Independent Auditors' Report

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

December 11, 2003

MEMORANDUM FOR: Donald L. Evans
Secretary of Commerce

FROM: Johnnie E. Frazier Johnnie Frazier

SUBJECT: *Department of Commerce's FY 2003 Consolidated Financial Statements*, Audit Report No. FSD-16071-4-0001

I am pleased to provide you with the attached audit report, which presents an unqualified opinion on the Department of Commerce's FY2003 consolidated financial statements. The audit results indicate that the Department has established an internal control structure that facilitates the preparation of reliable financial and performance information. We commend the Department for the noteworthy accomplishment of once again attaining an unqualified opinion—the fifth consecutive year.

My office contracted with the independent public accounting firm of KPMG LLP (KPMG) to perform the audit of the Department's financial statements as of and for the year ended September 30, 2003. The contract required that the audit be done in accordance with U.S. generally accepted government auditing standards and OMB Bulletin 01-02, *Audit Requirements for Federal Financial Statements.*

In its audit of the Department, KPMG found that:

- the financial statements were fairly presented, in all material respects, and in conformity to U.S. generally accepted accounting principles;
- there was one reportable condition related to the Department's financial management systems (but not considered a material weakness in internal control as defined on page 3 of the audit report) due to weaknesses in general information technology controls, the lack of integrated financial management systems, and inadequate automated budgetary controls;
- there were no instances in which the Department's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA); and
- there were several instances in which the Department did not comply with two other laws and regulations tested—OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, and OMB Circular A-25, *User Charges*.

We are pleased that the Department made significant progress in 2003 toward correcting internal control weaknesses. The auditor's report discusses that the Department successfully deployed the Commerce Administrative Management System (CAMS)—substantial implementation occurred before September 30, 2003 with full implementation completed in October 2003. Thus, for the first time, the Department is in substantial compliance with FFMIA. Implementation of CAMS, combined with improvements in general information technology controls, resulted in the internal control weakness related to financial management systems being downgraded from a material weakness. Also, improvements made in the Department's accounting for property resulted in the removal of the prior year reportable condition in that area. These successes are surely the result of Commerce senior officials' commitment to sound financial management and reliable financial/performance information, as well as the important role and hard work of the Department's managers and staff in improving the conditions noted in prior audits.

My office defined the audit's scope and oversaw its performance and delivery. We reviewed KPMG's report and related documentation, and made inquiries of its representatives. Our review disclosed no instances where KPMG did not comply, in all material respects, with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards,* and OMB Bulletin No. 01-02. However, our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the Department's consolidated financial statements, conclusions about the effectiveness of internal control, or conclusions on compliance with laws and regulations. KPMG is responsible for the attached auditor's report dated December 5, 2003, and the conclusions expressed in the report.

In accordance with Department Administrative Order (DAO) 213-5, we ask that the Department's Chief Financial Officer and Assistant Secretary for Administration provide for our review and concurrence an audit action plan that addresses all of the recommendations contained in this report within 60 days of the date of this memorandum.

If you wish to discuss the contents of this report, please call me on (202) 482-4661, or Michael Sears, Assistant Inspector General for Auditing, on (202) 482-1934. We appreciate the cooperation and courtesies the Department extended to KPMG and my staff during the audit.

Attachments

cc: Otto J. Wolff
Chief Financial Officer and Assistant Secretary for Administration

Tom Pyke
Chief Information Officer

KPMG

2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

Office of Inspector General, U.S. Department of Commerce and
Secretary, U.S. Department of Commerce:

We have audited the accompanying consolidated balance sheets of the U.S. Department of Commerce (Department) as of September 30, 2003 and 2002, and the related consolidated statements of net cost, changes in net position, and financing, and the combined statements of budgetary resources (hereinafter referred to as consolidated financial statements), for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our audits, we also considered the Department's internal control over financial reporting and tested the Department's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its consolidated financial statements.

We did not audit the financial statements of the National Technical Information Service and the U.S. Patent and Trademark Office, bureaus within the Department, as of and for the year ended September 30, 2002, which combined, represent 10 percent and 2 percent of the total consolidated assets and net costs of operations, respectively, of the Department. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the fiscal year 2002 amounts included for the National Technical Information Service, and the U.S. Patent and Trademark Office is based solely on the reports of the other auditors.

