

U.S. DEPARTMENT OF COMMERCE
Office of Inspector General



***Semiannual Report
to the Congress***

March 31, 1997



Under the provisions of the Inspector General Act of 1978, Public Law 95-451, as amended, we report twice yearly to the Congress on the activities of the Office of Inspector General. We describe the major problems, abuses, and deficiencies identified during audits, inspections, and investigations, along with our recommendations for corrective action.

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

Message for the Secretary



April 30, 1997

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

Mr. Secretary:

This report provides a comprehensive overview of Office of Inspector General activities for the first half of fiscal year 1997. 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.

It is clear that the Congress is becoming extremely active in its authorization, appropriation, and oversight roles relative to the Department and its programs. In addition, the Congress has expressed its intent to take its consultation role under the Government Performance and Results Act very seriously.

We plan to continue our work with the Department to strengthen its financial management under the Chief Financial Officers Act and to assist managers in using the information provided in the financial statements to improve the Department's business practices. At the same time, the Department must continue its efforts to improve internal controls and the accuracy of financial information, correct the remaining internal control weaknesses, and acquire experienced financial management leadership. It also needs to ensure the successful implementation of the Commerce Administrative Management System, which is needed for producing improved financial management and business information and for resolving "Year 2000" problems.

The Department must also address its programmatic, as well as financial, material weaknesses, as identified recently in reports by our office and by the General Accounting Office. Planning for the 2000 decennial census, completing the National Weather Service modernization, determining the future of the NOAA Corps and the NOAA fleet, and resolving Advanced Technology Program concerns are just some of the management issues that we must all address. I welcome your commitment to do so.

Through the continued cooperative approach between your staff and this office, we can more effectively monitor the implementation of key Department programs and activities, and meet the informational and oversight needs of the Congress.

Sincerely,

A handwritten signature in black ink, reading "Francis D. DeGeorge".

Francis D. DeGeorge
Inspector General

Enclosure



Table of Contents

MESSAGE FOR THE CONGRESS	1
Foreword	1
Major Areas of Concern	2
NOAA Fleet and NOAA Corps	2
2000 Decennial Census	4
Advanced Technology Program	5
NOAA Satellite Programs	7
NWS Modernization	9
Facilities Planning and Laboratory Consolidation	10
NTIS Expansionary Activities	12
Seafood Inspection Performance Based Organization	13
Federal Managers' Financial Integrity Act	14
Resolution and Follow-Up	15
Statistical Highlights	17
AGENCY OVERVIEWS	18
Bureau of Export Administration	18
Economic Development Administration	21
Economics and Statistics Administration	30
Bureau of Economic Analysis	
Bureau of the Census	
International Trade Administration	34
Minority Business Development Agency	38
National Oceanic and Atmospheric Administration	41
National Telecommunications and Information Administration	53
Patent and Trademark Office	56
Technology Administration	58
National Institute of Standards and Technology	
National Technical Information Service	
DEPARTMENTAL MANAGEMENT	69
OIG ORGANIZATIONAL CHART AND TELEPHONE NUMBERS	81
REPORTING REQUIREMENTS	82
TABLES AND APPENDIXES	86
GLOSSARY OF ABBREVIATIONS	98

Message for the Congress



FOREWORD

Both the Secretary of Commerce and the Congress are vitally interested in improving program performance and accountability. The Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994 established the foundation for improving management and financial accountability among federal agencies. The Government Performance and Results Act of 1993 is aimed directly at improving agencies' program performance by generating the information congressional and executive branch decision-makers need in considering measures to improve government performance and reduce costs. The Congress has sent a strong message that agencies are to clearly define their missions; establish long-term strategic as well as annual goals; measure performance against these goals; and report publicly on how well they are doing.

To assist the Department of Commerce in meeting the challenges presented by these performance management acts, we plan in-depth reviews of the Department's and its bureaus' processes for identifying performance indicators and the appropriateness of those indicators. These reviews will build on our general assessment of the information contained in the overview sections of financial statements. This data should enable managers to more efficiently manage these programs.

We still have serious concerns about a number of major program initiatives, among them the NOAA fleet and Corps, the National Weather Service modernization program, the overhaul of the Department's financial management systems, and preparations for the 2000 decennial census. In addition, we are increasingly concerned about a number of performance based organization (PBO) proposals affecting the Department of Commerce. Our concerns encompass a variety of areas, ranging from missing requirements in the legislative proposals to the readiness of some entities to become PBOs.

We look forward to providing independent, objective analyses to both administration and congressional decision-makers. We are dedicated to improving performance management and the information necessary to ensure accountability.

A handwritten signature in black ink, reading "Francis D. DeGeorge". The signature is written in a cursive, flowing style.

Francis D. DeGeorge
Inspector General

MAJOR AREAS OF CONCERN

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

NOAA Fleet and NOAA Corps

Decommissioning the Fleet

Since 1992, when NOAA received congressional authorization to implement a 15-year fleet replacement and modernization plan at an estimated cost of \$1.9 billion, this office, the Congress, OMB, and others have repeatedly urged NOAA to explore alternatives to an agency-owned and operated fleet for acquiring marine data. As stated in our 1996 report on NOAA's fleet operations and its 1995 modernization plan (see March 1996 issue, page 43), we do not believe that NOAA should be in the business of designing, owning, maintaining, or operating ships. We recommended that NOAA terminate its fleet modernization plan efforts; cease investing in its ships; begin immediately to decommission, sell, or transfer them; and contract for the required services.

In March 1997, the Inspector General testified before the House Science Subcommittee on Energy and Environment on our current work related to the NOAA fleet and Corps. In our testimony, we noted that despite specific guidance from the Congress, and similar recommendations from our office and prestigious scientific panels, NOAA continues to plan investments of millions of dollars in its aging in-house fleet rather than using these funds for more cost-effective alternatives. We continue to challenge many of NOAA's current actions and plans related to the fleet. Specifically, in our view, NOAA has not adequately explained:

- ! Why it has decided to spend millions of dollars during the next two years investing in deteriorating ships without first fully exploring private build/lease or charter options like those recommended in our March 1996 report and by the Congress.
- ! Why it needs to buy new cutting-edge hydrographic survey technology and data processing equipment for its ships when the private sector is quite capable of doing the work for NOAA at a lower cost.

! Why it has proposed using 1998 and future years' appropriations to prepare designs for six new fishery research vessels without first having (1) informed the Congress of its plans to do so, (2) completed an independent analysis of the performance requirements and ship support or data required by each program mission, or (3) discussed its performance requirements with the private sector.

NOAA's continued reliance on its aging in-house fleet carries an unnecessarily high price tag, including wasteful and unwise investments that are contrary to congressional intent and our earlier recommendations. These funds should be used for more cost-effective alternatives that would provide better ship support services to NOAA's programs. Instead of performing narrowly defined studies on the cost of operating specific vessels, NOAA should be evaluating and comparing the overall costs of alternative means of obtaining equivalent services.

Eliminating the Corps

Traditionally, the NOAA Corps has had three primary functions: (1) operate and maintain NOAA's ships, (2) operate and maintain NOAA's aircraft, and (3) provide scientific and engineering support to the line offices. These functions are currently carried out by approximately 300 officers, with support from 165 general service civilians and 300 wage grade mariners.

NOAA has drafted legislation and developed transition plans to "eliminate" its Commissioned Corps. The legislation would not eliminate NOAA's role in operating ships. It would simply convert NOAA's corps of commissioned officers to civilian status. We have reviewed a number of the draft plans for the disestablishment of the NOAA Corps and do not believe that any of them are completely acceptable. The plans promote neither the restructuring of operations that the Congress encouraged, nor the increased efficiencies that the National Performance Review identified.

We believe that greater efficiencies and economies can be achieved by (1) outsourcing for ship operations and maintenance; (2) eliminating aircraft activities that are not directly related to NOAA's mission; and (3) converting to civil service positions only line-office billets that are fully funded by the line offices. In our view, these changes can be accomplished without disrupting essential programs, and programs would receive better services without the need for major capital investments in ships and aircraft, thereby avoiding future expenditures totaling hundreds of millions of dollars. The proposed legislation and transition plan should not be constructed to prevent or delay implementation of these recommendations.

2000 Decennial Census

Given the size, cost, complexity, and national importance of the decennial census, as well as our longstanding concerns about Census Bureau management, oversight of bureau planning for the 2000 census has remained one of our top priorities during this semiannual period. Over the past six months, we testified before the Congress and briefed bureau, departmental, and congressional principals and their staff members on our concerns about the lack of adequate progress on major design components and inadequate decennial management (see page 30).

In addition, we recommended to the Secretary that decennial management be identified as a material weakness in the Department's FY 1996 year-end report to the Congress under the Federal Managers' Financial Integrity Act (see page 14). This designation emphasizes the Department's recognition of the seriousness of decennial management concerns. Demonstrating the same level of concern, the General Accounting Office recently added the decennial census to the Comptroller General's governmentwide list of programs at especially high risk for waste, fraud, abuse, or mismanagement.

We strongly support the use of statistical sampling to complete a timely, accurate, and cost-effective count. We remain concerned, however, about the bureau's ability to successfully manage, control, and integrate the many new processes to be used in the 2000 census, and about the lack of a completed census design. In a November 1995 report, we recommended that the bureau move swiftly and decisively to develop and complete a sound design (see March 1996 issue, page 29).

Some of our concerns about the lack of major design decisions have been addressed. For example, the bureau recently announced a decision about which method it will use to correct the census for missed or double-counted people. It also announced a refinement to its plan to complete field enumeration using sampling. However, the research necessary to address important questions about accuracy and other implications of the specific sampling design remains incomplete. Members of Congress, among others, have raised questions about the bureau's plans, but the bureau has not yet provided satisfactory responses.

In our 1995 report, we recommended that the bureau organize the decennial area to create a central integrating function reporting to a manager with adequate authority to coordinate the entire complex, interdependent enterprise. We hoped such a change would, among other things, clarify how, by whom, and on what basis decisions are made. Almost two years later, the bureau is moving in the right direction. A management team for integrating

decennial activities is now in place, and a management information system for tracking the decennial census is being developed.

The bureau has also taken some steps to better control the risks associated with developing, acquiring, and integrating the automated systems to be used in the 2000 census. In particular, in response to recommendations from our 1996 inspection of the decennial data capture system project (see September 1996 issue, page 27), the bureau adopted a lower-risk acquisition strategy for the system, and recently selected a contractor.

However, bureau responsibilities for systems development, acquisition, and integration are highly fragmented. We believe this fragmentation is contributing to the bureau's slow pace in planning, specifying, developing, and acquiring its 2000 decennial systems. A planned bureau reorganization, which would consolidate more of the systems development and acquisition activities under a single office, will go a long way toward improving systems integration. However, even with this reorganization, many systems responsibilities will still be dispersed. A related concern is the bureau's slow pace in staffing its systems and contracting organization.

To ensure success in 2000, we believe two things must happen. First, the bureau must immediately complete a sound census design. Second, the bureau must be given the resources it needs to implement this design, along with the freedom to use its scientific judgment in researching, testing, and selecting promising methods, such as statistical sampling, for use in the decennial census. Cutting funds at this critical juncture in the planning process or restricting the bureau's freedom to select the most promising methods would result in an expensive and flawed count.

Advanced Technology Program

NIST's Advanced Technology Program (ATP) was established by the Omnibus Trade and Competitiveness Act of 1988, as amended by the American Technology Preeminence Act of 1991 (15 U.S.C. 278n, as amended). ATP is a cost-sharing program designed to accelerate the development and commercialization of promising high-risk technologies by American businesses by providing funds to individual companies and joint ventures for research and development on pre-competitive generic technologies.

Use of Commercial Prices

In our examination during the last two years of accounting practices used in conjunction with ATP joint venture awards, and our recent survey of 49 ATP joint venture participants, we identified the potential for inappropriate cost claims based on commercial prices. Based on this work, we recently conducted interim financial audits of costs claimed under two ATP joint venture cooperative agreements involving 19 participants. We found that a significant number of joint venture participants claimed costs based on commercial billing rates rather than *actual* costs, as required by the terms of the ATP award.

We found that the questionable transactions generally involved software development companies that provided licenses, software maintenance and support, or other items from a commercial product line for use on the project. Problems arose because federal cost reimbursement rules do not permit financial assistance award recipients to be reimbursed for previously invested (“sunk”) development costs, corporate interest expenses, or profit—all of which are significant ingredients of software commercial prices. We expect to issue reports to the individual recipients in the very near future that will address these questioned costs, including those involving the use of commercial prices in cost claims.

ATP program officials are now taking steps to educate future applicants on the cost and accounting requirements for federal financial assistance awards, specifically pointing out that commercial market prices are not appropriate bases for cost claims. However, accounting problems with existing recipients still need to be resolved. Although not every joint venture project will have questioned costs of the same magnitude as those found in the initial audits, there is a strong possibility that excessive federal payments have already been made as a result of commercial-price-based cost claims. We plan to conduct audits of all joint venture participants with the potential for similar claims.

Incremental Funding

We are currently reviewing NIST’s use of incremental funding for ATP projects. In August 1994, NIST received departmental approval to designate ATP as a multi-year financial assistance program. Departmental financial assistance programs with multi-year program designation are allowed to make awards for periods of more than one year, even if the program does not then have enough money to fund the entire award period. NIST also received approval to renew award agreements for up to four additional years rather than the normal two.

Our examination of FY 1995 ATP grant files found that NIST had not complied with the departmental requirement that a determination be made for each award that the project activities for the awards could be divided into annual increments, each of which represented discrete accomplishments. We are recommending that NIST fully fund all awards for the prospective award year for which this determination cannot be made. We will also recommend that for all remaining awards, which are severable and have defined work products each year, the required grants officer's certifications of severability be prepared each year.

In addition, we have concluded that the unfunded balances of ATP projects are similar to contingent liabilities and, as such, should be disclosed in the overview and notes to NIST's annual financial statements. The ATP unfunded balance was determined to be about \$155 million as of September 30, 1996.

NOAA Satellite Programs

NOAA manages two weather satellite programs: Polar-orbiting Operational Environmental Satellites (POES) and Geostationary Operational Environmental Satellites (GOES). NOAA determines the general requirements for new satellites and operates them once they are in orbit. The National Aeronautics and Space Administration (NASA) is responsible for the acquisition and launch of the satellites.

POES Program

In our last semiannual report, we previewed the findings of our review of the POES program (see September 1996 issue, page 5). In our final report (see page 41), we identified \$101.3 million in funds to be put to better use as a result of excess funding. For FY 1994-96, NOAA received more funding than it needed for new polar satellites because it failed to adequately reduce its budget requests to reflect slowed spending in the program. By forwarding the excess funds it received to NASA, which then obligated them to its various polar satellite contracts, NOAA was able to avoid having to report the unspent funds as unobligated carryovers. These actions enabled it to escape the scrutiny such funds normally receive from the Department, OMB, and the Congress. Included in excess funding was \$28.1 million totally unrelated to the NASA satellite acquisition that NOAA transferred to NASA because it was unable to immediately use the funds.

In response to our findings and recommendations, the Department took immediate steps to eliminate the excess funding and strengthen management controls by (1) assigning a full-time analyst to work directly with NASA staff to obtain better funding information, (2) reporting

unobligated carryover funds and making plans to provide decision-makers with better program performance and spending information, and (3) agreeing to eliminate transfers to NASA that are not needed for forward funding and monitoring fund transfers to ensure that funding is being used for its intended purpose.

We have also found indications of excess funding in some of NOAA's other satellite budget accounts. A separate report will be issued on our findings on completion of our review. We are continuing to work with the Department and NOAA to strengthen management controls for the satellite accounts.

The current series of NOAA polar satellites will be the last. We will also be involved in reviewing the replacement program, which is in the early stages of development by an integrated Department of Defense, NOAA, and NASA team. This program is expected to save \$1.3 billion by consolidating the number of U.S.-owned operational satellites from four to two while increasing the operational life span of each satellite. Our work in this area is not new. In the early 1990s, we recommended that OMB initiate a governmentwide study to help identify opportunities for consolidating environmental satellite programs and avoiding unnecessary duplication. We were pleased to see the convergence concept endorsed in the National Performance Review and adopted as a Presidential Initiative in 1994.

GOES Satellite Acquisition

In our recent inspection of the GOES program (see page 42), we strongly disagreed with NOAA's plans for acquiring satellites to follow the GOES-Next series. Because of NOAA's delay in agreeing to a competitive fixed price procurement and the reliability problems with GOES-8 and 9, additional measures are needed to ensure against a coverage gap projected for early next decade. Accordingly, NOAA is also purchasing an additional satellite from the current GOES-Next contractor. The satellite will be built and bought in stages, contingent upon the health of GOES-8 and 9 and the remaining GOES-Next satellites. While the need to purchase this satellite is inescapable at this point, we believe that it might have been avoided had NOAA management been willing to pursue a suitable procurement approach sooner.

NOAA planned to launch GOES-K in April 1997, two years earlier than previously scheduled, and to store it in space as a backup to ensure continuity of coverage now that GOES-8 and 9 are experiencing reliability problems. While early launch is a reasonable contingency for ensuring

continuity of coverage in this instance, NOAA has not demonstrated that launching a backup satellite for storage in space is a cost-effective policy for ensuring continuity in the future. Although NOAA cites numerous cost advantages to storing in orbit, we believe that the agency should develop a plan for replacing failing GOES satellites in advance of an emergency based on a more complete analysis of costs, benefits, risks, and backup alternatives. However, NOAA disagrees with this recommendation and instead plans to handle emergencies on a case-by-case basis, as it did with the GOES-K launch.

NWS Modernization

We continue to monitor the National Weather Service's \$4.5 billion program to modernize its observing and information systems and to reduce more than 250 field offices to 119. Our work during this period has focused on the Automated Surface Observing System (ASOS) and the Advanced Weather Interactive Processing System (AWIPS).

ASOS

Although NOAA expected the contract for ASOS to be completed this year, work will continue into next fiscal year, requiring a contract extension. The extension is needed, in part, to complete ASOS deployment and to modify and evaluate sensors, which have had continuing problems with accuracy and reliability. Initially, ASOS was intended to monitor a specific domain of meteorological conditions without the intervention of human observers. However, observers continue to be needed at some locations to augment ASOS due to numerous sensor malfunctions, and to monitor meteorological conditions that ASOS was not designed to observe (see page 50).

AWIPS

We have conducted three inspections of AWIPS since 1991. Each identified serious management, contract, and technical problems and provided recommendations to correct them (see March 1996 issue, page 46; September 1994 issue, page 40; September 1992 issue, page 2). However, NOAA has not effectively addressed the problems, and costs have continued to increase and schedules to lengthen. Our fourth inspection will assess the feasibility of NOAA's plans for completing AWIPS.

As we reported in our last issue, NOAA has decided to abandon substantial portions of the AWIPS software and use software developed by NOAA's Forecast Systems Laboratory (FSL), called WFO-Advanced,

as the basis for continued AWIPS development. The decision to use WFO-Advanced was a dramatic change in direction, raising many questions regarding how further development would proceed, which AWIPS components would be retained, how they would be integrated with WFO-Advanced, and how the resultant system would perform. Due to these unanswered questions, the Secretary has delayed Key Decision Point IV, the milestone that would allow nationwide AWIPS deployment, to December 1997. Meanwhile, the Secretary has authorized NOAA to procure and deploy 21 systems, with an option for 18 more contingent upon adequate development and deployment progress.

Because of its superior capabilities and performance, WFO-Advanced is crucial for making progress on AWIPS. However, a number of serious issues and decisions remain. In particular, use of WFO-Advanced requires transferring most design responsibilities from the contractor to the government; determining the respective technical responsibilities of NWS, FSL, and the AWIPS contractor; carefully planning the work needed to complete AWIPS development; and revising the contract. Although more than six months have passed since the decision to use WFO-Advanced, this planning is far from complete and, according to NOAA, may not be finished until the summer. NOAA lacks a detailed definition of the work and has not identified organizational roles and responsibilities. Nevertheless, it has recently established a \$550 million estimate for AWIPS development and deployment, an increase of \$25 million since last year. This cost estimate, in our opinion, has significant uncertainties due to the lack of detailed planning to define remaining development activities and responsibilities.

Because AWIPS is essential to achieving NWS operational improvements and cost savings, it is imperative that NOAA develop and implement the necessary technical and management plans to efficiently complete this program.

Facilities Planning and Laboratory Consolidation

NIST Construction at Gaithersburg

In January 1997, we issued a final inspection report on NIST's management of its Capital Improvements Facilities Program (CIFP). The report (1) recognizes CIFP's complexities and the difficulties NIST officials have dealt with in handling certain aspects of the program, (2) highlights concerns and issues that require NIST management's attention, and (3) recommends actions to be taken to ensure efficient and effective program implementation (see page 61).

