

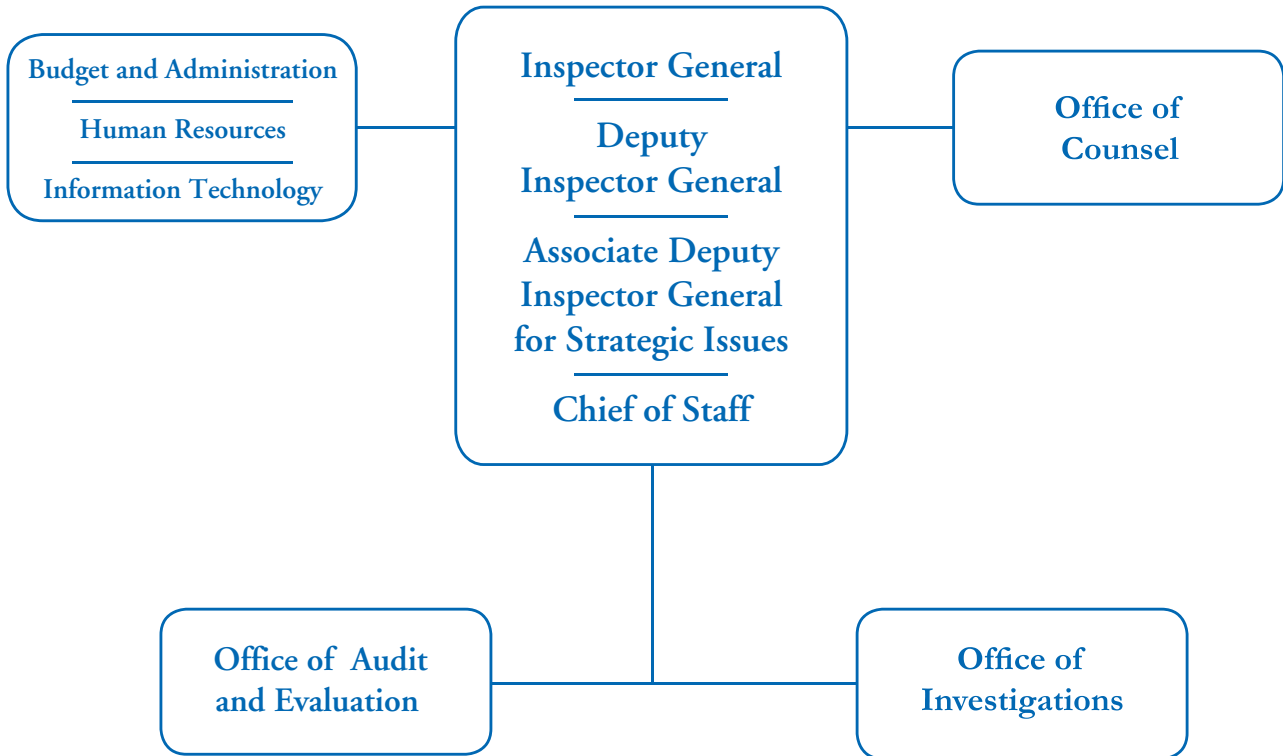
# SEMIANNUAL REPORT TO CONGRESS

September 2010



U.S. Department of Commerce  
Office of Inspector General

# Office of Inspector General



## OIG Main Number

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# **Office of Inspector General Semiannual Report to Congress**

**September 2010**

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DEPARTMENT OF COMMERCE

UNITED STATES DEPARTMENT OF COMMERCE

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Welcome

# FROM THE INSPECTOR GENERAL

We are pleased to present the Department of Commerce Office of Inspector General's (OIG) *Semiannual Report to Congress* for the 6 months ending September 30, 2010.

This report summarizes work we completed and initiated during this semiannual period on a number of critical departmental activities. Over the past 6 months, our office issued 15 audit and evaluation reports addressing programs overseen by the Economic Development Administration, Economics and Statistics Administration, National Institute of Standards and Technology, National Oceanic and Atmospheric Administration (NOAA), National Telecommunications and Information Administration, and the Department itself. Our investigative activities during this semiannual period resulted in more than \$1.3 million in fines and other financial recoveries.

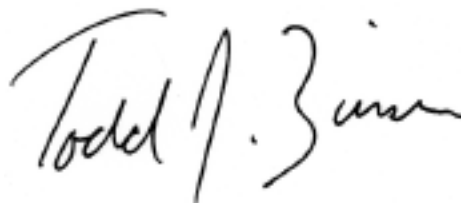
We devoted significant resources to the 2010 Census and generated multiple reports and recommendations for corrective actions by the Census Bureau. Our work included a comprehensive nationwide review of Census field operations involving field visits by over 100 OIG staff to Census offices in every state. In so doing, we collected data that enabled us to conduct a continuous, national-level review of decennial census finances, schedule, and risk assessment and mitigation activities. We conducted physical security penetration testing at decennial facilities that led to immediate and significant improvements in physical security at these critical locations. Our Complaint Intake Unit handled 632 Census complaints, more than four times the number received during the prior reporting period. Two of these—substantiated whistleblower allegations of census data falsification—led to prompt corrective actions by Census and were the focus of congressional testimony at a field hearing in Brooklyn, NY. For all of our Census oversight work, we were honored to receive

the Secretary's Gold Medal as well as the Council of the Inspectors General on Integrity and Efficiency's coveted Glenn/Roth Award for Exemplary Service.

We also continued our oversight of NOAA's fisheries enforcement. We released our final report on the broader issues involved in these programs and operations, completed an assessment of NOAA's Asset Forfeiture Fund, and looked into allegations of document shredding that took place during our initial review. We will continue to devote resources and attention to NOAA fisheries enforcement matters to ensure that this important program receives greater independent oversight than it has in the past.

Internally, OIG has focused on implementing our Strategic Plan, which directs our energies to improving the programs and operations of the Department of Commerce through independent and objective oversight. As part of this reform, we are constantly striving to create a high-performance and accountability-focused culture that will better serve our stakeholders.

We look forward to working with the Department and with Congress in the months ahead to meet the many challenges facing Commerce. We thank the Secretary, senior officials throughout the Department, and members of Congress and their staffs for their support of our work during this reporting period and for their receptiveness to our recommendations for improving Commerce operations.



Todd J. Zinser  
Inspector General



COMMERCE  
AMONG NATIONS  
SHOULD BE FAIR AND  
EQUITABLE — FRANKLIN

# MAJOR CHALLENGES FOR THE DEPARTMENT

The Reports Consolidation Act of 2000 requires inspectors general to identify the top management challenges facing their departments. For FY 2011, the Department of Commerce Office of Inspector General (OIG) identified eight challenges that require significant departmental attention.

## **1. Continuing to Enhance the Department's Ability to Defend Its Information Technology Systems and Information**

In the past year, the Department has taken steps toward improving the capabilities of the information technology (IT) security workforce and developed a long-term IT security strategic plan that should enhance Commerce's ability to identify vulnerabilities and detect malicious activities. However, we continue to find security weaknesses that undermine the Department's ability to defend its systems and information. Our FY 2010 Federal Information Security Management Act (FISMA) audit identified four Department-wide weaknesses: (1) high-risk vulnerabilities in system components, which increase the risk of system compromise; (2) deficiencies in the reporting and tracking of security weaknesses, which impair management oversight and reduce the likelihood of their being corrected; (3) contingency plans had not been tested, and alternate processing sites had not been arranged, placing systems' ability to recover from disruptions in doubt; and (4) deficiencies in system security plans and control assessments persist, which diminish the overall level of information assurance.

Since FY 2001, Commerce's annual Performance and Accountability Report has reported information security as a material weakness, at our recommendation, because of major deficiencies in the Department's certification and accreditation (C&A) process. We recently recommended the Department

### **Top Management Challenges**

1. Continuing to Enhance the Department's Ability to Defend Its Information Technology Systems and Information
2. Effectively Managing the Development and Acquisition of NOAA's Environmental Satellite Programs
3. Managing Acquisition and Contract Operations More Effectively to Obtain Quality Goods and Services at Reasonable Prices and on Schedule
4. Enhancing Accountability and Transparency of the American Recovery and Reinvestment Act Program's Key Technology and Construction Programs
5. Improving USPTO's Patent Processing Times, Reducing Its Pendency and Backlogs, and Mitigating Its Financial Vulnerabilities
6. Effectively Balancing NOAA's Goals of Protecting the Environment and Supporting the Fishing Industry
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assess its information security program as a significant deficiency instead of the material weakness as was identified by the Department in past years. Our recommendation is based on three factors. First, a government-wide policy change has increased the



emphasis on continuous monitoring and lessened the emphasis on the C&A process. Second, the actions associated with the Department's C&A process improvement strategy have strengthened the security posture of the Department. And third, our audit findings indicate that IT security control weaknesses are resulting from an insufficient continuous monitoring process. Although the IT security strategic plan identifies continuous monitoring as a top priority for improvement, operating units should initiate improvements immediately since this plan is not scheduled for implementation until 2012 and is dependent upon adequate funding.

## **2. Effectively Managing the Development and Acquisition of NOAA's Environmental Satellite Programs**

The National Atmospheric and Oceanic Administration (NOAA) is modernizing its environmental monitoring capabilities, in part by spending nearly \$20 billion on two critical satellite systems: the Joint Polar Satellite System (JPSS) and the Geostationary Operational Environmental Satellite-R Series (GOES-R). JPSS' predecessor program, the National Polar-orbiting Operational Environmental Satellite System (NPOESS), and GOES-R have a history of cost overruns, schedule delays, and reduced performance capabilities. More recently, the transition from NPOESS to JPSS involves significant challenges, including moving from the Department of the Air Force's contract with Northrop Grumman to NASA, that have the potential to both increase costs and delay launch schedules. Since the GOES-R program was re-baselined in 2007, as a result of significant cost growth and independent review recommendations, it has remained within budget and on time. However, as highlighted by recent independent reviews, both satellite systems will continue to require close oversight to minimize further disruption to the programs and prevent any gaps in satellite coverage. Such gaps could compromise the United States' ability to forecast weather and monitor climate, which would have serious consequences for the safety and security of the nation.

## **3. Managing Acquisition and Contract Operations More Effectively to Obtain Quality Goods and Services at Reasonable Prices and on Schedule**

With the Department spending approximately \$3 billion of its budget every year through contracts, effective acquisition management is fundamental to the Department's ability to accomplish its mission. Our work continues to find weaknesses in the Department's contract planning, administration, and oversight. In addition, the Department and its operating units must develop effective processes for performing these functions for major system acquisitions. Commerce must also strengthen its suspension and debarment program to effectively safeguard against awards to parties that have engaged in improper activities; improve award-fee contracting processes to meet acquisition outcomes; and do more to ensure the adequate size and skills of its acquisition workforce, especially given its need to oversee more than a billion dollars in Recovery Act funds. Additionally, Commerce's executive leadership needs to ensure the Office of Acquisition Management has the authority needed to perform effectively. At the direction of the Secretary, the Department is conducting an acquisition improvement study. This study should determine the appropriate authorities needed by the Office of Acquisition Management and how the acquisition function should be structured Department-wide to achieve better acquisition outcomes.

## **4. Enhancing Accountability and Transparency of the American Recovery and Reinvestment Act Program's Key Technology and Construction Programs**

The American Recovery and Reinvestment Act of 2009 (Recovery Act) is an unprecedented effort to promote economic activity, invest in long-term growth, and implement a level of transparency and accountability that will allow the public to see how their tax dollars are being spent. The Department of Commerce received \$7.9 billion in Recovery Act funds. Of that amount, approximately \$6 billion were obligated in the form of grants or contracts for key technology and construction programs in four of the Department's operating units: Economic Development Administration (EDA), National

Institute of Standards and Technology (NIST), NOAA, and National Telecommunications and Information Administration (NTIA). As of September 30, 2010, the Department has spent \$1.7 billion (or 24 percent of the obligated funds), leaving significant spending yet to be completed. Of the riskier programs, the largest is NTIA's Broadband Technology Opportunities Program (BTOP), which awarded 233 grants totaling \$3.9 billion for broadband Internet access across the nation. There is considerable uncertainty about how NTIA will administer or monitor these grants because the agency has not received any funding to manage the program beyond September 30, 2010. Additionally NOAA, NIST, and EDA are overseeing a number of development and construction activities.