SUMMARY

As stated in our opinion on the consolidated financial statements, based on our audits and the reports of other auditors, we concluded that the Department's consolidated financial statements, as of and for the years ended September 30, 2003 and 2002, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

As discussed in the Note 17 to the consolidated financial statements, the Department adopted a change in accounting for transfers between certain fund types, to conform to new Treasury guidance, effective October 1, 2002.

Our consideration of internal control over financial reporting resulted in the identification of one reportable condition, related to the Department's financial management systems, including weaknesses in general information technology controls, the lack of integrated financial management systems, and inadequate automated budgetary controls. However, we do not consider this reportable condition to be a material weakness.

The results of our tests of compliance with certain provisions of laws and regulations disclosed instances of noncompliance with the following laws and regulations that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*:

- OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*; and
- OMB Circular A-25, *User Charges*.

The following sections discuss our opinion on the Department's consolidated financial statements, our consideration of the Department's internal control over financial reporting, our tests of the Department's compliance with certain provisions of applicable laws and regulations, and management's and our responsibilities.

OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of the U.S. Department of Commerce as of September 2003 and 2002, and the related consolidated statements of net cost, changes in net position, and financing, and the combined statements of budgetary resources, for the years then ended.

We did not audit the financial statements of the National Technical Information Service and the U.S. Patent and Trademark Office, bureaus within the Department, as of and for the year ended September 30, 2002, which combined, represent 10 percent and 2 percent of the total consolidated assets and net costs of operations, respectively, of the Department. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the fiscal year 2002 amounts included for the National Technical Information Service, and the U.S. Patent and Trademark Office is based solely on the reports of the other auditors.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Department as of September 30, 2003 and 2002, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in the Note 17 to the consolidated financial statements, the Department adopted a change in accounting for transfers between certain fund types, to conform to new Treasury guidance, effective October 1, 2002.

The information in the Management Discussion and Analysis, Required Supplementary Stewardship Information, and Required Supplementary Information sections is not a required part of the consolidated financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The September 30, 2003 consolidating balance sheet is presented for purposes of additional analysis of the related consolidated balance sheet, rather than to present the financial position of the Department's bureaus individually. The September 30, 2003 consolidating balance sheet has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, based on our audits, is fairly stated in all material respects in relation to the September 30, 2003 consolidated balance sheet, taken as a whole. The information in the Fiscal Year 2003 Performance Report section is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. This information has not been subjected to the same auditing procedures and, accordingly, we express no opinion on it.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions by management in the consolidated financial statements.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that misstatements, in amounts that would be material in relation to the consolidated financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

In our fiscal year 2003 audit, we noted certain matters relating to the Department's financial management systems, summarized below and in more detail in Exhibit I, that collectively, we consider to be a reportable condition. However, this reportable condition is not believed to be a material weakness.

- **General information technology controls.** We found that although the Department has taken corrective actions to address certain information technology (IT) control weaknesses, general IT weaknesses still exist. Despite the positive efforts made by the Department, the

Department needs to make continued improvement in its IT general control environment to fully ensure that financial data being processed on the Department's systems has integrity, is confidentially maintained, and is available when needed.

- **Integrated financial management systems.** During fiscal year 2003, the Department did not fully comply with OMB Circular A-127, *Financial Management Systems*. The National Institute of Standards and Technology (NIST), which processes financial transactions for itself, as well as for the National Telecommunications and Information Administration (NTIA) and the Technology Administration (TA) operated a legacy, non-integrated system that did not comply with Federal financial system requirements during the fiscal year 2003. The bureau assets that were accounted for using the legacy system approximated 13 percent of the Department's total consolidated assets as of September 30, 2003. On May 1, 2003, NIST transitioned to the Commerce Administrative Management System (CAMS) for processing NTIA's grant expenditures, and on October 1, 2003, transitioned the remaining portions of its legacy accounting system to CAMS.

- **Automated budgetary controls.** The NIST legacy accounting system does not include an automated budgetary control feature. NIST budget officers and program managers manually monitored the budget; however, those procedures did not provide a control to prevent NIST from over-obligating funds.

* * * * *

A summary of the status of prior year reportable conditions is included as Exhibit II.

We also noted other matters involving internal control over financial reporting and its operation that we have reported to the management of the Department in two separate letters addressing information technology and other matters, respectively.

COMPLIANCE WITH LAWS AND REGULATIONS

Our tests of compliance with certain provisions of laws and regulations, as described in the Responsibilities section of this report, exclusive of those referred to in the *Federal Financial Management Improvement Act* (FFMIA), disclosed two instances of noncompliance with the following laws and regulations that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02, and are described below.

