

January 2001

# Major Management Challenges and Program Risks

Department of Commerce





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January 2001

The President of the Senate  
The Speaker of the House of Representatives

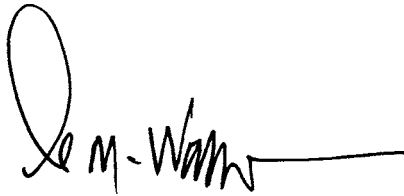
This report addresses the major performance and accountability challenges facing the Department of Commerce as it seeks to promote job creation and improve living standards for all Americans through economic growth, technological competitiveness, and sustainable development. It includes a summary of actions that Commerce has taken and that are under way to address these challenges. It also outlines further actions that GAO believes are needed. This analysis should help the new Congress and administration carry out their responsibilities and improve government for the benefit of the American people.

This report is part of a special series, first issued in January 1999, entitled the *Performance and Accountability Series: Major Management Challenges and Program Risks*. In that series, GAO advised the Congress that it planned to reassess the methodologies and criteria used to determine which federal government operations and functions should be highlighted and which should be designated as “high risk.” GAO completed the assessment, considered comments provided on a publicly available exposure draft, and published its guidance document, *Determining Performance and Accountability Challenges and High Risks* (GAO-01-159SP), in November 2000.

This 2001 *Performance and Accountability Series* contains separate reports on 21 agencies—covering each cabinet department, most major independent agencies, and the U.S. Postal Service. The series also

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includes a governmentwide perspective on performance and management challenges across the federal government. As a companion volume to this series, GAO is issuing an update on those government operations and programs that its work identified as “high risk” because of either their greater vulnerabilities to waste, fraud, abuse, and mismanagement or major challenges associated with their economy, efficiency, or effectiveness.

A handwritten signature in black ink, appearing to read "D. M. Walker", with a long horizontal line extending to the right.

David M. Walker  
Comptroller General  
of the United States

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# Overview

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The Department of Commerce's activities touch Americans' lives every day by, among other things, providing weather forecasts and warnings, protecting patents and trademarks, creating jobs and businesses in distressed communities, reconciling export regulation with national security concerns, supporting exports from U.S. businesses to international markets, and conducting the decennial census. Although the Department's typical budget outlays of about \$5 billion annually are relatively small compared to the outlays of many other major departments, its wide-ranging programs have far-reaching national implications. Commerce is facing a number of performance and accountability challenges that affect its ability to meet its mission.



## **Performance and Accountability Challenges**

- Increase the access of U. S. businesses to international markets
- Ensure that the United States is secure from the proliferation of dual-use commodities and chemical weapons
- Ensure that weather forecasts and severe weather warnings are accurate and timely
- Improve the economy in distressed areas
- Address other challenges to building a high-performing organization



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Businesses' Access to International Markets

International trade has become increasingly important to the U.S. economy. Since the early 1980s, the United States has entered into over 400 trade-related agreements. While these agreements were intended to increase the access of U.S. companies to foreign markets, businesses' efforts to identify potential markets may be hampered by problems related to identifying and monitoring trade agreements. Specifically, in late 1999, we reported that officials at Commerce and other key trade agencies were unable to provide a definite count of trade agreements. Consequently, we recommended that the Secretary of Commerce establish clear criteria for the types of agreements to be included in the archive and clarify that the archive is intended to contain all trade agreements. More recently, we reported that the ability of Commerce and two other trade agencies to monitor and enforce trade agreements was limited because the agencies lacked sufficient numbers of experienced staff with the right expertise;<sup>1</sup> did not always get needed analytical or other types of support from other agencies; and sometimes had difficulty obtaining balanced, comprehensive input from the private sector. We recommended that the Secretary of Commerce work with other relevant agencies to develop a strategy for how our federal government will manage its growing trade agreement monitoring and enforcement workload. Commerce has partially implemented our recommendations. However, until these problems are fully resolved, U.S. businesses may not be able to take full advantage of the benefits secured by trade agreements in accessing foreign markets and, thus, increasing U.S. exports. While Commerce's International

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<sup>1</sup>Commerce's human capital problems can be seen as part of a broader pattern of human capital shortcomings that have eroded mission capabilities across the federal government. See our *High-Risk Series: An Update* (GAO-01-263, Jan. 2001) for a discussion of human capital as a newly designated governmentwide high-risk area.

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Trade Administration (ITA) reported some success in assisting U.S. businesses in gaining access to international markets, it also noted that it faced several difficulties in portraying its progress in this effort due, in part, to the reluctance of businesses to share information on their exports and unanticipated changes in the economies of developing countries.