Effective management by the agencies is critical to completing these projects on schedule and within budget, and to making certain the public receives the intended benefits from the Recovery Act. In the year ahead, we will focus on how the four agencies manage the contracts and grants awarded to ensure that the technology and construction programs are managed effectively. We are particularly interested in how the agencies monitor recipients' adherence to grant or contract terms, proper payments or drawdowns of funds, required matching shares for grant programs, and adherence to Recovery Act requirements such as the Buy America Act.

### **5. Improving USPTO's Patent Processing Times, Reducing Its Pendency and Backlogs, and Mitigating Its Financial Vulnerabilities**

The U.S. Patent and Trademark Office (USPTO) faces immense and complex challenges in addressing patent pendency and application backlogs while improving patent quality and building a highly trained and stable workforce. Since 2000, patent pendency has increased from 25 months to over 35 months, and the backlog of unexamined applications has grown from approximately 308,000 to more than 708,000. These large numbers of applications and long waiting periods for patent approval create a significant risk to innovation and economic competitiveness, and ultimately the United States' position as a world leader in innovation.

To decrease the patent application backlog and processing times, USPTO must modernize its existing patent IT infrastructure and systems, which are outdated and unstable. Further, USPTO must recruit and retain a highly skilled patent examiner workforce. Finally, USPTO must ensure that its initiatives for a more efficient review process succeed in improving patent quality, and that patent fee collections provide sufficient resources to support USPTO's operations.

### **6. Effectively Balancing NOAA's Goals of Protecting the Environment and Supporting the Fishing Industry**

The United States has the largest marine territory of any nation in the world, and NOAA is charged with protecting, restoring, and managing the use of living marine, coastal, and ocean resources. In the years ahead, NOAA faces difficult challenges in promoting the health of these resources while ensuring the nation reaps the vital economic benefits derived from them, especially in the areas of fishery enforcement and environmental restoration. Given the recent allegations of excessive penalties and arbitrary actions by its Office for Law Enforcement and Office of General Counsel for Enforcement and Litigation, NOAA is at a critical juncture. The Secretary and NOAA have taken positive steps to improve the enforcement program. Continued positive action is required to restore the program's reputation and soundness.

As the lead agency for the Natural Resource Damage Assessment process, NOAA will also continue to assess what environmental resources have been harmed as a result of the April 20, 2010, Deepwater Horizon oil spill. Because the spill has such a large scope, we anticipate NOAA will need to devote significant resources for an extended period of time towards restoration in the Gulf of Mexico. As of September 2010, NOAA has dedicated \$131.4 million to the spill through reimbursable projects. Federal, state, and local communities will continue to rely on NOAA to provide long-term monitoring and accurate data so responders can react to the oil and its effects on our ecosystem.

## 7. Protecting Against Cost Overruns and Schedule Slippages for the Commerce Headquarters Renovation

The Herbert C. Hoover Building (HCHB)—the Department of Commerce’s Washington, DC, headquarters—is undergoing a comprehensive renovation. The project, currently scheduled for completion by 2021, has an estimated cost of \$960 million. The General Services Administration (GSA) owns the building and is managing the renovation; however, since the Department and its operating units will be directly affected, OIG plans to conduct an ongoing review of the construction activities and the decisions critical to the renovation’s success. Although the 13-year renovation includes many phased activities, of special interest are the consolidated server room and increased perimeter security. These special areas are time critical for completion so that the balance of the renovation is not affected. We will also oversee how Commerce is working with GSA and advocating for the operating units housed at HCHB with respect to space requirements, building services and improvements, and employee safety.

## 8. Effectively Planning the 2020 Decennial

The apportioning of congressional representation and redistricting, as well as the annual distribution of more than \$400 billion of government funding, depends on decennial census data. The 2010 Census was an immense undertaking that cost approximately \$13 billion and involved the contributions of more than 784,000 temporary employees to accurately count the estimated 300 million or more people living in the United States.

Considering the current trends in population and cost growth, the 2020 Census could be even more expensive, with a total price of more than \$22 billion, according to Bureau estimates, unless major changes are made in how the census is conducted. Such cost growth is unsustainable, and Census must make fundamental changes to the design, implementation, and management of the decennial census in order to obtain a quality count for a reasonable cost. To be effective, Census needs to leverage existing current surveys, field operations, and data assets, as well as develop, test, and improve technology continuously throughout the coming decade. FY 2011 and FY 2012 are critical years in the planning of the 2020 Census and will set the course for how well this constitutionally mandated responsibility is performed.

# WORK IN PROGRESS

The following Office of Inspector General (OIG) audits and evaluations were initiated or underway during this reporting period:

## American Recovery and Reinvestment Act Oversight

### **BTOP Post-Award Process**

Review post-award processes for the Broadband Technology Opportunities Program (BTOP) as part of our continued oversight of this program. Assess the capabilities of the National Telecommunications and Information Administration's (NTIA) BTOP award-recipient monitoring systems; evaluate NTIA's planning for post-award activities and the agency's execution of post-award activities in response to the first wave of BTOP awards; and determine whether appropriate steps are being taken to establish a program office to perform essential post-award oversight and monitoring, including post-September 30, 2010, monitoring.

### **Census's Partnership Program and Recovery Act**

Review partnership program activities associated with Recovery Act spending during the 2010 decennial. Assess Census operation managers' satisfaction with the partnership program, communication between partnership staff and operation managers, and the effectiveness of partnership assistants.

### **Recovery Act Recipient Reporting**

Determine whether Commerce has implemented sufficient internal controls to ensure that data for recipients of Recovery Act funds are reported completely, accurately, and in a timely manner, and that any material omissions or significant errors are identified and corrected.

### **Recovery Act Grant Fraud Detection**

Review \$5 billion in Recovery Act grant funding authorized for the Economic Development

Administration, National Institute of Standards and Technology, National Oceanic and Atmospheric Administration (NOAA), and NTIA to determine whether these operating units have used risk assessments and internal controls (such as expanded measures to identify and to recover improper payments) to mitigate the potential for grant fraud, waste, error, and abuse.

### **Recovery Act Whistleblower Reprisal Investigation**

Investigate an individual's complaint filed with OIG in March 2010 alleging that his termination from employment with a contractor for a Commerce Department operating unit was a reprisal for disclosing suspected contract fraud involving Recovery Act funding. OIG is investigating the allegations under the act's whistleblower provisions. Based on complexities of the case, and in accordance with the act's requirements, the complainant agreed to an extension of time beyond the 180 days allotted for completion of the investigation.

## Department-Wide

### **Motor Pool Audit**

Determine whether Commerce and select operating units are managing their motor pool operations in compliance with federal regulations.

### **Information Security**

Audit the Department's information security program and practices to determine whether implemented controls adequately protect the Department's systems and information, and whether continuous monitoring is keeping authorizing officials sufficiently informed about the operational status and effectiveness of security controls.

### **FY 2010 Financial Statement Audits**

Determine whether the financial statements for the Department, U.S. Patent and Trademark Office

(USPTO), and the Census Bureau are fairly stated in accordance with generally accepted accounting principles. These audits are performed by an independent public accounting firm under OIG oversight.

## Census Bureau

### Decennial Response Integration System (DRIS) Contract Audit

Assess contract requirements, deliverables, labor costs, and timelines for DRIS. Review the award fees paid to the contractor, the 2007 contract modification totaling \$265 million, and any other contract changes made to accommodate Census's decision to conduct a paper-based nonresponse follow-up operation.

### Fifth Census Quarterly Report to Congress

Continue to report on the progress of the 2010 Census with respect to cost, schedule, and risk, as mandated by the explanatory statement accompanying the Supplemental Appropriations Act of 2008 (P.L. 110-252).

### Partner Support Program (PSP) Purchase Audit

Evaluate whether Census employees responsible for administering the PSP were adequately trained and whether regional Census employees followed procedures related to review and approval of PSP purchases. Census purchased products and services to promote awareness of the 2010 Census, especially among traditionally hard-to-count groups.

### 2010 Decennial Capstone Report (includes Final Quarterly Report to Congress)

Analyze and report on the 2010 Census with respect to cost, schedule, and risk, as mandated by the explanatory statement accompanying the Supplemental Appropriations Act of 2008 (P.L. 110-252). Discuss strategies for planning a successful 2020 Census, building on lessons learned during recent decennials.

## National Oceanic and Atmospheric Administration

### Pacific States Marine Fisheries Commission

Audit two NOAA cooperative agreements and three contract task orders awarded to the Commission. In addition to performance, compliance, and cost-incurred audits of the agreements and task orders, the comprehensive audit also examines 12 cost-reimbursable contracts awarded under the two cooperative agreements and 7 years of Commission indirect cost rates and related proposals.

### Gulf Coast Oil Spill Cost Tracking

Survey NOAA's financial systems and processes related to current and future actions to address the oil spill. Determine whether NOAA has adequate financial systems and processes in place to record and track costs associated with its efforts to contain and assess environmental impacts related to the Gulf Coast oil spill, and to collect, monitor, and disburse restitution funds associated with Gulf Coast spill cleanup activities.

### Environmental Satellite Programs

Audit the adequacy of NOAA's Joint Polar Satellite System (JPSS) development activities (e.g., ground system software development, fixes, and testing) intended to maintain continuity of climate and weather forecast data obtained from polar orbit. Determine the completeness of technical approaches used in developing and testing the flight and ground project segments; assess the impacts of development modifications (such as re-sequencing of environmental test activities) and risks to JPSS' cost, schedule, and technical performance; and determine the adequacy of NOAA's preparations for post-launch data production.

## National Telecommunications and Information Administration

### Audits of Public Safety Interoperable Communications (PSIC) Grants in Several States

Audit PSIC grants awarded to California, Texas, and Massachusetts. Determine the progress these states have made in acquiring and deploying interoperable communications with PSIC grant funds and whether their use of the funds is meeting all federal requirements.

## U.S. Patent and Trademark Office

### Patent Budget Projections

Determine the effectiveness of USPTO's process to project revenue and expenses for its patent operations. Determine whether this process enables USPTO to meet its expenses and achieve its mission and strategic goals for Patents.

### Patent Quality Assurance Process

Determine the effectiveness of USPTO's patent quality assurance process in ensuring that established standards of patent examination quality are met and whether the process complies with applicable departmental, bureau, and federal laws, regulations, policies, procedures, and guidelines.





# AMERICAN RECOVERY AND REINVESTMENT ACT OVERSIGHT

The American Recovery and Reinvestment Act (Recovery Act), signed into law by President Barack Obama on February 17, 2009, has at least three immediate goals: create new jobs and save existing ones; spur economic activity and invest in long-term growth; and foster unprecedented levels of transparency and accountability. To ensure that accountability requirements are being met, the inspectors general of 28 federal agencies distributing Recovery funds continually review their agencies' management of these funds.

Five Department of Commerce operating units—the Census Bureau, Economic Development Administration (EDA), National Institute of Standards and Technology (NIST), National Oceanic and Atmospheric Administration (NOAA), and National Telecommunications and Information Administration (NTIA)—and the Office of Inspector General received \$7.9 billion under the act. As of September 30, 2010, the Department had obligated approximately \$6.8 billion and spent approximately \$1.7 billion. OIG has been proactive in its oversight of the Department's Recovery Act programs and activities, including the operating units' implementation of the act's performance measurement requirements.

