by using other sources to meet its data collection needs. NOAA has since engaged a consultant to conduct an analysis regarding the light aircraft. Reportedly, the consultant's analysis will include a review of NOAA light aircraft costs and the costs to contract for similar private-sector aircraft. NOAA's challenge is to identify and thoroughly assess the best ways to collect its aeronautical data.

### **Manage PTO's Space Requirements and Lease Costs**

The Patent and Trademark Office's space consolidation project continues to be a major challenge for the agency as it contends with the need to reinvent its business processes to make them more efficient and effective. PTO's project is expected to be one of the largest real estate ventures that the federal government will undertake in the next decade. This fact, coupled with the intense interest by the many diverse parties concerned with various aspects of the project's planning and development, makes getting it completed a special challenge.

On behalf of PTO, GSA will award a contract to a private developer to construct a new facility or renovate an existing one and lease it back to PTO for at least 20 years with the option to buy. The solicitation calls for the construction of the building shell, to include basic electrical and mechanical systems, with the interior to be "built out" later. The project has been delayed almost a full year because it has been challenged in two separate federal court actions. GSA and PTO are contesting these challenges and hope to award the lease development contract by December 1999, with occupancy of the new building to begin in the summer of 2003.

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Given the size and importance of the planned PTO consolidation project, we conducted a review of the project in 1998 to determine whether (1) the project was justified and (2) PTO was effectively managing the project's critical acquisition phase (see March 1998 issue, page 54). The review concluded that the project was justified and should continue. We also found that PTO was managing many aspects of the lease/development procurement well.

However, we expressed several concerns about PTO's management and planning for this major procurement. For example, PTO had failed to finalize its space requirements or reach agreement with one of its major unions concerning working conditions related to space requirements in a timely manner. In addition, we expressed concern about the lack of a contractual cost ceiling on the build-out. Also, in determining its space requirements, PTO had failed to factor in potential savings and efficiencies gained from systems reengineering and automation.

PTO has responded favorably to all but two of our recommendations and has incorporated plans for addressing them into its planning and management of this project. Initially, PTO did not agree with establishing a contractual ceiling for the build-out. However, this is no longer an issue, as the October 9, 1998, solicitation for offer placed a cap of \$29 million on the above standard build-out cost. PTO also disagreed with our recommendation that related to potential savings and efficiencies gained from systems engineering and automation.

Last year the then Acting Inspector General testified before the Subcommittee on Transportation and Infrastructure of the Senate Committee on Environment and Public Works on our review of the project. He noted that although some of our recommendations had not yet been fully addressed by PTO, we were satisfied that this project should continue. We still hold this view and believe that continuing management attention and OIG oversight will be needed to ensure that the project is

completed in a timely, cost-effective manner within the cost limits prescribed by the Congress.

### **Maximize Competition in the Department's Financial Assistance Programs**

In our last issue (see March 1999 issue, page 6), we discussed our ongoing review of the criteria, procedures, and practices used to make funding decisions under the Department's discretionary financial assistance programs. Our review is being conducted at the request of the Chairman of the Senate Commerce, Science, and Transportation Committee, who made similar requests of the OIGs of the Department of Transportation and the National Science Foundation. The Chairman asked that we examine the criteria developed, statutorily or administratively, to guide Commerce officials in making discretionary awards, as well as the extent to which such criteria were appropriately applied.

Discretionary financial assistance programs involve a significant portion of the Department's budget and operations. Six Commerce agencies and the Office of the Secretary administer 72 programs that provide a total of about \$1 billion a year to state and local governments, educational institutions, other organizations, and individuals.

Our review is focusing on the FY 1997 award criteria, procedures, and practices of 33 programs we have classified as "full discretion" programs. For the purpose of our review, full discretion programs are those programs whose authorizing legislation places no significant limitations on the Department's ability to independently determine the recipients or funding levels of the awards made under the programs. These programs accounted for more than 1,700 awards and \$802 million in FY 1997 funding.

We have completed audits and issued reports on 22 of the 33 Commerce programs to date. These programs represented 703 awards and \$382 million

in 1997 funding. Of these programs, 10 are administered by NOAA, 4 by NIST, 2 by MBDA, 2 by NTIA, 2 by ITA, 1 by EDA, and 1 by the Office of the Secretary. We found that 13 of the 22 programs were administered in accordance with the Department's guidelines for soliciting, reviewing, and selecting financial assistance applications for funding.

We did, however, identify opportunities for improvement in specific aspects of the various awards processes. Several of the programs could enhance the integrity of their procedures or bring more discipline to the award process by adopting the following practices:

- Expanding proposal solicitation efforts.
- Including outside participants as proposal reviewers to increase the objectivity of the selection process.
- Adequately documenting justifications for deviations from review panel recommendations.

The other nine programs we reviewed, eight NOAA programs and one Office of the Secretary program, made awards on a sole source basis without using competitive selection procedures.

We have recommended that NOAA and the Office of the Secretary ensure that financial assistance awards are made through a competitive process, unless otherwise mandated by law or adequately justified. We are pleased to report that NOAA agrees that more awards should be granted competitively for all discretionary funding programs and that a rigorous solicitation process should be used. The bureau is continuing to look at its current processes and has provided an audit resolution proposal, which we are assessing. We are also pleased to report that the Office of the Secretary converted its program to one that is competitive in FY 1998. Summaries of the seven reports issued during this period are in the agency overviews.

We expect to issue final reports on the remaining 11 financial assistance programs during the next semiannual reporting period. Upon completing the audits, we plan to issue a capping report summarizing the results of the individual audits, identifying cross-cutting issues, and providing recommendations to the Department for improvement. Based on the work to date, we are encouraged by the Department's and bureaus' positive responses and immediate actions on our recommendations.

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

Despite the many inherent challenges in determining how to best plan and measure its performance in accordance with the Government Performance and Results Act of 1993, the Department has made progress in meeting this challenge during FY 1999. The Department submitted its second annual performance plan, for FY 2000, to OMB and the Congress in February 1999.

The Congress, the General Accounting Office, and we agreed that, while the FY 2000 plan was significantly better than the FY 1999 plan, there was room for additional improvement. Of particular concern was the need for the Department to ensure that the data to be used in measuring performance is accurate, complete, and reliable. While the 2000 plan discussed the methods the Department will use in the verification of performance data, the extent to which the performance information can be relied on remains unclear.

We have regularly provided advice and assistance to the Department on implementing GPRA. We have made several presentations on the need to improve the credibility of reported performance data, and have also focused attention on the linkage between the reporting of financial and performance information.

## IG's Message for the Congress

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During the audit of the Department's FY 1998 financial statements, we found that the process used by the Department to develop its statement of net cost and overview could be strengthened by improving communication and coordination between the offices for strategic planning and financial reporting. The overview, which identifies the Department's most significant performance measures, and the statement of net cost, which identifies the costs to achieve the results, link financial and performance reporting.

We worked with the strategic planning office and financial reporting office in their efforts to identify the Department's most important measures and to implement a format for the statement of net cost that effectively reflects the Department's

activities. Based upon comments received from the bureaus, modifications were made to the proposed statement and measures planned to be reported. This effort was essential because the Department plans to submit its first accountability report for FY 1999.

FY 2000 will be a challenging year as the Department revises its strategic plan, prepares its initial program performance report, and submits its third annual performance plan. We will continue to look at the Department's efforts to implement GPRA, provide advisory comments regarding GPRA documents, and, where resources permit, perform targeted reviews. Moreover, we will ensure that there is consistency between the Department's financial and performance reporting.



### OTHER ISSUES OF CONCERN

#### *Interagency and Other Special Agreements*

The Department of Commerce relies heavily on interagency and other special agreements in carrying out its mission. For example, in FY 1997, Commerce had more than 4,700 agreements, involving approximately \$1.1 billion in funds received for reimbursable activities or obligated to acquire goods or services from other parties. These agreements can be between Commerce entities or between one Commerce unit and another federal agency, a state or local government agency, an educational institution, a not-for-profit organization, or a private party. Although agreements involve a significant amount of federal resources, they are not subject to the same controls and oversight as contracts, grants, or cooperative agreements.

During this semiannual period, we issued the last 2 reports, in a series of 10, covering our reviews of Commerce units' agreements. These last two reports cover the Patent and Trademark Office and the National Technical Information Service (see pages 61 and 64).

We are pleased to note that during this semiannual period, several of the most important recommendations made in one of the first reports in this series, the one covering the Office of the Secretary (see September 1998 issue, page 72), are being acted upon by the Department. Specifically, we recommended that the Department prepare formal policies and procedures covering agreements and develop a database to track agreements. The Department is now developing Commerce-wide agreements guidance, in the form of a handbook, which is being reviewed by the various bureaus, and is seeking to identify in-house resources for the development of the database. It is hoped that once the Department's handbook and database are fully implemented, many of the problems we identified with agreements will be fixed.

Following are some of our observations from the 10 reports issued to date:

- Most agreements reviewed appeared to serve important and appropriate functions. Also, we are pleased to note that the Department and some individual bureaus are improving their processes for preparing and monitoring agreements.
- Some bureaus have improperly entered into informal arrangements without the benefit of a written agreement.
- Agreements have sometimes been used when a traditional procurement contract would have been more appropriate.
- Agreements have sometimes been used when financial assistance awards would have been preferable.
- Bureaus generally do not adequately track and control agreements.
- Some bureaus need to improve their systems and procedures to better ensure full cost recovery under reimbursable agreements.

## IG's Message for the Congress

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In the near future, we will issue a capping report that will identify several cross-cutting issues found during our Department-wide review of agreements. In this report, we will also draw upon work related to agreements that was done as part of earlier OIG reviews. In addition to identifying common problems that the various Commerce bureaus have experienced in preparing and administering agreements, we will highlight several “best practices” for bureaus and line offices to consider adopting.

### **Export Controls for Dual-Use Commodities**

The United States controls the export of certain goods and technologies for national security and foreign policy (including nonproliferation) purposes. Given the importance of export licensing and enforcement of export controls to national security, we have devoted considerable attention to the challenges facing the Bureau of Export Administration in issuing licenses authorizing the export of certain dual-use commodities. Dual-use commodities are goods and technologies that have both civilian and military uses. Controls over the export of dual-use commodities are a subject of continuing controversy, generating a wide range of opinions on how well the government’s export control policies and practices balance the need to protect U.S. national security and foreign policy interests with the desire not to unduly hamper U.S. trade opportunities and competitiveness. Striking this balance poses a significant challenge for the parties involved, including BXA.

In addition, BXA must administer these export controls in a world with increasingly porous borders. In prior years, we identified some weaknesses in BXA’s controls over exports of biological agents (see September 1995 issue, page 23) and its effectiveness in conducting end-use checks and maintaining a watchlist to screen license applicants (see September 1997 issue, page 18). During this past year, we conducted a broad review of BXA’s leadership role in the interagency export licensing process.

In August 1999, the Senate Committee on Governmental Affairs asked us, along with the OIGs of the Departments of Defense, Energy, State, the Treasury, and the Central Intelligence Agency, to conduct an interagency review of the export licensing process for dual-use commodities and munitions. As part of this review, the OIGs followed up on findings and recommendations from a similar interagency review completed five years ago (see September 1993 issue, page 15). The review also examined the effectiveness of the Department of Commerce’s current policies, procedures, and practices in its licensing of dual-use goods and technologies.

In June 1999, each OIG issued a report on its agency’s role in the licensing process (see page 17). The OIGs also issued a cross-cutting report that consolidated the findings and recommendations of all six reports. On June 23, 1999, the Commerce Acting Inspector General, along with the Inspectors General of the other five agencies, testified before the Senate Committee on Governmental Affairs on the findings and recommendations from the review.

We will continue to monitor BXA’s efforts to improve export controls. As part of this effort, we will comply with the National Defense Authorization Act for Fiscal Year 2000, which mandates that we, along with the OIGs of the other five agencies, conduct annual assessments for the next eight years on the adequacy of current export controls and counterintelligence measures to protect against the acquisition of U.S. technology and technical information by countries and entities of concern.

## RESOLUTION AND FOLLOW-UP

The Inspector General Act Amendments of 1988 require this report to present those audits issued before the beginning of the reporting period (April 1, 1999) for which no management decision had been made by the end of the period (September 30, 1999). The following table presents the overall status.

Type of Audit Report	Unresolved
Performance	9
Financial Assistance	1

Seven of the nine unresolved performance audits are audits of the awards processes of discretionary grant programs administered by NOAA. We are currently reviewing NOAA's action plan for these audits. The other two audits, both unresolved for more than a year, deal with the NMFS laboratory structure and NOAA's light aircraft operations. We are continuing to work with NOAA to explore alternative approaches to resolving these audits. (See page 54.)

The unresolved financial assistance audit involves an EDA grant award. We did not agree with EDA's response to the final report and are awaiting a revised audit resolution proposal. (See page 23.)

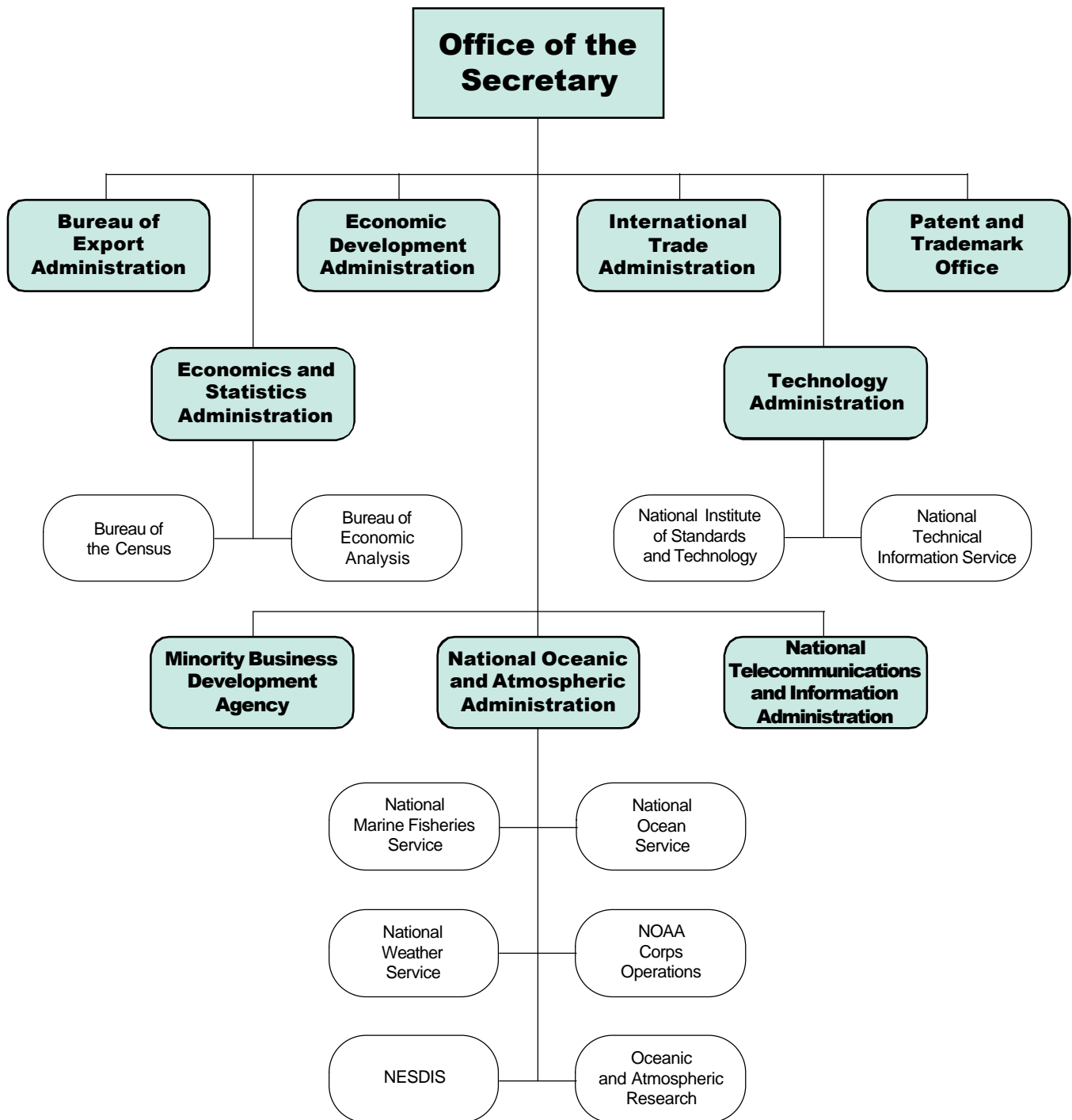
Department Administrative Order 213-5, "Audit Resolution and Follow-up," provides procedures for management to request a modification to an approved audit action plan, or for a financial assistance recipient to appeal an audit resolution determination. The following table summarizes modification and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

Report Category	Modifications	Appeals
Actions pending (April 1, 1999)	0	8
Submissions	0	12
Decisions	0	4
Actions pending (September 30, 1999)	0	16

The 16 appeals pending final decision by the Department include 1 NOAA, 1 NTIA, 2 EDA, and 12 NIST financial assistance audits. The EDA appeals are more than a year old.



# Department of Commerce Organization Chart



# Bureau of Export Administration



## Export Licensing Process Needs Refinement

On June 23, 1999, the Commerce Acting Inspector General—along with the Inspectors General of the Departments of Defense, Energy, State, the Treasury, and the Central Intelligence Agency—testified before the Senate Committee on Governmental Affairs on an interagency review of the export licensing process for dual-use commodities and munitions. Dual-use commodities are goods and technologies determined to have both civilian and military uses. The review was done in response to the Committee Chairman’s request that the six IGs look at the licensing process and update a similar interagency OIG review conducted in 1993 (see September 1993 issue, page 15).

BXA administers the U.S. government’s export licensing and enforcement system for dual-use commodities for national security, foreign policy, and nonproliferation reasons under the authority of several laws, including the Export Administration Act of 1979, as amended. Although that statute expired in September 1990, export regulations promulgated under the act remain in effect by executive order.

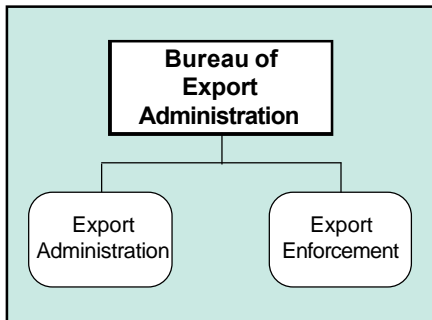
Our review found the licensing of U.S. dual-use exports to be an improved multi-agency review process that attempts to bring divergent policy views and information to bear on license decision-making. We also concluded that the interagency referral and escalation processes for export license applications are working reasonably well. There are four levels of escalation for dual-use cases: the Operating Committee at the senior civil service level, the Advisory Committee on Export Policy at the assistant secretary level, the Export Administration Review Board at the Cabinet level, and the President.