We recommended that NIST revise the CIFP to accurately reflect the current thinking on its facilities improvement needs. However, the most recent plan still contains at least \$212.7 million in unjustified or inadequately explained program elements. NIST needs to remove all unjustified elements from its revised plan and expend no funds on those elements. The unjustified elements included, at a minimum, the Boulder Advanced Measurement Laboratory (AML), renovation of the existing Chemistry Building, and the unspecified and undocumented increases in estimated renovation costs in Gaithersburg.

We also found that the acquisition plan for a large omnibus task order construction contract was ill-conceived. The acquisition plan allowed for the sole-source award of an indefinite delivery, indefinite quantity cost-type task order contract for the construction of facilities worth up to \$480 million, to be constructed over a 10-year period. NIST recently canceled this proposed contract due to a lack of funding, but plans to use a similar omnibus task order contract for future construction tasks. We maintain that any such proposed contract should be awarded to multiple suppliers to ensure that more than one supplier is certified and available to meet NIST's construction requirements. In this manner, competition also will be assured for successive task orders under the omnibus contract.

In addition, we found that NIST was planning to build the Gaithersburg AML in separate phases—instead of in a more efficient, cost-effective “unified” manner—because agency officials believe that the necessary up-front funding for unified construction simply will not be available. NIST may well be right. Unfortunately, phased construction seriously reduces efficiencies and creates other cost disadvantages. We endorse NIST's continuing efforts to work with the Department, OMB, and the Congress to find a funding strategy that will allow the AML to be built under a unified contract.

NIST Leased Space

We previously reported on NIST's procurement of leased office space in Gaithersburg that was intended primarily to provide “swing space” while other space is being renovated (see September 1996 issue, page 56). We concluded that the agency had unnecessarily committed itself to a 10- to 15-year lease that may cost from \$31 million to \$47 million and that it should vacate and sublet the majority of the building immediately. In response to our report, NIST and the Department stated that the space was needed to relieve office overcrowding on its main campus. While we agreed that NIST has a minor office overcrowding problem, we believe it can justify only about a third of the currently leased space and that other

NIST buildings will be available for swing space when renovations take place. The Department disagreed with our finding and hired a contractor to study the overcrowding issue. The Department concluded, based on the results of the contractor's study, that there was little available space on the NIST campus for personnel to backfill if the leased building was vacated and sublet, and that it would not be cost-effective to move employees back to the main campus until more space is available there.

We disagree with the Department's conclusions and with the structure and findings of the contractor's study. We do not believe that the study answered the questions needed to properly resolve this issue, including the issue of office space needs of researchers versus those of more traditional office workers elsewhere in the Department. We have agreed that final resolution of the lease issue will be deferred until NIST has completed its reassessment of its overall facility needs. We will closely monitor NIST's future facility plans to ensure that the agency selects the most cost-effective alternatives and includes a definitive and justifiable plan for liquidating the excess leased space (see page 63).

Proposed NOAA Operations and Research Center

NOAA has requested FY 1998 funding to begin planning for the design and construction of a \$97 million research center to be located at the NASA Goddard Space Flight Center in Greenbelt, Maryland. The proposed new 350,000-square-foot facility would house 1,200 NOAA employees involved in satellite and weather services.

NOAA originally planned to lease the facility, while a third party was to provide financing for the project. However, we recently learned that NOAA was seeking authority and funding to begin the project as early as FY 1998. We have begun an audit to determine whether NOAA has adequately justified its revised decision. Our preliminary work has identified concerns with NOAA's economic analysis. The NOAA analysis does not appear to have evaluated all possible alternatives, including renovating existing facilities or leasing other federal government or privately owned properties.

NTIS Expansionary Activities

We recently completed a program evaluation of the National Technical Information Service's operations, including its CyberFile project for the Internal Revenue Service (IRS). We found that in pursuing its mandated responsibilities, NTIS has generally worked effectively with other federal agencies to increase its inventory of the nation's scientific,

technical, and engineering information, in compliance with the American Technology Preeminence Act (ATPA).

However, we are very concerned about the expansionary efforts and activities taken on by NTIS, based on (1) its interpretation of the agency's authority under ATPA, (2) a push to generate new revenues, and (3) a general desire to expand its operations. We are concerned that some of these tasks are on the border of—if not outside—NTIS's authority and statutory mission. Also, poorly chosen expansionary projects potentially detract from NTIS's ability to fulfill its primary and traditional mission.

A prime example is NTIS's attempt to develop for IRS a system capability that would enable U.S. taxpayers with home computers to submit their tax returns electronically. Unfortunately, CyberFile—a \$22 million project, NTIS's largest ever—was poorly managed on many fronts, and NTIS's role in the project became the subject of GAO, OIG, IRS internal audit, and congressional concerns and criticism.

The CyberFile problems appear, in large part, to be the result of (1) NTIS agreeing to an overly ambitious schedule to have the filing system up and running on a pilot basis for the 1996 tax season, (2) numerous documented and undocumented performance requirement changes by IRS, (3) poor planning by both IRS and NTIS, (4) a lack of timely decision-making by IRS, (5) poor management and inadequate oversight by both IRS and NTIS, and (6) improper procurement practices, oversight, and direction by NTIS and Commerce Department personnel. We recently issued three inspection reports dealing with general NTIS management issues and with procurement and management issues specific to the CyberFile project (see pages 58 and 59 and September 1996 issue, page 64).

Seafood Inspection Performance Based Organization

At the request of the Assistant Administrator for Fisheries, we are evaluating the plans and strategies for converting the National Marine Fisheries Service's Inspection Services Division to a PBO. Our evaluation indicates that NMFS has not fully considered alternatives to establishing a PBO, particularly the possibility of incorporating the proposed PBO functions into the Food and Drug Administration, which has similar inspection duties and has recently been tasked with broadening its inspection services.

At the time of our review, a business plan for the proposed PBO had not been developed. Moreover, NOAA's draft prospectus was inadequate because it did not (1) assess the market for inspection services, (2) evaluate the competition, including market share and price structures, or (3) adequately describe the organization and management structure and required staffing of the proposed PBO. NOAA needs to develop a comprehensive business plan to demonstrate that the PBO can compete in an open market and that revenues will cover costs. Until these actions have been completed, NOAA should not proceed with plans to convert the Inspection Services Division to a PBO (see page 50).

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

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

The National Performance Review recommendations called for more proactive management of federal programs and encouraged federal managers to consider the findings and recommendations cited in OMB, General Accounting Office, and other management reports in determining the conditions of administrative and accounting control systems, in accordance with revised OMB Circular A-123. This results in a more streamlined process that is less burdensome to managers.

The staffs of the OIG and the Department's CFO work together to assist bureaus in identifying their material weaknesses. The Secretary reported four material weaknesses this year, as listed below. The first three were reported in prior years, and the fourth is new this year.

- ! Modernization of the Weather Service (NOAA).
- ! Fleet Modernization (NOAA).
- ! Financial Systems (Departmentwide).
- ! Better Management of the Design and Implementation of the 2000 Decennial Census (Census).

One previously reported condition—Management of Census Major Systems (Census)—was closed during this reporting period, as adequate progress had been made in implementing corrective actions.

RESOLUTION AND FOLLOW-UP

The Inspector General Act Amendments of 1988 require this report to present those audits issued before the beginning of the reporting period (October 1, 1996) for which no management decision has been made by the end of the period (March 31, 1997). The following table presents the overall status.

Type of Audit Report	Unresolved
Performance	3
Financial Assistance	1
Financial Statements	1
Preaward Contract	2
Postaward Contract	0

The three unresolved performance audits involve NOAA programs. The first audit offered recommendations for streamlining NWS's headquarters and support operations. In mid-April, the OIG concurred with NWS's updated audit action plan and the report was recorded as resolved. The second audit recommended that tsunami warning programs be consolidated and the warning centers be eliminated. NOAA does not agree with the recommendations in this report. The third audit recommended that NOAA improve the Office of Oceanic and Atmospheric Research's recovery of costs for sponsored research. NOAA is preparing a revised audit action plan. Details are presented on page 51.

The one unresolved financial assistance audit involves a NOAA award. The audit remains unresolved for over a year. Resolution is pending action by Defense Contract Audit Agency and the Office of Naval Research, the cognizant audit agency. Additional details are presented on page 52.

The unresolved financial statements audit involves the General Administration's Salaries and Expenses Fund Statement of Financial Position as of September 30, 1995. We are currently reviewing the Department's audit action plan. Details are on page 80.

Discussion of the two unresolved preaward contract audits can be found on page 85.

Message for the Congress

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

Report Category	Modifications	Appeals
Actions pending (October 1, 1996)	0	10
Submissions	0	1
Decisions	0	3
Actions pending (March 31, 1997)	0	8

The eight appeals pending final decisions by the Department include one NTIA, four EDA, and three MBDA financial assistance audits. Five of these appeals (two EDA and three MBDA) have been in process for over a year, and three for as long as two years.

*Audit and Inspection
Statistical Highlights*

Questioned costs this period	\$4,787,979
Value of audit recommendations this period that funds be put to better use	\$139,974,428
Value of audit recommendations agreed to this period by management	\$70,696,249
Value of inspection recommendations this period that funds be put to better use	\$101,300,000

*Investigative
Statistical Highlights*

Indictments	0
Convictions	0
Personnel actions ¹	17
Administrative actions ²	9
Fines, restitutions, judgments, and civil and administrative recoveries	\$242,090

¹Includes suspensions, reprimands, demotions, removals, reassignments, and resignations or retirements in lieu of adverse action.

²Includes actions to recover funds, new procedures, and policy changes that result from investigations.

**Allegations
Processed by
OIG Investigators**



25	Accepted for Investigation
44	Referred to Operating Units
32	Evaluated But Not Accepted for Investigation or Referral

101 Total

In addition, numerous other allegations and complaints were forwarded to the appropriate federal and nonfederal investigative agencies.

OIG HOTLINE

Telephone: (202) 482-2495 or 1-800-424-5197

Commerce E-mail: OIG_Hotline@OI@OIG

Internet: oighotline@doc.gov



Bureau of Export Administration

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 industrial 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.

Audit of BXA's FY 1996 Financial Statements

The OIG contracted with a certified public accounting (CPA) firm to audit BXA's FY 1996 and 1995 statement of financial position and the related statement of operations and changes in net position for the year ended September 30, 1996. However, due to excessive delays in obtaining documentation and the problems identified, we determined that it was not prudent to complete the FY 1995 audit test work. The firm disclaimed an opinion on the FY 1995 statements because (1) BXA was unable to provide support for the FY 1995 payroll sample, (2) BXA did not provide a timely property and equipment detail listing for FY 1996, and (3) most of the findings in our FY 1994 Audit Survey of BXA's financial statements had not been corrected as of September 30, 1995.

The firm also disclaimed an opinion on the FY 1996 financial statements because (1) it could not obtain a complete list of pending or threatened litigation, claims, and assessments from the Office of General Counsel; (2) there was inadequate supporting documentation; (3) policies and procedures were not properly followed; (4) the FY 1995 account balances were unaudited; and (5) the financial information disclosures were not fully identified and analyzed.

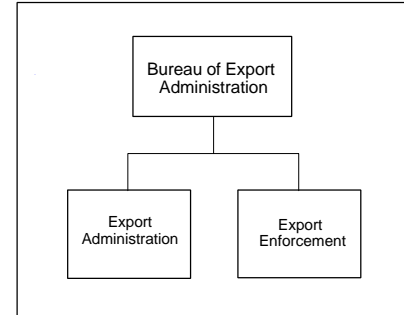
The firm's review of BXA's internal control structure identified 10 reportable conditions, of which the first eight are material weaknesses:

- ! Management lacks oversight for financial accounting and reporting.
- ! Automated data processing weaknesses in subsystems could result in misstatement.
- ! Certain balances recorded on the financial statements are not supported.
- ! Routine property and equipment transactions were not processed accurately, reconciled, or supported, causing misstatements in net property and equipment.
- ! Capital and operating leases are not consistently recorded, captured, or properly disclosed.
- ! Civil monetary penalties are not valued properly and not collected timely.
- ! Accounts payable and undelivered orders are not properly recorded/liquidated and supported.
- ! Accounts receivable are not supported.

- ! Payroll records are not adequately maintained or reconciled.
- ! The overview section of the financial statements is incomplete and not supported.

BXA concurred with virtually all of the audit findings and recommendations. The nature and extent of the reported deficiencies indicate serious problems in the internal control structure. We encouraged BXA management to make concerted efforts to improve the structure soon enough to allow for the preparation of more reliable financial statements for FY 1997.

BXA needs to continue to heighten the awareness and importance of financial management and fiscal responsibility among its staff. By allocating certain additional resources, implementing certain changes in policy, and improving management oversight for financial accounting and reporting, many of these issues can be resolved. However, certain items can be resolved only by significantly modifying or replacing the system. BXA must continue to support the successful implementation of the Commerce Administrative Management System and modifications to existing subsystems. (*Financial Statements Contract Audit Division: FSC-8834-7-0001*)



Commerce Role in Defense Priorities and Allocation System Needs Strengthening

The Commerce Department, through BXA, is responsible for administering the Defense Priorities and Allocation System (DPAS), as provided for in the Defense Production Act of 1950. Under the act, the President can require the priority performance of government contracts and purchase orders as necessary to meet approved national defense and emergency preparedness program requirements and to allocate materials, services, and facilities needed to promote these programs. Commerce's involvement in DPAS was designed to ensure timely delivery of materials and equipment and to minimize interference with commercial activity.

The OIG conducted a review to evaluate BXA's role in administering DPAS and to determine the system's effectiveness and relevance in the post-Cold War era. As required by executive order, Commerce has re-delegated to the Secretary of Defense and heads of other involved departments and agencies much of the day-to-day administrative responsibility for DPAS, authorizing them to apply priority ratings to contracts and orders that support approved national defense and emergency preparedness activities.

Bureau of Export Administration

Our review found that DPAS continues to be an important component of our national security in the post-Cold War era, and that Commerce, when necessary, works to expedite orders and respond to requests for special priorities assistance. The review also disclosed several instances in which Commerce's intervention precluded unjustified use of DPAS authority, suggesting that the Department's role is still valid. We did, however, identify a number of areas that warrant BXA's management attention:

- ! Instead of supporting only the most essential programs for our nation's defense, DPAS priority ratings have become a routine component of military procurement.
- ! Because neither Commerce nor Defense knows how many rated contracts or DPAS actions there are annually, it is difficult to gauge the impact of the ratings on U.S. companies.
- ! Commerce has not maintained adequate coordination with Defense to ensure that DPAS authority is used properly.
- ! Standard procurement practices are occasionally circumvented to expedite DPAS requests.
- ! DPAS regulations are outdated and in need of revision.
- ! Commerce has not provided sufficient resources and oversight to maintain management controls for ensuring that DPAS works efficiently and effectively.

We made a number of recommendations to address these problems. BXA generally agreed with our observations and recommendations. The actions it has taken or planned, when implemented, will satisfy the intent of our recommendations. (*Office of Inspections and Program Evaluations: IPE-8716*)

Economic Development Administration



Audit of EDA's FY 1996 Financial Statements

After auditing EDA's FY 1996 statement of financial position, the contractor CPA firm was unable to express an opinion because of inadequacies in the bureau's internal control structure. The firm identified the following four material weaknesses as principal reasons for disclaiming an opinion:

- ! The management control structure requires further improvement.
- ! EDA needs to establish additional procedures to record accrued grant expenses accurately.
- ! Incompatible duties relating to computer program changes are not adequately segregated.
- ! Controls over logical security in the current fund accounting system are not properly designed.

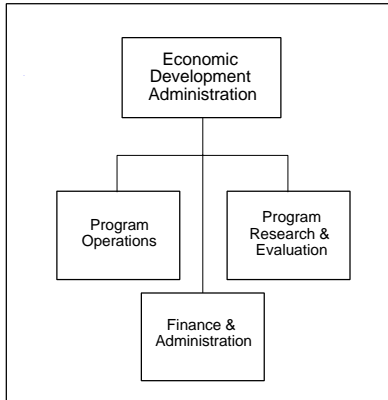
The firm also identified the following five reportable conditions in its review of EDA's internal control structure: (1) all intra-entity activity needs to be properly identified and accounted for; (2) annual leave should be reconciled on a timely basis; (3) duties should be segregated at the Administrative Support Center Finance Department in Kansas City (operated by NOAA); (4) expenses related to advances to grantees should be recorded when incurred and in accordance with Department policies; and (5) expenses related to advances to other government agencies should be recorded when incurred and on a timely basis.

EDA agreed with the audit findings and stated that it would correct its financial management deficiencies.

Despite the current findings, it is clear that EDA has made substantial progress in improving its financial management. Our earlier audit of EDA's FY 1995 statement of financial position identified 10 material weaknesses and 11 reportable conditions. The dramatic reduction of identified deficiencies to four weaknesses and five conditions is a clear indication of EDA's commitment to improving financial management. EDA accomplished this reduction by developing a responsive action plan and placing additional senior management attention on improving accounting records and internal controls. We commend EDA for the substantial progress it has made in improving its financial management.

Of particular importance in correcting the remaining deficiencies is the bureau's commitment to hiring a Chief Financial Officer, for which EDA has recently posted a vacancy announcement, and strengthening its

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



financial management systems. Although the Commerce Administrative Management System is expected to eventually address EDA's financial management systems deficiencies, the agency must take prompt action to mitigate the identified systems deficiencies, assessing the costs and benefits of any interim solutions. (*Financial Statements Contract Audit Division: FSC-8837-7-0001*)

California Subgrantee Poorly Managed EDA-Funded Project

The OIG performed an interim audit, covering the period of October 1992 through February 1995, of an EDA grant awarded to a California county agency to address the effects of defense-related downsizing. The grant was divided into four components: a product development partnership, a high technology council, a seed capital loan fund, and a business loan program. The business loan program was retained by the county agency, while the other three components were assigned to a subgrantee, a private nonprofit corporation established by the county. The total project budget was about \$7.4 million, consisting of the EDA award of over \$5.5 million and a local matching share of nearly \$1.9 million.

We noted only minor problems with the grantee agency's performance, but found serious deficiencies in the three components managed by the subgrantee corporation. Specifically, our audit disclosed that the corporation (1) failed to perform under the EDA grant, as it did not establish the high technology council and made only one loan from the seed capital loan fund; (2) spent grant funds for activities that did not contribute to grant targets and objectives, and could not account for the funds; (3) was unprepared to administer the subgrants, lacking the requisite organization, staffing, and management systems and controls; and (4) failed to comply with other administrative requirements, federal cost principles, and award terms and conditions.

Among our recommendations was that EDA make a technical assessment of the corporation's performance and, if it determines that the corporation earned part of the claimed performance, establish the value of the work accepted and adjust disbursements to the corporation accordingly. If, however, EDA sustains our findings of nonperformance, it should disallow over \$1.3 million in costs claimed through February 1995 and recover over \$800,000, plus the appropriate portion of federal disbursements made thereafter. And if the grant components are extended, strict controls should be placed on the corporation's future performance reporting and cost claims. (*Seattle Regional Office of Audits: STL-7625-7-0001*)

Public Works Grant Should Be Terminated for Cause

In 1991 EDA awarded an \$867,520 public works grant to a nonprofit development corporation in rural Pennsylvania. The corporation was required to match the grant with \$216,880 in cash, bringing the total project funding to nearly \$1.1 million. The purpose of the grant was to develop an industrial park, which included constructing a water tank, water and sewer lines, and an access road on undeveloped property. The project was completed in 1993, and EDA disbursed \$865,934 in grant funds.

In 1995 over three-fourths of the property was sold to a mobile home manufacturer as a site for a new plant. EDA learned of the sale through a newspaper article, which indicated that the property had been sold for a price well below fair market value and suggested the possibility of a conflict of interest involving a corporation official. As a result, EDA referred the project to the OIG for audit.

Our audit disclosed that, in selling the property, the corporation had materially violated the grant terms and conditions. Specifically, we found that the corporation sold the property for about one-quarter of its fair market value and, in violation of the grant agreement:

- ! Failed to notify EDA in advance of the sale and provide the required buyer's covenant.
- ! Allowed the appearance of an improper conflict of interest to be created by the corporation's president/attorney, who helped negotiate the bargain sale, and then made a substantial personal investment in the company that bought the property.

In addition, the corporation's response to our draft report disclosed that its grant application omitted material information regarding the usefulness of the property being developed, which also violates the grant award.