**Figure 1: Recovery Act Funding by Commerce Operating Unit, February 2009**

NTIA*	\$5.3 billion
Census	1 billion
NOAA	830 million
NIST	610 million
EDA	150 million
OIG	16 million
<b>Total</b>	<b>\$7.9 billion</b>

*\* NTIA's Broadband Technology Opportunities Program (BTOP) was originally funded at \$4.7 billion, and the DTV converter box program at \$650 million. Congress later rescinded \$302 million from BTOP and \$240 million from the converter box program.*

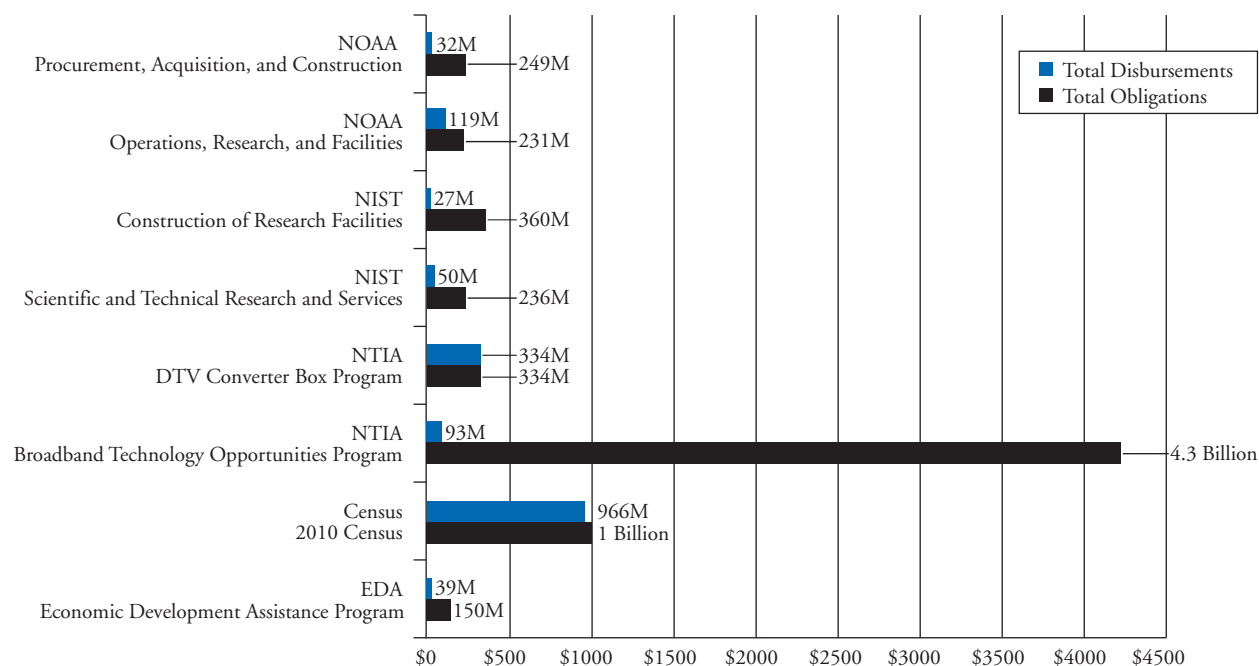
## NTIA Must Continue to Improve Its Program Management and Pre-Award Process for Its Broadband Grants Program (ARR-19842-1)

The Broadband Technology Opportunities Program (BTOP) is the largest grant program that NTIA has managed to date. We have been proactive in our oversight of BTOP, providing guidance to NTIA on the importance of establishing appropriate internal controls.

While at the time of our review NTIA had made significant strides in implementing BTOP—developing a program office, issuing its first Notice of Funds Availability, reviewing more than 1,800 submitted applications, and announcing its initial awards—it is essential that NTIA apply the lessons it learned from the first funding round to promptly address any problems that may arise. As part of our oversight, we found that



**Figure 2: Commerce Operating Units’ Recovery Act Spending as of September 30, 2010 (in millions)**



Data as reported on [Recovery.commerce.gov](http://Recovery.commerce.gov). As required by OMB standards, interagency transfers of \$553 million, a DTV rescission of \$240 million, and a rescission of \$302 million in BTOP funds are not included and would impact obligation amounts.

Visit [www.oig.doc.gov/recovery/](http://www.oig.doc.gov/recovery/) for more information about OIG Recovery Act activities.

### The Recovery Act and Broadband

The Recovery Act gave \$7.2 billion to NTIA and the Department of Agriculture’s Rural Utilities Service to expand broadband services in the United States.

Of the \$7.2 billion to be awarded before September 30, 2010, \$4.7 billion was provided to NTIA to establish BTOP, a competitive grant program intended to provide funds for deploying broadband infrastructure in unserved and underserved areas of the United States. The funds are also intended to enhance broadband capacity at public computer centers, improve access to broadband services for public safety agencies, and promote sustainable broadband adoption projects. (In August 2010, \$302 million was rescinded from NTIA.)

The first round of grant awards was completed in April 2010; the second, in September 2010.

- BTOP’s size and complexity have presented NTIA with significant challenges. NTIA’s program staffing levels appear to be insufficient to simultaneously perform the necessary first- and second-round award activities. The office must rely heavily on a few key individuals and personnel from other agencies to carry out the program’s operations.
- NTIA’s inconsistent documentation of important information such as policies, procedures, staff roles, and key management decisions increases the risk of inefficiency and miscommunication.
- The first round of BTOP grant application processing exposed several problems with the online grant intake system, which affected efficiency and users’ experiences.
- A shortage of volunteer peer reviewers meant that application review for the first round was delayed. As NTIA manages the second-round process and handles post-award activities for first-round grant recipients, it must be careful to obtain enough reviewers for the workload.

- NTIA will need to closely monitor grantees during the post-award phase to ensure they are in compliance with the National Environmental Policy Act (NEPA).

In January 2010, we presented to NTIA our observations and ways to improve internal controls, promote transparency, and increase efficiency, many of which they have begun to implement. In the report issued in April 2010, we recommended that NTIA

- create a staffing plan that outlines the necessary resources to manage BTOP, and makes provisions to adjust to the loss of key positions;
- develop and implement policies and procedures that articulate key roles, responsibilities, and requirements for documentation;
- direct its in-house counsel to document any program issues that arise and receive documented opinions from the Department of Commerce’s Office of General Counsel;
- supplement the existing pool of reviewers to address unforeseen delays or other impacts that could affect the application review timeline; and
- continue to develop monitoring procedures to identify, track, and assist recipients at risk of experiencing delays in completing post-award NEPA requirements.

### **NIST and NOAA Monitor Their Recovery Act Programs, but Performance Metrics Need to Measure Outcomes (ARR-19881)**

We examined NIST’s \$200 million Scientific and Technical Research and Services (STRS) account and NOAA’s \$600 million Procurement, Acquisition, and Construction account to determine whether (1) the operating units are monitoring the progress of certain programs funded by the Recovery Act; (2) NIST and NOAA have mitigated risk or addressed schedule- or cost-related concerns; and (3) the operating units’ performance metrics comply with Office of Management and Budget (OMB) requirements.

### **American Recovery and Reinvestment Act of 2009 (P.L. 111-5) and Performance Measurement Requirements**

The Recovery Act and the Office of Management and Budget’s (OMB) implementation guidance require agencies to monitor the progress of Recovery Act programs to identify areas of, and address concerns about, high risk or low performance. OMB also requires agencies to include accountability objectives as part of the risk-mitigation process and to develop quantifiable performance measures that address the use of Recovery Act funds to meet the act’s goals.

While NIST and NOAA have created new systems or improved existing systems to keep track of indicators of progress—e.g., dollars spent, milestones met, jobs created—they have not developed measures of overall substantive outcomes, such as assessment of whether specific program goals have been met or of the broader public benefits of significant programs funded by the Recovery Act.

We recommended that NOAA and NIST improve their performance metrics for the more significant Recovery Act programs, focusing on intermediate outcomes that assess the programs’ benefits. For example, performance metrics should track whether an investment has improved the body of knowledge in a particular field, disseminated newly developed tools and models, supported a research or technological innovation, or made other advancements in science and technology for the public’s benefit.

NOAA agreed with the findings and has already begun to modify its Recovery Act performance metrics to address our recommendation. NIST’s response reemphasized the challenges we discussed in the report regarding measuring core science programs. However, NIST agreed that some of its performance metrics for the STRS equipment program should be strengthened and that it would develop an appropriate set of intermediate measures.

## Review of Recovery Act Contracts and Grants Workforce Staffing and Qualifications at the Department of Commerce (ARR-19900)

In May 2009, at the request of and in consultation with the Recovery Accountability and Transparency Board (Recovery Board), OIG led a government-wide review of 29 OIGs to determine whether programs that award Recovery Act contracts and grants have the proper level of workforce staffing, qualifications, and training. The Recovery Board issued the report in March 2010.

We subsequently focused on recommendations applicable to the Department of Commerce (Office of the Secretary, Census Bureau, EDA, NIST, NOAA, and NTIA). In our review, we found that the Commerce workforce is generally sufficient to administer Recovery Act programs but noted impacts to the oversight of non-Recovery Act workload. In addition, almost all Commerce contracting personnel working on the Recovery Act have met their certification and training requirements.

We recommended that Commerce operating units closely monitor the staffing of both Recovery Act and non-Recovery Act work and make adjustments as necessary to ensure that all contracts and grants are properly awarded and monitored. We also recommended that the Department

- take steps to ensure that all contracting officers are in compliance with relevant certification requirements;
- determine whether program managers working on major acquisitions are certified and close any certification gap that may exist; and
- establish its own requirements for the training of grants personnel in all of its operating units.

### Federal Requirements for Recovery Act Signage

In response to a congressional request to the Recovery Board, OIG examined federal requirements for

Recovery Act signage at the Department of Commerce. The five Commerce operating units receiving stimulus funding are subject to Commerce-wide guidance for grant awards requiring that construction projects funded by the Recovery Act display signage featuring the Recovery Act logo. This guidance mirrors the Recovery Act guidance provided by OMB in its *General Guidelines for Emblem and Logo Applications* issued March 20, 2009. With respect to Commerce contracts funded by the Recovery Act, similar Commerce-wide guidance does not exist. Except for a requirement for non-federal employers receiving stimulus dollars to post a whistleblower protection poster onsite, there is no statutory requirement in the Recovery Act itself for the posting of signs.

In addition to the Department's guidance on grants, agencies awarding stimulus funds are permitted to provide further instructions regarding the sign specifications. OIG detailed the varied signage requirements across the Commerce operating units as part of its response to the congressional request.

The Commerce requirement for signage did not begin with the Recovery Act. The Department's *Grants Manual* instructs agencies that fund construction projects to require recipients to erect a sign at the project site indicating that the federal government is participating in the project. Only when the major purpose of the award is construction is there a requirement for a sign. Therefore, not all Commerce Recovery Act projects included a requirement to post a sign. There are some exceptions to the signage requirements, such as alteration of facilities (e.g., upgrading electrical systems) and projects in their early stages (before environmental assessments are completed or prior to the arrival of building materials and equipment). Finally, our review found no instances in which an operating unit had relaxed the Commerce's Recovery Act signage policy requirements or the implementation of those requirements.



# DEPARTMENT-WIDE MANAGEMENT

The **United States Department of Commerce** creates the conditions for economic growth and opportunity by promoting innovation, entrepreneurship, competitiveness, and stewardship. The Department has three stated strategic goals:

**Goal 1:** Provide the information and tools to maximize U.S. competitiveness.

**Goal 2:** Foster science and technological leadership by protecting intellectual property, enhancing technical standards, and advancing measurement science.

**Goal 3:** Observe, protect, and manage Earth's resources to promote environmental stewardship.

The Department has also established a Management Integration Goal that is equally important to all operating units: Achieve organizational and management excellence.

## Review of Management of the Herbert C. Hoover Building Renovation (OAE-19885)

In January 2008, the General Services Administration (GSA) began an extensive 8-phase modernization and renovation of the more than 1.8-million-gross-square foot Department of Commerce headquarters. Scheduled for completion in 2021, the renovation of the Herbert C. Hoover Building (HCHB) will upgrade mechanical, electrical, and life-safety systems; increase usable space; improve energy and environmental efficiency; and incorporate security improvements.

The renovation makes HCHB, which has undergone only limited upgrades since its completion in 1932, one of the final buildings in Washington, DC's Federal Triangle area to be modernized. GSA is managing the estimated \$960 million contract to complete the renovation. Phase I was substantially

completed in October 2009, and Phase 2 is underway. Each future phase is planned to last approximately 18 months, although as with any building renovation of this age, progress schedules are subject to change due to unforeseen conditions and changing requirements within the facility.

Because the Department and its operating units are directly affected by the renovation, OIG plans to conduct an ongoing review of the project. Our objective for this first evaluation was to gain an understanding of the HCHB renovation project and its project management plan to determine whether the project was being managed effectively.

We found that the management teams—GSA's Public Building Service; Commerce's Office of Building Renovation (OBR); and Gilbane-Grunley Joint Venture (GGJV), the contractor for the renovation—had implemented reasonable operating procedures to ensure adequate oversight of the initial phases of the project. However, we did find two areas

that may affect the renovation's progress: (1) Commerce's OBR does not have a formal procedure in place for tracking and reconciling reimbursable work authorizations (RWAs), and (2) concerns about GSA's calculation of Commerce's rental rate still have not been resolved. As of September 30, 2010, the Department had developed draft standard operating procedures to address our concerns with the tracking and reconciliation of RWAs. Additionally the Department is working closely with GSA to address concerns regarding the calculation of rental rates. We look forward to receiving the Department's completed audit action plan, containing specifics as to how these issues will be resolved.