We noted significant improvement in several aspects of BXA’s review of license applications and issuance of licenses since 1993. However, we also found a number of problems that warrant the attention of BXA, the Department, the Administration, and the Congress. Our observations were as follows:

- **Current export control legislative authority and regulations need attention.** New legislative authority is needed to replace the expired Export Administration Act and accurately reflect current export control policies. In addition, export control policies and regulations covering the release of technology to foreign nationals—referred to as “deemed exports”—are ambiguous and need to be revised.

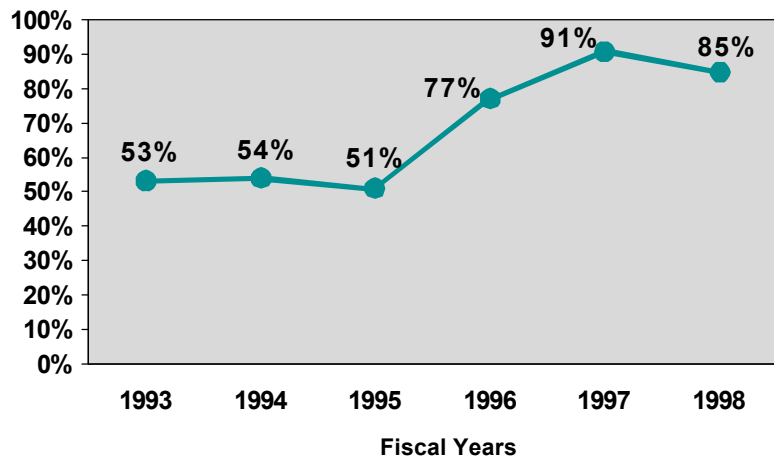
The **Bureau of Export Administration** is primarily responsible for the administration and enforcement of the nation’s system for controlling exports of sensitive dual-use goods and technologies. Under the Export Administration Act and regulations, BXA’s major functions include formulating and implementing export control policy; processing export license applications; conducting various policy, technical, and economic analyses; promulgating regulations; conducting industry outreach; and enforcing the act and regulations. **Export Administration** implements U.S. export control and nonproliferation laws and policies through export licensing, commodity classifications, and advisory opinions; technical, economic, foreign availability, and policy analyses; promulgation of regulations; and industry outreach. It also conducts various defense industry base activities. **Export Enforcement** participates in reviews of export license applications and conducts criminal and administrative investigations of the export control portions of the Export Administration Act and regulations. It also administers and enforces the antiboycott provisions of the act and regulations.

# Bureau of Export Administration



- **More transparency is needed in the commodity classification process.** Although BXA has instituted a front-end review mechanism to pre-screen exporters' requests for commodity classifications, BXA's processing of these requests is often not timely, resulting in delays for exporters. In addition, BXA needs to work with both Defense and State to develop specific criteria and procedures for referring munitions-related commodity classifications to those agencies.
- **The documentation on initial analyses of export applications should be enhanced.** It was difficult to determine whether some license applications were being thoroughly analyzed by BXA licensing officers in the initial review period because there was little documentation as to how the officers reached their conclusions. Better policies and procedures, as well as additional training, could enhance officers' documentation of their analyses of applications.
- **The export license application review process has improved.** The 1993 multi-OIG review pointed out that there was not complete accord between Commerce and most of the other federal agencies regarding license application referrals. Since that time, BXA has made improvements in the process for referring export license applications to other agencies. In FY 1998, BXA referred 85 percent of export license applications to other agencies for review, up from 53 percent in fiscal year 1993.

**Percentage of Export License Applications Referred to Other Agencies**



- **Weaknesses in the review process need to be addressed.** While the overall referral process is effective, action is needed to ensure that (1) licenses are not amended without interagency review, (2) adequate review time is provided to the Central Intelligence Agency for its end user checks, (3) a mechanism is established to better track and assess the cumulative effect of dual-use exports to a specific country or region, and (4) all parties to pending license applications are screened against a major law enforcement database maintained by the Treasury Department.
- **Dispute resolution process gives referral agencies a meaningful opportunity to escalate license applications.** From fiscal years 1991 to 1998, the number of cases escalated to the Operating Committee increased by 353 percent, while the number escalated to the Advisory Committee on Export Policy decreased by 62 percent. In addition, only one case has been escalated to the Export Administration Review Board since 1991. The fact that there have been significantly more cases escalated to the Operating Committee, and many fewer escalated to higher levels, indicates that this process is working well.
- **BXA has sought interagency guidance during review of exporter appeals, but a more formal process is needed.** Once an export license application has been denied, the exporter has the right to appeal to BXA, whose decision is considered final. Although BXA informally confers with the referral agencies on appeals, we believe that a formal process should be developed to include these agencies in the appeals process.
- **BXA needs to improve its monitoring of license conditions with reporting requirements.** The ability to place conditions on a license is an important part of the license resolution process, as well as an additional means to monitor certain shipments. The 1993 interagency OIG review reported that BXA was not adequately monitoring license conditions. We found that this problem still exists.
- **End use checks are a valuable tool, but some improvements are needed.** End use checks, an important part of the license evaluation process, are used to verify the legitimacy of export transactions controlled by BXA and help prevent and detect illegal technology transfer. Many of these checks are conducted by Commerce's U.S. and Foreign Commercial Service (US&FCS) officers stationed at overseas diplomatic posts; other checks are conducted by BXA special agents during overseas "safeguard"

## Bureau of Export Administration

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visits to foreign companies. We identified concerns with US&FCS's and BXA's end use checks, including checks not done within established time frames, the use of non-American personnel to conduct some checks, the failure to perform on-site visits, and insufficient coordination with other embassy offices and host governments.

- **BXA needs a new automated export licensing system.** BXA's Export Control Automated Support System, developed in 1984, provides license processing and historical license information to BXA and the referral agencies. While BXA's export licensing process has become more effective in recent years, its automated system is lagging far behind. We strongly agree with BXA that it needs a new system to process export license applications efficiently and effectively.

BXA generally agreed with most of our observations and recommendations. However, the bureau stated that some of the recommended changes to its current practices do not have obvious benefits or may be difficult to implement. In addition, BXA stated that virtually none of our recommendations include any assessment of the budgetary impact. With the exception of our recommendation that BXA develop a new automated licensing system, we are not convinced that implementing our recommendations would require substantial budget increases. We also contend that all of our recommendations have the clear benefit of improving the efficiency and effectiveness of the export licensing process. (*Office of Inspections and Program Evaluations: IPE-11488*)





## Research and Evaluation Program Funding Decisions Should Be Documented

As part of its Department-wide review of Commerce's discretionary financial assistance programs, the OIG conducted an audit of the FY 1997 criteria, procedures, and practices for soliciting, reviewing, and selecting preliminary and full proposals for financial assistance under EDA's Research and Evaluation Program. Discretionary financial assistance programs are those programs for which federal agencies have the authority to independently determine the recipients and funding levels of awards.

Through the Research and Evaluation Program, EDA provides financial assistance to individuals and organizations for the conduct of economic development research to help (1) determine the causes of unemployment, underemployment, underdevelopment, and chronic depression in the nation, and (2) formulate and implement national, state, and local programs to raise income levels and otherwise produce solutions to the problems resulting from those conditions. During FY 1997, the program awarded five grants, totaling \$603,000.

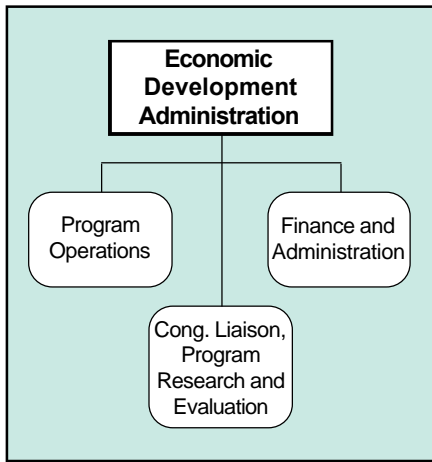
Based on our review, we found that there was insufficient documentation of EDA's award procedures and practices to determine whether they supported merit-based decisions and complied with federal and departmental guidance. Specifically, we found that:

- EDA developed criteria consistent with program objectives to evaluate proposals and applications for awards, but failed to document its application of these criteria.
- EDA published a solicitation notice in the *Federal Register* announcing the availability of funding and soliciting program proposals and applications for awards and also publicized the program on its web site; however, the notice did not provide potential applicants with a clear description of the procedures to be used in reviewing and selecting applications for funding.
- EDA did not adequately document its procedures and practices for reviewing and selecting proposals and applications for awards.

We recommended that EDA ensure that procedures and practices for the solicitation, review, and selection of proposals and applications for Research and Evaluation Program awards support merit-based decisions by making sure that solicitation notices include all basic program information and that EDA's procedures and practices for the review and selection

The **Economic Development Administration** was established under the Public Works and Economic Development Act of 1965, as amended, including the comprehensive amendments by the Economic Development Administration Reform Act of 1998, to generate new jobs, help protect existing jobs, and stimulate commercial and industrial growth in economically distressed areas of the United States. EDA does this by providing grants to public and private nonprofit organizations in communities with problems that are stifling economic growth; planning grants to states, cities, districts, and Indian reservations; special economic adjustment assistance to states and local governments with recent, severe problems or long-term economic deterioration; technical assistance to communities to build organizational capacity and solve specific economic development problems; and research and evaluation grants to increase knowledge about effective economic development tools.

# Economic Development Administration



of proposals and applications are properly documented. EDA agreed with our findings and recommendations. (*Business and Trade Audits Division: BTD-11548-9-0001*)

## Midwestern Flood Grantee Had Inadequate Financial Management System

In August 1997, EDA awarded two grants to a nonprofit organization in a Midwestern city to alleviate the effects of an April 1997 flood that crippled the city. The flood forced nearly 90 percent of the city's residents to evacuate the area for several days and damaged numerous homes and businesses. Total disaster losses to the city were estimated at \$1.8 billion. The organization, a regional resource for economic development initiatives that operates under the city's job development authority, uses federal grant funds to award loans and grants, and make equity investments in regional business ventures.

One EDA grant of about \$2.2 million was awarded to establish a revolving loan fund (RLF) to provide loans to the city's small businesses. The second grant of nearly \$6.9 million was awarded to construct a building to house businesses damaged by the flood.

An OIG interim financial audit of costs claimed under the two awards found that the organization's accounting and financial management system did not comply with federal regulations, EDA requirements, or award terms and conditions. The deficiencies included the incorrect calculation of RLF income, an inadequate financial management system, failure to submit a program income reutilization plan, inadequate project inspection procedures, and unapproved project change orders.

We recommended that EDA direct the organization to correct the RLF income calculation, improve its financial management record-keeping, prepare a program income reutilization plan for EDA's approval, reinspect the building, and obtain EDA approval for all unapproved change orders. The organization and EDA took actions that complied with our recommendations. (*Denver Regional Office of Audits: DEN-11625-9-0001*)

## Lease Agreement Reached Under Flood Grant Project Appears Deficient

As part of an earlier review of EDA's Midwest Flood Program (see September 1998 issue, page 19), we conducted examinations of individual grant recipients, including a Missouri city and its co-recipient, a for-profit firm. EDA awarded a grant to construct a city-owned facility to replace a

manufacturing plant that had been destroyed during the Midwest floods of 1993. Total funding for the project included approximately \$2 million from EDA and about \$1 million from the grantees. Upon completion, the facility was leased to a for-profit company.

During our review, we found several deficiencies in the lease agreement between the city and the for-profit company, including (1) lease rates that appeared to be much lower than fair market rental rates for the facility, (2) lease terms that allowed the transfer of the facility to the for-profit company after the term of the 20-year EDA mortgage for less than adequate consideration, and (3) lack of support for the 20-year life of the facility, which was used to set the length of the mortgage.

Because of the generous terms of the lease, we were concerned that the transaction appeared to be a “pass-through” of EDA Title IX funds to a for-profit company, in violation of the Public Works and Economic Development Act. While the overall purpose of the project was met, we believed that EDA needed to ensure that the lease transaction meets agency requirements. We expressed our concerns to EDA in a May 7, 1999, memorandum. We are currently discussing with EDA officials the actions needed to correct the noted deficiencies. *(Denver Regional Office of Audits)*

### **Investigation in Brief**

**Sentencing.** In the March 1999 issue (page 29), we reported on the bribery conviction of a former economic development representative. The conviction resulted from a joint OIG/FBI/IRS investigation, which found that the official had accepted \$3,000 from two individuals representing an applicant for EDA grant funds. In May 1999, he was sentenced in U.S. District Court for the Western District of Texas to 36 months’ probation, fined \$20,000, and ordered to perform 150 hours of community service. *(Denver Field Office of Investigations)*

### **Audit Reports Unresolved for Over Six Months**

As of September 30, 1999, one financial assistance audit report, DEN-10586-9-0001 (see March 1999 issue, page 28), had recommendations unresolved for more than six months. The report found that a nonprofit grantee in Texas had disregarded procurement standards in awarding a \$244,250 contract to a consulting firm. The report also questioned \$258,838 in salary costs and in-kind contributions because of inadequate supporting documentation. EDA did not agree with our findings, and we are awaiting the submission of a responsive audit resolution proposal.

The **Economics and Statistics Administration** analyzes economic developments, develops policy options, and produces a major share of U.S. government economic and demographic statistics. The Chief Economist monitors and analyzes economic developments and directs studies that have a bearing on the formulation of economic policy. ESA has two principal agencies: **Bureau of the Census.** Census is the country's preeminent statistical collection and dissemination agency. It publishes a wide variety of statistical data about people and the economy of the nation, conducting approximately 200 annual surveys, in addition to the decennial census of the U.S. population and the decennial census of industry. **Bureau of Economic Analysis.** BEA's goal is to provide a clear picture of the U.S. economy by preparing, developing, and interpreting the national income and product accounts (summarized by the gross domestic product), as well as aggregate measures of international, regional, and state economic activity.

## *Dress Rehearsal Quality Check Survey Indicates Improvements Needed for Decennial*

On April 1, 2000, the Census Bureau will begin conducting the decennial census of the nation's population for the purpose of congressional apportionment. Census data is also used for state and federal redistricting and allocating federal funds.

Although the bureau attempts to count every resident during the census, some undercount of the population has occurred in all decennials. For 2000, the bureau plans to use a quality check survey in an attempt to more accurately estimate the population. Under this methodology, the direct enumeration and the subsequent quality check sample survey will be conducted independently. Although the Supreme Court determined that the Census Act bars the use of statistical sampling for apportionment purposes, the Court also wrote that the act requires the use of sampling, "if feasible," for all other purposes. The bureau intends to provide statistically corrected numbers for non-apportionment purposes, based on its judgment that the corrected count will be more accurate.

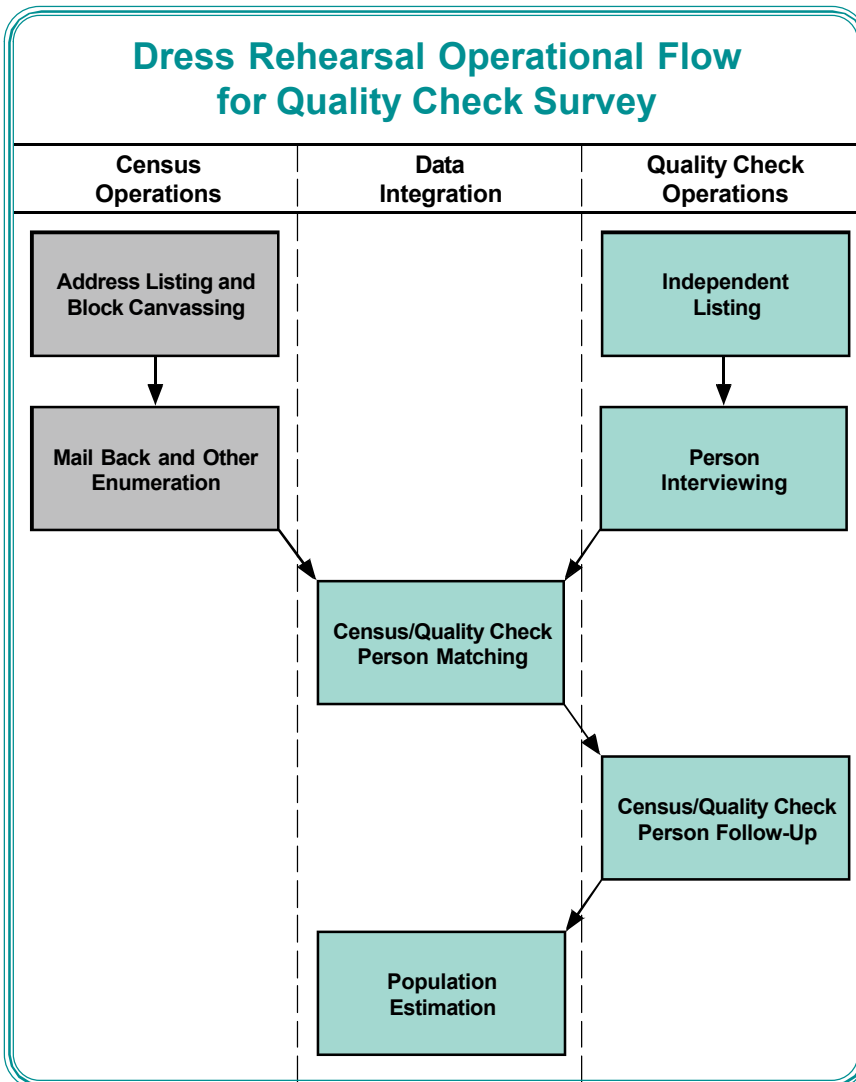
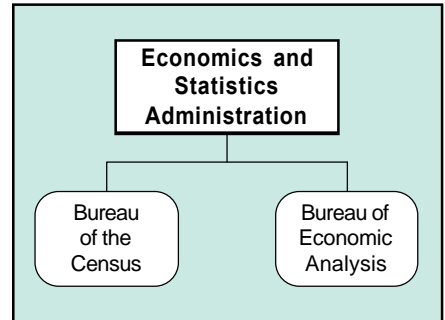
During the census, the bureau will begin the five major operational phases of the quality check survey (see facing page): (1) developing an *independent listing* for each housing unit in the sample, (2) conducting *person interviews* using laptop computers to gather and transmit census data for each unit, (3) conducting *person matching* to compare the results obtained during person interviews with the results obtained in the census, (4) attempting to resolve discrepancies from the person matching phase during *person follow-up*, and (5) performing the *population estimation* once sample data has been compared to census data.

