

FINANCIAL MANAGEMENT AND ANALYSIS





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In support of the President's Management Agenda (PMA) and under the Secretary's leadership, the Department is continuing to give the highest priority to providing accurate financial data to its internal and external customers, and to its accountability for all assets. The Department has created a financial management environment that complies with federal laws and regulations and that provides its executives with timely, accurate financial and performance information. This is evidenced in part by the Department's continued receipt of unqualified opinions, decrease in internal control weaknesses, successful implementation of a single integrated financial system, and continued compliance with the Federal Financial Management Improvement Act (FFMIA). Highlights of accomplishments for fiscal year (FY) 2004 and future initiatives are discussed further below.

I. FINANCIAL MANAGEMENT SYSTEMS

In October 2003, the Department completed the implementation of its financial management system, the Commerce Administrative Management System (CAMS). CAMS replaced non-compliant legacy financial systems within the Department. Bureaus that were previously on compliant systems continue to use those systems with some entities potentially converting to CAMS at a future date. The financial information from these systems and CAMS is integrated in the Corporate Database (as discussed further below) for consolidated financial reporting, resulting in a single integrated financial system. A Consolidated Reporting System (CRS) integrates existing management data from financial, human resource, acquisition, and federal assistance enterprise databases, and provides senior management with online desktop access to information about bureau programs and resources that is critical to strategic decision-making.

CAMS provides reliable and timely information within a sophisticated security infrastructure. The system is capable of producing both financial and budget reports from information generated within the financial management system. CAMS includes a Core Financial System (CFS) interfaced with administrative systems for small purchases, bankcards, grants (Automated Standard Application for Payments (ASAP), a data warehouse, and time reporting/labor cost distribution module, collectively called Core CAMS. Planned is an obligation and requisition interface between CAMS and the Commerce Standard Acquisition and Reporting System (CSTARS), the Department's acquisition system.

The Corporate Database is a commercial off-the-shelf software package for consolidating financial data and producing financial reports. The Corporate Database provides an integrated solution to financial statements and Federal Agencies Centralized Trial Balance System (FACTS I) Adjusted Trial Balances reporting at the Department, bureau, and Treasury Appropriation/Fund Group level, and also provides the ability to perform data analysis. The database was updated in FY 2004 to produce the Department's footnotes, financial analysis reports, and other additional information required for the government-wide financial statements.

During FY 2004, the Department accomplished the following initiatives:

- ◆ Undertook a Department-wide Financial Management Review to define, document, and implement consistent accounting processes across Commerce agencies; identify CAMS CFS improvements and noncompliance; and propose a plan of action for Commerce agencies to simplify the various cost allocation mechanisms in use to support more efficient programming and production of standard and consolidated reports. The Department's annual financial management conference was centered on the results of the review and discussed priorities for enhancing the system.

- ◆ Consolidated Commerce-wide Integrated Financial Management System computer platforms. CAMS was fully implemented by October 2003; at that time, CAMS was running on five different computer platforms. With the goal of reducing operational redundancy and increasing overall efficiency, Commerce reduced the number of computer platforms running CAMS from five to four in FY 2004.
- ◆ Conducted a self-certification test, using an independent contractor, to assess CAMS' compliance with Joint Financial Management Improvement Program (JFMIP) guidelines and identify areas where CAMS requires enhancement to satisfy all JFMIP requirements. The results confirmed CAMS substantially complies with the JFMIP standards.
- ◆ Conducted a technology refreshment of underlying Oracle technology to ensure CAMS takes advantage of the latest technology and is compliant with new information technology (IT) security requirements.
- ◆ Conducted a deconstruction of the CAMS Capital Asset Plan for FYs 2005–2008 in which the bureaus and the Office of Financial Management (OFM) (1) developed a common basis for reporting costs by standard cost categories, activities, and functions using commonly agreed-upon definitions; and (2) reviewed bureau spending by cost categories to ensure consistent spending across those categories.

Although the Department has an integrated financial system with the implementation of CAMS and the Corporate Database, there is still a need to look forward to ensure that it continues to provide reliable, timely, and accurate financial data to management. In FY 2005, the Department plans to accomplish the following:

- ◆ Conduct a CAMS business case study to identify how to fully leverage the financial system to streamline business processes throughout the Department. As a first step, Commerce will review the technological issues and costs associated with extending the useful life of CAMS. An independent technologist will be contracted to assess the CAMS current and future technology, review code-layering issues, and verify that the recent technology infusions have extended the CAMS useful life. Commerce will then identify any potential savings to reducing redundant financial activities throughout the Department.
- ◆ Continue the CAMS Capital Asset Plan deconstruction exercise by analyzing the bureau costs and operations to identify efficiencies and baseline the costing of these processes. Information gathered will be used to assess the Department's current business processes for providing accounting services.
- ◆ Continue to identify and employ controls necessary to provide, improve, and maintain general control weaknesses, specifically security of financial management systems.