The Department will need to continue its oversight of the renovation in order to minimize potential disruptions to employees' comfort, health, and productivity. We are encouraged that the Department of Commerce and GSA are taking actions to help ensure a smooth renovation undertaking of this magnitude. Coordination of the construction project includes specific components such as the historic integrity of the building, current information technology (IT) and technology requirements, and increased physical security.

We will continue to monitor the progress of various projects critical to the success of the renovation efforts, such as the design and construction of the consolidated server room and enhancements to perimeter security. Such projects are Commerce's largest monetary responsibilities during the early phases of the renovation, and directly affect critical stages of construction.

### **Response to Congress Concerning Priority OIG Recommendations Requiring Action and Progress Toward Implementation**

In response to a congressional request, OIG provided information identifying what we consider to be our three most important recommendations that have yet to be implemented, along with our assessment of agency progress toward their implementation. These recommendations concern

- management and oversight of the 2010 Census;

- strengthening the IT security workforce at the Department of Commerce; and
- oversight of NOAA's GOES-R satellites and adherence to accepted satellite acquisition practices.

With respect to implementation progress on the Census, a small core team at Census has begun early planning and is focused on establishing planning and program management processes to ensure a solid foundation for designing the 2020 Census. For the Department's IT security workforce, the Department is finalizing a policy addressing IT certification requirements and development activities for new and existing IT security employees. The Department is working on a comprehensive review of acquisition processes across the Department but has not provided a specific date for completion.

### **Additional Indictment in Long-Running Telemarketing Fraud Case**

Since 2003, OIG has been engaged in a multi-agency international investigation of a scheme in which a large cadre of overseas-based individuals conspired to defraud Americans by identifying themselves as employees of the Commerce Department and other federal agencies. The callers told victims in the United States that they were winners in a national lottery sanctioned by the Department and that they had won sweepstakes prizes ranging in value from \$450,000 to more than \$4 million.

The callers used Voice Over Internet Protocol (VOIP) technology to make it appear that their calls originated in the United States when in fact they originated from overseas locations. Victims were then instructed to use commercial wire transfer services to send payments of \$1,500 to \$4,500 to Costa Rica, purportedly for insurance and customs fees that were required to retrieve their winnings. Many victims were persuaded to send multiple payments to the telemarketers—some individuals transferred more than \$200,000. Total identified losses to U.S. residents exceed \$30 million to date.

In April 2010, a member of this conspiracy was indicted, subsequently pleading guilty on May 24,

2010, which brought the total number of convictions in this case to 40. Sentencing is pending. Fines and restitution imposed on the conspirators to date have exceeded \$200 million.

## **Training Contractor Pays Multimillion Dollar Settlement**

On April 6, 2010, a major training contractor agreed to pay the United States \$4.5 million to resolve allegations that it violated the False Claims Act when it improperly invoiced federal agencies in advance for information technology training courses and kept federal funds for training courses that were never provided.

The GSA contract with the company permitted it to sell multi-course IT training packages known as “vouchers” or “passports.” An investigation disclosed that the company used these prepaid training contracts to routinely and systematically overcharge a number of federal government agencies, including the Department of Commerce. These agencies lost any balance in their training funds account at the expiration of their contract. This violated the “invoices and payments” terms of the applicable contract, which states, “Invoices for classroom training shall be submitted by the contractor after [g]overnment completion of the training course. Charges for classroom training must be paid in arrears (31 U.S.C. 3324).” In addition, upon expiration of the training vouchers, the company retained the federal funds it received and did not provide a refund or credit to the multiple federal agencies affected, including the Department of Commerce.

The Department of Commerce exposure on this case was calculated at approximately \$400,000. This settlement was the result of a joint investigation we conducted with the OIGs from GSA and the Department of Agriculture, as well as the Department of Justice’s Civil Division.

## **Guilty Pleas Announced in Major International Freight Forwarder Price-Fixing Case**

In May 2009, the U.S. Department of Justice’s Antitrust Division requested our assistance in a joint

investigation with that office and the FBI. As a result of the investigation, six companies have agreed to plead guilty to violating the Sherman Antitrust Act by conspiring to create and fix fees related to export surcharges, currency adjustments, and peak season surcharges. The fines incorporated into the plea agreements, which are subject to court approval, exceed \$50 million. The case targeted a number of freight forwarder companies located in the United States, Europe, and the Middle East. (Freight forwarders manage the domestic and international delivery of cargo for customers by receiving, packaging, preparing, and warehousing cargo, arranging for shipments through transportation providers such as air and surface carriers, preparing shipment documentation, and providing related ancillary services.)

Specifically, the freight forwarders involved in this case created and imposed fees on U.S. companies for collection and submission of cargo information to the U.S. Immigration and Customs Enforcement’s (ICE) Automated Manifest System for cargo shipments. ICE did not charge forwarders a fee to submit the required information. Forwarders, however, agreed to impose a charge for the services they provided in collecting and compiling information submitted to ICE. They also created a currency adjustment factor for international air shipments from China to the U.S. Finally, they agreed to charge a fixed peak season surcharge for goods shipped from Hong Kong.

The investigation is ongoing and has already required hundreds of hours of interviews and document analysis. In September 2010, 6 of the companies under investigation agreed to plead guilty to 17 counts of various violations. Each company has agreed to cooperate with the ongoing investigation.

## **Nonfederal Audit Activities**

In addition to undergoing OIG-performed audits, certain Commerce financial assistance recipients are periodically examined by state and local government auditors and by independent public accountants. OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, sets forth audit requirements for most of these audits. For-profit organizations that receive Advanced Technology

Program (ATP) funds from NIST are audited in accordance with *Government Auditing Standards and NIST Program-Specific Audit Guidelines for ATP Cooperative Agreements*, issued by the Department.

We examined 138 audit reports during this semiannual period to determine whether they contained audit findings related to Commerce programs. For 59

of these reports, the Department acts as an oversight agency and monitors the audited entity’s compliance with OMB Circular A-133 or NIST’s program-specific reporting requirements. The other 79 reports are from entities for which other federal agencies have oversight responsibility. We identified three reports with findings related to the Department of Commerce.

Report Category	OMB A-133 Audits	ATP Program-Specific Audits	Total
Pending (April 1, 2010)	36	4	40
Received	156	11	167
Examined	12	4	138
Pending (September 30, 2010)	68	1	69

The following table shows a breakdown by operating unit of approximately \$808 million in Commerce funds audited.

Report Category	Total
Economic Development Administration	\$79,886,254
International Trade Administration	262,890
Minority Business Development Agency	242,500
National Institute of Standards and Technology*	16,801,016
National Oceanic and Atmospheric Administration	204,176,906
National Telecommunications and Information Administration	10,600,915
Multi-Agency	495,580,989
<b>Total</b>	<b>\$807,551,470</b>

\* Includes \$12,369,801 in ATP program-specific audits.

We identified a total of \$1,411,634 in the federal share of questioned costs. In most reports, the subject programs were not considered major programs; thus, the audits involved limited transaction and compliance testing against laws, regulations, and grant terms and conditions. The three reports with Commerce findings are listed in Table 7-a.



# ECONOMIC DEVELOPMENT ADMINISTRATION

**T**he **Economic Development Administration** was established by the Public Works and Economic Development Act of 1965, as amended (PWEDA), to generate new jobs, help retain existing jobs, and stimulate private investment in economically distressed regions of the United States. EDA continues to fulfill this mission under the authority of PWEDA. Based on local and regional comprehensive economic development strategies, EDA works in partnership with state and local governments, regional economic development districts, public and private nonprofit organizations, and Indian tribes to help distressed communities address problems associated with long-term economic deterioration and sudden and severe economic dislocations, including recovery from the economic impact of natural disasters. EDA provides eligible recipients with technical assistance, as well as grants for public works, planning, training and research, and economic adjustment assistance.

## **Trade Task Group: Trade Adjustment Assistance for Firms: Cooperative Agreements (STL-19882)**

In response to allegations received by our office, we conducted an audit to determine whether the Trade Task Group of Seattle was using program funds it received in accordance with requirements under the cooperative agreement it has with EDA. Our objectives were to determine whether (1) costs claimed were reasonable, allowable, and allocable to the federal program; (2) the Trade Task Group established and followed adequate internal controls in the bid process for consultants; and (3) companies receiving Trade Adjustment Assistance for Firms (TAAF) funding had been trade-injured due to foreign competition.

From March 2005 to February 2010, EDA awarded \$5,824,514 in TAAF cooperative agreements to the Trade Task Group as part of its efforts to strengthen the competitiveness of U.S. companies that have been adversely affected by imported goods and services. The Trade Task Group claimed a total of

### **Trade Act of 1974 (P.L. 93-618)**

The Trade Act of 1974, as amended, authorizes the President to negotiate international trade agreements. Recognizing that a free trade policy can result in injuries to U.S. businesses through market, sales, and job losses, the act also created the Trade Adjustment Assistance for Firms (TAAF) program to mitigate the negative effects on affected manufacturing companies by providing them with technical assistance. The American Recovery and Reinvestment Act of 2009 included provisions to expand the TAAF program by allowing service industry firms the opportunity to apply for assistance.

\$5,211,802 in project costs from March 2005 through November 30, 2009.

Our audit found that the Trade Task Group generally complied with TAAF grant requirements; however, the group's financial management system did not meet the minimum standards required by uniform



administrative requirements. This deficiency resulted in \$41,195 in costs that were unallowable, unsupported, or unreasonable in accordance with Office of Management and Budget cost principles.

We made the following recommendations to the director of the TAAF program:

- disallow and recover the \$41,195 in questioned costs;
- work with the Trade Task Group to determine the specific cooperative agreements from which funds

were carried over and whether any funds should be disallowed and recovered;

- require compliance with minimum federal financial management standards; and
- provide training and guidance to the entities receiving TAAF cooperative agreements to clarify records-retention requirements.



# ECONOMICS AND STATISTICS ADMINISTRATION

The **Economics and Statistics Administration** analyzes economic activity, formulates policy options, and produces a major share of U.S. government economic and demographic statistics. The chief economist monitors and analyzes economic developments and directs studies that have a bearing on the formulation of economic policy. ESA has two principal organizational units:

*Census Bureau* is the country's preeminent statistical collection and dissemination agency. The bureau publishes a wide variety of statistical data about the nation's people and economy, conducting approximately 200 annual surveys, in addition to the decennial census of the U.S. population and the quinquennial census of industry.

*Bureau of Economic Analysis* prepares, develops, and interprets national income and product accounts (summarized by the gross domestic product), as well as aggregate measures of international, regional, and state economic activity.

## Supplemental Appropriations Act of 2008 (P.L. 110-252) and the 2010 Census

The Supplemental Appropriations Act of 2008 gave the Census Bureau an additional \$210 million to help cover spiraling 2010 decennial costs stemming from the bureau's problematic efforts to automate major field operations, major flaws in its cost-estimating methods, and other issues. The act's explanatory statement required the bureau to submit to Congress a detailed plan and timeline of decennial milestones and expenditures, as well as a quantitative assessment of associated program risks, within 30 days. The explanatory statement also directed OIG to provide quarterly reports on the bureau's progress against this plan.

## 2010 Census: Quarterly Report to Congress, May 2010 (OIG-19791-4)

During this reporting period, which covers 2010 Census activities from January through March 2010, we evaluated the Census Bureau's information systems, including preparations for implementing its paper-based operations control system (PBOCS) for the largest field operation; observed several early field operations; and reviewed the bureau's risk management procedures and physical security at several Census locations. We found the following:

- *Information Technology Systems.* PBOCS posed the greatest risk to the success of Nonresponse Follow-up (NRFU), the largest and most expensive decennial census operation. The system's performance was still unstable, and its ability to support NRFU's volume was questionable. Census staff report frequent outages and reliability problems with

PBOCS, and the increased need for monitoring workarounds to compensate for the system's inadequacies would be a substantial challenge for Census. While the Decennial Applicant, Personnel, and Payroll System's performance appears to have improved with the addition of a hardware upgrade, the system had experienced increased performance problems during early operations.

- *Enumeration Difficulties.* During our many field visits, we consistently found Census enumerators had difficulties with their assignments due to inaccurate, incomplete, or otherwise unusable maps. Also, we found instances where overstaffing, inefficient coordination, inconsistent adherence to procedures, and problems with information provided by partnership specialists hindered several field operations. The bureau's current "verbatim" training method, wherein recently trained crew leaders read to new employees word for word from a training manual on how to conduct a census operation, did not always provide employees with the necessary information to accomplish the job. Finally, the public may not have been clearly informed about Census's different collection methods. For example, based on their address type, some members of the public did not receive their census forms when others did.
- *Budget and Costs.* Census spending during this quarter was under budget; however, with NRFU commencing, costs were expected to rise. The bureau expected to meet its requirement to spend all Recovery Act funding by the end of FY 2010. While Census releases a financial management report monthly, some of the report's information is not transparent.
- *Risk Management and Security.* Census's Risk Review Board identified and was tracking 24 program-level risks. The Board continued to meet monthly to review each risk, and was working to finalize and implement contingency plans for the risks that need them.