Because of the seriousness of the violations, we recommended that EDA terminate the grant for cause and recover the \$865,934 in disbursed federal funds. (*Atlanta Regional Office of Audits: ATL-8435-7-0001*)

**Over \$1 Million in Costs Disallowed
on Public Works Grant**

In September 1990, EDA awarded a \$1.9 million public works grant to a South Carolina city to assist in its economic recovery from the devastation of Hurricane Hugo. The Federal Emergency Management Agency provided another grant worth nearly \$200,000, and the city matched the EDA grant with land valued at \$1.6 million, bringing the total project funding to about \$3.7 million. The EDA grant was to be used to help redevelop the city's fishing industry by constructing a commercial dock and retail market facility for local fishermen. The grant agreement required the project to be completed by October 1994; however, the city has not yet finished it, although all grant funds have been disbursed.

An OIG audit disclosed that the city significantly expanded the scale of the project to include recreational and tourism facilities, and inappropriately claimed \$1,847,000 for the non-EDA project costs, which we questioned. Additional questioned costs of \$309,000 resulted in total questioned costs of \$2,156,000, for which EDA reimbursed the city \$895,000 as the federal share. We also found that the city had failed to obtain EDA approval before entering into a lease of grant-funded facilities.

We recommended that EDA require the city to:

- ! Complete the EDA portion of the project. Until the project is complete, EDA should establish an accounts receivable from the city for \$895,000, but allow the city to substitute eligible costs incurred to complete the project.
- ! Obtain EDA's approval before leasing any grant-funded facilities.

Although the city did not concur with our findings, it agreed with our recommendations. EDA agreed to implement our recommendations by requiring the city to complete the project, establish an accounts receivable against which to apply eligible project costs, and obtain EDA approval of the lease agreement. EDA also proposed some reductions to the questioned costs, primarily involving acceptance of (1) a parcel of land as in-kind matching funds and (2) various architectural and engineering fees billed in accordance with the contract or with EDA approval. After working with EDA to resolve the questioned costs, we accepted its proposal to disallow costs of over \$1 million, of which the federal share is more than \$570,000. (*Atlanta Regional Office of Audits: ATL-8588-7-0001*)

Grant Should Be Terminated and \$1.1 Million Recovered for Matching Funds Violations

In September 1994, a nonprofit corporation in Alabama was awarded a \$750,000 EDA grant to capitalize a revolving loan fund (RLF) to provide financing to small and medium-size businesses throughout the state. The corporation was required to contribute matching funds of \$1,000,000, which were to consist of Community Development Block Grant funds committed by the state government. In November 1995, the state withdrew its commitment to match the grant. Once EDA learned of this, it suspended all new lending and asked the OIG to audit the RLF.

Our audit disclosed that the corporation had been out of compliance with the EDA grant agreement's matching requirements since at least March 1986, six months after it began using EDA funds to make loans. Specifically, the corporation violated the agreement by: (1) failing to assert control over the \$1,000,000 in state matching funds; (2) remitting to the state more than \$683,000 in interest earned on loans, which would have earned an estimated \$248,000 in additional interest had it been loaned or invested; and (3) inaccurately reporting financial information to EDA, thereby concealing the violations of matching requirements.

In total, the RLF lost an estimated \$1.9 million in principal and interest because the corporation failed to control the matching funds.

We recommended that EDA terminate the grant award for cause and recover from the corporation more than \$1.1 million, the agency's fair share of the RLF's assets. Other than to acknowledge the state's withdrawal of its funding commitment, the corporation generally disagreed with our findings. (*Atlanta Regional Office of Audits: ATL-9265-7-0001*)

Costs Claimed by Texas City Questioned or Unsupported

In 1992 a Texas city received a Title IX EDA grant to implement an economic adjustment strategy to halt long-term economic deterioration. The city was to use the funds for critically needed water system improvements to enable it to comply with state requirements and attract new industries. The total estimated project cost was \$1,406,500, consisting of the \$845,000 EDA grant and \$561,500 from the city, to be funded by bonds and state pass-through funds. An OIG audit was requested by EDA after receiving complaints from vendors, even though sufficient disbursements had been made to the city.

The audit found that the city cannot support its project cost claims because it commingled federal and state funds with local funds and used some of the funds for ineligible or non-project-related purposes. As a result, we questioned, or considered unsupported, over \$760,000 in costs claimed against the EDA grant, and nearly \$600,000 in costs claimed against state funds.

We also found that the city (1) misled the state in applications for project funds, (2) made inappropriate and duplicative claims of project costs, (3) entered into inappropriate and duplicative engineering agreements, and (4) maintained inadequate accounting records. In addition, we questioned the performance of professional consultants hired by the city to manage the project.

We made a number of recommendations to remedy the identified deficiencies. EDA agreed that the audit disclosed serious accounting inadequacies. The city denied that it used EDA and state funds for unallowable purposes, and claimed that it was correcting reported deficiencies in its accounting and internal control systems. As some of our findings were developed after the issuance of our draft report, we are allowing the city additional time to comment on them. (*Denver Regional Office of Audits: DEN-7037-7-0001*)

RLF Income Improperly Used to Pay Administrative Costs

In 1994 EDA awarded a \$500,000 grant to a Georgia county to capitalize an RLF, requiring \$180,000 in local matching funds. The RLF's purpose is to provide financing for business expansions and startups that create jobs for low- to moderate-income people. In making seven RLF loans totaling nearly \$600,000 as of June 1996, the county collected \$5,200 in loan application and credit inquiry fees. Instead of depositing the income into the RLF capital account, however, the county used the income to pay administrative costs, thereby violating the terms and conditions of its RLF award.

We recommended that the county be required to deposit the \$5,200 in its RLF account and directed not to use RLF income to pay administrative costs without EDA approval. County officials agreed with our findings, but requested and obtained EDA approval of a grant amendment to allow the county to use RLF fee income to offset administrative costs. (*Atlanta Regional Office of Audits: ATL-8881-7-0001*)

EDA Followed Proper Procedures in Determining That \$1.5 Million Loan Met Requirements of Law

Several Members of Congress requested that the OIG look into allegations that a \$1.5 million EDA loan to a private company violated section 702 of the Public Works and Economic Development Act of 1965, as amended. Section 702 provides that no financial assistance shall be extended to any project when the result would be to increase the production of goods, materials, or commodities, or the availability of services or facilities, when there is not sufficient demand to employ the efficient capacity of competitive commercial or industrial enterprises. EDA's criteria for determining whether proposed projects comply with section 702 are set forth in agency regulations.

After reviewing relevant EDA files on the loan project, including the EDA economist's competitive impact study that formed the basis of the agency's section 702 compliance determination, we concluded that the determination was made in accordance with the policies and procedures set forth in the act and regulations. In conducting the study, the economist reviewed the company's business plan, contacted former customers, and analyzed industry information from a variety of sources. Moreover, when the company revised its plan before EDA had reached its final decision, the economist incorporated the revised plan into his analysis. In our judgment, EDA applied the appropriate criteria in determining the proposed loan's compliance with section 702. (*Economic Development Division*)

EDA Making Reasonable Efforts to Collect Balances Due on Delinquent Loans

The OIG conducted a limited review to assess EDA's collection efforts related to its business and public works loans. At the end of FY 1996, EDA reported a total of 313 loans with outstanding balances of about \$115 million. We identified 29 delinquent loans, with balances totaling over \$17.2 million, of which we selected 9 for review. The reviewed loans, which had outstanding balances of nearly \$14.2 million, included one public works loan and eight business loans.

In a memorandum to EDA's Acting CFO, we reported that the agency was making reasonable efforts to collect the outstanding balances on the selected loans. During our review, EDA settled one loan, brought another to current status, and was negotiating the collectibility of the others. We did not recommend any additional action. (*Economic Development Division*)

\$61 Million Revolving Fund Surplus to Be Made Available for Better Use

In our September 1996 Semiannual Report (page 18), we reported on an audit of EDA's accruals for environmental cleanup costs and the Revolving Fund's capitalization level. As a result of the audit, EDA (1) increased its environmental cleanup cost accruals by \$22.15 million to correct a previous understatement of its contingent liabilities, and (2) agreed to inform the Congress, after finalizing a settlement agreement that would resolve its potential environmental liability for a contaminated steelworks property, that \$61 million of funds reserved for the cleanup are available for rescission or other authorized use.

On March 10, 1997, EDA announced an agreement to transfer the interest in the steelworks property to a private company, which pledged to fully investigate and clean up the hazardous chemical contamination on the property. EDA will soon publish the settlement agreement in the *Federal Register* for a 30-day public comment period, after which the transaction will close. EDA will then notify the Congress of the availability of the funds. (*Economic Development Division*)

New York State Provides Over \$14 Million to Replenish Revolving Loan Fund

In 1993 the OIG reported that the New York Job Development Authority, a state agency serving as trustee of an EDA revolving loan fund, had wasted or abused substantial amounts of the RLF's capital (see September 1993 issue, page 18). As a result, the RLF had been depleted by at least \$12 million and would lose about another \$10 million over the ensuing years if corrective actions were not taken. EDA generally concurred with our findings and recommendations for the Authority to cease improper activities and replenish the RLF.

The state was unable to develop an acceptable audit implementation plan for several years. Finally, in 1996 the state legislature authorized the Empire State Development Corporation, the Authority's successor state agency, to replenish the RLF with \$13 million as a proposed settlement to the audit findings. We reviewed the state's proposal, conducted an on-site review of the RLF's current operations, and recommended certain modifications to the proposal (see September 1996 issue, page 26).

Based on these actions, in January 1997, Empire State agreed to reimburse \$13 million to the RLF in two annual installments of \$6.5 million each, and to contribute another \$1.2 million in in-kind administrative costs over the next 12 years. It also agreed to develop a new RLF plan, propose a timetable for disbursing an additional \$13 million in loans, submit timely reports to EDA, and follow EDA administrative requirements. (*Atlanta Regional Office of Audits*)

New Jersey City Finally Completes \$5 Million Public Works Project

In 1991 the OIG reported that a New Jersey city had inappropriately changed the scope of an EDA public works water supply system project. The project was funded in 1983 by a \$2.5 million EDA Title I grant that required the same amount in city matching funds. Our audit found that the city had so reduced the project's scope that the original purpose of the grant could not be met (see September 1991 issue, page 13). The city contended that the project was simply incomplete. We recommended that EDA terminate the grant for cause, recover \$1.75 million already disbursed, and deobligate the remaining \$750,000.

In 1992 EDA deobligated the \$750,000 and, as an alternative to our other recommended actions, suspended the grant until December 31, 1996, to allow the city to finish the project's construction at its own expense. In January 1997, the city provided documentation to EDA showing that it had completed the required construction. (*Atlanta Regional Office of Audits*)



Economics and Statistics Administration

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 operating agencies:

Bureau of the Census. Census is a general-purpose statistical agency that collects, tabulates, and publishes a wide variety of statistical data about the people and the economy of the nation.

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—and other accounts and measures of economic activity.

Senator Seeks IG's Views on Census' Plans for Using Sampling in 2000 Decennial

Senator John Glenn, Ranking Minority Member of the Senate Governmental Affairs Committee, requested that the Inspector General provide his views on the Census Bureau's plans for incorporating the use of statistical sampling techniques into the 2000 decennial census and, particularly, whether the use of sampling would yield a more accurate result. He also asked the IG to comment on the accuracy, cost, and operational implications of conducting the 2000 decennial census without sampling.

In his response to Senator Glenn's questions, the IG stated his belief that, if carefully planned and implemented, sampling can be used in the 2000 census to produce an overall more accurate result than was produced in 1990, and certainly a more accurate result than if methods used in the 1990 census were repeated in 2000. The 2000 decennial census design incorporates applications of statistical sampling to (1) complete the count of nonrespondents and (2) determine, through a 750,000-household independent survey, who was missed or counted more than once. The first application is intended to streamline census operations to save time and resources for conducting the second. The results of these two samples will be combined with census information received by mail or telephone interviews to produce a "one number census."

The IG noted that the most serious decennial census problem is the disproportionate undercount of racial and ethnic minorities, and that the bureau's planned survey of 750,000 households is the only proven method of measuring and correcting this problem. He added, however, that because of changing, missing, or incomplete sampling design details, he could not render an opinion on the efficacy of the bureau's specific design. He noted that the bureau's lack of satisfactory progress on the sampling design was indicative of a broader need to improve overall decennial census management.

The IG stated that, if the 2000 census does not use sampling, its cost and operational complexity would increase, primarily because of a larger nonrespondent workload requiring additional time and funding, and its accuracy would decrease, because, as noted earlier, the planned independent survey is the only proven method for correcting the disproportionate undercount of racial and ethnic minorities.

Audit of Census' FY 1996 Combined Financial Statements

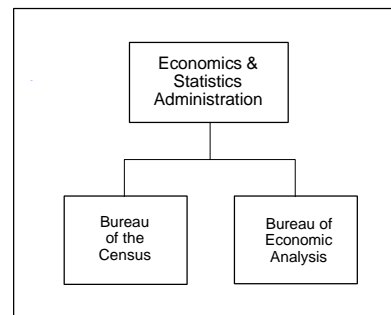
The contractor CPA firm that conducted an audit of the Bureau of the Census' combined financial statements as of September 30, 1996, expressed a qualified opinion on the combined statement of financial position and disclaimed an opinion on the combined statement of operations and changes in net position for the year ended September 30, 1996. The firm questioned the amounts recorded for accounts receivable, deferred revenue, and net position because: (1) Census has insufficient procedures to ensure that labor-related costs are properly charged to appropriate projects or appropriations, and (2) inadequacies in Census' process to allocate costs of the Interfund, Census' indirect cost rate system, including its policy of not allocating losses to reimbursable projects, may lead to charges that are not consistent with Department of Commerce accounting guidance.

The firm's review of internal controls identified a material weakness related to the inadequacies in allocations of Interfund costs, discussed under (2) above. In addition, it identified the following reportable conditions:

- ! Reconciliations between Census' financial information system and its subsidiary records were not performed properly.
- ! Census does not have policies and procedures to determine the actual cost of items held in inventory for sale to other government agencies and to the public.
- ! Liabilities for accounts payable remained on Census' financial records after the related invoices were paid or after the accrual amount should have been removed or reduced.

The firm made recommendations to address these conditions. Census concurred with the firm's findings and recommendations and expressed a clear commitment to develop and implement corrective actions. Financial statement audits are a key gauge for measuring the progress of a bureau in meeting the goals and objectives of the CFO Act. While progress has been made over the years, the report on internal controls shows that additional improvements are needed.

We have reported inadequacies in the Interfund for several years. Census is taking immediate actions to significantly revise and improve the internal allocation of indirect costs processed in the accounting system. It has initiated a new allocation system that will significantly change the



Bureau's costing and pricing policy. We recognize Census' determination to improve the internal control structure and encourage its continued efforts. (*Financial Statements Contract Audit Division: FSC-8836-7-0001*)

Audit of BEA's and ESA's Combined Financial Statements as of September 30, 1996

The OIG performed an audit of the Bureau of Economic Analysis' and Economic and Statistics Administration's combined financial statements for the year ending September 30, 1996, under the requirements of the CFO Act, as expanded by GMRA. This was the third audit of BEA's and ESA's financial statements, but the first time the statements of the two bureaus have been combined for reporting purposes. Our audit included work at NIST's Financial Services Group, which is responsible for BEA and ESA accounting functions.

Although unqualified opinions were rendered, our review of BEA's and ESA's internal control structure disclosed one material weakness and three reportable conditions. The material weakness related to the need for NIST to develop written procedures for its year-end closing process and provide adequate training to staff on the process. The reportable conditions, listed below, related to BEA's and ESA's operations.

- ! Systems should be integrated and reconciliations between subsidiary ledgers and the general ledger should be improved.
- ! Procedures for proper cut-off and classification of all transactions should be strengthened.
- ! Procedures for a cost accounting system to account for ESA's salable inventory should be improved.

The results of this audit reflect the progress that BEA and ESA are making in meeting the financial management objectives of the CFO Act. We commend the agencies' accomplishments and encourage ongoing efforts with NIST to strengthen internal controls and continually improve the quality, usefulness, and timeliness of annual financial and performance reporting. (*Financial Statements Audit Division: FSD-8874-7-0001*)

Government Receives \$212,000 in Pre-Litigation Settlement of False Claims Act Suit

When an OIG audit of a contract for an advertising campaign in support of the 1990 decennial census revealed possible overcharging by a subcontractor, we opened an investigation and uncovered evidence that the subcontractor had submitted more than \$160,000 in fraudulent billings for payment by the government. Although the terms of its subcontract provided for payment of out-of-pocket costs only, we found that the subcontractor had routinely charged commission fees or percentage mark-ups on goods and services obtained from suppliers, and had provided altered vendor invoices to support its claims.

The matter was referred to the U.S. Attorney's Office for the District of Puerto Rico, which notified the contractor and subcontractor of the government's findings and the parties' potential liability for damages under the False Claims Act. Both the contractor and subcontractor denied any wrongdoing, but agreed to a pre-litigation settlement under which the government was paid more than \$212,000. Working in conjunction with the contracting officer and the contractor, we were also able to negotiate a final resolution of costs questioned in the audit. (*Atlanta Regional Office of Audits and Office of Investigations*)

Census Employee Suspended for Conflict of Interest

A supervisory computer specialist was suspended for 90 days after an OIG investigation disclosed that he had continued to represent a private organization before federal agencies for at least two years after being instructed by the Office of General Counsel to cease such activity. In addition, we found that he had used government time and equipment to perform volunteer services for the organization, and had loaded unauthorized software onto a government computer in order to facilitate his improper activities. (*Washington Field Office of Investigations*)



International Trade Administration

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

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

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

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

U.S. and 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 98 domestic offices and 140 overseas posts in 75 countries.

Audit of ITA's FY 1996 Combined Financial Statements

ITA has serious financial management problems requiring prompt corrective action. For the third consecutive year, the contractor CPA firm was unable to express an opinion on the combined statement of financial position because of deficiencies in internal controls and automated systems. The nature and extent of the deficiencies indicate serious problems in ITA's financial management. The firm identified the following material weaknesses as reasons for disclaiming an opinion on the financial statements:

- ! ITA maintained insufficient documentation to adequately support recorded balances and did not properly record transactions in the areas of accounts receivable, property and equipment, accounts payable, capital lease liabilities, unearned revenue, Foreign Service National voluntary separation pay liability, and unliquidated obligations. In addition, inventory balances were not compiled or recorded, and equity balances were not accurately recorded.
- ! ITA's financial systems were not fully integrated, and source data entered into off-line systems was not ultimately reconciled to the official accounting system.
- ! There was inadequate segregation of recording, reconciling, and adjusting financial data from functions relating to automated system programming and security.
- ! ITA's financial systems were inadequate to identify and record overseas activity affecting any of its asset and liability balances.
- ! ITA's financial systems did not adequately track collections, expenditures, and excess receipts arising from the sale of goods and services to the public.
- ! ITA lacked an effective personnel structure to ensure adequate financial management control over its operations, a situation exacerbated by its lack of a Chief Financial Officer.

The four reportable conditions identified in the bureau's internal controls dealt with the need for ITA to (1) strengthen controls over cash collected at its overseas posts, (2) strengthen its funds control procedures over both its domestic and overseas operations, (3) develop core performance measures and establish systems to accurately capture performance information, and (4) establish a formal business continuity/disaster recovery plan at either ITA or at the National Transportation Safety Board.

The firm's tests of compliance with laws and regulations disclosed that ITA's management has not complied with the FMFIA requirements to establish internal administrative and accounting controls in accordance with standards established by the Comptroller General of the United States. In addition, ITA did not comply with the provisions of OMB Circular A-127, *Financial Management Systems*.

ITA's management has not actively pursued its identified corrective actions, and without a change in focus on the part of management, these weaknesses will not be adequately addressed in the near future. All of the material weaknesses and reportable conditions reported in last year's audit of ITA's financial statements were reported again in the FY 1996 audit. Dramatic corrective actions are needed because ITA's current financial management structure has not proven to be effective in establishing adequate financial management systems and controls. Without a comprehensive, coordinated effort, ITA's financial operations are likely to continue to be disjointed, leaving its operating divisions to run their own independent financial management systems.

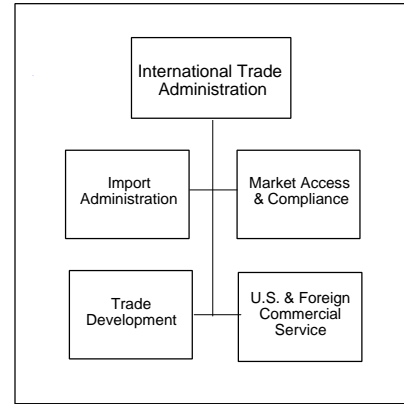
It is imperative that ITA (1) establish a financial organization headed by a CFO that contains sufficient human resources at all levels of financial management and (2) promptly take the actions necessary to address the deficiencies in its financial systems, policies, and procedures.