In 1998 the OIG conducted an audit to test quality check survey operations during the decennial dress rehearsal, whose purpose was to assess various operations and procedures to be used in the decennial. The dress rehearsal was conducted at three sites: (1) an 11-county area including the city of Columbia, South Carolina; (2) the city of Sacramento, California; and (3) the Menominee American Indian Reservation in Wisconsin. Our audit focused on person interview and person follow-up procedures in Columbia and Sacramento. We found several areas in which the bureau needs to make improvements in preparing for the decennial:

- The person follow-up phase encountered significant delays because the bureau was unable to provide the data necessary for field operations to begin. As a result, in trying to keep the quality check survey on schedule, bureau interviewers took shortcuts that we believe could degrade the accuracy of decennial results.

# Economics and Statistics Administration

- The bureau did not have procedures for person follow-up to deter enumerators from falsifying interviews or to detect those that may have occurred because it believed that such a process would be too complex to develop. However, this phase of the survey is particularly susceptible to falsified interviews because both direct enumeration data and quality check survey data are preprinted on the questionnaire. Therefore, we believe that the benefits of having such a process outweigh the challenges of developing it.
- Although the use of laptop computers during the person interview phase generally worked as intended, interviewers identified several problems related to the electronic transmission of person interview cases from their laptops to the headquarters computer server.



These problems were caused in part by software errors in the case check-in program on the server and by miscommunications between headquarters officials, regional officials, and field staff.

- Although the bureau intended to test the effectiveness of using laptops to provide interviewer performance information to field supervisors, technical problems hindered the bureau's ability to fully test the performance reporting system during the person interview and person follow-up phases. For example, software problems delayed the deployment of one report onto the laptops, while the design of another report did not meet user needs.

Among our recommendations were that the bureau (1) identify and resolve for the 2000 decennial the underlying causes of delayed person follow-up operations, and ensure that data collection procedures are followed by interviewers in the field, (2) develop a quality assurance plan for person follow-up that is designed to deter and detect enumerator-falsified data in the 2000 decennial, (3) correct and operationally test the case check-in program and clearly communicate procedures for retransmitting cases, and (4) operationally test the performance reporting system before the 2000 decennial to ensure that correct and timely information is available to field managers.

The bureau concurred with our recommendations. According to bureau officials, plans for the quality check survey now include prioritizing the workload so that the regional offices will receive large or difficult cases early in the person follow-up operation to allow more time to work on them. Bureau officials also state that a person follow-up quality assurance program has been developed to detect falsification and ensure that questionnaires have been completed properly and that information is legible and usable. (*Economics and Statistics Audits Division: ESD-11449-9-0001*)

### **Multiple Response Resolution Improvements Needed for Accurate, Timely Census Processing**

To make it easier for people to be counted in the 2000 Decennial Census, the Census Bureau will allow households the option to respond in several ways. In addition to collecting data through its traditional methods of mailed questionnaires and in-person interviews, the bureau will allow the public to respond by using forms available in public places, by telephone, or over the Internet.

While multiple response methods increase the chances that people will be counted, they also increase the likelihood of receiving more than one

response from a given housing unit, with some responses including the same people. The bureau has devised procedures to count individuals at each address and has automated this process, called multiple response resolution (MRR). When multiple responses are received, MRR is supposed to include people at an address who resided there on Census Day, April 1, 2000, and omit people who did not or who were already counted from another response for that housing unit.

The OIG conducted an evaluation to determine whether MRR is likely to resolve multiple responses correctly—and in the allotted time—during the decennial. We observed the bureau’s preparations for using MRR during the 1998 Dress Rehearsal and reviewed results from its processing of dress rehearsal response data.

The bureau’s “report card” on the dress rehearsal asserted nearly perfect accuracy rates for MRR. However, the report card calculated MRR errors in terms of the total enumeration, rather than the households that submitted multiple responses. For example, although the report card for MRR in Sacramento showed an error rate of only 0.3 percent based on total enumeration, the error rate based on a calculation of MRR’s success in resolving multiple responses was 9 percent—30 times as high. In reporting on future performance, the bureau should identify MRR’s accuracy in resolving multiple responses, as well as the impact of MRR errors on the total enumeration.

We identified several conditions that diminished the accuracy of MRR results in the dress rehearsal. Problems with the questionnaire design, the way the public completed the questionnaire, and automated data capture in some cases caused inaccurate data to be sent for MRR processing. Moreover, the MRR software sometimes produced questionable results. MRR analysts are reviewing the dress rehearsal and evaluation data to determine what modifications are needed to the procedures and associated software for resolving multiple responses.

In addition, we concluded that the bureau cannot ensure that the process is implemented correctly because it did not use a sufficiently structured approach in developing the MRR software. A more structured approach, using software engineering standards, would help ensure correct implementation of MRR. Software testing also needs to be expanded to address more diverse response data and ensure that MRR can reliably handle a wide array of potential input conditions. Finally, the bureau needs to make a coordinated effort to perform beginning-to-end testing of questionnaire data processing to ensure that the output from each step is accurate and can be input into the next step without error.

We also found that, based on dress rehearsal results, MRR processing for the decennial census would require more than the 30-day period that the bureau has estimated to ensure the timely availability of data for follow-on processing operations. The bureau needs to obtain additional computing resources and modify the MRR software to reduce excessive processing time.

To address these issues, important decisions concerning MRR requirements and design must be made and significant development and testing work accomplished. The bureau has acknowledged many of the issues addressed by our report and is analyzing the dress rehearsal data and working on improvements to MRR. In addition, it has made substantial improvements to the data capture system since the dress rehearsal. However, the bureau has not fully defined the activities needed to refine MRR and complete its development. We made several recommendations to assist the bureau in defining these activities and developing and implementing a plan for their completion.

The bureau stated that it concurred with, or had already acted upon, most of our recommendations. After the report was issued, the bureau reported having taken several actions to simplify the process to reduce processing time. (*Office of Systems Evaluation: OSE-10711*)

### **Decennial Public Awareness Campaign Is Meeting Program Objectives**

Despite the importance of having accurate decennial census data, and the public's obligation to answer and return census forms, the Census Bureau has been confronted with a steady decline in the mail response rate. The portion of households that complete and mail back the census form was 75 percent in 1980 and 65 percent in 1990. It is expected to decline to 61 percent in 2000.

When households do not respond to the decennial, costs increase dramatically because the bureau must hire enumerators to contact each non-responding household to obtain the data. In 1990 the average cost of enumerating a household that mailed back a questionnaire was \$2. But the cost quickly escalated to \$12 when an enumerator had to contact the household, and approached \$36 for households that required additional follow-up contacts.

Despite the bureau's follow-up efforts, many households remain uncounted. In 1990 the estimated net undercount (the number of people undercounted minus the number overcounted) was about 4 million people.



Furthermore, the undercount was not equally distributed across all demographic groups, a factor called the differential undercount. For example, in 1990 the net undercount for the nation as a whole was 1.6 percent. However, the net undercount was 4.4 percent among African Americans, 5.0 percent among Hispanics, 2.3 percent among Pacific Islanders, and 12.2 percent among American Indians.

To boost mail response rates for Census 2000, especially among historically undercounted groups, the bureau will undertake special public awareness efforts to reach every person. These efforts principally comprise two major activities:

- Conducting an *advertising campaign* aimed at increasing the mail response rate, including that of historically undercounted populations. For the first time, the campaign will incorporate paid television, radio, and print ads.
- Leveraging local knowledge and contacts by building *partnerships* with state, local, and tribal governments, community-based organizations, the media, and private-sector organizations.

The OIG conducted an audit of both activities involved in the bureau's public awareness campaign and, because the two activities have similar goals—increasing the mail response rate and reducing the undercount—also evaluated the coordination between them.

In October 1997, the bureau awarded a contract to an advertising firm to create and produce an extensive advertising campaign to inform and motivate the public to complete and return the census form. We believe that the development of the Census 2000 advertising message is supported by a sound methodology and that the contractor's actions effectively addressed the required objectives. The contractor hired subcontractors familiar with the groups that had been historically undercounted; performed research and extensive testing; and created a message aimed at getting people to respond by explaining how they benefit from the decennial. Moreover, the advertising firm presented the creative concepts to and actively sought feedback from many groups, including the bureau, the Department, the Census Advisory Committee, and the Congress.

We also found that the partnership program was implementing a comprehensive, effective nationwide program directed at increasing the mail response rate and thereby reducing the undercount. To accomplish its goals, the program has coordinated extensively with its government, business, and community-based partners. As of mid-July, the bureau had secured nearly 22,000 partnerships. These partners are closely affiliated

with the hard-to-count populations and should be instrumental in getting these groups to respond.

The bureau has also implemented several initiatives to address a lack of coordination between the advertising campaign and the partnership program identified during the 1998 Dress Rehearsal. Based on our review, it appears that these initiatives will provide for sufficient coordination among the regions, the partnership program, and the Publicity Office.

Whether the advertising campaign and partnership program will motivate households to participate by filling out and returning the questionnaire will only be known after the decennial is completed. To answer this question, the bureau is implementing plans to conduct post-census evaluations of both activities. Given the unprecedented effort to increase mail response and reduce the differential undercount, we agree that it is imperative that the bureau evaluate these activities to decide whether they should be continued for 2010.

Because our review revealed no significant problems, our report contained no recommendations. (*Economics and Statistics Audits Division: ESD-11755-9-0001*)

### **Methods of Archiving Decennial Data and Disposing of Questionnaires Need Finalizing**

During the 2000 Decennial Census, completed questionnaires received from households will be sent to data capture centers across the country for processing. To capture the data in a timely and efficient manner, the Census Bureau has awarded two contracts—the first for the development of a state-of-the-art system, Data Capture System 2000 (DCS 2000) (see March 1999 issue, page 30), and the second, a services contract to provide for the facilities, personnel, management, and equipment and supplies to perform data capture operations using DCS 2000. The bureau is responsible for ensuring that the data is secured and not improperly disclosed.

At the request of the House Government Reform and Oversight Committee, the OIG conducted an inspection to address concerns relating to the ownership of the completed questionnaires and the adequacy of the questionnaire disposal and inspection provisions.

In examining the services contract and related Census documents, we found that ownership of the completed questionnaires appropriately remains with the bureau, and that the provisions for government inspections to ensure proper disposal of the questionnaires are adequate. We also

found, however, that the bureau has not yet finalized its plans and procedures for questionnaire retention and disposal and cannot do so until a method has been identified for archiving the data that is acceptable to the National Archives and Records Administration. An agreement on archiving is needed before Archives will authorize destruction of the questionnaires and approve a destruction schedule.

We recommended that the bureau:

- Develop an archiving proposal for 2000 decennial data and begin discussing the proposal with Archives within 30 days.
- After reaching agreement with Archives on a questionnaire destruction schedule, incorporate relevant portions of the plan and procedures concerning the retention and disposal of completed questionnaires into the services contract.
- Immediately formalize its plan and procedures for the retention, use, and disposal of dress rehearsal questionnaires and incorporate the contractor's responsibilities into the DCS 2000 contract.

The bureau agreed to implement our recommendations. (*Office of Systems Evaluation: OSE-10758*)

### **Allegations Made by Census Employee Against Supervisor Were Not Substantiated**

In response to a congressional inquiry regarding allegations made by a temporary Census Bureau field office employee against a supervisor, the OIG conducted a review to determine the validity of the claims. The employee alleged that during the block canvassing operation, conducted to verify mailing addresses in preparation for the 2000 Decennial Census, (1) data submitted was false and inaccurate because data pages were removed, unsupported changes were made, and data was submitted under the accuser's name without the required quality assurance procedures being completed; (2) employees were denied reimbursement for overtime worked and mileage driven; and (3) employees were treated with disrespect by being publicly humiliated by the supervisor.

We reached the following conclusions about the three allegations:

- Regarding the allegation of inaccurate data, we examined the bureau's data quality assurance procedures, which allow data to be corrected and revised at several stages during the block canvassing operation, and concluded that the procedures had been followed.

Because the bureau has the experience, knowledge, and program responsibilities to provide accurate data, we referred the specific allegation about inaccurate data to the bureau, asking it to advise us of the results of its inquiry.

- The allegation that employees were denied reimbursement for overtime and mileage was not substantiated. Overtime was neither requested by the employees nor authorized by local census office officials for the block canvassing operation, and employees were reimbursed for all mileage claimed.
- Due to the lack of objective documentary evidence and the inconsistent accounts of persons involved, we could neither confirm nor disprove the allegation that employees were treated in a disrespectful manner. (*Seattle Regional Office of Audits*)

### **Preliminary Work Identifies Concerns with Decennial Leasing Operations**

During our ongoing review of the bureau's efforts to lease office space for the 2000 Decennial, several issues came to our attention that warranted immediate management attention. Rather than wait until the issuance of a formal report, we informed the bureau of our preliminary observations in an interim memorandum so that it could achieve cost savings and other benefits during later phases of the decennial leasing operation.

Among the issues we identified were (1) concerns about the proposed Census Bureau-General Services Administration memorandum of understanding for the second phase of leasing, (2) potentially significant cost savings on leased space build-out, (3) the oversupply of materials and office supplies for block canvassing at certain locations, and (4) persistent problems with some local census office telephone systems.

A fifth issue of concern was that many leases from the initial phase of local office openings were awarded without adequate competition. This lack of competition resulted from the fact that the delineated geographic areas within which offices could be located were too narrowly drawn, which limited the number of lessors who could bid on the leases. As a result, the leases for many sites were more expensive than anticipated, and the bureau lost time in re-competing some leases. However, we have noted a concerted effort by the bureau to broaden its delineated areas in the latter phases of the lease acquisitions, a strategy that has resulted in greater competition. The bureau also said it would address the other issues we brought to its attention. Our final report will discuss the bureau's actions on these matters. (*Office of Inspections and Program Evaluations*)

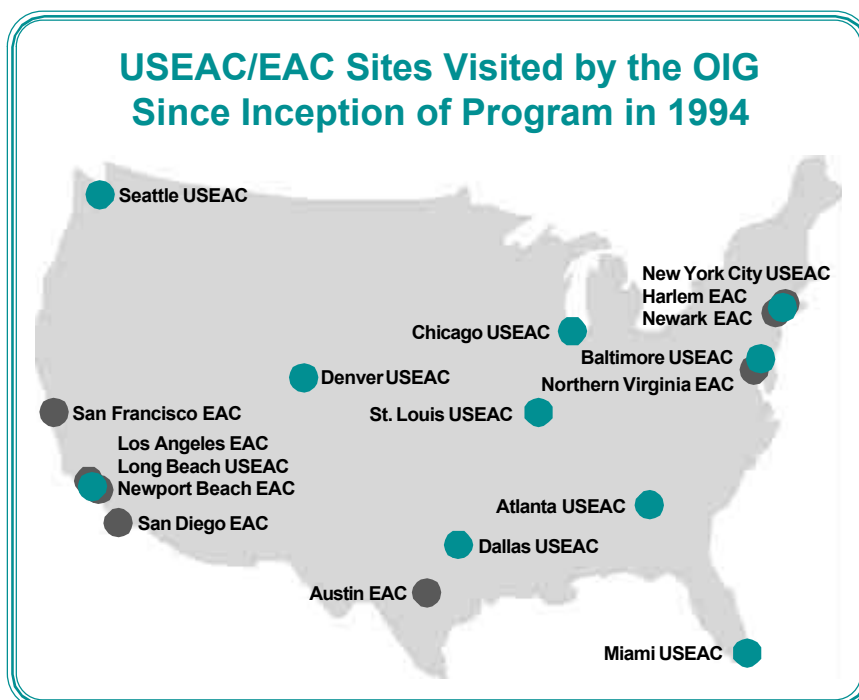
# International Trade Administration



## Inspector General Testifies on Progress of U.S. Export Assistance Center Network

On September 9, 1999, the Inspector General testified before the House Small Business Subcommittee on Tax, Finance, and Exports on the OIG's work related to U.S. Export Assistance Centers (USEACs). US&FCS operates a "hub and spoke" network consisting of 19 USEACs connecting 86 smaller Export Assistance Centers. The USEACs, the hubs of the network, are "one-stop shops" where US&FCS, along with the Small Business Administration (SBA) and the Export-Import Bank (Ex-Im Bank), bring together federal, state, and local government and private sector expertise to better assist U.S. exporters.

The IG's conclusions were essentially the same as those reported three years earlier in an OIG assessment of the development and rollout of the USEACs (see March 1996 issue, page 33)—namely, that although problems remain, the USEACs are demonstrating their ability to meet the needs of U.S. exporters. His conclusions were based on the progress the centers have made in demonstrating that federal agencies can work together to provide export assistance much better than under the previous fragmented approach. The IG's observations, discussed in the following sections, were derived from a series of OIG audits, evaluations, inspections, and follow-up work that included visits to the centers depicted below:



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

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

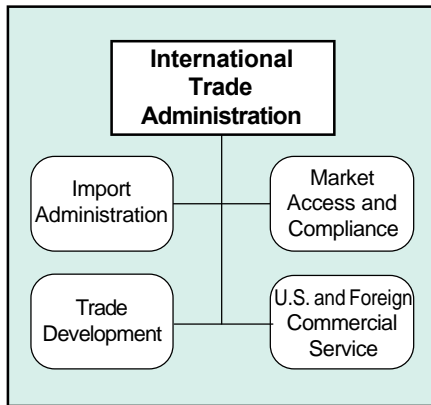
**Trade Development.** TD advises on international trade and investment policies pertaining to U.S. industrial sectors, carries out programs to strengthen domestic export competitiveness, and promotes U.S. industry's increased participation in international markets.

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

**U.S. & Foreign Commercial Service.** US&FCS promotes the exports of U.S. companies and helps small and medium-sized businesses market their goods and services abroad. It has 105 domestic offices and 138 overseas posts in 75 countries.