- **OMB Circular A-11, Preparation, Submission, and Execution of the Budget.** As noted in prior year audit reports, NOAA capital leases are not fully funded, as required by OMB Circular A-11. NOAA currently has 11 capital leases that are not fully funded. In fiscal year 1999 and again on September 8, 2000, NOAA's Chief Financial Officer issued a memo requiring that "all future capital leases exceeding $200,000 have sufficient budgetary resources at the inception of the lease to cover the present value of the lease payments discounted using Treasury interest rates." This memo, which agrees to requirements in OMB Circular A-11 addressed leases with inception dates after fiscal year 1999. Based on OMB guidance, NOAA has identified the unfunded balance of existing capital leases and submitted a reprogramming notice to Congress to obligate the unfunded balance in fiscal year 2004.

In addition, as discussed in the Internal Control Over Financial Reporting section of this report, the NIST legacy accounting system did not have automated funds control as required by OMB Circular A-11. The NIST manual control process did not provide a control to prevent over-obligation of funds. The NIST legacy accounting system was replaced on October 1, 2003.

- **OMB Circular A-25, User Charges.** During fiscal year 2003, the International Trade Administration (ITA) developed recommendations and implementation strategies to address OMB Circular A-25 issues. However, as reported in prior audits, ITA is not in compliance with OMB Circular A-25, which requires Federal agencies to recover the full cost of providing goods or services to the public. ITA has completed several analyses of its user fees. Its costs are not fully allocated and, therefore, ITA has requested a waiver of these requirements from OMB. There is a concern that ITA trade events, which produced earned revenue of approximately $8 million as of September 30, 2003, are not self-sustaining. ITA is continuing to work with OMB to obtain the requested waiver.

The results of our tests of compliance with other laws and regulations, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 01-02.

FFMIA. The results of our tests of FFMIA disclosed no instances in which the Department's financial management systems did not substantially comply with the three requirements discussed in the Responsibilities section of this report.

RESPONSIBILITIES

Management's Responsibilities. The *Government Management Reform Act of 1994* (GMRA) requires each federal agency to report annually to Congress on its financial status and any other information needed to fairly present its financial position and results of operations. To meet the GMRA reporting requirements, the Department prepares annual financial statements.

Management is responsible for the consolidated financial statements, including:

- Preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America;
- Establishing and maintaining internal controls over financial reporting, and preparing the Management Discussion and Analysis (including the performance measures), Required Supplementary Information, and Required Supplementary Stewardship Information; and
- Complying with laws and regulations, including FFMIA.

In fulfilling these responsibilities, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies. Because of inherent limitations in internal control, misstatements, due to error or fraud, may nevertheless occur and not be detected.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2003 and 2002 consolidated financial statements of the Department based on our audits and the reports of other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, and OMB Bulletin No. 01-02. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall consolidated financial statement presentation.

We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2003 audit, we considered the Department's internal control over financial reporting by obtaining an understanding of the Department's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02 and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to provide assurance on internal control over financial reporting. Consequently, we do not provide an opinion thereon.

As required by OMB Bulletin No. 01-02, we considered the Department's internal control over Required Supplementary Stewardship Information by obtaining an understanding of the Department's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. Our procedures were not designed to provide assurance on internal control over Required Supplementary Stewardship Information and, accordingly, we do not provide an opinion thereon.

As further required by OMB Bulletin No. 01-02, with respect to internal control related to performance measures determined by management to be key and reported in the Management Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether the Department's fiscal year 2003 consolidated financial statements are free of material misstatement, we performed tests of the Department's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and regulations applicable to the Department. Providing an opinion on compliance with laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No 01-02 and FFMIA, we are required to report whether the Department's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

DISTRIBUTION

This report is intended for the information and use of Department's management, the Department's Office of the Inspector General, OMB, GAO, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 5, 2003

Financial Management Systems Need Improvement *(Repeat Condition)*

For many years, the U.S. Department of Commerce (Department) Office of Inspector General (OIG), U.S. General Accounting Office (GAO), and Departmental self-assessments have identified weaknesses in the Department's information technology (IT) and financial systems controls. Our fiscal year 2003 assessment of the Department's general IT and financial systems controls, performed in support of the fiscal year 2003 consolidated financial statement audit, found that although the Department needs to make further progress with its general IT and financial systems control environment, progress has been made in addressing many prior weaknesses. As a result, we no longer consider this condition a material weakness.

Additional details follow on the three elements of this reportable condition: (1) general IT controls, (2) integrated financial management systems, and (3) automated budgetary controls.