ITA has agreed, in principle, to establish a consolidated financial organization headed by a CFO and a Deputy CFO. The CFO position must be placed within the ITA organization at a level that provides total control over all financial management functions of the agency. (*Financial Statements Contract Audit Division: FSC-8838-7-0001*)

Advocacy Center Achievements Need Better Documentation

Established in 1993 as part of the Clinton administration's National Export Strategy, the Advocacy Center, within ITA's Office of Trade Development, is intended to assist U.S. businesses in obtaining contracts controlled by foreign governments or quasi-governmental foreign entities, such as utilities and airlines. The Center also works with the 19 federal agencies of the Trade Promotion Coordinating Committee to develop advocacy strategies.

Before the National Export Strategy was developed, high-level advocacy efforts tended to be *ad hoc*. One objective of the Advocacy Center was to institutionalize the advocacy process and conduct it as an ongoing function. Another objective was to have the Center serve as the hub of the process,



International Trade Administration

with the capacity to mobilize resources to organize and oversee a coordinated advocacy effort. The Center had a staff of 21 at the end of 1996, and its FY 1996 budget was about \$1.4 million. As part of an overall review of the Office of Trade Development, the OIG reviewed the Center to determine whether its resources were being used in the most effective, efficient, and economical manner.

While any measure of the amount of U.S. exports supported by the Center is somewhat speculative and often based on early estimates made by the companies involved, an OIG review found that the Department's advocacy efforts over the past two years have contributed to the *potential* export of about \$36 billion of goods and services. Documentation for exports supported was lacking when our review began, but substantial improvements have been made since then. As a result, the Center was able to provide at least minimal documentation for over 95 percent of the claims made for exports supported during the two years.

Although the Advocacy Center has received praise from U.S. businesses for its responsiveness and resourcefulness, we identified several areas, mainly involving measuring and documenting exports claimed, that warrant management's attention:

- ! Three issues need to be addressed to clarify the impact of advocacy activities: (1) What constitutes an advocacy success? (2) At what point should a success be claimed? (3) What role did the U.S. government play?
- ! Improved procedures and controls are needed to ensure that the Center's project data is current and that all data entries or changes, significant actions and developments, and requests for assistance declined are fully documented.
- ! Procedures are needed to update the estimated claims for exports supported, which are often based on figures provided in initial applications for advocacy assistance. Procedures are also needed for following up on projects and gathering data on actual sales.
- ! Coordination with other ITA components needs improvement. The Center should continue its efforts to include all areas of industry and country expertise in the advocacy process. Clearer guidelines are needed indicating how responsibilities should be shared over a range of advocacy activities.

ITA generally agreed with our findings and recommendations.
(*Trade and Information Division: TID-8375-7-0001*)

About \$27,000 in Costs Disallowed as Unapproved or Unsupported

The OIG audited an ITA grant awarded to a Virginia organization to establish a consortium office in Warsaw, Poland, to provide facilities and services to facilitate contact between U.S. food processing companies and Eastern European companies, and set up food laboratory facilities in Poland and other countries in the region. The total project budget was \$1 million, of which the federal share was \$500,000.

For the period covered by our audit, October 1991 through May 1995, the recipient claimed total costs of about \$560,000, of which we questioned over \$96,000. The questioned costs consisted primarily of (1) costs that were neither included in the approved budget nor approved by the grants officer, (2) administrative costs that could not be supported by source documentation or exceeded the limit for transfers of funds between direct cost categories, and (3) unallowable rent costs. In addition, the recipient failed to complete nearly a third of the task elements in its work plan. Most importantly, it did not set up a food laboratory, the centerpiece of the plan.

We recommended that the Department disallow the \$96,000 in questioned costs and recover the \$48,000 in funds disbursed in excess of allowable costs. We also recommended that the recipient not receive any more funding from the Department until it has completed the work plan. In its response to our final report, the Department provided its rationale for reducing the questioned costs to about \$27,000, and generally agreed with our non-financial recommendation, proposing that if the recipient submits a full report to ITA adequately explaining why all task elements were not completed, the agency be allowed the discretion to decide whether to consider future awards to the recipient. We accepted the Department's proposal for both the financial and non-financial recommendations.
(Economic Development Division: ADD-7756-7-0001)

Update

Sentencing. In our September 1996 issue (page 37), we reported the theft conviction of an ITA employee who had conspired with a coworker to obtain nearly \$2,500 in fraudulent travel reimbursements from an agency imprest fund. The employee subsequently resigned from the Department and, in October 1996, was sentenced to three years' probation and 100 hours of community service, and was ordered to make full restitution to the government. *(Washington Field Office of Investigations)*



Minority Business Development Agency

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

MEGA Center Awardee Exhibited Poor Financial Management and Performance

In March 1994, MBDA awarded a cooperative agreement worth nearly \$3.1 million to a California for-profit consulting firm to operate the Los Angeles Minority Enterprise Growth Assistance (MEGA) Center for a 15-month period. MEGA centers are intended to provide more specialized, comprehensive management and technical assistance to minority businesses than is provided by MBDA-funded business development centers. The firm agreed to match the award with about \$550,000 from its own funds and from fees for services provided. The agreement was not renewed when it expired; however, additional funds were authorized for two months of closeout activities, bringing the total approved budget to about \$3.7 million.

The OIG's final audit of the project, which superseded its earlier, interim audit (see March 1996 issue, page 41), found that the firm had failed to maintain financial management and internal control systems that comply with federal standards. Moreover, we determined that the firm:

- ! Improperly claimed about \$675,000 in costs, for which it received nearly \$223,000 in unearned federal funds.
- ! Failed to pay more than \$263,000 in project obligations on time, and was delinquent in remitting more than \$483,000 in employee tax withholdings to IRS.
- ! Failed to satisfactorily provide services to minority businesses.

We recommended that the Department disallow the questioned costs and recover the unearned disbursements. Because MBDA did not renew the award, we made no recommendations on our non-financial findings; however, we reported these findings to other federal agencies for them to consider before electing to do business with the firm. The audit is currently in the resolution process, and the firm recently submitted its response to the final audit report. (*Atlanta Regional Office of Audits: ATL-8882-7-0001*)

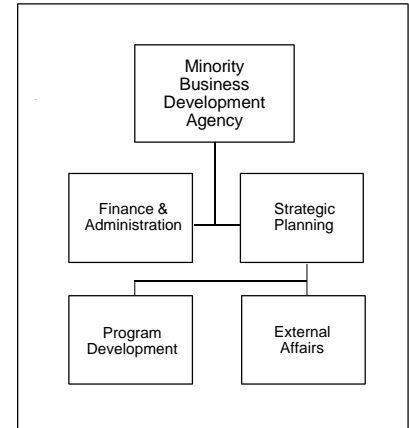
Costs Incurred After End of Award Period Should Be Disallowed

A for-profit corporation located in Virginia operated the Washington, D.C., Minority Business Development Center from August 1988 through July 1996 under a series of MBDA cooperative agreements, each of which was awarded for a three-year cycle, with federal funding

Minority Business Development Agency

renewable on an annual basis. After completing two three-year awards for the center's operation, the corporation was selected for a third such award. For programmatic reasons, however, MBDA decided not to renew the award after 18 months, but amended it to provide funding for an additional six months to enable the corporation to close the center.

An OIG audit found the costs claimed by the corporation to be allowable under the award, with the exception of about \$16,000 in costs incurred after the award closeout period ended on July 31, 1996. We recommended that the Department disallow these costs. Corporation officials argued that the costs should be allowed as award termination costs under OMB Circular A-122. However, the award was not terminated in this instance, but simply not renewed, and all eligible closeout costs were included in the amended award. Under the circumstances, costs incurred after the amendment should be disallowed. (*Atlanta Regional Office of Audits: ATL-9283-7-0001*)



Audit of MBDA's FY 1996 Financial Statements

The OIG contracted with a CPA firm to audit MBDA's FY 1996 statement of financial position and its related statement of operations and changes in net position. The firm was able to issue an unqualified opinion on the statements, indicating that MBDA has been successful in establishing internal controls that facilitate the preparation of reliable accounting and financial information.

The firm's review of MBDA's internal controls identified no material weaknesses and only one reportable condition in its internal control structure. The condition was that MBDA lacked controls to ensure timely compilation of key performance measures required for the overview of the reporting entity. The firm recommended that MBDA assign overall responsibility for the agency's financial statements, including the overview, to an MBDA official who is familiar with OMB and departmental reporting requirements to ensure that all future key reporting deadlines are met. MBDA concurred with the recommendation and expressed a commitment to implement an audit action plan to address the finding. (*Financial Statements Contract Audit Division: FSC-8839-7-0001*)

***Federal Court Upholds Department's
Disallowance of Award Costs***

In February 1997, the U.S. District Court for the Eastern District of Arkansas entered a partial judgment in favor of the Department for \$29,000, plus interest and \$6,700 in penalties, after a bench trial in which the government established that the operator of an Arkansas minority business development center was delinquent on a debt resulting from an OIG cost and compliance audit of a three-year cooperative agreement award (see September 1992 issue, page 42). The court also found that the operator was in violation of its reporting requirements on two other MBDA cooperative agreements, and deferred final decision on the government's obligation to reimburse the operator for costs incurred under those awards pending submission of properly documented claims. The litigation was handled by the U.S. Attorney's Office and the Department's Office of General Counsel, with support from the Department's Office of Executive Budgeting and Assistance Management and our Atlanta Regional Office of Audits and Office of Counsel.

National Oceanic and Atmospheric Administration



POES Excess Funding Results in \$100 Million to Be Put to Better Use

To help fulfill its mission of environmental forecasting and stewardship, NOAA manages the Polar-orbiting Operational Environmental Satellite system. NOAA polar orbiting satellites are acquired by the National Aeronautics and Space Administration pursuant to a 1973 Commerce-NASA memorandum of agreement. Under the agreement, NOAA determines the general requirements for new satellites and operates them once they are in orbit, while NASA handles their acquisition and launch.

NOAA and NASA work together to plan and budget for POES. NOAA includes funding for POES in its annual budget request based on NASA's projected need for new funding. NASA uses the funds received from NOAA for modifications to ongoing contracts for new work, projected costs for completed work, and three months of forward funding for program requirements for the beginning of the next fiscal year. Because NOAA receives no-year budget authority for POES, there are no time restrictions on NASA's use of these funds. However, funds not transferred by the end of the fiscal year must be reported by NOAA as unobligated carryover.

The OIG conducted an inspection to determine how large balances of unspent NOAA funds had accumulated at NASA and how NOAA managers identify and report unspent funding. We found that in FYs 1994-96, NOAA received more funding than it needed for POES because it failed to adjust its budget requests to reflect slowed spending in the program, and it inappropriately transferred ground systems funds to the polar satellite account at NASA.

By sending these funds to NASA, which then obligated them to its various contracts, NOAA was able to obscure the fact that program spending had slowed. It also avoided having to identify the unspent funds as unobligated carryover, which enabled it to escape the scrutiny such funds receive from the Department, OMB, and the Congress. As a result of this strategy, by the end of FY 1997, NOAA would have accumulated \$89.8 million in excess funding, an amount that exceeds its entire FY 1997 budget allocation for satellite acquisitions.

We made several recommendations to correct NOAA's poor financial management and budgeting practices in acquiring new polar satellites. In response to our findings and recommendations, the

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

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

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

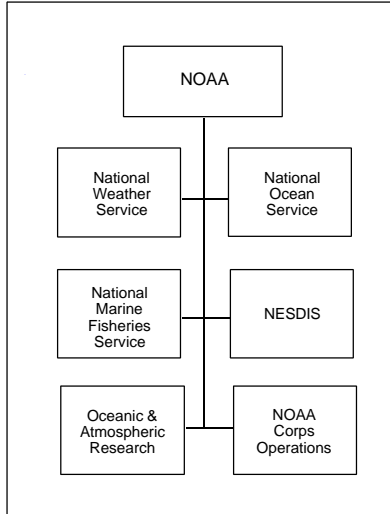
National Marine Fisheries Service. NMFS conducts a program of management, research, and services related to the protection and rational use of living marine resources.

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

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

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

National Oceanic and Atmospheric Administration



Department and OMB made more than \$100 million in reductions to the POES budget. The Department also took immediate steps to strengthen management controls by (1) assigning an analyst to work full time with NASA staff to obtain better funding information, (2) reporting unobligated carryover funds and making plans to provide decision-makers with better program performance and spending information, and (3) agreeing to eliminate transfers of funds to NASA that are not needed for forward funding, and to monitor transfers to ensure that funding is being used for its intended purpose.

We commend the Department for its prompt actions in response to our recommendations. We are reviewing possible excess funding in NOAA's other satellite budget accounts, and we will report on that review during the next semiannual period. We also are continuing to work with the Department and NOAA to strengthen management controls. (*Office of Systems Evaluation: OSE-8797*)

GOES Acquisition Strategy Improved, But Store-in-Orbit Approach Needs Re-evaluation

Under a program run jointly with the National Aeronautics and Space Administration, NOAA operates a two-satellite configuration of Geostationary Operational Environmental Satellites to monitor weather conditions in the United States and adjacent regions. NWS uses GOES data to issue advance warnings of severe storms and to forecast regional weather. Two of the current series of five satellites, GOES-I and J, were deployed in 1994 and 1995, and are now referred to as GOES-8 and 9. The remaining satellites, GOES-K, L, and M, are to be launched beginning in 1997. Because GOES-8 and 9 are experiencing reliability problems that have increased the risk of a gap in coverage early next decade, NOAA has accelerated the launch schedule and plans also to accelerate the acquisition of a follow-on series of satellites.

When the OIG began its inspection, NOAA planned to purchase the follow-on series non-competitively from the current GOES contractor. However, responding to criticism of its plan, NOAA developed a new strategy, the "evolutionary program," for competitively procuring the follow-on satellites on a cost-reimbursement basis. To mitigate the risk of a coverage gap, NOAA also proposed to buy one or two stop-gap satellites on a sole source basis from the current contractor. Our inspection resulted in two primary observations:

- **NOAA has agreed to an improved GOES acquisition strategy.** The evolutionary program, with its cost-reimbursement contract and changing requirements, was not focused on controlling the growth in cost or requirements. Moreover, the schedule for awarding the follow-on contract in 1999 exposed NOAA to a potentially wide coverage gap early next decade that could require the purchase of up to two stop-gap satellites. However, NOAA's plan to purchase the stop-gap satellites noncompetitively was difficult to justify under federal procurement regulations and possibly unnecessary if procurement were accelerated.

In response to pressure from the Congress, NASA, the satellite industry, and our office, NOAA agreed to pursue two procurement plans proposed by NASA that control costs and risks. It will request NASA to immediately start a competitive procurement of two to four follow-on satellites through a fixed-price contract to be awarded in 1997. Simultaneously, it will request NASA to enter into an agreement with the current contractor for a phased procurement of one stop-gap satellite if needed as insurance against a coverage gap; later phases of the procurement will not be started if a coverage gap seems unlikely.

- ! **Early launch of GOES-K is reasonable, but storing a backup in space may not be cost-effective in the future.** Launching GOES-K two years earlier than planned is a reasonable contingency for insuring against a coverage gap. However, we do not believe that NOAA and NASA have shown that launching a satellite early for storage in space as a backup is a cost-effective policy for ensuring *future* continuity. Although the agencies cite many cost and risk advantages of in-orbit storage, we believe that before storing another satellite in space, NOAA should conduct more complete analyses of costs, benefits, risks, and backup alternatives. NOAA also should make every effort to preserve GOES-K's mission life while it is in a backup mode.

We made several recommendations to NOAA to address our concerns. In response to our draft report, NOAA agreed with our findings and with all but one of our recommendations, which is to develop a plan for replacing failing GOES satellites that considers options other than storing a backup in orbit. NOAA stated that we overemphasized the likelihood and cost of losing mission life for a stored-in-orbit satellite. NOAA's argument did not change our views on this issue, and we reaffirmed the recommendation in our final report. (*Office of Systems Evaluation: OSE-8784*)

***Audit of NOAA's FY 1996
Consolidating Financial Statements***

A contractor CPA firm that audited NOAA's FY 1996 consolidating financial statements was unable to express an opinion on the statements because of deficiencies in the bureau's accounting records and internal controls. The nature and extent of the internal control deficiencies identified indicate that while significant progress has been made, substantial corrective action is still needed before NOAA can have reasonable assurance that amounts reported in the financial statements are fairly stated. Although a number of material weaknesses and reportable conditions remain, NOAA has made significant progress toward resolving them.

The firm identified 11 material weaknesses in its report on internal controls. The material weaknesses involved NOAA's financial reporting structure; automated data processing systems; "on-top" adjustments; budgetary execution transactions; property, plant, and equipment; capital and operating leases; loan portfolios; environmental liabilities; accounts payable and unliquidated obligations; "in-transit" items related to fund balances with Treasury; and grants. Two material weaknesses identified in the FY 1995 report on internal control—contractor retainages and deposit fund holdings—were eliminated, while the deficiency relating to budgetary execution transactions was added. The firm also identified 10 reportable conditions. Many of the material weaknesses result from NOAA's use of antiquated management information systems. The Department and NOAA are taking corrective action by implementing a new accounting and management information system, the Commerce Administrative Management System.

We are encouraged by the corrective actions NOAA has taken in recent years to improve its financial management. NOAA's commitment to such improvement is demonstrated by its designation of a Chief Financial Officer/Chief Administrative Officer, who is responsible for all budgetary, finance, systems, human resources, and other administrative functions; its development of a comprehensive action plan to address the deficiencies identified in the prior year's report on internal controls; and its commitment of additional resources to accounting. However, it is imperative that NOAA continue its efforts to correct the identified material weaknesses and reportable conditions and to provide the necessary resources to implement its corrective actions. After the issuance of the audit report, NOAA held its second annual CFO Act Conference to formulate action plans to address the findings and recommendations in the internal control report.

NOAA generally concurred with the findings and recommendations contained in the report on internal controls; however, it took exception to the inclusion of the bureau's financial reporting structure as a material weakness. We continue to support the CPA firm's position on this issue because we feel that the presentation of financial information under a true program office and activity structure facilitates improved control over business operations and supports more effective management decisions, and provides essential information to oversight groups responsible for providing financial guidance to the bureau. (*Financial Statements Contract Audit Division: FSC-8841-7-0001*)

NMFS Should Pursue New Initiatives for Its Fishery Programs

Under the Magnuson-Stevens Act, fisheries in the exclusive economic zone off the California, Oregon, and Washington coasts are managed by the Pacific Fishery Management Council, and the groundfish fisheries in the zone are managed under the Pacific Coast Fishery Management Plan. In 1991, in response to industry concerns about the West Coast groundfish fishery, the council adopted a plan to restrict the fishery's vessel harvest capacity through a license limitation system.

The OIG conducted an audit to determine whether the groundfish limited entry plan accomplished its purpose, and whether fees should be collected on groundfish and other fisheries to fund fishery management programs.

Our audit concluded that the National Marine Fisheries Service (NMFS) could improve its management of fisheries in the Pacific Northwest and Alaska by generating fees from all commercial fisheries. The Magnuson-Stevens Act generally does not allow NMFS to raise fees through the sale of limited entry permits. Recent changes to the act will allow the agency, starting in January 2000, to collect fees on the commercial value of fish landings under Individual Fishing and Community Development Quota programs. We believe that the act should be expanded to allow NMFS to generate fees in other areas:

- ! **From the issuance of limited entry fishing permits.** Although these permits generated \$65 million in private wealth in the groundfish industry, NMFS has not received any financial benefit.
- ! **From fees based on the commercial value of fish landings for all commercial fisheries.** Over the last two years, NMFS has spent over \$180 million to manage and enforce the fishery

management programs in the Pacific Northwest and Alaska, but the fishing industry has contributed no funds to help cover these costs.

Collecting funds from the fishing industry in exchange for the taking of public assets is in line with the National Performance Review's emphasis on having federal agencies operate in a more businesslike manner.

We also found that although the limited entry plan had met its goal of capping the groundfish fishery's vessel harvest capacity, the fishery still has excess harvest capacity, which jeopardizes its long-term economic stability. As a result, the whiting trawl industry is lobbying for a permit buyback program to alleviate the overcapacity problem. However, we believe that any buyback program should be funded by the industry.