II. FINANCIAL REPORTING

The Department is committed to making financial management a priority and significant efforts are being made to further improve the management of its financial resources. The Department has received unqualified opinions on its consolidated financial statements since 1999. In addition, all bureaus subject to individual audits have maintained unqualified opinions on their principal financial statements. The Department met or exceeded the accelerated financial statement submission deadlines for FY 2004. A portion of the prior year reportable condition was resolved as a result of the implementation of CAMS. These achievements resulted from the Department's commitment to strong management controls and accountability for its resources. A reportable condition was cited relating to some identified deficiencies in general IT controls remaining from the prior years. The Department also identified a non-compliance with laws and regulations relating to capital leases that were not fully funded in accordance with OMB Circular A-11. Action plans to address these deficiencies are in place and corrective actions have

begun with completion scheduled before the end of FY 2005. Although the Department did not identify any significant problems with erroneous payments, it recognized the importance of maintaining adequate internal controls. The Performance and Accountability Report (PAR) section, Improper Payments Information Act of 2002 (IPIA), and the Appendix on the IPIA reporting details describe the Department's implementation efforts of this Act along with the results of Commerce's reviews.

The Department accomplished the following initiatives that resulted in meeting the aforementioned goals:

- ◆ Published guidance on the preparation and submission of financial statements, including a calendar of milestone dates. Each quarter, with the participation of all bureaus, guidance was reviewed and updated to reflect lessons learned and to identify best practices among the bureaus. When necessary, task forces were formed to resolve issues that impeded the Department's ability to produce timely and accurate financial statements.
- ◆ Prepared Corrective Action Plans for the one reportable condition, management letter comments, and non-compliances with laws and regulations, and progress was monitored throughout the year.
- ◆ Held meetings throughout the fiscal year with the Office of Inspector General (OIG) and independent auditors to ensure timely completion of the audit and issuance of the financial statements.
- ◆ Held monthly meetings led by the Department's Deputy Chief Financial Officer (CFO) with the bureaus' CFOs to discuss financial management issues, including financial statements, the Consolidated Reporting System, and financial performance metrics. These meetings were in addition to the Department's monthly CFO Council meetings led by the Department's CFO, and the monthly Finance Officer meetings led by the Deputy CFO.
- ◆ Participated in the Financial Metrics Workgroup led by the CFO Council Committee. Monthly financial metrics were compiled, analyzed, and reported in the government-wide consolidated CFO measurement tracking system. This information is also included in Commerce's CRS for senior management's review. Individual bureaus were provided with a monthly status report comparing and analyzing their results with the Department's goals, and the Department and government-wide results.
- ◆ Participated in the government-wide CFO Council Financial Statements Acceleration Workgroup. This group worked to identify and remove impediments to meet the accelerated reporting date of November 15, 2004.
- ◆ Facilitated intragovernmental reconciliations using the Department's Corporate Database application to collect, extract, and report on a quarterly basis its intragovernmental account balances, by trading partner, to the Treasury Department. The Department took a proactive approach of initiating contact with all trading partner agencies to reconcile large differences. However, despite its considerable effort, the Department has been unsuccessful in its attempts to reconcile all differences primarily due to a lack of participation by its trading partners.
- ◆ Participated in the Intragovernmental Elimination Task Force (IGET), and one bureau participated in the pilot for the Intragovernmental Transactions Reconciliation Portal.

Although the Department has accomplished much in the area of financial management, there is still a need to improve upon these accomplishments to ensure that the Department produces and reports accurate, reliable, and timely financial information. In FY 2005, the Department plans to accomplish the following:

- ◆ Continue to identify areas that will facilitate the acceleration of providing accurate and reliable financial information to Commerce managers and central agencies. This will be achieved through ongoing meetings and workgroups amongst the Department's financial managers and participation in government-wide financial management committees and workgroups.

- ◆ Begin the process of replacing the current Corporate Database with upgraded technology and expanded capabilities.
- ◆ Perform recovery contract audits and continue performing disbursement sampling to identify and recover improper payments.
- ◆ Continue to work with OMB, Treasury, the IGET, and its trading partner agencies to improve the intragovernmental reconciliation process.

GRANTS MANAGEMENT

The Department awarded 3,121 grant actions and provided funding of approximately \$1.4 billion during FY 2004. The Department is an active participant with the government-wide implementation of Public Law 106-107 to streamline, simplify, and automate the grants process, including participation on various interagency workgroups. The Department's Office of Acquisition Management (OAM) coordinates quarterly Departmental Grants Council meetings and works closely with the OIG and General Counsel to implement sound policy and ensure consistency for the Department's financial assistance programs. The Department is committed to the goal of strengthening its grant operations and improving its business processes to provide better services to its customers in the federal grant recipient community.