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- **Federal partners are increasingly working in a cooperative fashion.** More often than not, the collocation of export promotion and trade finance partners in the USEACs fosters closer working ties and strengthens information exchanges, resulting in improved export marketing and export finance assistance to small and medium-sized U.S. businesses.
- **Staffing at some USEACs remains a concern.** While SBA has at least one representative in every USEAC, Ex-Im Bank has staff physically located in only four USEACs. Ex-Im Bank officials emphasize that they have city/state partners in the vicinity of many EACs serving as authorized agents for Ex-Im Bank products and services; however, the ability and commitment of such partners have been questioned by USEAC staff and other stakeholders.
- **USEACs need a better system for identifying, measuring, and reporting programmatic accomplishments.** Currently, each of the three partner agencies assesses its performance only as an individual part of the USEACs; for example, US&FCS tracks export actions. We encouraged the development of additional performance criteria, such as joint counseling sessions and mutually beneficial outreach activities, that view the USEAC as a single entity.
- **The USEAC network is fostering stronger partner relationships with state and local trade organizations.** Some USEACs have already gone beyond being simply a federal partnership by also sharing resources with state and local export promotion organizations. These state and local partnerships have allowed some duplicative programs to be eliminated, while enhancing the quality and delivery of export assistance services to U.S. businesses.
- **Coordination between the USEACs and US&FCS's overseas posts could be better.** Cooperation has been spotty and too often dependent on the commitment of the individual staff at Export Assistance Centers and overseas posts. Specifically, our reviews have confirmed cases where US&FCS posts either were not timely in providing important products and services that USEAC clients were waiting for or provided products and services of inferior quality. US&FCS is working to remedy this situation through initiatives designed to increase teamwork among its trade specialists and help its domestic and overseas staff better understand each other's functions.

- **Marketing of centers' products and services should be improved.** According to representatives of some of the federal, local, state, and private trade organizations we spoke with, inadequate marketing is one of the biggest hindrances to delivering valuable USEAC services to U.S. exporters. Some believe that the USEACs are not effectively getting out the message of who they are, where they are, what they do, and what products and services they have to offer.

The IG concluded by expressing his optimism about the future of the USEACs and their potential to continue to improve their effectiveness in helping to meet the export promotion and trade finance needs of U.S. exporters.

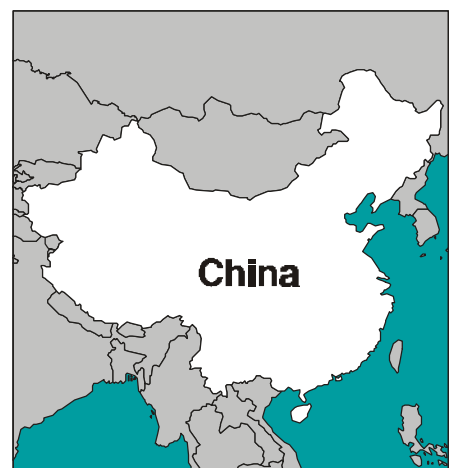
### ***OIG Continues Its Overseas Work with Reviews of Three US&FCS Posts***

During this semiannual period, the OIG continued its reviews of Commerce overseas posts (see September 1998 issue, page 35, and March 1999 issue, page 40), which are under the direction of ITA's U.S. and Foreign Commercial Service. The reviews are designed to evaluate the posts' operational effectiveness and determine whether they are efficiently accomplishing their mission of providing U.S. companies, especially small and medium-sized ones, with export assistance. In the following sections, we summarize the reports of the three inspections of the posts we issued during this semiannual period—China, Brazil, and South Africa.

#### **China**

The People's Republic of China is the United States' fourth largest trading partner. From 1992 to 1998, U.S. exports to China increased by more than 90 percent, growing from \$7.5 billion to \$14.3 billion. However, because China's exports to the United States have grown even faster, the U.S. trade deficit with China reached \$57 billion in 1998. Although trade barriers still exist in the areas of tariffs, market access, standards, and intellectual property rights, China, with a population of 1.3 billion, is a market with enormous potential for U.S. companies.

Recognizing the importance of China to overall U.S. trade relations, ITA has focused a great deal of attention on this emerging market. From 1996 to 1998, US&FCS increased its operations and administrative budget for China by over 50 percent—from \$2.3 million to \$3.6 million. In addition to carrying out its core trade promotion duties, US&FCS China has assisted many other U.S. government agencies, Members of Congress,



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and state delegations that have traveled to China to deal with a variety of trade policy and promotion issues. In addition to hosting a steady stream of visitors, US&FCS China has counseled many U.S. businesses and provided a wide range of services, including handling trade disputes and organizing trade events to meet U.S. companies' needs.

The OIG's inspection of US&FCS's operations in China involved visits to all five constituent posts: Beijing, Shanghai, Guangzhou, Chengdu, and Shenyang. We found that clients gave US&FCS China's staff high marks for their ability to handle multiple trade issues, their knowledge of the market, and their willingness to assist U.S. businesses. However, we also found problems that warrant management's attention:

- **The quality of some products needs to be improved.** U.S. business clients were generally satisfied with the services provided by US&FCS, especially the export counseling sessions and trade advocacy efforts. The production and timeliness of market research products have increased, but the quality and consistency of reporting among the five posts should be improved.

US&FCS's services designed to help U.S. exporters identify business leads and contacts received mixed reviews. Clients who purchased the Gold Key Service, a tailored mix of orientation briefings, market research, and appointments with potential partners, were generally pleased, although some pointed out the need for better targeting and prescreening of companies. Clients who purchased the Agent/Distributor Service, a customized overseas search for qualified agents, distributors, and representatives for U.S. firms, rated this service the lowest due to cancellations by the post, poor targeting of potential companies, and long delivery times. The post was taking steps to improve this service.

- **Export control checks warrant continued monitoring.** In addition to trade promotion activities, US&FCS China also fulfills its export control responsibilities to the extent that the Chinese authorities permit pre-license checks and post-shipment verifications. We noted that some scheduled pre-license checks had been canceled by the authorities. The United States was granted permission to conduct post-shipment verifications after our inspection, but this is an area we continue to monitor as part of our interagency review of the export licensing process (see page 17).
- **Management should address US&FCS China's needs.** Despite the importance of China to U.S. trade relations, ITA had left the deputy senior commercial officer position vacant for over



15 months. As a result, the senior commercial officer—who was on his first posting in that capacity—had to juggle many responsibilities and delegate others to inexperienced officers. Without a deputy, he also had insufficient time to devote to managing internal operations and building a strong, integrated country program. Consequently, the five constituent posts were not working effectively together, and many financial and administrative responsibilities had been neglected. Moreover, US&FCS management in Washington had neither provided sufficient guidance on building a strong export promotion program nor developed a regional plan for dealing with the Asian financial crisis.

- **Longstanding problems in financial operations need to be resolved.** US&FCS’s financial operations were troublesome due to inexperienced staff, a lack of management emphasis on monitoring and managing funds, and problems in the Beijing Embassy’s budget and fiscal office and the consulates’ cashier operations. US&FCS China could not rely on the financial reports produced by the budget and fiscal office because they did not accurately depict the post’s financial status; delays in that office’s processing of the post’s vouchers and overstated obligation reports provided a false picture of the post’s financial position. Improvements were also needed at all five posts in monitoring appropriated funds, overseeing deposit funds, reducing unliquidated obligation balances, and correcting weak internal control systems.
- **Administrative and personnel matters require more attention.** Managers in Washington and Beijing have to pay more attention to the administrative and personnel matters of US&FCS China. Because the post is staffed primarily with less experienced officers, more mentoring and training are needed, and efforts must be made to bring more experienced officers to China. Management must also work on retaining the foreign national staff by providing them with better training, classifying them at appropriate grades, and helping them advance in their careers. Greater focus must also be placed on more effectively tracking property and coordinating information technology needs. Finally, we urged the post and US&FCS Washington to explore options to relocate the Beijing post, which has outstripped its available space and resulted in an inefficient, less-than-professional-looking office environment.

We also devoted sections of our report to each of US&FCS China’s five constituent posts, discussing their successes and making recommendations in areas needing improvement. We highlighted the accomplishments of the Shanghai Commercial Center, which had an active schedule of trade

events. However, we urged the post to work more closely with its four collocated state government and trade association partners.

US&FCS agreed with most of our recommendations and identified the steps it has taken to implement some of them. We were especially pleased to see that the posts and US&FCS headquarters have indicated their commitment to address many of the program gaps and management and administrative problems highlighted in our report. (*Office of Inspections and Program Evaluations: IPE-10915*)



## Brazil

With an estimated population of 162 million and a gross domestic product of \$800 billion, Brazil represents the United States' third largest market in the Western Hemisphere, after Canada and Mexico. Economic reform and privatization of state-owned enterprises are opening new markets and resulting in unprecedented opportunities for U.S. business. The United States is the largest foreign investor in Brazil, accounting for almost 34 percent of total foreign direct investment. The US&FCS commercial post in Brazil is the fifth largest in the world, in terms of dollars and staff, with total FY 1998 expenditures of \$3.1 million.

We observed the post's operations and activities, located in the cities of São Paulo, Brasilia, Belo Horizonte, and Rio de Janeiro. We found that US&FCS Brazil is an energetic post that is meeting its mission of serving U.S. exporters. In addition, the São Paulo Commercial Center, the most significant feature of post operations, is being used creatively and actively to support the post's programs and the needs of U.S. exporters and Brazilian importers. Other positive aspects of US&FCS Brazil's operations include an improved program under the commercial officer present during the time of our review; frequent, extensive communications between management and staff, and between São Paulo and its constituent posts; extensive marketing and outreach; and new, innovative programs to promote U.S. products.

However, we also identified concerns in a number of financial, program, and management areas that need to be addressed. Our most significant observations were as follows:

- **Scope and use of performance tracking system need to be reconsidered.** While US&FCS Brazil has designed and implemented an effective work and performance tracking system for its operations, the system appears to be inappropriately determining individual priorities and may be undermining teamwork and cooperation among staff. Post management needs to rethink this

concept and revise the system to counter these side effects. In addition, US&FCS headquarters should evaluate the system's appropriateness for other posts.

- **São Paulo Commercial Center needs to be refocused and more effectively managed.** Recognizing that each commercial center must adapt to the unique needs of its market, we nevertheless have concerns about whether the appropriate priorities have been set for the São Paulo Commercial Center and whether the center may be missing opportunities to fully implement the commercial center program. We believe that the problems are caused by the post's priorities for its center differing from those set by US&FCS headquarters for the overall center program, and the lack of adequate oversight and support from US&FCS headquarters to help ensure that the program is successful and complies with the requirements outlined in the program's authorizing legislation.
- **Minority business position needs further refinement and proven results.** The post's minority business development commercial assistant position is not well integrated with the Department's minority business activities. In addition, the position has inadequately defined responsibilities that appear to overlap with those of other trade specialists at the post. We also question whether São Paulo is the appropriate location for the position and whether there is sufficient market potential and results to justify continuing it.
- **Improved coordination between the post and other stakeholders is needed.** Opportunities for good working relationships between US&FCS Brazil and other federal and ITA components, as well as with some host country organizations, are not being fully exploited and appear to be highly dependent upon personal relationships. The post's relationships with other embassy officials were generally positive. However, it needs to improve its relationships with the US&FCS domestic offices.
- **Market research and product timeliness need to be made higher priorities.** We identified two important core US&FCS products that need to be emphasized and improved. First, the post is not producing timely responses to Agent/Distributor Service requests, and there is some question about the overall quality of the responses. Second, the post is not consistently producing high-quality market research reports and is significantly behind schedule in producing some of these reports.

- **Financial management, procurement, and internal controls need significant attention.** We observed a pervasive lack of adequate financial management practices and internal controls in the post's operations. We noted significant management control weaknesses in the handling of cash, use of purchase orders, inventory and management of government personal property, credit card transactions, the management of a large information technology contract, and documentation of the use of government vehicles.

We made a number of recommendations to address our concerns. Although US&FCS agreed with the vast majority of our observations and recommendations and noted areas where changes and improvements had been made since our visit, it also identified a number of areas where it disagreed with our report's analysis. We requested that US&FCS provide an action plan addressing any outstanding issues noted in the report. *(Office of Inspections and Program Evaluations: IPE-10916)*



## South Africa

South Africa is reportedly the most advanced, broadly based, and productive economy in Africa. Its gross domestic product (GDP) is nearly four times that of Egypt, its nearest competitor on the continent. Some experts suggest, however, that the South African economy must strive for an annual GDP growth rate of 5 to 10 percent to offset its high unemployment rate and an annual population growth rate of 2 percent. Efforts to achieve this economic growth will provide opportunities for American companies with appropriate products or services.

American companies already have a strong presence in South Africa. U.S. exports to the country totaled \$3 billion in 1997, and South Africa was the recipient of approximately 47 percent of all American exports to Sub-Saharan Africa. Because of South Africa's importance as a trading partner, ITA has three offices in the country (Johannesburg, Cape Town, and Durban) to provide American exporters with products and services that will help them establish or expand their presence not only in South Africa, but in other southern African nations as well. The post was allocated \$1.4 million in FY 1998, an increase of more than 40 percent from FY 1997.

The OIG's inspection of US&FCS South Africa found that clients were generally satisfied with the trade promotion efforts of the post's staff. In addition, the commercial center was highlighted by many of the post's clients as an effective forum for U.S. companies and government officials to launch their new initiatives, agendas, or products. Although the post was

generally effective at promoting U.S. exports to South Africa, we found several aspects of the post's promotional and administrative operations that require management attention:

- **The post's effectiveness has been limited by programmatic and organizational problems.** Specifically, staff productivity was hampered by inefficient work assignments given to foreign service nationals and personal services contractors, relations between the post and ITA's Advocacy Center were not as strong as possible, and client and partner data were not being routinely entered into the Client Management System.
- **Despite showing promise, the commercial center is not actively recruiting partners.** Although the center was pursuing its objectives of providing a variety of products and services to facilitate commercial ties and trade, it had not fully embraced ITA's goal to include partners in the center. In addition, although the center had two collocated partners, a reimbursable agreement or memorandum of understanding was not in place for the short-term partner, and the agreement with the year-long partner was not adequately monitored. Finally, the officer hired as center director was frequently pulled away from his responsibilities at the center to handle work related to the many high-level visitors to the post or other post business.
- **Staff turnover resulted in potential leadership void.** With the scheduled turnover of all Johannesburg officers within a seven-month period, the post faced a serious leadership void at the time of our inspection. Only at the last minute were officer positions filled or incumbents selected. By not better planning to fill upcoming vacancies, US&FCS headquarters could jeopardize mission goals and undermine staff morale.
- **Financial operations need improvement.** Although the post had taken steps to get its financial operations in order, we found the imprest fund to be in dire need of management attention. In addition, our review of the post's financial records revealed substantial unliquidated obligations in its operations and administration account. We also found little correlation between the post's FY 1998 collections records and official ITA accounting data.
- **Several administrative matters require management attention.** The post handled procurement, time and attendance, and vehicle control logs in accordance with policies and procedures. However, we observed that personnel records were not complete or updated,

credit cards were underutilized, and the division of administrative service responsibilities between the State Department and US&FCS South Africa was unclear. We concluded that many of the post's financial and administrative problems stemmed from a lack of sufficient training for both foreign service nationals and American staff.

- **Export control checks were handled well, but guidelines were not always followed.** We were generally impressed with the thoroughness of the end-use checks conducted by the post to assist BXA in fulfilling its export control responsibilities. However, some improvements were needed to comply with BXA guidelines, and more coordination with other embassy offices would enhance information gathering.

We made several recommendations to ITA and US&FCS to resolve our concerns. Agency officials generally agreed with our findings and outlined steps US&FCS was taking or planned to take to address our recommendations. (*Office of Inspections and Program Evaluations: IPE-11433*)

### **US&FCS Is Addressing Foreign Service Personnel Management Issues**

The Omnibus Trade and Competitiveness Act of 1988 directs the OIG to conduct periodic audits of US&FCS operations that include an evaluation of the agency's management of its foreign service personnel system and the placement of domestic- and foreign-based personnel. To fulfill the act's requirements, the OIG conducted an audit of US&FCS's management of its personnel system and resource allocation methodology. Our review evaluated a broad range of personnel issues, including the management and oversight of the personnel system, recruitment, assignments, limited appointments, tours of duty, curtailments, and performance appraisals. We also looked at the status of US&FCS's overseas and domestic resource allocation models.

We found that US&FCS is generally striving to address its personnel issues. Specifically, US&FCS has established internal task forces involving diverse groups of employees to address issues of concern to foreign service officers, and has taken action to comply with most prior OIG recommendations. For example, it revised its overseas resource allocation model in response to a 1997 OIG inspection report (see September 1997 issue, page 27). Based on the revised model, US&FCS completed a review of its overseas officer staffing pattern and shifted resources accordingly.

Although US&FCS has addressed a variety of personnel issues, several areas still need improvement. Specifically, US&FCS had difficulty filling vacancies in hardship posts and adhering to the guideline requiring officers to have a domestic assignment at least every 15 years, continued to waive or lower language proficiency requirements when no candidates met the existing requirements, had not implemented a comprehensive automated system for personnel data, had yet to consolidate certain personnel functions with ITA as we recommended earlier, and had not defined adequate performance measures for its foreign service personnel system to comply with the Government Performance and Results Act.

Among our recommendations were that US&FCS (1) develop and implement a formal career candidate recruitment policy, (2) implement new measures to meet the 15-year guideline for domestic assignments, (3) explore, with ITA management, consolidating personnel functions that are common to the foreign and civil service personnel systems, (4) establish performance goals and related performance measures that specifically define foreign service personnel system outcomes, and (5) update the domestic resource allocation model for use as the objective analytical basis for allocating domestic resources. ITA generally agreed with our findings and recommendations. (*Business and Trade Audits Division: BTD-10829-9-0001*)

### **Financial Assistance Program Promotes Merit-Based Decisions**

As part of its Department-wide review of Commerce discretionary financial assistance programs, the OIG conducted a performance audit of ITA's Special American Business Internship Training Program (SABIT). The objective of our review was to assess the criteria, procedures, and practices used for the solicitation, review, and selection of applications for financial assistance under SABIT.

SABIT provides financial assistance to for-profit and nonprofit public and private entities for training business executives and scientists from the Newly Independent States of the former Soviet Union in the American way of doing business. In FY 1997, the program received 64 applications for assistance, and issued 28 new awards and 5 renewals totaling more than \$500,000.

We found that the program used merit-based technical and public policy criteria to evaluate applications, and that its solicitation efforts in FY 1997 generated a widespread response from eligible applicants. ITA also followed established requirements for selecting applications for

## International Trade Administration

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funding under SABIT. However, one of the four review panels used during the evaluation process was not independent of program administration. ITA corrected the problem in 1997 and provided information demonstrating that all subsequent review panels were independent. (*Atlanta Regional Office of Audits: ATL-10998-9-0001*)



# National Oceanic and Atmospheric Administration



## Planned Consolidation at Norman, Oklahoma, Needs Refinement

NOAA leases approximately 106,000 square feet of space on the North and South campuses of the University of Oklahoma, in the city of Norman, at a cost of about \$1 million per year. NOAA's space on the North Campus consists of about 72,000 square feet in Building 600, the Adair Building, and several temporary buildings, which house the National Severe Storms Laboratory, the Storm Prediction Center, the weather forecast office, and part of the NEXRAD Operational Support Facility (OSF). On the South Campus, NOAA leases about 34,000 square feet in the OSF South Building, which houses the remaining OSF staff.