In March, OIG staff tested the physical security at the three national data-capture centers through which completed census forms are processed. As discussed in greater detail on page 24, our tests disclosed minor issues, and we suggested improvements at

some locations. But we also discovered some significant vulnerabilities at other sites. We presented our findings to the Department's Office of Security and Census, which informed us that they have improved security at these facilities.

Our report did not provide recommendations. Instead, we forwarded the Census Bureau a separate document that includes the following recommendations:

- Census should ensure clerical workarounds are being performed properly by having Census office managers, regional Census centers, and Census headquarters increase manual and automated checks of workaround procedures as well as questionnaire control and tracking.
- Census should also take larger samples in already established quality-control procedures.
- Census 2020 planning should include a thorough review of the decennial training process.
- For Census 2020, the bureau should better communicate the processes of its various enumeration activities to the public.
- The Census Bureau needs to improve the transparency of its budget process, especially the presentation of surplus (or elimination of the surplus) as shown in its financial management reports.

### **Early Observations Indicate That Some Nonresponse Follow-up Procedures Are Not Being Followed and Others Are Lacking (OAE-19893-01)**

To complete NRFU, Census operated 494 local Census offices (LCOs) nationwide and hired over 600,000 temporary enumerators to determine the status of households that received questionnaires in March 2010 but did not mail them back. Between April 23 and May 14, 2010, OIG conducted initial fieldwork, which was scheduled to end July 27, 2010. OIG staff visited and conducted office interviews at 22 LCOs and observed 115 enumerators conducting 480 enumerations.

To allow Census to take timely action, we communicated the information in this report to bureau officials on May 21. Based on our observations of field procedures, we identified six areas of concern:

- Procedures for asking race and ethnicity questions were not being followed.
- Completed enumeration questionnaires were not being tracked.
- Use of public database information raised Title 13 confidentiality issues and could have led to overreliance on “proxy” information.
- Incorrect information was entered on Notice of Visit forms.
- Update/Leave questionnaires were inconsistently handled.
- Enumerators were unable to obtain complete responses on one military base.

We also made five recommendations to help ensure an accurate count and contain costs. Although the bureau responded rapidly to most of the recommendations below, the impact of its corrective actions has been limited because less than half of the NRFU workload remained.

We recommended that Census do the following:

- Reiterate the enumeration procedures and the importance of ensuring that the respondent understands and answers the race and Hispanic-origin questions.
- Establish and implement a standard process for documenting and tracking completed and returned enumeration questionnaires to the LCO.
- Take action to ensure that Census information is properly protected. For enumerators with a high number of questionnaires that showed occupied housing units but who went straight to proxies for information, consider taking additional steps to monitor the quality of their work. Such actions could include adding the questionnaires to the re-interview or coverage follow-up operations.

- Provide a consistent set of instructions for correctly completing the Notice of Visit form, including how to fill out the enumerator-use-only portion and telephone number. In addition, provide guidance for handling remaining update/leave questionnaires.
- Take steps to ensure that military installations are cooperating with the census.

### **Respondent Data Safeguards in the Decennial Response Integration System (OAE-19888)**

As part of our oversight of the 2010 decennial census, we evaluated whether required information technology (IT) security controls meant to serve as safeguards over electronic respondent data in the Decennial Response Integration System (DRIS) were effectively meeting data security requirements. DRIS is a contractor-operated system that supported the 2010 decennial census by converting paper-based responses into electronic form and transmitting the data, encrypted, to Census for further processing. It also provided telephone questionnaire assistance through interactive voice response and call center staff to help callers complete census forms. Further, DRIS followed up with respondents where there was an indication that there was someone missing from the household or someone was counted at another place to ensure persons were counted once and only once.

We identified vulnerabilities in DRIS security controls that required corrections in order to ensure the system adequately safeguarded respondent data. However, several factors existed that significantly mitigated the risk of a security breach: the system was not accessible from the Internet, and user interfaces limited access to respondent data. We also identified a weakness in the system’s definitions for secure configurations that suggests the need for increased management attention to future contractor systems.

We recommended that, for future contractor systems, the Census Bureau ensure that configuration settings for IT products be defined, documented, and implemented in accordance with Department policy. We made no recommendation with respect to system vulnerabilities because the system has concluded opera-

tions and was in the process of being decommissioned. Further, Census indicated, in response to our draft report, that all but one of the vulnerabilities we identified had been remediated (the remediation began shortly after our initial fieldwork in March 2010), and that DRIS completed data capture and telephone operations with no reported security breaches.

## **Review of Leases of Maryland Local Census Offices**

In response to a congressional request, OIG examined the leases of nine LCOs in the state of Maryland. We found that overall the Census Bureau and General Services Administration (GSA) worked together and appeared to follow their established procedures to search, solicit, and acquire office space in the time allowed per the bureau's office deployment schedule. However, we suggested that Census and GSA address the underlying issues—such as short lease periods, time constraints, and unique space requirements that limited the number of bidders during this decennial census—to mitigate potential challenges in acquiring office space for the 2020 Census.

Specifically, we found that the Census Bureau worked with GSA to search for and assess potential LCO sites. In Maryland, GSA's solicitations to prospective lessors generated few bids within the areas delineated by the Census Bureau for LCOs. The lack of prospective lessors, coupled with Census's tight deployment schedule, meant that there were few choices for LCO sites and insufficient time to solicit additional bids. The problems in receiving an adequate number of bids led, in part, to the location of two LCOs in Baltimore approximately one-half mile apart. Since our oversight is limited to the Department of Commerce, we did not assess GSA's criteria and process for selecting the most cost-effective properties.

## **Security Tested at Critical Decennial Facilities**

All census questionnaires mailed to U.S. residents during the course of a decennial census are returned by mail to one of three national data-capture centers located around the country. At these centers, the completed forms are converted to digital images and

the results transmitted for further processing. Security breaches at these facilities could cause unwarranted delays in the census, as well as compromise the personal information of millions of Americans. In order to help ensure the safe, timely, and uninterrupted conduct of the 2010 Census, we conducted a program of physical security penetration testing at these facilities just before the start of decennial operations, with results reported to Census and other stakeholders between April and July 2010.

A multidisciplinary team led by our Office of Investigations, but drawing from staff across OIG, was assembled to conduct this activity. The testing was scheduled for a time frame that would allow the Department to initiate corrective action before mail responses were returned to the centers. We used a scenario-based testing program in which role players from OIG attempted to access each facility in ways that would identify gaps and deficiencies in physical security for appropriate remediation. We coordinated with the Department's Office of Security and with Census Bureau officials, both in preparation for and during the testing, to ensure that the testing could be conducted in a safe manner for all participants. This liaison also ensured that testing was conducted with minimal disruption to the production operations of the facilities. Finally, it allowed Office of Security managers to be present to see firsthand the issues that our testing disclosed, and thus facilitated the immediate correction of identified vulnerabilities where possible.

Our testing program disclosed minor issues and suggested refinements in training and procedures at some locations. At other locations, we discovered and brought to light significant vulnerabilities in need of prompt correction, which might not otherwise have been detected by Census or the Department. At all tested facilities, we conducted immediate debriefings with Census and security management personnel, and made recommendations as to security needs highlighted by our testing. This was followed up by formal and detailed reporting to Census and the Department. The Census Bureau and the Office of Security implemented significant improvements in security at these facilities as a result of this program.

## **OIG Anticipates and Processes Significant Increase in Census Complaints During Reporting Period**

About 9,400 key operations and activities comprised the Census 2010 decennial program. With such complex, time-sensitive operations, it was vitally important that Census operate efficiently and within budget. In order to provide effective oversight of these activities, we prepared for an increase in Census-related complaints of fraud, waste, and abuse. During the reporting period of this semiannual report, we increased the number of staff assigned to our Complaint Intake Unit to receive and evaluate such complaints from Census employees, private citizens, and special interest groups. As expected, given the increased deployment of Census field staff, the volume of complaints received increased dramatically. Our Complaint Intake Unit received a total of 632 Census complaints, more than four times the 140 Census-related complaints received during the prior reporting period. By contrast, from April 1, 2009, to September 30, 2009, the Complaint Intake Unit received a total of 81 complaints covering all operating units within the Department.

## **OIG Cooperates with Census to Address Data Falsification**

In June 2010, a series of complaints was received alleging that two Brooklyn, NY, Census supervisors were falsifying enumerator questionnaires in order to complete the census within assigned time deadlines. The issue was promptly referred to Census management, which acted swiftly to remove the individuals in question. Given the seriousness of this matter and the potential for interference with the accuracy of the census count, OIG conducted an investigation to determine whether violations of law sufficient for criminal prosecution had occurred. While the investigation substantiated the original allegations and brought to light significant management issues within that Census office, the matter was declined for criminal prosecution in August 2010.

## **Congressional Testimony**

During the reporting period, the Inspector General testified on whistleblower allegations before the House Committee on Oversight and Government Reform at a field hearing in Brooklyn, NY, on July 19, 2010. His statement is available at [www.oig.doc.gov](http://www.oig.doc.gov).





# NATIONAL INSTITUTE OF STANDARDS AND TECHNOLOGY

The National Institute of Standards and Technology promotes U.S. innovation and industrial competitiveness by advancing measurement science, standards, and technology in ways that enhance economic security and improve quality of life. NIST manages four programs: the Technology Innovation Program, the Manufacturing Extension Partnership program, the Baldrige National Quality Program, and NIST Research Laboratories.

## California Manufacturing Technology Consulting MEP Award No. 70NANB5H1181 (DEN-18572)

In September 2005, NIST awarded an MEP cooperative agreement to California Manufacturing Technology Consulting (CMTC) to continue operating an existing MEP center. The award funded the period of July 1, 2005, through December 15, 2005, and was later extended through June 30, 2007. Total estimated project costs for the 24-month award period were \$59,946,418.

In April 2007, we initiated an audit of the agreement to determine whether the recipient complied with award terms and conditions and NIST operating guidelines for MEP centers. The audit covered the period July 1, 2005, through March 31, 2007, during which time the recipient claimed project costs of \$46,070,804 and received federal reimbursements totaling \$15,355,400. We examined the costs CMTC claimed to have incurred, as well as the cost claims of one subrecipient, Cerritos College, and five third-party in-kind contributors.

The objective of this audit was to determine whether CMTC reported MEP costs to NIST, including costs incurred by CMTC's subrecipient, Cerritos College,

## Manufacturing Extension Partnership (MEP) Program (15 U.S.C. § 278k)

Congress established the MEP program in 1988 to enhance productivity and technological performance in United States manufacturing through the transfer of manufacturing technology and techniques to manufacturing companies throughout the United States.

Operated by NIST, the program provides federal funding to 60 nonprofit organizations (at least one in every state) to operate MEP centers that offer an array of services to business and industry clients. The funding is made available through cooperative agreements that require nonfederal matching funds from state or regional partners to support center operations.

that were reasonable, allocable, and allowable in accordance with applicable federal cost principles, cooperative agreement terms and conditions, and NIST policy, including the *MEP Operating Plan Guidelines*.

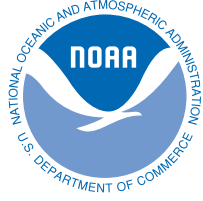
In our opinion, CMTC's claims included unallowable costs. Our audit questioned \$11,384,182 in costs claimed by CMTC and subrecipient Cerritos College:



- We questioned \$4,800,000 claimed for Cerritos College, for which the college could not document actual costs incurred under its subaward. Instead, the college based its claim on estimates of the costs incurred by its eligible programs. This practice violated the terms of the cooperative agreement between CMTC and NIST.
- We also questioned \$6,584,182 in claimed in-kind contributions from five outside organizations for which CMTC could not provide evidence that the contributions met minimum MEP requirements. None of the claims were for donations of goods and

services to CMTC; rather, they represented costs incurred by the third-party organizations in the course of their regular activities. Also, none of the claims met the minimum requirements for in-kind contributions specified in the terms and conditions of CMTC's cooperative agreement. Furthermore, portions of the claims were related to activities that occurred prior to the MEP award period.