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Control of Exports of  
Dual-Use  
Commodities and  
Chemical Weapons

At the same time that it encourages trade, Commerce, through its Bureau of Export Administration (BXA) also helps administer the nation's export control system by processing license applications for exported items that may pose a national security risk or foreign policy concern, such as chemical, biological, nuclear, and missile technology items. In Commerce's annual performance plans, BXA has set performance goals related to (1) restructuring export controls for the 21st century by, among other things, streamlining its application process and (2) maintaining a fully effective law enforcement program to protect U.S. national security and public safety, uphold U.S. foreign policy, and ensure the nonproliferation of dual-use commodities and chemical weapons.<sup>2</sup> BXA reported that it met or exceeded various performance measures, such as deterring high-risk transactions. However, it is unclear how some of the measures would contribute to restructuring the export control system, and some of the terms used in measuring the goal had not yet been defined. In addition, among the performance targets not met were average processing time for licensing applications in relation to BXA's export control system goal and the number of investigations completed under BXA's law enforcement goal. Consequently, it is not clear how much overall progress BXA has made in meeting its goals.

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<sup>2</sup>Dual-use commodities are those with both commercial and military applications.

In 1975, the President established the Committee on Foreign Investment in the United States to monitor foreign investment by reviewing reports of foreign acquisitions of U.S. companies that may affect national security. In June 2000, we reported that Commerce and other agencies did not always inform the Committee of known foreign acquisitions with national security implications. Consequently, the unreported acquisitions may not be reviewed from all appropriate perspectives. For example, an acquisition may be reviewed from the perspective of protecting classified material, but not from the perspective of other concerns such as technology transfers, weapon technology proliferation, or foreign sources of supply. To improve the Committee's process for identifying foreign acquisitions with potential national security implications, we recommended that the Secretary of Commerce, among others, establish procedures requiring agency officials to submit all known foreign acquisitions of companies with potential national security implications to the Committee. Commerce agrees with and plans to take steps to implement our recommendation.

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### Accurate and Timely Weather Forecasts and Warnings

Almost two decades ago, Commerce's National Weather Service (NWS) decided to improve its weather warnings and forecasts through a nationwide modernization program. NWS recognized that improved warnings and forecasts were essential to enhancing public safety and our nation's economic productivity. However, the modernization effort, originally expected to be completed in 1994, experienced difficulties that included schedule delays, cost overruns, and technical problems on key systems. Accordingly, in February 1995 and 1997 and January 1999, we identified NWS' modernization effort as a high-risk initiative because of several issues, such as the agency's lack of an overall systems architecture to guide the modernization and problems in developing the Advanced Weather Interactive Processing System (AWIPS)—the centerpiece of the

modernization. Over the years, we have made numerous recommendations to address the modernization's difficulties, and NWS has acted to implement them. For example, in response to our recommendations, NWS established an overall systems architecture, improved the availability of its Next Generation Weather Radar (NEXRAD), and enhanced its AWIPS software development processes. Due to NWS' progress in addressing key concerns, and in deploying and using AWIPS, we no longer consider NWS' modernization effort to be a high-risk initiative; however, we will continue to monitor NWS' plans to deploy enhancements to AWIPS in 2001 and 2002.

Through its modernization, NWS has achieved improvements in the accuracy and timeliness of some weather warnings. For example, the agency reported that in fiscal year 1999, the lead times for tornadoes increased by 20 percent over the lead times in 1997. NWS also noted improvements in the accuracy of flash flood warnings in specific areas of the country. Nevertheless, NWS met only two of seven targets for fiscal year 1999 under its performance goal of advancing short-term warning and forecast services. For example, NWS met its target of increasing the lead-time and accuracy of tornado warnings, but did not meet its target for improving the lead-time and accuracy of severe thunderstorm warnings. Commerce noted that planned enhancements to NWS' systems—and specifically AWIPS—would enhance its forecasting capabilities. As a result, the full effect of the modernization on NWS' goal of improved forecasts and warnings may not be determined for several more years.

generate and retain jobs and to stimulate industrial and commercial growth in rural and urban areas that experience high unemployment, low income, or severe economic distress. In addition, through legislation and accompanying reports, the Congress has urged EDA to aggressively pursue efforts to increase the efficiency of the federal response to distressed communities by working with other agencies. In terms of its own programs, EDA has made some progress in meeting the two fiscal year 1999 performance goals related to improving the economy in distressed areas—creating jobs and private enterprise in economically distressed communities and building local capacity to achieve and sustain economic growth. For example, EDA exceeded its targets for state and local dollars committed to EDA-funded projects that are intended to create jobs and for the percentage of EDA grants awarded to economically distressed areas. However, as we reported in March 1999, measuring job creation that results from economic development programs is problematic. On a broader scale, while EDA has taken steps to coordinate its work with that of other agencies, an important next step will be for EDA to collaborate with other agencies to develop common or complementary goals for improving their performance in addressing crosscutting issues.