An active partner in e-grants initiatives, OAM serves on the Grants.gov Executive Board and the Grants Line of Business Taskforce. The Department is now fully compliant with Grants.gov, and has revised its Grants and Cooperative Agreements Manual and Standard Grant Terms and Conditions to recognize the emerging growth of electronic government. In addition, the Department continues to move its grant making bureaus into the ASAP system, which is an all-electronic payment and information system managed by the Department of Treasury.

Integral to the Department's effort to move aggressively into the world of e-grants is the rapid development, over the past year, of the National Oceanic and Atmospheric Administration's (NOAA) Grants Online, a back-office solution to the Grants.gov's storefront. Ultimately, it will facilitate efficiencies through standardized business processes and provide a direct interface to other Departmental systems. It has demonstrated significant potential for reducing paperwork, increasing accountability, and simplifying the application process, and is being considered for enterprise-wide implementation.

The responsibility for facilitating the approval of indirect cost rates for award recipients was moved from OIG to OAM. During the past year, OAM obtained a contractor to work with OAM in reviewing applications to the Department for indirect cost rate determinations, and has made significant progress in reducing a backlog of well over 100 organizations' indirect cost rates.

HUMAN CAPITAL

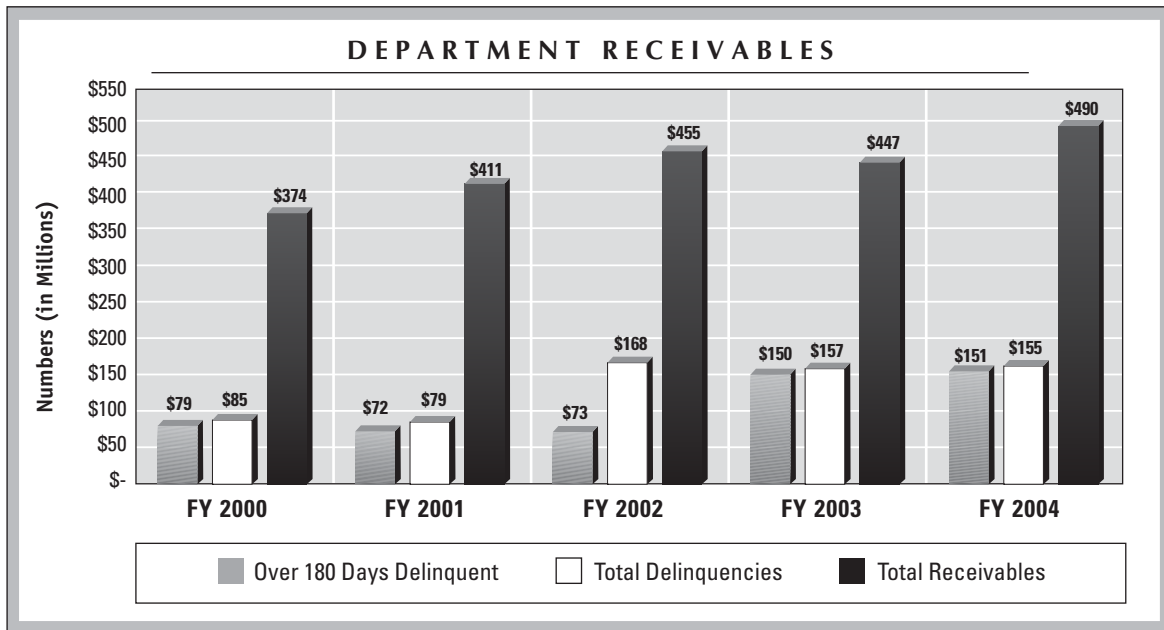
The Department recognizes the need to ensure succession planning in the area of financial management and to enhance the current workforce development. The Department provides internships through a variety of sources to give finance and accounting majors an opportunity to gain hands-on accounting experience, while introducing potential future employees to the opportunities that exist at the Department. In FY 2004, the Department continued its partnership with the National Academy Foundation (NAF) by employing finance interns from local high schools and participating in NAF sponsored events. In FY 2005, the Department will initiate a panel of subject matter experts, consisting of representatives from the bureaus, to review the current accounting position descriptions, performance plans, and hiring criteria to ensure that the Department hires and retains high quality accountants. In addition, a two-year accounting internship program will be initiated that will require training and rotational assignments amongst the bureaus.