In December 1998, program officials briefed NOAA's senior management on a proposal for consolidating NOAA's operations in two new buildings, totaling 145,500 square feet, with annual lease and utility costs of about \$5 million per year. Because the submitted proposal did not include the required functional requirements analysis, it has not yet received final NOAA or departmental approval. NOAA has since contracted with an architectural and engineering firm to provide this detailed information for its revised decision package.

NOAA believes that collocating its Norman components with the university's meteorological research groups and its school of meteorology would provide substantial benefits for both organizations. Collocation would create a joint NOAA-university weather center and give NOAA staff access to the university's facilities and personnel, whose expertise could contribute significantly to the development of new forecast technologies.

The OIG conducted an assessment of NOAA's justification for the proposed Norman consolidation. Because the bureau had not completed a functional requirements analysis, we did not perform a detailed audit of its space needs. Instead, we opted to review NOAA's preliminary proposal in order to give the bureau feedback on its process for consolidation and to identify potential areas for future detailed audit work. After reviewing NOAA's proposal, we made some observations about how the bureau could reduce the cost of the proposed consolidation.

- **Savings would be realized by continuing to lease the North Campus buildings.** We asked NOAA about the possibility of using Building 600 and the Adair Building to consolidate all OSF staff on the North Campus. NOAA officials agreed that this could be done, but noted that Building 600 would need renovations,

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

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

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

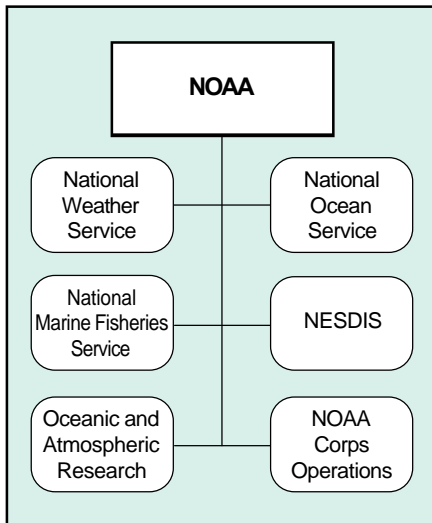
**National Marine Fisheries Service.** NMFS conducts a program of management, research, and services related to the protection and rational use of living marine resources.

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

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

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

# National Oceanic and Atmospheric Administration



which university officials estimate would cost between \$100,000 and \$200,000. We believe that adopting this approach will save NOAA about \$600,000 a year, or \$12 million over 20 years. Because of the potential savings from using both North Campus facilities, NOAA should consider constructing only one new facility to consolidate the National Severe Storms Laboratory, the Storm Prediction Center, and the weather forecast office with the university, while continuing to lease Building 600, the Adair Building, and the NEXRAD facility.

- **Building 600 is severely overcrowded.** As a result, some NOAA staff are being housed in temporary structures, there is insufficient space for research and engineering functions, and workstations are very small. Nevertheless, the facility was in generally good condition, and university officials stated that if NOAA decided to stay, they would work to improve the facility.
- **Adair Building has sufficient space.** The building is in overall good condition and there is no overcrowding. However, some areas should be reconfigured for better use if NOAA personnel continue to occupy the building.
- **South Building is not crowded, but consolidation of OSF on the North Campus is desirable.** The OSF South Building is not large enough to consolidate all OSF staff, and consolidating the staff from the North Campus there would hinder OSF in its mission of supporting the NEXRAD radar module, which is located on the North Campus. Relocating the radar would cost more than \$2 million. In addition, the OSF director strongly supports consolidating all his staff on the North Campus, because the current separation hampers operational efficiency.
- **Collocation on the South Campus would be costly.** NOAA's proposal to collocate with the university would result in lease costs of about \$38 per square foot. This relatively high cost results largely from the university's policy of building high-quality structures to last 100 years. As the current OSF South Building costs about \$11 per square foot to lease, the proposed rate would result in NOAA paying about 3½ times as much per square foot. This substantial cost increase may outweigh the benefits of collocation.

We recommended that NOAA (1) complete a functional requirements analysis to accurately determine the space requirements for the Norman consolidation, (2) evaluate the alternative of building and leasing only one building and continuing to lease Building 600 and the Adair Building on the

# National Oceanic and Atmospheric Administration

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North Campus, and (3) explore ways of reducing the \$38 per square foot rate to lease a new building to be constructed on the South Campus.

NOAA agreed with all three of our recommendations and said that it had already taken action to implement the first two. In response to the third recommendation, NOAA stated that it now plans to capitalize the construction of new and renovated space instead of leasing the facilities. As a result, we believe that NOAA's planned action should focus on lowering the cost of the proposed construction. We plan to continue monitoring NOAA's construction cost estimates and supporting documentation. (*Science and Technology Audits Division: STD-10900-9-0001*)

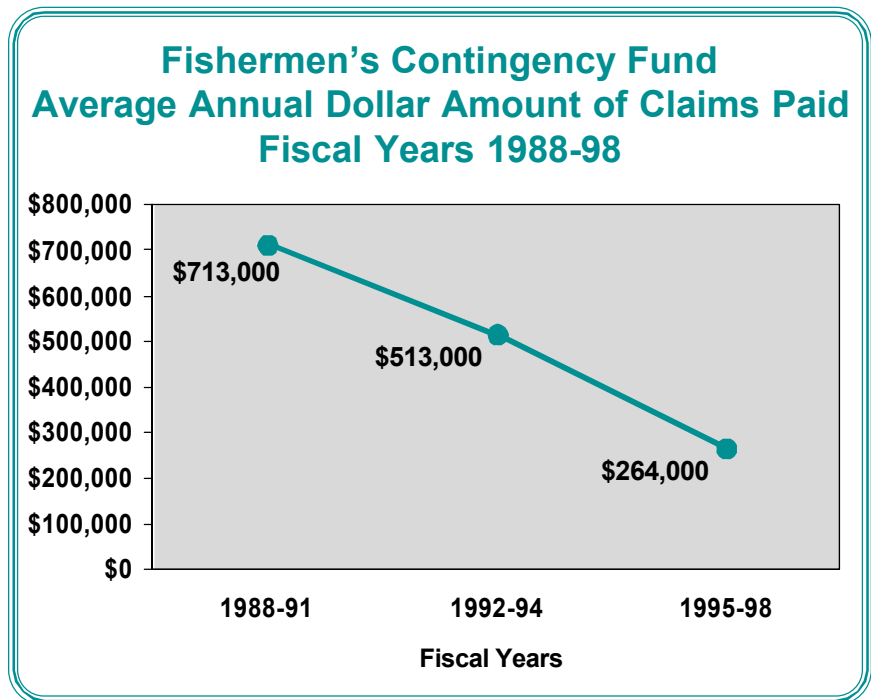
## **Fishermen's Contingency Fund Needs to Be Reassessed**

Title IV of the Outer Continental Shelf Lands Act Amendments of 1978 established the Fishermen's Contingency Fund to compensate U.S. fishermen whose vessels or fishing gear have been lost, damaged, or destroyed by oil and gas obstructions on the U.S. Outer Continental Shelf. The compensation covers both economic and property loss. The fund is administered by NOAA's National Marine Fisheries Service (NMFS) and is funded by fees assessed against oil and gas companies operating mainly in the Gulf of Mexico. For the fiscal year ended September 30, 1998, the fund paid 54 claims totaling \$322,000, and had a balance of \$1.5 million.

NMFS develops filing and reporting requirements for fishermen, adjusts claims, and compensates eligible applicants. To address concerns about the fund's internal controls, NMFS conducted a review in May 1992 and made recommendations designed to improve the fund's controls and efficiency. Before that review, the fund had a history of fraudulent claims paid due to internal control deficiencies.

The OIG conducted an audit to evaluate the effectiveness of NMFS's internal controls over the fund and to assess the trend of paid claims. We found that past problems had been corrected, internal controls were properly in place, and recommendations made by NMFS in its 1992 review were being adhered to.

We also noted that there has been a significant decline in the average total dollar amount of claims paid over the past 11 years. The average annual total of paid claims was \$713,000 in FYs 1988-91, dropped to \$513,000 in FYs 1992-94, and declined further to \$264,000 in FYs 1995-98 (see following chart). The fund's manager attributed the decline to several factors, including NMFS's vigorous referral of questionable



cases to the OIG for investigation, which has served as a deterrent to fraudulent claims; claimants seeking compensation from a state program; and the declining number of shrimp vessels because of overfishing and smaller profits. In response to this decline, NMFS has reduced the number of staff required to administer the fund. But the sharp decline in the dollar amount of paid claims raises the issue of the long-term need for the fund.

We recommended that NMFS reexamine whether there is sufficient need for maintaining the fund within the agency. NOAA agreed with our findings and recommendation and will conduct a study regarding the continued need for the program. (*Science and Technology Audits Division: STD-11484-9-0001*)

### **Risks Are Low, but Additional Steps Are Needed to Ensure Y2K Compliance at NESDIS**

As part of its review of the efforts by the Department and its bureaus to ensure year 2000 (Y2K) compliance for critical Commerce computer systems, the OIG conducted an inspection of the National Environmental Satellite, Data, and Information Service's (NESDIS) efforts to make its automated information systems Y2K compliant and to develop contingencies in the event that these systems fail as a result of the year 2000 date change.

We concluded that the likelihood of NESDIS satellite operations and satellite data processing being interrupted due to Y2K failure is low because the agency exercised stringent quality control over system renovations and conducted thorough end-to-end tests. Also, because NESDIS's systems use year data infrequently, they have a low susceptibility to Y2K failures.

However, we expressed concern that NESDIS had not completed its system inventory, which raised doubt that all systems had been evaluated for Y2K compliance. As a result, at least one system that should have been tested for compliance—the Telemetry Acquisition and Command Transmission System—was not. NESDIS agreed to complete its inventory and evaluate any new systems found for Y2K compliance.

We also found that NESDIS needs to significantly improve and ensure the accuracy of its business continuity and contingency plans. Although NESDIS has standard procedures for handling problems with its satellite operations and satellite data processing, the agency did not augment them with contingencies for Y2K-specific failures. The agency did not plan to test Y2K-specific contingencies and was instituting only limited procedures for reducing risk with computer operations for the days surrounding the century change (referred to as a “Day One Plan”). NESDIS has agreed to update its continuity and contingency plans and to prepare a Day One Plan.

NESDIS has informal procedures for managing the risk of introducing changes to operational systems, but it has not established an official policy for managing changes to systems that have been confirmed to be Y2K compliant. OMB has directed agencies to establish a policy limiting changes to Y2K-compliant systems so that compliance can be maintained. NESDIS has agreed to establish such a policy. Finally, we found several minor deficiencies in the system renovation process.

We made several recommendations to address our concerns. NESDIS agreed with all of our recommendations and has taken or plans to take actions to address them. (*Office of Systems Evaluation: OSE-12199*)

## **Reviews of NOAA Discretionary Funding Programs Show Mixed Results**

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

# National Oceanic and Atmospheric Administration

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- Meteorologic and Hydrologic Modernization Development Program (National Weather Service).
- Marine Fisheries Initiative Program (National Marine Fisheries Service).
- Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program (National Marine Fisheries Service).

The audits were conducted as part of a Department-wide review of Commerce's discretionary financial assistance programs. As discussed below, the three programs had varying degrees of success in utilizing processes designed to result in merit-based selections of applications for funding.

## **Meteorologic and Hydrologic Modernization Development Program**

The Meteorologic and Hydrologic Modernization Development Program provides financial assistance to entities for the use and development of meteorological or hydrological forecasts or forecast methodology. During FY 1997 (our review period), the program awarded two new cooperative agreements, two new grants, two continuation amendments to existing cooperative agreements, and one grant renewal, for a total of more than \$4.9 million.

We found that NWS did not administer the program as a competition-based financial assistance program as prescribed by Commerce guidelines. Instead, recipients were selected on a non-competitive, sole-source basis. In addition, the written justifications for program awards did not cite any factual basis for the routine assertions that the applicants were the only entities that could perform the work.

We recommended that NWS ensure that program awards are made through a competitive process, unless otherwise mandated by law or adequately justified, and that the award process comply with Department policies and procedures and include the following four elements: (1) widespread solicitation of eligible applications and disclosure of essential application and program information in written solicitations, (2) independent application reviews that consistently apply written program evaluation criteria, (3) written justifications for award decisions that deviate from recommendations made by application reviewers, and (4) adequate written justifications for noncompetitive awards that document appropriate market search efforts to validate determinations that

there is only one source for anticipated sole-source awards. We also recommended that NOAA's Grants Management Division perform reviews of proposed noncompetitive awards to determine whether they meet Department and NOAA requirements.

In response to our report, NOAA agreed that more awards should be made competitively in its discretionary funding programs and that a more rigorous solicitation process should be used. NOAA said that it is continuing to look at its processes and will provide more detail as part of its audit action plan for this report. (*Atlanta Regional Office of Audits: ATL-11405-9-0001*)

## **Marine Fisheries Initiative Program**

The Marine Fisheries Initiative Program provides financial assistance for research and development projects that provide information for the full and wise use and enhancement of fishery resources in the southeastern United States. In FY 1997, the program received 73 applications for over \$7.6 million in financial assistance and awarded 11 grants totaling more than \$915,000.

We found that program officials had developed and published appropriate merit-based criteria for use in evaluating financial assistance applications for funding, and that the application solicitation, review, and selection process followed by the program is designed to promote merit-based funding decisions.

However, we found that some of the program's review and selection practices needed improvement. Specifically, we recommended that program officials keep a record of the scientific panel's vote count, and maintain adequate documentation of the bases for award decisions that deviate from the independent panel's recommendations. NOAA concurred in our findings and recommendations, and it has agreed to begin implementing them with the program's next selection process. (*Atlanta Regional Office of Audits: ATL-11655-9-0001*)

## **Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program**

Commonly known as the S-K Program, this program provides financial assistance for research and development projects that address various aspects of U.S. fisheries, including harvesting, processing, marketing, and associated infrastructure. In FY 1997, NMFS made 75 financial assistance awards totaling more than \$8 million under this program.

We found that the S-K Program had criteria that were merit-based and appropriate for selecting applications for funding, and that the application solicitation process was adequate to obtain a nationwide response. However, selection decisions that deviated from application rankings were not adequately justified and documented, and we believe that NMFS could have relied more extensively on competitive program applicants to meet its research needs.

We recommended that NMFS ensure that reasons for selecting applications ranked lower than other applications are thoroughly documented. Additionally, NMFS officials need to place more emphasis on addressing research needs and priorities competitively, and ensure that program funding priorities are developed and published in detail to provide the public an opportunity to address the agency's specific research needs. NOAA agreed with our recommendations and believes that implementation of the recommendations will enhance the program's overall effectiveness. *(Seattle Regional Office of Audits: STL-10950-9-0001)*

## **Improved Internal Controls Needed over Mountain Support Center Bankcard Program**

As part of its periodic review of Commerce units' use of bankcards, the OIG conducted an audit of FY 1998 bankcard activities at NOAA's Mountain Administrative Support Center in Boulder, Colorado. The purpose of our audit was to determine whether the center was properly using bankcards in accordance with applicable federal and departmental requirements. The audit involved reviewing a stratified sample of 67 of the center's 1,240 transactions for FY 1998.

The objectives of the bankcard program, established government-wide in 1989, are to reduce administrative procurement costs, improve cash management by expediting and simplifying small purchases, and strengthen internal controls to eliminate the vulnerabilities to fraud and abuse of other small purchase methods. For the most part, these goals have been achieved at the center.

Although we did not identify any specific misuse of funds, our audit of the center's bankcard program disclosed a number of weaknesses in internal controls and instances of noncompliance with federal regulations and departmental guidance. These weaknesses need to be corrected to improve internal controls over the bankcard program. Specific problems included the failure to provide cardholders with required training, document alternate approving officials, complete property transaction forms, promote competition for purchases over \$2,500, pre-approve



significant purchases, maintain a purchase order log, keep bankcards in a secure location, follow the priority order of mandatory sources of supply, and reconcile questioned items.

We made recommendations to center officials to address these internal control deficiencies. NOAA agreed with our findings and recommendations. (*Denver Regional Office of Audits: DEN-11927-9-0001*)

## **Grantee Failed to Comply with Fishing Industry Award and Produced Limited Project Results**

In February 1995, NOAA awarded a grant of nearly \$655,000 to a Massachusetts firm as part of the agency's Fishing Industry Grant program. This program assists the depressed northeastern fishing industry by providing financial assistance to fishermen, processors, and fishermen's associations, and to recipients who assist or train fishermen in research and management activities for marine and estuarine resources. The grant, intended to fund a demonstration project on raising flounder on land, required the recipient to build and equip a hatchery on the New England coast to produce 120,000 young flounder over the 18-month project duration. The recipient was to contribute about \$447,000 to the project, bringing the total budget to \$1,102,000.

In a financial and compliance audit, the OIG found that the grantee had achieved only limited results from the award because it materially failed to comply with the terms and conditions of the grant agreement. Specifically, the grantee built and equipped a hatchery at its own inland location rather than at either of the NOAA-approved coastal locations, provided only half of the required young flounder (which it purchased, rather than raised), and failed to provide the requisite training and transfer of technological expertise. In addition, the grantee did not maintain a financial management system that complied with federal cost accounting standards.