General IT Controls

Effective general IT controls add assurance that data used to prepare and report financial information and statements is complete, reliable, and has integrity. During fiscal year 2003, the Department made progress in addressing prior IT general control weaknesses. For example, in January 2003, the Department implemented an entity-wide IT security policy, the *Department of Commerce IT Security Program Policy and Minimum Implementation Standards*. The policy identifies IT security roles, responsibilities, and controls that must be included in the Department's IT security programs and systems, in addition to security risk management and contingency planning requirements. During his Congressional testimony in April 2003, the Department's Chief Information Officer (CIO) emphasized this progress by stating that:

> We have come a long way during the last two years, and we are working hard to complete the next steps that are essential to provide adequate protection of our data and systems. We understand, however, that IT security is a never-ending process, and we are committed to maintaining a high level of vigilance to ensure that the Department is able to carry out its mission without disruption caused by cyber threats.[1]

The Department's Inspector General confirmed this IT progress in his June 2003 congressional testimony[2], but also noted the need for continued improvement, based on recently completed OIG reports. The Inspector General concluded that although the

[1] Testimony of Thomas N. Pyke, Jr., Chief Information Officer, U.S. Department of Commerce, before the Government Reform Subcommittee on Technology, Information Policy, Intergovernmental Relations and the Census - United States House of Representatives - April 8, 2003.

[2] Testimony of Johnnie E. Frazier, Inspector General, U.S. Department of Commerce, before the Government Reform Subcommittee on Technology, Information Policy, Intergovernmental Relations and the Census - United States House of Representatives - June 24, 2003

Department had made progress in recent years, additional efforts are needed to ensure the Department's IT systems and the data they process and store are appropriately protected.

For the past several years, the Department has implemented improved IT processes and controls to not only enhance the overall IT and financial systems control environment, but also to remove an information security related material weakness reported under the *Federal Information Security Management Act* (FISMA), and its predecessor legislation. As part of the Department's fiscal year 2003 FISMA evaluation, the Department and the OIG confirmed that although much progress has been made, the FISMA information security material weakness still exists, primarily due to non-financial system issues. However, because the Department's FISMA material weakness is not restricted to financial systems, but considers all Department systems, this matter is not considered to be a material weakness for financial statement purposes.

Our fiscal year 2003 IT assessment was focused on the general IT controls over the Department's major financial management systems and supporting network infrastructure, using GAO's *Federal Information System Controls Audit Manual* (FISCAM) as a guide. The six FISCAM general IT control review elements, and our related findings, are as follows:

- **Entity-wide security program.** An entity-wide security program for security planning and management is the foundation of an organization's information security control structure. The program should provide a framework and continuing cycle of activity for managing risk, developing security policies, assigning responsibilities, and monitoring the adequacy of computer-related security controls.

  Although the Department has made improvements in this area, as noted earlier in this report, our fiscal year 2003 audit indicated that the Department can continue to improve, primarily in the areas of (1) performing background investigations before users are granted system and network access, (2) documenting security certification and accreditation (C&A) efforts, and (3) completing security risk assessments. It is noteworthy that by the end of the fiscal year 2003 for several of the control weaknesses we identified, especially related to the documentation of C&A efforts, the Department bureaus made progress in addressing the security weaknesses, and in some cases completing their C&A documentation.

  The Office of Management and Budget (OMB) Circular A-130, *Management of Federal Information Resources*, is a key requirement for establishing and maintaining an entity-wide information security program. Collectively, the identified entity-wide security planning and management issues, coupled with the access control issues described below, reduce the overall effectiveness of the entity-wide security programs for the individual bureaus and operating units, and the overall Department. The *Department of Commerce IT Security Program Policy and Minimum Implementation Standards*, reiterates OMB Circular A-130 guidance, and implements key elements of such guidance as Department-wide policy.

- **Security access controls.** In close concert with an organization's entity-wide information security program, access controls for general support systems and applications should provide reasonable assurance that computer resources such as data files, application programs, and computer-related facilities and equipment are protected against unauthorized modification, disclosure, loss, or impairment. Access controls are facilitated by an organization's entity-wide security program. Such controls include physical controls and logical controls.