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**Additional Challenges**

Finally, Commerce needs to manage improvements in three other areas in order to build a high-performing organization.

- In the financial management area, Commerce has made substantial progress in recent years, but continues to face challenges in both its financial statement reporting and financial management systems. Although Commerce received an unqualified opinion on all of its financial statements for fiscal year 1999, Commerce's Chief Financial Officer has agreed that a diligent effort is needed to continue to receive unqualified audit opinions on

future Commerce financial statements. Commerce officials strengthened Commerce's internal control structure; however, one of the remaining material weaknesses is the lack of a single, integrated financial system. As stated in Commerce's fiscal year 1999 accountability report, many of its financial systems are seriously outdated and fragmented; unable to provide timely, complete, and reliable financial information; inadequately controlled; and costly and difficult to maintain. Consequently, the systems do not comply with federal laws and regulations. In order to comply with applicable laws and safeguard its assets against waste, loss, unauthorized use, or misappropriation, Commerce must continue to emphasize financial management improvements and correct its material weaknesses and reportable conditions. Commerce reports that it has made progress in addressing this material weakness and will continue its efforts to improve in this area.

- With respect to the 2000 Census, Commerce's Bureau of the Census generally completed its peak data collection activities consistent with its operational plans, and remaining activities appear to be on-track. As a result, we no longer consider the 2000 Census to be a high-risk program. We had designated the census a high-risk area as early as 1997 due to formidable challenges that included building a complete and accurate master address file, motivating the public to participate in the census by returning their census questionnaires, meeting field staffing goals in a tight labor market, and collecting timely and accurate data from nonrespondents. Fortunately, the Bureau's actual peak data collection activities proceeded on or ahead of schedule, and generally were performed as planned. Particularly noteworthy was an initial mail response rate of 65 percent, which was four percentage points higher than the Bureau had anticipated, and matched the response rate to the 1990 Census. Nonetheless,

surmounting the various challenges to a successful census that the Bureau faced in 2000 came at considerable cost. Moreover, the single most important determinate of a successful census—the completeness and accuracy of the census count, and in particular, the size and nature of the undercount—will not be known until the Bureau completes various accuracy and coverage assessments. Consequently, as the Bureau looks toward the next census, continued societal and demographic changes such as more complex living arrangements and a large non-English-speaking population, will make the national headcount in 2010 at least as challenging as it was in 2000. As a result, it will be important for Commerce to ensure that the Bureau completes its evaluations of key census operations as planned, and explores innovative options for a cost-effective census in 2010.

- The National Oceanic and Atmospheric Administration (NOAA) within Commerce owns and operates a fleet of ships that supports its programs in fisheries research, oceanographic research, and hydrographic charting and mapping. However, these ships can be costly and inefficient to operate and maintain, and they may lack state-of-the-art technology. For more than a decade, congressional committees, public and private sector advisory groups, the National Performance Review, the Commerce Office of Inspector General, and we have urged NOAA to aggressively pursue cost-effective alternatives to its in-house fleet of ships. According to NOAA, it has taken steps to improve the cost efficiency of its fleet such as removing some ships from service, bringing new and converted Navy ships into service, and negotiating contracts outside NOAA to meet some of its needs. However, continued oversight of NOAA's plans to replace or upgrade ships will be needed to ensure that NOAA is pursuing the most cost-effective alternatives for acquiring marine data.

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# Major Performance and Accountability Challenges

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As stated in its fiscal year 2001 annual performance plan, the Department of Commerce's basic mission is to promote job creation and improve living standards for all Americans through economic growth, technological competitiveness, and sustainable development. Commerce employs about 40,000 people in numerous offices in the U.S. and overseas; however, it has a relatively small annual budget, with typical outlays of about \$5 billion annually. Commerce is composed of nine agencies, whose programs and activities include

- supporting export policies that affect millions of domestic jobs and monitoring hundreds of international trade agreements;
- helping stop the proliferation of weapons of mass destruction and providing technical assistance to Russia and newly emerging countries concerning export controls;
- forecasting and warning the public about severe weather, such as hurricanes, tornadoes, and floods;
- providing assistance to distressed communities;
- advancing the establishment and expansion of minority-owned businesses;
- supporting the domestic and international management of living marine resources, including overseeing 2,000,000 square miles of ocean and 300 marine species;
- fostering telecommunications policies that promote economic and technical advancement;
- protecting patents, trademarks, and intellectual property rights; and
- conducting the decennial census, demographic and economic censuses, and over 200 annual surveys.