We recommended the chief of NIST's Grants and Agreement Management Division disallow \$11,384,182 in questioned costs and recover \$3,794,349 in excess federal funds.



# NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION

**T**he **National Oceanic and Atmospheric Administration** mission is to understand and predict changes in Earth's environment and conserve and to manage coastal and marine resources to meet our nation's economic, social, and environmental needs. NOAA does this through six line offices:

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

*National Ocean Service* provides products, services, and information to promote safe navigation, support coastal communities, sustain marine ecosystems, and mitigate coastal hazards.

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

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

*Office of Oceanic and Atmospheric Research* conducts research related to the oceans and Great Lakes, the lower and upper atmosphere, space environment, and the Earth.

*Office of Program Planning and Integration* develops and coordinates NOAA's strategic plan, supports organization-wide planning activities, guides managers and employees on program and performance management, and integrates policy analysis with decisionmaking.

## Review of NOAA's MOC-P Lease Decision (OAE-19897)

NOAA operates a wide assortment of hydrographic survey, oceanographic research, and fisheries research vessels. These vessels are operated by its Office of Marine and Aviation Operations. Ships located in the Pacific are managed by the Marine Operations Center-Pacific (MOC-P), currently located in Seattle. Ships located in the Atlantic are managed by the Marine Operations Center, Atlantic (MOC-A) in Norfolk, VA.

In response to a congressional request, we reviewed the events, decisions, and processes that culminated in the decision to award the 20-year operating lease for MOC-P to Oregon's Port of Newport. Our review addressed the MOC-P lease acquisition specifically and NOAA's facilities acquisition management systems more generally. Based on our review, we were unable to provide assurance that NOAA's award of the lease to the Port of Newport provided the most cost-effective solution for MOC-P, or more generally for the government. The principal reasons for this conclusion center around two issues: NOAA limited

its options based on a preference for a consolidated facility without a documented analysis, and it did not, in our view, adequately consider the use of existing federal facilities. NOAA's decisions in these two areas took place well before the agency initiated the competitive lease acquisition process. There were errors and weaknesses in NOAA's competitive lease acquisition source selection; however, the outcome of the competition (i.e., the award to the Port of Newport) is unlikely to have changed in the absence of the weaknesses and errors in the source selection process.

Since OIG does not have a decision-making role in the Department's real property acquisition process, our report was advisory. We intend to follow up to determine what, if any, action is taken as a result of our review. Based in part on concerns surrounding the MOC-P lease acquisition, the Secretary of Commerce subsequently directed a comprehensive review of the acquisition process across the Department.

## **Review of NOAA's Efforts to Modernize U.S. Historical Climatology Network (STL-19846)**

In response to a congressional request, OIG examined NOAA's efforts to modernize the United States Historical Climatology Network (USHCN) and the steps NOAA has taken to address deficiencies in the data generated by the network. Established in 1987, USHCN provides temperature and precipitation data for analyzing long-term climate variability at national and regional levels. The development of the USHCN dataset is a joint project of the Global Change Research Program of the U.S. Department of Energy and NOAA's National Climatic Data Center. NOAA's National Weather Service is responsible for operating and maintaining the stations within the network.

NOAA acknowledges that there are problems with the USHCN data due to biases from (1) undocumented changes such as for stations that have been replaced, moved, or removed over the years; (2) poor siting; or (3) instrument changes. The agency has taken steps to improve data quality by implementing enhanced quality control steps and algorithms (referred to as USHCN Version 2) and having them

peer reviewed. According to the peer reviews we examined, the resulting dataset improves upon the algorithms in the prior Version 1 data.

The respondents to our inquiries about the use of and adjustments to the USHCN data generally expressed confidence in the Version 2 dataset. Although experts from the three professional organizations we contacted had no official position on the efficacy of the adjustments, two of the experts stated that in their professional view, the USHCN Version 2 dataset has value, with one expert saying it is the best dataset for detecting climate change and trends. All of the experts thought that an improved, modernized climate observing system is necessary to eliminate the need for data adjustments.

NOAA recognizes the need for a modernized network to enhance its ability to collect and report regional climate data and is currently working to implement a modernized USHCN (USHCN-M). The new network is planned to initially consist of 141 pilot stations, with the goal of implementing a national network of approximately 1,000 sites. NOAA estimates that full implementation and operation of a modernized network will cost about \$100 million between FY 2010 and FY 2020. While NOAA expects USHCN-M to improve its ability to collect and transmit regional climate data, the agency is uncertain whether it will receive enough funding to fully implement and maintain the network.

## **Review of NOAA Fisheries Enforcement Asset Forfeiture Fund (OIG-19887-1)**

Among the findings of our January 2010 report, *Review of NOAA Fisheries Enforcement Programs and Operations* (OIG-19887), we noted that “[f]ishermen and other industry sources expressed concern to us that NOAA's fines are excessive, constituting a form of bounty, because NOAA is able to retain the proceeds from its enforcement cases.” NOAA advised us that they maintained what was referred to as an Asset Forfeiture Fund (AFF) comprising such proceeds, with an agency-reported balance of \$8.4 million as of December 31, 2009. Because the AFF account has weak internal controls, we could not readily determine how NOAA has been utilizing these funds.

### OIG Review of NOAA Fisheries Enforcement Programs and Operations Yields Additional Findings

In our March 2010 *Semiannual Report to Congress*, we reported on *Review of NOAA Fisheries Enforcement Programs and Operations* (OIG-19887), a major, multidisciplinary assessment that we conducted at the request of the NOAA Administrator and with the interest of numerous members of Congress. We extensively reviewed the policies, practices, and operations of NOAA's Office of Law Enforcement (OLE) and NOAA's Office of General Counsel for Enforcement and Litigation (GCEL).

In the course of that review, we reported significant findings and recommended numerous actions by NOAA to ensure greater accountability and transparency in all phases of the fisheries regulatory enforcement process. Many of these recommendations have been accepted and are being implemented. We also determined that several issues required continuing review and investigation by our office. Follow-up on these issues resulted in additional findings provided to stakeholders and summarized in this section's final three entries.

As a result, we engaged KPMG, LLP to examine the administration and utilization of the AFF by NOAA's Office for Law Enforcement (OLE) and Office of General Counsel for Enforcement and Litigation (GCEL). We issued a report in April 2010. This review disclosed serious deficiencies in the management processes and internal controls of the fund that were reported to NOAA including:

- Forfeiture funds were used to purchase 200 government vehicles and 22 seagoing vessels for OLE, which has a staff of approximately 170 enforcement personnel. OLE policy authorized the leasing of vehicles and vessels but did not specifically authorize AFF expenditures for vehicle or vessel purchases. Further, accountability for the assignment and use of these vehicles and vessels was not maintained to accepted government standards for fleet management.
  - Forfeiture funds were used for any travel by OLE and GCEL broadly related to enforcement activities, with little or no policy guidance provided for the use of such funds for such purposes. OLE and GCEL charged amounts to the AFF for international travel despite only a small percentage of that travel being directly related to specific investigations or enforcement proceedings.
  - Forfeiture fund expenditures were not administered consistently across the agency. The lack of a standardized nationwide policy hampered accountability. Some offices spent large sums of forfeited funds with minimal or nonexistent approval procedures or supporting documents.
- In light of these findings, OIG recommended that NOAA take several steps to improve management of forfeiture funds. Among our 13 recommendations were:
- Accurately identify the forfeiture fund, periodically audit it, and provide detailed periodic reporting to NOAA headquarters management, other stakeholders, and budgetary authorities.
  - Set up appropriate controls and processes for tracking the receipt and expenditure of collected funds, particularly with regard to the use by OLE personnel of purchase cards linked to accounts containing said funds.
  - Enact appropriate policies pertaining to the acquisition, use, and control of government vehicles and vessels.
  - Assess and adjust the management and handling of collected funds to be consistent with applicable federal law and regulation, and with the practices of other government agencies that handle large volumes of forfeiture funds.
- In September 2010, the Secretary of Commerce announced a series of initiatives to reform the AFF, including prohibitions on its use for items such as employee benefits or bonuses (per current policy), non-operational travel, the procurement of vehicles, and the purchase of equipment not directly related to specific enforcement operations.

## Review of NOAA Fisheries Enforcement Programs and Operations (OIG-19887-2)

Issued in September 2010, this report presents the results of our examination of 27 specific complaints raised by fishermen alleging unfair treatment and overzealous enforcement by NOAA's OLE and GCEL. More than three-fourths of the complaints we examined concerned the NOAA Northeast Region, with the remainder from the Southeast, Northwest, and Alaska regions.

Our work was conducted against a backdrop of initiatives and reforms to NOAA's fisheries enforcement program directed by the Under Secretary of Commerce for Oceans and Atmosphere. As such, the specific complaints we examined involved enforcement actions and circumstances that occurred before the reforms currently underway. Some issues implicated by particular complaints may have been resolved or mitigated by measures taken by NOAA to date in key areas such as leadership and management; policy, process, and regulations; workforce structure; and communications and outreach.

We classified 19 of the 27 complaints we investigated as "Appropriate for Further Review." For those cases we recommended that NOAA or the Department take one or more of the following actions:

- create a process to resolve disputed enforcement cases;
- effect appropriate changes to regulations, policies, procedures, or practices; and/or
- address and remedy relevant performance or conduct problems involving NOAA enforcement personnel raised in these complaints.

In addition, we observed that a number of issues relating to the arbitrary application of fines and charges, particularly within the Northeast Region, along with statements made and alleged to have been made by certain officials within that region, contribute to perceptions of unfairness and favoritism.

On these complaints, OIG also observed that:

- mitigating factors in violations, such as first offense status, should be taken more into account when assessing penalties and charges;
- given frequently changing and complex regulations, greater discretion should be exercised, when appropriate, in applying the flexibility and leniency provided within the regulations, thereby promoting confidence in the fairness of the system;
- cases should be resolved in a more timely manner; and
- better guidance should be provided to the Office for Law Enforcement in the conduct of warrantless inspections.

We also reiterated an earlier recommendation that an ombudsman or an independent reviewing authority or both be appointed to resolve issues between NOAA enforcement and industry representatives regarding contested regulatory matters. In September 2010, the Secretary of Commerce named a Special Master for this purpose. The Secretary will exercise his authority under the Magnuson-Stevens Act in the resolution of cases in dispute.

We are continuing to devote resources and attention to NOAA fisheries enforcement matters to ensure that this important program receives greater independent oversight than it has received in the past. During the upcoming period, we will be conducting a formal review of NOAA's progress in implementing all remedial actions recommended since the beginning of this review process.

## Allegations that NOAA Officials Shredded Documents During OIG Fisheries Review

During the course of our original review of fisheries enforcement programs and operations, we received allegations that several high-ranking OLE officials shredded documents. On April 2, 2010, we reported to NOAA on the results of our investigation into these allegations. Our investigation indicated that 1) documents were shredded while OIG review activities were ongoing; 2) the shredding was not reviewed by appropriate higher management officials at

NOAA; 3) the shredding was not conducted in a manner consistent with federal and Department records management policy; and 4) the shredding created an appearance of impropriety in its circumstances and timing. Our findings were subsequently reported to NOAA for review and action.

COMMERCE  
DEFIES EVERY WIND  
OUTRIDES EVERY  
TEMPEST AND INVADES  
EVERY ZONE — BANCROFT





# NATIONAL TELECOMMUNICATIONS AND INFORMATION ADMINISTRATION

**T**he **National Telecommunications and Information Administration** serves as the executive branch's principal advisor to the President on domestic and international telecommunications and information policy issues. NTIA manages the federal use of the electromagnetic spectrum; provides grants for national information and public broadcasting infrastructure projects; and performs telecommunications research and engineering. It works to enhance citizens' access to cable television, telephone, and other telecommunications services; and educates state and local governments and other entities on ways to use information technology and telecommunications more effectively.

## **Digital Television Transition and Public Safety Act of 2005 (Title III of P.L. 109-171, the Deficit Reduction Act of 2005)**

The Digital Television Transition and Public Safety Act of 2005 authorized NTIA, in consultation with the Department of Homeland Security (DHS), to implement the Public Safety Interoperable Communications (PSIC) program—a \$1 billion one-time, formula-based matching grant program intended to enable public safety agencies to establish interoperable emergency communications systems using reallocated radio spectrum. Recipients are required to have a minimum 20 percent matching share from nonfederal sources for the acquisition and deployment of communications equipment, and management and administration costs.