  The objectives of limiting access are to ensure that users have only the access needed to perform their duties; that access to very sensitive resources, such as security software programs, is limited to very few individuals; and that employees are restricted from performing incompatible functions or functions beyond their responsibility. This is reiterated by Federal guidelines. For example, OMB Circular A-130 and supporting National Institute of Standards and Technology (NIST) publications provide guidance related to the maintenance of technical access controls. In addition, the *Department of Commerce IT Security Program Policy and Minimum Implementation Standards* contain many requirements for operating Department IT devices in a secure manner.

  During fiscal year 2003, we noted that access controls needed improvement at select Department bureaus, primarily in the areas of user account management, device security, and physical security. We recognize that Department bureaus have compensating controls in place to help reduce the risk that some of the access control vulnerabilities identified could be exploited, and we have considered such compensating controls as part of our overall financial statement audit.

- **Application software development and change control.** The primary focus of application software development and change control is on controlling the changes that are made to software systems in operation. Establishing controls over the modification of application software programs ensures that only authorized programs and authorized modifications are implemented. This is accomplished by instituting policies, procedures, and techniques to determine that all programs and program modifications are properly authorized, tested, and approved, and that access to and distribution of programs is carefully controlled. Without proper controls, there is a risk that security features could be inadvertently or deliberately omitted or turned off, or that processing irregularities or malicious code could be introduced into the IT environment.

  During fiscal year 2003, we noted that application software development and change controls could be improved at certain Department bureaus, primarily in the areas of maintaining audit trails of software changes and generally improving system change controls.

- **System software.** System software is a set of programs designed to operate and control the processing activities of computer equipment. System software helps control the input, processing, output, and data storage associated with all of the applications that run on a system. Controls over access to and modification of system software are essential in providing reasonable assurance that operating system-based security controls are not compromised and that the system will not be impaired.

During fiscal year 2003, we noted that system software controls could be improved at one bureau, in the area of usage and monitoring of system software controls.

- **Segregation of duties.** Work responsibilities should be segregated so that an individual does not control more than one critical function within a process. Inadequately segregated duties increase the risk that erroneous or fraudulent transactions could be processed, improper program changes could be implemented, and computer resources could be damaged or destroyed. Key areas of concern for segregation of duties involves duties among major operating and programming activities, including duties performed by users, application programmers, and data center staff. Policies outlining individual responsibilities should be documented, communicated, and enforced. The prevention and/or detection of unauthorized or erroneous actions by personnel require effective supervision and review by management, as well as formal operating procedures.

  During fiscal year 2003, we noted that controls over segregation of duties could be improved at one bureau, primarily in the areas related to segregating key functions and documenting IT-related position descriptions.

- **Service continuity.** Losing the capability to process, retrieve, and protect information maintained electronically can significantly affect an agency's ability to accomplish its mission. For this reason, an agency should have (1) procedures in place to protect information resources and minimize the risk of unplanned interruptions, and (2) a plan to recover critical operations should interruptions occur.

  During fiscal year 2003, we noted that service continuity controls could be improved at certain Department bureaus, primarily in the areas of implementing additional service continuity related controls and testing service continuity plans.

Recommendations

Specific recommendations are included in a separate limited distribution IT general controls report, issued as part of the fiscal year 2003 consolidated financial statement audit. The Department should monitor bureau actions to ensure effective implementation of our recommendations.

Integrated Financial Management Systems

The Department has made progress in integrating its financial management systems, with the continued transition of bureaus' financial systems to the Commerce Administrative Management System (CAMS), the Department-wide financial management system. In October 2002, the National Oceanic and Atmospheric Administration (NOAA) began using CAMS as its core financial management system. In addition, during fiscal year 2003, the Department deployed the Consolidated Reporting System (CRS), which is designed to provide readily available financial data to Department managers. Effective October 1, 2003, the Department fully implemented CAMS at the National Institute of Standards and Technology (NIST).

During fiscal year 2003, NIST's legacy financial management system, the Corporate Information System (CIS), was not fully integrated with other NIST financial systems, such as its property management system, or the Department's financial systems. Consequently, numerous manual adjustments were needed, and NIST was unable to record all accounting events at the transaction level. NIST also processed financial transactions for the National Telecommunications and Information Administration (NTIA) and the Technology Administration (TA) in fiscal year 2003, using the legacy system. On May 1, 2003, NIST transitioned to CAMS for processing NTIA's grant expenditures. NIST, NTIA, and TA, collectively, represented approximately 13% percent of the Department's total consolidated assets, as of September 30, 2003.