We recommended that NOAA propose an amendment to the Magnuson-Stevens Act allowing NMFS to (1) auction, sell, or otherwise collect fees from the issuance of fishery permits, and (2) assess fees on all commercial fisheries in the exclusive economic zone. We also recommended that NOAA assist the Pacific Fishery Management Council in determining the excess vessel capacity in the Pacific Coast groundfish fishery and encourage the Council to implement an industry-funded buyback program. By implementing these recommendations, NOAA could raise \$95 million over two years for fishery management and enforcement in the Pacific Northwest and Alaska.

NOAA agreed with some of our findings and recommendations, but disagreed with others. Specifically, NOAA endorsed the concept of collecting fees from commercial fisheries and said that our estimate of potential fees was reasonable. However, it disagreed that it should propose that the Council implement an industry-funded buyback program. In addition, while agreeing that the groundfish excess vessel capacity should be assessed, NOAA said that the Council was already taking steps to do so. (*Seattle Regional Office of Audits: STL-8703-7-0001*)

Northwest Emergency Assistance Plan Funds Can Be Used More Effectively

In 1994 the Secretary of Commerce declared a salmon fishery resource disaster along the California, Oregon, and Washington coasts because of depleted salmon stocks. To alleviate the economic impacts of the fishery disaster, the Secretary established the \$12 million Northwest Emergency Assistance Plan (NEAP). In 1995, the Secretary declared that the disaster continued to exist for those states, and provided another \$13 million for the NEAP program.

National Oceanic and Atmospheric Administration

The NEAP program, authorized by the Interjurisdictional Fisheries Act, is designed to provide economic assistance to eligible salmon fishermen and to fund projects that conserve or help restore the fishery resource. The program consists of three segments: (1) buying back Washington state commercial salmon permits to provide economic assistance to salmon fishermen and reduce harvest capacity, (2) funding projects that employ fishermen to restore salmon habitats, and (3) funding projects that employ fishermen to assist in data collection for fishery resource studies.

The OIG conducted an audit of the program to determine its effectiveness in providing economic assistance to salmon fishermen and in conserving or restoring the fishery resource, and to identify potential program improvements. We found that, while the program was achieving the goal of providing assistance to fishermen, funds could be used more effectively to conserve or restore the fishery resource. Specifically:

- ! The permit buyback program, implemented just for Washington, addressed only one of the program goals—providing economic assistance to salmon fishermen. The \$9.25 million allocated for this program could be used more effectively in habitat restoration and data collection projects, which promote both goals—providing assistance and conserving or restoring the fishery resource.
- ! The habitat restoration and data collection programs were generally effective in achieving NEAP goals, but the benefits derived from several projects were questionable.

We recommended that NOAA (1) eliminate future funding of permit buyback programs and reallocate the funds to salmon habitat restoration and data collection programs, and (2) revise project funding criteria to ensure that habitat restoration and data collection projects comply with the requirements of the Fisheries Act and the Secretary's disaster declaration. Current funding for the program will expire in January 1998. However, should NOAA seek additional funding, implementing our recommendations would provide the Department with \$10.5 million in funds that could be put to better use by redirecting permit buyback funds to the habitat restoration and data collection segments of the program, which can be used to assist more needy fishermen and fund more projects to benefit the fishery resource.

NOAA disagreed that funds for permit buybacks should be redirected to habitat restoration and data collection and that some of the habitat restoration and data collection projects were not meeting program goals. It also disagreed with our calculation of funds to be put to better use. NOAA did agree to more carefully monitor future NEAP funding to ensure that projects comply with program goals. (*Seattle Regional Office of Audits: STL-8518-7-0001*)

Expanded Vessel Buyout Program Not Needed

Because of increased fishing activity and improved fishing technology, the principal groundfish stocks in the Northeast fishery are at record low levels, threatening their long-term future. In response to this crisis, NOAA established a two-phase program to help facilitate the recovery of the stocks by purchasing selected fishing vessels in order to reduce fishing capacity. Under the first, pilot phase of the program, NOAA awarded 11 grants totaling nearly \$2 million to New England vessel owners in return for their agreeing to scrap their vessels and surrender their fishing permits. The second phase is a \$23 million expanded vessel buyout program, funded from \$65 million in “no year” Defense appropriations transferred to the Commerce Department to address fishing resource disasters in the Northeast, Pacific Northwest, and Gulf of Mexico.

After declaring the fishery a disaster, the Department provided \$30 million in emergency assistance to the Northeast. EDA used \$18 million to help fishermen refinance debt and obtain technical assistance to pursue other occupations, and NOAA used \$12 million to restructure debt, make grants for alternative markets and on-shore infrastructure, and establish one-stop shops to publicize available federal assistance. Also in response to the crisis, the New England Fishery Management Council obtained Department approval to take emergency actions to modify its fishery management plan. On July 1, 1996, the council adopted Amendment 7, which was intended to rebuild groundfish stocks by reducing fishing mortality rates to near zero.

An OIG audit determined that the expanded buyout program is not needed as a *fishery conservation measure* because of the passage of Amendment 7 to the fishery management plan, which should solve the groundfish crisis in the Northeast. The amendment contains severe restrictions that will drastically reduce fishing effort and surpass any potential reductions in effort achieved through the buyout program. Moreover, the program is not needed as an *economic assistance tool* because (1) it is a narrowly focused measure applicable to vessel owners only, and (2) the many other federal, state, and local economic assistance programs available to Northeast fishing communities appear to more effectively promote long-term economic stability.

We recommended that NOAA cancel the buyout program, transfer an appropriate amount of funding to existing federal programs that can better meet the needs of the Northeast fishing community, and transfer any remaining unused funds to the Treasury.

In its response to our draft report, NOAA downplayed the impact of the amended fishery management plan, but did not refute our conclusion that the existence of broader economic programs obviates the need for the buyout program. We are continuing to negotiate with NOAA officials to achieve a satisfactory resolution of our recommendations. (*Environment and Technology: ENT-8657-7-0001*)

Weather Service Modernization Support Service Contract to Be Reduced

To assist in its modernization and restructuring program, the National Weather Service has been acquiring system engineering and technical support services through level-of-effort contracts, under which costs are incurred as services are acquired. For these contracts, the contracting officer initially negotiates the estimated total cost, including option years, based on minimum and maximum levels of effort and predetermined labor rates for the various skills required. As program needs arise, task orders are issued, and specific resource estimates are negotiated for each task. The contract remains in effect until the maximum level of effort is reached or the contract expires, whichever comes first.

NOAA has spent over \$34 million on support service contracts for the NWS modernization and restructuring program since 1983, and another contract, with a potential value of \$28 million, was recently awarded. An OIG review of an earlier contract disclosed that NWS had allowed the contractor to use higher skilled employees than agreed to, increasing the cost of the services. When NOAA reached the dollar limit for its 1992 contract earlier than planned, we became concerned that a similar situation existed and initiated a limited review of the contract and its planned replacement.

We found that the contract, originally scheduled to expire in May 1997, appeared to be well managed, even though it ran out of funds early in FY 1997. According to NWS officials, unforeseen complications with deploying new systems and congressionally mandated certification procedures resulted in the need for increased contractor support.

We also found that the level of effort projected for the new contract, which was awarded in September 1996 and is scheduled to run through 2001, appeared too high for the phasing-down period of the modernization effort. We recommended that NOAA officials evaluate the projected level of effort. They agreed and reduced the staffing requirements from 305 staff years to 215 over the five-year life of the contract. This action will reduce NOAA's cost projections by about \$6.3 million, which can be put to better use. (*Environment and Technology: ENT-8749-7-0001*)

Concerns About Aviation Safety at Montana Airports Being Addressed

Senator Max Baucus requested that the OIG conduct an independent analysis of claims made by some of his constituents who work as weather observers that the Livingston, Montana, airport's Automated Surface Observing System is unreliable, that it blocks radio transmissions from the airport, and that weather observers need to be retained at several Montana airports to ensure aviation safety. The airports involved are among those that have been designated by a team of government and industry representatives as ones where the ASOS units will be operating alone, without human augmentation or backup.

After reviewing the status of the ASOS program and talking to representatives from the National Weather Service and the Federal Aviation Administration (FAA), we concluded that NWS, FAA, and the aviation industry have established appropriate standards for surface observations at the nation's airports, including the Montana airports in question. We believe that the processes established for the transition of ASOS sites to stand-alone operation, and the provisions that FAA is putting in place to allow local personnel to assist with ASOS augmentation and backup (at local expense), will be adequate to ensure aviation safety. (*Office of Systems Evaluation*)

Proposal to Convert Seafood Inspection Program to a PBO Is Premature

Legislation has been drafted to convert NMFS's Inspection Services Division to a performance based organization. At the request of the Assistant Administrator for Fisheries, the OIG evaluated the conversion plan and strategies to move the division from a government operation to a PBO. We determined that NOAA had not fully considered alternatives to establishing a PBO, particularly the alternative of incorporating the proposed PBO functions into the Food and Drug Administration, which has similar inspection duties and has been directed to broaden its inspection services.

Moreover, a business plan for the proposed PBO has not been developed. NOAA's draft prospectus for the PBO is inadequate because it does not assess the market for inspection services; evaluate the competition, especially in terms of market share and price structures; or adequately describe the organization and management structure and required staffing of the proposed PBO. NOAA needs to demonstrate that the PBO can compete in an open market and that its revenues will cover its costs. (*Seattle Regional Office of Audits*)

Audit Reports Unresolved for Over Six Months

As of March 31, 1997, there were three performance audit reports, one financial assistance audit report, and two preaward contract audit reports with recommendations unresolved for more than six months.

NWS Headquarters and Support Operations Staffing

The performance audit report, *National Weather Service Should Streamline Its Headquarters and Support Operations*, NOA 6979-6-0001 (see March 1996 issue, page 48), identified 258 NWS positions that appeared to be good candidates for elimination, and 187 positions in other areas that could be outsourced, restructured, or eliminated.

NOAA agreed with our recommendation that NWS develop and implement plans for streamlining headquarters functions. However, NOAA disagreed with our findings and recommendations on both the elimination of positions and the resulting savings. Recently, NOAA provided us with a description of NWS's current plan for streamlining and re-engineering its centralized support and administration activities. The actions outlined in the plan address many of the areas that we suggested be streamlined. An analysis of the plan indicates that the efforts will eliminate 192 headquarters and support positions, with funds to be put to better use of \$12.7 million. We concluded that, by taking these steps, NWS officials met the intent of our recommendation. In mid-April, after this reporting period, the report was recorded as resolved.

OAR Cost Recovery for Sponsored Research

In our audit report, *OAR's Cost Recovery for Sponsored Research Needs Improvement*, STL-7658-6-0001 (see September 1996 issue, page 40), we noted that OAR was not recovering full costs for sponsored projects; was using unsupported overhead rates in 6 of the 12 labs, was expending sponsors' funds beyond the expiration of the sponsors' appropriations, and was not preparing sponsored research agreements in accordance with statutory requirements and departmental policies.

NOAA agreed with most of our recommendations to correct these deficiencies; however, it did not concur with the findings, recommendations, or funds to be put to better use related to unsupported overhead rates. NOAA also disagreed with our findings regarding misuse of one-year funds but agreed with our recommendation. In addition, NOAA did not agree with our computation of funds to be put to better use for direct labor not recovered. We reaffirmed our recommendations and are currently reviewing NOAA's revised audit action plan.

Consolidation of NWS Tsunami Warning Program

We concluded in our audit report, *NWS Tsunami Warning Program Should Be Consolidated*, STL-7066-6-0001 (see September 1996 issue, page 41), that the tsunami warning centers in Hawaii and Alaska could be eliminated by transferring some duties to the Interior Department's U.S. Geological Survey, having some duties assumed by other NOAA offices, and leaving other duties to the states. NOAA disagreed with our findings and recommendations. NOAA believes that the recommended actions would reduce program effectiveness and increase program costs. Over the next 60 days, we will review the issues raised by NOAA to determine whether there are other resolution options available.

University of Hawaii

This financial assistance audit report, ATL-9999-5-0753 (see September 1995 issue, page 99), was an OMB Circular A-133 audit that questioned \$1.1 million of claimed costs. NOAA requested that resolution be deferred until a final determination of the allowability of costs has been made by the Defense Contract Audit Agency and negotiations regarding ship day rates and other costs for specialized service research are completed by the Office of Naval Research, the cognizant agency for the University in resolving issues identified in the audit. NOAA expects to receive the DCAA report and the Office of Naval Research final determination in May 1997.

Preaward Contract Audit Reports

The two NOAA preaward contract audit reports are discussed on page 85.

National Telecommunications and Information Administration



“Information Superhighway” Program Oversight Strengthened

NTIA’s Telecommunications and Information Infrastructure Assistance Program, commonly known as the “Information Superhighway” Program, was created in 1994 to advance the goals of the National Information Infrastructure initiative. Under the program, NTIA provides matching grants for the planning and construction of telecommunications networks to state and local governments, nonprofit health care providers, school districts, libraries, universities, public safety services, and other nonprofit entities.

Since its inception, NTIA has awarded 277 grants totaling about \$78.6 million in all 50 states, the District of Columbia, and the Virgin Islands. NTIA’s Office of Telecommunications and Information Applications (OTIA) is responsible for managing the program, which has a FY 1997 budget of \$21.5 million.

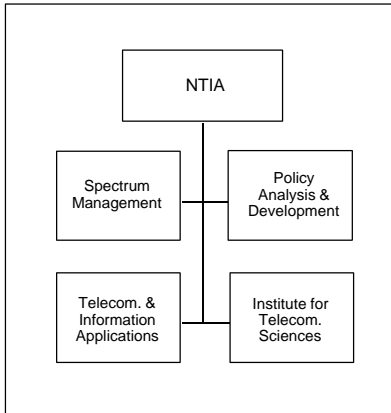
An OIG review of several program grants disclosed significant programmatic and financial problems, attributable in large part to inadequate program management staffing. For example, OTIA program officers did not normally visit grantees and rarely contacted them by telephone, conducted only perfunctory reviews of grantee status reports and took no action when significant problems were indicated, and did not ensure that grantees were aware of federal grant requirements, particularly those pertaining to matching funds. Moreover, OTIA did not require independent evaluations of grant results, did not have a mechanism for grantees to exchange useful information with each other, and required program officers to perform routine administrative work to the detriment of their monitoring responsibilities.

OTIA officials agreed with our findings, but said that because of spending and staffing restrictions, they lacked the resources to both process applications and monitor grants. These restrictions were lifted in the summer of 1996, and NTIA officials have since taken a number of significant actions to implement our recommendations. For example, OTIA:

- ! Has established an on-site monitoring program and conducted visits of 25 grantees during August-October 1996.
- ! Is having its program officers make detailed analyses of grantee status reports, contact grantees if the reports indicate any problem areas or concerns, and forward the analyses to the Department for appropriate action.

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

National Telecommunications and Information Administration



- ! Is using oral and written guidance to ensure that grantees understand federal requirements for in-kind matching funds.
- ! Is hiring a full-time evaluation specialist and contracting for an evaluation survey of all existing grants and the development of a system for ongoing data collection and evaluation.
- ! Is using group meetings, publications, and an on-line discussion group to stimulate information exchange among grantees.
- ! Is adding three grants assistant positions to handle routine administrative and clerical work.

NTIA took immediate action on our recommendations and appears committed to implementing effective monitoring for the program. We believe the program has been significantly improved by NTIA's actions. (*Trade and Information Division: TID-8427-7-0001*).

Public Library Ultimately Supported \$1.5 Million in Questioned Costs

In 1994 NTIA awarded a \$450,000 "Information Superhighway" program grant to a public library in North Carolina to fund a regional telecommunications project. The grant agreement required \$790,000 in matching funds, for a total project budget of \$1,240,000. The grant was amended in 1995, adding another \$500,000 in grant funds, with matching funds of \$780,000, for a total revised budget of about \$2,500,000.

The purpose of the project was to provide free access to a regional telecommunications network for information, education, and communication. The matching funds were to be provided by the grantee, along with various third-party contributors, including the local school system, which was to provide about half of the match.

An OIG audit disclosed that the library improperly valued and inadequately supported about \$1.5 million in third-party in-kind contributions toward matching costs. We recommended that NTIA (1) disallow the \$1.5 million in improperly claimed in-kind contributions, (2) recover nearly \$200,000 in excess grant disbursements, and (3) require the library to develop a verifiable basis to value the school system's in-kind contributions.

In response to our final report, library officials submitted new information supporting the in-kind contributions and satisfying all in-kind costs questioned. (*Atlanta Regional Office of Audits: ATL-8689-7-0001*)

Audit of NTIA's FY 1996 Financial Statements

The OIG contracted with a CPA firm to conduct an audit of NTIA's FY 1996 financial statements. In the firm's opinion, NTIA's statements present fairly its financial position as of September 30, 1996 and 1995, and the results of its operations and changes in net position, in conformity with federal accounting principles and standards. The firm did not identify any material weaknesses or reportable conditions in NTIA's internal control structure.

We commend NTIA on the results of this audit, which clearly indicate that it has made significant improvements in its financial and accounting practices. (*Financial Statements Contract Audit Division: FSC-8842-7-0001*)



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.

Audit of PTO's Financial Statements as of September 30, 1996 and 1995

The OIG performed an audit of PTO's financial statements as of September 30, 1996 and 1995. This was the fourth audit of PTO, the third covering all of the agency's financial statements under the requirements of the CFO Act, as expanded by GMRA. All four audits resulted in unqualified opinions.

Although unqualified opinions have been issued on the financial statements, significant internal control matters remain to be addressed. Our review of PTO's internal control structure disclosed three reportable conditions, of which the first two were considered material weaknesses and all of which were repeat conditions. Actions recommended to correct these conditions are:

- ! Improving procedures for accounting for capital assets.
- ! Improving the preparation, analysis, and monitoring of financial information.
- ! Depositing cash receipts in a timely manner.

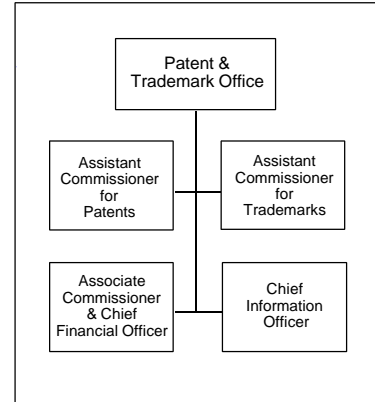
We also noted one other matter—that PTO should present combining statements.

These matters relate to the lack of sufficient staff in PTO's Office of Finance. Although we have previously recommended that PTO hire additional staff with backgrounds in the preparation or auditing of financial statements, this has not been accomplished to date. Instead, PTO hired several contractors to support its operations; however, our audit procedures identified numerous deficiencies in their work. We strongly believe that the Office of Finance does not currently have adequate staffing to properly train and supervise contractors or to perform the functions necessary to correct these deficiencies.

As PTO continues its efforts to become a performance based organization, the importance of resolving the findings identified during our audits is heightened. Successful implementation of our recommendations would provide PTO with a strong financial base, thereby making the transition to a PBO, if it happens, smoother. (*Financial Statements Audit Division: FSD-8833-7-0001*)

OIG Continues to Monitor Legislation to Establish PTO as a PBO or Government Corporation

During this reporting period, we continued to review various legislative proposals that would establish PTO as a performance based organization or a government corporation, and to comment, as appropriate, on the adequacy of their provisions for Inspector General oversight. As reported earlier (see September 1996 issue, page 55), we concur with the administration’s position that all new government corporations should remain under the supervision of an existing federal department or agency. Consistent with this position, if PTO becomes a PBO or a government corporation, it should remain under Department of Commerce supervision, and the Commerce IG should serve as its IG.



In early February, we reviewed and concurred with the Department’s draft legislative proposal that would establish PTO as a PBO. Under this proposal, PTO would remain an agency of the Department of Commerce, reporting to the Secretary of Commerce, and subject to the direction of the Under Secretary of Commerce for Intellectual Property on patent and trademark policy matters. The Department of Commerce’s IG would remain as its IG.

Several bills recently introduced in the House and Senate would establish PTO as a wholly owned government corporation. We are working with the Department and the appropriate congressional committees to ensure that adequate provisions for IG oversight are incorporated into these bills.

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 aids U.S. industry through research and services, contributes to public health and safety, and supports the U.S. scientific and engineering research communities. It creates and maintains national standards of measurement and is developing computer security standards for the federal government.