Commerce shares responsibilities for these functions with a number of other federal departments and agencies, and has a lead role in one area—promoting economic development in distressed areas. With the increased focus on results and accountability accompanying the Government Performance and



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**Major Performance and  
Accountability Challenges**

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Results Act, Commerce has come to symbolize dispersed responsibility for federal programs.

On the basis of our work and reports from Commerce's Office of Inspector General, we have identified major performance and accountability challenges facing the Department. These challenges include (1) increasing the access of U. S. businesses to international markets, (2) ensuring that the United States is secure from the proliferation of dual-use commodities and chemical weapons, (3) ensuring that weather forecasts and severe weather warnings are accurate and timely, and (4) improving the economy in distressed areas. To build a high-performing organization, Commerce also must continue to successfully produce financial statement reports, as well as implement a departmentwide financial management system; complete the 2000 Census and develop innovative options for conducting a cost-effective census in 2010; and better manage NOAA's research fleet.

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**Increasing the  
Access of  
Businesses to  
International  
Markets**

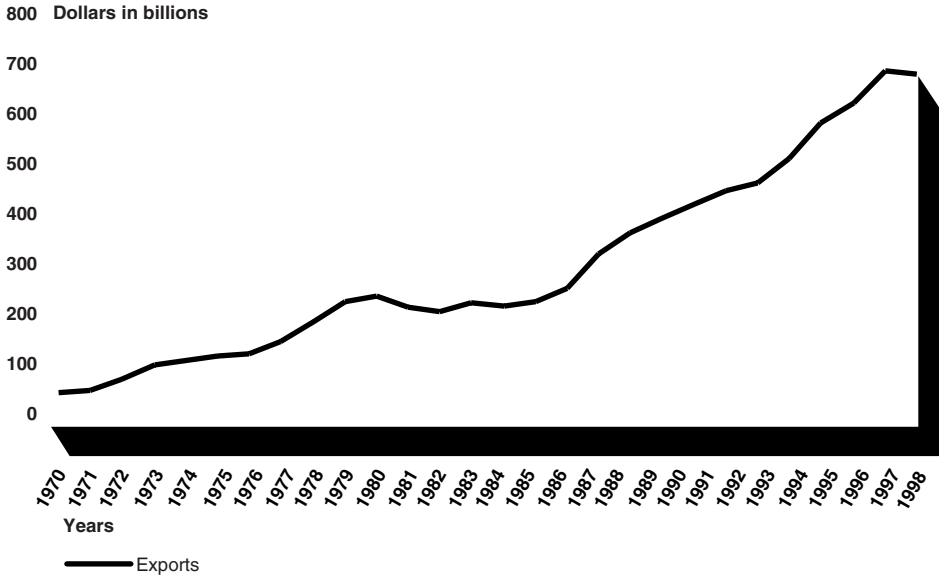
International trade has become increasingly important to the U.S. economy. As shown in figure 1, U.S. exports have increased about 70 percent since 1990, to almost \$700 billion a year. In recent decades, the United States has led the world in the effort to create a system of open trade under accepted rules, in which the reduction of trade barriers, such as tariffs and import quotas, would help provide greater market access for U.S. goods and services. The United States has entered into over 400 trade-related agreements since the early 1980s, including the far-reaching 1994 World Trade Organization agreements, which cover about \$1.4 trillion in annual U.S. trade with 135 countries.<sup>1</sup> Most of these agreements were negotiated by the Office of the U.S. Trade Representative, which is statutorily responsible for developing and coordinating U.S. international trade policy. However, other federal agencies, including the Department of Commerce, negotiated some of the agreements. Although these agreements were intended to increase U.S. companies' access to foreign markets, businesses' efforts to identify potential markets may be hampered by problems related to identifying and monitoring the trade agreements.

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<sup>1</sup>Trade agreements are negotiated understandings between two or more countries that generally address the terms of trade. There is no universal definition of a trade agreement, because agreements can take many forms and serve different purposes.

## Major Performance and Accountability Challenges

Figure 1: United States Export Growth, 1970-98



Source: GAO calculations based on International Financial Statistics. (Washington, D.C.: International Monetary Fund, Jan. 1999).

Specifically, to fully use the benefits of trade liberalization, both private businesses and the public need quick and easy access to the terms and conditions of the numerous trade agreements to which the United States is a party. However, in December 1999, we reported that the number of those trade agreements was uncertain. Officials at key trade agencies, including the Commerce Department, were unable to provide a definite count of trade agreements that were currently in force. Although Commerce maintains the largest government archive of trade agreements that was designed to include all agreements, we found that the archive was incomplete and was missing over one-third of the trade agreements that we identified. Consequently, we recommended that the Secretary of

Commerce establish clear criteria for the types of agreements to be included in the archive and clarify that the archive is intended to contain all trade agreements. Commerce has since taken actions to clarify the criteria for including trade agreements in its archive, but Commerce decided that its database would not include some agreements, such as those involving agriculture. Therefore, U.S. businesses may still have difficulty taking full advantage of the benefits that trade agreements provide in accessing foreign markets because they may not be aware of all of the agreements and the terms of those agreements.