As a result of these deficiencies, we questioned about \$190,000 in costs related to the hatchery being operated at the unapproved location and another \$490,000 related to financial management deficiencies, for a total of about \$680,000 in questioned costs. We recommended that NOAA disallow all project costs claimed, terminate the grant, and recover the full \$655,000 in grant funds disbursed to the recipient. (*Atlanta Regional Office of Audits: ATL-10729-9-0001*)

## *Investigations in Brief*

**Sentencing.** In the March 1999 issue (page 59), we reported the conviction of a Florida fisherman and his wife for conspiracy to defraud the government through the filing of false claims under the Gulf of Mexico Fisheries Disaster Program. In June 1999, they were each sentenced in U.S. District Court for the Northern District of Florida to three years' probation, and ordered to make restitution of \$4,978. (*Denver Field Office of Investigations*)

**Conviction.** On September 24, 1999, a former NOAA employee was convicted of one count of theft of government property after an OIG investigation disclosed that she had obtained more than \$7,000 from an agency imprest fund by submitting 57 false vouchers for payment. Sentencing is scheduled for December 1999 in U.S. District Court for the District of Maryland. (*Financial Fraud Division*)

**Resignation.** An NMFS enforcement agent resigned from federal service to resolve a Merit Systems Protection Board appeal of his proposed termination, which was based upon his acceptance of \$500 from a commercial fisherman. After initially denying the charge to OIG investigators, the agent was confronted with a copy of a canceled check bearing his signature and acknowledged that he had accepted a "loan" from the fisherman, whose business was subject to regulation under fisheries laws administered by NMFS. (*Silver Spring Field Office of Investigations*)

## *Audit Reports Unresolved for Over Six Months*

As of September 30, 1999, nine performance audit reports had recommendations unresolved in excess of six months.

### **Light Aircraft Operations**

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

NOAA did not concur with most of our findings and recommendations. The bureau believes that discontinuing use of the aircraft would compromise its ability to continue uninterrupted data collection efforts required to protect lives and property, and would increase the risk of accidents and the cost of aircraft support. In addition, NOAA did not agree with our recommendation to recover full costs, noting that cost sharing and waiving of overhead costs is appropriate for interagency cooperative agreements that are beneficial to NOAA, and that interagency agreements have proved to be cost-effective in meeting some of its data collection needs. NOAA officials have entered into a consulting contract to obtain an analysis of its aircraft fleet. The analysis is to include a review of light aircraft costs and the costs to contract for similar private-sector aircraft services and support. NOAA also believes that our audit report overstated the bureau's aircraft costs by \$1.3 million and that its light aircraft are cost competitive.

After reviewing NOAA's audit action plan, we concurred with action taken or planned for 4 of our 10 recommendations. However, we did not believe that NOAA's actions, or other information provided in the plan, were sufficient to warrant a concurrence on the other six recommendations. In particular, we reaffirmed our conclusion that the full in-house cost to operate NOAA's fleet of 10 light aircraft averaged 42 percent more than the cost to contract for similar private-sector aircraft that can provide equivalent services. We also reaffirmed our conclusion that the Aircraft Operations Center is not recovering the full cost of work that it performs under reimbursable agreements with non-Commerce federal agencies. We have proposed that after NOAA's contracted review of its aircraft is completed and the report issued, the bureau submit a revised audit action plan addressing the unresolved recommendations.

## **NMFS Laboratory Structure**

The second unresolved performance audit report, *NMFS Laboratory Structure Should Be Streamlined*, STL-8982-8-0001 (see March 1998 issue, page 39), recommended closing several laboratory facilities and transferring their programs and personnel to other NMFS laboratories. We also recommended that one laboratory and most of its programs be transferred to the state of Maryland, and that the proposed Santa Cruz, California, facility be expanded to accommodate programs and personnel from another California laboratory. Our analysis indicated that our recommended changes would result in increased efficiencies and cost savings of more than \$25 million over a five-year period.

In addition, we differed with NMFS's plans to transfer some programs from a Seattle laboratory to the proposed Auke Cape facility in Alaska,

because there is insufficient space at the proposed facility to accommodate the programs and the costs associated with such a move would be in excess of \$20 million.

NOAA disagreed with our findings and recommendations. In April 1998, we requested NOAA to submit a revised audit action plan, and subsequent meetings were held between OIG and NOAA officials. NOAA submitted a revised plan in November 1998, but did not change its initial position. Negotiations with NOAA concerning alternative approaches to resolution are continuing.

### **NOAA's Discretionary Funding Programs**

The remaining seven unresolved performance audits relate to discretionary funding programs in NESDIS, NMFS, NWS, and the National Ocean Service. In each of these audits, we recommended that NOAA ensure that financial assistance awards are made on the basis of a competitive review and selection process, unless otherwise mandated by law or adequately justified, and that the process complies with Department policies and procedures.

NOAA generally agreed with our recommendations, and has submitted an audit action plan that we are currently reviewing.

# National Telecommunications and Information Administration



## Internal Controls over Bankcard Use Are Sound

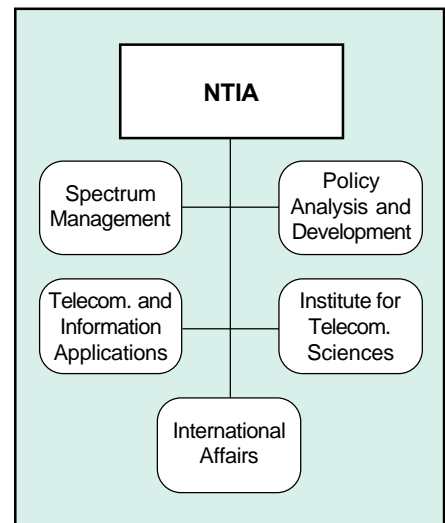
In conjunction with an OIG plan to periodically review Commerce units' use of bankcards, we conducted an audit of NTIA's FY 1998 bankcard activities to determine whether the bureau was properly using bankcards in accordance with applicable federal and departmental requirements. Our audit covered over 1,100 transactions, totaling more than \$680,000, made by NTIA headquarters during the year.

We found that continued oversight by NTIA management, and by NIST staff who provide contracting support to the bureau, has resulted in sound internal controls over NTIA bankcard transactions. We also found that NIST personnel properly conducted the required annual review of bankcard use for 1998.

However, we did note several minor internal control deficiencies requiring management action: (1) the large number of cardholders, coupled with the small percentage of purchasing power used, suggested that the number of cardholders should be reduced for greater efficiency, (2) several cardholders were not storing their cards in a secure location as required, and (3) training for cardholders needed to be provided and documented.

We made several recommendations to NTIA regarding these minor deficiencies. NTIA agreed with all of our findings and recommendations except the recommendation that it reduce the number of cardholders. The agency believes that the current distribution of cardholders is appropriate based on the needs of the program offices and has advantages for management control. We continue to recommend that NTIA examine the need to have so many cardholders to permit more efficient utilization of its bankcards. (*Business and Trade Audits Division: BTD-11549-9-0001*)

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





# Patent and Trademark Office

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

## ***Patent Inventory, Printing, and Dissemination Issues Need Attention***

PTO's Office of Patent Publications (OPP) ensures the production of individual patent documents and several related products for the benefit of the bureau and its customers in its post-examination process. After patent applications have been allowed by examiners, they are sent to OPP, which oversees the complex process of image-capturing, printing, publishing, and disseminating them around the world. OPP products include the weekly *Official Gazette*, the official journal of issued patents and PTO notices; the patent image file used to support the Automated Patent System; and conversion files used to make microfilm copies of patents.

The OIG conducted an audit of OPP operations to identify the causes of the large inventory of patents in the post-examination process, review initiatives to reduce publishing time, review selected aspects of the printing process, and determine whether OPP is complying with significant laws and regulations applicable to the post-examination process. We concluded that management attention is needed in two areas.

### **Actions Needed to Reduce the Large Inventory of Pending Applications**

Although OPP increased the number of patents processed annually by 47 percent from FY 1993 to FY 1998, the inventory of patents awaiting final processing increased by 51 percent during that period. We found that:

- Despite increased productivity, a large inventory of allowed patents awaiting final processing still exists because the total number of patents allowed by examiners has increased each year, patents have not been processed by OPP until applicants pay issue fees, and OPP's production capacity has been limited.
- OPP's efforts to reduce the inventory have overburdened data compilation activities. Because of sustained increases in the size of the *Official Gazette*, OPP has not been able to deliver products to the database contractor in time for compilation.
- Late deliveries of processed patents to the printing contractor have delayed printing operations, although recent data indicates improvements in this area.
- Initiatives to improve the process may decrease publishing time, but still may not meet PTO's goals.

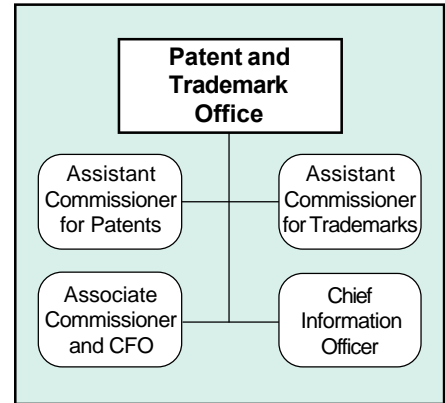
We recommended that PTO establish a plan to resolve these issues, reduce the inventory, and publish patents within four weeks to meet the goal set forth in its FY 1999 Corporate Plan. It should do this by assessing the effect on cycle time of processing files for publication before receiving fees, processing patents more rapidly for timely delivery to the database contractor, assisting the database and printing contractors in meeting their obligations on time, and considering further consolidation of the database compilation and printing processes.

## Patent Dissemination Needs Streamlining, and the Printing Contract Needs Increased PTO Oversight

Having been designated by the Vice President as a “High Impact Agency” directed to focus on using information technology and providing customer service, PTO has established as one of its goals moving to a paperless patent publishing process by FY 2003. However, we found that:

- PTO spends an average of \$1.5 million a year to print hard copies of the *Official Gazette* and produces microfilm products, although information from the *Gazette* is available at various locations on its Internet web site.
- By law, the Government Printing Office (GPO) serves as OPP’s contracting agent for the procurement of printing services, but PTO is capable of providing such services more efficiently in-house. Since FY 1992, OPP has paid an average of \$230,000 annually in handling fees to GPO.
- GPO and OPP may have approved the printing contractor’s claims of over \$218,000 for overtime and other expenses incurred because of PTO’s late delivery of processed patents without adequately substantiating the claims or involving the onsite quality control specialist in key discussions with GPO and the contractor.

We recommended that PTO (1) disseminate all patent-related products, including the *Official Gazette*, on the Internet by the end of FY 2003 and conduct customer surveys to determine which printed products can be eliminated to reduce costs; (2) consider pursuing a waiver from the Congress, or the necessary legislation, to independently handle its own printing contract; (3) ask GPO to review the basis of the printing contractor’s future claims of expenses incurred as a result of late patent deliveries; and (4) involve the onsite quality assurance specialist more in overseeing the database and printing contractors.



PTO agreed with our recommendations and described a number of measures it is taking to implement them. For example, PTO expects that a new method of publishing patents will ultimately reduce the patent publishing cycle time by 10 weeks. Other measures that PTO is taking or will take to address our recommendations include eliminating delays in the delivery of magnetic tapes to the database contractor, meeting weekly with the contractor to resolve problems, initiating a customer survey to determine which products may be eliminated under a move to paperless patent dissemination, and strengthening the role of the onsite quality assurance specialist. (*Business and Trade Audits Division: BTD-10996-9-0001*)

### **Additional Steps Needed to Better Ensure Y2K Compliance**

As part of its review of efforts by the Department and its bureaus to ensure year 2000 compliance for critical Commerce computer systems, the OIG conducted an inspection of PTO's work to make its automated information systems Y2K compliant. We found that PTO's renovation and replacement activities for selected critical systems resulted in Y2K compliance, and that the systems were adequately tested.

However, PTO plans to significantly modify two of its most critical and vulnerable systems—the Patent Application Location and Monitoring system and the Trademark Reporting and Monitoring system—and upgrade the operating system of the mainframe computer on which these systems reside. The modifications and upgrade were to be completed in September and October 1999, but PTO has no plans for comprehensive retesting to ensure that the systems and computer remain Y2K compliant.

PTO believes that testing the units of software involved in these systems will be sufficient to identify any Y2K problems that may be introduced during the modifications and upgrade. But we believe that end-to-end testing is necessary to verify that the combined units will work together as an application, and that each application will function as intended as a system or with other systems with which it interfaces. We recommended that PTO freeze software changes to critical systems as of November 30, 1999; then conduct an end-to-end test of the systems, the mainframe computer, and critical interfaces; and keep all critical hardware and software configurations frozen until at least the second week of January 2000 to ensure that there are no Y2K operating difficulties.

We also found that PTO's Y2K systems inventory may not be complete. Based on the minimal response to an earlier survey of systems users and the recent identification of an important system that was not



previously inventoried, there is some doubt that all smaller PTO systems developed by users have been inventoried and evaluated for Y2K compliance. We recommended that PTO resurvey operational areas to identify user-developed applications that are used in performing core business processes.

In response to our report, PTO agreed with all our recommendations but one—it continues to believe that end-to-end testing of the modified systems is unnecessary. (*Office of Systems Evaluation: OSE-11693*)

### **Problems with Interagency Agreements Being Addressed by PTO Management**

PTO, like many other agencies, uses interagency agreements to obtain goods and services through other federal agencies. From 1995 through 1997, PTO's use of these agreements increased significantly to support its information technology (IT) requirements. PTO has made extensive use of interagency agreements, such as multiagency contracts and multiple award schedule transactions, that are designed to streamline the acquisition of goods and services by using contracts established by other agencies. PTO employs these interagency agreements to have other agencies use their contractors to purchase both IT and non-IT goods and services for PTO.

As part of a Department-wide review of the use of interagency agreements by Commerce bureaus, the OIG evaluated PTO's policies, procedures, and practices for its use of interagency agreements, multi-agency contracts, multiple agency schedule contract transactions, and other special agreements issued from August 1994 to March 1997. These agreements totaled \$49.4 million in PTO obligations and only \$27,000 from other agencies.

We found that PTO did not adequately plan and manage many of its earlier IT interagency transactions. We later observed that PTO had taken steps to implement stricter procedures and better management for its agreements. PTO also significantly reduced its use of agreements, and currently has listed only \$4.7 million in IT interagency agreements.

Specifically we found that:

- PTO did not comply with some procurement laws, regulations, and best practices governing multiagency contracts and multiple award schedule transactions when using such transactions to support its IT development efforts.

## Patent and Trademark Office

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- All of the IT-related interagency agreements issued before February 1997 that we reviewed were missing fundamental documentation needed to ensure adequate control over the agreements. Moreover, lacking a formalized interagency agreement management process, PTO did not adequately control the activities of its largest multiagency contracts providing agency, GSA's Federal Systems Integration and Management Center. But since 1997, PTO has improved its management of IT interagency agreements. These improvements include better documentation and more proactive management, as well as a reduction in the use of interagency agreements in favor of a single competitively awarded multiple award task order contract.
- None of the non-IT agreements we examined were reviewed by the Department's Office of General Counsel for legal sufficiency. In addition, PTO had not conducted adequate analyses under the Economy Act to determine whether it was in the government's best interest to enter into agreements. PTO has since implemented guidelines that require General Counsel review of agreements before issuance. PTO is also preparing Economy Act determinations on those agreements subject to the act.
- The PTO database used to track both IT and non-IT interagency agreements was inadequate at the time of our review. Since then, PTO has established a comprehensive database.
- The Department lacked policies and procedures for multiagency and multiple award schedule interagency transactions. The needed guidance should specify qualitative standards of documentation and minimum review thresholds.

We made recommendations to PTO and the Department to resolve our concerns, recognizing that since 1997, PTO had taken a number of measures that greatly improved its use and oversight of interagency and other special agreements.

In response to our report, PTO officials generally agreed with our findings and reiterated the changes that it has made in its policies and procedures since 1997. The Department's Office of General Counsel agreed that better management of agreements and legal review will improve the agreements process. And the Department's Office of Executive Assistance Management agreed to lead an effort with the Office of Acquisition Management to prepare and issue a handbook detailing departmental policies and procedures for interagency agreements. (*Office of Inspections and Program Evaluations: IPE-10728*)

# Technology Administration



## Grant Process Designed to Promote Merit-Based Funding Decisions, but Needs More Discipline

The OIG conducted an audit of the FY 1995 through 1997 criteria, procedures, and practices for soliciting, reviewing, and selecting applications for financial assistance under NIST's State Technology Extension Program. The program provides financial assistance, through cooperative agreements, to state governments and non-profit organizations to help states develop manufacturing assistance programs aimed at small and medium-sized manufacturers, and to help bring those state programs to a performance level where they can provide the full range of manufacturing extension services required by manufacturers. NIST administers the program through its Manufacturing Extension Partnership office.

The OIG began an audit of NIST's criteria, procedures, and practices for the program in FY 1997, during which the agency made two awards of \$100,000 each. NIST has not made any program awards since FY 1997 and does not anticipate any future solicitations, as it considers the nationwide network of manufacturing extension program centers to be complete.

NIST had issued an open-ended solicitation for applications under the program in May 1995. After finding minor deficiencies in the solicitation, review, and selection processes for the FY 1997 awards, we expanded the scope of our review to include all program funding awarded under the original solicitation. NIST did not award program funding in FY 1995, but did make six awards totaling \$552,000 in FY 1996.

Our audit disclosed that although NIST developed and published appropriate evaluation criteria for its FY 1995-97 program competitions, it:

- Did not comply with the Department's requirement that a notice be placed in the *Federal Register*, at least annually, announcing the availability of funds and specifying the criteria and process to be used in selecting award recipients.
- Did not properly screen proposals for compliance with published funding and award period requirements.
- Could enhance the independence and objectivity of any future program competitions by using proposal reviewers from outside the program area.

We made several recommendations to address our concerns. NIST agreed with our findings and recommendations. (*Business and Trade Audits Division: BTD-10961-9-0001*)

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

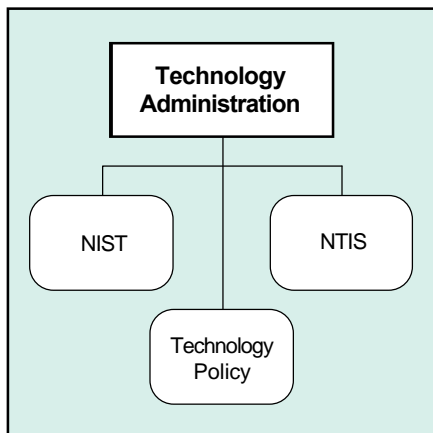
**Office of Technology Policy.** OTP works to raise national awareness of the competitive challenge, promotes industry/government/university partnerships, fosters quick commercialization of federal research results, promotes dedication to quality, increases industry's access to and participation in foreign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

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

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

# Technology Administration

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## **Management of NTIS Agreements Requires Additional Improvements**

NTIS uses interagency and other special agreements to pursue its mission of being the federal government's central clearinghouse for unclassified scientific, technical, engineering, and other business-related information. Through such agreements, NTIS acquires information from federal agencies, government contractors, and foreign governmental sources. NTIS's collection of information exceeds 2.5 million works and includes business and management studies, research and development tools, and foreign and domestic trade statistics.