The Implementing Recommendations of the 9/11 Commission Act of 2007 (P.L. 110-53) requires OIG to conduct financial audits, over 4 years, of a representative sample of at least 25 states or territories receiving PSIC grants. The statute also requires OIG to annually assess the management of the PSIC grant program and report any findings and recommendations from that annual assessment to the cognizant congressional committees.

## **Florida PSIC Grant Award No. 2007-GS-H7-0019 (DEN-19886)**

On September 30, 2007, the National Telecommunications and Information Administration (NTIA) awarded a \$42,888,266 Public Safety Interoperable Communications (PSIC) grant to Florida. The original award period ran from October 1, 2007, to September 30, 2010. In November 2009, the President signed an act extending the award period to September 30, 2011.

The Florida Division of Emergency Management (FDEM) was designated as the administrative agency to apply for and administer PSIC funds. We audited costs claimed by FDEM to determine whether the recipient complied with NTIA PSIC grant guidelines and the Department of Homeland Security's (DHS) award terms and conditions.

Our audit covered the award period of October 1, 2007, through December 31, 2009, during which time the FDEM claimed total costs of \$16,884,937. In general, FDEM appears to be on track to complete its nine investments before the end of the award, and has reallocated \$750,000 to a different PSIC investment than originally budgeted, thus putting these funds to better use.



However, we did discover some areas of concern:

- We questioned over \$219,000 of matching share costs claimed. FDEM agreed with our finding and corrected its financial report to reflect the proper amount.
- While FDEM generally complied with the terms and conditions of the PSIC grant, it did not fully comply with cash drawdown requirements. FDEM also claimed funds for unallowable management and administration costs on behalf of itself and its subrecipients. Finally, FDEM made several errors when drawing down PSIC funds for its subrecipients.

In our draft report, we made several recommendations to the NTIA Assistant Secretary for Communications and Information and the Federal Emergency Management Agency's Grant Programs Directorate:

- Require FDEM to monitor cash drawdowns to ensure compliance with PSIC guidelines, place funds drawn in an interest-bearing account, and return over \$15,000 in interest owed to the federal government.
- Direct FDEM to reduce its total PSIC cost claim to remove the unallowable management and administration costs.
- Direct FDEM to provide evidence that it has addressed the deficiencies in its systems that allowed the improper drawdowns to occur.

In response, FDEM has (1) issued a policy requiring that subgrantees provide invoices before receiving cash advances; (2) made plans to remit the interest owed to the government; (3) reduced its cost claim by removing over \$48,000 in unallowable costs from a subsequent PSIC claim; and (4) implemented new controls to improve monitoring and prevent further improper drawdowns. NIST concurred with FDEM's stated corrective actions.

## **New York PSIC Grant Award No. 2007-GS-H7-0039 (DEN-19674)**

On September 30, 2007, NTIA awarded a \$60,734,783 PSIC grant to the state of New York. A total of \$56,190,483 of the grant required nonfederal matching contributions. The \$56,190,483 provided for acquisition and deployment and management and administration represents 80 percent of the total costs of those activities, leaving a minimum nonfederal matching share requirement of \$14,047,621.

The governor of New York designated the New York State Office of Homeland Security (NYSOHS) as New York's state administrative agency to apply for and administer PSIC funds. The original award period was from October 1, 2007, to September 30, 2010; it was later extended by law to September 30, 2011.

NYSOHS asserts that all 10 of its investments are on schedule to be completed by September 30, 2011. We found nothing that would lead us to believe the individual investments would not be completed on schedule. In addition, the budgeted matching share of \$14,085,571 is sufficient to cover the minimum required matching share of \$14,047,621.

NYSOHS claimed total costs of \$124,771, including nonfederal matching share expenses of \$51,969, as of June 30, 2009. We determined that the costs claimed were reasonable, allowable, and allocable according to PSIC grant regulations. NYSOHS generally complied with PSIC requirements related to financial status reporting, cash drawdowns, and pass-through of federal funds to local agencies. We have no adverse findings or recommendations for corrective action.

## STATISTICAL DATA

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**Table 1. Office of Investigations Statistical Highlights for this Period**

Investigative Activities	
Investigations opened	15
Investigations closed	16
Arrests	1
Indictments/Informations	7
Convictions	1
Fines and other financial recoveries	\$1,388,222
Allegations Processed	
Hotline complaints	699
Total complaints, all sources	922
Referrals to operating units	593
Evaluated but not accepted for investigation or referral	221

## Audit Resolution and Follow-Up

The Inspector General Act Amendments of 1988 require us to present (in this report) those audits issued before the beginning of the reporting period (April 1, 2010) for which no management decision had been made by the end of the period (September 30, 2010). Eight audit reports remain unresolved for this reporting period (see page 44).

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

**Table 2. Audit Resolution and Follow-Up**

Report Category	Modifications	Appeals
Actions pending (April 1, 2010)	0	0
Submissions	0	0
Decisions	0	0
Actions pending (March 31, 2010)	0	0

**Table 3. Audit and Evaluation Statistical Highlights for this Period**

Questioned costs*	\$5,441,680
Value of audit recommendations that funds be put to better use‡	765,552
Value of audit recommendations agreed to by management	4,640,504

\* **Questioned cost:** A cost questioned by OIG because of (1) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; (2) a finding that, at the time of the audit, such cost is not supported by adequate documentation; or (3) a finding that an expenditure of funds for the intended purpose is unnecessary or unreasonable.

‡ **Recommendation that funds be put to better use:** An OIG recommendation that funds could be used more efficiently if Commerce management took action to implement and complete the recommendation. These actions may include (1) reductions in outlays; (2) deobligation of funds from programs or operations; (3) withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds; (4) costs not incurred by implementing recommended improvements related to Commerce, a contractor, or a grantee; (5) avoidance of unnecessary expenditures identified in pre-award reviews of contracts or grant agreements; or (6) any other savings specifically identified.

**Table 4. Audits with Questioned Costs**

Category	Number	Questioned Costs	Unsupported Costs*
A. Reports for which no management decision <sup>‡</sup> had been made by the beginning of the reporting period	12	\$21,516,820	\$2,600,244
B. Reports issued during the reporting period	7	5,441,680	1,381,739
Total reports (A+B) requiring a management decision during the period <sup>1</sup>	19	26,958,500	3,981,983
C. Reports for which a management decision was made during the reporting period	4	889,311	812,620
i. Value of disallowed costs		824,504	776,719
ii. Value of costs not disallowed		64,807	35,901
D. Reports for which no management decision had been made by the end of the reporting period	15	26,069,189	3,169,363

<sup>1</sup> Three audit reports included in this table are also included among reports with recommendations that funds be put to better use (see Table 5). However, the dollar amounts do not overlap.

\* **Unsupported cost:** A cost that is not supported by adequate documentation at the time of the audit. Questioned costs include unsupported costs.

<sup>‡</sup> **Management decision:** Management's evaluation of the findings and recommendations included in the audit report and the issuance of a final decision by management concerning its response.

**Table 5. Audits with Recommendations that Funds Be Put to Better Use**

Report Category	Number	Value
A. Reports for which no management decision had been made by the beginning of the reporting period	3	\$6,333,761
B. Reports issued during the reporting period	1	765,552
Total reports (A+B) requiring a management decision during the period <sup>1</sup>	4	7,099,313
C. Reports for which a management decision was made during the reporting period	1	3,816,000
i. Value of recommendations agreed to by management		3,816,000
ii. Value of recommendations not agreed to by management		0
D. Reports for which no management decision had been made by the end of the reporting period	3	3,283,313

<sup>1</sup> Three audit reports included in this table are also included among reports with questioned costs (see Table 4). However, the dollar amounts do not overlap.

**Table 6. Report Types this Period**

Type	Number of Reports	Table Number
Financial assistance audits	4	Table 6-a
Evaluations and inspections	11	Table 6-b
<b>Total</b>	<b>15</b>	

**Table 6-a. Financial Assistance Audits**

Report Title	Report Number	Date Issued	Funds to Be Put to Better Use	Amount Questioned	Amount Unsupported
<b>Economic Development Administration</b>					
Trade Adjustment Assistance for Firms Cooperative Agreements	STL-19882	08.18.10	0	\$41,195	26,650
<b>National Institute of Standards and Technology</b>					
California Manufacturing Technology Consulting	DEN-18572	07.07.10	0	3,756,780	0
<b>National Telecommunications and Information Administration</b>					
New York Public Safety Interoperable Communications Grant	DEN-19674	08.10.10	0	0	0
Florida Public Safety Interoperable Communications Grant	DEN-19886	09.24.10	\$765,552	232,071	0

**Table 6-b. Evaluations and Inspections**

Report Title	Report Number	Date Issued	Funds to Be Put to Better Use	Amount Questioned	Amount Unsupported
<b>Census Bureau</b>					
2010 Census: Quarterly Report to Congress, May 2010	OIG-19791-4	05.26.10	0	0	0
Early Observations Indicate That Some Nonresponse Follow-up Procedures Are Not Being Followed and Others Are Lacking	OAE-19893-01	06.11.10	0	0	0
Respondent Data Safeguards in the Decennial Response Integration System (DRIS)	OAE-19888	09.24.10	0	0	0

**Table 6-b. Evaluations and Inspections (continued)**

Report Title	Report Number	Date Issued	Funds to Be Put to Better Use	Amount Questioned	Amount Unsupported
<b>National Oceanic and Atmospheric Administration</b>					
Review of NOAA's Marine Operations Center-Pacific Lease Decision	OAE-19897	06.28.10	0	0	0
Review of NOAA Fisheries Enforcement Asset Forfeiture Fund*	OIG-19887-1	07.01.10	0	0	0
Review of NOAA's Efforts to Modernize U.S. Historical Climatology Network	STL-19846	07.29.10	0	0	0
Final Report – Review of NOAA Fisheries Enforcement Programs and Operations <sup>1</sup>	OIG-19887-2	09.23.10	0	0	0
<b>National Telecommunications and Information Administration</b>					
NTIA Must Continue to Improve its Program Management and Pre-Award Processes for its Broadband Technology Opportunities Program	ARR-19842-1	04.08.10	0	0	0
<b>Office of the Secretary</b>					
NIST and NOAA Monitor Their Recovery Act Programs, but Performance Metrics Need to Measure Outcomes	ARR-19881	05.21.10	0	0	0
Review of Management of Herbert C. Hoover Building Renovation	OAE-19885	08.05.10	0	0	0
Review of Recovery Act Contracts and Grants Workforce Staffing and Qualifications at the Department of Commerce	ARR-19900	09.10.10	0	0	0

<sup>1</sup> Report issued by the Office of Investigations.

**Table 7. Processed Audit Reports—Single Audit and Program-Specific Audits**

The Office of Inspector General reviewed and accepted 138 audit reports prepared by independent public accountants and local, state, and other federal auditors. The reports processed with questioned costs, recommendations that funds be put to better use, and/or nonfinancial recommendations are listed in Table 7-a.

Agency	Audits
Economic Development Administration	51
International Trade Administration	1
Minority Business Development Agency	1
National Institute of Standards and Technology <sup>1</sup>	21
National Oceanic and Atmospheric Administration	17
National Telecommunications and Information Administration	10
Multi-Agency	34
No Commerce expenditures	3
<b>Total</b>	<b>138</b>

<sup>1</sup> Includes 14 Advanced Technology Program (ATP) program-specific audits.

**Table 7-a. Processed Reports with Audit Findings**

Report Title	Report Number	Date Issued	Funds to Be Put to Better Use	Amount Questioned	Amount Unsupported
<b>National Institute of Standards &amp; Technology</b>					
TECO-Westinghouse Motor Co., TX	ATL-09999-10-3679	06.25.10	0	\$56,545	0
<b>National Oceanic and Atmospheric Administration</b>					
Howard University, DC <sup>1</sup>	ATL-09999-10-3773	09.24.10	0	1,305,488	1,305,488
<b>National Telecommunications &amp; Information Administration</b>					
Leadership Conference on Civil Rights Education Fund, DC	ATL-09999-10-3850	09.24.10	0	32,093	32,093
Howard University, DC	ATL-99999-10-3773	09.24.10	0	17,508	17,508

<sup>1</sup> Counted as one report.