In March 2000, we reported that the ability of Commerce and two other trade agencies to monitor and enforce trade agreements is limited. We attributed the problems to the agencies' lack of sufficient numbers of experienced staff with the right expertise; not always getting the needed analytical or other types of support from other agencies; and difficulty obtaining balanced, comprehensive input from the private sector. In addition, we found that Commerce and the two other agencies—the Department of Agriculture and the Office of the U.S. Trade Representative—had not developed a strategy for how the U.S. government would manage its growing trade monitoring and enforcement workload. Specifically, they have not identified the full scope of this workload, the number and types of resources needed to perform it, the availability of these resources, and the roles of individual agencies. As a result, the U.S. government is not realizing the full benefits of its trade agreements to increase U.S. market access abroad and thereby increase U.S. exports. We recommended that the Secretary of Commerce work with other relevant agencies to develop a strategy for how our federal government will manage its growing trade agreement monitoring and enforcement workload. While this strategy has not yet been developed, Commerce, in conjunction with the Office of the U.S. Trade

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**Major Performance and  
Accountability Challenges**

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Representative, has begun to address our recommendation.

According to the measures used by ITA, it has achieved some success in assisting U.S. businesses to gain access to international markets. For instance, ITA reported that it exceeded its target for the number of firms that were new to the export market in fiscal year 1999. However, ITA noted that it faced several difficulties in portraying its progress in attaining greater U.S. business access to international markets. For instance, ITA noted that, due to proprietary concerns, businesses often have been reluctant to share information on their exports. In addition, ITA's programs are subject to unanticipated changes to the economies of developing countries. It was also sometimes difficult to gauge ITA's progress because ITA's measures have not always been directly linked to its goals. For example, under its performance goal of enforcing U.S. trade agreements, ITA listed the value of market openings as a measure of progress. Trade agreements are intended to guarantee the opportunity for U.S. firms to engage in free and fair trade but do not necessarily lead to export sales for U.S. firms.

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**Ensuring That the  
United States Is  
Secure From the  
Proliferation of  
Dual-Use  
Commodities and  
Chemical Weapons**

The Commerce Department, through BXA, is one of two agencies that administer the nation's export control system.<sup>2</sup> Under U.S. law, the President has the authority to control and require licenses for exporting items that may pose a national security risk or foreign policy concern. The risk level can vary depending on the item being exported and the country of destination; therefore, exports of some items involve less risk than other items and exports to some countries involve less risk than to other countries. In addition, Commerce and other agencies are involved in notifying the Committee on Foreign Investment in the United States about certain foreign acquisitions of U. S. companies, namely, those with national security implications.<sup>3</sup>

In Commerce's annual performance plans, BXA set performance goals related to (1) restructuring export controls for the 21st century and (2) maintaining a fully effective law enforcement program to protect U.S. national security and public safety, uphold U.S. foreign policy, and ensure the nonproliferation of dual-use commodities and chemical weapons. However, it is not clear how much progress BXA has made in meeting these performance goals, in part, because the terminology used in stating the goals is not clearly defined or understood. For example, the goal to "restructure export controls for the 21st century" does not articulate what BXA is attempting to achieve through restructuring. In addition, BXA's performance

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<sup>2</sup>The State Department licenses munitions items through its Office of Defense Trade Controls.

<sup>3</sup>In May 1975, the President established the Committee on Foreign Investment in the United States to monitor foreign investment in U. S. companies that could have national security implications. Voluntary reporting of a foreign acquisition calls for the company to submit detailed information to the Committee concerning its organization, background, assets, and products, including their relationship to national security.

measures related to this goal tend to reflect workload and outputs and do not show a clear link to how they would contribute to a restructuring of the export control system; e.g., a change in the number of transactions deterred could occur simply as a result of a change in the number of licensing decisions. Although this type of information might indicate improvements in the implementation of export controls, it would not indicate changes to the structure of the export control system. In discussing these issues, BXA officials told us that they did not have comprehensive or specific guidance for developing performance goals and measures.