As part of our Department-wide review of the use of such agreements, we evaluated the policies, practices, and procedures being followed by NTIS in preparing, reviewing, and managing its agreements. Overall, we found that NTIS properly uses agreements to support its mission. However, we identified several areas in need of improvement in the administration of agreements:

- **Processes and procedures covering agreements need improvement.** The agency lacks written policies and procedures for drafting agreements and does not ensure that they undergo sufficient legal review.
- **Interagency agreement files need to be consolidated and organized.** NTIS maintains two separate sets of files for its interagency agreements, resulting in record-keeping problems in both sets and poor management of its projects.
- **Agreements database needs to be improved.** Its current agreements database is difficult to use and requires special effort to produce reports and other information on its agreements.
- **Joint venture agreements need improvement.** We identified two issues related to NTIS's joint venture agreements with private parties: First, the required business plans for joint ventures are inadequate and, in some cases, not prepared at all. Second, joint ventures are not being awarded through a process that adequately promotes competition.

We recommended that NTIS (1) develop comprehensive guidelines for preparing all types of agreements and work with the Department's Office of General Counsel to improve the legal review of agreements, (2) maintain one complete set of records for each agreement in one location,

(3) redesign its database to be more user-friendly, and (4) for joint ventures, create a comprehensive business plan for each project and develop a more formal awards process that ensures full competition and includes shorter agreement terms to further promote competition.

NTIS generally agreed with the recommendations and has begun coordinating with the Office of General Counsel on the legal review of agreements. (*Office of Inspections and Program Evaluations: IPE-11021*)

### ***NIST's Policy of Allowing Employees to Bring Firearms onto Its Campus Was Ill-Advised***

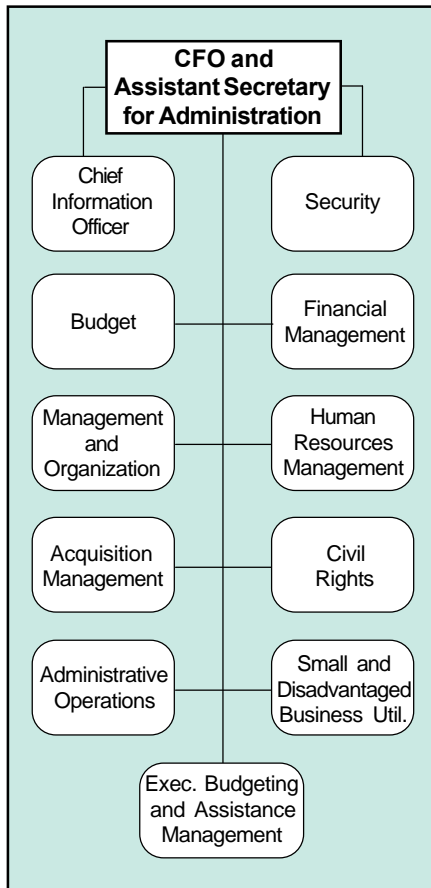
During our ongoing review of NIST's plans for a proposed ballistics testing facility and firearms qualification range on its Gaithersburg campus, we became aware of a related issue—a NIST policy that allowed employees to bring their recreational weapons onto the campus.

Since at least 1975, NIST has granted some of its employees and contractors permits to bring weapons and ammunition onto its Gaithersburg campus for their personal, off-duty, and off-campus use. Weapons approved include various models of hunting rifles, shotguns, handguns, bows and arrows, martial arts weaponry, and assorted types of ammunition. Under the policy, the weapons were to be kept unloaded, encased (if handguns), secured in the employees' vehicles, and not removed while on the campus. In June 1999, when we conducted our review, about 20 employees and contractors had NIST permits to carry personal weapons and ammunition onto the campus.

In a June 2, 1999, memorandum, we recommended that NIST cease allowing its employees to carry weapons or ammunition onto its Gaithersburg campus, unless the carrying of weapons is directly related to their official duties, and cancel all permits. As our memo pointed out, in addition to concerns about the appropriateness of this policy in terms of safety, liability, and potential adverse publicity, this practice was in apparent violation of federal criminal law, 18 U.S.C. § 930, which generally prohibits the possession of firearms or other dangerous weapons in a federal facility. Although NIST officials disagreed that the carrying of weapons on the campus was prohibited by law, they agreed, on the basis of policy considerations, to stop issuing new permits and cancel all existing permits. (*Office of Inspections and Program Evaluations*)



# Departmental Management



## Postsecondary Internship Program Award Process Promotes Merit-Based Decisions

As part of its Department-wide review of discretionary financial assistance programs, the OIG conducted an audit of FY 1997 and 1998 award criteria, procedures, and practices for soliciting, reviewing, and selecting applications for financial assistance under the Department's Postsecondary Internship Program. The program, administered by the Office of Executive Budgeting and Assistance Management (OEBAM), offers college students the opportunity to obtain paid internships at the Department. During FYs 1997 and 1998, the program funded six new and two amended awards, totaling more than \$2.4 million.

Our audit disclosed that OEBAM developed merit-based evaluation criteria for evaluating applications for FY 1998 awards. It also properly published a notice in the *Federal Register* soliciting applications for funding and further publicized the program through an announcement on its web site and other means. However, OEBAM:

- Made awards in FY 1997 using policies and procedures that did not comply with departmental and federal requirements for the competitive selection of financial assistance recipients.
- Had not properly documented its procedures for reviewing and selecting applications for FY 1998 awards in a formal policy statement or manual.
- Had not ensured that the program was included in the *Catalog of Federal Domestic Assistance* for FY 1998.

We recommended that the Department document and disseminate program procedures for the review and selection of applications in a written policy statement, and consider including individuals from outside the Department on its review panels in order to enhance the independence of application reviews.

The Department agreed with our recommendations and plans to develop a written policy statement detailing the program's review and selection procedures. In addition, the policy statement will include procedures to invite individuals from outside the Department to participate on program review panels. The Department also ensured that the program is now included in the *Catalog of Federal Domestic Assistance*. (*Business and Trade Audits Division: BTD-11822-9-0001*)

### **Natural Disaster Reduction Initiative Is on Target, but Needs Better Reporting**

In December 1996, the Cabinet-level National Science and Technology Council's Subcommittee on Natural Disaster Reduction established its national initiative for an interagency approach for the strategic coordination and advancement of programs, strategies, and research to reduce the social, environmental, and economic costs of natural disasters. Along with the Department of Commerce, the initiative included the Federal Emergency Management Agency, U.S. Geological Survey, U.S. Army Corps of Engineers, National Science Foundation, Environmental Protection Agency, and National Aeronautics and Space Administration.

In February 1998, the Department established its own initiative and a strategic framework for Commerce partnerships in natural disaster reduction. The Commerce strategy primarily involves the coordinated efforts of NOAA, NIST, EDA, and BXA, with support from other bureaus. A NOAA senior scientist serves as the Department's principal contact for the initiative and is the chairman of the Council subcommittee.

The OIG completed an audit survey to determine what the bureaus have done in responding to the Department's initiative, assess the progress made, and identify and recommend changes for improvement. We found that the Commerce initiative was in consonance with the overall natural disaster reduction plan. However, we noted that the initiative did not provide for individual bureaus to report to the Department on the accomplishment of established milestones and objectives. As a result, the Department would not have adequate feedback to determine if the initiative was being properly implemented and achieving the desired results.

We recommended that the Department establish standard, periodic progress reports for the bureaus. The Department agreed with our recommendation, but expressed its belief that the reporting function should be housed in NOAA, which plays the lead role in the initiative. We concurred with that proposed course of action. (*Science and Technology Audits Division: STD-11600-9-0001*)

### **Verification of Centralized Trial-Balance System Data Supports Department's Assertion**

In connection with the audit of the Department's FY 1998 consolidated financial statements (see March 1999 issue, page 76), the OIG performed certain procedures to verify financial data for the General

## Departmental Management

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Accounting Office and Department of the Treasury's Financial Management Service. Our verification was conducted to evaluate the Department of Commerce's assertion that the summarized federal agencies' centralized trial-balance system data provided by Treasury was not consistent in all material respects with the Department's FY 1998 consolidated statements. Our findings were in agreement with the Department's assertion, identifying differences between the data and the consolidated statements. These differences existed because the data was due to Treasury before the Department finalized the consolidated statements. This is a direct result of the Department's decision to extend the timeline for submitting financial statements in order to receive an unqualified opinion on its consolidated balance sheet. (*Financial Statements Audits Division: FSD-10899-9-0002*)

### **Preaward Financial Assistance Screening**

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

During this period, we screened 1,563 proposed awards. On 33 of the awards, we found major deficiencies that could affect the ability of the proposed recipients to maintain proper control over federal funds. On the basis of the information we provided, the Department delayed the awards until concerns were satisfactorily resolved, established special award conditions to adequately safeguard federal funds, or designated certain recipients as "high risk" and required that disbursement of federal funds be on a cost reimbursement basis, rather than allowing the awardees to draw upon the funds at will.

<b>Preaward Screening Results</b>		
<b>Results</b>	<b>Number</b>	<b>Amount</b>
Awards delayed to resolve concerns	18	\$21,495,060
Special award conditions established	8	8,883,249
Cost reimbursement basis required	7	3,914,200



### **Indirect Cost Rates**

Under OMB policy, a single federal agency—the “cognizant agency”—is responsible for the review, negotiation, and approval of indirect cost rates for public and private entities receiving funds under various federal programs. Normally, the federal agency providing the most direct funding to an entity is designated as its cognizant agency. OMB has designated Commerce as the cognizant agency for 280 economic development districts, as well as a number of state and local government units. From time to time, the Department also has oversight responsibilities for other recipient organizations. The Department has authorized the OIG to negotiate indirect cost rates and review cost allocation plans on its behalf. The OIG reviews and approves the methodology and principles used in pooling indirect costs and establishing an appropriate base for distributing those costs to ensure that each federal, state, and local program bears its fair share.

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

### **Nonfederal Audit Activities**

In addition to OIG-performed audits, certain of the Department’s financial assistance programs are sometimes audited by state and local government auditors and by independent public accountants. OMB Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, sets forth the requirements for most of these audits. For-profit organizations that receive ATP funds from NIST are audited in accordance with *Government Auditing Standards* and *NIST Program-Specific Audit Guidelines for ATP Cooperative Agreements*, issued by the Department. (Before June 30, 1996, such audits were subject to the requirements of Circular A-128, *Audits of State and Local Governments*, and the former Circular A-133, *Audits of Institutions of Higher Education and Other Non-Profit Institutions*. Some of the audits discussed below were conducted in accordance with these earlier circulars.)

We examined 380 audit reports during this semiannual period to determine whether they contained audit findings on any Department programs. For 252 of these reports, the Department acts as cognizant agency and moni-

## Departmental Management

tors the auditee's compliance with the applicable OMB circulars or the NIST program-specific reporting requirements. The other 128 reports are from entities for which other federal agencies have oversight responsibility.

Report Category	OMB A-133 Audits	ATP Program-Specific Audits	Total
Pending (April 1, 1999)	78	80	158
Received	213	79	292
Examined	282	98	380
Pending (September 30, 1999)	9	61	70

The following table shows a breakdown by bureau of the \$466 million in Commerce funds audited.

Bureau	Funds
EDA	\$151,458,269
ITA	3,478,582
MBDA	2,204,453
NIST	192,911,760 <sup>a</sup>
NOAA	97,225,281
NTIA	4,134,320
NTIS	25,364
Agency not identified	14,506,020
<b>Total</b>	<b>\$465,944,049</b>

<sup>a</sup> Includes \$155,665,077 in ATP program-specific audits.

We identified a total of \$1,851,588 in questioned costs. In most reports, the Department's programs were considered non-major, resulting in limited transaction and compliance testing against laws, regulations, and grant terms and conditions. The 25 reports with Commerce findings are listed in Appendix B-1. (*Atlanta Regional Office of Audits*)

# Reporting Requirements



## INDEX

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

Section	Topic	Page
4(a)(2)	Review of Legislation and Regulations	72
5(a)(1)	Significant Problems, Abuses, and Deficiencies	17-70
5(a)(2)	Significant Recommendations for Corrective Action	17-70
5(a)(3)	Prior Significant Recommendations Unimplemented	72
5(a)(4)	Matters Referred to Prosecutive Authorities	17-70
5(a)(5) and 6(b)(2)	Information or Assistance Refused	73
5(a)(6)	Listing of Audit Reports	79-84
5(a)(7)	Summary of Significant Reports	17-70
5(a)(8)	Audit Reports—Questioned Costs	77
5(a)(9)	Audit Reports—Funds to Be Put to Better Use	78
5(a)(10)	Prior Audit Reports Unresolved	15, 73
5(a)(11)	Significant Revised Management Decisions	15, 73
5(a)(12)	Significant Management Decisions with Which the OIG Disagreed	74

The OIG is also required by section 804(b) of the Federal Financial Management Improvement Act of 1996 to report on instances and reasons when an agency has not met the dates of its remediation plan. We will discuss this matter in the March 2000 issue as part of our financial statement audit reporting.

### ***Section 4(a)(2): Review of Legislation and Regulations***

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

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

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

To include a list of all significant unimplemented recommendations in this report would be duplicative, unwieldy, and of limited value to the Congress. Any list would have meaning only if explanations detailed whether adequate progress is being made to implement each agreed-upon corrective action. Also, as this semiannual report is being prepared, management is in the process of updating the Department's Audit Tracking System as of September 30, 1999, based on semiannual status reports due from the bureaus in mid-October. An accurate database is therefore not available to the OIG for reference here. However, additional information on the status of any audit recommendations may be obtained through the OIG's Office of Audits.

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

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

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

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

As of September 30, 1999, nine performance audits and one financial assistance audit were in this category, as discussed below.

#### **Performance Audits**

The nine NOAA unresolved reports address the bureau's discretionary funding programs, its light aircraft operations, and NMFS's laboratory structure. These reports are discussed on page 54.

#### **Financial Assistance Audit**

The unresolved audit relates to a financial assistance award made by EDA. A response to the final audit report has been submitted; however, the OIG is awaiting the submission of an audit resolution proposal. Additional details are presented on page 23.

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

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

## Reporting Requirements

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

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

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

Department Administrative Order 213-5 provides procedures for the elevation of unresolved audit recommendations to higher levels of Department and OIG management, including an Audit Resolution Council. During this period, no audit issues were referred to the Council.

# Statistical Highlights



## Audit Statistical Highlights

Questioned costs this period .....	\$1,851,588
Value of audit recommendations made this period that funds be put to better use .....	\$654,904
Value of audit recommendations agreed to this period by management .....	\$5,345,445

## Investigative Statistical Highlights

Arrests .....	1
Indictments and informations .....	1
Convictions .....	3
Personnel actions* .....	1
Fines, restitutions, judgments, and other civil and administrative recoveries .....	\$25,178

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

## Allegations Processed by OIG Investigators



Accepted for investigation .....	28
Referred to operating units .....	30
Evaluated but not accepted for investigation or referral .....	<u>62</u>
<b>Total .....</b>	<b>120</b>

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

### OIG HOTLINE

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



## Tables and Appendixes

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<b>DEFINITIONS</b>	
<p>The term <b>questioned cost</b> refers to a cost that is questioned by the OIG because of (1) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; (2) a finding that, at the time of the audit, such cost is not supported by adequate documentation; or (3) a finding that an expenditure of funds for the intended purpose is unnecessary or unreasonable.</p>	
<p>The term <b>unsupported cost</b> refers to a cost that, at the time of the audit, is not supported by adequate documentation. Questioned costs include unsupported costs.</p>	
<p>The term <b>recommendation that funds be put to better use</b> refers to a recommendation by the OIG that funds could be used more efficiently if Commerce management took action to implement and complete the recommendation, including (1) reductions in outlays; (2) deobligation of funds from programs or operations; (3) withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds; (4) costs not incurred by implementing recommended improvements related to Commerce, a contractor, or a grantee; (5) avoidance of unnecessary expenditures identified in preaward reviews of contracts or grant agreements; or (6) any other savings that are specifically identified.</p>	
<p>The term <b>management decision</b> refers to management's evaluation of the findings and recommendations included in the audit report and the issuance of a final decision by management concerning its response.</p>	



<b>Table 1: Audits with Questioned Costs</b>			
<b>Report Category</b>	<b>Number</b>	<b>Questioned Costs</b>	<b>Unsupported Costs</b>
A. Reports for which no management decision had been made by the commencement of the reporting period	21	\$4,369,565	\$2,369,712
B. Reports issued during the reporting period	17	1,851,588	981,865
Total reports (A+B) requiring a management decision during the reporting period	38	6,221,153	3,351,577
C. Reports for which a management decision was made during the reporting period	21	4,182,693	2,182,840
i. Value of disallowed costs		1,698,881	798,898
ii. Value of costs not disallowed		2,483,812	1,383,942
D. Reports for which no management decision had been made by the end of the reporting period	17	\$2,038,460	\$1,168,737
<p><b>Notes and Explanations:</b></p> <p>In Category C, lines i and ii do not always equal the total on line C since resolution may result in values greater than the original recommendations.</p> <p>One audit report included in this table is also included in the reports with recommendations that funds be put to better use (see Table 2). However, the dollar amounts do not overlap.</p>			

## Tables and Appendixes

<b>Table 2: Audits with Recommendations That Funds Be Put to Better Use</b>		
<b>Report Category</b>	<b>Number</b>	<b>Value</b>
A. Reports for which no management decision had been made by the commencement of the reporting period	5	\$22,031,004
B. Reports issued during the reporting period	1	654,904
Total reports (A+B) requiring a management decision during the reporting period	6	22,685,908
C. Reports for which a management decision was made during the reporting period	3	4,054,004
i. Value of recommendations agreed to by management		3,646,564
ii. Value of recommendations not agreed to by management		409,270
D. Reports for which no management decision had been made by the end of the reporting period	3	\$18,631,904
<p><b>Notes and Explanations:</b></p> <p>In Category C, lines i and ii do not always equal the total on line C since resolution may result in values greater than the original recommendations.</p> <p>One audit report included in this table is also included in the reports with questioned costs (see Table 1). However, the dollar amounts do not overlap.</p>		

<b>Appendix A. Office of Inspector General Reports</b>		
<b>Type</b>	<b>Number</b>	<b>Appendix</b>
Performance Audits	16	A-1
Inspections	10	A-2
Financial Statements Audits	1	A-3
Financial Assistance Audits	2	A-4
<b>Total</b>	<b>29</b>	