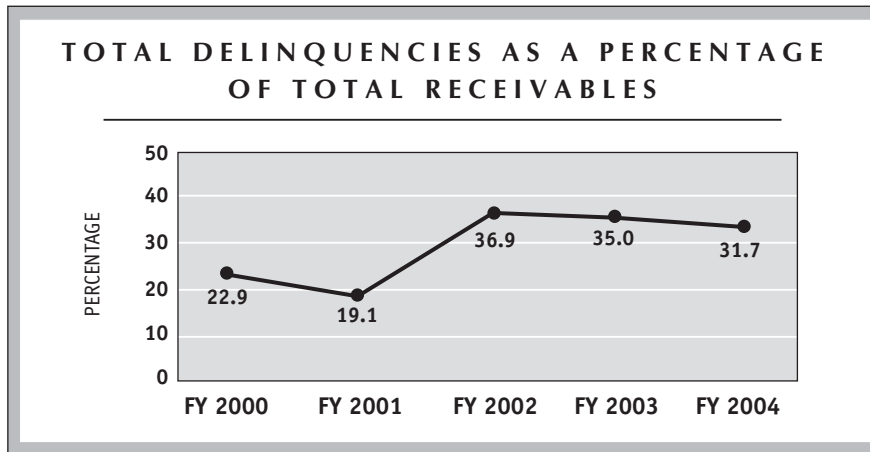
DEBT MANAGEMENT

RECEIVABLES AND DEBT MANAGEMENT

The Department has incorporated the principles of the Credit Reform Act of 1990 into the operations of its credit and debt programs. Prescreening procedures, account-servicing standards, determined collection of delinquent debt, inventory management, and asset disposition standards have helped to diminish significantly the amount of risk inherent in credit programs. These procedures were established to ensure that credit costs are properly identified and controlled, that borrowers' needs are met, and that costs to the taxpayers are minimized.

Total Department's gross receivables increased, from \$447 million in fiscal year (FY) 2003 to \$490 million in FY 2004, as reported on the Department's Treasury Report on Receivables (TROR). The TROR is the primary means for the Department to provide comprehensive information on the gross value of receivables and delinquent debt due from the public. Delinquent debt over 180 days remained constant at \$150 million from FY 2003 to \$151 million in FY 2004. Total delinquencies, as a percentage of total receivables for the Department, decreased from 35.0 percent in FY 2003 to 31.7 percent in FY 2004.





The Debt Collection Improvement Act of 1996 established the Treasury Department as the collection agency for federal agency debts that are more than 180 days delinquent. It also established Treasury's Financial Management Service as the federal government's debt collection center. In FY 1998, the Department signed a letter of agreement with Treasury for cross-servicing of debt more than 180 days delinquent. Over \$16.8 million in delinquent debt has since been referred to Treasury for cross-servicing.

During FY 2001, the issuance of the revised *Federal Claims Collection Standards* and the revised Office of Management and Budget (OMB) Circular No. A-129, *Policies for Federal Credit Programs and Non-Tax Receivables*, provided agencies greater latitude to maximize the effectiveness of federal debt collection procedures. Since then, the Department has utilized all the tools available to improve the management of its debt.

PAYMENT PRACTICES

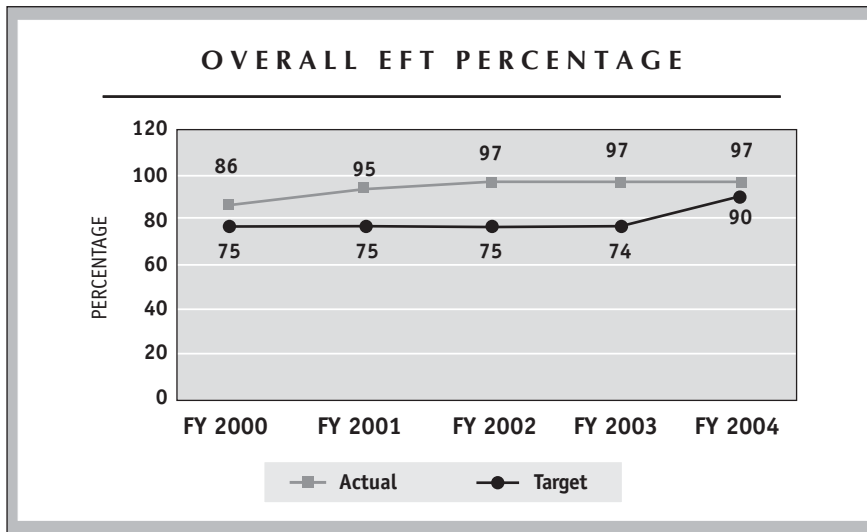
Electronic Funds Transfer (EFT)

During fiscal year (FY) 2004, the Department continued its efforts to maximize the use of payment mechanisms compliant with EFT as required by the Debt Collection Improvement Act of 1996. The Department's achievements in this area are illustrated in the table below:

Payment Category	FY 2004 EFT Percentage	FY 2003 EFT Percentage	FY 2004 Total Volume (Actual Count)	FY 2003 Total Volume (Actual Count)
Retirement Benefits	99%	99%	4,392	4,400
Salary	99%	98%	1,119,187	1,128,9386
Vendor & Misc. ¹	94%	93%	535,058	507,696
TOTAL	97%	97%	1,658,637	1,641,034