**Table 8. Audits Unresolved for More Than 6 Months**

<b>Census Bureau</b>	<p><b>Computer &amp; High Tech Management, Inc.</b></p> <p>In our September 2005 <i>Semiannual Report to Congress</i>, we reported the results of audits of 2 of the 21 task orders for IT services that Computer &amp; High Tech Management, Inc., was providing to Census. We sought to determine whether the firm had complied with contract terms and conditions and federal regulations and had billed Census for work performed in accordance with specifications of the task order. We found that the firm failed to comply with numerous contract and federal requirements, which caused us to question more than \$10.7 million in direct labor and other reimbursable costs. We have suspended audit resolution on this contract audit pursuant to an agreement with Census.</p>
<b>National Institute of Standards and Technology</b>	<p><b>Manufacturing Extension Partnership Program</b></p> <p>In our March 2009, September 2009, and March 2010 <i>Semiannual Report to Congress</i>, we discussed our audits of the operations of the five centers located in South Carolina, Florida, Massachusetts, Texas, and Ohio that received cooperative agreements under the NIST MEP program. Our audits questioned over \$29 million in costs claimed. Resolution has proven to be complex, and NIST has not provided us with the initial audit resolution proposals. (ATL-18567, ATL-18568, DEN-18135, DEN-18573, DEN-18604)</p>
<b>National Oceanic and Atmospheric Administration</b>	<p><b>Alaska Eskimo Whaling Commission</b></p> <p>As reported in our March 2009 <i>Semiannual Report to Congress</i>, a single audit review of this NOAA grant questioned costs totaling \$66,353 in expenditures that were not adequately documented. We have suspended audit resolution on this grant audit pursuant to an agreement with NOAA. (ATL-09999-8-3238)</p>

## REPORTING REQUIREMENTS

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

Section	Topic	Page
4(a)(2)	Review of Legislation and Regulations	45
5(a)(1)	Significant Problems, Abuses, and Deficiencies	11-36
5(a)(2)	Significant Recommendations for Corrective Action	11-36
5(a)(3)	Prior Significant Recommendations Unimplemented	45
5(a)4	Matters Referred to Prosecutorial Authorities	37
5(a)(5) and 6(b)(2)	Information or Assistance Refused	45
5(a)(6)	Listing of Audit Reports	40-43
5(a)(7)	Summary of Significant Reports	11-36
5(a)(8)	Audit Reports—Questioned Costs	39
5(a)(9)	Audit Reports—Funds to Be Put to Better Use	40
5(a)(10)	Prior Audit Reports Unresolved	46
5(a)(11)	Significant Revised Management Decisions	46
5(a)(12)	Significant Management Decisions with which OIG Disagreed	46
5(a)(13)	Results of Peer Review	46

### Section 4(a)(2): Review of Legislation and Regulations

This section requires the inspector general of each agency to review existing and proposed legislation and regulations relating to that agency's programs and operations. Based on this review, the inspector general is required to make recommendations in the semiannual report concerning the impact of such legislation or regulations on the economy and efficiency of the management of programs and operations administered or financed by the agency or on the prevention and detection of fraud and abuse in those programs and operations. Comments concerning legislative and regulatory initiatives affecting Commerce programs are discussed, as appropriate, in relevant sections of the report.

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

This section requires identification of each significant recommendation described in previous semiannual

reports for which corrective action has not been completed. Section 5(b) requires that the Secretary transmit to Congress statistical tables showing the number and value of audit reports for which no final action has been taken, plus an explanation of the reasons why recommended action has not occurred, except when the management decision was made within the preceding year. To include a list of all significant unimplemented recommendations in this report would be duplicative. Information on the status of any audit recommendations can be obtained through OIG's Office of Audit and Evaluation.

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

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

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

This section requires a summary of each audit report issued before the beginning of the reporting period for which no management decision has been made by the end of the reporting period (including the date and title of each such report), an explanation of why a decision has not been made, and a statement concerning the desired timetable for delivering a decision on each such report. There were one NOAA, five NIST, and two Census reports more than 6 months old.

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

This section requires an explanation of the reasons for any significant revision to a management decision made during the reporting period. Department Administrative Order 213-5, Audit Resolution and Follow-up, provides procedures for revising a management decision. For financial assistance audits, OIG must concur with any decision that would change the audit resolution proposal in response to an appeal by the recipient. There were no appeals this period.

### **Section 5(a)(12): Significant Management Decisions with Which OIG Disagreed**

This section requires information concerning any significant management decision with which the inspector general disagrees. Department Administrative

Order 213-5 provides procedures for elevating unresolved audit recommendations to higher levels of Department and OIG management, including their consideration by an Audit Resolution Council. During this period no audit issues were referred.

### **Section 5(a)(13): Results of Peer Review**

The most recent peer review of the Office of Audit and Evaluation was conducted in 2009 by Federal Deposit Insurance Corporation (FDIC)'s Office of Inspector General. FDIC OIG's System Review Report of our audit operations is available on our website. We received a *pass* rating, the highest available rating. We have implemented all of FDIC OIG's recommendations for process and policy improvements.

In 2009, we conducted our latest peer review, which examined the Small Business Administration (SBA) OIG's audit operations. SBA OIG has informed us that they implemented the recommendation we made in our review.

The most recent peer review of the Office of Investigations was conducted in 2008 by the State Department's Office of Inspector General. We were found *compliant*, the highest available finding, with the quality standards established by the IG community and the Attorney General guidelines. We implemented all of State OIG's suggestions for process and policy improvements.

## SECRETARIAL AND CIGIE AWARDS FOR COMMERCE OIG TEAMS

During this semiannual period, OIG audit, evaluation, and investigative teams were recognized for their oversight work by the Secretary of Commerce and the Council of the Inspectors General on Integrity and Efficiency (CIGIE).

The Secretary's Gold Medal was presented to the Decennial Census Team for exemplary planning and coordination of a comprehensive review of the 2010 decennial census that led to real-time improvements in field operations. The Broadband Technology Opportunities Program (BTOP) Team received a Silver Medal for effective oversight of BTOP, resulting in improved broadband infrastructure deployment across America.

The CIGIE Glenn/Roth Award, established to recognize exemplary service to Congress, was presented to the 2010 Census Oversight Team. Three other OIG teams were honored with CIGIE Awards for Excellence: Security Penetration Testing of 2010 Decennial Census National Data Capture Facilities, Audit of the Department of Commerce's Information Technology Security Workforce Readiness, and IT Security Assessment of NOAA's Environmental Satellite Processing Center.

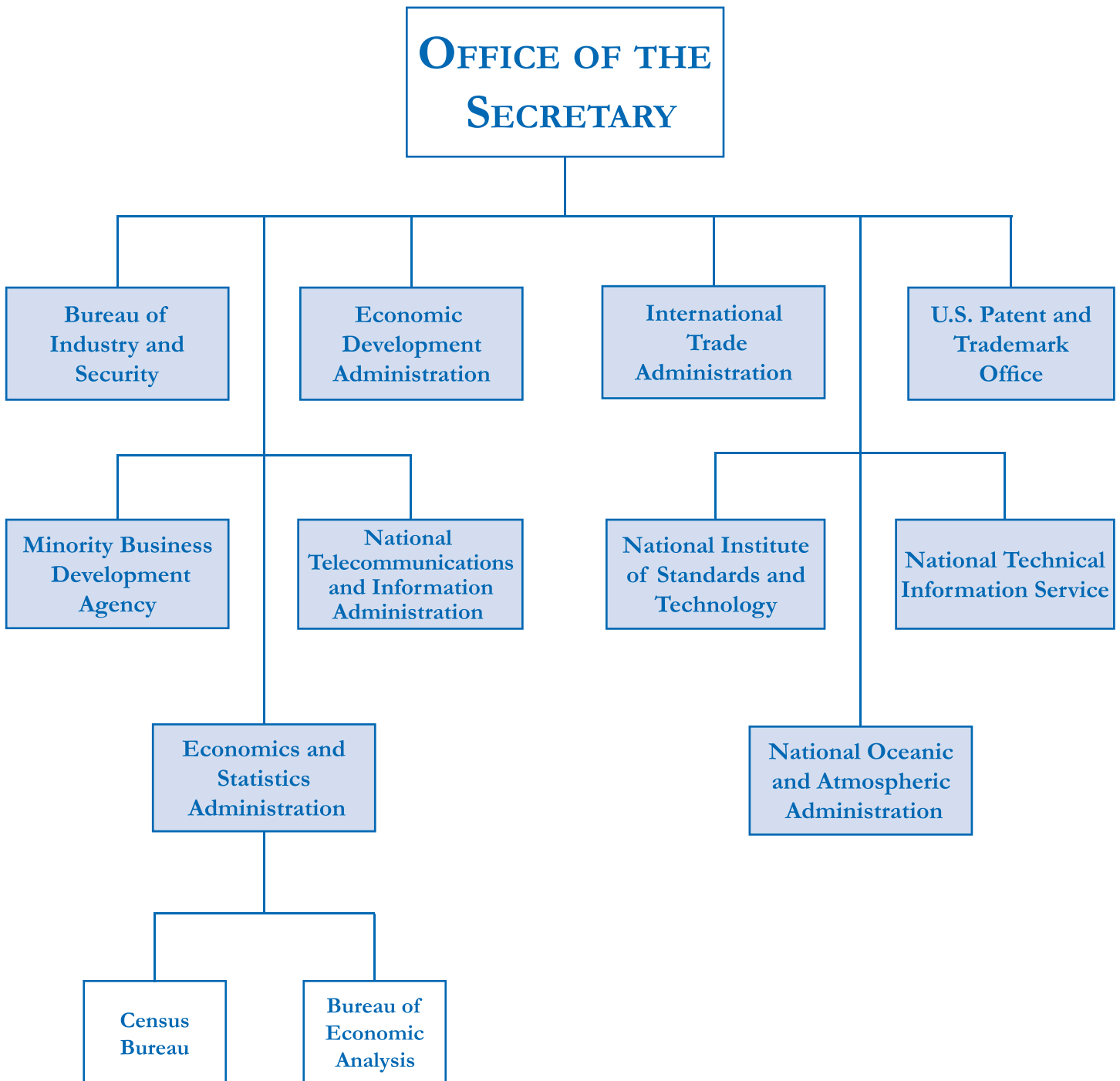
In addition, more than 30 OIG staff members were recognized for their work by Bronze Medals presented by the Inspector General.

## ACRONYMS AND ABBREVIATIONS

<b>ATP</b>	Advanced Technology Program	<b>NIST</b>	National Institute of Standards and Technology
<b>BTOP</b>	Broadband Technology Opportunities Program	<b>NOAA</b>	National Oceanic and Atmospheric Administration
<b>C&amp;A</b>	certification and accreditation	<b>NMFS</b>	National Marine Fisheries Service
<b>DRIS</b>	Decennial Response Integration System	<b>NPOESS</b>	National Polar-orbiting Operational Environmental Satellite System
<b>EDA</b>	Economic Development Administration	<b>NRFU</b>	Nonresponse Follow-up
<b>ESA</b>	Economics and Statistics Administration	<b>NTIA</b>	National Telecommunications and Information Administration
<b>FISMA</b>	Federal Information Security Management Act	<b>OIG</b>	Office of Inspector General
<b>GCEL</b>	Office of General Counsel for Enforcement and Litigation (NOAA)	<b>OLE</b>	Office of Law Enforcement (NMFS)
<b>GSA</b>	General Services Administration	<b>OMB</b>	Office of Management and Budget
<b>GOES-R</b>	Geostationary Operational Environmental Satellite-R Series	<b>PBOCS</b>	paper-based operations control system
<b>HCHB</b>	Herbert C. Hoover Building	<b>PSIC</b>	Public Safely Interoperable Communications
<b>IG</b>	Inspector General	<b>PSP</b>	Partner Support Program
<b>IT</b>	information technology	<b>Recovery Act</b>	American Recovery and Reinvestment Act
<b>JPSS</b>	Joint Polar Satellite System	<b>STRS</b>	Scientific and Technical Research and Services
<b>LCO</b>	local Census office	<b>USHCN</b>	U.S. Historical Climatology Network
<b>MEP</b>	Manufacturing Extension Partnership	<b>USPTO</b>	United States Patent and Trademark Office
<b>NASA</b>	National Aeronautics and Space Administration		
<b>NEPA</b>	National Environmental Policy Act		

# U.S. Department of Commerce

The U.S. Department of Commerce creates the conditions for economic growth and opportunity by promoting innovation, entrepreneurship, competitiveness, and stewardship. The Department accomplishes its mission by providing national and local weather services, developing key economic and demographic data (including the decennial census), and working to advance technological and scientific innovation, protect and restore environmental resources, promote international trade, and support local, regional, and national economic development. These activities impact U.S. business and industry daily and play a critical role in the nation's economic well-being.





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