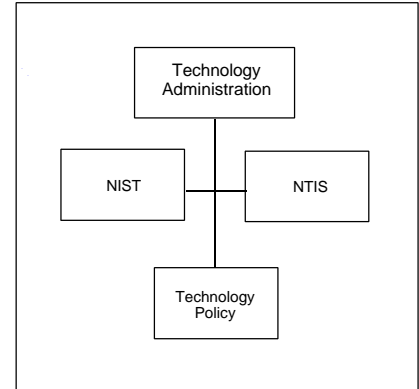
National Technical Information Service. NTIS is a self-supporting agency that actively collects and organizes technical, engineering, and business-related information generated by U.S. and foreign governments and makes it available for commercial use by the private sector.

NTIS Traditional Mission Is Well Run, But Expansionary Activities Need Attention

The OIG conducted a program evaluation of NTIS's operations, which included assessing how efficiently and effectively it pursues its primary mission of collecting and disseminating scientific, technical, and engineering information. We also examined the agency's recent "expansionary" activities. Our evaluation disclosed the following:

- ! **NTIS has successfully managed most of its mandated activities.** NTIS has worked effectively with other federal agencies to increase its inventory of the nation's scientific, technical, and engineering information, in compliance with the American Technology Preeminence Act, and is aggressively striving to broaden its market.
- ! **NTIS has been responsive to the needs of its customers.** NTIS staff appear to place a strong emphasis on customer service, and customers overwhelmingly expressed satisfaction with the agency's services, the quality and usefulness of its documents, and the reasonableness of their cost.
- ! **NTIS and the Department had serious procurement-related deficiencies.** While conducting our evaluation, we discovered major deficiencies in procurement practices related to NTIS acquisitions; as a result, we initiated a separate review to address those issues (see page 59 and September 1996 issue, page 64).
- ! **NTIS has benefitted from improvements in its internal operations.** During the past five years, the agency has adopted a more businesslike atmosphere, established an improved integrated accounting and order processing system, and received fewer customer complaints. Largely because of these factors, NTIS was selected as a candidate for conversion to a performance based organization. The PBO concept is designed to provide certain agencies with greater flexibility in procurement and more control over their finances and personnel in exchange for stricter accountability for performance. Although the agency's mission appears to fit the concept, organizational deficiencies we identified suggest that more improvements are necessary before it can handle the challenges of becoming a PBO.
- ! **Problems with CyberFile offer lessons for NTIS.** Through its expansionary \$22 million CyberFile project, NTIS attempted to develop for the Internal Revenue Service a system that would

enable taxpayers with home computers to submit their tax returns electronically. This project, NTIS's largest ever, was poorly managed and widely criticized. NTIS has undertaken a number of other expansionary activities, based on its interpretation of its legislative authority, a push to generate new revenues, and a general desire to expand. We are concerned that some of these activities may be outside NTIS's authority and distract the agency from its primary duties. The agency needs to develop sound selection criteria for evaluating proposed projects and ensure that adequate time is afforded to effectively plan, manage, and complete any undertaking.



- ! **Interagency agreements were not cleared through the Department's General Counsel.** None of NTIS's contract-type vehicles we examined had been reviewed for legal sufficiency by the Office of General Counsel, as required by departmental procedures. Our observations on these agreements were discussed in detail in another report (see below).
- ! **Efforts to consolidate and relocate NTIS operations have been slow and costly.** Four years of attempts by NTIS to consolidate its operations have been hampered by (1) the slow pace of the General Services Administration review process, (2) NTIS's failure to adequately justify its requirement to be near a Metrorail station, and (3) the Department's "hands-off" attitude toward NTIS's lease acquisition efforts. We believe that, given the time and effort invested in this endeavor, agency managers should immediately take actions to better justify the proposed move and, if this fails, pursue a less costly alternative.

The Technology Administration agreed with our observations and recommendations, and the actions it has taken and proposed meet the intent of our recommendations. (*Office of Inspections and Program Evaluations: IPE-8497*)

NTIS CyberFile Project Plagued by Management and Procurement Problems

During a program evaluation of the operational effectiveness of NTIS (see page 58), the OIG became concerned about certain deficient programmatic and procurement practices related to the development of CyberFile, an on-line tax-filing system that the agency was developing for IRS through an interagency agreement. As a result of these concerns, we began a separate inspection of NTIS's CyberFile-related program management and procurement activities.

NTIS's procurement authority is limited to contract awards under \$50,000 and delivery orders issued under existing contracts. NTIS relied on the Department's procurement organization for much of its procurement and contracting support until November 1995, when this responsibility was transferred to NIST. Similarly, NTIS has only a limited technical staff in the group that is responsible for CyberFile development, and these staff are generally hired for marketing activities, not for computer systems development work. As a result, CyberFile development was contracted to outside suppliers.

Our inspection disclosed that NTIS's programmatic and procurement planning for CyberFile was grossly inadequate and that its use of delivery order contracts and interagency agreements was highly questionable in concept, and circumvented federal statutes and regulations in practice. Specifically, because of its inadequate planning, NTIS:

- ! Underestimated the cost and resources required to develop CyberFile, then used sole-source Small Business Administration 8(a) contracts, which were inadequate to handle the required volume of effort, and which in turn exceeded the \$3 million threshold for such contracts.
- ! Overrelied on support contractors for CyberFile development without maintaining adequate control over their activities.
- ! Failed to pass along critical IRS contract specifications to its contractor and subcontractors, resulting in a system that did not meet IRS security and delivery requirements.
- ! Issued work authorizations in advance of contract agreements defining requirements, which resulted in the initial estimated \$1.4 million software development cost rising to over \$7.8 million.
- ! Used the prime development and systems integration 8(a) contract to funnel much of the CyberFile development work to subcontractors that were ineligible under the 8(a) program.
- ! Used a complex web of interagency agreements to avoid federal competition requirements and departmental oversight, thereby increasing government costs by about \$875,000.
- ! Violated federal regulations on delivery order contracts and interagency agreements by failing to conduct market surveys or price analyses, and improperly entered into and poorly managed interagency agreements.

- ! Inappropriately charged a cost-plus-a-percentage-of-cost fee to other federal agencies, a practice that maximized its fees but fostered inefficient procurement practices.
- ! Systematically avoided Office of General Counsel review of all delivery orders and interagency agreements.

In responding to our report, NTIS acknowledged that many procurement mistakes were made, and generally agreed with our recommendations. However, the agency questioned whether some of the mistakes that we highlighted were as serious as characterized. NTIS asserted that (1) the cost overrun in software development was the result of a conscious decision to prioritize the project's development schedule, (2) CyberFile had the ability to eventually meet IRS's security requirements, and (3) IRS was kept fully informed of the cost risks. (Office of Inspections and Program Evaluations: IPE-9364)

NIST's Capital Improvements Facilities Program Needs Management Attention

NIST's Capital Improvements Facilities Program, designed to upgrade and expand its research facilities, was originally projected to cost \$540 million and require 10 years (1993-2002) to complete. The CIFP includes renovations of existing laboratory and office facilities, as well as the construction of new facilities at NIST's Gaithersburg, Maryland, and Boulder, Colorado, sites.

Since FY 1993, NIST has received \$291 million in construction appropriations, although \$121 million of that has since been rescinded by the Congress. The OIG conducted a comprehensive four-part review of the CIFP. We previously reported on NIST's proposed construction of an Advanced Measurement Laboratory in Boulder (see March 1996 issue, page 59), its decision to lease an office building in Gaithersburg (see September 1996 issue, page 56), and its inappropriate obligation of nearly \$32 million (see September 1996 issue, page 57).

In our fourth report, issued during this semiannual period, we made a number of observations about the overall management of the CIFP:

- ! **NIST has effectively managed many CIFP challenges.** Many aspects of this complex program have been handled well. NIST has demonstrated a pressing need for certain facilities renovation and construction, and has translated its needs into specific plans that should remedy facility weaknesses and produce energy-related savings and improvements in productivity and performance.

- ! **NIST is revising the CIFP without making some key adjustments.** NIST is revising its CIFP to reflect changes in program direction and other circumstances, but we are concerned that its revised plan may contain over \$200 million in unjustified or inadequately explained program elements. Moreover, NIST and the Department recognize that because of inflation and added elements, the CIFP will cost at least \$940 million and take at least four years longer than originally projected. We cannot overemphasize the need for NIST and the Department to have the most accurate, defensible, and fiscally responsible CIFP possible.
- ! **NIST should abandon plans to award a single omnibus construction contract.** NIST initially established a construction strategy for the CIFP that allowed for the award of a single omnibus task order construction contract that could extend for as long as 10 years and cost as much as \$480 million. The initial award to a single contractor would be competitive, but all successive task orders could be on a sole-source basis without competition. We believe that any proposed NIST omnibus construction contract should be awarded to multiple suppliers, thereby ensuring competition for task orders. NIST canceled the proposed contract because of a lack of funding, but we urge that any future solicitations of this type be modified to address our concerns.
- ! **NIST should try to avoid “phased” construction of the Gaithersburg AML.** NIST has justified construction of the Gaithersburg AML, consisting of five connected buildings for conducting “cutting edge” research. Based on NIST’s figures, we estimate that if contracted in a “unified” manner and begun in FY 1998, the AML can be built in 42 months for an estimated cost of \$191 million. NIST, however, was planning to build the AML in phases because it believes that the funding for unified construction will not be available up front. Unfortunately, phased construction greatly reduces efficiency and has other costly disadvantages. We endorse NIST’s ongoing efforts to work with the Department, OMB, and the Congress to find a funding strategy that will allow unified construction of the AML.

NIST generally agreed with our conclusions, recognizing that the projected cost of the CIFP has escalated dramatically and that it needs to reevaluate its facility needs and revise the program. It also agreed that phased construction of the AML presents significant disadvantages and that our concerns about the omnibus construction contract should be addressed

in any future solicitation. NIST did not, however, agree to remove elements from the CIFP plan that we identified as unjustified. We reiterate the need for a reevaluation to produce a realistic CIFP. (*Office of Inspections and Program Evaluations: IPE-8377(3)*)

NIST and the Department Need to Resolve Issue of Excess Leased Space

In August 1996, we issued an inspection report on NIST's leasing of an office building in Gaithersburg, Maryland (see September 1996 issue, page 56). In that report, we observed that: (1) the leased building was not being used to support NIST's construction program as originally intended; (2) NIST could, at best, justify only about one-third of the building based on a minor office overcrowding problem on its main campus; and (3) the continued long-term leasing of this building represented a luxury that NIST could not afford given its other facility priorities and today's tight budget environment. We recommended that the Department take the lead in expeditiously liquidating/subleasing the excess space.

The Department disagreed with our recommendation, stating that there was little available space on the campus for personnel to backfill and that it would not be cost-effective to move employees back to the main campus until more space was available there. The Department did not anticipate having sufficient available space until 1998.

Because much of NIST's work is done in laboratory and other scientific facilities, the agency needs less office space per person than it would under the standard used by the Department. This is reflected in NIST's self-imposed standard for allocating office space per person, which is slightly less than the Department's standard. Based on NIST's standard, we maintain that the agency now has sufficient space on its main campus to house two-thirds of the occupants of the leased building.

At a cost of \$3 million per year and a total potential cost of from \$31 to \$47 million, the leased building is not a wise use of scarce resources. The savings, which we estimated to be at least \$16.3 million, represent funds that could go to higher priority projects, especially those related to health and safety upgrades. We have agreed with NIST that final resolution of this issue will be deferred until NIST, in collaboration with the Department and our office, finalizes its reassessment of its facility needs. We will closely monitor NIST's facility plans to ensure that the agency focuses on the most cost-effective alternatives and includes a definitive, justifiable plan for liquidating the excess leased space. (*Office of Inspections and Program Evaluations*)

Accounting System Surveys of NIST Awardees Help Ensure Proper Handling of Federal Funds

As noted in earlier issues of this report, the OIG has been performing a series of accounting system surveys of first-time recipients of financial assistance awards under NIST's Manufacturing Extension Partnership and Advanced Technology programs (see, for example, September 1996 issue, page 60). Rather than wait to undertake comprehensive audits covering several years, we conduct brief surveys to make preliminary assessments of whether selected recipients are (1) claiming costs that are reasonable, allowable, and allocable, and (2) complying with the financial terms and conditions of their awards.

Manufacturing Extension Partnership Program

The three surveys completed during this semiannual period covered projects having total estimated costs for the two- to three-year award periods exceeding \$7.3 million, with a federal share that could ultimately be as much as \$3.7 million. As in prior surveys, we identified weaknesses in the recipients' financial management and accounting systems, most commonly the failure to supply or document matching share funds, to properly claim and document only allowable costs, and to implement adequate administrative policies and procedures.

Almost without exception, the recipients concurred with our findings and agreed to take prompt corrective actions. Identifying these weaknesses early in the award periods helps prevent future problems and avoid questioned costs in later audits. (*Denver Regional Office of Audits: DEN-9336-7-0001, DEN-9337-7-0001, and DEN-9492-7-0001*)

Advanced Technology Program

During this period, we reported on nine audits covering ATP projects having total estimated costs for the two- to three-year award periods of more than \$25.1 million, with a federal share potentially as high as \$13.6 million. Seven of these audits identified weaknesses in the recipients' financial management and accounting systems, most commonly the failure to adequately account for the federal funds, to properly claim and document only allowable costs, and to implement adequate policies and procedures. Questioned costs and recommended funds to be put to better use on these seven audits exceeded \$950,000.

The other two audits demonstrated the value of using accounting system surveys for early identification and resolution of audit issues. As a result of undergoing early surveys, both recipients had adequately accounted for the federal funds, had equaled or exceeded their matching share requirements, and had no costs questioned. (*Denver Regional Office of Audits: DEN-8731-7-0001, DEN-8825-7-0001, DEN-8845-7-0001, DEN-9003-7-0001, DEN-9048-7-0001, DEN-9133-7-0001, DEN-9134-7-0001, DEN-9207-7-0001, and DEN-9260-7-0001*)

OIG Develops Audit Guidelines for Advanced Technology Program

The statutory authority for the Advanced Technology Program requires NIST to establish procedures regarding financial reporting and auditing to ensure that cooperative agreements are used for their specified purposes. In order to assist the agency, during this reporting period, the OIG developed program-specific guidelines for independent public accountants conducting audits of ATP cooperative agreements with joint ventures and single companies.

Federal legislation requires that all audits of financial assistance recipients be performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States. The ATP audit requirements are met by conducting an audit of the ATP financial statement, "Schedule of Fund Sources and Project Costs," and an attestation of management's assertions regarding compliance with laws and regulations. Because of different requirements for joint venture participants and single companies, slightly different guidelines are used for each type of recipient.

The report package prepared in accordance with these guidelines is submitted to both the NIST Grants Office and the OIG. The opinions on the program financial statement and management's assertions regarding compliance will be used as a tool by program managers and grant officials in meeting their responsibilities for ensuring that federal funds are spent for their intended purposes and in accordance with laws and regulations. The OIG will review the reports for technical accuracy and audit findings. (*Atlanta Regional Office of Audits*)

Audit of TA's FY 1995 and FY 1996 Combined Financial Statements

The OIG contracted with a CPA firm to conduct an audit of TA's FY 1995 Statement of Financial Position and FY 1996 Financial Statements. In the firm's opinion, the financial statements present fairly TA's financial position as of September 30, 1996 and 1995, and the results of its operations for the year ended September 30, 1996, in conformity with federal accounting principles and standards. The firm did not identify any material weaknesses or reportable conditions during its review of TA's internal control structure. (*Financial Statements Contract Audit Division: FSC-8835-7-0001*)

Audit of NTIS's FY 1996 Financial Statements

We contracted with a CPA firm to conduct an audit of NTIS's financial statements for the year ended September 30, 1996. The firm expressed a qualified opinion on the statement of financial position, and disclaimed an opinion on the statements of operations and changes in net position and cash flows for the year then ended. The auditors expressed these opinions because (1) the response to their request for confirmation of a \$1.93 million account receivable indicated that the customer could not validate \$7.0 million in obligations for services performed by NTIS sub-contractors under an interagency agreement and was unable to determine whether amounts were due to NTIS or a refund was owed, and (2) at the instruction of management, the auditors did not review evidence supporting amounts reflected in the inventory records.

In its review of NTIS's internal control structure, the firm identified five reportable conditions, the first of which is a material weakness. To correct these conditions, NTIS needs to:

- ! Improve controls over inventory.
- ! Properly prepare and review reconciliations.
- ! Document standard operating procedures for certain functions and unusual transactions.
- ! Improve controls to ensure that obligations are recorded on a timely basis.
- ! Consistently apply policies regarding the recording of fees, revenues, and advances.

With one exception, the firm's tests of compliance with laws and regulations disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. The exception was that the General Accounting Office report *Tax Systems Modernization: Cyberfile Was Poorly Planned and Managed*, issued in August 1996, stated that: "NTIS . . . violated applicable procurement laws and regulations in implementing Cyberfile" (see page 59).

These audit results are in marked contrast with the FY 1995 audit, in which NTIS received an unqualified opinion and no reportable conditions were identified. The results clearly indicate deficiencies in NTIS's internal control structure. We encourage NTIS management to make concerted efforts to improve the internal control structure as soon as possible to allow for the preparation of more reliable financial statements for FY 1997. (*Financial Statements Contract Audit Division: FSC-8843-7-0001*)

Audit of NIST's FY 1996 Combined Financial Statements

After reviewing NIST's combined financial statements for FY 1996, a contractor CPA firm issued an unqualified opinion. The firm also reviewed NIST's internal control structure and noted no material weaknesses. However, it did identify two reportable conditions that were observed in previous audits but were not fully addressed, and recommended the following actions to correct them:

- ! Appoint a Chief Financial Officer.
- ! Involve financial management in asset acquisition decisions.

NIST concurred with the auditors' findings and recommendations. We commend NIST management on its efforts in improving its internal control structure. Successful implementation of the Commerce Administrative Management System will require continued management attention. The system will be instrumental in the continued improvement of NIST's internal control structure. We believe that the consolidation of the Comptroller's Office, Budget, and Financial Systems Division under an Acting CFO is a positive step in NIST's efforts to improve its financial management. (*Financial Statements Contract Audit Division: FSC-8840-7-0001*)

Joint Investigation Discloses Improper Billings on NIST Contract

A joint investigation by the OIG, the Federal Bureau of Investigation, the Defense Criminal Investigative Service, and the Naval Investigative Service revealed that a NIST contractor had improperly billed the government for costs associated with lobbying the Congress to retain a Department of Defense program under which the NIST contract was awarded. The investigation established that the contractor, once it learned of the Navy's decision to cancel one of the primary programs funding the contract, paid several thousand dollars in consulting fees to a former high-ranking Navy official to lobby Members of Congress in an attempt to get the decision reversed. These fees were then billed to NIST without disclosing the precise nature of the activities for which the contract was being charged.

The matter was referred to the U.S. Attorney's Office for the Eastern District of Virginia, and in October 1996, the contractor entered into a civil settlement under which it agreed to pay the government \$21,000 to resolve any potential claims for False Claims Act damages based on the NIST contract.

The investigation also disclosed that a senior NIST official who had served as the head of the source selection board and the contracting officer's technical representative for the contract had misspent hundreds of thousands of dollars in appropriated funds received from the Navy under the program for office renovations, computer system upgrades, and the purchase of office furniture and computers. The official resigned from government service during the investigation. (*Silver Spring Field Office of Investigations*)

Departmental Management



Financial Statement Audits

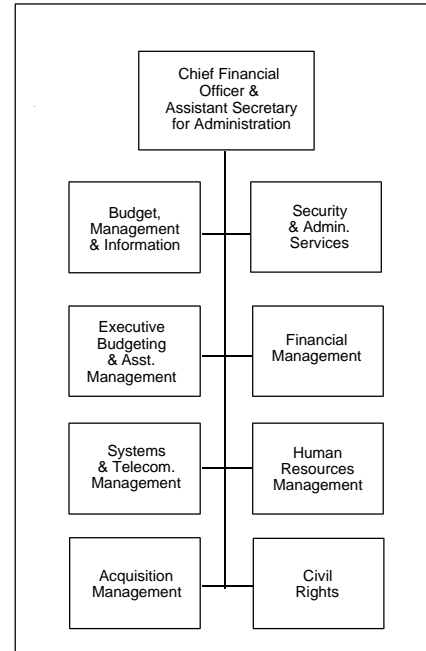
The OIG is responsible for the financial statement audit of the Department of Commerce in accordance with provisions of the CFO Act, as expanded by GMRA. During this semiannual period, the Department prepared its first Consolidated Financial Statement, on which we disclaimed an opinion. This was mainly due to the disclaimer of opinion on the financial statements of NOAA, which is by far the largest accounting entity in Commerce. Moreover, the report on internal control structure included 11 material weaknesses that were deemed significant to the Department as a whole (see page 71).