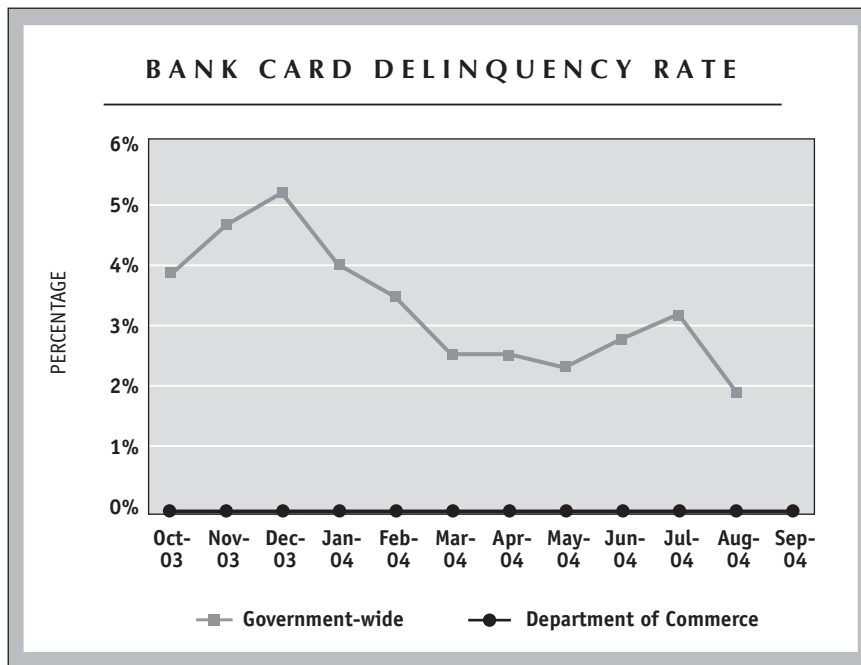
¹ Includes purchase card transactions.

The Department's overall EFT percentage remained steady at 97 percent in FY 2004. The Department substantially exceeded Treasury's government-wide goal of 90 percent for FY 2004. The Department continued to progress with a 1 percent increase in the EFT percentage for both vendor and miscellaneous payments, and salary payments.



Bankcards

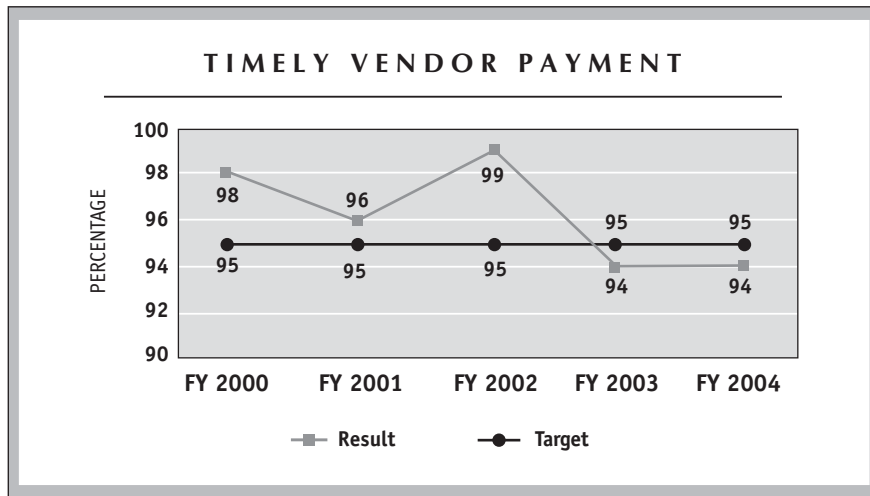
The Department is committed to the use of bankcards as a means of streamlining Departmental procurements. However, Departmental usage of the cards declined slightly from 6,093 cardholders in FY 2003 to 6,051 in FY 2004. Concurrently, the amount of purchases declined from \$141.8 million in FY 2003 to \$158.1 million in FY 2004. The modest downward trend in bankcard activity is primarily due to conclusion of the Decennial Census disbursement activity in FY 2002. The Department has continued to monitor the internal controls surrounding these purchases to ensure that all such purchases are legal and proper. As of September 30, 2004, the Department had an overall 0 percent bankcard delinquency rate, well below the government-wide delinquency rate.



*Note: September, 2004 government-wide data was not available at the time this report was issued.

Prompt Payment

The Department made approximately 94 percent of all payments on time in FY 2004, as it did in FY 2003. The number of invoices with late-payment interest penalties increased from 15,144 in FY 2003 to 15,631 in FY 2004. The Department's overall performance of 94 percent in FY 2004 is just slightly lower than the government-wide goal of 95 percent. The 94 percent on-time payment is mainly due to one bureau's conversion to Commerce Administrative Management System (CAMS). As a result, some payments were delayed during the conversion period from the old to new system at the beginning of the year. The Department will continue to monitor its bureaus' payment performance to maintain its timely vendor payment percentage.