Similarly, it is difficult to determine whether BXA's measures indicate progress toward achieving the goal related to maintaining a fully effective law enforcement program because BXA has not defined the term "fully effective law enforcement program." Thus, there is no sense as to how many outreach visits, investigations completed, etc., would equal a "fully effective" program. In addition, although the performance report says that, according to Commerce's scoring method, BXA substantially met, met, or exceeded all of its targets, BXA's data showed that it actually met or exceeded the target for five out of nine measures. Targets that were not met included the average processing time for licensing applications in relation to its export control system goal and the number of investigations completed under BXA's law enforcement goal. Although BXA explained why those targets classified as "substantially met" fell short of fully meeting the intended level of performance, it did not discuss how it planned to address its unmet targets in the future.

In June 2000, we reported that Commerce and other agencies did not always inform the Committee of known foreign acquisitions of U. S. companies with national security implications. Consequently, the unreported acquisitions may be reviewed from only one perspective, for example, from the viewpoint of protection of

classified material, while other important national security concerns, such as technology transfers, weapon technology proliferation, or foreign sources of supply, may not be considered. To improve the Committee's process for identifying foreign acquisitions with potential national security implications, we recommended that the Secretary of Commerce, among others, establish procedures requiring agency officials to submit all known foreign acquisitions of companies with potential national security implications to the Committee. Commerce agrees with and plans to take steps to implement our recommendation.

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**Ensuring That  
Weather Forecasts  
and Severe Weather  
Warnings Are  
Accurate and  
Timely**

In the 1980s, NWS decided to leverage the power of information technology to achieve more uniform weather services across the nation, improve forecasting, provide more reliable detection and prediction of severe weather and flooding, permit more cost-effective operations through staff and office reductions, and achieve higher productivity. At that time, NWS began a nationwide modernization program to upgrade weather-observing systems (such as satellites and radars), to design and develop advanced computer workstations for forecasters, and to reorganize its field office structure.



In February 1995 and 1997 and January 1999, we identified NWS' modernization as a high-risk initiative because of several issues, including NWS' lack of a systems architecture to guide the modernization effort, and problems in developing AWIPS. Over the years, we made a series of recommendations intended to address NWS' problems. For example, in March 1994, we recommended NWS develop an overall systems architecture to be used as a guide in developing current and future subsystems; in May 1995, we recommended that the agency correct shortfalls in its radar performance; and in 1996, we recommended NWS improve its processes for testing AWIPS software, and obtain an independent AWIPS cost estimate since NWS did not have reliable project cost information.

NWS has acted to implement our recommendations. The agency issued an initial systems architecture, improved its radar availability, strengthened its software development and testing processes, and completed an independent cost estimate of AWIPS. NWS also overcame major obstacles in developing AWIPS. The system is now operating in field offices across the country. However, it is operating with less than the full functionality that AWIPS was planned to provide. For example, it does not provide weather forecasters a full range of interactive forecast preparation techniques, such as allowing forecasters to enter human observations of the weather into radar-based warning tools. To allow more efficient and improved forecasts, NWS plans to deploy radar and infrastructure enhancements to AWIPS in three phased releases beginning in 2001 and 2002. Because of NWS' progress in establishing an initial systems architecture and in deploying and using AWIPS, we no longer consider the modernization effort to be a high-risk initiative. However, we will continue to monitor NWS' efforts to develop and deploy AWIPS enhancements.

NWS' modernization has resulted in improvements in the accuracy and the timeliness of some weather warnings. For example, in October 1998, we reported that the accuracy and timeliness of flash flood warnings improved in Ventura and Los Angeles counties in California after the Next Generation Weather Radar program was commissioned in 1996. Furthermore, Commerce noted in its performance report for fiscal year 1999 that the lead time for tornadoes increased by 20 percent over the lead times for 1997. Nevertheless, NWS met only two of seven targets for fiscal year 1999 under its performance goal of advancing short-term warning and forecast services. For example, NWS met its target of increasing the lead-time and accuracy of tornado warnings, but did not meet its target for improving the lead-time and accuracy of severe thunderstorm warnings. Similarly, NWS did not meet its target for increasing the accuracy of heavy snowfall forecasts. Commerce noted that planned enhancements to NWS' systems—and specifically AWIPS—would enhance its forecasting capabilities. As a result, the full effect of the modernization on NWS' goal of improved forecasts and warnings may not be determined for several more years.

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**Improving the  
Economy in  
Distressed Areas**

EDA has both an agency-level and a governmentwide responsibility for improving the economy in distressed areas. Specifically, EDA was created to generate jobs, help retain existing jobs, and stimulate industrial and commercial growth in rural and urban areas of the nation experiencing high unemployment, low income, or severe economic distress. EDA provides grants to economically distressed communities for specific

projects. In addition, through legislation and accompanying reports, the Congress has urged EDA to aggressively pursue efforts to increase the efficiency of the federal response to distressed communities by working with other agencies.

