

*U.S. DEPARTMENT OF COMMERCE
Office of Inspector General*



*OFFICE OF THE
CHIEF FINANCIAL OFFICER
AND ASSISTANT SECRETARY
FOR ADMINISTRATION*

*General Administration's
Working Capital Fund and
Salaries and Expenses Fund
Financial Statements
Fiscal Year 1997*

Audit Report No. FSD-9754-8-0001/March 1998

**PUBLIC
RELEASE**

Office of Audits, Financial Statements Audit Division

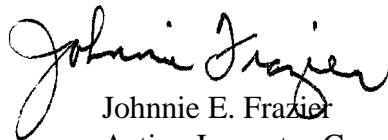


UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, D.C. 20230

March 19, 1998

MEMORANDUM FOR: W. Scott Gould
Chief Financial Officer and
Assistant Secretary for Administration

FROM:



Johnnie E. Frazier
Acting Inspector General

SUBJECT: Audits of General Administration's WCF and S&E
Financial Statements as of September 30, 1997
Audit Report No. FSD-9754-8-0001

This was the fifth audit of the General Administration's Working Capital Fund (WCF) and the third audit of the General Administration's Salaries and Expenses Fund (S&E) under the requirements of the Chief Financial Officers Act of 1990 (CFO Act), as amended by the Government Management Reform Act of 1994 (GMRA). Attached are the final reports on our audits of the Funds' financial statements as of September 30, 1997, and 1996.

Our report includes four components:

- ! Report on WCF Financial Statements,
- ! Report on S&E Financial Statements,
- ! Report on Internal Control Structure, and
- ! Report on Compliance with Laws and Regulations.

Both Funds are operated by one management team under the same internal control structure and procedures for compliance. Consequently, the Report on Internal Control Structure and Report on Compliance with Laws and Regulations apply to both Funds.

The accompanying Financial Statements for each Fund were prepared by the National Institute of Standards and Technology, Office of Comptroller, Financial Services Group (NIST), which provides accounting services for the Funds.

We have issued an unqualified opinion on the WCF's fiscal year 1997 and 1996 financial statements. We were also able to issue an unqualified opinion on the S&E's fiscal year 1997 financial statements, as a result of the coordinated efforts among the Office of Financial Policy and Assistance, the Office of Inspector General, and the Office of General Counsel. A qualified opinion was issued on the S&E's Statement of Financial Position as of September 30, 1996, and an opinion was disclaimed on its Statement of Operations and Changes in Net Position for the year then ended.

An executive summary is presented on pages i - iii. As explained in the Report on Internal Control Structure, significant internal control matters need to be addressed by the WCF and S&E management to achieve the financial management objectives of the CFO Act, as amended by the GMRA. We make recommendations to address the seven reportable conditions, of which we consider one to be a material weakness. Our findings and recommendations can be found in the Report on Internal Control Structure, pages 6-32. The findings and recommendations were reviewed by Fund and NIST management during our audits, and we have incorporated their comments. Based on our mutual agreement, we are issuing this report as final.

As a result of the implementation of SFFAS No. 5 and Interpretation of Federal Financial Accounting Standards No. 2, *Accounting for Treasury Judgment Fund Transactions*, the Department of Commerce and its bureaus were required, beginning with fiscal year 1997, to report all contingent liabilities associated with their operations in their financial statements. Due to this new reporting requirement, the Office of the Secretary management should have implemented a process to accumulate data pertinent to all contingent liabilities, including information from the Department of Justice. However, management did not adequately prepare for the implementation of this standard and did not request the necessary information from the Department of Justice in a timely manner.

Due to the S&E management's inability to provide the required information for contingent liabilities in a timely manner, we encountered significant delays in completing the audit. Had we issued our report within the deadlines established by the Department, the S&E would have received a disclaimer of an opinion as a result of the lack of information for contingent liabilities. The S&E delay also contributed significantly to the Department's delay in issuing its fiscal year 1997 consolidated financial statements. Thus, the Department was unable to meet OMB's established deadline of March 1, 1998 for the issuance of audited financial statements.

In order to continue achieving an unqualified opinion in future years, it will be necessary that the accounting requirements set forth in OMB Bulletin 97-01, *Form and Content of Agency Financial Statements*, and the Government Performance and Results Act (GPRA) of 1993 are taken into consideration during preparation of the fiscal year 1998 financial statements.

The implementation of OMB Bulletin 97-01 poses tremendous challenges to a reporting entity for various reasons. In particular, this Bulletin requires six statements to be prepared as compared to OMB Bulletin 94-01, which required the preparation of two statements. One of these six statements, the Statement of Net Cost, requires the Funds to report costs by suborganizations and programs. This statement should be based on the missions and outputs described in the

Department's GPRA strategic and annual plans, its budget structure, and the Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Standards*. As the Federal Government has not been required previously to report information in such a manner for financial or budgetary purposes, the Funds will need to ensure that the appropriate emphasis is placed on implementation of OMB Bulletin 97-01.

We are concerned with the Funds' efforts are not adequate to prepare for the increasing requirements of GPRA. For example, the overviews do not present a sufficient number of financial and performance measures. In addition, for the few measures included, they were not presented in a manner to adequately reflect the Funds' successes or challenges. We believe that management should take the necessary action to ensure the Funds compile and report financial and performance data in compliance with the requirements of GPRA, as well as OMB Bulletin 97-01.

In accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States, these reports are dated December 23, 1997, the date of completion of the audit field work. As required by DAO 213-5, please provide an audit action plan within 60 days of the date of this memorandum.

Should you need to discuss the contents of the reports, please contact George E. Ross, Assistant Inspector General for Auditing, on (202) 482-1934, or Erin Singshinsuk, Director, Financial Statement Audits Division, on (703) 603-0301.

We appreciate the cooperation and courtesies extended to us by the management of the Funds and NIST during this audit.

Attachment

cc: John McGuffin, Comptroller, NIST

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