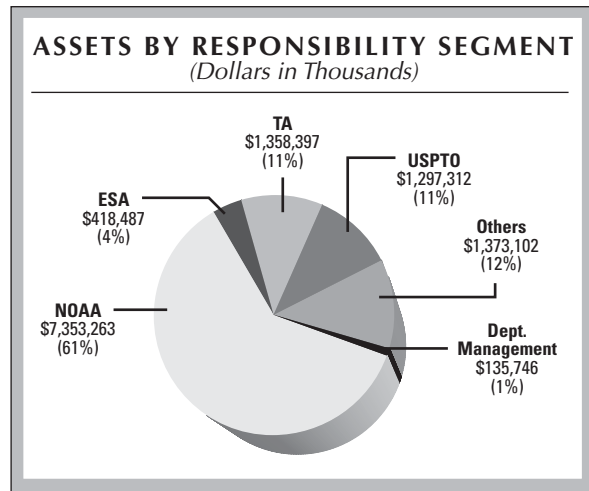
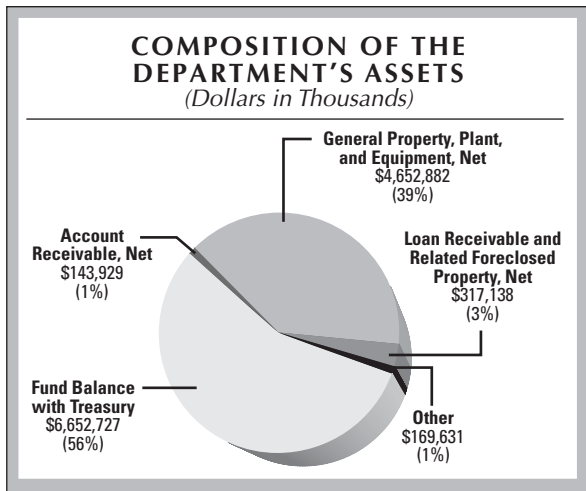


ANALYSIS OF FY 2004 FINANCIAL CONDITIONS AND RESULTS

Composition of Assets and Assets by Responsibility Segment

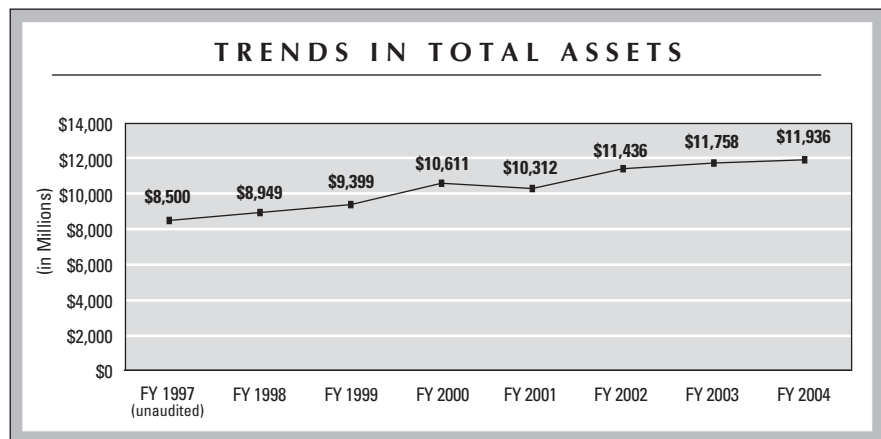
The composition and distribution of the Department's assets generally remained consistent from FY 2003 to FY 2004.

At September 30, 2004, Fund Balance with Treasury of \$6.65 billion is the aggregate amount of funds available to make authorized expenditures and pay liabilities. General Property, Plant, and Equipment, Net of Accumulated Depreciation (General PP&E) of \$4.65 billion includes \$2.69 billion of Construction-in-progress, primarily of satellites and weather measuring and monitoring systems, \$763 million of satellites and weather systems, \$606 million of structures, facilities, and leasehold improvements, and \$588 million of other General PP&E. Loans Receivable and Related Foreclosed Property, Net of \$317 million primarily results from the National Oceanic and Atmospheric Administration's (NOAA) direct loan programs.