In terms of its own programs, EDA has made some progress in meeting the two fiscal year 1999 performance goals related to improving the economy in distressed areas—creating jobs and private enterprise in economically distressed communities and building local capacity to achieve and sustain economic growth. For example, EDA reported that it exceeded its target on state and local dollars committed to EDA-funded projects that are intended to create jobs. The percentage of EDA grants awarded to economically distressed areas also exceeded its target. Progress toward job creation and business success through the other six measures could not be determined. As we reported in March 1999, measuring the creation of new jobs resulting from economic development programs is difficult and complex. EDA did not report results for these measures because, among other reasons, they focused on interim or long-term objectives for which EDA stated it would provide results in future performance reports. In addition, EDA has not yet included goals that are complementary with or shared by the other agencies working to improve distressed areas.

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**Major Performance and  
Accountability Challenges**

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The Economic Development Administration and Appalachian Regional Development Reform Act of 1998 (P.L. 105-393) requires that other federal agencies cooperate with Commerce in its efforts to assist distressed communities. Furthermore, the accompanying Senate report states that EDA should aggressively pursue efforts to increase the efficiency of the federal response to distressed communities by working with other agencies. As we reported in September 2000, at least nine agencies other than the Department of Commerce provide funds for economic development activities. These include the departments of Agriculture, Housing and Urban Development, Defense, Health and Human Services, Interior, and Transportation, as well as the Environmental Protection Agency, the Small Business Administration, and the Appalachian Regional Commission. These agencies, along with EDA, operate over 70 programs that can be used to support economic development by funding activities that include constructing roads, streets, water and sewer systems, nonresidential buildings, and industrial parks. EDA has taken steps to coordinate its work with that of other agencies. In particular, Commerce's fiscal year 2001 performance plan identifies other agencies—both inside and outside of Commerce—that share crosscutting issues with EDA. However, an important next step will be for EDA to collaborate with other agencies to develop common or complementary goals for improving their performance in addressing crosscutting issues.<sup>4</sup>

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**Key Contact**

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Financial Markets and Community Investment

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<sup>4</sup>In 1999 and 2000, the Office of Management and Budget (OMB) included the development of common goals as guidance to the agencies in OMB Circular No. A-11, *Preparing and Submitting Budget Estimates*, which is used to prepare performance plans, among other things.

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## Addressing Other Challenges to Building a High- Performing Organization

Commerce also needs to address other challenges in order to build a high-performing organization. These include (1) continuing to successfully produce financial statement reports and implement a departmentwide financial management system, (2) ensuring that the Bureau of the Census completes its evaluations of the 2000 Census as planned and uses the results to develop innovative options for taking a more cost-effective census in 2010, and (3) better managing NOAA's research fleet and associated personnel.

In the financial management area, Commerce has made substantial progress in recent years, but continues to face challenges in both its financial statement reporting and financial management systems. Specifically, in 1996, Commerce's Inspector General issued a disclaimer of opinion on Commerce's financial statements due to management's inability to support certain account balances and deficiencies noted in Commerce's internal controls.<sup>5</sup> In addition, the auditors identified 39 reportable conditions that represented significant deficiencies in the design or operation of the internal control structure, of which 37 were considered to be material internal control weaknesses. In contrast, Commerce received an unqualified opinion on all of its financial statements for fiscal year 1999. In addition, Commerce officials strengthened Commerce's internal control structure so that the number of reportable conditions identified dropped to 12, of which 7 were material weaknesses. In order to comply with applicable

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<sup>5</sup>Of the 15 financial statements submitted that year, 7 received unqualified opinions, 3 received qualified opinions on one or more of their financial statements, 4 received disclaimers of opinion on all financial statements, and 1 was not audited.

laws and safeguard its assets against waste, loss, unauthorized use, or misappropriation, Commerce must continue to emphasize financial management improvements and correct the remaining material weaknesses and reportable conditions. Commerce's Chief Financial Officer has agreed that a diligent effort is needed to continue to receive unqualified audit opinions on future Commerce financial statements.

In the financial systems area, Commerce's lack of a single, integrated financial system continues to be reported by its auditors as a material weakness. Further, as stated in Commerce's fiscal year 1999 accountability report, many of its financial systems are seriously outdated and fragmented. In addition, these systems are unable to provide timely, complete, and reliable financial information; inadequately controlled; and costly and difficult to maintain. Consequently, the systems do not comply with federal laws and regulations. Commerce reports that it has made progress in addressing this material weakness and will continue its efforts to improve in this area. Specifically, Commerce plans to continue its phased implementation of the Commerce Administrative Management System, which it expects to complete by 2004. Also, Commerce is developing a corporate database that it says will integrate financial data from each of its reporting units and will facilitate preparing consolidated statements and reports.