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

While EDA received a disclaimer of opinion on its financial statements, progress was made in addressing internal control weaknesses, as only 4 material weaknesses and 5 reportable conditions were reported, down from 10 weaknesses and 11 conditions in FY 1995. Moreover, EDA has agreed to hire a CFO. ITA received a disclaimer on its statements, with 6 material weaknesses and 4 reportable conditions, but also has agreed to hire a CFO. NOAA also received a disclaimer of opinion on its statements, with 11 material weaknesses and 10 reportable conditions. NOAA has agreed to hire additional staff at its headquarters and its Administrative Support Centers. In addition, it plans to include financial management criteria in the performance plans of its upper level managers.

Although substantial progress has been made, it is unlikely that the Department will meet its commitment to receive an unqualified opinion on its Consolidated Financial Statement for FY 1997. Although EDA, ITA, and NOAA have begun to take steps to remedy their internal control deficiencies, due to the bureaus' respective sizes and the nature of the deficiencies, added attention is warranted.

We will work closely with the Department and the bureaus to ensure that their corrective action plans properly address the reported internal control weaknesses. In addition, we will assess the Department's and the bureaus' progress in addressing the requirements of the Government Performance and Results Act (GPRA).



Departmental Management

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

*An audit was attempted, but could not be performed (see page 76).

**In FY 1993, we performed balance sheet audits of two NOAA entities Cthe Coastal Zone Management Revolving Fund and the Fishing Vessel Obligation Guarantee Program.

To meet our CFO Act responsibilities, we implemented an incremental audit approach that emphasized early detection and correction of major internal control problems. The chart on the previous page shows the progress made—from survey to limited scope to full scope audits, with disclaimer versus qualified versus unqualified opinions—in the Department’s financial statement audits.

Audit of the Department’s FY 1996 Consolidated Financial Statements

The OIG performed an audit of the Department’s Consolidated Financial Statements as of and for the year ended September 30, 1996. This was the first time the Department has prepared consolidated financial statements under the requirements of the CFO Act, as expanded by GMRA.

We were unable to express an opinion on the financial statements because of material deficiencies in accounting policies, practices, internal controls, data, and automated systems. Further, the Department’s Office of General Counsel did not provide the required legal representation letter, resulting in a scope limitation for the consolidated audit.

We identified 11 material weaknesses in the Department’s internal control structures. Until the material weaknesses noted in this report and in the individual bureau reports on internal control structure are corrected, and issues regarding the legal representation letter are resolved, the Department will continue to receive a disclaimer of opinion. Specific recommendations are included in the bureau reports to address their material weaknesses. In addition, the following recommendations need to be addressed at the Department level:

- ! The Department must tightly manage the development and implementation of the Commerce Administrative Management System. Several concerns have been raised about the development of the integrated Department-wide system, including implementation delays, tracking of costs, and the year 2000 issue.
- ! The Department should assist the three bureaus that have yet to fill their Chief Financial Officer positions. The Department should also focus on finalizing the process to fill its CFO position.
- ! The Department’s CFO should work closely with the bureaus to prioritize the actions to be taken on internal control weaknesses.
- ! Instructions for completing FY 1997 financial statements should be prepared and distributed as soon as possible. Periodic meetings should be held to assess the bureaus’ progress on the statements.

Definitions:

A financial statement audit provides one of the following opinions:

Unqualified—the financial statements present fairly, in all material respects, the entity’s financial position and results of operations.

Qualified—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—the financial statements do not present fairly the entity’s financial position or results of operations.

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

- ! The Department's CFO should work with bureau management to ensure adherence to OMB guidance and GPRA requirements for preparing meaningful overviews. The CFO should also improve the overview presented with the consolidated statements.
- ! The Department's CFO must work with the General Counsel to ensure that adequate legal representation letters are obtained at the Department and bureau levels.

Although the Department has made substantial progress in its bureau financial statement audits, additional efforts are needed to meet GMRA's requirements for audited agency-wide financial statements. Some of the Department's bureaus have received unqualified opinions on their financial statements or have progressively improved their internal control structure. However, deficiencies in three of the more significant bureaus—EDA, ITA, and NOAA—merit added departmental attention.

The importance of the Department's progress in preparing an accurate, reliable, and timely financial statement package is heightened by recent legislation relating to the improvement of financial management and by continuing congressional interest in its programs. The Department's overview will give management, the Congress, and others an indication of whether its programs are meeting its goals, and what resources are required to provide services. GPRA expands the use of performance information and directly involves managers by requiring them to develop a strategic plan, identify performance indicators and plans, and issue annual performance reports. The Department needs to take corrective actions to ensure that its overview and financial statements properly reflect its operations. (*Financial Statements Audit Division: FSD-9355-7-0001*)

Employee Operated Private Business in Violation of Conflict Laws

A mid-level employee in the Office of the Secretary retired from federal service in the face of his proposed removal after an OIG investigation revealed that he had for many years been operating a business representing federal employees in personnel matters before other federal agencies. We found that the employee frequently conducted his private business while on duty at the Department, and that he had received at least \$40,000 in client fees over a five- or six-year period. The matter was referred to the U.S. Attorney's Office for the District of Maryland, which declined criminal prosecution in favor of administrative action. (*Washington Field Office of Investigations*)

Office of Acquisition Policy and Programs Needs to Reevaluate Its Mission and Organization

The OIG recently completed a review of the Office of Acquisition Policy and Programs' (OAPP) management and staffing. OAPP is part of the Department's Office of Acquisition Management, which is responsible for the implementation of procurement laws, regulations, policies, and procedures within Commerce.

Our review disclosed that in response to the National Performance Review, deficit reduction initiatives, and acquisition reform legislation, OAPP significantly streamlined the Department's acquisition process. However, in doing so, OAPP also eliminated or reduced its participation in certain key acquisition management functions and, as a result, abdicated its responsibility for review and oversight of departmental acquisitions. Without adequate departmental oversight, there is an increased risk that departmental acquisitions will be conducted improperly and inefficiently.

We recommended that the Department:

- ! Take immediate action to resume and strengthen OAPP's role in, and responsibility for, overseeing the acquisition programs within the Department.
- ! Take action to ensure that OAPP's mission statement, organizational structure, and staff responsibilities and resources are consistent with the oversight and policy function.
- ! Immediately implement an independent assessment of bureau procurement offices to determine whether acquisitions were made in accordance with applicable regulations, policies, and procedures, and to assess the offices' efficiency and effectiveness, the soundness of business judgments made by contracting offices, and the adequacy of management controls.
- ! Examine the staffing structure of OAPP to determine the optimum utilization of resources.

In response to our draft report, the Department agreed with the purpose and mission of OAPP as outlined in our report and with our contention that actions taken to implement the National Performance Review and recent legislation should be made wisely and incrementally. However, our specific recommendations were not addressed. Since we issued our final report, the Department has submitted a proposed audit action plan, which we are reviewing. (*Economic Development Division: EDD-8279-7-0001*)

Commerce Employees Met Overtime Criteria, but Approving Officials Need to Document Decisions

Under the Omnibus Consolidated Appropriations Act for FY 1997, the OIG of each federal department is required to conduct an audit of the use of administratively uncontrollable overtime (AUO) and report its findings to the Congress and the Office of Personnel Management. Agency heads are authorized to pay premium pay for AUO when three criteria are met: (1) an employee's hours cannot be controlled administratively, (2) the employee's position requires substantial amounts of irregular, unscheduled overtime duty, and (3) the employee is responsible for recognizing, without supervision, circumstances that require him or her to remain on duty.

Premium pay is to be determined by the agency head as an appropriate percentage—between 10 and 25—of the employee's basic pay, depending on the average number of weekly hours of overtime. Under the Department's *Pay Handbook*, officials who are authorized to approve AUO are responsible for annually assessing work requirements and reviewing records of overtime worked, determining the rate of premium pay to be paid, and designating who will receive it.

The OIG audit found that all Commerce Department AUO payments for the year ending October 12, 1996, were made to 55 NOAA employees, who received a total of about \$228,000. We selected for detailed review the 39 employees who received AUO payments during the pay period ending on October 12. We found that all 39 met the criteria for receiving such payments. However, we also found that officials responsible for authorizing AUO did not maintain and review records of overtime worked to determine the rate payable, as required by the *Pay Handbook*. In addition, since records of overtime worked were not maintained, NOAA could not conduct the required cost-effectiveness determinations. Therefore, we were unable to determine whether employees were paid at the appropriate rate.

We recommended that the Department and NOAA ensure that units authorizing AUO for employees (1) maintain and review records of overtime worked, determine the average weekly hours of irregular or occasional overtime, assess work requirements, and determine the proper rate of premium pay from the *Pay Handbook*, and (2) determine if payment for AUO is cost-effective compared to payment for regular overtime. NOAA agreed with our findings and said it would implement our recommendations. (*Economic Development Division: EDD-9290-7-0001*)

Audits of Working Capital Fund's and Salaries and Expenses Fund's FY 1996 Financial Statements

The OIG performed audits of the General Administration's Working Capital Fund (WCF) and Salaries and Expenses Fund (S&E) financial statements as of and for the year ended September 30, 1996. This was the fourth audit of the WCF under the CFO Act, and the second audit of the S&E under GMRA.

We issued an unqualified opinion on the WCF's financial statements for FY 1996. However, we issued a qualified opinion on the S&E's Statement of Financial Position as of September 30, 1996, and disclaimed an opinion on its Statement of Operations and Changes in Net Position for the year then ended. This is an improvement over the FY 1995 audit, in which the S&E received a disclaimer of opinion on its Statement of Financial Position.

The two funds are operated by one management team under the same internal control structure and procedures for compliance. Thus, our reports on internal control structure and on compliance with laws and regulations apply to both funds. Our internal control review of the funds for FY 1996 disclosed seven reportable conditions, of which three were considered to be material weaknesses. It should be noted that the majority of the findings were repeat conditions and that one matter was raised from a reportable condition to a material weakness from the prior year's report.

The material weaknesses related to the need for management to improve controls over inventory for the WCF, procedures to reconcile Advances and Reimbursable obligation billings to actual costs for the S&E, and controls over capital assets for both the WCF and S&E. Two of the four reportable conditions identified the need to improve both funds' procedures over accounts payable and procedures for the liquidation of undelivered orders. The other two conditions addressed the need to strengthen the basis for cost allocation rates and supporting documentation for the WCF and to update or establish standard operating procedures for both the WCF and S&E to ensure proper performance of assigned duties.

Although progress has been made to improve the quality, usefulness, and timeliness of annual financial and performance reporting, significant internal control matters remain to be addressed by both funds. It should be noted that the S&E only submitted a draft corrective action plan during March 1997 for the findings and recommendations in its FY 1995 audit. (*Financial Statements Audit Division: FSD-8873-7-0001*)

Audit of the Gifts and Bequests Trust Fund's FY 1995 Principal Statements

The OIG undertook an audit of the General Administration's Gifts and Bequests (G&B) Trust Fund's Principal Statements as of September 30, 1995. This was our second CFO Act audit of the fund's principal statements. The fund was established to account for gifts and bequests that the Secretary is authorized to accept under federal law.

In FY 1994 we were unable to complete the audit of the fund's principal statements for the year ended September 30, 1993, and accordingly, disclaimed an opinion on the principal statements due to scope limitations (see September 1994 issue, page 62). We did not perform an audit of the fund's principal statements for the year ended September 30, 1994, because the Department's bureaus had not had sufficient time to implement our recommendations. However, we did contact each of the 13 bureaus to assess whether corrective actions had been taken to allow for an audit of the fund, and confirmed that they had not.

We again contacted the bureaus as part of a preliminary review for our FY 1995 audit, and determined that little or no improvement had been made in the accounting for gifts and bequests. Therefore, we deemed it inefficient to perform an audit of the fund's principal statements for the year ended September 30, 1995.

During our preliminary review, we identified several reportable conditions, including the need to improve coordination and oversight of the fund, controls over the accounting for G&B transactions, and preparation of the financial statement package. We also noted that deposits should be made under the G&B appropriation, and subsidiary ledgers should be maintained. Shortly after the end of the semiannual period, the Department submitted, and we concurred in, an audit action plan for correcting the deficiencies. (*Financial Statements Audit Division: FSD-8707-7-0001*)

Processed Preaward/Postaward Contract Audits

The Department's bureaus require many types of supplies and services to meet their mission needs. Procurement offices must help the bureaus obtain the best products or services at the best prices. To that end, preaward audits are routinely requested, through the OIG, to assist the contracting officer in evaluating an offeror's proposed costs, accounting system, financial capability, management ability, and technical competence. These audits are usually performed by the Defense Contract Audit Agency (DCAA).

In support of preaward contract audits, we:

- ! Provide assistance in identifying the need for preaward audits, determine whether the data submitted in the audit package is adequate and complete, and ensure that technical evaluations are provided to the auditors, as needed.
- ! Monitor the progress of the audits and discuss the audit scope, methodology, and results with the DCAA auditor.
- ! Review the audit reports for completeness and compliance with the Department's requests.
- ! Attend negotiations of procurements for major systems whenever the contracting officer requests our assistance.

Postaward contract audits are required by the Federal Acquisition Regulation. We coordinate and monitor the processing of the reports on these audits, also generally conducted by DCAA. During the first half of FY 1997, 33 audit requests were received and processed by the OIG:

- ! 14 preaward audit requests with an audited value of \$42,367,246.
- ! 3 postaward audit requests with an audited value of \$2,006,357.
- ! 16 miscellaneous audit requests, including rate reviews and accounting system reviews.

The number of processed audit reports issued totaled 14:

- ! 9 preaward audit reports cited \$219,264 in potential funds to be put to better use.
- ! 3 postaward audit reports.
- ! 2 special audit reports.

Recommendations made in 14 preaward contract audits were resolved in contract negotiations, resulting in \$364,763 in funds to be put to better use. As of March 31, 1997, two preaward contract audits that were issued before October 1996 had recommendations on which a final management decision by the contracting officer had not been reported.

(Acquisitions Division)

Preaward Financial Assistance Screening

We continue to work with the Office of Executive Budgeting and Assistance Management, NOAA and NIST grant offices, and EDA program offices to screen all of the Department's grants, cooperative agreements, and loan guarantees before award. Our screening

Departmental Management

(1) provides information on whether the applicant has unresolved audit findings and recommendations on earlier awards, and (2) determines whether a name check or investigation has revealed any negative history on individuals or organizations connected with a proposed award.

During this period, we screened 552 proposed awards. On 19 of these awards, we found major deficiencies affecting the ability of the proposed recipients to maintain proper control over federal funds. On the basis of information we provided, the Department delayed the awards, inserted special conditions in the award agreement, or designated certain recipients as “high risk” and required that the disbursement of federal funds be on a cost reimbursement basis. (*Office of Audits*)

Preaward Screening Results		
Results	Number	Amount
Awards delayed	4	\$648,141
Special award conditions	1	\$500,000
Cost reimbursement basis	14	\$9,475,342

Indirect Cost Reviews

OMB has established a policy whereby a single federal agency is responsible for the review, negotiation, and approval of indirect cost rates for use on federal programs. Normally, the federal agency providing the predominant direct funding is the cognizant agency. The Department has authorized the OIG to negotiate indirect cost rates and review cost allocation plans for each of its agencies. The OIG reviews and approves the methodology and principles used in pooling indirect costs and establishing a common base for distributing those costs to ensure that each federal, state, and local program bears its fair share.

During this period, the OIG negotiated 37 indirect cost rate agreements with nonprofit organizations and governmental agencies, and reviewed and approved 22 cost allocation plans. We also provided technical assistance to recipients of Commerce awards regarding the use of rates established by other federal agencies and their applicability to our awards. Further, we have worked closely with first time for-profit recipients of Commerce awards to establish indirect cost proposals that are acceptable for OIG review. (*Atlanta Regional Office of Audits*)

Nonfederal Audit Activities

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

During this semiannual period, we received 615 reports prepared by nonfederal auditors. We also had 75 unprocessed reports from the last semiannual period. For 348 of these reports, the Department is responsible for monitoring compliance with the OMB circulars. The other reports are from entities for which other federal agencies have oversight responsibility. We examined 594 reports during this period to determine whether they contained audit findings on any Department programs.

Report Category	Number
Pending (September 30, 1996)	75
Received	615
Examined	594
Pending (March 31, 1997)	96

The following table shows a breakdown by bureau of the \$285 million in Commerce funds audited.

Bureau	Funds
EDA	\$83,076,425
ITA	5,995,358
MBDA	2,730,137
NOAA	86,676,726
NTIA	11,516,748
PTO	492,790
TA	94,808,360
Total	\$285,296,544

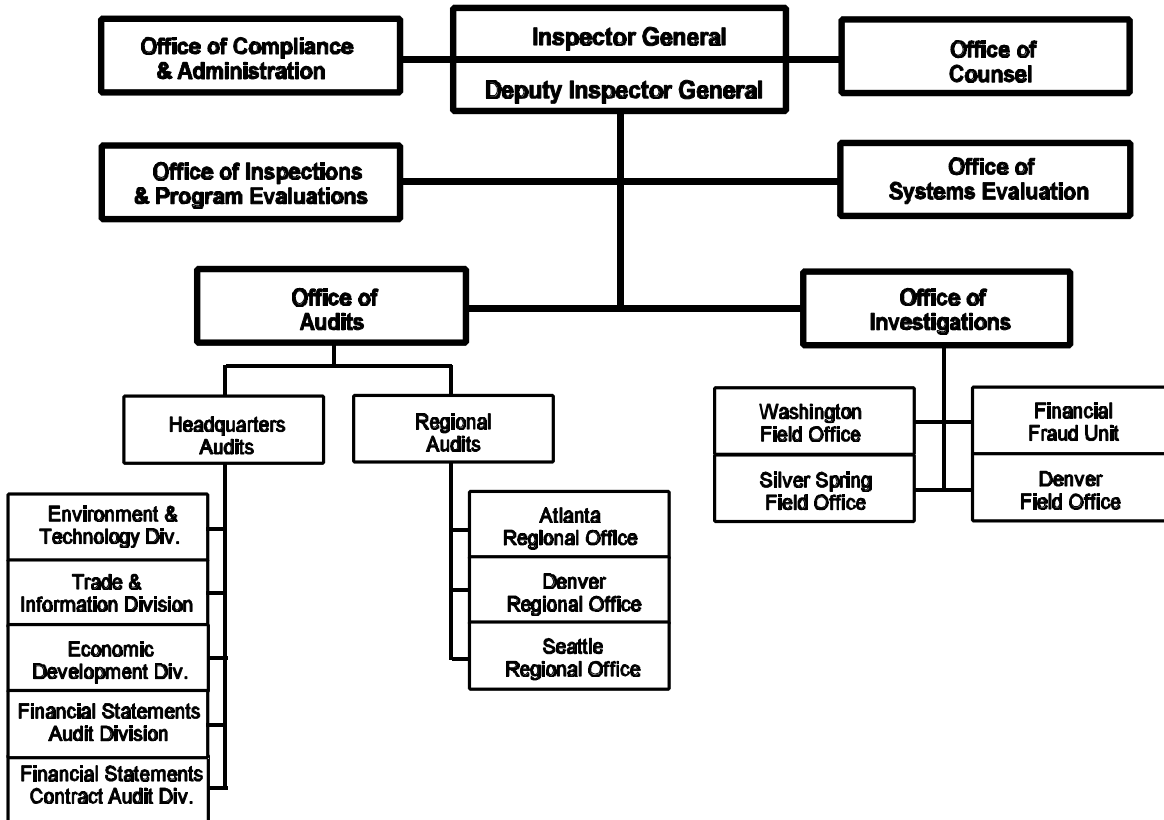
Departmental Management

We identified a total of \$25,745 in questioned costs and \$189,461 in funds to be put to better use. 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 by the auditors. The eight reports with Commerce findings are listed in Appendix B-1. (*Atlanta Regional Office of Audits*)

Audit Reports Unresolved for over Six Months

As of March 31, 1997, there was one financial statement audit report with recommendations unresolved for more than six months. In that report, *General Administration's Salaries and Expenses Fund Statement of Financial Position as of September 30, 1995*, FSD-8671-6-0001 (see September 1996 issue, page 66), we were unable to issue an opinion on the statement because the fund did not reconcile Advances from Others transactions to the general ledger balance. The report also identified one major internal control weakness and several reportable conditions. Shortly after this semiannual period, the Department submitted an action plan, which we are currently reviewing.