<b>Appendix A-1. Performance Audits</b>				
<b>Agency</b>	<b>Subject</b>	<b>Number</b>	<b>Date</b>	<b>Funds to Be Put to Better Use</b>
EDA	Research and Evaluation Program Funding Decisions Should Be Documented, CFDA No. 11.312	<a href="#">BTD-11548-9-0001</a>	09/99	—
ESA	Dress Rehearsal Quality Check Survey Experience Indicates Improvements Needed for 2000 Decennial	<a href="#">ESD-11449-9-0001</a>	09/99	—
	Public Awareness Campaign Is Meeting Program Objectives	<a href="#">ESD-11755-9-0001</a>	09/99	—
ITA	U.S. and Foreign Commercial Service Is Addressing Foreign Service Personnel Management Issues	<a href="#">BTD-10829-9-0001</a>	09/99	—
	Special American Business Internship Training Program Award Process Corrected to Ensure Independent Review Panels, CFDA No. 11.114	<a href="#">ATL-10998-9-0001</a>	09/99	—
NOAA	Planned Consolidation at Norman, Oklahoma, Needs Refinement	<a href="#">STD-10900-9-0001</a>	09/99	—
	NMFS's Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program Awards Were Merit-Based, CFDA No. 11.427	<a href="#">STL-10950-9-0001</a>	09/99	—
	NWS's Meteorologic and Hydrologic Modernization Development Program Awards Were Not Competitively Selected, CFDA No. 11.467	<a href="#">ATL-11405-9-0001</a>	09/99	—

## Tables and Appendixes

<b>Appendix A-1. Performance Audits — Continued</b>				
<b>Agency</b>	<b>Subject</b>	<b>Number</b>	<b>Date</b>	<b>Funds to Be Put to Better Use</b>
NOAA <i>(continued)</i>	NMFS's Fishermen's Contingency Fund Should Be Reexamined	<a href="#">STD-11484-9-0001</a>	08/99	—
	NMFS's Marine Fisheries Initiative Program Promotes Merit-Based Decisions, but Process Needs More Discipline, CFDA No. 11.433	<a href="#">ATL-11655-9-0001</a>	09/99	—
	Internal Controls Over MASC's Bankcard Program Need Improvement	<a href="#">DEN-11927-9-0001</a>	09/99	—
NTIA	Internal Controls over Bankcard Use Are Sound	<a href="#">BTD-11549-9-0001</a>	09/99	—
O/S	Audit Survey of the Department of Commerce Natural Disaster Reduction Initiative	<a href="#">STD-11600-9-0001</a>	07/99	—
	Current DOC Postsecondary Internship Program Award Process Promotes Merit-Based Decisions, CFDA No. 11.702	<a href="#">BTD-11822-9-0001</a>	09/99	—
PTO	Office of Patent Publications: High Inventory, Late Patent Deliveries, and Patent Printing Issues Must Be Addressed	<a href="#">BTD-10996-9-0001</a>	09/99	—
TA-NIST	State Technology Extension Program Award Process Designed to Promote Merit-Based Decisions, but Process Needs More Discipline, CFDA No. 11.613	<a href="#">DEN-10961-9-0001</a>	09/99	—

<b>Appendix A-2. Inspections</b>				
<b>Agency</b>	<b>Subject</b>	<b>Number</b>	<b>Date</b>	<b>Funds to Be Put to Better Use</b>
BXA	Improvements Are Needed to Meet the Export Licensing Requirements of the 21st Century	<a href="#">IPE-11488</a>	06/99	—
ESA	Improvements Needed in Multiple Response Resolution to Ensure Accurate, Timely Processing for the 2000 Decennial Census	<a href="#">OSE-10711</a>	09/99	—
	Method for Archiving 2000 Decennial Data and Procedures for Disposing of Questionnaires Should Be Finalized	<a href="#">OSE-10758</a>	09/99	—
ITA	US&FCS China Is Meeting the Demands of Its Clients, but Internal Operations Need Attention	<a href="#">IPE-10915</a>	09/99	—
	US&FCS Brazil: Improvements Needed in Program Management and Internal Controls	<a href="#">IPE-10916</a>	09/99	—
	US&FCS South Africa Is Building An Effective Program, but Administrative Operations Need Improvement	<a href="#">IPE-11433</a>	09/99	—
NOAA	NESDIS Y2K Risks Are Low, but Improvements Are Needed	<a href="#">OSE-12199</a>	09/99	—
PTO	Year 2000 Renovations and Test Program Are Effective, but Agency Should Freeze Changes and Verify Inventory	<a href="#">OSE-11693</a>	09/99	—
	PTO Has Improved Its Management of Interagency Agreements	<a href="#">IPE-10728</a>	09/99	—
TA-NTIS	Management over Interagency and Other Special Agreements Requires Further Improvement	<a href="#">IPE-11021</a>	06/99	—

## Tables and Appendixes

<b>Appendix A-3. Financial Statements Audits</b>				
<b>Agency</b>	<b>Subject</b>	<b>Number</b>	<b>Date</b>	<b>Funds to Be Put to Better Use</b>
O/S	Fiscal Year 1998 Consolidated Financial Statements, Federal Agencies Centralized Trial-Balance System Data Verification Agreed-Upon Procedures	<a href="#">FSD-10899-9-0002</a>	06/99	—

<b>Appendix A-4. Financial Assistance Audits</b>						
<b>Agency</b>	<b>Auditee</b>	<b>Number</b>	<b>Date</b>	<b>Questioned Costs</b>	<b>Unsupported Costs</b>	<b>Funds to Be Put to Better Use</b>
EDA	Grand Forks Growth Fund, ND	DEN-11625-9-0001	09/99	—	—	—
NOAA	AquaFuture, Inc., MA	ATL-10729-9-0001	07/99	—	—	\$654,904

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

<b>Appendix B. Processed Reports</b>	
<p>The Office of Inspector General reviewed and accepted 380 financial-related audit reports prepared by independent public accountants and local, state, and other federal auditors. The reports processed with questioned costs, recommendations that funds be put to better use, and/or nonfinancial recommendations are listed in Appendix B-1.</p>	
<b>Agency</b>	<b>Audits</b>
Economic Development Administration	166
International Trade Administration	2
Minority Business Development Agency	5
National Institute of Standards and Technology	112 *
National Oceanic and Atmospheric Administration	12
National Telecommunications and Information Administration	6
Multi-Agency	43
Agency Not Identified	34
<b>Total</b>	<b>380</b>
* Includes 98 ATP program-specific audits.	

<b>Appendix B-1. Processed Financial-Related Audits</b>						
<b>Agency</b>	<b>Auditee</b>	<b>Number</b>	<b>Date</b>	<b>Questioned Costs</b>	<b>Unsupported Costs</b>	<b>Funds to Be Put to Better Use</b>
EDA	American Samoa Government	ATL-9999-9-0031	04/99	\$42,000	—	—
	Idaho Innovation Center, Inc.	ATL-9999-9-1261	07/99	30,709	—	—
	Replication and Program Strategies, Inc., PA	ATL-9999-9-1298	07/99	—	—	—
	City of Gary, IN	ATL-9999-9-1386	07/99	38,818	—	—
	City of Rockford, IL	ATL-9999-9-1212	08/99	—	—	—
<p>Note: The questioned costs and unsupported costs include only the federal share of the total questioned and unsupported costs cited in the reports.</p>						

## Tables and Appendixes

### Appendix B-1. Processed Financial-Related Audits — Continued

Agency	Auditee	Number	Date	Questioned Costs	Unsupported Costs	Funds to Be Put to Better Use
EDA (continued)	Lake City Development Corporation, SC	ATL-9999-9-1421	08/99	\$195,093	—	—
	Idaho Innovation Center, Inc.	ATL-9999-9-1480	08/99	—	—	—
	Lehigh University, PA	ATL-9999-9-1498	08/99	—	—	—
	City of Renville, MN	ATL-9999-9-1266	09/99	—	—	—
	City of Ely, NV	ATL-9999-9-1506	09/99	264,585	\$264,585	—
	City of Pahokee, FL	ATL-9999-9-1517	09/99	—	—	—
	City of Moss Point, MS	ATL-9999-9-1531	09/99	116,460	—	—
MBDA	All Indian Pueblo Council, Inc., NM	ATL-9999-9-1344	04/99	7,257	7,257	—
	City of Williamsport, PA	ATL-9999-9-1321	08/99	—	—	—
NOAA	American Samoa Government	ATL-9999-9-1031	04/99	15,000	—	—
	American Samoa Government	ATL-9999-9-1032	04/99	177,374	—	—
	American Samoa Government	ATL-9999-9-1278	04/99	52,675	—	—
	Commonwealth of Massachusetts	ATL-9999-9-1389	07/99	37,584	37,584	—
	State of Alaska	ATL-9999-9-1200	09/99	4,160	4,160	—
TA-NIST	Minnesota Technology, Inc.	ATL-9999-9-1222	07/99	103,045	2,446	—
	Lucent Technologies, NJ	ATL-9999-9-0110	08/99	659,812	645,882	—
	Chevron Research and Technology Center, CA	ATL-9999-9-0127	08/99	19,951	19,951	—
	Wisconsin Center for Manufacturing and Productivity, Inc.	ATL-9999-9-1116	08/99	—	—	—
	Colorlink, Inc., CO	ATL-9999-9-0038	09/99	67,941	—	—
	Missouri Incutech Foundation	ATL-9999-9-1520	09/99	19,124	—	—

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



# Definitions of Types of OIG Reviews and Financial Statements Audit Terms



## OIG Reviews

### Audits

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

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

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

### Inspections

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

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

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

## Financial Statements Audit Terms

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

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

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

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

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

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

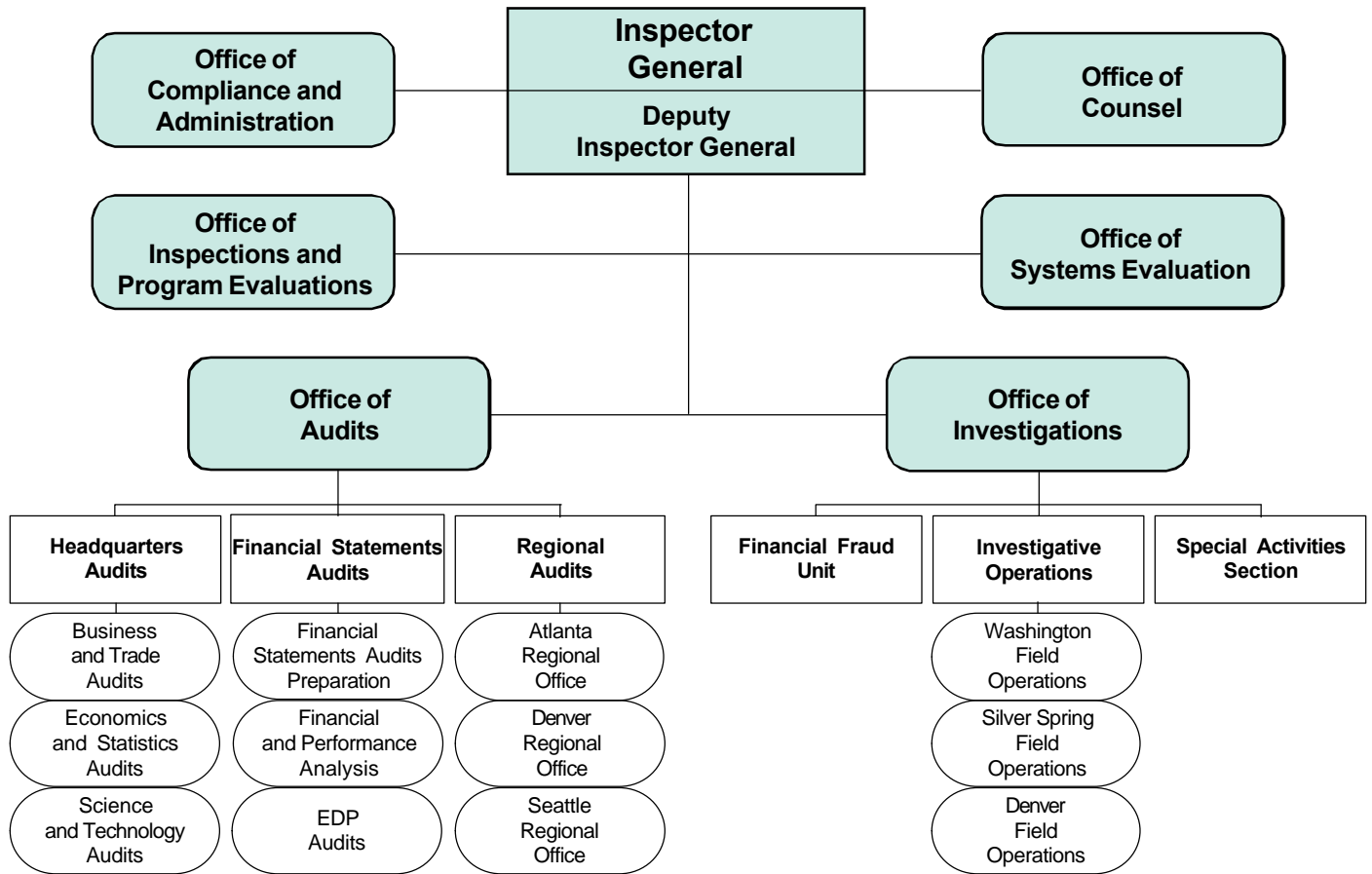


# Glossary of Abbreviations

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AFOS .....	Automation of Field Operations and Services
ATP .....	Advanced Technology Program
AWIPS .....	Advanced Weather Interactive Processing System
BCCP .....	business continuity and contingency plan
BXA .....	Bureau of Export Administration
CAMS .....	Commerce Administrative Management System
CFO .....	Chief Financial Officer
DCS 2000 .....	Data Capture System 2000
EDA .....	Economic Development Administration
ESA .....	Economics and Statistics Administration
Ex-Im Bank .....	Export-Import Bank
GAO .....	General Accounting Office
GDP .....	gross domestic product
GPO .....	Government Printing Office
GPRA .....	Government Performance and Results Act
GSA .....	General Services Administration
IG .....	Inspector General
IT .....	information technology
ITA .....	International Trade Administration
MBDA .....	Minority Business Development Agency
MRR .....	multiple response resolution
NESDIS .....	National Environmental Satellite, Data, and Information Service
NIST .....	National Institute of Standards and Technology
NMFS .....	National Marine Fisheries Service
NOAA .....	National Oceanic and Atmospheric Administration
NTIA .....	National Telecommunications and Information Administration
NTIS .....	National Technical Information Service
NWS .....	National Weather Service
OEBAM .....	Office of Executive Budgeting and Assistance Management
OIG .....	Office of Inspector General
OMB .....	Office of Management and Budget
OPP .....	Office of Patent Publications
OSF .....	Operational Support Facility
PTO .....	Patent and Trademark Office
RLF .....	revolving loan fund
SABIT .....	Special American Business Internship Training
SBA .....	Small Business Administration
TA .....	Technology Administration
US&FCS .....	U.S. and Foreign Commercial Service
USEAC .....	U.S. Export Assistance Center
Y2K .....	year 2000

# Office of Inspector General Organization Chart



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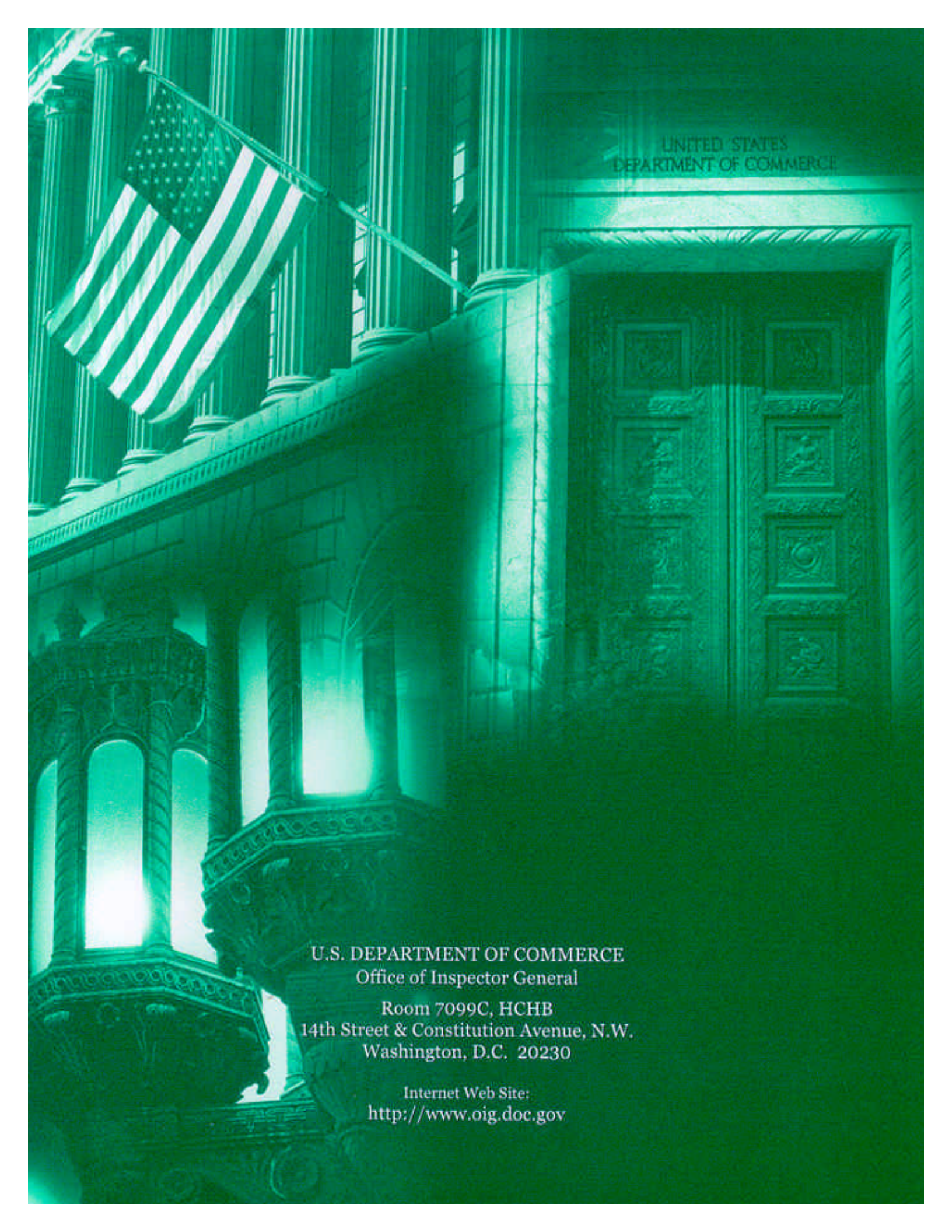
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