Trends in Assets

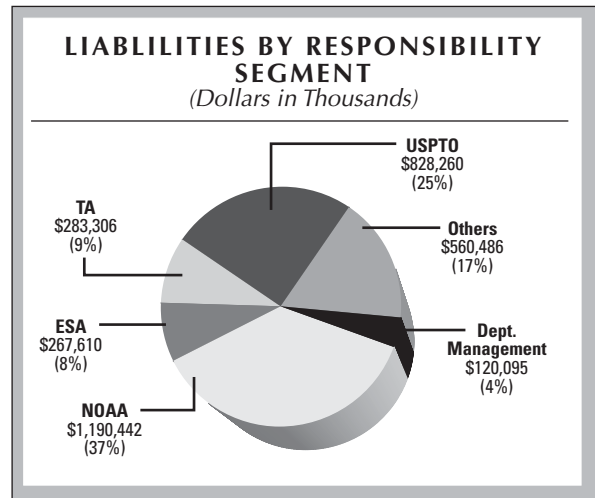
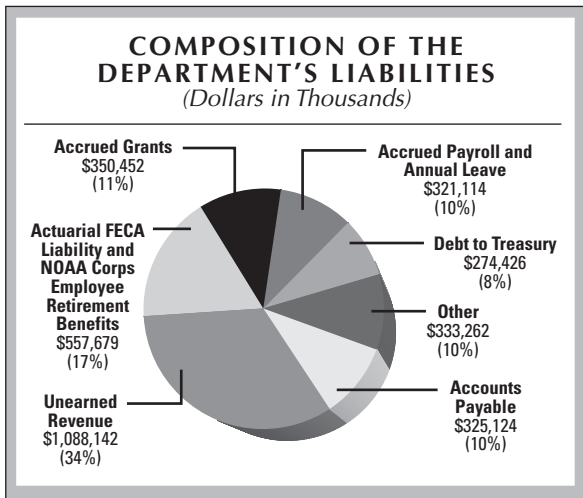
Total Assets increased \$178 million or 2 percent, from \$11.76 billion at September 30, 2003 to \$11.94 billion at September 30, 2004. Fund Balance with Treasury increased \$150 million or 2 percent, from \$6.50 to \$6.65 billion, which primarily resulted from higher Appropriations Received, net of rescissions, of \$247 million or 4 percent. Loans Receivable and Related Foreclosed Property, Net increased \$44 million or 16 percent from \$273 to \$317 million, which primarily resulted from the first issuances of direct loans for the Pacific Groundfish Buyback and Fisheries Finance Tuna Fleet loan programs.



Composition of Liabilities and Liabilities by Responsibility Segment

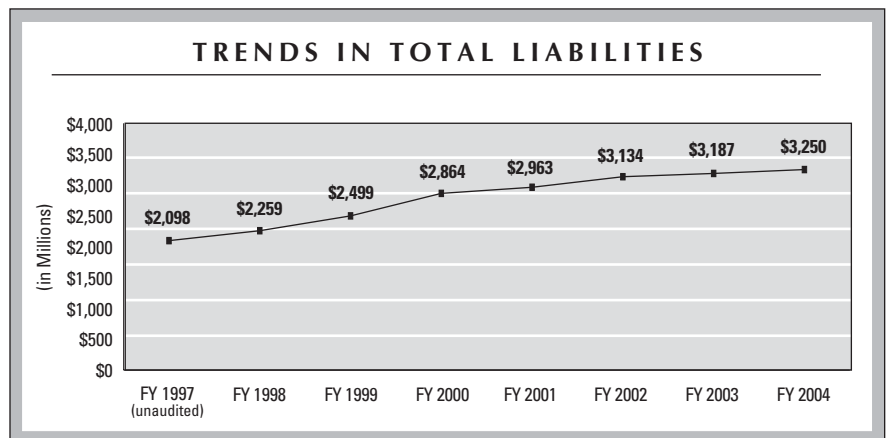
The composition and distribution of the Department's liabilities also generally remained consistent from FY 2003 to FY 2004.

Unearned Revenue of \$1.09 billion represents the portion of monies received from customers for which goods and services have not been provided or rendered by the Department. Actuarial FECA Liability and NOAA Corps Employee Retirement Benefits Liabilities of \$558 million is composed of the actuarial present value of projected benefits for the NOAA Corps Retirement System (\$336 million) and the NOAA Corps Post-retirement Health Benefits (\$43 million), and Actuarial FECA Liability (\$179 million), which represents the liability for future workers' compensation benefits. Accrued Grants of \$350 million, which relate to a diverse array of financial assistance programs and projects, include Economic Development Administration's (EDA) accrued grants of \$241 million for their economic development and assistance funding to state and local governments. Accounts Payable of \$325 million consists primarily of amounts owed for goods, services, or capitalized assets received, progress on contract performance by others, and other expenses due. Accrued Payroll and Annual Leave include salaries and wages earned by employees, but not disbursed as of September 30. Debt to Treasury of \$274 million results from monies borrowed primarily for the Fisheries Finance direct loan programs. Other Liabilities of \$333 million includes Liabilities for Loan Guarantees of \$74 million, Environmental and Disposal Liabilities of \$79 million, and Resources Payable to Treasury of \$64 million.