Office of Inspector General



Telephone Numbers

Inspector General	(202) 482-4661	Office of Audits	(202) 482-1934
Congressional Liaison	(202) 482-3052	Office of Inspections and Program Eval.	(202) 482-2754
Office of Compliance and Admin.	(202) 482-0231	Office of Systems Evaluation	(202) 482-6186
Office of Counsel	(202) 482-5992	Office of Investigations	(202) 482-0934
TDD Number		(202) 482-5897	
OIG HOTLINE:			
Telephone	(202) 482-2495 or 1-800-424-5197		
Commerce E-mail	OIG Hotline@OI@OIG		
Internet	oighotline@doc.gov		



Reporting Requirements

INDEX

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

Section	Topic	Page
4(a)(2)	Review of Legislation and Regulations	83
5(a)(1)	Significant Problems, Abuses, and Deficiencies	18-80
5(a)(2)	Significant Recommendations for Corrective Action	18-80
5(a)(3)	Prior Significant Recommendations Unimplemented	83
5(a)(4)	Matters Referred to Prosecutive Authorities	18-80
5(a)(5) and	Information or Assistance Refused	84
5(a)(6)	Listing of Audit Reports	91-97
5(a)(7)	Summary of Significant Reports	18-80
5(a)(8)	Audit Reports—Questioned Costs	87, 90
5(a)(9)	Audit Reports—Funds to Be Put to Better Use	88, 89
5(a)(10)	Prior Audit Reports Unresolved	15, 84
5(a)(11)	Significant Revised Management Decisions	16, 85
5(a)(12)	Significant Management Decisions with Which the OIG Disagreed	85

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.

We commented on various legislative proposals during the semi-annual period, including bills to establish both PTO and NOAA's Seafood Inspection program as performance-based organizations (see pages 57 and 50). In addition, we have made numerous recommendations relating to the dismantling of the NOAA fleet (see page 2) and NOAA Corps (see page 3), as well as a specific recommendation to amend the Magnuson-Stevens Act to allow NMFS to collect fishery permit fees (see page 45).

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

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

Prior Inspector General semiannual reports have explained that to include a list of all significant unimplemented recommendations in this report would be duplicative, costly, unwieldy, and of limited value to the Congress. Any list would have meaning only if explanations detailed whether adequate progress is being made to implement each agreed-upon corrective action. Also, as this Inspector General's semiannual report is being prepared, management is in the process of updating the Department's Audit Tracking System as of March 31, 1997, based on semiannual status reports due from the bureaus in mid-April. An accurate database is therefore not available to the OIG for reference here. However, additional information on the status of any audit recommendations may be obtained through the OIG's Office of Audits.

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

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

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

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

As of March 31, 1997, three performance audits, one financial assistance audit, one financial statements audit, and two preaward contract audits were in this category, as discussed below. The unresolved financial assistance audit was a processed A-133 audit.

Performance Audit

One unresolved report addresses NWS's plans for streamlining its headquarters and support operations staff. This report was resolved shortly after the end of the semiannual period, as discussed on page 51. Another report covered the NWS Tsunami Warning Program, and is discussed on page 52. The third report addresses the recovery of costs for sponsored research in the Office of Oceanic and Atmospheric Research; details can be found on page 51.

Financial Assistance Audit

The unresolved audit relates to a NOAA financial assistance award. An audit resolution proposal has been submitted; however, OIG-NOAA discussions were not able to resolve the report on a timely basis. Additional details are presented on page 52.

Financial Statements Audit

The unresolved audit involves General Administration's Salaries and Expenses Fund Statement of Financial Position as of September 31, 1995. Details can be found on page 80.

Preaward Contract Audits

The Department's Audit Tracking System recorded two preaward contract audits unresolved in excess of six months, including one presented in the prior semiannual report. These audits, based on DCAA reviews of contract proposals, are resolved when a contracting officer takes final action on the pending procurement, such as awarding a contract or issuing a contract modification. Often, the procurement action will resolve multiple audits involving competing proposals submitted in response to solicitations.

The two unresolved preaward contract audits are listed below.

- ! ADD-7348-5-0060, June 6, 1995
- ! ADD-8350-6-0082, August 6, 1996

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

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

During the reporting period, no modifications were submitted to the OIG for review. The decisions issued on the three 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.

DAO 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.



Tables and Appendixes

Tables	Page
1. Audits with Questioned Costs	87
2. Audits with Recommendations That Funds Be Put to Better Use	88
3. Preaward Contract Audits with Recommendations That Funds Be Put to Better Use	89
4. Postaward Contract Audits with Questioned Costs	90
Appendixes	
A. Office of Inspector General Reports	91
A-1. Performance Audits	91
A-2. Inspections	92
A-3. Financial Statements Audits	93
A-4. Financial Assistance Audits	94
B. Processed Reports	96
B-1. Processed Financial Assistance Audits	97
B-2. Processed Contract Audits with Questioned Costs or Funds to Be Put to Better Use	97
Definitions	
<p>The term questioned cost refers to a cost that is questioned by the OIG because of (1) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; (2) a finding that, at the time of the audit, such cost is not supported by adequate documentation; or (3) a finding that an expenditure of funds for the intended purpose is unnecessary or unreasonable.</p>	
<p>The term unsupported cost refers to a cost that, at the time of the audit, is not supported by adequate documentation. Questioned costs include unsupported costs.</p>	
<p>The term recommendation that funds be put to better use refers to a recommendation by the OIG that funds could be used more efficiently if Commerce management took action to implement and complete the recommendation, including (1) reductions in outlays; (2) deobligation of funds from programs or operations; (3) withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds; (4) costs not incurred by implementing recommended improvements related to Commerce, a contractor, or a grantee; (5) avoidance of unnecessary expenditures identified in preaward reviews of contracts or grant agreements; or (6) any other savings that are specifically identified.</p>	
<p>The term management decision refers to management's evaluation of the findings and recommendations included in the audit report and the issuance of a final decision by management concerning its response.</p>	

Table 1: Audits with Questioned Costs			
Report Category	Number	Questioned Costs	Unsupported Costs
A. Reports for which no management decision had been made by the commencement of the reporting period	13	\$2,842,525	\$1,167,475
B. Reports issued during the reporting period	15	4,787,979	874,042
Total reports (A + B) requiring a management decision during the reporting period	28	7,630,504	2,041,517
C. Reports for which a management decision was made during the reporting period	18	3,010,007	1,209,149
i. Value of disallowed costs		1,575,721	724,666
ii. Value of costs not disallowed		1,434,286	484,483
D. Reports for which no management decision had been made by the end of the reporting period	10	\$4,620,497	\$832,368
<p>Notes and Explanations:</p> <p>In Category C, lines i and ii do not always equal the total on line C since resolution may result in values greater than the original recommendations.</p> <p>Two audit reports included in this table are also included in the reports with recommendations that funds be put to better use (see Table 2). However, the dollar amounts do not overlap.</p> <p>No postaward contract audits are included in this table; instead, those audits are listed in Table 4.</p>			

Tables and Appendixes

Table 2: Audits with Recommendations That Funds Be Put to Better Use		
Report Category	Number	Value
A. Reports for which no management decision had been made by the commencement of the reporting period	6	\$125,029,715
B. Reports issued during the reporting period	12	139,755,164
Total reports (A + B) requiring a management decision during the reporting period	18	264,784,879
C. Reports for which a management decision was made during the reporting period	5	68,734,915
i. Value of recommendations agreed to by management		68,469,715
ii. Value of recommendations not agreed to by management		265,200
D. Reports for which no management decision had been made by the end of the reporting period	13	\$196,049,964
<p>Notes and Explanations:</p> <p>In Category C, lines i and ii do not always equal the total on line C since resolution may result in values greater than the original recommendations.</p> <p>Two audit reports included in this table are also included in the reports with questioned costs (see Table 1). However, the dollar amounts do not overlap.</p> <p>No preaward contract audits are included in this table; instead, those audits are listed in Table 3.</p>		

Table 3: Preaward Contract Audits with Recommendations That Funds Be Put to Better Use

Report Category	Number	Value
A. Reports for which no management decision had been made by the commencement of the reporting period	12	\$2,202,264
B. Reports issued during the reporting period	4	219,264
Total reports (A + B) requiring a management decision during the reporting period	16	2,421,528
C. Reports for which a management decision was made during the reporting period	14	1,943,438
i. Value of recommendations agreed to by management		364,763
ii. Value of recommendations not agreed to by management		679,048
iii. Value of reports on proposals that were not awarded contracts		907,227
D. Reports for which no management decision had been made by the end of the reporting period	2	\$478,090
<p>Notes and Explanations:</p> <p>Preaward audits of contracts include results of audits performed for the OIG by other agencies.</p> <p>In Category B, all reports were prepared for the OIG by the Defense Contract Audit Agency.</p> <p>When there are multiple proposals for the same contract, we report only the proposal with the lowest dollar value for funds to be put to better use; however, in Category C, lines i-ii, we report the value of the awarded contract.</p> <p>In Category C, lines i-iii do not always equal the total on line C since resolution may result in values greater than the original recommendations.</p>		

Tables and Appendixes

Table 4: Postaward Contract Audits with Questioned Costs			
Report Category	Number	Questioned Costs	Unsupported Costs
A. Reports for which no management decision had been made by the commencement of the reporting period	1	\$2,508,364	\$2,452,340
B. Reports issued during the reporting period	--	--	--
Total reports (A + B) requiring a management decision during the reporting period	1	2,508,364	2,452,340
C. Reports for which a management decision was made during the reporting period	1	2,508,364	2,452,340
i. Value of disallowed costs		286,050	286,050
ii. Value of costs not disallowed		2,222,314	2,166,290
D. Reports for which no management decision had been made by the end of the reporting period	--	--	--
Notes and Explanations: In Category C, lines i and ii do not always equal the total on line C since resolution may result in values greater than the original recommendations.			

Tables and Appendixes

Appendix A. Office of Inspector General Reports		
Type	Number	Appendix
Performance Audits	8	A-1
Inspections	6	A-2
Financial Statements Audits	15	A-3
Financial Assistance Audits	22	A-4
Total	51	

Appendix A-1. Performance Audits				
Agency	Subject	Number	Date	Funds to Be Put to Better Use
International Trade Administration	Advocacy Center: Achievements Need Better Documentation	TID-8375-7-0001	03/97	--
National Oceanic and Atmospheric Administration	Expanded Vessel Buyout Program Is Not Needed	ENT-8657-7-0001	01/97	\$23,000,000
	Weather Service Modernization Contract to Be Reduced	ENT-8749-7-0001	03/97	6,300,000
	Northwest Emergency Assistance Plan Needs Focus	STL-8518-7-0001	03/97	10,500,000
	NMFS Should Pursue New Initiatives for Its Fishery Programs	STL-8703-7-0001	03/97	95,000,000
National Telecommunications and Information Administration	"Information Superhighway" Program Oversight Strengthened	TID-8427-7-0001	01/97	--
Office of the Secretary	Office of Acquisition Policy and Programs Needs to Reevaluate Its Mission and Organization	EDD-8279-7-0001	12/96	--
	Commerce Employees Met AUO Criteria; Approving Officials Should Document Decisions	EDD-9290-7-0001	02/97	--

Tables and Appendixes

Appendix A-2. Inspections				
Agency	Subject	Number	Date	Funds to Be Put to Better Use
Bureau of Export Administration	Commerce's Role in Administering the Defense Priorities and Allocation System Needs Strengthening	IPE-8716	03/97	--
National Oceanic and Atmospheric Administration	Geostationary Satellite Acquisition Strategy Improved, but Store-in-Orbit Approach Needs Reevaluation	OSE-8784	03/97	--
	Excess Funding in the Polar Orbiting Satellite Program	OSE-8797	03/97	\$101,300,000
Technology Administration	Continued Progress of NIST's Capital Improvements Facilities Program Endangered by Certain Inadequately Justified Plans and Decisions	IPE-8377(3)	02/97	--
	NTIS's Traditional Missions Are Well Run, but Management Attention Is Needed for Its Expansionary Activities	IPE-8497	03/97	--
	Management and Procurement Deficiencies Related to the CyberFile Project	IPE-9364	03/97	--

Appendix A-3. Financial Statements Audits			
Agency	Subject	Number	Date
Bureau of Export Administration	Financial Statements for FY 1996	FSC-8834-7-0001	02/97
Economic Development Administration	Financial Statements for FY 1996	FSC-8837-7-0001	02/97
Economics and Statistics Administration	BEA's and ESA's Combined Financial Statements for FY 1996	FSD-8874-7-0001	02/97
	Census Financial Statements for FY 1996	FSC-8836-7-0001	02/97
International Trade Administration	Financial Statements for FY 1996	FSC-8838-7-0001	02/97
Minority Business Development Agency	Financial Statements for FY 1996	FSC-8839-7-0001	02/97
National Oceanic and Atmospheric Administration	Financial Statements for FY 1996	FSC-8841-7-0001	02/97
National Telecommunications and Information Administration	Financial Statements for FY 1996	FSC-8842-7-0001	02/97
Office of the Secretary	Department of Commerce's Consolidating Financial Statements for FY 1996	FSD-9355-7-0001	03/97
	General Administration's Working Capital Fund and Salaries and Expenses Fund Financial Statements for FY 1996	FSD-8873-7-0001	02/97
	Gifts and Bequests Trust Fund's Principal Statements as of September 30, 1995	FSD-8707-7-0001	10/96
Patent and Trademark Office	Financial Statements for FY 1996	FSD-8833-7-0001	02/97
Technology Administration	TA Statement of Financial Position for FY 1995 and Financial Statements for FY 1996	FSC-8835-7-0001	02/97
	NIST Financial Statements for FY 1996	FSC-8840-7-0001	02/97
	NTIS Financial Statements for FY 1996	FSC-8843-7-0001	02/97

Tables and Appendixes

Appendix A-4. Financial Assistance Audits						
Agency	Auditee	Number	Date	Questioned Costs	Unsupported Costs	Funds to Be Put to Better Use
Economic Development Administration	Fulton County, GA	AT-8881-7-0001	10/96	--	--	\$5,200
	Charleston, SC, Hurricane Hugo Project	AT-8588-7-0001	12/96	\$1,142,932	\$33,956	--
	Los Angeles County Community Development Commission and the Economic Development Corp., CA	STL-7625-7-0001	01/97	1,350,589	--	1,982,268
	City of Mathis, TX	DEN-7037-7-0001	02/97	845,000	688,141	--
	Clarion County Economic Development Corp., PA	AT-8435-7-0001	03/97	--	--	865,934
	Southern Development Council, Inc., AL	AT-9265-7-0001	03/97	--	--	1,144,668
International Trade Administration	Food Processing Machinery & Supplies Association, VA	ADD-7756-7-0001	11/96	48,191	6,423	--
Minority Business Development Agency	Cordoba Corp. / LA MEGA Center, CA	AT-8882-7-0001	02/97	605,231	93,372	--
	David J. Burgos & Associates, Inc., MBDC, DC	AT-9283-7-0001	03/97	16,132	--	--
National Telecommunications and Information Administration	Public Library of Charlotte and Mecklenburg County, NC	AT-8689-7-0001	02/97	577,077	18,655	--
Technology Administration - NIST	Applied Parallel Technologies, Inc. MA	DEN-8731-7-0001	10/96	131,719	--	--
	AlliedSignal, Inc., Ceramic Components, CA	DEN-8825-7-0001	10/96	--	--	--
	GenCorp, OH	DEN-8845-7-0001	12/96	--	--	767,633

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

Appendix A-4. Financial Assistance Audits—Continued

Agency	Auditee	Number	Date	Questioned Costs	Unsupported Costs	Funds to Be Put to Better Use
Technology Administration-NIST	Saginaw Machine Systems, Inc., MI	DEN-9134-7-0001	12/96	--	--	--
	Nonvolatile Electronics, Inc., MN	DEN-9207-7-0001	12/96	--	--	--
	North Carolina Alliance for Competitive Technologies	DEN-9336-7-0001	12/96	--	--	--
	Macro International, MD	DEN-9260-7-0001	01/97	--	--	--
	North Dakota Manufacturing Technology Partnership	DEN-9337-7-0001	01/97	--	--	--
	Spire Corporation, MA	DEN-9003-7-0001	02/97	7,162	--	--
	HelpMate Robotics Inc., CT	DEN-9048-7-0001	02/97	32,200	32,200	--
	Communication Intelligence Corporation, CA	DEN-9133-7-0001	02/97	6,001	--	--
	The Corporation for Manufacturing Excellence, CA	DEN-9492-7-0001	03/97	--	--	--

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

Tables and Appendixes

Appendix B. Processed Reports

The Office of Inspector General reviewed and accepted 610 financial related audit reports prepared by independent public accountants and local, state, and other federal auditors. The reports processed with questioned costs or with recommendations that funds be put to better use are listed in Appendixes B-1 and B-2.

Agency	OMB A-128 and A-133 Audits	Contract Audits		Total
		Preaward	Postaward	
Economic Development Administration	250	--	--	250
International Trade Administration	9	--	--	9
Minority Business Development Agency	9	--	--	9
National Oceanic and Atmospheric Administration	41	9	4	54
National Telecommunications and Information Administration	48	--	--	48
Technology Administration	56	--	3	59
Multi-Agency	59	--	--	59
Agency Not Identified	122	--	--	122
Total	594	9	7	610

Tables and Appendixes

Appendix B-1. Processed Financial Assistance Audits

Agency	Auditee	Number	Date	Questioned Costs	Unsupported Costs	Funds to Be Put to Better Use
Economic Development Administration	City of South Bend, IN	ATL-9999-7-0074	12/96	--	--	--
	BCKP Regional Intergovernmental Council, WV	ATL-9999-7-0072	03/97	--	--	\$65,773
	Old Colony Planning Council, MA	ATL-9999-7-0295	03/97	--	--	5,810
	Upper Cumberland Development District, TN	ATL-9999-7-0018	03/97	\$16,220	--	--
	Upper Savannah Council of Governments, SC	ATL-9999-7-0514	03/97	--	--	117,878
National Oceanic and Atmospheric Administration	University of Hawaii	ATL-9999-7-0042	12/96	2,493	--	--
	Woods Hole Oceanographic Institution, MA	ATL-9999-7-0491	03/97	5,737	--	--
Technology Administration	Lamb Technicon, MI	ATL-9999-7-0614	03/97	1,295	\$1,295	--

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

Appendix B-2. Processed Contract Audits with Questioned Costs or Funds to Be Put to Better Use

Agency	Number	Type	Date	Questioned Costs	Unsupported Costs	Funds to Be Put to Better Use
National Oceanic and Atmospheric Administration	ARA-8350-7-0004	Preaward	11/96	--	--	\$52,528
	ARA-8350-7-0007	Preaward	12/96	--	--	63,202
	ADM-8350-7-0011	Preaward	01/97	--	--	52,684
	ADM-8350-7-0012	Preaward	01/97	--	--	50,850

Notes: These audits were performed for the OIG by DCAA. This list contains all processed preaward contract audits with funds to be put to better use. However, when there are multiple proposals for the same contract, only the proposal with the lowest dollar value is reported in Table 3, page 89.



Glossary of Abbreviations

AML	Advanced Measurement Laboratory
ASOS	Automated Surface Observing System
ATP	Advanced Technology Program
ATPA	American Technology Preeminence Act
AUO	administratively uncontrollable overtime
AWIPS	Advanced Weather Interactive Processing System
BEA	Bureau of Economic Analysis
BXA	Bureau of Export Administration
CAMS	Commerce Administrative Management System
CFO	Chief Financial Officer
CIFP	Capital Improvements Facilities Program
CPA	certified public accounting
DCAA	Defense Contract Audit Agency
DPAS	Defense Priorities and Allocation System
EDA	Economic Development Administration
ESA	Economics and Statistics Administration
FAA	Federal Aviation Administration
FSL	Forecast Systems Laboratory
G&B	Gifts and Bequests
GMRA	Government Management Reform Act
GOES	Geostationary Operational Environmental Satellite
GPRA	Government Performance and Results Act
IG	Inspector General
IRS	Internal Revenue Service
ITA	International Trade Administration
MBDA	Minority Business Development Agency
MEGA	Minority Enterprise Growth Assistance
NASA	National Aeronautics and Space Administration
NEAP	Northwest Emergency Assistance Plan
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
OAPP	Office of Acquisition Policy and Programs
OIG	Office of Inspector General
OMB	Office of Management and Budget
OTIA	Office of Telecommunications and Information Applications
PBO	performance based organization
POES	Polar-orbiting Operational Environmental Satellite
PTO	Patent and Trademark Office
RLF	revolving loan fund
S&E	Salaries and Expenses
TA	Technology Administration
US&FCS	U.S. and Foreign Commercial Service
WCF	Working Capital Fund