With respect to the 2000 Census, the Bureau of the Census generally completed its peak data collection activities consistent with its operational plans, and remaining activities appear to be on-track. As a result, we no longer consider the operation of the 2000 Census to be high risk.

Beginning in February 1997, when we first designated the census a high-risk area, we noted that formidable challenges surrounded critical census-taking operations.

Key among these challenges were building a complete and accurate master address file, motivating the public to participate in the census by returning their census questionnaires, meeting field staffing goals in a tight labor market, and collecting timely and accurate data from nonrespondents. Moreover, in anticipation of comparatively low public participation in the census, the Bureau planned on using statistical sampling and estimation procedures that the Bureau believed would be more accurate and cost-effective than visiting every nonresponding household. However, Congress, citing legal and methodological concerns, did not agree with the Bureau's planned use of sampling, which raised questions about the Bureau's readiness for taking a "traditional," nonsampling census.

As we have noted in several reports and testimonies, the Bureau has taken a number of steps aimed at addressing the challenges it faced. For example, in 1997, the Bureau redesigned its existing procedures for building its master address file. Under the new approach, temporary Bureau employees went door-to-door verifying the majority of housing unit addresses across the country. To increase public participation in the census, the Bureau streamlined census questionnaires, and implemented an aggressive outreach and promotion campaign, hiring a private sector advertising firm to promote the census nationally, and partnering with religious, community, and other local organizations to market the census on a grassroots basis. Moreover, in January 1999, the U.S. Supreme Court ruled that statistical sampling could not be used to determine the population count that would be used to apportion the House of Representatives, thus, eliminating uncertainties about which census design the Bureau was to use.

The Bureau's peak data collection activities proceeded on or ahead of schedule, and generally were performed as planned. Particularly noteworthy was an initial mail

response rate of 65 percent, which was four percentage points higher than the Bureau had anticipated, and matched the response rate to the 1990 Census. As we have often noted, although the response rate does not guarantee a successful census, it reduced the cost and scheduling pressures in nonresponse follow-up and subsequent census operations while enhancing data quality. Indeed, this lower than anticipated nonresponse follow-up workload, combined with the Bureau having met its national staffing goals, helped the Bureau to generally complete nonresponse follow-up in nine and a half weeks, several days ahead of schedule.

Nonetheless, surmounting the various challenges to a successful census that the Bureau faced in 2000 came at considerable cost. As we noted in our December 1999 report, the Bureau estimated that the 2000 Census will cost at least \$6.8 billion, an increase of 113 percent in real terms over the \$3.2 billion cost of the 1990 census in 1999 dollars. Moreover, the single most important determinate of a successful census—the completeness and accuracy of the census count, and in particular, the size and nature of the undercount—will not be known until later in the census cycle when the Bureau completes various accuracy and coverage assessments. Past experience suggests that increased investment in the census does not necessarily generate more accurate results. Indeed, the 1990 Census was, at that time, the most expensive in the nation’s history, but left millions of Americans—particularly members of minority groups and renters—uncounted.

As the Bureau looks toward the next census, continued societal and demographic changes such as more complex living arrangements and a large non-English-speaking population, will make the national headcount in 2010 at least as challenging as it was in 2000. As a result, it will be important for the Department of Commerce to ensure that the Bureau completes its evaluations of key census operations as planned, and, in



a timely manner, explores innovative options that could help better ensure a cost-effective census in 2010.

Through NOAA, Commerce owns and operates a fleet of ships that supports its programs in fisheries research, oceanographic research, and hydrographic charting and mapping. However, these ships can be costly and inefficient to operate and maintain, and they may lack state-of-the-art technology. For more than a decade, congressional committees, public and private sector advisory groups, the National Performance Review, the Commerce Office of Inspector General, and we have urged NOAA to aggressively pursue cost-effective alternatives to its in-house fleet of ships. Over the same timeframe, NOAA developed several fleet replacement and modernization plans that required investments of hundreds of millions of dollars to upgrade or replace these ships, each of which was criticized by the Commerce Office of Inspector General for not pursuing alternative approaches strongly enough. More recently—as part of our performance and accountability series of reports issued in 1999—we identified the NOAA fleet as one of the major performance and management issues confronting the Department of Commerce. According to NOAA, it has taken steps to improve the cost efficiency of its fleet such as removing some ships from service, bringing new and converted Navy ships into service, and negotiating contracts outside NOAA to meet some of its needs. However, NOAA continues to rely heavily on its in-house fleet and still plans to replace or upgrade some of these ships. Consequently, continued oversight of NOAA's plans to replace or upgrade ships will be needed to ensure that NOAA is pursuing the most cost-effective alternatives for acquiring marine data.

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