Trends in Liabilities

Total Liabilities increased \$63 million or 2 percent, from \$3.19 billion at September 30, 2003 to \$3.25 billion at September 30, 2004. Unearned Revenue increased \$89 million or 9 percent, from \$999 million to \$1.09 billion, primarily due to higher unearned revenue from increased patent and trademark application and user fees that are pending action at September 30. Debt to Treasury increased \$63 million or 30 percent, from \$212 to \$274 million, mainly due to initial borrowings during FY 2004 in NOAA's Fisheries Finance Tuna Fleet and Pacific Groundfish Buyback direct loan programs.



Composition of and Trends in Financing Sources

Most of the Department's Financing Sources are obtained from Appropriations Received, net of rescissions. Financing Sources also include transfers to and from other federal agencies without reimbursement, and imputed financing sources from costs absorbed by other federal agencies.

Total Financing Sources, shown on the Consolidated Statement of Changes in Net Position, remained consistent from FY 2003 to FY 2004, decreasing only 0.3 percent, from \$6.25 billion for FY 2003 to \$6.23 billion for FY 2004.

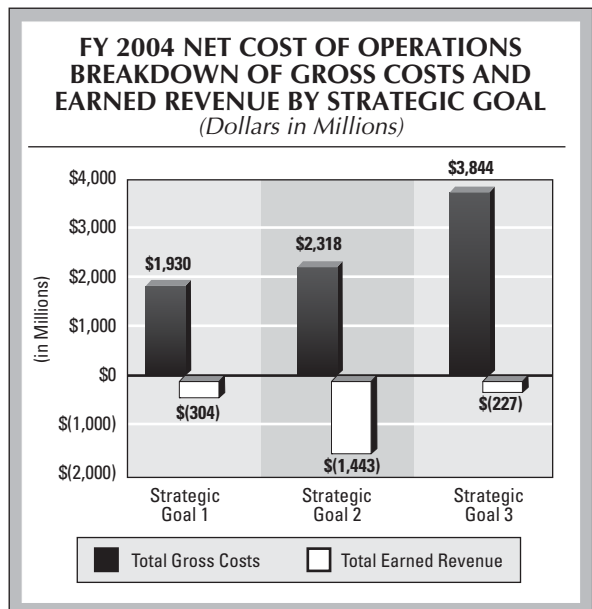
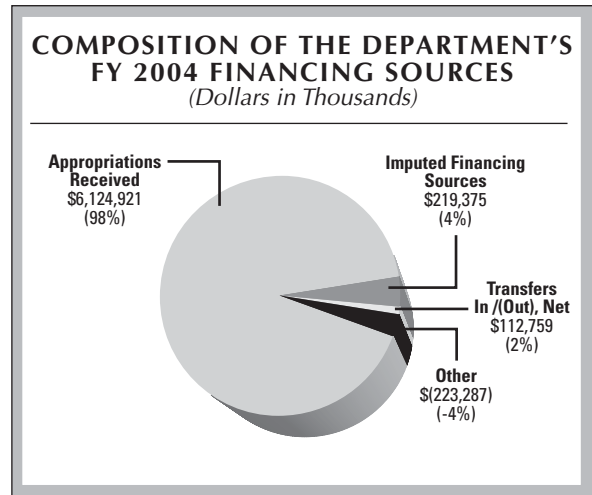
FY 2004 Net Cost of Operations by Strategic Goal

FY 2004 Net Cost of Operations amounted to \$6.12 billion, which consists of Gross Costs of \$8.09 billion less Earned Revenue of \$1.97 billion.

Strategic Goal 1 includes Gross Costs of \$228 million related to the decennial and periodic censuses. The federal government distributes federal dollars that supports schools, employment services, housing assistance, highway construction, hospital services, programs for the elderly, and more, based on census data.

Strategic Goal 2 includes Net Cost of Operations of \$76 million (Gross Costs of \$1.15 billion less Earned Revenue of \$1.07 billion) for USPTO's patents program, which includes processing patent applications and disseminating patent information. Through issuing patents, USPTO encourages technological advancement by providing incentives to invent, invest in, and disclose new technology. Strategic Goal 2 also includes Net Cost of Operations of \$438 million (Gross Costs of \$531 million less Earned Revenue of \$93 million) for NIST's Measurement and Standards Laboratories. These laboratories are the stewards of the U.S.'s measurement infrastructure, and provide measurement methods, reference materials, test procedures, instrument calibrations, fundamental data, and standards that comprise essential tools for research, production, and buyer-seller transactions.

Strategic Goal 3 includes Net Cost of Operations of \$1.66 billion (Gross Costs of \$1.73 billion less Earned Revenue of \$69 million) related to NOAA's goal to advance short-term warning forecast service, which includes improving tornado, winter storm, and flash flood warning lead time and accuracy, and improving hurricane track and precipitation forecasts.



LIMITATIONS OF THE FINANCIAL STATEMENTS

These financial statements have been prepared to report the financial position and results of operations of the Department of Commerce, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of the Department in accordance with the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records.

These statements should be read with the realization that they are for a component of the U.S. government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides the resources to do so.