While NIST, NTIA, and TA represent a small amount of the Department's consolidated assets, the CIS was non-compliant with Office of Management and Budget (OMB) Circular A-127, *Financial Management Systems*. OMB Circular A-127 guides each agency to establish and maintain a single, integrated financial management system, which is defined as a unified set of financial systems and the financial portions of mixed systems encompassing the software, hardware, personnel, processes (manual and automated), procedures, controls, and data necessary to carry out financial management functions; manage financial operations of the agency; and report on the agency's financial status to central agencies, the Congress, and the public.

Recommendation

We recommend that the Department ensure that the implementation of CAMS for NIST, NTIA, and TA, effective October 1, 2003, is successful and in compliance with OMB Circular A-127. In addition, the Department should continue to replace legacy feeder systems with integrated systems.

Automated Budgetary Controls

As noted in the prior audit report, the NIST and NOAA legacy accounting systems did not include an automated budgetary control feature to prevent over-obligation of apportioned funds as required by OMB Circular A-11, *Preparation, Submission, and Execution of the Budget.* Due to an inability to set automated budgetary controls in the legacy accounting system, NIST budget officers and program managers manually monitored the budget during fiscal year 2003. When NIST converted to CAMS in October 2003, it gained the ability to utilize the CAMS automated budgetary control feature. Specifically, the accounts payable module, in conjunction with the budget module, in CAMS has the capability to provide automated funds control at various levels. These CAMS modules have automated features that include checks, balances, and edit functions to alert the user that a given entry or request would exceed currently available funds.

Effective in fiscal year 2003, NOAA enabled automated budgetary controls in CAMS as required by OMB Circular A-11.

Recommendation

We recommend that effective October 1, 2003, NIST implement the CAMS funds control modules at the level required by OMB Circular A-11, at a minimum.

Reported Issue	Prior Year Recommendation	Fiscal Year 2003 Status
Material Weakness - Financial Management Systems Need Improvement		
a. *Integrated financial management systems*		
The Department has not fully complied with OMB Circular A-127, *Financial Management Systems*. The Circular requires each agency to establish and maintain a single, integrated financial management system.	Continue efforts to integrate its financial management systems, reduce the number of legacy systems in use and in doing so, monitor planned actions to ensure that progress remains timely.	Reportable Condition (see comments in Exhibit I).
b. *General information technology controls*		
Weaknesses in general controls were identified in all six FISCAM review areas.	The Department should monitor the implementation of recommendations made to the bureaus in separate information technology reports and ensure they are implemented effectively.	Reportable Condition (see comments in Exhibit I).
c. *Automated budgetary controls*		
NOAA's and NIST's accounting systems do not contain automated procedures or system controls to prevent over-obligation of apportioned funds at the required level.	Allocate the necessary budgetary and staffing resources to ensure timely implementation of CAMS, including budgetary funds control modules that would prevent over-obligations at the required level by OMB Circular A-11 and consider implementing at a lower level such as at the project level.	Completed for NOAA. Reportable condition for NIST. (see comments in Exhibit I).

Reported Issue	Prior Year Recommendation	Fiscal Year 2003 Status
Reportable Condition – Accounting for Personal Property Needs Improvement		
NOAA's accounting for personal property, including construction work-in-progress and capital leases required several audit adjustments to properly state the Department's property balances, as well as the related expenses and equity balances.	NOAA should improve the process of identifying new construction work in progress (CWIP) projects, including new satellite systems, for capitalization and update its CWIP policies to address cost accumulation and recording procedures.	Completed.
	NOAA should improve the process of identifying CWIP projects that are no longer viable, by updating its CWIP policies to include periodic reviews of recorded projects and specific write-off procedures.	No longer a reportable condition; remaining issues will be included in the management letter.
	NOAA should improve its reconciliation of CWIP projects to ensure that accurate reconciliations, with complete explanations of differences, are obtained, and that the corresponding accurate adjustments are made to the accounting records.	No longer a reportable condition; remaining issues will be included in the management letter.
	NOAA should develop a method to calculate and record the management fund cost allocation adjustment to CWIP on a schedule to meet future accelerated reporting requirements.	Completed.

Reported Issue	Prior Year Recommendation	Fiscal Year 2003 Status
	NOAA should establish procedures to reconcile the subsidiary system personal property balances to the general ledger, at least quarterly, and to prepare accurate personal property roll-forward schedules.	No longer a reportable condition; remaining issues will be included in the management letter.
	NOAA should improve the controls over accounting for personal property capital leases, including ensuring accurate completion and supervisory review of lease determination worksheets, and retention of supporting documentation.	No longer a reportable condition; remaining issues will be included in the management letter.